

The National Gas Transmission Company TRASGAZ SA



CONSOLIDATED REPORT ISSUED BY THE BOARD OF ADMINISTRATION FOR 2022

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THE ADMINISTRATORS' MESSAGE

**Dear shareholders, investors,
Dear stakeholders,**

With a long tradition in Romania, gas transmission is a strategic activity for the national economy. The performance of this activity increased year by year through the work, passion and professionalism of those who have worked in this field and contributed to what SNTGN TRANSGAZ SA is today - a responsible company, a company of the future, a company in which the corporate governance model added value and the transparency needed to increase of the stakeholders in the management and performance of the company

As a transparent company, open to dialogue and good corporate practice, SNTGN TRANSGAZ SA is today a successful national brand, a company that believes in its organizational values and invests permanently in the education and professional development of its human resources. SNTGN TRANSGAZ SA is a company managed in a unitary system, the Board of Administration being appointed by the General Meeting of the Shareholders in accordance with the legal provisions in force.

Acting with professionalism, integrity and responsibility, the members of the Board of Administration demonstrated through the results obtained every year that they have become a strong team, adapted to the current economic and political context, able to undertake and fulfil responsibilities of great scope and strategic importance not only for the future of the company but also for the sustainable development of the national economy.

*Prepared in accordance with the provisions of Art. 30 (1) of Government Emergency Ordinance 109/30 November 2011 on the corporate governance of public enterprises, as amended, the **Management Plan of SNTGN Transgaz SA for 2021-2025**, approved by Board of Administration Resolution 29/6 October 2021, as amended, is governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, state authorities and institutions, media, etc.) and includes the strategic vision of the administrators regarding the directions of strategic development of the company and efficiency of its activity in accordance with the requirements of the European energy policy on energy safety and security, competitiveness and sustainable development but also with the future needs and opportunities of Romania to become an important player on the regional and European gas market.*

The strategic objectives are aligned with the LETTER OF EXPECTATIONS OF THE SHAREHOLDERS and follow the desideratum regarding the strategic development of the company in accordance with the provisions of the European Energy Union Strategy on climate change: energy security, decarbonization, energy efficiency, internal energy market and research, innovation and competitiveness.

The undertaken strategic objectives regarding the management of SNTGN Transgaz SA in 2021-2025 also aim at increasing the company's performance, streamlining the company's activity, aligning it with modern standards of performance and corporate governance and making SNTGN TRANSGAZ SA an internationally recognized company, a leader on the energy market in the region, making the most of all existing and future opportunities for Romania to become an important energy corridor for natural gas to Europe.

The sustainable development of the Romanian natural gas infrastructure requires a comprehensive investment plan enabling the implementation of the European Green Deal, the alignment of the National Transmission System to the gas transmission network transmission and operation requirements, compliant with the European environmental protection regulations

*We are focused on the European Green Deal provisions and the way in which the new technologies will provide the mechanisms for the transition to the green economy. For SNTGN Transgaz SA, an objective of strategic importance deriving from the European Green Deal for a transition to the green economy is the **establishment and implementation of a strategy for the repurposing and retrofitting of the existing natural gas transmission infrastructure for the use of hydrogen and other green gases, for decarbonization**. Given the need to finance a complex and extensive investment plan, in addition to its own sources of funding, Transgaz envisages attracting and using additional external funding under advantageous conditions. We refer to obtaining European funds, funding from international financial institutions, from other banking and financial institutions as well as financing instruments specific to the capital market.*

Our guarantee for success in the face of the challenges and constraints of the external and internal context in which the company operates and will operate is the link between the management strategies and the expertise and professional experience of the human resources employed to operationalize these strategies.

Yours sincerely,

ION STERIAN – Executive Administrator – Director - General

PETRU ION VĂDUVA – Non-Executive Administrator

NICOLAE MINEA– Non-Executive Administrator

CSABA OROSZ – Non-Executive, Interim Administrator

MIHAELA VIRGINIA TOADER - Non-Executive, Interim Administrator

AGAFIȚEI GHEORGHİȚĂ - Non-Executive, Interim Administrator

1. REPORT AND ISSUER GENERAL DATA

The Report for 2022 prepared according to the provisions of Law 24/2017 on issuers of financial instruments and market operations (Art. 65) and the FSA Regulation 5/2018 on issuers of financial instruments and market operations (Annex 14), as further amended and supplemented - **financial year 2022**.

Report date: 16 March 2023

Company name: The National Gas Transmission Company TRANSGAZ SA

Headquarters: Mediaş, 1 C. I. Motaş Square, 551130, Sibiu County

Telephone/Fax number: 0269-803333/0269-839029

VAT Number: RO13068733

Registration number with the Trade Register: J32/301/2000

Regulated market on which issued securities are traded: The Bucharest Stock Exchange

Subscribed and paid up capital: lei 117.738.440

The main characteristics of the securities issued: 11.773.844 shares with a nominal value of 10 lei. The shares are nominative, ordinary, indivisible, issued dematerialized and freely tradable since **2008** under the TGN stock symbol.

2. EXECUTIVE SUMMARY 2022

2.1. Important events

In 2022, the Board of Administration of SNTGN Transgaz SA held 39 meetings, with the following being submitted for analysis, endorsement and/or approval:

11 January 2022

- By Board of Administration Resolution 1/11 January 2022, the 2022 Annual Sectoral Procurement Plan was approved.

26 January 2022

- By Board of Administration Resolution 3/26 January 2022 the following were endorsed and/or approved:
 - The draft 2022 Revenue and Expense Budget and the estimates for 2023-2024;
 - The policy on granting sponsorships and financial support at SNTGN Transgaz SA level in 2022;
 - Revised values for some financial key performance indicators included in the SNTGN Transgaz SA 2021-2025 Management Plan;
 - The draft 2022 Revenue and Expense Budget of the subsidiary, Vestmoldtransgaz SRL, and the estimates for 2023 - 2024;
 - The draft 2022 Revenue and Expense Budget of the subsidiary, Eurotransgaz SRL, and the estimates for 2023-2024.

22 February 2022

- By Board of Administration Resolution 5/22 February 2022 the Report on the preliminary individual and consolidated financial statements for 2021 was acknowledged.

3 March 2022

- By Board of Administration Resolution 2/3 March 2022 the corrected regulated revenue and regulated tariffs for natural gas transmission activity related to the fourth year of the fourth regulatory period, meaning 1 October 2022 - 30 September 2023, were approved for submission for approval to the competent authority, the National Energy Regulatory Authority.

9 March 2022

- The following were endorsed and/or approved by the Board of Administration Resolution 8/9 March 2022:
 - The SNTGN Transgaz SA 2021 - 2025 Management Plan, updated ;
 - The updated 2021 - 2030 TYNDP, for submission to the Ministry of Environment, Water and Forests for re-endorsement and public consultation.

16 March 2022

- By Board of Administration Resolution 9/16 March 2022 the following were endorsed and/or approved:
 - the financial statements of Eurotransgaz SRL for 2021.

22 March 2022

- The following were endorsed and/or approved by Board of Administration Resolution 10/22 March 2022:
 - the annual individual and consolidated financial statements for the 2021, as well as the Financial Audit Report for financial year 2021;
 - the distribution of the net profit and employee profit-sharing;
 - the gross dividend amount, as well as the payment of dividends due to shareholders;
 - the prescription of the 2018 financial year dividends not paid by the date of prescription, 16.07.2022;
 - the assessment of the degree of achievement of the financial and non-financial performance indicators for 2021;
 - the Remuneration Report for 2021;
 - the accounting policies of SNTGN Transgaz SA .

5 May 2022

- By Board of Administration Resolution 14/5 May 2022, 2022-2031 TYNDP was approved for public consultation.

10 June 2022

- By Board of Administration Resolution 19/10 June 2022 the following were endorsed and/or approved:
 - Appointment of BDO Audit&Consulting SRL , the Republic of Moldova, as auditor of Eurotransgaz SRL for 2022;
 - Proposal to appoint BDO Audit&Consulting SRL , the Republic of Moldova, as auditor of Vestmoldtransgaz SRL for 2022;
 - The launching by Transgaz of a competitive negotiated procedure for the selection of a financial institution with a view to contracting a financing facility for the balancing activity.

20 June 2022

- By Board of Administration Resolution 20/20 June 2022, the 2022 - 2031 TYNDP, updated in accordance with the comments following the public consultation, is endorsed for submission for prior approval in the General Meeting of the Shareholders.

29 June 2022

- By the Board of Administration Resolution 22/29 June 2022 the following were endorsed and/or approved:
 - SNTGN Transgaz SA 2021 Sustainability Report;
 - SNTGN Transgaz SA Corporate Governance Rules, the updated version;
 - the regulated tariffs related to the process of connection to the natural gas transmission system.

14 July 2022

- By Board of Administration Resolution 23/2022 the following were endorsed and/or approved:
 - Conclusion by SNTGN Transgaz SA of a loan agreement with Raiffeisen Bank in the amount of lei 300 million to finance the working capital requirement for the balancing activity of SNTGN Transgaz SA;
 - Conclusion by SNTGN Transgaz SA of an addendum to the loan agreement signed with Banca Transilvania SA to increase the existing credit line by the amount of lei 153 million;

12 August 2022

- By Board of Administration Resolution 25/2022 the following were endorsed and/or approved:
 - Consolidated report issued by the Board of Administration of SNTGN Transgaz SA for Half I 2022, for submission to the Ordinary General Meeting of the Shareholders;
 - Interim individual and consolidated financial statements for the six-month period.

27 October 2022

- By Board of Administration Resolution 33/2022 the following were endorsed and/or approved:
 - The Transgaz Management Plan 2021-2025, updated in October 2022;
 - Revision of some non-financial performance indicators included in the Transgaz Management Plan 2021-2025 for submission for approval to the Ordinary General Meeting of the Shareholders.

The main investments objectives finalized and accepted by Transgaz in 2022 were:

- Construction of the DN 700 Onești - Gherăești - Lețcani gas transmission pipeline, LOT 1 and LOT 2;
- New NTS developments for taking over Black Sea gas, Vadu - T1;
- Securing the Bistrita river channel above-crossing with the DN 300 Piatra Neamt - Biczaz gas transmission pipeline, Pângărați, Stejaru, Biczaz areas;
- DN 300 Mintia – Brad – Stei gas transmission pipeline;
- Securing DN800 Moghioros - Onești and DN700 Moghioros - Onești gas transmission pipelines, in the Oituz area;
- DN 250 Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline;

- DN 250 Vernești-Mărăcineni gas transmission pipeline;
- Securing the Moldova river undercrossing with the DN 250 Cristești - Tg. Neamt gas transmission pipeline, in the area of Timișești;
- Securing the Târgului river undercrossing with the DN 500 Schitu Golești - Slătioara and DN 500 Schitu Golești - Stâlpeni gas transmission pipeline, Furnicoși area;
- Connection and PMRS Tutova 2;
- Access agreement MRS Vâlcele 2;
- Connection and MRS Bozânta;
- Connection and MRS Tismana;
- Connection and MRS LINDNER Carei;
- Modernisation and upgrading of the gas NTS - Daily data purchase system (138 locations);
- Upgrading TN Schitu Golești;
- Capacity expansion MRS Uricani.

2.2. Indicators of the consolidated economic and financial results

Consolidated standard performance indicators

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. from the beginning of the year until 31 December 2022 was conducted based on the indicators included in the Revenue and Expense Budget (REB) approved by OGMS Resolution No. 3/2022.

The value of the standard performance indicators on 31 December 2022 as compared to their value as at 31 December 2021 is as follows:

No.	Performance criteria	Performance objective	MU	Weighting factor	Obtained	
					2022	2021
1.	Commissioned investments	Plan achieved	Thousand lei	0,15	270.438	1.389.215
2.	EBITDA	EBITDA increase	Thousand lei	0,15	584.587	480.452
3.	Labour productivity	Increasing labour productivity in units of value (turnover / average no. of employees);	Thousand lei/pers.	0,15	602	407
4.	Outstanding payments	Payments made during the contract duration (in current prices)	Thousand lei	0,15	0	0
5.	Outstanding receivables	Diminished amount of outstanding receivables (in current prices)	Thousand lei	0,1	538.012	579.741
6.	NTS gas consumption	Remaining within the gas quantities representing NTS gas consumption	%	0,15	83,47%	85,46%
7	OPEX at lei 1000 operating revenue	Diminishing of OPEX at lei 1000 operating revenue	lei	0,15	906	912

Table 1 - Consolidated standard performance indicators in 2022 compared to 2021

Consolidated profitability, liquidity, risk and management indicators

The values of the profitability, liquidity, risk and management indicators in 2020-2022:

No.	Indicators	Calculation formula	2020	2021	2022
1.	Profitability indicators				
	EBITDA in total sales	EBITDA	28,03%	28,53%	23,83%
		Turnover			
	EBITDA in equity	EBITDA	11,03%	12,40%	14,33%
		Equity			
	Gross profit share	Gross profit	13,54%	13,67%	17,19%
		Turnover			
	Return on equity	Net profit	4,41%	4,56%	8,55%
		Equity			
2.	Liquidity indicators				
	Current liquidity indicator	Current assets	1,65	1,42	1,43
		Short term debts			
	Acid test ratio	Current assets - Stocks	1,37	1,09	0,79
		Short term debts			
3.	Risk indicators				
	Leverage indicator	Borrowed capital	42,53%	49,01%	50,62%
		Equity			
	Interest coverage ratio	EBIT	9,57	9,93	3,82
		Interest expense			
4.	Management indicators				
	Days' sales outstanding	Average accounts receivable x 365 days	167,42	165,09	123,09
		Turnover			
	Days' payable outstanding	Average accounts payable x 365 days	55,23	73,14	55,95

Table 2 - Consolidated profitability, liquidity, risk and management indicators in 2020-2022

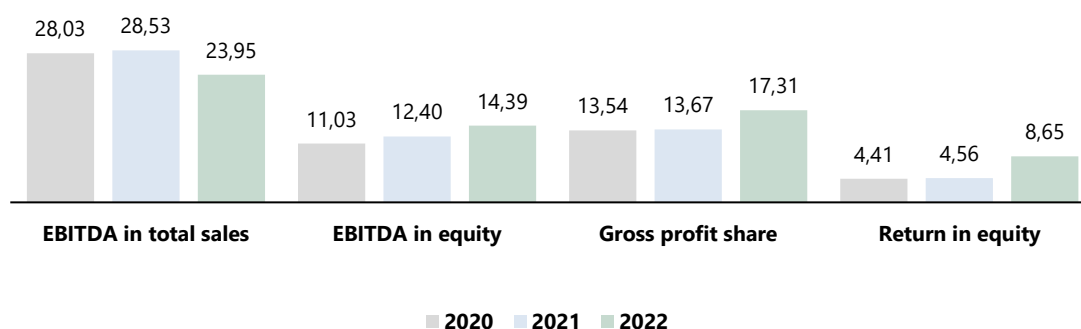


Chart 1- Profitability indicators evolution in 2020-2022

The main economic and financial indicators obtained in 2020-2022 are as follows:

Thousand lei

No.	Indicator	Achieved at 31 December (thousand lei)			Dynamics (%)
		2020	2021	2022	
0	1	2	3	4	$5=4/3*100$
1.	Turnover	1.474.078	1.683.775	2.440.916	144,97
2.	Operating revenue before balancing and the construction activity according to IFRIC12	1.338.015	1.364.950	1.579.284	115,70
3.	Revenue from balancing	199.239	442.200	1.005.544	227,40
4.	Revenue from the construction activity according to IFRIC12	1.587.548	704.027	299.868	42,59
5.	Financial revenue	68.929	152.208	498.370	327,43
6.	Operating cost before balancing and the construction activity according to IFRIC12	1.173.521	1.244.239	1.432.968	115,17
7.	Cost of balancing gas	199.239	442.200	1.005.544	227,40
8.	Cost of constructed assets according to IFRIC12	1.587.548	704.027	299.868	42,59
9.	Financial cost	33.872	42.669	225.110	527,57
10.	Gross profit	199.552	230.250	419.576	182,23
11.	Profit tax	47.511	53.445	72.709	136,04
12.	Deferred tax income	13.183		202	X
13.	Net profit	165.224	176.805	347.068	196,30
14.	Total comprehensive result related to the period	153.134	224.237	341.124	152,13
15.	Transmitted gas -thousand cm-	12.380.266	14.026.269	13.032.066	92,91
16.	Investment cost	1.898.974	817.916	302.539	36,99
17.	Rehabilitation cost	17.258	18.717	21.341	114,02
18.	Technological consumption thousand lei	79.187	76.005	152.430	200,55
19.	Technological consumption thousand cm	69.325	70.188	70.739	100,79

Table 3- Main consolidated economic and financial indicators in 2020-2022

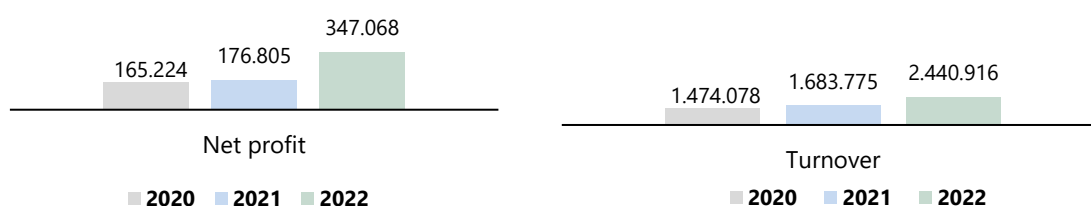


Chart 2 - Net profit in 2020-2022

Chart 3- Turnover in 2020-2022

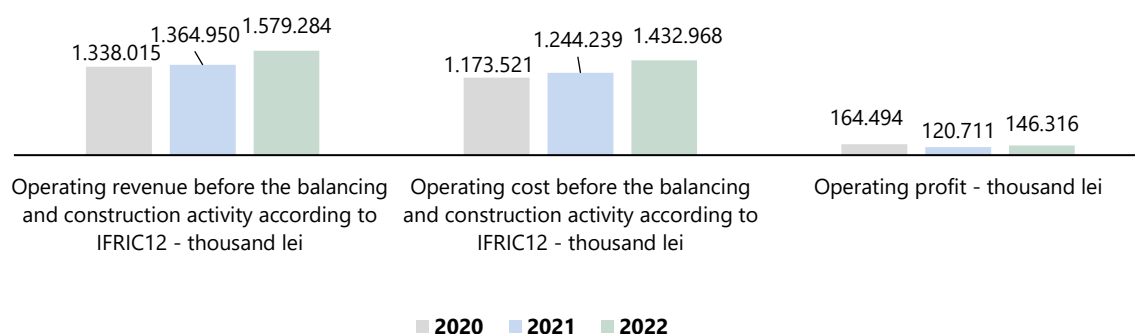


Chart 4- Operating revenue, expense and profit, before the construction activity according to IFRIC 12 in 2020-2022 (thousand lei)

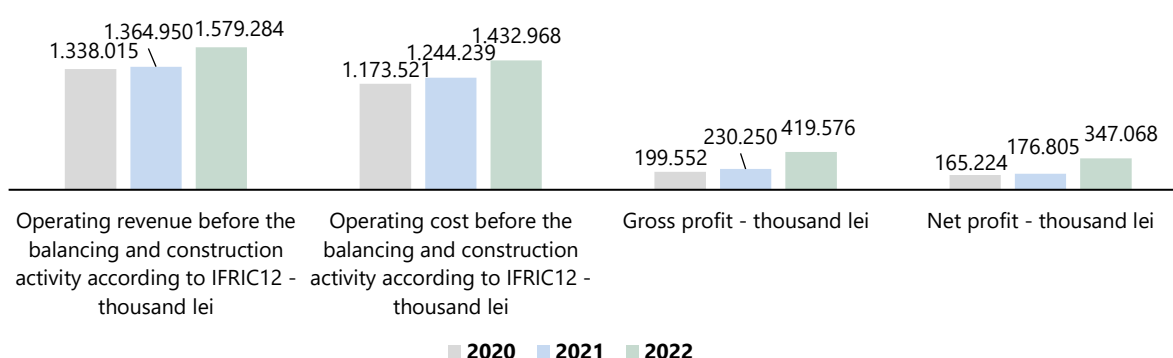


Chart 5- Main economic and financial indicators in 2020-2022 (thousand lei)

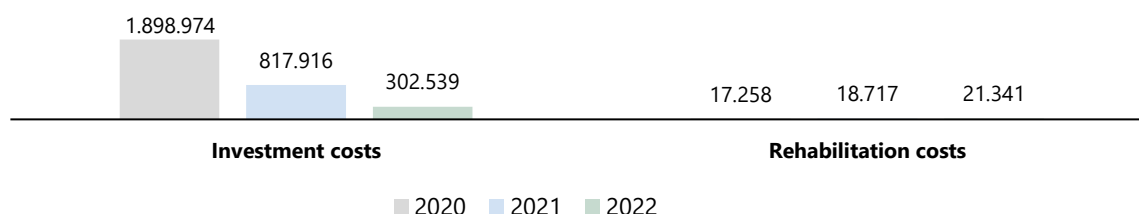


Chart 6- Investment and rehabilitation costs in 2020-2022 (thousand lei)

2.3. Indicators of the individual economic and financial results

Standard performance indicators

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. from the beginning of the year until 31 December 2022 was conducted based on the indicators established in the Revenue and Expense Budget approved by OGMS Resolution No. 3/28.02.2022. The value of the standard performance indicators at the end of 2022 as compared to their value at the end of 2021 is as follows:

No.	Performance criteria	Performance objective	MU	Weighting factor	Obtained	
					2022	2021
1.	Commissioned investments	Plan achieved	Thousand lei	0,15	175.301	1.382.226
2.	EBITDA	EBITDA increase	Thousand lei	0,15	583.282	485.447
3.	Labour productivity	Increasing labour productivity in units of value (turnover / average no. of employees);	Thousand lei/ pers.	0,15	608	411
4.	Outstanding payments	Payments made during the contract duration (in current prices)	Thousand lei	0,15	0	0
5.	Outstanding receivables	Diminished amount of outstanding receivables (in current prices)	Thousand lei	0,1	538.012	579.741
6.	Technological consumption	Remaining within the gas quantities representing technological consumption	%	0,15	83,47%	85,46%
7	OPEX at lei 1000 operating revenue	Diminishing of OPEX at lei 1000 operating revenue	lei	0,15	899	902

Table 4 – Standard performance indicators in 2022 compared to 2021

Profitability, liquidity, risk and management indicators

The values of the profitability, liquidity, risk and management indicators in 2020-2022:

No.	Indicators	Calculation formula	2020	2021	2022
1.	Profitability indicators				
	EBITDA in total sales	EBITDA Turnover	28,13%	28,83%	23,94%
	EBITDA in equity	EBITDA Equity	10,96%	12,48%	14,29%
	Gross profit share	Gross profit Turnover	14,19%	14,21%	17,95%
	Return on equity	Net profit Equity	4,63%	4,81%	8,96%
2.	Liquidity indicators				
	Current liquidity indicator	Current assets	1,56	1,25	1,39
		Short term debts			
	Acid test ratio	Current assets - Stocks	1,29	0,92	0,75
		Short term debts			
3.	Risk indicators				
	Leverage indicator	Borrowed capital Equity	39,31%	44,02%	45,84%

	Interest coverage ratio	EBIT Interest expense	9,73	5,63	3,07
4.	Management indicators				
	Days' sales outstanding	Average accounts receivable x 365 days Turnover	167,42	165,09	123,30
	Days' payable outstanding	Average accounts payable x 365 days Turnover	55,23	73,14	56,05

