



## **2007 ANNUAL REPORT**

Annual report according to Regulation 1 of 2006 of CNVM (the Romanian National Securities Commission);

Report date – 17 April 2008

Company name – PROSPECTIUNI SA

Registered office – Str. Caransebeș, nr.1, Sector 1, București

Phone number – 021/319.66.08

Fax number – 021/319.66.56

Unique registration number (URN) – R.1552801

Registered with the Trade Register Office under number J40/4072/1991

The issued securities are traded on the regular RASDAQ market, tier III R, the main RGBS market.

Subscribed and paid capital = 53,932,890 lei

### **1. BUSINESS ANALYSIS**

#### **1.1. Analysis of the main business line:**

a) The main business line of the company consists of geological research of the soil and the subsoil with the purpose to find all useful minerals, and of related services.

The main business has three parts:

- seismic prospecting for hydrocarbons;
- geologic prospecting for useful minerals;
- laboratory analyses.

The company is licensed by the Romanian Agency for Mineral Resources to conduct geologic research, to write documentation according to the Mining Act 61 of 1998, to explore coal, ores, non-metalliferous substances, useful / ornamental rocks, moor coal, therapeutic mud, and industrial, drinking and mineral water.

Prospectiuni SA has an ISO 9001/2000 quality management system.

b) The company was established in 1950, and in 2000 became a private company, with the company Tender SA (owning 71.16693%) and the financial investment company SIF Muntenia (owning 11.84923%) as the main shareholders as of 31 December 2007.

After its privatisation, the company started an intensive modernisation and reequipping process. With high-performance equipment conforming to the most exacting international standards, Prospectiuni SA was able to widen its range of services and to increase the efficiency of its production.

c) No mergers or significant reorganisations took place during this financial year.

d) 32,734,933 lei were invested in tangible assets in 2007.

Buildings and flats – company housing worth 1,071,979 lei were alienated.

e) The main results of the business analysis are:

- efficient operation;
- a good share of the prospection market is held;
- well equipped for complex prospecting on the Romanian market and on foreign markets;
- optimal financial balance;
- solid partnership with the main suppliers of hydrocarbons (OMV PETROM SA and ROMGAZ SA);
- continuation of the investment programs;
- the company's qualified personnel and state-of-the-art technology enable it to take orders from foreign customers in the near future;
- there is no risk or uncertainty regarding the company's development.

#### **1.1.1. General assessment:**

a) gross profit = 63,788,893 lei

net profit = 54,007,995 lei

b) turnover = 203,072,576 lei

c) export = 0

d) total costs = 152,367,913 lei

e) PROSPECȚIUNI SA is the only Romanian company specialised in seismic and magnetotelluric prospecting.

#### **1.1.2. Technical assessment:**

The main products or services supplied / rendered in 2007 are listed below:

No.	Services	UOM	Number of units	Increase in %, compared to 2006
1.	2D seismic prospecting	km	3930	93.44
2.	3D seismic prospecting	sq. km	851	117.54
3.	Gravimetric prospecting for gases	stations	8437	120.53
4.	Magnetometric prospecting for gases	stations	75000	104.17
5.	Magnetotelluric probing	probings	756	84.00
6.	Geochemical prospecting	samples	5600	109.95
7.	Studies and syntheses on gases	hrs.	5840	121.67
8.	Hydro-geotechnical drilling	meters	999	55.90
9.	Laboratory analyses	analyses	439068	224.10
10.	Studies and syntheses	hrs.	10750	63.88

The data in the foregoing table indicate an important development of the seismic prospecting for petroleum or for gases. 98% of the seismic prospecting is performed on the Romanian market.

To provide these services, we submit bids to the tenders of the big suppliers of hydrocarbons.

b) 92% of the turnover, i.e. 186,800,000 lei, is invested in prospecting for hydrocarbons. The 3D prospecting for petroleum and natural gas grew by 17.54% compared to 2006, as they replaced 2D prospecting, which decreased by 6.56%.

This is the percentage of the contributions of the main beneficiaries to our turnover:

No.	Beneficiary	2007
1.	OMV PETROM SA	57.15
2.	SNG ROMGAZ SA	29.29
3.	MORAVSKE NAFTOVE DOLY	3.95
4.	TOREADOR RESURCES CORPORATION	3.91
5.	FALCON OIL & GAS	2.04
6.	ATLAS GIP	1.27
7.	STERLING RESOURCES LLC	0.25
8.	AMROMCO ENERGY LLC	0.24
9.	OTHER BENEFICIARIES	1.90

c) The company developed state-of-the-art products and technologies and became competitive at global level. Efforts are made to improve the quality of the present products.

To this aim we continued to modernise and reequip the company investing in equipment, facilities, and vehicles for production, the value of which was 30,194,234 lei in 2007:

- 3,300-channel SERCEL 428 UL seismic station;
- set of 5 SERCEL NOMAD vibrators;
- 8 total topographic stations with GPS;
- 16 Minifor seismic probing facilities;
- heating facilities;
- 20 Beaver drilling rigs;
- 70 technological vehicles;
- IBM Linux system for processing seismic data;
- IT and data acquisition equipment.

### **1.1.3. Assessment of technological procurement:**

We have a special department for technological procurement, who follow a specific quality management procedure. The company needs for production equipment, spare parts, materials and fuel, which we buy from Romania and from abroad. Our main (traditional) suppliers are well-known companies: Sercel France, Input/Output Inc. USA, Phoenix Canada, AB Entrepresis USA, Lister Peter, Petrom SA, Maxam Romania, Chimopar SA etc.

No conflicts with the suppliers or production interruptions due to lacking materials or spare parts occurred. Although the equipment and the spare parts used by Prospecțiuni SA are strictly specialised and there are few producers, the traditional relationships with the suppliers have caused and will cause no disturbance in the technological procurement.

Prices are negotiated with the suppliers for each contract and vary with inflation and the exchange rate of the main currencies.

#### **1.1.4. Assessment of sales:**

a) We rendered services almost only on the Romanian market.

We have planned to promote our services also in Iran and Syria in 2008. We have started promoting our seismic services internationally by signing a contract for seismic data acquisition in the Ramshir area of Iran.

b) Prospecțiuni SA is the only Romanian company specialised in seismic services for petroleum and gases.

Our competitors in the previous years were Western Atlas International (USA) and C.G.G. (France), who rendered services in panels granted by PETROM SA, but the services were rendered actually by the subcontractor, Prospecțiuni SA.

We do not run the risk of real competitors now. To control the Romanian market, Prospecțiuni SA makes continuous efforts to continue producing at a high technical level and has highly qualified personnel.

c) Our reliance on the customers OMV PETROM SA and ROMGAZ SA poses no risk yet; their high demand has prevented Prospecțiuni SA to act on the growing international market.

Our company also renders services to the international companies that have been granted petroliferous areas in Romania (Aurelian Oil&Gas, Regal Petroleum, Toreador Resources Corporation, Sterling Resources).

We have started to promote our services internationally to become less dependent on the main customers.

#### **1.1.5. Assessment of personnel management:**

a) We had the following personnel in 2007:

total	2807
of which:	
- executive	6
- workers + foremen	2264
- office personnel	481
- watchmen	56

A characteristic of the prospecting business is the high variation in personnel number from summer to winter. We employ around 3,250 persons during the summer and around 1,900 persons during the winter. So we use many season personnel.

To ensure the necessary personnel qualification for reaching our goals, we schedule in-house and external trainings for an increasing number of employees every year.

These trainings are audited by our quality assurance department.

We have analysed the customer feedback on **personnel competency** and have found that the beneficiaries have rated it usually as "excellent" or "very good".

No trade union is registered with our company at the moment.

The terms of the collective labour agreement are negotiated between the entrepreneurship and the representatives of the employees.

b) The personnel and the company management cooperate and there have been no conflicts that would disturb business.

#### **1.1.6. Environmental assessment:**

Prospecțiuni SA has implemented an environmental management system (EMS) according to SR EN ISO 14001:2005.

Our main activities do not impact significantly on the environment (soil / subsoil, air, waters, ecosystems).

Prospecting includes supporting activities. Some of these impact on the environment with wastes and waste water, pollutants from fixed (thermal power stations) and mobile (vehicles) sources and the risk of major accidents with hazardous substances. These activities are authorised by the regional environmental protection agencies and are monitored permanently.