Table 5 - Profitability, liquidity, risk and management indicators in 2020-2022

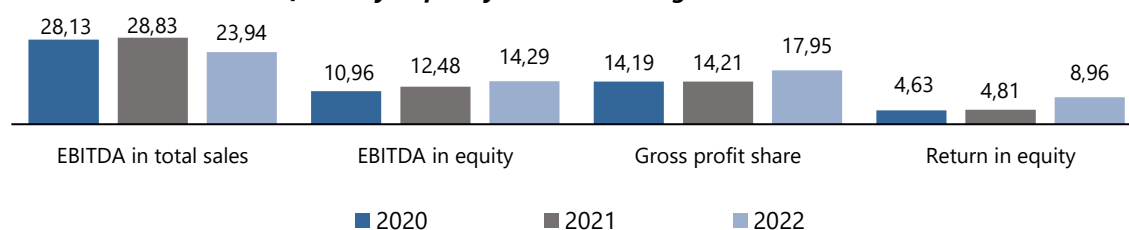


Chart 7- Profitability indicators in 2020-2022

The main economic and financial indicators obtained in 2020-2022 are as follows:

No.	Indicator	Achieved at 31 December (thousand lei)			Dynamics (%)
		2020	2021	2022	
0	1	2	3	4	5=4/3*100
1.	Turnover	1.474.078	1.683.775	2.436.802	144,72
2.	Operating revenue before balancing and the construction activity according to IFRIC12	1.333.504	1.364.511	1.575.186	115,44
3.	Revenue from balancing	199.239	442.200	1.005.544	227,40
4.	Revenue from the construction activity according to IFRIC12	1.587.548	704.027	299.868	42,59
5.	Financial revenue	60.666	130.013	461.287	354,80
6.	Operating cost before balancing and the construction activity according to IFRIC12	1.165.836	1.230.118	1.415.554	115,07
7.	Cost of balancing gas	199.239	442.200	1.005.544	227,40
8.	Cost of constructed assets according to IFRIC12	1.587.548	704.027	299.868	42,59
9.	Financial cost	19.156	25.138	183.446	729,77
10.	Gross profit	209.178	239.268	437.474	182,84
11.	Profit tax	47.360	52.327	71.921	134,49
12.	Deferred tax income	13.183		202	x
13.	Net profit	175.001	186.941	365.755	195,65
14.	Total comprehensive result related to the period	182.343	202.724	368.207	181,63
15.	Transmitted gas -thousand cm-	12.380.266	14.026.269	13.032.066	92,91
16.	Investment cost	1.699.862	803.509	333.988	41,57

No.	Indicator	Achieved at 31 December (thousand lei)			Dynamics (%)
		2020	2021	2022	
17.	Rehabilitation cost	17.167	18.561	21.002	113,15
18.	Technological consumption thousand lei	79.187	76.005	152.430	200,55
19.	Technological consumption thousand cm	69.325	70.188	70.739	100,78

*) transmitted quantity for which transmission services are invoiced

Table 6- Main economic-financial indicators in 2020-2022

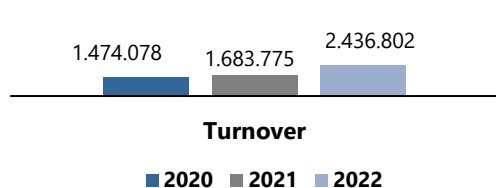


Chart 8-Turnover in 2020-2022 (mil lei)

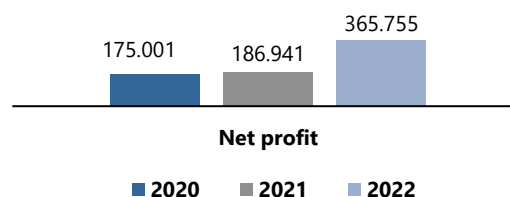


Chart 9 - Net profit in 2020-2022 (mil lei)

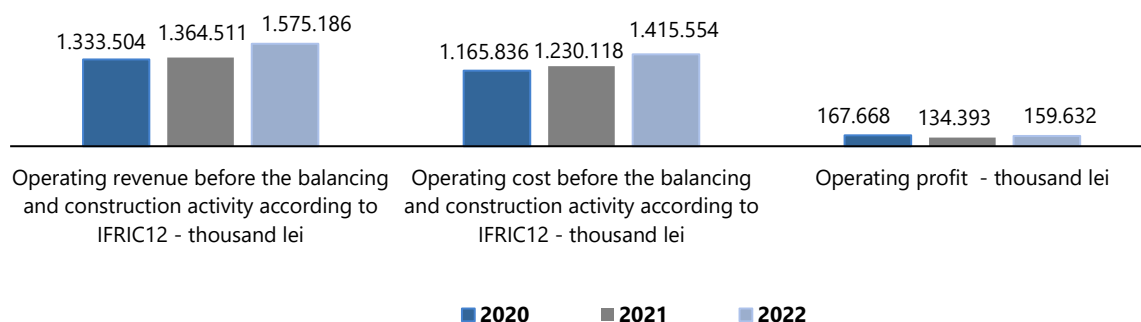


Chart 10 - Operating revenue, expense and operating profit before the construction activity according to IFRIC 12 in 2020-2022 (thousand lei)

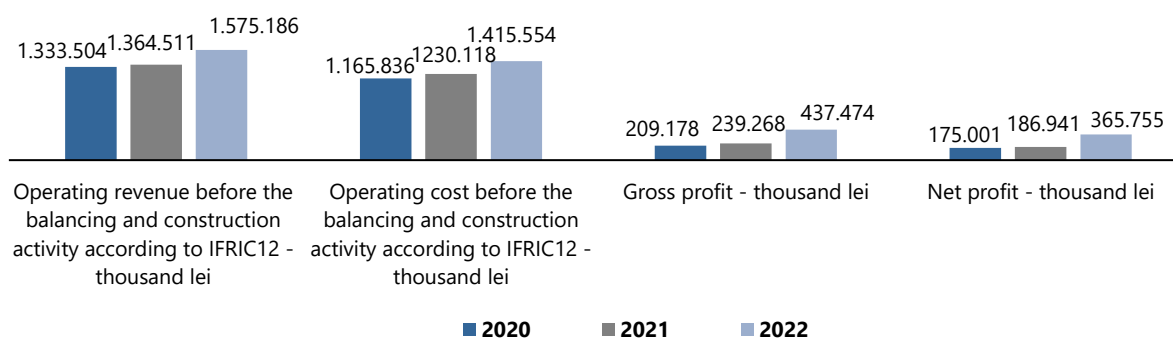


Chart 11 - Main economic and financial indicators in 2020-2022 (thousand lei)

Transgaz holds the monopoly in Romania in terms of natural gas transmission and circulates approximately 90% of the total natural gas consumed.

As at 31 December 2022 the Company's cash in bank accounts amounted to lei 384.048 thousand of which 33,39% was cash denominated in foreign currency, most of it in EUR.

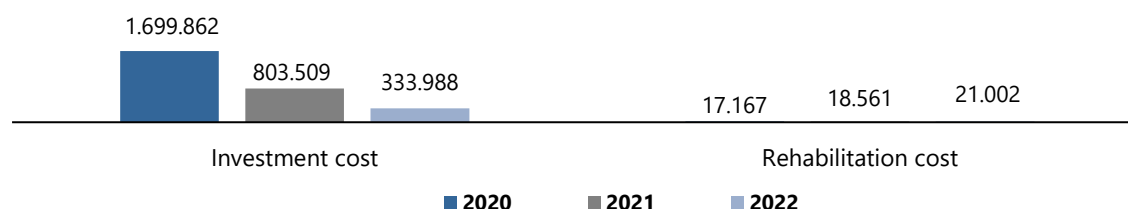


Chart 12 - Investment and rehabilitation costs in 2020-2022 (thousand lei)

2.4. Transactions between the affiliated parties (concluded according to Art. 108 of Law 24/2017 republished)

According to Article 108 of Law 24/2017 on the issuers of financial instruments and market operations, as amended, Transgaz reported in 2022 the following significant transactions concluded with related parties, i.e. with SNGN ROMGAZ SA, the value of which exceeds 5% of the value of the company's net assets, according to the last published individual financial reports.

Contract data	Contract clauses
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 18/20.08.2021 (1 October 2021 – 1 October 2022)
Contract scope	provision of NTS entry points annual transmission services
Contract value	131.836.544,16 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 84/20.08.2021 (1 October 2021 – 1 October 2022)
Contract scope	provision of NTS exit points annual transmission services
Contract value	22.705.303,27 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 125T/10.11.2020 for Q I 2021
Contract scope	provision of NTS entry points quarterly transmission services
Contract value	11.504.146,50 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 126T/10.11.2020 for Q I 2021
Contract scope	provision of NTS exit points quarterly transmission services

Contract data	Contract clauses
Contract value	6.594.378,34 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 153T/09.02.2021 for Q II 2021
Contract scope	provision of NTS exit points quarterly transmission services
Contract value	1.331.967,00 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 174T/12.05.2021 for Q III 2021
Contract scope	provision of NTS exit points quarterly transmission services
Contract value	5.067.360,00 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 43T/20.08.2021 for Q IV 2021
Contract scope	provision of NTS entry points quarterly transmission services
Contract value	2.305.648,80 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 44T/20.08.2021 for Q IV 2021
Contract scope	provision of NTS exit points quarterly transmission services
Contract value	670.805,86 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 364L/23.12.2020 for January 2021
Contract scope	provision of NTS entry points monthly transmission services
Contract value	1.391.306,35 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 365L/23.12.2020 for January 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	121.017,65 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 439L/20.01.2021 for February 2021
Contract scope	provision of NTS entry points monthly transmission services
Contract value	857.157,00 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 441L/20.01.2021 for February 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	289.004,35 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.

Contract data	Contract clauses
Contract date and type	Contract No. 520L/17.02.2021 for March 2021
Contract scope	provision of NTS entry points monthly transmission services
Contract value	175.965,30 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 521L/17.02.2021 for March 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	60.794,72 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 605L/17.03.2021 for April 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	636.327,37 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 616L/21.04.2021 for May 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	1.697.460,15 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 695L/19.05.2021 for June 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	1.640.107,98 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 781L/21.07.2021 for August 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	109.164,89 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 836L/18.08.2021 for September 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	212.647,05 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 49L/22.09.2021 for October 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	260.669,90 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 130L/20.10.2021 for November 2021

Contract data	Contract clauses
Contract scope	provision of NTS entry points monthly transmission services
Contract value	723.496,20 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 132L/20.10.2021 for November 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	759.644,33 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 203L/17.11.2021 for December 2021
Contract scope	provision of NTS entry points monthly transmission services
Contract value	2.548.730,10 lei – estimated amount of the legal act VAT included (lei)
Contract Parties	concluded between S.N.T.G.N. TRANSGAZ S.A. and S.N.G.N. ROMGAZ S.A.
Contract date and type	Contract No. 204L/17.11.2021 for December 2021
Contract scope	provision of NTS exit points monthly transmission services
Contract value	1.464.174,43 lei – estimated amount of the legal act VAT included (lei)

2.5. Non-financial reporting

Starting with 2021, SNTGN Transgaz SA published the non-financial information in a separate report according to Order 1802/2014 on the approval of the *Accounting regulations for the annual individual and consolidated financial statements*, updated by Order 1938/2016 of the Ministry of Public Finance, as amended.

Thus, in Half I 2022 the 2021 Sustainability Report was prepared and published. It includes both the management policy dedicated to protecting the environment, safety and health of employees and the principles underlying the company's corporate governance and social responsibilities. The report will be prepared and published yearly by SNTGN Transgaz SA.

The Sustainability Report for 2022 will be published in accordance with the provisions of Order 2844/2017 of the Ministry of Public Finance on the approval of the Accounting Regulations in accordance with International Financial Reporting Standards, as further amended and supplemented, Chapter 7, paragraph 42 (b) and paragraph 47 (b) for consolidated reports: the report *shall be made available to the public within a reasonable period not exceeding six months from the balance sheet date, on the entity's website and shall be mentioned in the report of the administrators*, that is by 30 June 2023.

3. MAIN RISKS RELATED TO THE ACTIVITY FOR 2022

Depending on the relevant elements derived from the evaluation of the internal and external context, SNTGN TRANSGAZ SA permanently re-evaluates its activity and the related risks.

The grouping of the risks identified within SNTGN Transgaz SA represents an important stage in the development of the risk management process.

SNTGN Transgaz **SA defined the Risk Grouping System, characteristic to the company, by using some risk categories.** Risk categories give a structured overview for managing the risks the company is facing.

Operational risks

Operational risks are directly generated by the activity carried out at the level of departments, offices, compartments, regional offices, sectors and may be associated with the categories of operational objectives as follows:

1. category: efficient development of works

- lack of landowners' agreements;
- unforeseen soil conditions;
- failure to obtain within the established time the approvals and agreements of the landowners necessary to obtain the Building Permit;
- lacking information or late transmission of the information reflecting the real situation in the field;
- provision of incomplete / inaccurate data regarding the identification of land owners, by the competent bodies;
- deficient cadastral records, at the level of local / county authorities;
- temporary cessation of land use as a result of the discovery of vestiges;
- partly ensuring or failure to ensure the technical and operational conditions for the inspection of pipes with intelligent PIG.

2. category: material / financial resources

Following the lack of material / financial resources and spare parts necessary to achieve the proposed objectives, within the set time, in conditions of quality, price, costs, safety, the activity may generate specific risks, such as:

- failure to perform on time and within the scheduled parameters the works provided in the Maintenance and Technical Revision Program of MRSs and pipelines;
- the occurrence of malfunctions in the operation of the Cathodic Protection Stations;
- not performing on time and in the programmed parameters the maintenance works of the SCADA system.

3. category: technical

- low operating pressure of the NTS;
- malfunctions of the information / communication system;
- unavailability of IT Security tools;
- SCADA failures;
- software / hardware failures of the IT system;
- technical problems in the operation of the GMOIS platform;
- subodorization / superodorization of natural gas delivered from NTS.

4. category: suppliers/subcontractors

- non-compliance with the contractual clauses regarding terms and quality;
- insolvency / bankruptcy of suppliers;
- delay in performing the receptions at the end of the works;
- lack of continuity of service contracts for MRSs;
- failure to perform the contract as a result of the contractor's reduced ability to perform the contract in accordance with the contract terms;
- delays in planning revisions / repairs / technical periodical inspections / tire exchange for the vehicle fleet.

5. category: hazard:

- impossibility to perform maintenance due to external factors such as adverse weather conditions;
- increasing expenses with maintenance and repairs in the NTS due to extreme weather phenomena;
- impossibility to observe the patrol program.

6. category: clients

- malfunctions caused by some Network Users in the GMOIS platform

7. category: cyber security

- failure to identify in a timely or inadequate identification of the cyber vulnerabilities;
- inadequate cyber vulnerability assessment.

Strategic risks

The strategic risks are directly related to the development strategy of SNTGN Transgaz SA and are associated with the strategic objectives included in the 2021-2025 Company's Management Plan as follows:

1. category: political

- the national and international macroeconomic and geopolitical framework changes may affect the conclusion of gas transmission contracts as well as the implementation of the strategic projects;
- Russia's invasion of Ukraine has increased the level of geopolitical risk, which is now to one of its highest levels seen in the last years;
- The evolution of the Romanian economy, the global and European macro-financial climate, the internal mix of economic policies, can determine additional financing considering the increasing in the costs of some investments and the additional costs determined by the fluctuation of qualified personnel.
- government intervention: requesting a dividend distribution of more than 50% may contribute to the materialisation of a significant risk with a direct impact on the profitability of the company and its ability to finance planned strategic investment projects at estimated costs.

2. category: regulations/legislative

Given the significant value of NTS investments, the duration of implementation of projects in which the company is involved, a stability and predictability of the legislative environment and regulatory framework in the energy sector are necessary and the adoption of regulations without a solid basis supported by studies impact and public debate may make the entire energy sector vulnerable.

- frequent changes and bottlenecks in the legislative process at national level;
- non-recognition of investments in the Regulated Assets Base (RAB), as regulated at the national level, may have a significant negative impact in determining the transmission tariffs and, implicitly, on the company's profitability;
- low probability to obtain a higher profit than the regulated revenue, within a regulatory period;
- instability of gas price in Romania.

3. category: competition:

- the impact of projects developed by the company's competitors on the dynamics of European gas flows (TAP, Turk Stream and Balkan Stream);
- the lack of an LNG terminal in Constanta may have a negative impact on strengthening the company's position in Eastern Europe;
- reducing the international natural gas transmission through Romania.

4. category: commercial

- increasing the price of the gas purchased for own consumption.

5. category: sustainability

- restricting access for funding gas projects;
- delays in developing new technologies for transporting green hydrogen at a competitive level;
- decreasing natural gas consumption following the increasing of the share of consumption of green energy, generated from natural/renewable resources, i.e. wind energy, solar energy as well as nuclear energy consumption;
- the impact on the NTS which may be generated by natural disasters (earthquakes, floods, landslides, extreme temperatures, heavy snowfall).

6. category: financial:

- crediting - the negative impact that can be generated by rising interest rates;
- exchange rate - the negative impact that can be generated by the appreciation of currencies against the national currency;
- liquidity - the negative impact that may arise from increased costs to support the business and the low degree of recovery of outstanding debts;
- failure to comply with the limits laid down in the financing contracts for the financial indicators.

For risks that have a level of exposure above the risk tolerance limit, approved according to internal regulations, *risk mitigation measures* are established, among which we mention:

- permanent alignment of the company's strategic objectives with European requirements for the development of the energy sector;

- making the best use of the financing opportunities necessary for the development of the investment projects;
- consolidation of the company's position in the Romanian Investor Relations Association;
- initiating discussions with government representatives to stress the importance of fiscal and legislative stability and predictability and medium and long-term investments, for energy investments;
- participation of the company in the analysis of specific draft regulations submitted by the competent authorities;
- implementation of efficient tools for communication and consultation with relevant stakeholders in the decision-making process following changes to the regulatory framework;
- continuous communication with the shareholders of the company - the representatives of the majority shareholder (Romanian State), and the shareholders natural persons and legal entities, as well as with all stakeholders;
- identification of the eligibility criteria set out in Regulation 347/2013 on guidelines for trans-European energy infrastructure, with a view to identifying projects of common interest in the field of energy and mobilising the necessary private and public funds;
- seizing opportunities for sustainable transformation of coal-intensive regions in our country and in other Central and Eastern European countries, natural gas being an essential transitional fuel with an important contribution to energy security.
- mobilisation of all stakeholders - government, parliament, other stakeholders, scientists, potential investors, international partners, for the development of hydrogen transmission technologies.
- compliance/monitoring of the Activity Continuity Plan at SNTGN Transgaz SA level and of the Plan of Measures to Ensure Activity Continuity at SNTGN Transgaz SA level;
- attending specific courses and obtaining skills and certifications to contribute to maintaining a high level of personnel skills and to support the cyber vulnerability scanning process;
- developing contingency plans and conducting simulations of emergency operations;
- continuous testing of the Security Plans drawn up at the level of the objectives;
- installation of integrated security systems for critical infrastructure targets;
- Systematic verification and reporting on the progress of the implementation of the *Priority Programme of Measures aimed at bringing the technological consumption in the NTS within the approved limits in the period 2022-2026.*
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4. ABOUT SNTGN TRANSGAZ SA

4.1 Mission, vision, organizational values

SNTGN Transgaz SA, established on the basis of Government Resolution 334/28 April 2000 following the restructuring of the National Natural Gas Company ROMGAZ SA, is a Romanian legal entity with the legal form of a joint stock company, operating according to the provisions of the Romanian legislation and its updated Articles of Incorporation.

Mission

In line with the European energy policy requirements, Transgaz's mission represents the fulfilment in conditions of efficiency, transparency, safety and competitiveness of the national energy strategy established for domestic and international gas transmission, natural gas dispatching and research and design in the field of natural gas transmission.

Transgaz's mission aims at:

- The safe operation of the NTS based on economic efficiency;
- NTS rehabilitation, upgrading and development;
- NTS interconnection with the natural gas transmission systems of the neighbouring countries;
- Development of new gas transmission infrastructures towards Western Europe;
- Ensuring non-discriminatory access to the NTS;
- The implementation of participatory management in all of the company's action fields;
- Development of the organizational culture and of the national performance standards;
- Implementation of the regulations in the natural gas sector;
- Improvement of the natural gas transmission activity informatization, preparation of the normative acts draft and European actions to support them;
- The good corporate governance principles integration into the business practice.

Vision

The company intends to become a transmission operator recognized on the international gas market, a leader on the energy market in the region with a modern gas transmission system integrated at European level and with an effective management system.

Vision as a message to the community

The responsible fulfilment of the public service mission, the safe operation of the National Gas Transmission System, high quality services, safe connection to the NTS under non-discriminatory and transparent conditions for all network users and the integration at European level of the national gas market.

Vision as a message to the shareholders

A proficient company oriented towards continuous growth of the plus value for the shareholders.

Vision as a message to employees

The company as an attractive, stable and motivating working environment with a continuous commitment to professional excellence.

The organisational values defining Transgaz's business ethics are the following:

- Professionalism and performance;
- team spirit;
- mutual respect;
- responsibility towards the environment and people;

Transgaz's core strengths:

- The quality of licensed NTS operator - monopoly;
- The solid financial profile of the company;

- The continuity of the technical, economic and financial performance;
- The predictability of the cash-flow due to the regulated character of the gas transmission activity;
- Dividends granted to shareholders.

4.2 The activity of the company

SNTGN TRANSGAZ is the technical operator of the National Gas Transmission System and ensures the performance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness of the object of activity established for domestic and international transmission, natural gas dispatching, research and design in the field of natural gas transmission, in compliance with the national and European legislation and standards of quality, performance, environment and sustainable development.

The natural gas transmission activity is carried out based on the Concession Agreement for the pipelines, installations, equipment and facilities related to NTS, in the public domain of the Romanian state, concluded with the National Agency for Mineral Resources (ANRM), as the representative of the Romanian state, approved by Government Resolution 668/20 June 2002 (published in Official Journal 486/8 July 2002), valid until 2032, as further amended and supplemented by seven addenda approved by Government resolutions.

By ANRE Order 3/22 January 2014 on the approval of the certification of the National Gas Transmission Company Transgaz - SA Mediaș as transmission and system operator of the National Gas Transmission System it was established that the company must be organized and must operate as an independent system operator.

Main components of the National Gas Transmission System

NTS objective / component	MU	Value
Main transmission pipelines and gas supply connections, of which: -international transmission pipelines (Transit III) -BRUA	km	13.977,78 183,5 481
Operating metering-regulating stations (MRS)	pc.	1.148 (1.254 metering directions)
Valve control stations (VCS, TN)	pc.	59
Import/export gas metering stations (GMS) (Giurgiu, Medieșu Aurit, Isaccea 1, Isaccea 2, Negru Vodă 1, Negru Vodă 2)	pc.	6
Gas metering stations located on the gas transit pipelines (GMS) (Isaccea Transit III, Negru Vodă III)	pc.	2
Gas compressor station (CS) (Șinca, Onești, Siliștea, Jupa, Podișor, Bibești Onești M, Gherăești)	pc.	8
Cathodic protection stations (CPS)	pc.	1.057
Gas odorising stations (GOS)	pc.	1.054

Table 7 - Main components of the NTS on 31.12.2022

The National Transmission System (NTS) has coverage across the entire national territory and has a radial-ring structure. The gas transmission and transit capacity is provided through a network of pipelines and supply connections with diameters between 50 mm and 1200 mm at pressures between 6 bar and 63 bar.