By implementing the EMS we have set the following goals:

- to maintain and improve air quality in the working area by modernising the fleet of vehicles (buying low-emission and low-consumption vehicles);
- to preserve water resources and avoid degrading underground and surface waters by maintaining and operating at the designed parameters the hydrogeological drillings for providing water to the company site and by optimising water consumption;
- to avoid the contamination of the soil / subsoil and of the phreatic layer by eliminating the pollution due to generating, stocking and storing materials and waste of any kind in a non-conforming manner;
- to protect and preserve biodiversity, natural habitats and wildlife by using the best available working technology that is economically viable and according to the management plans and the regulations of the protected natural areas;
- to increase the personnel awareness of the environmental regulations and the EMS by setting out the environmental liabilities according to the legal requirements and to other requirements, by inducing an environment-friendly behaviour in the personnel, by preventing accidental pollution and by managing waste properly;
- to avoid major accidents with hazardous substances by instructing the personnel how to act in such cases and what safety measures are to be taken (testing the intervention plans and the scenarios for each identified risk type) and by designing a safe operational flow chart.

The company promotes in its environmental policy the technical solutions, work practices, non-polluting technologies and high-performance equipment with a minimal environmental impact, mainly at the source, of the air, water and soil pollutants.

There have been or there are foreseen no disputes due to our not abiding by the environmental protection laws.

#### **1.1.7. Assessment of research and development:**

Prospecțiuni SA became a partner / coordinator in three R&D and innovation projects managed by the Romanian Ministry of Education, Research and Youth in 2006.

Two of these are part of the PCD module of the CEEX program and the third is part of the module for partnerships in priority fields of the PNCDI 2-P4 program. The total value of these projects is 4,400 million lei and Prospecțiuni SA contributes 700,000 lei.

The company has the following benefits from the Romanian R&D and innovation programs P4 (partnerships in priority fields):

- covered costs of technical modernisation;
- training of the personnel participating in the R&D projects;
- covered costs of participating in national and international scientific events;
- covered costs of modernising the IT equipment;
- covered costs of the software used in these projects;
- covered costs of personnel training;
- involving students in these projects and selecting potential employees for the future technical processes;
- co-ownership of the intellectual property created during research and development.

Prospecțiuni SA has been registered for 2008 as an eligible participant in the PNCDI 2-P4 program with 10 projects worth 19,700,000 lei, of which the company contributes 3,330,000 lei.

#### **1.1.8. Assessment of risk management:**

The cash flow indicates the company has the necessary financial resources to cover all costs, although resources appear mainly in the second half of the year.

In this context, some costs, especially those of investing in equipment and machinery for production, were covered using own resources, supplier credits, financial leases and bank credits in the first part of the year.

Considering the services that are to be contracted globally it is estimated that the company runs no price or liquidity risk.

#### **1.1.9. Business perspective:**

a) Given the ascending trend of the prospecting business in Romania, where the company has a favourable position, and abroad, we may conclude that compared to 2007 the company is not affected and no uncertainty factors exist in 2008.

b) Capital expenditures increased significantly by investing in state-of-the-art equipment for recording seismic signals and high-performance machinery for production. The purchase of high-performance machinery and facilities continues to be a priority in the

company's investment policy. All the prospecting services were contracted following public tenders and technical bids are an important part in the tender documentation, as the beneficiaries requires state-of-the-art equipment.

c) No major economic changes that would influence the income from the main business significantly are foreseen for 2008. The company will make its profit only from the main business by extending its 3D seismic services and by reducing the operation costs.

## 2. THE COMPANY'S TANGIBLE ASSETS

### 2.1. Location and characteristics of the main production sites

The main company assets are located here:

No.	Address	Tangible asset	Surface total (sq.m.)	Surface buildings (sq.m.)	Value accounting
1	Str Caransebes Nr 1 , Sector 1, Bucuresti	* land	8,784.47	3,063.32	1,235,974.93
		* buildings:			
		headquarters (basement + ground floor + 7 floors)			1,588,050.18
		laboratories (ground floor + 3 floors)			753,706.50
		dispensary and polyclinic			368,949.70
		other buildings & constructions			386,989.87
2	Str Coralilor Nr 20A, Sector 1, Bucuresti	* land	17,194.83	7,206.47	2,419,308.36
		* buildings:			
		administration building			646,537.00
		CDC computer building			829,005.59
		masonry building with 34 boxes			194,720.71
		other buildings & constructions			182,853.35
3	Str Coralilor Nr 31, Sector 1, Bucuresti	* land	13,736.22	2,904.38	1,932,686.15
		* buildings:			
		buildings & constructions			633.08
4	Str Coralilor Nr 31A, Sector 1, Bucuresti	* land	19,496.14	1,536.47	2,743,106.90
		* buildings:			
		concrete platform			960.69
5	Str Modestiei Nr 1, Sector 1, Bucuresti	* land	20,956.20	13,026.00	2,569,791.23
		* buildings:			
		administration building			262,148.70
		lithotheque - laboratory for samples			141,581.20
		shop for mounting tachographs			50,699.30
		other buildings & constructions			134,948.39
6	Str Fabrica de Oxigen, Buciumeni, county of Ilfov	* land	2,593.33	785.42	139,002.49
		* buildings:			

		Buciumeni social facility			301,795.02
		other buildings & constructions			144,721.20
7	Str Hangarelor Nr 2 , Buzau, county of Buzau	* land	70,530.44	14,212.90	1,417,661.84
		* buildings:			
		penthouse			181,607.69
		yard alleys			114,488.25
		other buildings & constructions			167,944.76
8	Comuna Leordeni, county of Arges	* land	65,619.40	26,353.58	776,327.15
		* buildings:			
		vehicle repair shop			153,251.30
		administration building			70,358.00
		tractor repair shop			45,959.30
		other buildings & constructions			127,360.82
9	Comuna Sinca Veche , county of Brasov	* land	25,909.80	996.29	298,739.16
		* buildings:			
		storehouse for explosives			185,400.50
		other buildings & constructions			69,685.95
10	Str Furnica Nr 52, Sinaia, county of Prahova	* land	1,288.11	176.00	0.00
		* buildings:			
		real estate in Sinaia			1,982,092.37
11	Str M. Sadoveanu Nr 4, Moinesti, county of Bacau	* land	15,248.19	1,480.63	50,898.80
		* buildings:			
		administration building			544,528.04
12	Str Petrolului Nr 17, Videle, county of Teleorman	* land	3,543.00	456.41	9,335.96
		* buildings:			
		administration building			58,542.39
13	Cartier Fotachești, Videle, county of Teleorman	* land	2,222.00	57.31	3,914.12
		* buildings:			
		storehouse			12,578.42
14	Str Prelung. Severinului Nr 168, Craiova, county of Dolj	* land	10,911.00	572.80	36,893.63
		* buildings:			
		administration building			205,836.83
15	Str Umirii Nr 98, Tg Jiu, county of Gorj	* land	5,836.00	623.00	62,152.79
		* buildings:			
		administration building			169,082.14
16	Comuna Stoina, county of Gorj	* land	1,222.00	112.00	8,000.00
17	Str Sibiului Nr 90, Medias, county of Sibiu	* land	5,640.00	1,226.00	20,312.75
		* buildings:			
		administration building			1,215,857.36
18	Sos Sibiului F.N., Medias, county of Sibiu	* land	9,562.00	794.00	26,458.48
		* buildings:			
		storehouse			5,364.77



19	Str Atelierelor Nr 14, Oradea, county of Bihor	* land	16,450.00	4,781.00	49,852.93
		* buildings:			
		administration building			824,448.59
20	Str Bodrogului Nr 7, Arad, county of Arad	* land	5,232.00	1,295.00	19,532.70
		* buildings:			
		administration building			783,390.37
21	Str Barajului Nr 10, Tg Mures, county of Mures	* land	2,193.27	620.00	7,418.49
		* buildings:			
		administration building			3,841,909.37
22	Sancraiu de Mures, Comuna Nazna, county of Mures	* land	4,059.10	50.00	7,843.37
		* buildings:			
		administration building			4,097.34
23	Sat Oprisenesti, Comuna Ianca, county of Braila	* land	1,659.00	211.00	3,570.41
		* buildings:			
		administration building			6,630.26
		other buildings & constructions			13,630.00
	<b>TOTAL</b>	* land	<b>329,887</b>	<b>82,540</b>	<b>13,838,782.64</b>
		* buildings:			<b>16,772,345.30</b>

These are the main net tangible assets at the end of 2007, compared to those at the end of 2006:

ASSET	2006	2007	DIFFERENCE
Land and buildings	27,660,897	28,671,637	+ 1,010,740
Technical facilities and machines, means of transportation	48,109,296	61,788,278	+ 13,678,982
Furniture, office equipment, protection equipment for valuables	312,538	331,780	+ 19,242

In 2007 there was a significant increase in technical tangible assets, machines and means of transportation, due to the investment especially in state-of-the-art equipment and high-performance machinery for production.

## 2.2. Description and analysis of the wear rate of the company's assets

Due to the large investment made in the last 3 years, the wear rate decreased very much especially in technical facilities, machines and means of transportation.