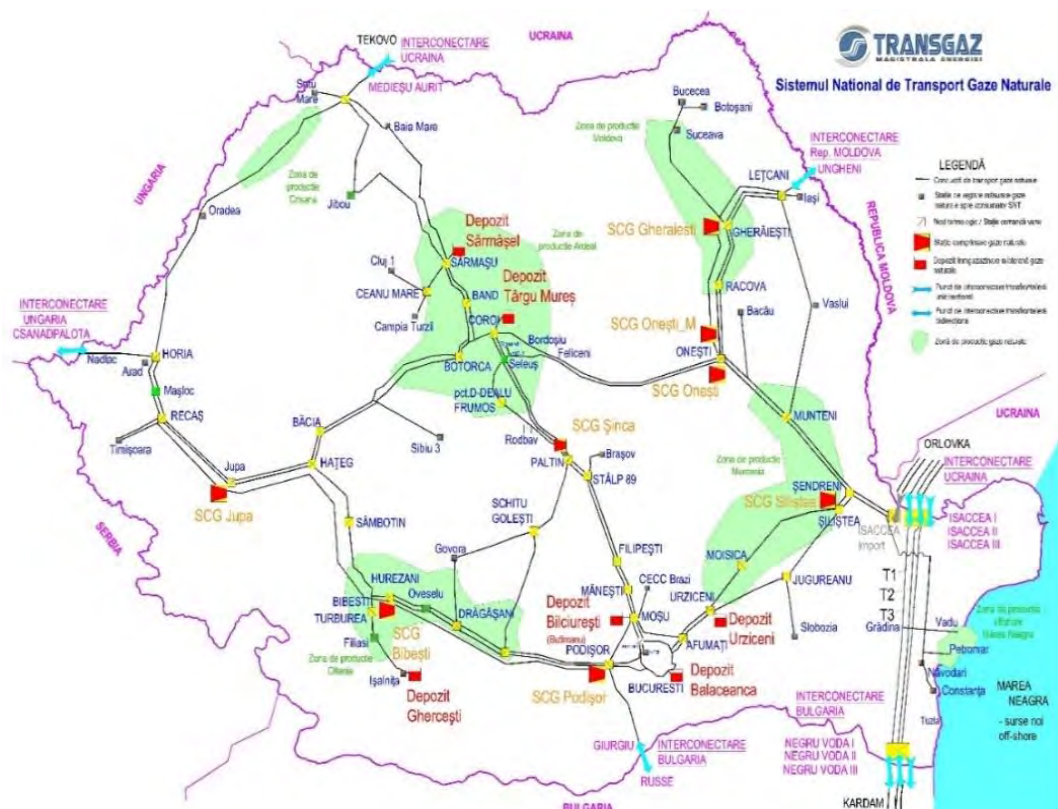


Figure 1 - Map of the National Gas Transmission System

Cross-border interconnection points

At the end of 2022, the import/export of natural gas to/from Romania was achieved by seven cross-border interconnection points, as follows:

Country	Interconnection pipeline	Technical specifications	Total technical capacity
UKRAINE	Orlovka (UA) - Isaccea (RO) * LLC GAS TSO UA → Transgaz	DN 1000, Pmax = 45 bar	6,85 Sbcm/y
	Tekovo (UA) - Medieșu Aurit (RO) ** LLC GAS TSO UA → Transgaz	DN 700, Pmax = 75 bar	2,71 Sbcm/y at Pmin=47 bar
	Isaccea 1 (RO) - Orlovka 1 (UA) Transgaz ↔ LLC GAS TSO UA	DN 1000, Pmax = 55 bar	6,85 Sbcm/y at import capacity at Pmin=46,5 bar 4,12 Sbcm/y export capacity*** at Pmin=35,4 bar
HUNGARY	Szeged (HU) - Arad (RO) - Csanádpalota (HU)	DN 700, Pmax = 63 bar	2,63 Sbcm/y import capacity at Pmin=40 bar

	FGSZ ↔ Transgaz		2,45 Sbcm/y export capacity at Pmin=40 bar
REPUBLIC OF MOLDOVA	Iași (RO) - Ungheni (MO) Transgaz ↔ Vestmoldtransgaz	DN 500, Pmax = 55 bar	1,88 Sbcm/y export capacity at Pmin=39,5 bar 0,73 Sbcm/y import capacity la Pmin=24 bar
BULGARIA	Giurgiu (RO) - Ruse (BG) Transgaz. ↔ Bulgartransgaz	DN 500, Pmax = 50 bar	1,50 Sbcm/y export capacity at Pmin=40 bar 0,92 Sbcm/y import capacity at Pmin=30 bar
	Kardam (BG) - Negru Vodă 1 (RO) Transgaz ↔ Bulgartransgaz	DN 1000, Pmax = 55 bar	6,36 Sbcm/y on export capacity at Pmin=31,5 bar (of which 2,31 Sbcm/year at Pmin 41 bar available from the NTS) **** 5,31 Sbcm/y import capacity at Pmin=45 bar

* This interconnection point is not used since there is no interconnection agreement concluded. Gas import from Ukraine is currently performed through Isaccea 1.

**For this point the Romanian TSO and the Ukrainian TSO are having discussions on the signature of a new Interconnection Agreement.

***Capacity is offered on an interruptible commercial basis as the Annex to the Interconnect Agreement on gas quality requirements is not signed. Capacity conditional on the capacity booking at the Negru Vodă 1 IP, in the BG-RO direction.

**** The difference of capacity $6,36 - 2,31 = 4,05$ billion Scm/year is available for transit, conditional on entry capacity booking at the Isaccea 1 IP in the UA-RO direction.

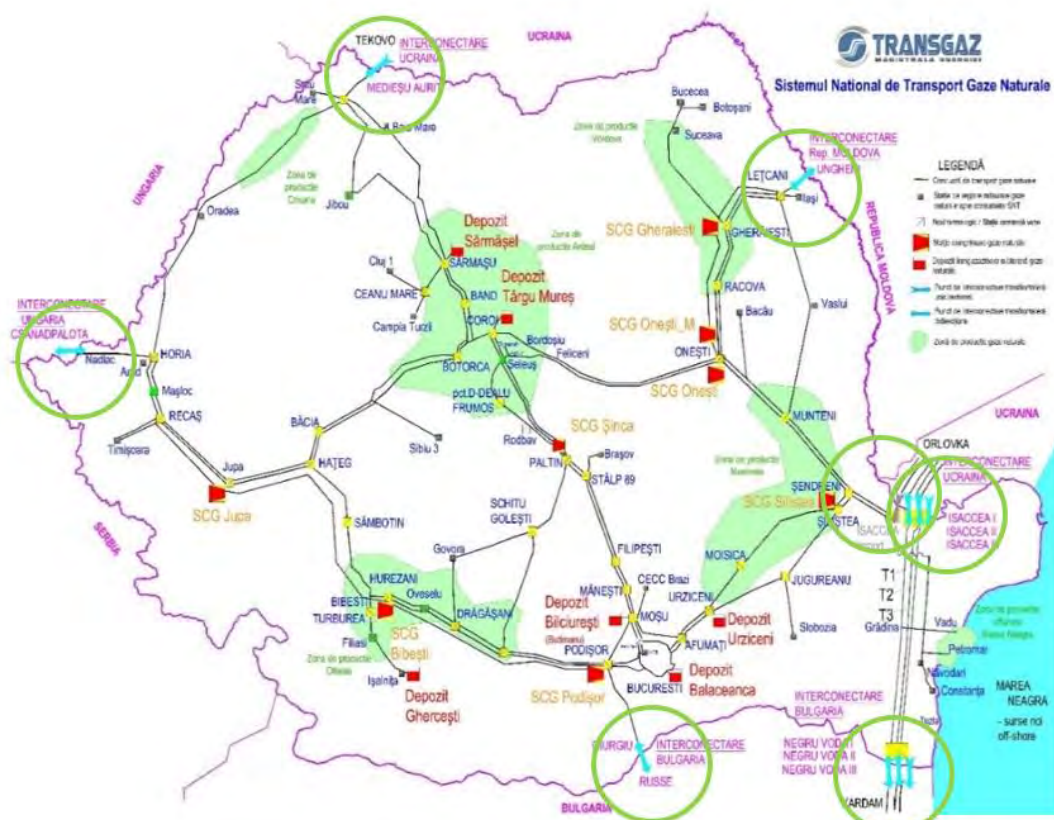


Figure 2 - Cross-border NTS interconnection points

Domestic gas transmission

The domestic gas transmission activity is carried out by Transgaz based on License 1933/20.12.2013 for operating the natural gas transmission system, issued by the National Energy Regulatory Authority (ANRE), valid until 08.07.2032.

The gas transmission is ensured by a current network of over 13.977,78 km of pipelines and gas supply connections with diameters between 50 mm and 1.200 mm, at pressures between 6 bar and 63 bar.

International gas transmission

The international gas transmission activity is carried out by Transgaz based on License 1933/20.12.2013 for operating the National Gas Transmission System, issued by the National Energy Regulatory Authority (ANRE), valid until 08.07.2032, based on Electricity and Gas Law 123/2012, as further amended and supplemented, as well as based on the specific regulations in force.

The activity of international gas transmission takes place in the South-East of the country (Dobrogea), where the existing Romanian pipeline sector between Isaccea and Negru Vodă is included in the Balkan corridor of international natural gas transmission from Russia to Bulgaria, Turkey, Greece and Macedonia.

Along the mentioned route, there are three interconnections with the similar international gas transmission system in Ukraine north of **Isaccea**, and three interconnections with the similar international gas transmission system in Bulgaria south of **Negru Vodă**.

In gas year 2019-2020 the Isaccea 1 - Negru Voda 1 (T1) natural gas transmission pipeline was connected to the National Gas Transmission System in GMS Isaccea area, which enables the physical flow of gas from the T1 transmission pipeline to the NTS and vice versa. Negru Vodă 1 thus became a point of interconnection to the NTS and the provisions of the same tariff setting methodology apply to it (approved by ANRE Order 41/2019) applicable both at the interconnection points with the EU Member States (Csanadpalota, Giurgiu Ruse) and at the domestic points of the National Transmission System. The transmission capacity at the points related to the T1 pipeline is traded according to the order of the ANRE President and to Regulation (EU) No 459/2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) no. 984/2013.

Regarding transmission through the T2 and T3 pipelines, with the following characteristics: DN 1200, L = 186 km and the technical capacity of 10 billion Scm/year (T2) and DN 1200, L = 183,5 km and the technical capacity of 10 billion Scm/year (T3), the company concluded the Agreement for the Termination of the Legacy Contract between SNTGN Transgaz SA and Gazprom Export LLC.

At the end of 2021, the T2 gas transmission pipeline Isaccea 2 – Negru Voda 2 was connected to the National Gas Transmission System, enabling physical gas flow from T2 to the NTS and vice-

versa. Moreover, the Isaccea 2 and Negru Vodă 2 gas metering stations were upgraded to ensure bidirectional gas flow at the cross-border interconnection points Isaccea 2 with Ukraine and Negru Vodă 2 with Bulgaria. After the completion of the works for the connection of the T2 pipeline to the NTS, Transgaz, together with the neighbouring TSOs, initiated actions (the conclusion of interconnection agreements) to ensure and offer bidirectional capacity at the interconnection points related to this pipeline.

The T3 Isaccea 3-Negru Vodă 3 gas transmission pipeline has not been connected to the NTS yet.

From January 2020, after the termination of legacy natural gas transmission contracts, there have been no physical flows on T2 and T3 pipelines.

The operation by SNTGN Transgaz SA of the National Gas Transmission System mainly includes the following activities:

- commercial balancing;
- contracting natural gas transmission services;
- dispatching and technological regimes;
- measurement and monitoring of gas quality;
- gas odorization and international gas transmission.

SNTGN TRANSGAZ S.A. may also carry out other related activities to support the main object of activity, in accordance with the legislation in force and its own bylaws, being able to proceed even to the purchasing of gas only for the balancing and safe operation of the National Transmission System.

In addition to the domestic and international gas transmission revenue, the company has revenue from NTS access fees, design services and from providing adjacent services.

The quality of the transmission service is a constant concern of both SNTGN Transgaz SA and the National Energy Regulatory Authority. In order to monitor the quality of the natural gas transmission service based on specific indicators and minimum performance levels, starting with 1 October 2016, the **Performance Standard for the natural gas transmission service approved by ANRE Order 161/26.11.2015** entered into force. On 1 October 2022, **ANRE Order 140/2021** on the **Performance Standard for the natural gas transmission service**, as amended, entered into force, repealing ANRE Order no.161/2015.

4.3 Shareholding

According to the provisions of Government Emergency Ordinance 1/04.01.2017 on the establishment of measures in the field of the central public administration and for the amendment and supplementation of some regulatory acts, the Ministry of Economy was established, through the reorganisation of the activities of the Ministry of Economy, Trade and Relations with the Business Environment. Thus, on 02.03.2017 it was registered at Depozitarul Central S.A. the amendment of the account owner from the Romanian State through the Ministry of Economy, Trade and Relations with the Business Environment to the Romanian State through the Ministry of Economy.

From 14 November 2019, the exercising of the rights and the fulfilment of the obligations arising from the quality of shareholder of the Romanian State at the National Gas Transmission Company Transgaz SA is performed by the Romanian State through the General Secretariat of the Government, following the transfer of shares from the account of the Romanian State through the Ministry of Economy, according to GEO 68/06.11.2019 on the establishment of measures at the level of the central public administration and for the amending and supplementation of some normative acts.

According to the recordings of Depozitarul Central, on 29.12.2022 Transgaz`s shareholding structure was as follows:

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by the General Secretariat of the Government	6.888.840	58,5097
Free float - Other shareholders (natural and legal persons) out of which:	4.885.004	41,4903
✓ legal persons	3.674.001	31,2048
✓ natural persons	1.211.003	10,2855
Total	11.773.844	100

Table 8 - Shareholding structure at 29 December 2022

The share capital of Transgaz on 29 December 2022, amounting to lei 117.738.440 was divided into 11.773.844 registered shares, each share having a nominal value of lei 10.

Shareholding structure on 29 December 2022

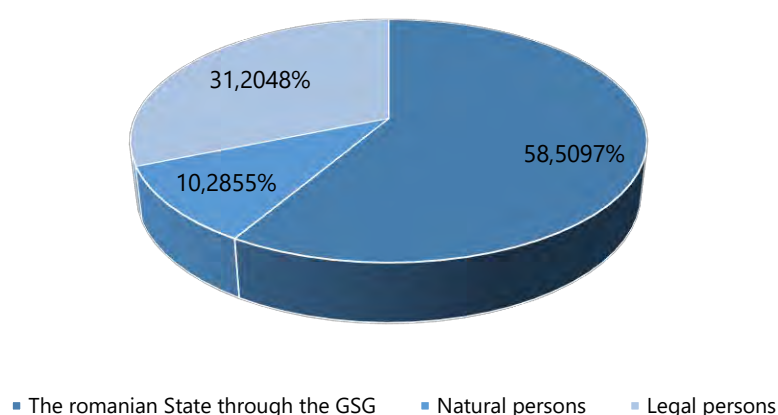


Chart 13 - Shareholding structure at 29 December 2022

Regarding the number of shareholders, according to Transgaz shareholders' register at the reference date of 29.12.2022, the company had 12.216 TGN shareholders, which is 1.374 shareholders more than on 31 December 2021.

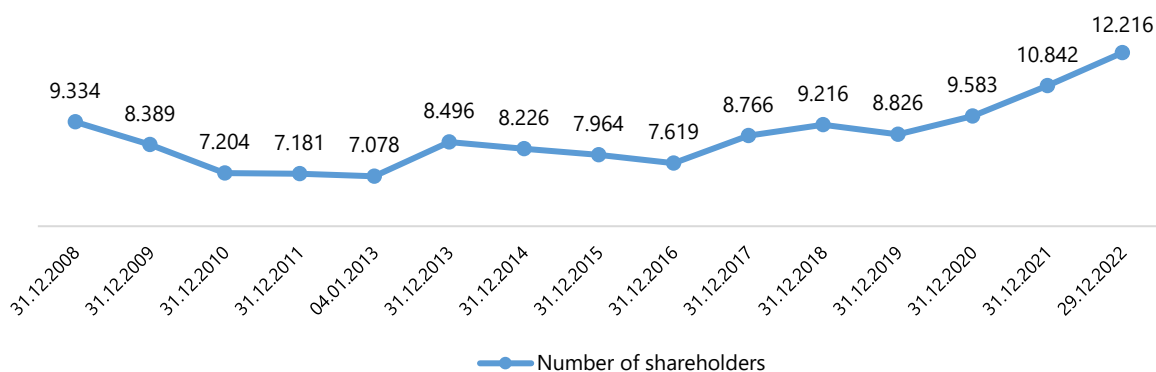


Chart 14 - Number of Transgaz shareholders from the BVB listing date 29 December 2022

4.4 Structure

SNTGN Transgaz SA is a company managed in a unitary system by the Board of Administration, consisting of 5 administrators, 1 executive administrator and 4 non-executive administrators, appointed by the general meeting of the shareholders.

There is a **separation** between the non-executive, control function (non-executive administrator) and the executive function (directors) - mandatory separation, in the case of joint stock companies whose annual financial statements are subject to a legal auditing obligation.

The Board of Administration delegated the management of the company to the Director - General of Transgaz. The Director - General of Transgaz represents the company in its relations with third parties and is responsible for taking all measures related to management, within the scope of activity of the company and in compliance with the exclusive powers established by law or the Articles of Incorporation of the Board of Administration and the General Meeting of Shareholders.

SNTGN Transgaz SA conducts its activity at the registered office, the secondary office and the premises of the working points as follows:

- Transgaz registered office: Mediaș, 1 C. I. Motaș Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaș, 11 George Enescu Street, Sibiu County, code 551018;
- Research and Design Division: Mediaș, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanți Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street - closed by BoA Resolution 38/20.12.2022;
- General Inspection Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.
- Research and Design Workshops - Brașov, 2 Nicolae Titulescu Street.
- Transgaz secondary office: Mediaș, 3 I.C. Brătianu Street, building 3, flat 75, Sibiu County.

The SNTGN Transgaz SA subsidiaries in the Republic of Moldova are the following:

- EUROTRANSGAZ Limited Liability Company: 7/E Balcani Road, out of town, Ghidighici village, Chisinau, Moldova;
- VESTMOLDTRANSGAZ Limited Liability Company: 7/E Balcani Road, out of town, Ghidighici village, Chisinau, Moldova;

SNTGN Transgaz SA has 9 regional offices and a subsidiary:

- **Arad Regional Office**, 56 Poetului Street, Arad, Arad County, code 310369;
- **Bacău Regional Office**, 63 George Bacovia Street, Bacău, Bacău County, code 600238;
- **Brăila Regional Office**, 5 Ion Ghica Street, Brăila, Brăila County, code 810089;
- **Braşov Regional Office**, 102A Griviţei Bvd, Braşov, Braşov County, code 500449;
- **Bucharest Regional Office**, 24 Lacul Ursului Street, District 6, Bucharest, code 060594;
- **Cluj Regional Office**, 12 Crişului Street, Cluj-Napoca, Cluj County, code 400597;
- **Craiova Regional Office**, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, code 200011;
- **Mediaş Regional Office**, 29 George Coşbuc Street, Mediaş, Sibiu County, code 551027;
- **Constanţa Regional Office**, 2 bis Caraiman Street, Constanţa, Constanţa County, code 900117;
- **Mediaş Subsidiary**, 59 Sibiului Street, Mediaş, Sibiu County.



4.5 Management

Members of the Board of Administration of SNTGN Transgaz SA at 31.12. 2022

Name and Surname	Position in the Board of Administration/Legal basis for appointment		Term of office
ION STERIAN	OGMS Resolution 2/22.04.2021	Executive Administrator	4 years
	BoA Resolution 22/27.07.2021	Appointed as Director - General	
PETRU ION VĂDUVA	OGMS Resolution 2/22.04.2021	Non-Executive Administrator	4 years
NICOLAE MINEA	OGMS Resolution 2/22.04.2021	Independent Non-Executive Administrator	4 years
CZABA OROSZ	OGMS Resolution 9/14.12.2021	Non-Executive Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure;
	OGMS Resolution 4/12.04.2022	Non-Executive Interim Administrator	extending of the term of office by two months from the date of expiry
	OGMS Resolution 6/14.06.2022	Non-Executive Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure ;
	OGMS Resolution 9/12.10.2022	Non-Executive Interim Administrator	extending of the term of office by two months from the date of expiry
	OGMS Resolution 10/07.12.2022	Non-Executive Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure ;
MIHAELA VIRGINIA TOADER	OGMS Resolution 9/14.12.2021	Non-Executive, Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure ;
	OGMS Resolution 4/12.04.2022	Non-Executive Interim Administrator	extending of the term of office by two months from the date of expiry
GHEORGHITĂ AGAFITEI	OGMS Resolution 6/14.06.2022	Non-Executive Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure ;
	OGMS Resolution 9/12.10.2022	Non-Executive Interim Administrator	extending of the term of office by two months from the date of expiry
	OGMS Resolution 10/07.12.2022	Non-Executive Interim Administrator	4 months with the possibility of extending the term of office for another 2 months, until the completion of the selection procedure ;

The CVs of the members of the Transgaz Board of Administration are available on the company's website at: <https://www.transgaz.ro/ro/despre-noi/consiliul-de-administratie>

Special agreements/arrangements or kinship

According to the information provided by the administrators, there is no agreement of understanding or kinship between the relevant person and another person by virtue of which the respective person was appointed administrator.

Participation of administrators to Transgaz's share capital

The company's administrators do not hold shares in the company's share capital.

Litigation or administrative proceedings

There have been no disputes or administrative proceedings over the last five years involving the persons belonging to the administrative or executive management.

Executive management

The members of the executive management of the company, with the exception of the Director - General and the Chief Financial Officer, are employees of the company, with an individual labour contract for an indefinite period of time. The management and execution personnel within Transgaz is employed, promoted and discharged by the Director - General, based on the duties delegated by the Board of Administration.

According to the information available, there is no agreement, covenant or kinship between the mentioned persons and another person due to which they were appointed as members of the executive management.