## **2.3. Potential problems with the ownership of the company's tangible assets**

The company has no problems with the ownership of the tangible assets, except for the piece of land from București, str. Coralilor nr. 31 A, sector 1, with a surface of 19,496.14 sq.m., from which several natural entities have claimed in court 8,500 sq.m.

## **3. THE MARKET FOR THE SECURITIES ISSUED BY THE COMPANY**

### **3.1. The markets on which the securities issued by the company are traded**

The company is traded on the RASDAQ free capital market.

The General Shareholders' Meeting of 4 December 2007 decided to authorise the managing board to take the necessary steps for the company to be traded on the regular market managed by the Bucharest Stock Exchange.

### **3.2. Dividend policy. Dividends owed / paid / accrued in the last 3 years and, if applicable, the reasons for reducing dividends during the last 3 years**

The company paid no dividends and used these as the main resource for investment programs. Account **106 reserves** had a balance of 54,594,423.51 lei, "reserves made for financing investment from the net profit", as of 31 December 2006.

This way it became possible for the company to increase its capital with 49,438,483 lei (the value of 19,775,393 shares) by capitalising the result carried forward from the previous years. The shares resulted from this capital increase were issued for free in a 1:11 ratio to all shareholders and registered on 27 July 2007.

The Extraordinary General Shareholders' Meeting of 4 December 2007 increased the company capital with 17,977,630 lei (the value of 7,191,052 shares) and the corresponding shares were subscribed by the shareholders in a 3:1 ratio. This action was completed successfully in 2008.

### **3.3. Description of share buybacks**

The company did not buy its shares back.

### **3.4. The number and nominal value of the shares issued by the holding company and owned by the daughter companies, if applicable**

Prospecțiuni SA is the sole shareholder of the company Prospecțiuni Divizia Pază și Protecție SRL with a capital contribution of 2,000 lei.

Prospecțiuni SA found the activity of Prospecțiuni S.A. Divizia de Pază și Protecție SRL insignificant according to art. 27 of Act 297 of 2004 and prepared no consolidated financial statements.

**3.5. How the company pays its debts to the holders of bonds and / or other promissory notes, if the company issued any**

The company issued no bonds or other promissory notes.

**4. COMPANY MANAGEMENT**

**4.1. Directors:**

1. Tender Nicoleta Daniela, 40 y.o., Ph.D. in legal sciences, director and chairwoman of the managing board;

2. Petrișor Nicolae, 51 y.o., a jurisconsult, director;

3. Gubandru Traian, 68 y.o., an economist, director and general manager, holds 14,112 shares corresponding to 0.0491% of the company capital;

4. the company Middle EUROPE investment SRL holds 1,487,667 shares corresponding to 5.1795% of the company capital; represented by Fader Cristian Robert, 28 y.o., an economist, director;

5. Constantin Mircea, 47 y.o., an engineer, director, representative of SIF Muntenia, a company that holds 3,408,336 shares corresponding to 11.8667% of the company capital.

**4.2. Executive managers:**

- Marius Milea, production manager for an indefinite period, holds 3,808 shares;

- Sighișoreanu Alexandru, economic manager for an indefinite period, holds 2,000 shares;

- Cioviță Aurel, marketing manager for an indefinite period, holds no shares;

- Mitroi Mihail, assistant production manager for an indefinite period, holds 707 shares;

- Iușan Constantin, assistant mechanical manager for an indefinite period, holds no shares.

**4.3.** The members of the managing board and the executives were not involved in any disputes or administrative procedures related to their activity or their capacity to fulfil their duties.

## 5. FINANCIAL STATEMENT

Items of balance - income - expenses - profit

-lei-

No.	ITEM	YEAR		
		2005	2006	2007
1	TOTAL ASSETS, of which:	146,571,470	167,690,694	194,906,733
2	- TANGIBLE FIXED ASSETS	68,870,262	80,512,518	99,203,348
3	- current assets, of which	73,705,477	83,638,772	93,241,890
4	- inventory	4,850,460	5,519,999	7,957,210
5	- receivables	63,878,561	59,317,680	66,813,652
6	- liquid assets	5,441,870	18,801,093	18,471,028
7	- net cash flow	943,543	13,359,223	- 330,065
8	- capitals, of which	65,558,681	105,393,641	159,406,167
9	- share capital	4,494,407	4,494,407	53,932,890
10	- turnover	139,106,336	206,476,789	203,072,576
11	- total income	142,950,229	213,445,485	216,156,806
12	- total expenses, of which:	133,185,011	165,620,923	152,367,913
13	- costs of raw and other materials	11,393,432	20,611,126	26,854,822
14	- personnel expenses	33,427,954	54,255,172	71,527,957
15	- costs of external services	63,834,462	58,986,367	15,864,138
16	- average number of employees	1,560	2,468	2,807
17	- total provisions, of which:	174,040	561,830	723,590
18	- for inventory depreciation	48,455	46,778	369,554
19	- for doubtful receivables	125,585	515,052	254,036
20	- gross profit	9,765,218	47,824,562	63,788,893
21	- net profit, of which:	7,855,586	39,833,471	54,007,993
22	- legal reserve	-	-	3,179,587
23	- development	7,855,586	39,833,471	50,828,408

This is how the income and the expenses changed in 2007 compared to 2006:

Item	2006	2007	%
Total income	213,445,485	216,156,806	101.27
of which:			
- income from works performed with own resources	176,871,676	216,156,806	122.20
- income from core and bore drilling	36,553,809	-	-
Total expenses	165,620,923	152,367,913	92.00
<b>Total profit</b>	<b>47,824,562</b>	<b>63,788,893</b>	<b>133.38</b>

The income earned using the company's own resources represented in 2007 122.20% of the income from the same period of the previous year.

The significant increase in the company's income was due to performing more seismic prospecting on the Romanian market. The prospecting works were performed following

public tenders won by Prospectiuni SA. Six projects for 3D seismic data acquisition had been run for OMV PETROM in 2006, while 8 such projects were run in 2007.

At the same time, the total expenses were reduced by 8%. This increased the profitability by 33.38% compared to the same period of the previous year.

The following expenses increased compared to 2006:

- costs of raw materials;
- personnel expenses;
- amortisation;
- compensations.

The increase in the costs of raw and consumable materials was due to the development of the 3D seismic prospecting, for which more personnel and additional material expenses are necessary.

The increase in the costs of raw and other materials was also due to requests of beneficiaries, especially OMV PETROM SA, to use high-performance means of transportation and to equip these with tires and batteries, and to provide the personnel with new work outfits and protective equipment.

The increase in the personnel expenses was due to:

- the value of the production of the subcontractors being reduced by 36,533,809 lei;
- the necessity for a new field team for seismic data acquisition;
- raising the wages of specialised personnel in order to prevent them from migrating to other companies;
- the necessity to promote young personnel that would replace the highly specialised personnel.

The only profit source are the company operations, more valuable by 15,964,331 lei than in 2006.

The net profit from the previous years was reinvested entirely.

The legal reserve for 2007 was set aside and the difference is meant for the development budget.

The good results of 2007 influenced positively the efficiency and the profitability:

No.	ITEM	Formula	31 December 2006	31 December 2007
1.	<b>Operation profitability rate</b>	$\frac{\text{operating result}}{\text{turnover}} * 100$	$\frac{48,168,452}{206,476,789} * 100 = 23.33\%$	$\frac{64,272,225}{203,072,576} * 100 = 31.65\%$
2.	<b>Economic profitability rate</b>	$\frac{\text{operating result}}{\text{total assets}} * 100$	$\frac{48,168,452}{167,690,694} * 100 = 28.73\%$	$\frac{64,272,225}{194,906,733} * 100 = 32.98\%$
3.	<b>Liquidity:</b>			
3.1	<b>Current liquidity (ratio should be &gt; 2)</b>	$\frac{\text{current assets}}{\text{current debts}} * 100$	$\frac{83,638,772}{16,554,386} = 5.05$	$\frac{93,241,890}{22,213,261} = 4.20$