The members of the executive management holding shares at Transgaz on 31.12.2022:

No.	Name and first name	Position	Number of shares on 31.12.2022	Interest share (%)
1	Tătaru Ion	Director	25	0,000212
2	Lupean Marius	Director	20	0,000169
3	Șai Alexandru	Director	10	0,000084
4	Niță Viorel	Director	5	0,000042

Table 9 - Members of Transgaz's executive management holding TGN shares in the company on 31 December 2022

THE EXECUTIVE MANAGEMENT OF SNTGN TRANSGAZ SA ON 31.12.2022:

No.	Name and first name	Position	Division/Unit
1.	Sterian Ion	Director - General	SNTGN Transgaz SA
2.	Lupean Marius Vasile	Chief Financial Officer	SNTGN Transgaz SA
3.	Leahu Mihai Leontin	Director/Deputy Director - General-delegated	Research and Design Division

4.	Iuga Alexandru	Deputy Director-General	SNTGN Transgaz SA
5.	Târsac Grigore	Director/Deputy Director - General-delegated	Natural Gas Quality Measurement Unit
6.	Simionescu Alexandru Adrian	PMU 1 Project Manager NTS Developments in North-East/ Deputy Director - General-delegated	Project Management Unit
7.	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
8.	Mateş Angela Aneta	Director	HR Organization Division
9.	Tătaru Ion	Director	Development Division
10.	Bunea Florin	Director	Operation Division
11.	Sârbu Ionel	Director	Land Regulation and Acquisition Division
12.	Cosma Emil Florin	Director	Maintenance Division
13.	Andronic Bogdan Constantin	Director	EU Funds and International Relations Division
14.	Luca Bogdan Avram	Director	Sectoral Procurement and Contracting Division
15.	Stoica Constantin Marius	Director	Logistics Division
16.	Costea Dragoş Vasile	Director	Gas Compression Division
17.	Iancu Cristina Daniela	Director/ Legal Division Director delegated	Projects Legal Assistance Unit
18.	Oniga Ciprian	Director/ Research and Design Division Director delegated	Special Projects and Technical Support Unit
19.	Codreanu Liudmila Gabriela	Director	Internal Audit Unit
20.	Ene Alin	Director/General Inspection Division Director delegated	Control Unit
21.	Dragoman Irina Georgiana	Director	Gas Regulation Unit
22.	Drăghici Aurelian	Director	Projects Analysis, Checking and Endorsement Unit
23.	Lupu Emil	Director	Archaeological Unit
24.	Voican Nicolae Adrian	Subsidiary Director	Mediaş Subsidiary
25.	Colcer Elena Gabriela	Economist/Chief Financial Officer delegated	Mediaş Subsidiary
26.	Alexandru Ionel	Director	Arad Regional Office
27.	Schimdt-Hăineală Eduard-Cristian	Director	Bacău Regional Office
28.	Dumitru Nicuşor	Director	Brăila Regional Office
29.	Pârlea Mirel	Engineer/Regional Office Director delegated	Braşov Regional Office
30.	Gurgu Victorel	Regional Office Director/PMU Project Manager delegated	Bucharest Regional Office
31.	Goia Petru	Cluj Sector Engineer/Regional Office Director delegated	Cluj Regional Office

32.	Andrei Romeo	Chief Engineer/Regional Office Director delegated	Constanta Regional Office
33.	Niță Viorel	Director	Craiova Regional Office
34.	Oancea Paul	Director	Mediaș Regional Office

Table 10 -Transgaz's executive management on 31.12.2022

VESTMOLDTRANSGAZ SRL management team structure:

	VESTMOLDTRANSGAZ	Name and Surname
1	Company Board	1. Mihai Leontin Leahu – Chairman on behalf of Transgaz 2. Marius Constantin Stoica - Member on behalf of Transgaz 3. Octavian Costas – Member on behalf of EBRD 4. Pop-Gîscă Sanda – Member on behalf of Transgaz 5. Iancu Cristina – Member on behalf of Transgaz
2	Company Administrator	Duminică Liviu Valentin

Table 11 - Vestmoldtransgaz management members on 31.12.2022

EUROTRANSGAZ SRL management team structure:

	EUROTRANSGAZ	Name and Surname
1	Administrator	Dan Niculae-Faranga
2	Administrator	Vasilica Grăjdan
3	Administrator	Zezeanu Luminița

Table 12 - Eurotransgaz management members on 31.12.2022

4.6 Human resources

The company's human resources strategy aims to cover the operational needs of the organization, through the efficient use of the human resources.

The optimal dimensioning of the number of personnel in the company is correlated with the real personnel needs required by the operational activities carried out by the company, with the modernizations and refurbishments realized for increasing the safety and efficiency in NTS operation and annex facilities, as well as the realization of the major development projects of company.

The evolution of the number of personnel in 2020-2022:

Specification	2020	2021	2022
Number of employees at the beginning of the period	4.089	4.145	4.050
Number of persons employed/resuming activity	282	210	243
Number of employees who terminated/suspended their working relations with the company	226	305	264
Number of employees at the end of the period	4.145	4.050	4.029

Table 13 – Number of employees in 2020-2022

Personnel indicator	2020	2021	2022
Personnel reduction (natural-retirements)	58	60	43
Average number of personnel approved by the REB	4.196	4.172	4.151
Average number of personnel achieved	4.153	4.097	4.013

Table 14 - Average number of personnel employed in 2020-2022

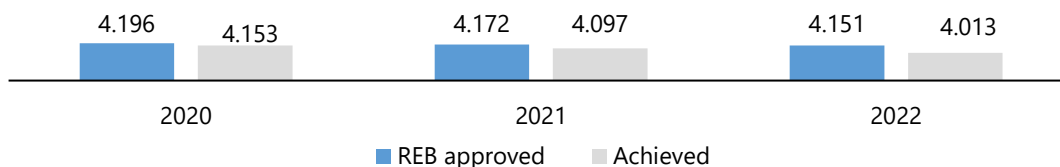


Chart 15 - Average number of employees in 2020- 2022 compared to REB approved

The personnel structure by category of studies reveals the interest of the company to cover the needs of personnel through the employment of highly qualified specialists as well as the continuous improvement of the existing personnel, considering the tendencies of increasing the number of employees with higher education in parallel with the decrease of the number of employed persons with secondary education and the number of employees with general education and in training.

The personnel structure by category of studies in 2020-2022:

No.	Category	2020	2021	2022
1.	Faculty graduates	1.521	1.545	1.572
2.	High school graduates	1.252	1.229	1.234
3.	Vocational school graduates	598	573	567
4.	General school graduates + training course	774	703	656
TOTAL employees		4.145	4.050	4.029

Table 15 - Personnel structure by categories of studies in 2020-2022

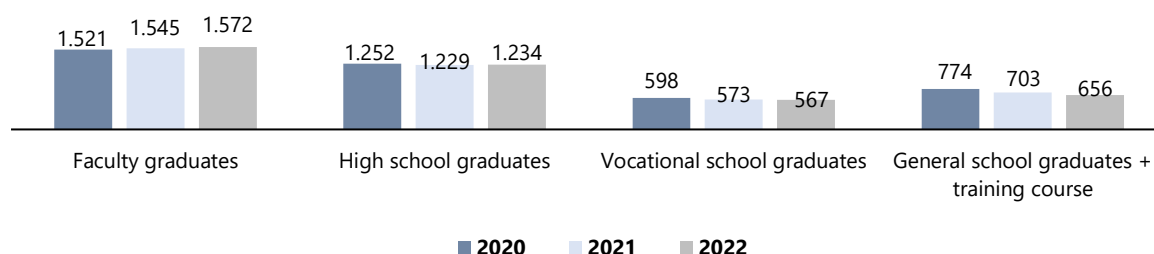


Chart 16 - Personnel structure by categories of studies in 2020- 2022

At the **end of December 2022**, the degree of unionization of the labour force was 96,92%, out of a total of 4.029 employees, 3.905 being union members.

There are four trade unions with which the SNTGN Transgaz SA employees are registered, namely:

- The Transport Gaz Mediaş Trade Union;
- The Professional Trade Union Metan Mediaş.
- The Technological Research Trade Union CERTEH Mediaş;
- The Free Trade Union SNTGN TRANSGAZ SA Mediaş;

The Transport Gaz Medias Trade Union is the representative union at the unit level, according to the provisions of Law no. 62/2011 of the Social Dialogue, Art. 51 (c), which is why they represent the employees of the company when concluding and carrying out the collective labour agreement concluded at the level of SNTGN TRANSGAZ SA.

The relations between the employer and the employees are regulated by the Collective Labour Agreement at the company level as well as by the individual labour agreements of the employees.

Starting with 25.06.2021, the current Collective Labour Agreement concluded at the level of SNTGN TRANSGAZ S.A. came into force, with a validity period of 24 months registered with the Sibiu Territorial Labour Inspectorate in the Single Recording Register under number 60/23.06.2021.

The relations between the employer and the employees are in line with the legal provisions in force in 2022 and there are no conflicting elements connected to these relations.

VESTMOLDTRANSGAZ SRL – Human Resources

The optimal sizing of the number of personnel within the company is correlated with the actual personnel needs imposed by the operational activities carried out, with the upgrades and retrofittings proposed in order to increase operation safety and efficiency of natural gas transmission networks and related facilities, as well as the implementation of major projects.

At the reference date, Vestmoldtransgaz SRL had 31 employees, of which 20 were carrying out their activity at the Chisinau headquarters and 11 at GMS Ungheni. The number of employees could have an upward trend depending on the real needs of the Iasi - Ungheni - Chisinau gas pipeline operation and future business development.

The recruitment and selection of personnel is carried out through transparent employment procedures, in order to stimulate and attract the best specialists to work within Vestmoldtransgaz SRL. The personnel of Vestmoldtransgaz SRL is appointed, employed and discharged by the company administrator.

The number of personnel within Vestmoldtransgaz SRL, as at 31.12.2022 compared to 31.12.2021 is presented in the table below:

No.	Indicator	2022	2021
1	Number of employees at VMTG	31	34
2	Average number of employees at VMTG	31	33
3	Average number of employees at Eurotransgaz	3	3

Table 16 - Number of personnel at Vestmoldtransgaz and Eurotransgaz in 2022 compared to 2021

4.7 Transgaz on the Bucharest Stock Exchange

SNTGN TRANSGAZ SA, through the efficient use of managerial tools and the responsible execution of the measures undertaken in front of the shareholders, investors, business and community, managed to also perform on the capital market, ranking **8th** in 2022 in **Top 15 companies listed on the Bucharest Stock Exchange**, depending on the traded value. Also, in December 2022, Transgaz was ranked **9th in Top 15 listed companies**, according to **market capitalization**.

TGN shares are attractive portfolio shares due to the company's business scope, the monopoly Transgaz holds in the natural gas transport, the company's position on the national and international energy market, the strong financial profile and the capacity of the company to generate performance, stable and predictable income, and attractive dividend policy.

For financial year 2021, in accordance with the provisions of Resolution 5 of the Ordinary General Meeting of Shareholders, dated 28.04.2022, the National Gas Transmission Company Transgaz SA pays dividends to shareholders registered on the date of 23 June 2022, through Depozitarul Central SA and Banca Transilvania, the designated payment agent, as at 14 July 2022 (payment date), **the amount of the gross dividend/share being 14,82 lei**.

TGN share

In 2022, the closing price of TGN shares followed a downward trend, mainly with lower values than in the same period of 2021, with decreases ranging from 8% to 31%, with a maximum of the period of 288,00 lei/share recorded on 21.12.2022, and a minimum of 190 lei/share, recorded on 07.03.2022. At the end of the analysed period, meaning November and December, the closing price of the TGN share exceeded the values reached in 2021 by 16% and 17% respectively.

The values of the TGN share in the first part of 2022 occurred against the background of a negative international climate, in the context of the depreciation of European shares and then the outbreak of the conflict in Ukraine and implicitly as a result of the sanctions at global and European level imposed on relations with Russia. All these aspects negatively influenced both the European markets and the BVB, all companies registering declines during this period.

Regarding the evolution of the Transgaz share price, it can be noticed that on the last trading day of January 2022, the closing price of TGN shares was 223,00 lei/share, and on 28.02.2022 it was 200,00 lei/share. Subsequently, the closing price of TGN shares increased slightly, reaching a maximum of 223 lei/share in the second half of March, mainly due to investors' expectations regarding the publication of the dividend proposal for financial year 2021, and then suffered a correction, reaching a value of 213,00 lei/share on 31.03.2022, thus approaching the values recorded before the escalation of the conflict in Ukraine.

In line with the dynamics of the European markets, the beginning of April saw trading sessions with positive developments for all BVB indices. Thus, on 18.04.2022, the TGN share recorded one of the best performances in the BET index, i.e. an increase of 4,18%. Subsequently, TGN's closing share price followed an upward trend in the context of actions taken by the company's management, namely the signing of the Memorandum of Understanding between Transgaz, Gaz-System (Poland), Eustream (Slovakia) and FGSZ (Hungary), whereby the four Central European natural gas Transmission System Operators agreed on a strategic partnership to explore the possibilities of

decarbonising their operations, transmitting green gas and investigating the potential of transmitting CO₂.

In May and June, the closing price of TGN shares recorded a downward trend, with values lower than those of 2021, following the signing of the Agreement with the Investment Fund of the Three Seas Initiative S.A. SICAV-RAIF, and the confirmation by Fitch of the company's rating BBB- with stable outlook the TGN share price was appreciated reaching thus the value of 243,00 lei/share on 20.06.2022.

In July 2022, amid the expectation of investors and financial analysts regarding the publication of the financial reports of Romanian listed companies, the liquidity recorded on the Bucharest Stock Exchange remained high. Thus, compared to July 2021, there is a 33% increase in average daily liquidity for the equity segment, and the BET-NG index of energy and utility companies, which includes Transgaz, increased by 4,39%.

Subsequently, in August, against the backdrop of the publication of the half-year financial results of SNTGN Transgaz SA, the positive trend of the TGN share was maintained, recording on 12.08.2022, the maximum value of the month, namely 251,00 lei/share.

In September, following the approval by Transgaz's Board of Administration of the share capital increase through the incorporation of the reserves established from the net profit of the previous financial years, the TGN share reaches the price of 233,50 lei/share, with an increase of 9,26% compare to the previous day.

Amid low BSE liquidity in October, TGN share trading volumes were also low, with a high for the month of 2.672 shares traded. At the same time, the closing price of the TGN share on the last trading day of October was 225,50 lei/share, which is 12% lower than the price recorded in the same period of 2021.

Subsequently, the TGN share trend changed to an upward one in November and December, with the closing price of TGN share exceeding the values reached in 2021 by 16% and 17% respectively. These increases were generated mainly by the publication of the financial results as at 30.09.2022, the signature by the company's management of the Memorandum of Understanding on the Vertical Corridor and also the approval by the GEMS of the share capital increase through the incorporation of reserves. Thus, the maximum level of the TGN share in 01.01 – 30.12.2022 was reached on 21.12.2022, with the value of 288,00 lei/share.

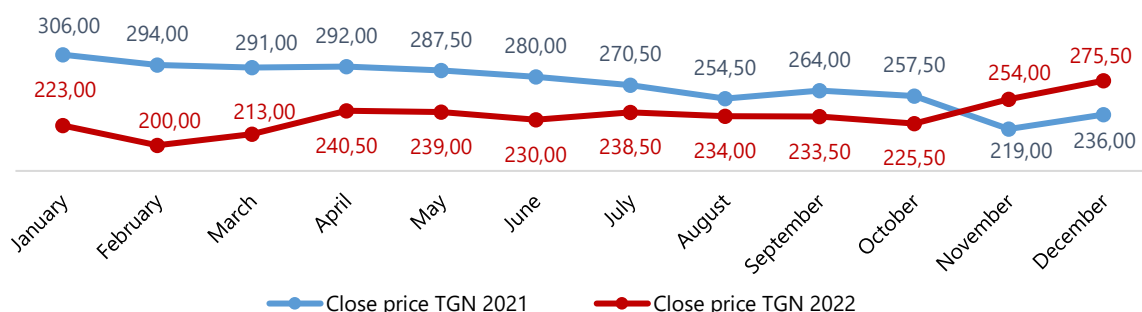


Chart 17 - The closing price of the TGN shares in 2022 compared to 2021

The values of the transactions and volumes traded evolved similarly in 2022 and registered mainly lower values compared to those recorded in 2021, the peaks of the period being reached on 28.02.2022, with a volume of 12.460 shares traded and a value of lei 2.500.427,10 thousand.

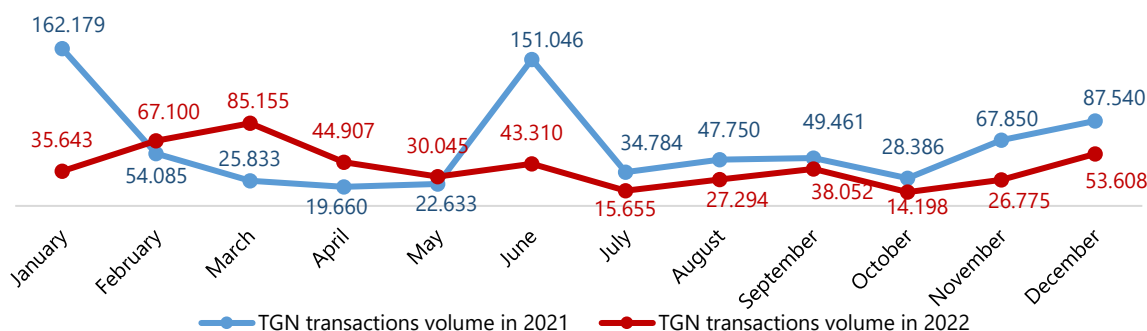


Chart 18 - TGN transactions volume in 2022 compared to 2021

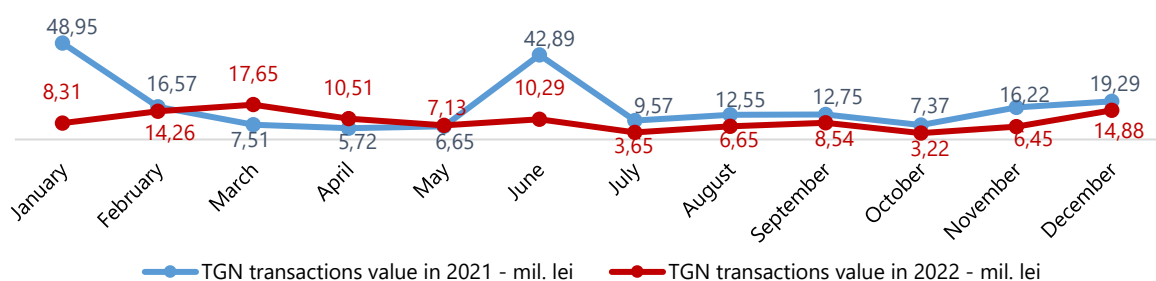
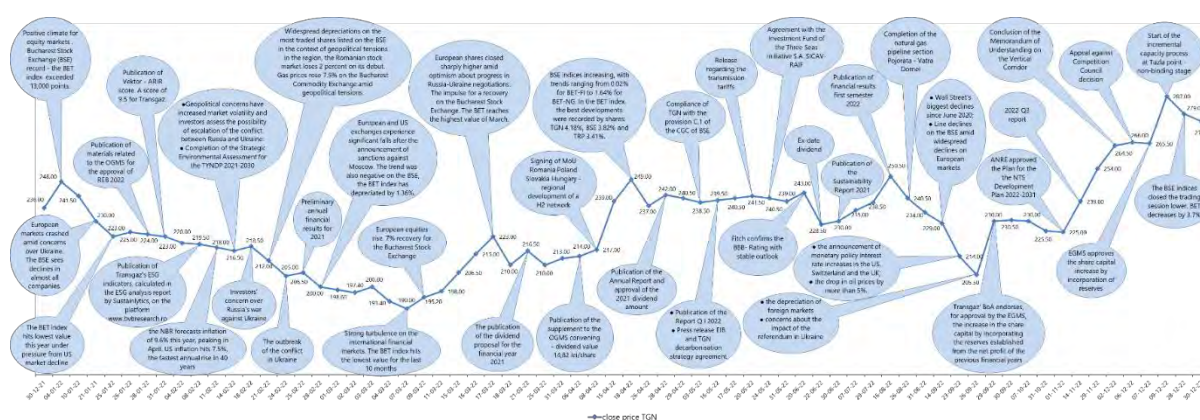


Chart 19 - TGN transaction value – mil. lei in 2022 compared to 2021

Main corporate events with an impact upon the share price in 2022



Stock Market Indices: P/BV, EPS, PER, DIVY

Data	P/BV	PER*	DIVY	EPS
30.12.2022	0,84	14,69	5,38	18,75
30.12.2021	0,73	44,71	3,45	5,28

*the indicators are calculated based on the consolidated financial statements, date PER 30.06.2022, and 30.06.2021

In the period ended 30 December 2022, **the P/BV ratio** (a share price to book value ratio) increased slightly compared to 2021, the sub-unit value of this indicator indicating that the TGN share is undervalued by the market.

At the same time, **the PER ratio** (share price to earnings ratio) recorded a significant decrease on 30.12.2022 compared to the value recorded on 30.12.2021, reflecting optimistic market expectations..

The increase in **dividend yield** (DIVY), compared to the value recorded on 30.12.2021, was determined by the approved value of the gross dividend for financial year 2021, which was by 82,06 % higher than the value approved for financial year 2020.

At the same time, the **EPS (profit per share)** stock indicator recorded at the end of 2021 and 2022 tripled its value amid the company's profit growth in 2022.

TGN share in the stock market indices (BET, BET-TR, BET Plus, BET-NG, BET-XT, BET-BK)

On 30 December 2022, the last trading day of the year, the weighting of the TGN share in the composition of the stock market indices analysed above is as follows:

Name of stock market index	Place	Share in index
BET (the BSE reference index, it represents the 10 most liquid companies listed on the BSE)	7	3,39%
BET-TR (total return index, based on the structure of the market reference index, BET, and tracks both the price changes of the constituent companies and the dividends paid by them)	7	3,39%
BET Plus (free float market capitalization weighted index of the Romanian companies)	7	3,14%
BET-NG (sector index / energy - utilities)	4	10,65%
BET-XT (blue-chip index, tracks the price changes of the most liquid 25 traded companies)	7	3,46%
BET-BK (benchmark index, calculated as a price index weighted by the free float capitalisation of the most traded companies listed on the BSE regulated market)	13	4,72%

Stock market capitalization

The stock market capitalization of the company on 30.12.2022 was of lei 3,24 billion (~ euro 656 million), namely by 465 million lei (~euro 94 million) higher than the level recorded on 30.12.2022.

Currency	2022		2021	
	03.01.2022	30.12.2022	04.01.2021	30.12.2021
LEI	2.802.174.872	3.243.694.022	3.402.640.916	2.778.627.184
EURO	566.393.433	655.636.096	698.823.379	561.497.632

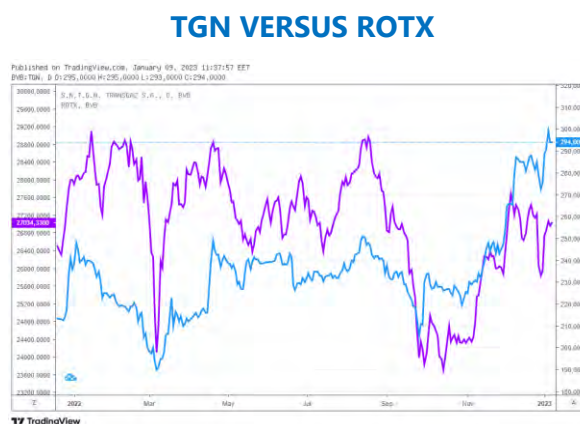
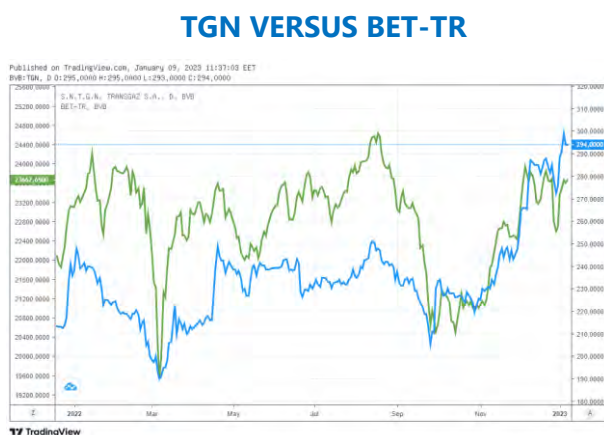
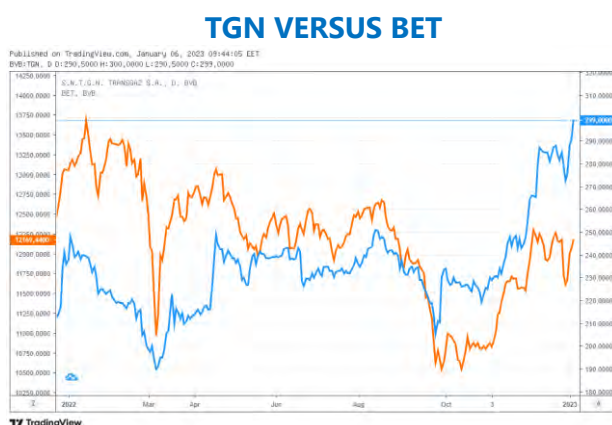
Euro/BNR exchange rate	4,9474	4,9474	4,8691	4,9489
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The company's market capitalization increased from the beginning of 2022 to 30 December 2022 by 16%, that is by lei 441.519.150 (EUR 89.242.663), from the value of lei 2.802.174.872 (EUR 566.393.433) recorded on 03.01.2022 to the value of lei 3.243.694.022 (EUR 655.636.096) recorded on 30.12.2022, Transgaz ranking 9th in Top 15 companies listed on the BSE, according to market capitalisation, drawn up by the BSE for December 2022.

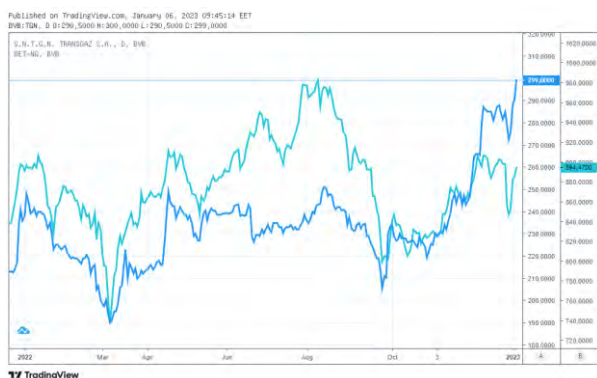


Chart 20 - Stock market capitalization of Transgaz on 30.12.2022 compared to 30.12.2021

The TGN share compared to BET, BET-BK, BET-TR, ROTX, BET-NG and BET-XT stock indices in 2022:



TGN VERSUS BET-NG



TGN VERSUS BET-XT



Source: <http://www.bvb.ro>

Chart 21 – The TGN share compared to stock exchange indices BET, BET-BK, BET-TR, ROTX, BET-NG and BET-XT in 2022

4.8 Dividend policy

In 2022 the proposal for determining the value of the dividends for financial year 2021 was established based on the provisions of GO 64 of 30 August 2001 on the distribution of profit to national enterprises, national companies and trading companies with full or majority state capital, as well as to autonomous administrations with the application of the 85,4832% quota to the distribution of profit as dividends, according to Art. IV of GEO 3/26.01.2022 on the amending and supplementation of GEO 118/2021 for establishing a compensation scheme for power and gas consumption for the winter of 2021-2022, and for supplementing GO 27/1996 on granting facilities to persons residing or working in certain localities in the Apuseni Mountains and in the Danube Delta Biosphere Reserve, and Government Resolution 431/30 March 2022 on the approval of the distribution to the state budget for financial year 2021 of 50% of the accounting profit of SNTGN Transgaz SA as dividends remaining after the deduction of the profit tax.

Thus, in accordance with OGMS Resolution 5/28.04.2022, Transgaz SA pays dividends for financial year 2021 through Depozitarul Central SA and Banca Transilvania, the appointed paying agent, starting with 14 July 2022 (the date of payment), for the shareholders registered at the registration date of 23 June 2022, **the value of the gross dividend / share amounting to lei 14,82.**

Until the end of 2022, Transgaz paid to the shareholders net dividends for financial year 2021 in the amount of lei 172.163.712,36 for 11.722.351 shares.

Transgaz's rating

In 2006 - 2018, S&P Global Ratings also provided and monitored the Transgaz rating. Getting this rating was a necessary step in addressing an openness policy to international capital markets, with a view to attracting the most advantageous sources of funding and also providing a valuable instrument investors in the IPO stock listing process as well as the SPO. Thus, S&P Global Ratings

published the latest report in 2018, revising the outlook for Transgaz, from stable to negative, and, at the same time, it affirmed the company's credit rating at BB +.

In 2019, following the internal analysis and in compliance with all the legal provisions regarding the procurement of rating services, the company concluded a contract with Fitch for rating services. Thus, following the evaluation, on 17 July 2019 the agency awarded Transgaz the 'BBB-' rating, Stable Outlook.

The most recent evaluation was in 2022, Fitch Ratings affirming the 'BBB-', Stable Outlook rating assigned to the company, a rating supported by *'its solid business profile as a concessionaire and operator of the gas transmission network in Romania and our expectation of regulatory continuity into the new regulatory period from October 2024'*, according to the agency's report.

4.9 List of all entities where Transgaz holds shares

- **SC MEBIS SA Bistrita**, based in Bistrita, (J06/150/1991), where Transgaz owns 17.47% of the share capital, having as object the realization of metal structures and complex welded assemblies, assemblies and hydraulic products; is in liquidation proceedings, which is why the shareholding in SC MEBIS SA was fully provisioned. Transgaz has no obligations towards SC MEBIS SA;
- **SC Resial SA** with headquarters in Alba Iulia (J01 / 77/1991), where Transgaz owns 68.16% of the share capital, having as object the production and marketing of silico aluminous refractory products, entered into liquidation procedure in year 2006; the procedure is carried out by a court bailiff appointed by the court and is independent of the control of Transgaz, which is why the share is not consolidated and is recorded at the cost less the impairment provision established at 100% of the cost. The loan granted to SC RESIAL SA is fully serviced. The management does not expect Transgaz to recover any amount of this share and does not record any residual liabilities for SC RESIAL SA;
- **SC EUROTRANSGAZ SRL** with headquarters in Chisinau, Republic of Moldova, where Transgaz owns 100% of its share capital with the objective of producing, transporting, distributing, storing and supplying natural gas, pipeline transport, storage as well as business consulting activities; management (establishment of this subsidiary was approved by EGMS Resolution No. 10 of 12.12.2017); in 2018, the subsidiary purchased State Enterprise Vestmoldtransgaz.

5 ACTIVITY ANALYSIS

5.1 Operation activity

Domestic gas transmission ensures the fulfilling of all obligations of Transgaz to provide NTS access to network users in equivalent, non-discriminatory and transparent conditions and contract clauses.

In 2022, a total of 1.244 contracts were concluded and signed with network users, or the duration of contracts was extended, of which 1.190 contracts for domestic points and 54 contracts for cross-border interconnection points, for gas transmission services, including annual, quarterly, monthly,

daily, within-day capacity products for National Gas Transmission System entry/exit points, including for the Csanadpalota, Ruse - Giurgiu, Negru Vodă 1/Kardam and Isaccea 1/Orlovka and Ungheni interconnection points.

The total number of gas contracts concluded for gas transmission with capacity booking at the domestic NTS entry/exit points, concluded in 2022, by booking period:

Contract type	Annual	Quarterly	Monthly	Daily	Total
No. of contracts	91	174	861	64	1.190

Under the **54** framework gas transmission contracts, valid for January 2022 - December 2022, the beneficiaries requested capacity booking at the interconnection points between the Romanian National Gas Transmission System and the gas transmission systems of the states neighbouring Romania as follows:

Contract type	Annual	Quarterly	Monthly	Daily	Within-day	Total
No. of products	48	38	92	2367	1255	3800

The gas quantities circulated and transmitted through the National Transmission System (NTS) and the technological consumption in 2020 - 2022 are as follows:

Indicator	MU	2020	2021	2022	+/-	%
1	2	3	4	5	6=5-4	7=5/4-1
Circulated gas	thousand cm	12.456.201	14.098.211	13.106.226	-991.985	-7%
Transmitted gas	thousand cm	12.380.266	14.026.269	13.032.066	-994.203	-7%
NTS gas consumption	thousand cm	69.325	70.188	70.739	551	1%
The share of NTS gas consumption / circulated gas	%	0,56%	0,50%	0,54%		

Table 17 - Gas quantities circulated, transmitted, and NTS gas consumption in 2022-2022

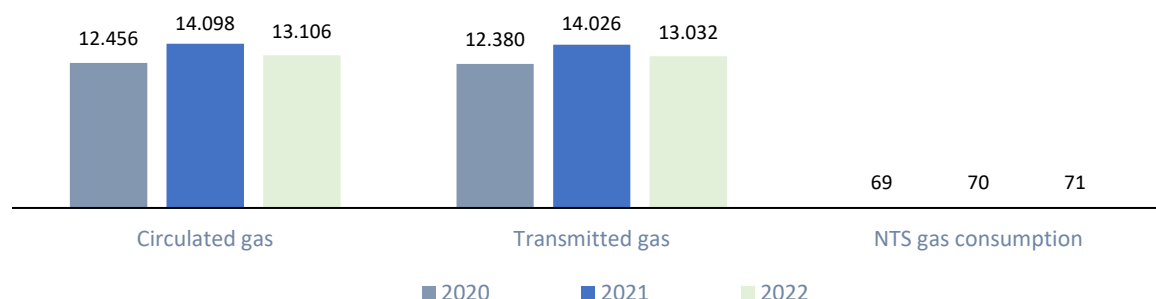


Chart 22 - Gas quantities circulated, transmitted and NTS consumption in 2020-2022

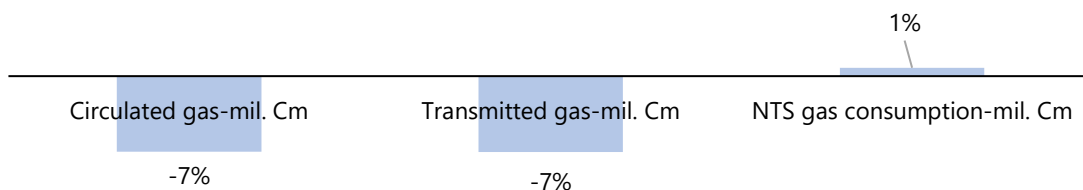


Chart 23 - Gas quantities circulated and transmitted and NTS gas consumption – 2022 compared to 2021

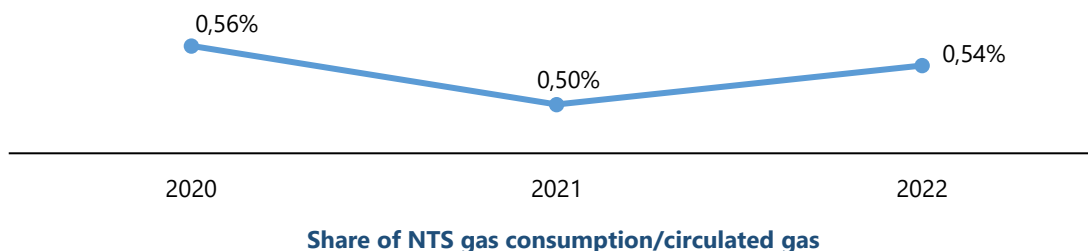


Chart 24 – The share NTS gas consumption in total circulated gas in 2020-2022

	2020	2021	2022
PLANNED NTS GAS CONSUMPTION–thousand cm	65.208	79.423	86.136
ACHIEVED NTS GAS CONSUMPTION–thousand cm	69.325	70.188	70.739

Table 18 – Gas quantities as planned compared to achieved NTS gas consumption in 2020-2022

The main beneficiaries of the gas transmission service in 2022:

No.	Network users	Invoice amount vat excluded (lei)	%
1.	ENGIE ROMANIA S.A.	183.542.942,69	13,46%
2.	OMV PETROM S.A.	177.834.989,34	13,04%
3.	SNGN ROMGAZ S.A.	155.296.917,12	11,39%
4.	E.ON ENERGIE ROMANIA S.A.	125.742.863,00	9,22%
5.	MET Austria Energy Trade GmbH	79.027.793,29	5,80%
6.	PRVO PLINARSKO DRUSTVO D.O.O.	63.728.109,84	4,67%
7.	AXPO BULGARIA EAD	61.271.976,97	4,49%
8.	RWE Supply & Trading GmbH	55.253.472,56	4,05%
9.	ELECTROCENTRALE BUCURESTI S.A.	49.940.181,87	3,66%
10.	WIEE ROMANIA S.R.L. BUCURESTI	49.200.163,60	3,61%
	ALȚI UR	362.573.531,01	26,59%
	TOTAL	1.363.412.941,29	100,00%

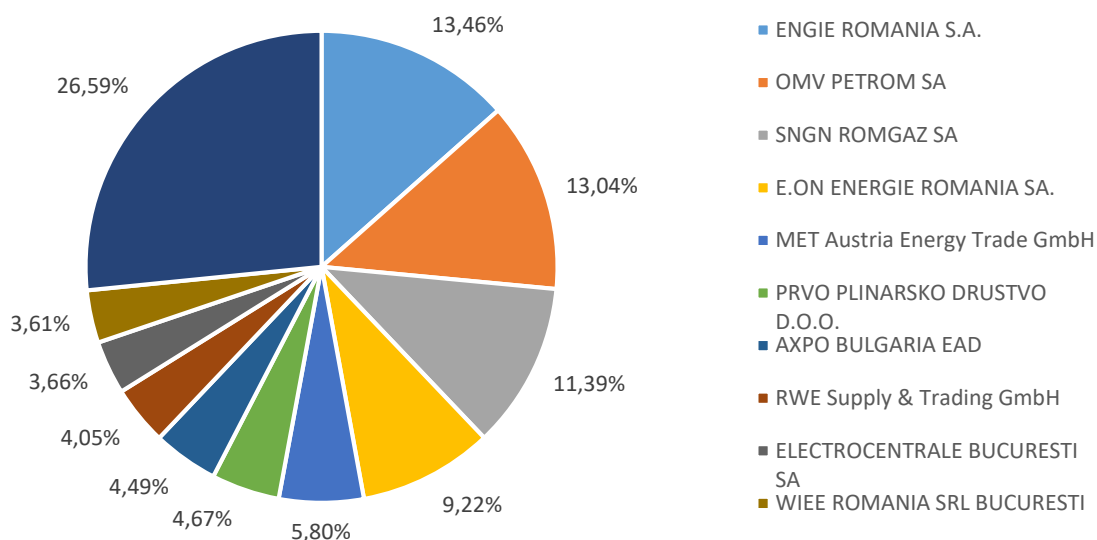


Chart 25 - The share of the main NTS users in 2022

Through the **transmission services** contracted in 2022, the total quantity of **139.672.553,645313 MWh** (13.032.066,095 thousand cubic meters) was transmitted to:

	MWh	thousand cm	%
Distribution	73.312.107,707033	6.846.782,380	52,49
Direct customers	27.098.626,084186	2.533.026,911	19,40
Storage	29.096.507,176094	2.722.569,757	20,83
Export Csanadpalota, Giurgiu Ruse, Negru Voda, Ungheni	10.165.312,678000	929.687,047	7,28

5.2 The investment activity

The investment activity is mainly directed towards the modernization and development of the NTS in order to improve the efficiency and to increase its capacity, to develop new consumption areas.

The value of the investment funds for 2022, initially approved in the revenue and expenditure budget was **lei 398.650.640**, according to the Board of Administration Resolution 39/20.12.2021. In 2022, the amount of the modernisation and investment development plan 2022 was adjusted in April and in December, according to the Board of Administration Resolution 13/20.04.2022, 37/08.12.2022 and 39/23.12.2022, and at the end of the year the allocated value was **lei 286.844.526,29**.

In January 2022, the structure of the Modernisation and Investment Development Plan was as follows: 68% works in progress from 2021, 15 % works in the design phase, 10% works in the procurement procedure, 7% works not requested.

PMDI - January 2022 (lei)

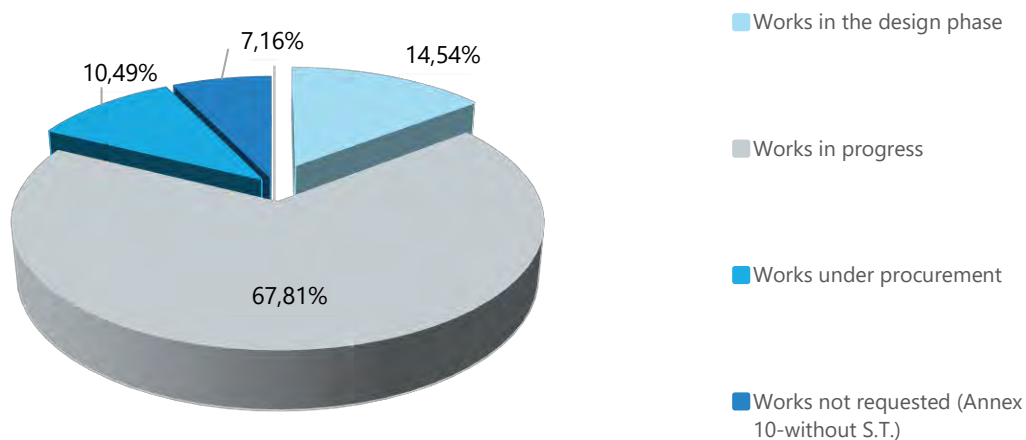


Chart 26 – PMDI 2021 – January 2022

At the end of 2022 the investment plan: 80,44% works in progress, 17,52% completed works, 1,96% works in the procurement procedure, 0,07% the objectives of the plan for which the necessary documentation for the start of the procurement has not been submitted and 0,01% works in the design phase.

Compared with the situation of the works at the end of January, the percentage of works in progress increased, mainly in conjunction with a decrease in the percentage of works in the design and procurement phase.

PMDI - December 2022 (lei)

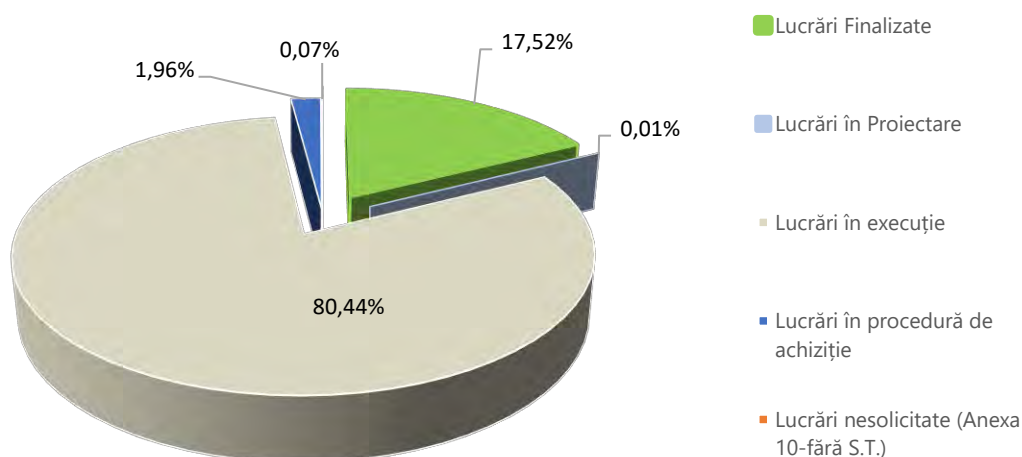


Chart 27 – PMDI 2021 – December 2022

Compared to the total value of the plan of **lei 286.845 thousand**, the total value of achievements was **lei 264.548 thousand**, meaning that **92,23%** of the plan was achieved.

The main investment objectives completed in 2022 are the following:

- Construction of the DN 700 Onești - Gherăești - Lețcani gas transmission pipeline, LOT 1 and LOT 2;
- New NTS developments for taking over Black Sea gas, Vadu - T1;
- Securing the Bistrita river channel above-crossing with the DN 300 Piatra Neamt - Bicaz gas transmission pipeline, Pângărați, Stejaru, Bicaz areas;
- DN 300 Mintia – Brad gas transmission pipeline;
- Securing DN800 Moghioros - Onești and DN700 Moghioros - Onești gas transmission pipelines, in the Oituz area;
- DN 250 Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline (partial acceptance for commissioning);
- DN 250 Vernești-Mărăcineni gas transmission pipeline (partial acceptance for commissioning);
- Securing the Moldova river undercrossing with the DN 250 Cristești - Tg. Neamt gas transmission pipeline, in the area of Timișești;
- Securing the Târgului river undercrossing with the DN 500 Schitu Golești - Slătioara and DN 500 Schitu Golești - Stâlpeni gas transmission pipeline, Furnicoși area;
- Mounting pig receiving/launching trap at Posada for the DN 500 Stâlp 89 – Posada and DN 500 Posada – Moșu pipelines;
- Connection and PMRS Tutova 2;
- Access agreement MRS Vâlcele 2;
- Connection and MRS Bozânta;
- Connection and MRS Tismana;
- Connection and MRS LINDNER Carei;
- Modernisation and upgrading of the gas NTS - Daily data purchase system (138 locations);
- Upgrading TN Schitu Golești;
- Capacity expansion MRS Uricani.

The main works in progress at the end of 2022:

- DN 500 Plătărești-Bălăceanca gas transmission pipeline;
- DN 300 Sighetul Marmăției – Borșa gas transmission pipeline;
- DN 400/300 MRS Timișoara I – MRS Timișoara III gas transmission pipeline (including power supply, cathodic protection and optical fiber);
- Connection and MRS Lacu Sărat, Brăila County;
- Connection and MRS Bicău, Satu-Mare County;
- Connection and PMRS Dumbrava- Ciurea, Iași County;
- Capacity expanding at MRS Uricani, Iași County;
- Modernization of Bacău Regional Office building;
- DN 250 Câmpulung Moldovenesc – Vatra Dornei gas transmission company;
- Securing DN 500 Medieșu Aurit – Abrămuț gas transmission pipeline, the Culciu Mare area;
- DN600 Mihai Bravu – Siliștea gas transmission pipeline and changing the pipeline into a piggable one - Măcin Branch and Borcea Branch Danube Undertaking;
- Modernization of Ploiești gas supply

The main works under procurement at the end of 2022:

- Connection and PMRS Flămânzi,
- Connection and PMRS CC Thermoenergy,
- Construction of the intersection between DN73A - KM 16+305 with the access road to TN Stâlp 89 Râșnov and upgrading of the access road to the objective,
- Cathodic protection on DN250 pipeline MRS Oarja gas supply connection, Mures county,
- Installation of flow regulator at GMS Negru Vodă;
- Techirghiol-Ovidiu gas transmission pipeline;
- Securing the railway undercrossing in the area of loc. Valea Mare Pravat with the DN 600 Mateias-Schitu Golesti gas transmission pipeline;
- Securing the Tarnava Mica river above-crossing with DN200 Fantanele-Sovata gas transmission pipeline, Chibed area, Mures county;
- Securing the Plapcea river above-crossing with the DN 100 gas transmission pipeline MRS Scornicești supply connection, Olt county;
- Drilling rig and geotechnical sampling equipment,
- Turbine meters,
- Connection and MRS Moinești - Dealu Mare,
- Upgrading network assets - Phase IV.