3.2	<b>Immediate liquidity</b> (ratio should be > 2)	$\frac{\text{current assets} - \text{inventory}}{\text{current debts}} * 100$	$\frac{78,118,773}{16,554,386} = 4.72$	$\frac{85,284,680}{22,213,261} = 3.84$
4.	<b>Management data</b>			
4.1	<b>Inventory rotation</b>	$\frac{\text{inventory}}{\text{turnover}} * 365$	$\frac{5,519,999}{206,476,789} * 365 = 9.76 \text{ days}$	$\frac{7,957,210}{203,072,576} * 365 = 14.60 \text{ days}$
4.2	<b>Debt rotation</b> (customers)	$\frac{\text{customers}}{\text{turnover}} * 365$	$\frac{12,223,802}{206,476,789} * 365 = 21.61 \text{ days}$	$\frac{19,634,965}{203,072,576} * 365 = 36.5 \text{ days}$
4.3	<b>Credit rotation</b> (suppliers)	$\frac{\text{suppliers}}{\text{turnover}} * 365$	$\frac{38,341,484}{206,476,789} * 365 = 67.78 \text{ days}$	$\frac{16,345,388}{203,072,576} * 365 = 29.20 \text{ days}$
4.4	<b>Rotation of fixed assets</b>	$\frac{\text{turnover}}{\text{fixed assets}}$	$\frac{206,476,789}{82,421,846} = 2.51$	$\frac{203,072,576}{101,044,321} = 2.01$
4.5	<b>Rotation of total assets</b>	$\frac{\text{turnover}}{\text{total assets}}$	$\frac{206,476,789}{167,690,694} = 1.23$	$\frac{203,072,576}{194,906,733} = 1.04$
5.	<b>Profitability data</b>			
5.1	<b>Return on capital employed</b>	$\frac{\text{gross profit}}{\text{capital employed}} * 100$	$\frac{47,824,562}{105,393,641} * 100 = 45\%$	$\frac{63,788,893}{159,406,167} * 100 = 40\%$
5.2	<b>Gross sales margin</b>	$\frac{\text{gross sales profit}}{\text{turnover}} * 100$	$\frac{47,824,562}{206,476,789} * 100 = 23.16\%$	$\frac{63,788,893}{203,072,576} * 100 = 31.41\%$

After analysing the volume, the efficiency and the profitability, we can conclude the company is in good financial standing and there are no risks or uncertainties. The managing board always prevented financial risks.

The correct management of the treasury flow indicated in the following table made main expenses possible in due time during the entire financial year.

	2006	2007
<b>Operating treasury flows</b>		
<b>Net profit</b>	<b>39,833.47</b>	<b>54,007,995</b>
<b>Adjustments for non-monetary items:</b>		
Operating costs of the amortisation and depreciation of fixed assets (A/C 681)	13,564,391	17,304,919
Corporate tax paid from A/C 691	7,991,091	9,780,898
Net provisions for current assets	389,467	161,760
Net earnings from transferring fixed capital (A/C 758.3- 658.3)	(1,455,583)	(689,043)
Interest income A/C 766	(112,968)	(234,343)
Interest expenses A/C 666	1,043,901	1,952,841
Result carried forward after correcting the results of the previous years A/C 117.4	-	4,573
<b>Operating result before current capital changes</b>	<b>61,253,770</b>	<b>82,289,600</b>
<b>Changes of net current capital in:</b>		
Receivables and other similar accounts	4,171,414	(7,547,858)
Inventory	(1,134,954)	(2,563,889)
Other assets	(954,260)	1,009,554
Suppliers and similar accounts	(21,440,657)	(31,722,565)
<b>Current capital changes</b>	<b>(19,358,457)</b>	<b>(40,824,758)</b>
Interest paid on financial leases	(1,043,897)	(1,537,726)
Paid corporate tax	(8,456,924)	(10,536,228)
<b>Net operating treasury flow</b>	<b>32,394,492</b>	<b>29,390,888</b>
<b>Treasury flow used for investment</b>		
Purchase of fixed assets	(11,182,717)	(16,708,549)
Received for sold tangible fixed assets	1,967,156	1,817,882
Received interest	112,968	234,343
<b>Net treasury flow used for investment</b>	<b>(9,102,594)</b>	<b>(14,656,324)</b>
<b>Treasury flow used for financing</b>		
Loans	1,500,000	8,695,500
Loan reimbursement	(1,580,130)	(6,303,124)
Financial leasing	(9,852,545)	(17,457,005)
<b>Net treasury flow used for financing</b>	<b>(9,932,676)</b>	<b>(15,064,629)</b>
<b>Net increase / (decrease) of liquid assets and similar items</b>	<b>13,359,223</b>	<b>(330,065)</b>
Liquid assets and similar items at the beginning of the year	5,441,870	18,801,093
<b>Liquid assets and similar items at the year end</b>	<b>18,801,093</b>	<b>18,471,028</b>

These are the financial balances of the last two years:

<b>LEI</b>			
<b>No.</b>	<b>ITEM</b>	<b>as of 31 Dec. 2006</b>	<b>as of 31 Dec. 2007</b>
<b>1.</b>	Fixed assets	82,421,846	101,044,321
<b>2.</b>	Long-term debts	45,742,667	13,287,305
<b>3.</b>	Provisions	-	-
<b>4.</b>	Own capital	105,393,641	159,406,167
<b>5.</b>	<b>Working capital</b>	<b>68,714,462</b>	<b>71,649,151</b>
<b>6.</b>	Inventory	5,519,999	7,957,210
<b>7.</b>	Receivables	59,317,680	66,813,652
<b>8.</b>	Prepaid expenses	1,630,076	620,522
<b>9.</b>	Short-term debts	16,554,386	22,213,261
<b>10.</b>	Prepaid income	-	-
<b>11.</b>	<b>Necessary working capital</b>	<b>49,913,369</b>	<b>53,178,123</b>
<b>12.</b>	Liquid assets	18,801,093	18,471,028
<b>13.</b>	<b>Net treasury</b>	<b>18,801,093</b>	<b>18,471,028</b>
<b>14.</b>	<b>TOTAL ASSETS</b>	<b>167,890,694</b>	<b>194,906,733</b>
<b>15.</b>	<b>TOTAL DEBTS</b>	<b>62,297,073</b>	<b>35,500,566</b>

Prospecțiuni has no debts to credit institutions, as it financed its business from own resources and from supplier credits. So the net treasury equals the liquid assets in cash and the bank accounts, and it almost equals its 2006 level.

The working capital increased in 2007 by 2,934,689 lei due to the increase in the own capital, which increased by 54,012,526 lei. The increase in the company's own financing sources covers the investment made and the ordinary capital staid at almost the same level: 18,801,449 lei in 2006 and 18,471,028 lei in 2007.

The necessary working capital increased more than the working capital and this caused the treasury deficit of 330,065 lei.

Receivables and short-term debts increased. The increase of 7,495,972 lei in the amounts receivable covers the increase of 5,658,875 lei in the short-term debts, and there is a positive difference of 1,837,097 lei.

The total debts were significantly lower, by 26,796,507 lei, than in 2006; this decrease did not unbalance the accounts and was possible due to the business efficiency.

Receivables from the daughter companies amounted to 1,338,219 lei, i.e. 2% of the total 66,813,652 lei receivable.

The amounts receivable were larger by 12.64% in 2007 (66,813,652 lei) than in 2006 (59,317,680 lei).

The main amount (45,834,133 lei) from 66,959,865 lei receivable is owed by RAFO. This amount is to be converted according to the resolution of the General Shareholders' Meeting of 22 January 2008 into 18,333,653 shares with a nominal value of 2.5 lei as a contribution to increasing the capital of the company RAFO SA. This resolution based on the current report of 20 November 2007 of the RAFO extraordinary General Shareholders'



Meeting, through which the Bucharest Stock Exchange was informed of the capital increase and of the new ownership structure, in which Prospecțiuni SA contributes 45,834,133 lei, corresponding to 18,333,653 shares and 2.2701% of the company capital.

The company's debts at the end of 2007 amounted to 35,500,565 lei, of which:

- debts to the state budget	5,307,017 lei
- trade creditors and financing agreements	26,603,266 lei
- personnel-related debts	2,288,826 lei
- other creditors	1,301,456 lei

***The debts to the state budget*** as of 31 December 2007 amounted to 5,307,017 lei and included:

- corporate tax	1,015,947 lei
- VAT	1,248,257 lei
- wage tax	627,236 lei
- health insurance	1,045,236 lei
- social insurance	667,476 lei
- unemployment insurance	126,861 lei
- special funds	17,940 lei
- F.N.U.A.S.S. (National Social Health Insurance Fund)+accid.+others	553,377 lei
- debts to the local state budgets	4,687 lei

These are current debts due in January 2007.

Prospecțiuni SA had no overdue debts to the state budget as of 31 December 2007.

The agreements to pay in instalments the debts to the state budget, the budget of the Ministry of Labour, Social Solidarity and Family, the National Agency of the Labour Office and the National Health Insurance Office was valid during 2007. These agreements provided for 60 monthly instalments without interest and delay penalties.

Efforts were made and the debt was paid before the agreed date of 4 October 2007.

This was confirmed by the General Directorate for Large Taxpayers of the National Tax Management Agency in notice 1045975 of 21 February 2008.

Whereas we may conclude the market, liquidity and interest rate risks are low and will not prevent the profitable conduct of business.

No part of the company business was closed down in 2007 and no such action is foreseen.

This report of the Managing Board includes the data registered in the company books according to the Accounting Act 82 of 1991 and to the last version of order 1752 of 2005 by the Romanian Minister of Finance.

**Chairwoman of the Managing Board,**

**TENDER DANIELA NICOLETA, Ph.D.**