The main works in the technical documentation preparation phase at the end of 2022:

- Protection system against lightning strikes, with lightning conductor and renewal of power supply system for MRS Fulger Bragadiru;
- Replacement of undercrossing of county road, railway Centura București and railway Progresu of the DN 700 Bucharest Ring gas transmission pipeline, Moara Domneasă - Măgurele section;
- Field adaptation and installation of the DN 700 pig receiving station on the DN 700 gas transmission pipeline Bucharest Ring;
- Upgrading of connection pipeline and MRS Vladimirescu, Vladimirescu locality, Argeș county;
- Securing DN 700 Tăuții Măgheruș - Ulmeni pipeline at the undercrossing of the Lăpuș river, the Bușag area;
- Securing DN 700 Moghioroși - Onești and DN 800 Moghioroși - Onești pipeline in the Hârja area;
- Securing the Siret river undercrossing with the DN 500 Onești - Adjudul Vechi pipeline in the Adjudul Vechi area;
- DN 500 Horia-Borș gas transmission pipeline;
- Replacement of MRS Măgurele Bucharest;
- Modernization of MRS Sighișoara;
- Connection pipeline and PMRS Ianova;
- Connection pipeline and PMRS Vișina;
- Connection pipeline and PMRS Ionești;
- Deta-Moravița gas transmission pipeline;
- Tg. Neamț-Bălțătești gas transmission pipeline;
- Vernești-Mărăcineni-Poșta Călnău gas transmission pipeline, Buzău county, Phase II;

- Prunișor-Jupa gas transmission pipeline;
- Ghergheasa-Focșani gas transmission pipeline;
- Lugașu – Huedin gas transmission pipeline;
- Vladimirescu – Lipova gas transmission pipeline;
- Segarcea - Băilești – Calafat gas transmission pipeline;
- Gas supply to the city of Borsec;

In order to solve the problems encountered during the execution of the works and the achievement of the planned objectives, the following measures were taken:

- in some more difficult areas, in terms of obtaining agreements from landowners or local administrations, it was approved the request to redesign the pipeline route or the technical solutions for construction.

Most of the investment objectives for which no achievements were recorded are in the design, tender documents preparation or procurement phase.

5.3 Maintenance activity

The **Repair and Rehabilitation Work Plan for NTS Maintenance (PLRRM) 2022** had an allocated value of **lei 13.308.535,74**.

5.3.1 - NTS repair and rehabilitation works

The structure of the budget allocated to the repair and rehabilitation works for NTS maintenance, as at 31.12.2022 was as follows: 56% works at different stages of execution (works in progress), 21% accepted works, 15% works in the design stage and 8% works in the procurement stage.

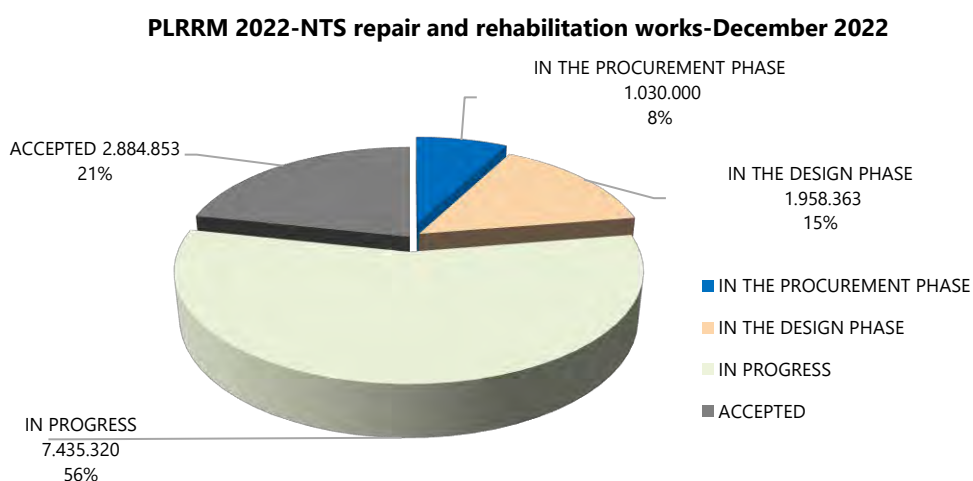


Chart 28 - PLRRM 2022 - NTS Repair and Rehabilitation - December 2022

The repair and rehabilitation works for NTS maintenance in progress at the end of 2022 are:

- Repairs/painting of the above-crossings on the connections of Huși and Vaslui;
- Repairs/painting of the above-crossings Cluj III;
- Pipeline insulation works in fixed stations;
- Securing the Dn 500 Lunca-Sibiu and Dn 500 Sădinca-CS Lunca in the Valea Țapulului area;
- Repair of the Dn 1200 Isaccea-Negru Voda, Transit 3 pipeline following smart pig inspection;
- Repairs/painting Lețcani Technological Node;
- Repairs/painting Gherăești Technological Node;

NTS repair and rehabilitation works in the design phase at the end of 2022:

- Preparation of the Ø28" Seleuș-Cristur-Bățani gas transmission pipeline for conversion into a piggable pipeline - stage 2B (Harghita county);
- Rehabilitation of the Bățani-Onești pipeline. Stage 1 - Preparing the pipeline for conversion into a piggable pipeline;
- Repairs/painting Onești Technological Node;
- Above-crossings repair works;
- Târnăveni Sector offices repair works;
- SNG professional training building repair works ;
- Exterior repairs - TRANSGAZ head office- 1 C.I. Motaș Square, Mediaș;
- MRS Vlăhița (CT), MRS Sf. Gheorghe (CT), MRS Tg. Secuiesc (CT), MRS Câmpulung, MRS Finca - Drăgășani, MRS Titan, MRS Titan (CT), MRS Răzvad, MRS Buciumeni, MRS 16 Februarie, MRS Ungheni, MRS Medgidia;
- Demolition , removal, dismantling of metal roof works - Onești line, MRS Slimnic building, MS Axente Sever building, MRS Daia building, MRS Cerghizel building, MRS Boian building, MRS Triteni building, Drăgășani sector locker room building, PRMS Comănești II.

The work in the procurement procedure at the end of 2022:

- Securing Dn 400 Filipești-Ghirdoveni and Dn 500 Filipești-Răzvad pipelines in the Cioc plateau area.

Repair and rehabilitation works for NTS maintenance accepted at the end of 2022:

- Repairs of above-crossing Cluj II;
- Securing Dn 150 mm MRS Măgureni connection pipeline, Măgureni area;
- Securing the Bistrita river undercrossing with a 300 mm Dn pipeline. Piatra Neamt- Bicz in Viișoara area;
- Securing the Dn 500 mm Abramut-Salonta-Arad pipeline in the area of the Abramut oil park (completed and under acceptance);
- Ø24" Paltin-Schitu Golești pipeline, Brasov county (completed in the process of acceptance);
- Repair of the Arad-Horia-Csanadpalota optical fiber network (finalised and under acceptance);
- Demolition of MRS Vâsâiești building and MRS Comprél building;
- Demolition of building A located in 6 Carpați Street.

Preventive works are the works preparing the pipelines for diagnosis, followed by one-off rehabilitation works designed on the basis of diagnosis to restore nominal transmission capacity.

Preparing pipelines to be traversed by cleaning and diagnostic equipment is achieved by replacing or reconsidering components that do not allow their passage. The technological activity of internal pipeline cleaning has also the aim of maintaining the pipeline at its original gas transmission capacity by periodically removing impurities (solid and liquid) from upstream sources. All these activities are geared towards carrying out maintenance of necessity, based on the principle of in-service risk assessment.

As described, an important category of the **repair works is that based on diagnosis**, resulting from the interpretation and evaluation of the reports obtained by analysing the information provided by running intelligent pigs, which resulted in spot or area repair projects carried out using welding or seamless technologies.

With regard to the efficiency and effectiveness of the process of carrying out the repair and rehabilitation works on main pipelines, we highlight the main external factors with a negative impact:

- late delivery of the materials (pipes and valves) needed to carry out the work in the current economic and political context;
- lack or expiry of the necessary permits;
- lack of landowner agreements.

The following measures were taken to address the problems of carrying out repair and rehabilitation works:

- documentation for obtaining permits/authorisations was re-drafted and submitted to the competent authorities;
- in some more difficult areas, in terms of obtaining agreements from landowners or at the request of local administrations, it was taken the decision to re-design the pipeline route and the technical solutions for construction, or to prepare documentation in order to obtain the Prefect's Order for entry into the field;
- The priority works were achieved inhouse (Mediaş Subsidiary and Regional Office).

5.3.2 NTS Maintenance Ensuring Services

The Maintenance Ensuring Services Plan 2022 has an allocated value of **lei 24.643.642,17**. By Resolution 26/28 July 2022 of the Board of Administration it was approved the increase of the budget allocated initially by the amount of lei 450.000.

The total value of the achievements was **lei 21.363.347,28** , which represents a **86.69%** fulfilment of the programme compared to the total value of the NTS Maintenance Assurance Services programme of **lei 24.643.642,17** .

The budgeted amount for NTS maintenance services for 2022 in relation to the 93 budget lines provided (according to Rectification 18) was broken down as follows:

- a number of **82 items** with a total budget of **lei 24.563.642,17** have ongoing or completed contracts (orders) and at the end of 2022 recorded achievements amounting to **lei 21.363.347,28;**

- **3** service items with a budget allocation of **lei 80.000** are not requested. The items have amounts insured in case of emergencies (e.g. *Weather management services, Air transport services for operational interventions and inspections in the NTS*) or are amounts insured for services with low predictability needs (e.g. *Generator repair and maintenance services, compressor repair and maintenance services*).
- for **6 items** the budgeted amounts were redistributed in plan rectifications to other budget lines which required addition (budget reached zero):
 - *Overhauls and repairs to the automation installations of the Interconnection pipeline between the gas transmission system of Romania and the gas transmission system of the Republic of Moldova in the Iasi-Ungheni direction and Overhauls and repairs to the industrial communication system and optical fibre in the interconnection pipeline between the gas transmission system of Romania and the gas transmission system in the Iasi-Ungheni direction* - the objectives have not yet been taken over by ANRE;
 - *Inspection and repair services of automation systems and station I keyboards, and systems for measuring the operating parameters of Ingersoll Rand compressor units* - Ingersoll compressor units will be decommissioned in 2023;
 - *Technical services provided by a Technical Execution Manager* - qualified persons were identified within Transgaz;
 - *Service, maintenance of wall thickness gauges and inspection of the continuity of external pipe insulation and Specific mechanical machining services* - there were no requests for these services in 2022;
- **2 items** in the plan are foreseen only as a budget line and zero budget for 2022 because they are carried out every two years and most recently were carried out in 2021: *Aviation services for the detection of gas leaks from TGN pipelines and Underwater inspection services for Transit I DN 1000, Import DN 1000, Transit II DN1200 Line 1 and Line 2, Transit III DN1200 pipelines.*

The graphical representation of the budget allocation for the NTS Maintenance Ensuring Services at the end of 2022 is as follows:

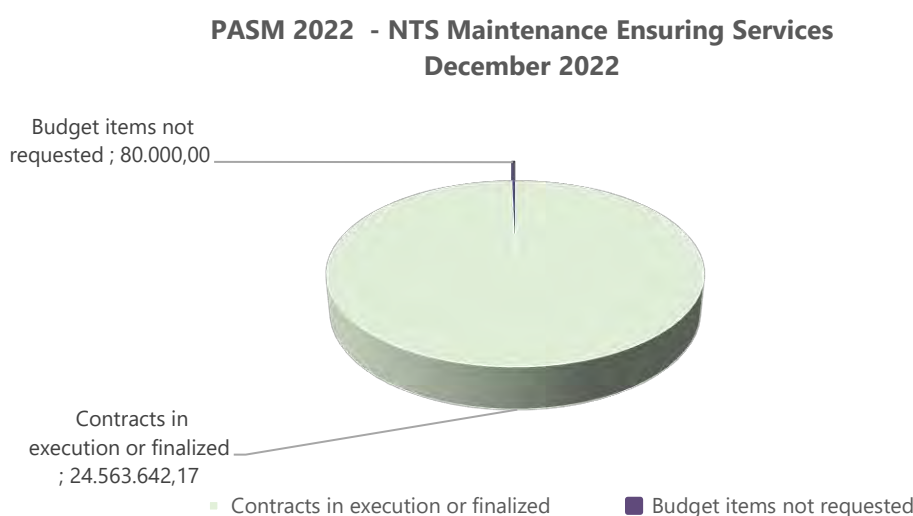


Chart 29 - PRRASM 2022 - NTS Maintenance Services – December 2022

The main contracts concluded in 2022:

- services of verification and repair of the technological instrumental air installation, related to Solar Groups A and B of Station II Şinca - *Contract 71/03.02.2022;*
- maintenance and repair services for Sudocor-type odorization installations- *Contract 20/12.01.2022;*
- CIPS equipment checking and recalibration services- *Contract 149/23.03.2022;*
- volume converter repair services- *Contract 30/18.01.2022;*
- maintenance and repair services to detectors of odorization degree- *Contract 51/28.01.2022;*
- maintenance, repair and calibration services of portable H₂S analysers, model Drager- *Contract 11/05.01.2022;*
- CASCO insurance services for motor vehicles- *Contract 76/08.02.2022;*
- technical expertise services for construction- *Contract 113/03.03.2022;*
- security systems maintenance services- *Contract 103/28.02.2022;*
- inspection and repair services of the automation systems in the Şinca Technological Node and the keypad of Station II and of the systems for measuring the operating parameters of the Solar A, B compressor groups- *Contract 191/12.04.2022;*
- inspection and repair services for underground pipe detection equipment- *Contract 232/09.05.2022;*
- calibration and repair services for metering, testing and control devices- *Contract 192/13.04.2022;*
- maintenance, overhaul and repair of lifting machinery- *Contract 287/10.06.2022;*
- maintenance, repair and calibration services of online water dew point temperature analyser model AURORA GE- *Contract 273/06.06.2022;*
- maintenance and repair services of portable dew point temperature analysers, model Cermax IS- *Contract 263/26.05.2022;*
- metrological reconfirmation (calibration) services at high pressure for turbine meters- *Contract 241/12.05.2022;*
- overhauls (preventive maintenance) and repairs (reactive maintenance) to automation installations in the NTS objectives (MRS, VCS, TN, GMS si GCS)–*Contract 404/10.08.2022;*
- cathodic protection station maintenance services –*Contract 371/19.07.2022;*
- smart pig inspection services of the natural gas transmission pipeline 40" Isaccea-Sendreni, L≈54km–*Contract 330/04.07.2022;*
- repair and maintenance services of pressure intervention equipment components – *Contract 293/17.06.2022;*
- turbine and rotary piston meter repair services –*Contract 373/26.07.2022;*
- services for overhaul and repair of import and transit gas metering systems –*Contract 419/16.08.2022;*
- repair and intervention services for MRSs and odour control systems of the TOTALGAZ type or with components produced by TOTALGAZ -*Contract 482/11.10.2022;*
- welding qualification and training services –*Contract 394/04.08.2022;*
- motor vehicle liability insurance services -*Contract 509/26.10.2022;*
- maintenance, overhaul, repair (service) of the equipment and devices of the Pipeline Diagnostic Laboratory -*Contract 583/24.11.2022;*
- repairs (reactive maintenance) to automation installations in NTS objectives (MRS, VCS, TN, GMS si GCS)-*Contract 612/15.12.2022.*

5.4 The procurement activity

The **Annual Sectoral Procurement Plan** (PAAS) includes all contracts that the company is to award during a year, following the conduct of procurement procedures, direct procurement and framework agreements based on which subsequent contracts are awarded, in accordance with the provisions of Law 99/2016 on sectoral procurement, as further amended and supplemented.

The **Annual Sectoral Procurement Plan for 2022** (PAAS 2022) had an assigned value of lei 661.723.936,94 of which the value of PAAS TransGasDigital was of lei 2.200.000, but following the rectifications approved in 2022, the PAAS value was **lei 2.740.665.711,53**.

I. PROCUREMENT PROCEDURES (SIMPLIFIED PROCEDURES / OPEN AUCTIONS / NEGOTIATED PROCEDURE WITHOUT PRIOR CALL FOR COMPETITION (NFIPPCO) / OWN PROCEDURES) - PAAS 2022

Based on the provisions of the PAAS 2022, out of **605 active positions**, following requests from interested divisions/units/departments, **264 procedures are completed (44%)**, **205 procedures (34%)** are currently **in progress**, and out of the total number of active positions in the plan, **136 positions** are not requested by interested divisions/units/departments (**22%**).

The **schematic situation of the physical implementation** of procurement procedures is as follows:

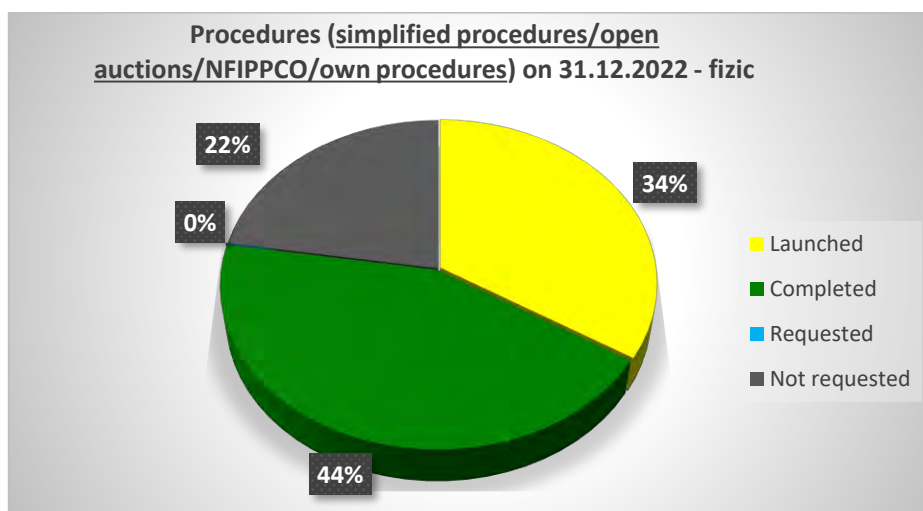


Chart 30 – Actual status of procurement procedures on 31.12.2022

The value master table of procedures (simplified procedures/open auctions/ NFIPPCO/ own procedures):

Total procedures as at 31.12.2022 (lei)	1.584.335.259,60	%
Initiated, out of which:	763.102.396,33	48,17%
-PAAS 2022	700.358.409,30	44,21%
-Annex 1 - Further procurements	62.743.987,03	3,96%
-Annex 2 - Social services	0,00	0,00%
Completed, of which:	465.585.366,36	29,39%
-PAAS 2022	85.148.238,73	5,37%
-Annex 1 - Further procurements	380.312.187,63	24,00%
-Annex 2 - Social services	124.940,00	0,01%
Entered into the Sectoral Procurement and Contracting Division and not initiated, of which:	0,00	0,00%
-PAAS 2022	0,00	0,00%
-Annex 1 - Further procurements	0,00	0,00%
-Annex 2 - Social services	0,00	0,00%
Not requested, of which:	272.740.061,35	17,21%
-PAAS 2022	268.501.421,35	16,95%
-Annex 1 - Further procurements	0,00	0,00%
-Annex 2 - Social services	4.238.640,00	0,27%

NOTE: From a value point of view, the sum of the percentages is less than 100%, the difference resulting between the estimated value of the procedures and the awarded value (less than the estimated value).

II. DIRECT PROCUREMENTS:

Based on what is foreseen in the PAAS 2022, out of **1.368 active positions**, following requests from interested divisions/units/departments, **25 direct procurements** are currently **initiated (2%)**, **1.127 direct procurements are completed (82%)**, and out of the total active positions in the plan a total of **216 positions** are not requested by interested divisions/units/departments (16%).

Schematically the procurement procedures actual achievement is as follows:

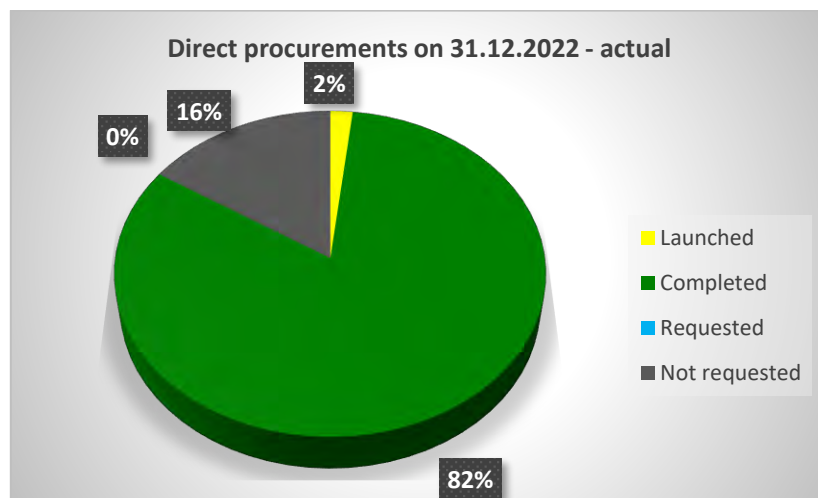


Chart 31 – Actual status of direct procurement on 31.12.2022

The value master table of direct procurements:

Total direct procurements as at 31.12.2022 (lei)	31.284.505,27	%
Initiated, of which:	4.180.140,87	13,36%
-PAAS 2022	4.165.140,87	13,31%
-Annex 1 - Further procurements	0,00	0,00%
-Annex 3 - Exceptions art. 35	15.000,00	0,05%
Completed, din care:	9.659.081,47	30,87%
-PAAS 2022	9.037.086,00	28,89%
-Annex 1 - Further procurements	434.491,94	1,39%
-Annex 3 - Exceptions art. 35	187.503,53	0,60%
Entered into the Sectoral Procurement and Contracting Division and not initiated, of which:	0,00	0,00%
-PAAS 2022	0,00	0,00%
-Annex 1 - Further procurements	0,00	0,00%
-Annex 3 - Exceptions art. 35	0,00	0,00%
Not requested, of which:	16.820.145,85	53,77%
-PAAS 2022	6.941.559,80	22,19%
-Annex 1 - Further procurements	0,00	0,00%
-Annex 3 - Exceptions art. 35	9.878.586,05	31,58%

NOTE: From a value point of view, the sum of the percentages is less than 100%, the difference resulting between the estimated value of the procedures and the awarded value (less than the estimated value).

5.5 The legal assistance and representation activity

The activity of legal assistance and representation of SNTGN Transgaz SA before the courts and other bodies with jurisdictional activity aimed mainly at:

- ensuring legal assistance before courts of all levels of jurisdiction and other bodies with jurisdictional activity;
- initiating legal actions, establishing claims, filing statement of defence, preparing answers to statements of defence, examinations, setting objectives of expertise and / or objecting to judicial expertises approved by the court, administration of evidence, etc.
- promoting remedies at law;
- enforcement of the enforceable titles obtained;
- assistance and legal representation of Transgaz within the enforcement procedure (formulation of enforcement requests and any other steps specific to the enforcement procedure);
- preparation of various reports/evidence on the state of litigation to which the company is a party;
- participation in commissions set up to evaluate tenders submitted under the sectoral procurement procedures;
- participation in various working groups/committees in order to support normative acts promoted by various public institutions with an impact on Transgaz's activity.

According to case registry records, in 2022, there were a total of **77 cases** in which SNTGN Transgaz SA was plaintiff and defendant:

- 48 cases as plaintiff;
- 29 cases as defendant;

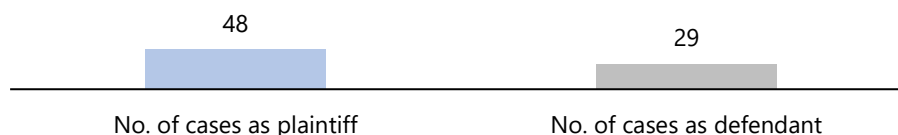


Chart 32 - Structure and number of cases in which the company was involved in 2022

Values:

- values of cases in which Transgaz is a plaintiff (files registered in 2022): **lei 214.426.404,6** and **EUR 4656**;
- values of cases in which Transgaz is a defendant (files registered in 2022): **lei 42.859.676,15** and **EUR 240.375**.

Solutions:

- **23 favourable decision cases** Transgaz (final decisions);
- **12 unfavourable decision cases** Transgaz (final decisions).

5.6 International cooperation activity

In 2022 the international cooperation activity mainly was directed to:

- the cooperation with the Gas Transmission System Operators from the neighbouring countries (Bulgaria, Hungary, Ukraine, Moldova, Serbia) in order to implement and jointly operate the cross-border interconnection;
- the cooperation with the European and neighbouring gas Transmission System Operators within the Trans Balkan Corridor project
- the collaboration with European and adjacent Transmission System Operators within the Vertical Gas Corridor Project (Transgaz, DESFA Greece, ICGB, Bulgartransgaz Bulgaria, FGSZ Hungary)
- the cooperation with national and international bodies, the European Commission and other institutional relations
- the cooperation with gas transmission operators at the regional level for the development of new relevant partnerships for the energy sector and the conclusion of cooperation agreements or memoranda.

In order to expand its activity, **TRANSGAZ is considering the development of new partnerships with various international companies relevant to the energy sector** and, to this end, is engaged in discussions to conclude cooperation agreements

In recent years, SNTGN Transgaz SA has initiated contacts with natural gas transmission operators in the European Union with a view to developing partnership relations aimed at exchanging experience and analysing the potential for bilateral cooperation to promote possible joint projects (Gaz-System Poland, ICGB - the company implementing the Greece-Bulgaria Interconnection project, GasConnect Austria, CEGH Austria, Energy Community Secretariat (SEEGAS initiative), etc.

- In February 2022, Transgaz and the Turkish company BOTAŞ signed a Memorandum of Understanding whereby the two parties express their intention to jointly support mutually beneficial projects and develop new directions of cooperation in the field of natural gas transmission and for the development of hydrogen projects;
- On 7 April 2022, on the sidelines of the annual Gas Infrastructure Europe (GIE) conference in Budapest, Transgaz and the gas transmission operators in Hungary, Poland and Slovakia, meaning FGSZ, Gas System and Eustream, signed a Memorandum of Understanding on hydrogen cooperation. The Memorandum aims at analysing the possibility to use at large scale the hydrogen produced from natural gas, for identifying technologies for the production of hydrogen to ensure the energy transition in accordance with the relevant European regulations;
- On 24 May 2022, in Davos, Transgaz signed a roadmap agreement with the Three Seas Initiative Investment Fund S.A. SICAV-RAIF, a trade fund dedicated to infrastructure investments in Central and Eastern Europe, to collaborate on the construction of a new, planned natural gas infrastructure in Romania. The agreement recognises the strategic and economic importance of investing in gas pipeline infrastructure in Romania. Given Romania's extensive domestic oil and gas reserves, further investment in gas transmission infrastructure is anticipated to drive economic development in the region, while also supporting European energy security and the energy transition in the Three Seas region. On 24 August 2022, the Director - General of the Slovak company Eustream, sent a letter to

the attention of the management of Transgaz, Bulgartransgaz and FGSZ proposing the possibility to consider using the existing infrastructure of Eustream, Transgaz, Bulgartransgaz and FGSZ as a basis for the recent strategic partnership between the EU and Azerbaijan, signed on 18 July, in order to guarantee increased Azerbaijani gas deliveries to the EU in the coming period. All four companies agreed to this possibility and agreed to send a joint letter to the President of the European Commission outlining the framework of this proposal and the benefits of using the existing infrastructure operated by the four TSOs.

- On 2 September 2022, representatives of the Centre for Research and Technology of Greece (CERTH) sent Transgaz an invitation to participate in their Horizon Europe application for the Small-Scale Hydrogen Valleys as part of a `competitive multinational consortium`. Transgaz received the proposal to participate as a `potential partner, in the perceived role of replication partner for green hydrogen technology and infrastructure development, to demonstrate replicability and scalability of the project, with the aim of facilitating the further deployment of Hydrogen Valleys in South East Europe`. Transgaz followed up on this proposal to join the CERTH application and the proposal was submitted on the EU portal on 20 September.
- On 8 December 2022, Transgaz signed the agreement to participate in the European Hydrogen Backbone (EHB) Working Programme for 2023, thus continuing the activities started under this initiative.

5.7 Consolidated financial results (consolidated factorial analysis of the activity)

Indicators of the consolidated economic and financial results (SNTGN Transgaz SA, Eurotransgaz SRL, Vestmoldtransgaz SRL)

The establishment of the company EUROTRANSGAZ SRL on the territory of the Republic of Moldova was approved by Extraordinary General Meeting of the Shareholders Resolution no. 10/12.12.2017 for enabling participation in the privatization procedure of the State Enterprise Vestmoldtransgaz.

Transgaz is the sole shareholder of EUROTRANSGAZ SRL.

Since 2018, following the procurement of Vestmoldtransgaz SRL of the Republic of Moldova by Eurotransgaz SRL, Transgaz, as a parent company, prepares consolidated group financial statements.

As at 25.08.2021 the European Bank for Reconstruction and Development (EBRD) became a shareholder, holding a 25% stake in the share capital of the natural gas transmission company VESTMOLDTRANSGAZ SRL, a subsidiary of TRANSGAZ in the Republic of Moldova, which owns and operates the Ungheni-Chisinau gas transmission pipeline.

Consolidated companies in the Transgaz group:

		Share (%)
SNTGN Transgaz SA	Parent company	
Eurotransgaz SRL	Company held by SNTGN Transgaz SA	100%
Vestmoldtransgaz SRL	Company held by Eurotransgaz SRL	75%

(thousand lei)

Indicator	Consolidated statements 2022	Transgaz individual statements 2022	ETG, VMTG, adjustments 2022
0	1=2+3	2	3
Revenue from the domestic transmission activity	1.356.045	1.351.931	4.114
Revenue from the international transmission activity	73.927	73.927	0
Other revenue	149.312	149.329	-17
Operating revenue before the balancing and construction activity according to IFRIC12	1.579.284	1.575.186	4.097
Depreciation	435.410	423.650	11.760
Employees costs	495.132	491.588	3.544
Technological consumption, materials and consumables used	180.268	180.268	0
Cost of royalty	5.703	5.703	0
Maintenance and transmission	37.253	36.914	339
Taxes and duties due to the state	86.782	86.782	0
Revenue/ (Costs) of provisions for risks and charges	18.096	18.088	8
Other operating cost	169.460	167.697	1.763
Operational profit before the balancing and the construction activity according to IFRIC12	146.316	159.632	-13.316
Revenue from the balancing activity	1.005.544	1.005.544	-
Cost of balancing gas	1.005.544	1.005.544	-
Revenue from the construction activity according to IFRIC12	299.868	299.868	-
Cost of constructed assets according to IFRIC12	299.868	299.868	-
Operational profit	146.316	159.632	-13.316
Financial revenue	498.370	461.287	37.083
Financial cost	225.110	183.446	41.664
Financial revenue, net	273.260	277.841	-4.581
Profit before tax	419.576	437.474	-17.898
Profit tax expense	72.507	71.719	789
Net profit for the period	347.068	365.755	-18.686

Indicator	Consolidated statements 2022	Transgaz individual statements 2022	ETG, VMTG, adjustments 2022
0	1=2+3	2	3
Attributable to the parent company	351.895		351.895
Attributable to the non-controlling interests	-4.827		
Exchange rate differences	-8.396		
Actuarial gain/loss for the period	2.452	2.452	0
Total comprehensive income for the period	341.124	368.207	-27.083

Table 19 - Indicators of consolidated economic and financial results (SNTGN Transgaz SA, Eurotransgaz SRL, Vestmoldtransgaz SRL)

Consolidated achievements 2022 compared to consolidated achievements 2021

The statement of the financial results achieved as at 31 December 2022 as compared to 2021 is presented below:

(thousand lei)

Name	Obtained 2022	Obtained 2021	Changes
0	1	2	3=1/2x100-100
Operating revenue before the balancing and construction activity, according to IFRIC12	1.579.284	1.364.950	16%
Revenue from the balancing activity	1.005.544	442.200	127%
Revenue from the construction activity according to IFRIC12	299.868	704.027	-57%
Financial revenue	498.370	152.208	227%
Operating costs before the balancing and construction activity, according to IFRIC12	1.432.968	1.244.239	15%
Costs of balancing gas	1.005.544	442.200	127%
Cost of assets according to IFRIC12	299.868	704.027	-57%
Financial costs	225.110	42.669	428%
Total GROSS PROFIT, of which:	419.576	230.250	82%
· from operation	146.316	120.711	21%
· from the financial activity	273.260	109.539	149%
Income tax	72.507	53.445	36%
NET PROFIT	347.068	176.805	96%
Exchange rate difference	-8.396	31.650	x
Actuarial gain/loss for the period	2.452	15.783	-84%
Total comprehensive income for the period	341.124	224.238	52%

Table 20 –Consolidated financial results in 2022 compared to 2021

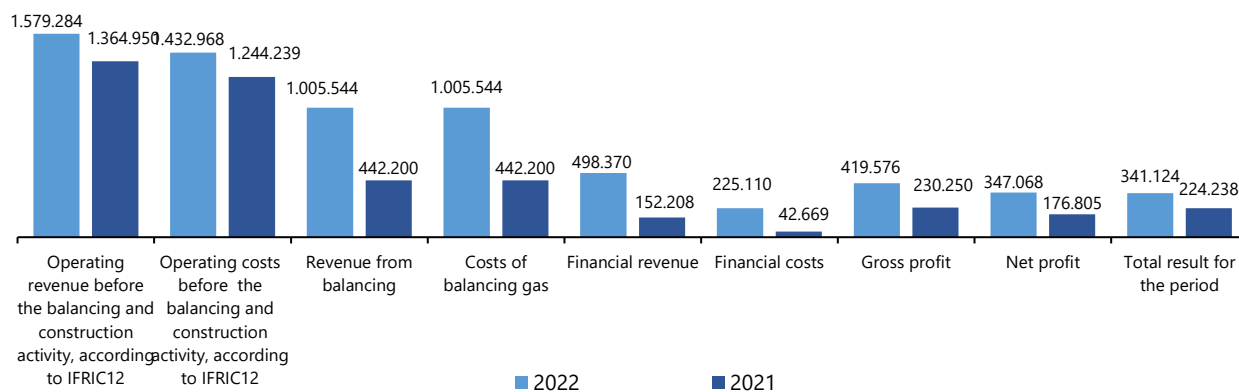


Chart 33 – Consolidated financial results in 2022 compared to 2021 (thousand lei)

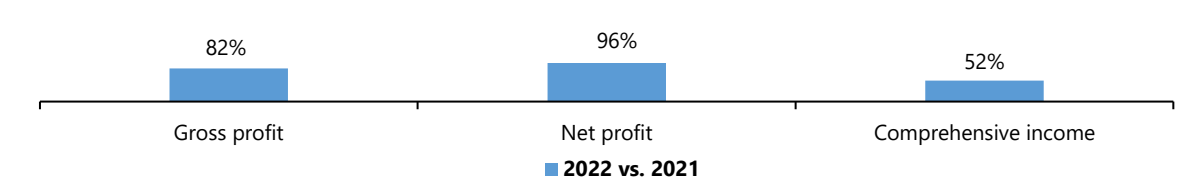


Chart 34 - Consolidated financial results in 2022 compared to 2021 (%)

The variation of the consolidated economic-financial indicators at 31 December 2022, compared to the indicators obtained in 2021 is mainly determined by the variation of the individual economic-financial indicators recorded by SNTGN Transgaz SA on 31 December 2022 compared to the indicators obtained in 2021.

The main impact of the subsidiaries in the consolidated result is determined by the evolution of the MDL (Moldavian leu) exchange rate compared to the EUR currency in which the source for financing the investment project carried out by the subsidiary was partially obtained and compared to the reporting currency of the consolidated financial statements (RON).

As of December 2022 Vestmoldtransgaz SRL of the Republic of Moldova provided gas delivery services amounting to MDL 16.588.399 (lei 4.114 thousand).

5.8 Individual financial results (factorial analysis of the individual activity)

Individual achievements in 2022 vs. individual achievements in 2021

The individual financial results obtained in 2022 as compared to 2021 is as follows:

<i>(thousand lei)</i>			
Name	Obtained 2022	Obtained 2021	Changes
0	1	2	3=1/2x100-100
Operating revenue before the balancing and construction activity, according to IFRIC12	1.575.186	1.364.511	15%
Revenue from the balancing activity	1.005.544	442.200	127%
Revenue from the construction activity according to IFRIC12	299.868	704.027	-57%
Financial revenue	461.287	130.013	255%
Operating costs before the balancing and construction activity, according to IFRIC12	1.415.554	1.230.118	15%
Costs of balancing gas	1.005.544	442.200	127%
Cost of assets according to IFRIC12	299.868	704.027	-57%
Financial costs	183.446	25.138	630%
GROSS PROFIT -total, of which:	437.474	239.268	83%
· from operation	159.632	134.393	19%
· from the financial activity	277.841	104.875	165%
Profit tax	71.719	52.327	37%
NET PROFIT	366.755	186.941	96%
Other elements of the comprehensive income	2.452	15.783	-84%
Comprehensive income of the period	368.207	202.724	82%

Table 21 - Individual financial results in 2022 compared to 2021

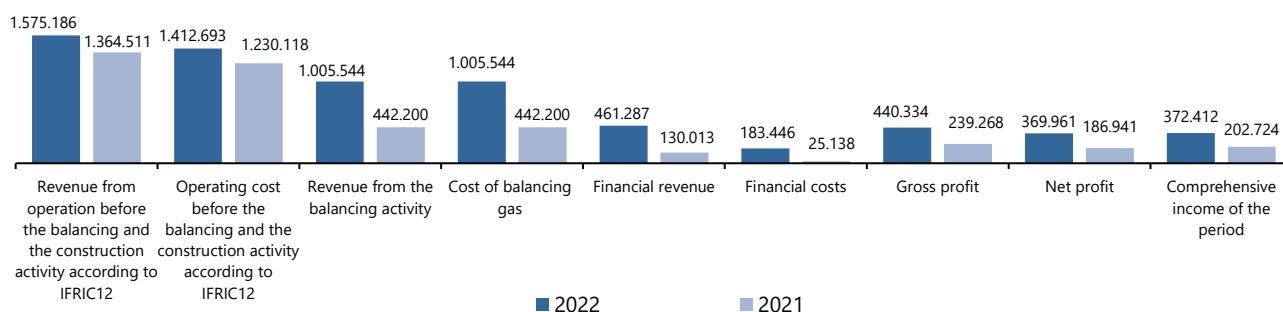


Chart 35 - Individual financial results in 2022 compared to 2021 (thousand lei)

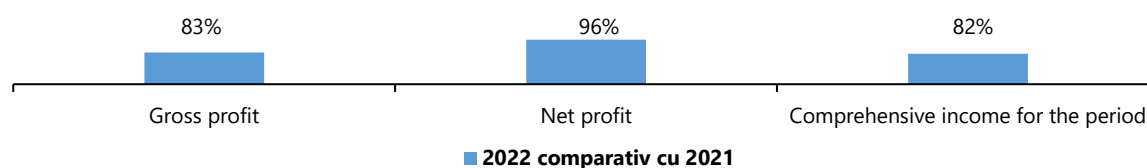


Chart 36 - Individual financial results in 2022 compared to Half I 2021 (%)

Operating revenue before the balancing and construction activity, according to IFRIC12 increased by **15%** as compared to obtained at 31 December 2021, which is higher by **lei 210.675 thousand**.

The revenue was influenced mainly by the following factors:

- *revenue from capacity booking* higher by **lei 238.854 thousand** due to:
 - *revenue from the auction premium* higher by lei 165.179 thousand following the capacity booking auctions performed according to the CAM-NC by interconnection points. Revenue from the auction premium at 31 December 2021 amounted to lei 13.545 thousand, and at 31 December 2022 to lei 178.724 thousand;
 - *capacity overrun revenue* higher by lei 6.175 thousand. Capacity overrun revenue at 31 December 2021 amounted to lei 69.562 thousand, and at 31 December 2022 to lei 75.737 thousand;
 - *average capacity booking tariff, determined by the structure of the booked products*, higher by lei 0,365/MWh, with a positive influence of lei 130.146 thousand;
 - *booked capacities* lower by 27.584.341 MWh, with a negative influence of lei 62.646 thousand;
- *commodity revenue* lower by **lei 51.342 thousand** due to:
 - *the gas transmitted capacities* lower by 11.181.596 MWh/994.203 thousand cm (▼7%), as compared to 31 December 2021, with a negative influence of lei 14.656 thousand, detailed by categories of consumers as follows:

		12 months 2022	12 months 2021	Differences
Quantity transmitted for direct consumers	MWh	68.472.756	68.657.931	-185.175
	thousand m ³	6.185.284	6.237.780	-52.496
Quantity transmitted for distribution	MWh	73.495.131	84.491.552	-10.996.421
	thousand m ³	6.846.782	7.788.489	-941.707
Total	MWh	141.967.887	153.149.483	-11.181.596
	thousand m ³	13.032.066	14.026.269	-994.203

- *the commodity transmission tariff* lower by lei 0,25 lei/MWh, with a negative influence of lei 36.686 thousand;

The commodity tariffs decreased at 31 December 2022 as compared to 31 December 2021 mainly due to:

- Order 10/2017 of the ANRE President on the amending of Order 32/2014 of ANRE President on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariffs Methodology, which establishes the increasing by 5% per year of the percentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the

decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2020-2021 the variable component of the total revenue at the basis of the commodity tariffs is 20% of the total revenue, in gas year 2021-2022 it decreased to 15% of the total revenue;

- at the substantiation of the tariffs for gas years 2020-2021 and 2021-2022, the tax on the monopoly was not recognised by ANRE at the pass-through costs and implicitly at the regulated revenue.
- *international gas transmission revenue and similar* higher by **lei 1.889 thousand**. According to the Agreement for the termination of the legacy Contract between SNTGN Transgaz SA and GPE, the remaining amounts will be paid over a period of maximum three years and the transmission revenue is regulated according to ANRE Order 41/2019 and ANRE Order 34/2014, based on the points where capacity is booked, the monthly difference being classified as similar income.
- *other operating revenue* higher by **lei 21.273 thousand**, mainly due to the recording to revenue of the grants obtained for the financing of the major investment projects following their completion and commissioning, higher by lei 24.048 thousand, the increasing of the revenue from penalties by lei 7.756 thousand and the decreasing of other revenue by lei 10.531 thousand.

The revenue from the balancing activity was higher by **lei 563.344 thousand** based on the following factors:

- trading price higher by lei 319,64/MWh, with a positive influence of lei 604.516 thousand;
- quantity lower by 194.163 MWh with a negative influence of lei 41.171 thousand.

The revenue from the construction activity lower by **lei 404.158 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts;

The financial revenue has a positive influence of **lei 331.274 thousand**, mainly due to the recording of the updating of the debt for the regulated value remaining unamortised of the regulated asset base at the end of the Concession Agreement with the inflation rate for 2022. While in 2021 an inflation rate of 5,05% (lei 87.970 thousand) was recorded, in 2022 the inflation rate was 13,80% (lei 286.877 thousand). Revenue from shareholdings recorded following the reduction of Eurotransgaz's share capital by EUR 21,67 million, amount received by Transgaz in Q I and Q IV 2022, also had a positive influence.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **15%** as compared to 31 December 2021, which is higher by **lei 185.436 thousand**.

The company made savings of lei 22.714 thousand, due to following cost elements:

- cost of auxiliary materials: lei 4.111 thousand;
- cost of monopoly tax: lei 1.257 thousand;
- other operating costs: lei 17.345 thousand, mainly due to the decrease in the expense with the impairment of current assets (lei 36.932 thousand), the capitalisation of the difference

between the costs of the technological consumption achieved over the approved one in the transmission tariff in accordance with the provisions of GEO 27/2022 in the amount of lei 3.345 thousand and the increase in energy and water costs by lei 11.530 thousand and in security and capacity booking services by lei 9.005 thousand.

A surplus amounting to lei 208.149 thousand was recorded to the following cost elements

- transmission system gas consumption of lei 76.425 thousand due to:
 - the average purchase price obtained higher by lei 100,17/MWh as compared to the one obtained at 31 December 2021, with a negative influence of lei 75.489 thousand;
 - the quantity of natural gas for NTS gas consumption higher by 9.171 MWh as compared to 31 December 2021, with a negative influence of lei 936 thousand;
- employee costs: lei 26.992 thousand;
- cost of depreciation: lei 72.595 thousand, based on the completion and commissioning of the major investment projects;
- cost of royalty for NTS concession: lei 758 thousand;
- cost of provision for risks and charges: lei 25.397 thousand mainly on account of establishing the provision for voluntary departures higher by lei 12.340 thousand and write back of provisions lower in 2022 by lei 6.292 thousand;
- cost of other taxes and duties: lei 1.838 thousand;
- costs of maintenance and transport: lei 4.144 thousand.

The financial cost is higher by **lei 158.308 thousand** mainly based on the cost of financial fixed assets transferred (lei 108.667 thousand), the interest expenses (lei 38.398 thousand) and the foreign exchange loss (lei 8.962 thousand).

By BoA Resolution 39/2021 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 13,15 million, amount received by Transgaz in Q I 2022 and by BoA Resolution 19/2022 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 8,52 million, amount received by Transgaz in Q IV 2022.

Compared to 31 December 2021 the gross profit obtained at 31 December 2022 increased by 83%, which is higher by lei 198.205 thousand.

Individual achievements in 2022 compared to the Revenue and Expense Budget 2022

The main economic and financial indicators achieved in 2022 as compared to the Revenue and Expense Budget approved by OGMS Resolution no. 3/28 February 2022 are as follows:

(thousand lei)

Name	REB 2022	Obtained 2022	Changes
0	1	2	$3 = 1/2 \times 100 - 100$
Operating revenue before the balancing and the construction activity, according to IFRIC12	1.355.620	1.575.186	16%
Revenue from the balancing activity	553.023	1.005.544	82%
Revenue from the construction activity according to IFRIC12	532.410	299.868	-44%

Name	REB 2022	Obtained 2022	Changes
0	1	2	3=1/2x100-100
Financial revenue	150.115	461.287	207%
Operating costs before the balancing and construction activity, according to IFRIC12	1.392.444	1.415.554	2%
Costs of balancing gas	553.023	1.005.544	82%
Cost of assets according to IFRIC12	532.410	299.868	-44%
Financial costs	62.002	183.446	196%
Total GROSS PROFIT, of which:	51.288	437.474	753%
· from operation	-36.824	159.632	-533%
· from the financial activity	88.113	277.841	215%
Income tax	9.789	71.719	633%
NET PROFIT	41.499	365.755	781%

Table 22 - Financial results in 2022 compared to the Budget for 2022

Operating revenue before the balancing and construction activity according to IFRIC12 increased by **lei 219.566 thousand** as compared to the REB.

The revenue was influenced by the following:

- Gas transmission services increased by **lei 217.234 thousand** due to:
 - *capacities booked* higher by 38.354.364 MWh with a positive influence of **lei 242.777 thousand**, increase also influenced by the invoicing of the counter value of overrun capacity booked related to 2022 (lei 75.737 thousand), in accordance with ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
 - *the gas transmitted capacities* lower than planned by 8.681.957 MWh (▼6%) with a negative influence of **lei 25.543 thousand**;
- Revenue from international gas transmission services and similar decreased by **lei 3.442 thousand**;
- Other operating revenue increased by **lei 5.774 thousand** as compared to the REB. The Transgaz financial statements do not present the value of revenue from the production of tangible assets or the amount of the relevant expenses according to Order 2.844/2016 on the approval of the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

Revenue from the balancing activity increased by **lei 452.521 thousand** based on the following:

- trading price higher by lei 286,81 lei/MWh, with a positive influence of lei 542.426 thousand;
- quantity lower by 367.146 MWh with a negative influence of lei 89.905 thousand;

Financial revenue increased by **lei 311.172 mii lei thousand** as compared to the REB mainly due to the recording of the updating of the regulated assets value with the inflation rate and to the

revenue from shareholdings recorded following the reduction of Eurotransgaz's share capital by EUR 21,67 million, amount received by Transgaz in Q I and IV 2022.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **2%** as compared to the approved plan, which is higher by **lei 23.110 thousand** as compared to the REB.

Savings amounting to lei 154.568 thousand were recorded mainly the following cost elements:

- employee costs: lei 44.890 thousand;
- costs auxiliary materials and other material costs: lei 18.698 thousand;
- costs of maintenance and transport: lei 43.076 thousand;
- transmission system gas consumption: lei 40.153 thousand;
- cost of taxes and duties: lei 7.752 thousand.

A surplus of lei 177.677 thousand was recorded mainly in relation to the following cost elements:

- cost of NTS concession royalty: lei 855 thousand;
- cost of depreciation: lei 32.329 thousand;
- cost of provision for risks and charges: lei 13.319 thousand;
- other operating expense: lei 131.173 thousand mainly due to the impairment of current assets

Through the REB 2022, a decrease in the adjustment of customer receivables was budgeted, on account of the collection of outstanding receivables recorded by Electrocentrale București. The beneficial impact of the collection of outstanding receivables recorded by Electrocentrale București was reduced by the establishment of adjustments for outstanding receivables recorded in the relation to Electrocentrale Constanta, Black Sea Oil&Gas SA and Gazprom Export LLC;

The financial cost is higher by **lei 121.444 thousand** as compared to the REB mainly based on the cost of financial fixed assets transferred. By BoA Resolution 39/2021 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 13,15 million, amount received by Transgaz in Q I 2022 and by BoA Resolution 19/2022 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 8,52 million, amount received by Transgaz in Q IV 2022.

The gross profit increased by lei 386.185 thousand as compared to the REB.

	Obtained in 12 months 2022 compared to Obtained in 12 months 2021	Obtained in 12 months 2022 compared to REB for 12 months 2022
Operating revenue before the balancing and construction activity, according to IFRIC12	15%	16%
Operating costs before the balancing and construction activity, according to IFRIC12	15%	2%
Gross result	83%	753%
Profit tax	37%	633%
Net profit	96%	781%

Table 23– Obtained in 12 months 2022 compared to Obtained in 12 months 2021 and Obtained in 12 months 2022 compared to REB (%)

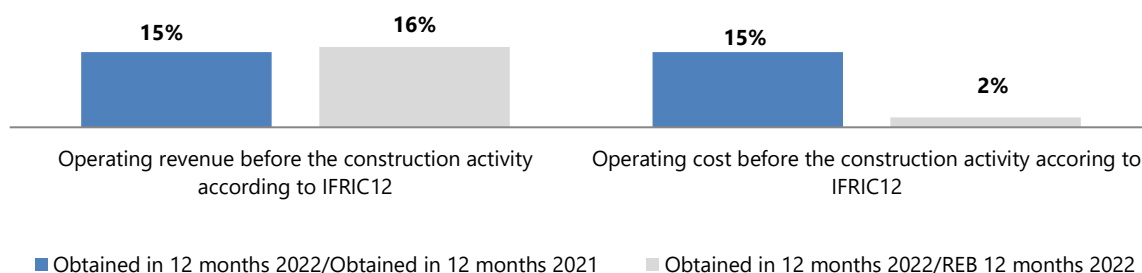


Chart 37 - Individual achievements in 12 months 2022 vs. individual achievements in 12 months 2021 and individual achievements in 12 months 2022 vs. REB for 12 months 2022

Individual achievements 2022 compared to the Management Plan 2022

The key financial performance indicators were substantiated on the basis of data from the company's Revenue and Expense Budget approved by OGMS Resolution No. 3/2022. The level of financial performance indicators achieved compared to those set out in the Management Plan is presented in the table below:

(thousand lei)

No.	Performance criteria	Management plan 2022	Achieved 2022	Percentage	Difference
1.	Outstanding payments-thousand lei	0	0	100%	0
2.	Operating expenses (less depreciation, balancing, construction activity and provisions for impairment of assets and for risks and charges)-thousand lei	1.112.356	918.441	121%	193.915
3.	Acid test ratio	1	1,39	139%	0,39
4.	Net leverage	5,5	2,78	198%	2,72
5.	EBITDA-thousand lei	354.495	583.282	165%	228.787

Table 24 – Individual achievements in 2022 compared to the Management Plan 2022

5.9 The tariff setting methodology

In 1 October 2021–30 September 2022 the regulated tariffs for the gas transmission services through the NTS are set based on ANRE Order 32/27 May 2021 on the approval of the National Transmission System gas transmission regulated revenue, total revenue and transmission tariffs .

GEO 27/2022 provides that in order to cover the additional costs related to own technological consumption and technological consumption, respectively, generated by the increase in prices on the wholesale market above the value taken into account by the regulator when calculating natural gas transmission tariffs in 2021, the Energy Regulatory Authority (ANRE) modifies the regulated

tariffs, applicable from 1 April 2022. The resulting tariffs remain unchanged for the period 1 April 2022 - 31 March 2023. ANRE did not modify the transmission tariffs with the price increase substantiated by the company.

By Order 95/18.05.2022, ANRE extends the deadlines laid down in ANRE Order 32/2021 on the approval of the adjusted regulated revenue and transmission tariffs for the natural gas transmission activity through the National Transmission System until 30 September 2023 and establishes that the differences resulting from the recalculation of the regulated revenue and the adjusted regulated revenue for the fourth regulatory year, 1 October 2022 - 30 September 2023, of the fourth regulatory period, are determined and adjusted with the adjustment of the regulated revenue and the approval of the revenue for the last year of the fourth regulatory period, i.e. for 1 October 2023 - 30 September 2024.

6. CONSOLIDATED ECONOMIC AND FINANCIAL STATEMENT

6.1 Consolidated financial position

According to Article 1 of Order 881/25 June 2012 of the Ministry of Public Finance on the application of the International Financial Reporting Standards by companies having securities admitted to trading on a regulated market, starting with financial year 2012, the companies having securities admitted to trading on a regulated market are obliged to apply the International Financial Reporting Standards (IFRS) upon preparation of the annual financial statements.

The statement of the consolidated financial position as at 31.12.2022 as compared to 31.12.2021 is as follows:

Indicator	31.12.2022	31.12.2021	Dynamics
	Thousand lei	Thousand lei	(%)
0	1	2	3=1/2
Tangible assets	801.194	852.178	94,02%
Rights of use for the leased assets	16.935	19.617	86,33%
Intangible assets	3.909.592	3.997.051	97,81%
Financial assets	9.567	9.705	98,58%
Trade receivables and other receivables	2.141.205	1.788.571	119,72%
Deferred tax	0	353	0,00%
Fixed assets	6.878.493	6.667.476	103,16%
Inventories	613.183	311.708	196,72%
Commercial receivables and other receivables	346.798	612.007	56,76%
Cash at hand and in bank	418.667	414.955	100,89%
Current assets –TOTAL	1.378.648	1.338.670	102,99%
TOTAL ASSETS	8.257.141	8.006.146	103,14%
Debts to be paid over a one-year period	964.708	946.030	101,97%
Debts to be paid over a period of more than one year	3.151.524	3.091.747	101,93%
Total debts	4.116.232	4.037.777	101,94%

Shareholders' equity	4.140.909	3.968.369	104,35%
Non-controlling interests	82.818	93.549	88,53%
Equity	4.058.091	3.874.820	104,73%
Share capital	1.883.815	117.738	1600,01%
Hyperinflation adjustment of share capital	441.418	441.418	100,00%
Share premium	247.479	247.479	100,00%
Other reserves	1.265.797	1.265.797	100,00%
Retained earnings	199.649	1.785.866	11,18%
Consolidation exchange rate differences	19.933	16.522	120,65%
Total equity and debts	8.257.141	8.006.146	103,14%

Table 25- Statement of consolidated financial position in 2022 compared to 2021

Tangible assets

Tangible assets include auxiliary buildings of operating assets, office buildings, land, assets used for the transit activity, as well as objectives related to the national transmission system taken over free of charge.

Tangible assets decreased by lei 50.984 thousand as compared to the value as at 31.12.2021, mainly due to the fact that the tangible assets entries were exceeded by the depreciation cost for tangible assets.

Rights of use of leased assets

As at 1 January 2019 the company applies IFRS 16 for lease contracts complying with the recognition criteria and recognized as intangible asset right of use related to the lease contracts. The rights of use of leased assets decreased by lei 2.682 thousand as compared to 31 December 2021 due to the fact that the initial value of the leased assets contracts was exceeded by their depreciation cost .

Intangible assets

IT Programmes

The purchased licenses related to the rights to use the IT programmes are capitalized on based on the costs incurred with the procurement and commissioning of the respective IT programmes. Such costs are depreciated over their estimated useful life (three years). Costs related to the development or maintenance of the IT programmes are recognized as costs during the period when they are registered.

Service concession agreement

From 2010, in accordance with the EU approval process, the company started to apply IFRIC 12, Service Concession Arrangements, adopted by the EU.

The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

The company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right. As they occur, costs of replacements are recorded as expense,

while the improvements of assets used within SCA are recognized at fair value. Intangible assets are amortized at zero value during the remaining period of the concession agreement.

Intangible assets decreased by lei 87.459 thousand as compared with the value as at 31.12.2021, this decrease being mainly due to the fact that the intangible assets entries was exceeded by the cost of amortization of intangible assets.

Trade receivables and other receivables/Fixed assets

The receivables regarding the right to collect the regulated value remaining unamortized at the end of the concession agreement on 31 December 2022 increased by the amount of lei 352.634 thousand, receivables registered according to Law 127/2014 of 5 October 2014, which states that in case of termination of the concession agreement for any reason, or upon termination, the investment of the national transmission system operator shall be transferred to the owner of the national transmission system or another concession provider on payment of a compensation equal to the regulated value remaining not amortized, established by ANRE.

The increase of lei 352.634 thousand compared to the value at 31 December 2021 is mainly due to the updating of the receivables with the changes recorded in the regulated asset base and the adjustment of the regulated value of the assets with the inflation rate as from 2019, as per ANRE Order 41/2019. The amount of the adjustment of the receivable with inflation increased in 2022 compared to 2021 due to the increase of the inflation rate in 2022 to 13,80% (5,05% in 2021) and the increase of the regulated asset base with the fixed asset entries in gas year October 2020-September 2021 in the amount of lei 1.297.561 thousand and the asset entries in the regulated asset base in gas year October 2021-September 2022 in the amount of lei 326.631 thousand.

Fixed assets recognised in the regulated asset base in a gas year are discounted with the rate of inflation from the following gas year.

Inventories

On 31 December 2022 inventories increased by lei 301.475 thousand compared to the value as at 31 December 2021, mainly due to the increasing of the value of the natural gas procured within the balancing activity.

Commercial receivables and other receivables

On 31 December 2022, the balance of the commercial receivables and other receivables **decreased by lei 265.209 thousand** as compared to 31 December 2021, mainly due to the following factors:

- decrease of the client receivables balance by lei 139.535 thousand mainly generated by the decrease in the balance of the outstanding receivables;
- increase of the adjustment of impairment of the trade receivables and of other receivables by lei 42.126 thousand;
- decrease of the grants as subventions by lei 125.585 thousand;
- increase of the balance of other receivables by lei 42.037 thousand.

Cash at hand and in bank

On 31 December 2022 the company's cash increased by lei 3.712 thousand as compared to the end of 2021. The cash in bank accounts in lei decreased by lei 75.429 thousand and the cash in bank accounts in currency increased by lei 79.110 thousand.

Other cash equivalent register an increase by lei 31 thousand compared with 2021.

Debts to be paid over a one-year period

In the structure of debts to be paid over a one-year period, the following changes were recorded compared to 31 December 2021:

- decrease of the balance of the commercial debt and other debt by lei 15.866 thousand;
- increase of the provision for risks and charges by lei 13.659 thousand;
- increase of the provision for employee benefit by lei 577 thousand;
- increase of the deferred revenue over the short term by lei 15.767 thousand;
- increase of short-term loans by lei 4.541 thousand.

Long-term debts

The evolution of long-term debts is due to the following aspects:

- increase of long-term loans in the amount of lei 155.054 thousand;
- decrease of deferred revenue and of the subsidies by lei 100.664 thousand;
- increase of the provision for employee benefit by lei 4.854 thousand;
- the recording of the deferred tax in the amount of lei 3.053 thousand;
- decrease of the commercial debts and other debts in the amount of lei 2.521 thousand.

Equity

On 7 December 2022 the Extraordinary General Meeting of the Shareholders approved the increase of the share capital of the company by incorporating the reserves constituted from the net profit of the previous financial years in the amount of lei 1.766.076 thousand, through the issuance of 176.607.660 new shares with a nominal value of lei10/share.

6.2 Consolidated comprehensive income

The situation of the profit and loss account in 31 December 2022 compared to 31 December 2021:

-thousand lei-

Specification	Obtained (thousand lei)		Dynamics (%)
	2022	2021	
0	1	2	3=1/2x100-100
TOTAL revenue of which:	3.383.066	2.663.385	27,0%
Operating revenue before the construction activity, according to IFRIC12 and balancing	1.579.284	1.364.950	15,7%
Revenue from the balancing activity	1.005.544	442.200	127,4%
Revenue from the construction activity according to IFRIC12	299.868	704.027	-57,4%
Financial revenue	498.370	152.208	227,4%
TOTAL costs of which:	2.963.490	2.433.135	21,8%

Specification	Obtained (thousand lei)		Dynamics (%)
	2022	2021	
Operating costs before the construction activity, according to IFRIC12, and balancing	1.432.968	1.244.239	15,2%
Cost of balancing	1.005.544	442.200	127,4%
Cost of constructed assets according to IFRIC12	299.868	704.027	-57,4%
Financial costs	225.110	42.669	427,6%
GROSS PROFIT, of which:	419.576	230.250	82,2%
Result from operation	146.316	120.711	21,2%
Financial result	273.260	109.539	149,5%
PROFIT TAX	72.507	53.445	35,7%
NET PROFIT	347.068	176.805	96,3%
Total comprehensive income for the period	341.124	224.238	52,1%

Table 26 - Consolidated profit and loss account in 2022 compared to 2021

6.3 Consolidated cash flow statement

The consolidated cash flow statement on 31 December 2022 is as follows:

Indicator	Financial year ended 31 December (thousand lei)	
	2022	2021
Profit before tax	419.576	230.250
Adjustments for:		
Depreciation	435.410	359.742
Gain/(loss) from the transfer of fixed assets	-452	-743
Provisions for risks and charges	13.759	-8.348
Write-down of inventories	13.249	849
Revenue from connection fees, grants and goods taken free of charge	-107.067	-82.528
Loss on amounts receivable and sundry debtors	1.696	248
Adjustment of impairment of receivables	42.126	90.592
Interest revenue	-50.740	-38.979
Interest expenses	55.752	13.563
Concession Agreement receivable adjustment	-286.877	-87.970
Provisions for employee benefits	2.342	1.239
Effect of discounting the provision for employee benefits	5.541	3.165
The effect of the currency exchange rate variation on other elements than operation	2.312	-761
Other costs and revenue	-835	0
Operating profit before the changes in working capital	545.793	480.318
(Increase)/decrease in trade and other receivables	110.454	-75.165
(Increase)/decrease in inventories	-320.636	-171.968
Increase/(decrease) in commercial debt and other debt	326.101	389.358

Indicator	Financial year ended 31 December (thousand lei)	
	2022	2021
Cash from operations	661.713	622.543
Received interest	-69.604	-7.370
Paid interest	1.278	973
Paid profit tax	-77.533	-24.096
Net cash inflows from operation	515.853	592.050
Cash flow from investments		
Payments for the acquisition of intangible assets	-598.243	-941.370
Payments for the acquisition of tangible assets	-18.801	-47.305
Receipts from the transfer of tangible assets	479	862
Cash from connection fees and non-reimbursable funds	133.209	206.422
Net cash used in investment activities	-483.356	-781.391
Cash flow from financing activities		
Equity increase	3.205	0
Disbursements on long term loans	0	403.248
Non-controlling interests	0	103.086
Repayments of long term loans	-143.485	-70.180
Credit drawings/payments for the working capital	291.740	-20.285
Leasing payments (IFRS 16)	-5.157	-4.704
Paid dividends	-175.089	-96.322
Net cash used in financing activities	-28.786	314.843
Net change in cash and cash equivalents	3.711	125.503
Cash and cash equivalents at the beginning of the year	414.955	289.452
Cash and cash equivalents at the end of the period	418.667	414.955

Table 27 - Consolidated cash flow statements in 2022 compared to 2021

The analysis of the cashflow in 2022 show an **increase of liquid assets by lei 3.712thousand** as compared to 2021.

The changes to the structure of the cash flow for are:

- cash flow from operation is of lei 515.853 thousand, lower by lei 76.197 thousand than in 2021;
- cash flow from the investment activity is of lei -483.356 thousand, higher by lei 298.035 thousand than in 2021;
- cash flow used in the financing activity is of lei -28.786 thousand, lower by lei 343.629 thousand than in 2021.

6.4. Evaluation of the activity related to the financial risk management

Financial risk factors

By the nature of the activities performed, the company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk.

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company does not use derivative financial instruments to protect itself from certain risk exposures.

Market risk

Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets and recognized liabilities.

The Company does not perform formal actions to minimize the currency risk related to its operations; the Company does not apply hedge accounting. The management believes that the Company is covered in terms of the currency risk, given that sales in foreign currencies (mainly incomes from international transmission) are used to settle liabilities denominated in foreign currencies.

The following table shows the sensitivity of profit or loss and equity, to reasonably possible changes in exchange rates applied to the end of the reporting period of the functional currency of the Company, with all variables held constant:

	31 December 2022	31 December 2021
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	717.466	130.464
USD depreciation by 10%	(717.466)	(130.464)
EUR appreciation by 10%	(48.434.205)	(45.921.358)
EUR depreciation by 10%	48.434.205	45.921.358

Price risk

The company is exposed to commodity price risk for the gas purchased for its own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 6.204.117 (December 2021: lei 3.040.424).

Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by deposits with banks and loans with variable interest taken. The Company did not conclude any commitment to diminish the risk.

For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been lower/higher by lei 8.799.596 (lower/higher by lei 7.912.653 in December 2021), as a net result of the change of interest rate for variable interest loans and interest rate for bank deposits.

Credit risk

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company prepared a number of policies ensuring that products and services are sold to proper customers. The accounting value of the receivables without the adjustments for uncertain receivables represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the five main customers, which together account for 50% of the trade receivable balances as at 31 December 2022 (31 December 2021: 45%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. On 31 December 2022 the Company has payment guarantees from clients amounting to lei 346.445.075.

The cash is placed in financial institutions which are considered to be associated with a minimum performance risk.

(lei)

	31 December 2022	31 December 2021
Without rating	336.387	331.743
BB+	146.038.192	168.203.478
BBB-	147.205.763	1.250.380
BBB	34.429.420	9.243
BBB+	90.012.913	244.753.841
A+	135.448	136.085
AA	319.570	112.021
	418.477.693	414.796.791

All financial institutions are presented to Fitch rating or equivalent.

Liquidity risk

Cautious liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities. The company forecasts the cash flows.

The financial structure of the Company continuously monitors the Company's liquidity requirement to make sure there is enough cash to meet the operational requirements, maintaining at the same time a sufficient level of unused borrowing facilities at any time, so that the Company does not break the limits or breach loan agreements (where applicable) for any of its credit facilities.

Such forecasts consider the Company's debt financing plans, compliance with agreements, compliance with internal objectives on the balance sheet indicators and, if appropriate, external regulations or provisions.

The Financial Division of the Company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.

The tables below show the obligations as at 31 December 2022 in terms of remained contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

The analysis of financial liabilities on 31 December 2022 in terms of maturity is as follows:

(lei)

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	2.870.185.324	274.804.999	1.531.875.310	1.063.505.015
Commercial debts and other debts	561.713.941	547.535.460	14.178.481	-
	3.431.899.265	822.340.459	1.546.053.791	1.063.505.015

The analysis of financial liabilities on 31 December 2021:

(lei)

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	2.278.593.629	171.952.005	984.570.956	1.122.070.668
Commercial debts and other debts	588.649.616	571.950.291	16.699.325	-
	2.867.243.245	743.902.296	1.001.270.281	1.122.070.668

Commercial and other debts comprise trade payables, suppliers of fixed assets, dividends payable and other debts which are not included: debt generated as a result of the legal provisions imposed by the authorities, debts to employees and deferred revenue.

Categories of financial instruments:

(lei)

	31 December 2022	31 December 2021
Financial assets		
Cash and cash equivalents	233.977.930	249.195.225
Term bank deposits	184.688.625	165.759.831
Credits and receivables	2.434.068.467	2.344.915.484
Financial assets - shares	24.578.237	24.578.237
Adjustments for financial assets - shares	(24.578.237)	(24.578.237)
	2.853.735.022	2.759.870.540

	31 December 2022	31 December 2021
Financial liabilities		
Debts measured at depreciated cost:		-
Loans	2.190.892.341	2.031.297.592
Debts measured at fair value:		
-Financial guarantees related to contracts	44.668.511	50.028.771
-Commercial debts and other debts	504.810.001	522.356.500
	2.740.370.853	2.603.682.863

The loans and receivables category does not include the receivables from the relationship with employees and advance expenses.

Capital risk management

The company's objectives related to capital management refer to maintaining the Company's capacity to continue its activity in order to provide compensation to shareholders and benefits to the other stakeholders and maintain an optimal structure of the capital, as to reduce capital expenditure.

There are no capital requirements imposed from outside. Like the other companies in this sector, Transgaz monitors the capital based on the debt leverage. This factor is calculated as net debt divided by total capital.

The net debt is calculated as total borrowings (including `current and long-term borrowings`, as indicated in the statement of financial position), except cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of financial position, plus the net debt.

The net leverage at 31 December 2022 and at 31 December 2021 is as follows:

(lei)

	31 December 2022	31 December 2021
Total loans	2.190.892.341	2.031.297.592
Less: cash and cash equivalents	(418.666.554)	(414.955.056)
Net cash position	1.772.225.786	1.616.342.536
Equity	4.140.908.265	3.968.368.332
Leverage	0,43	0,41

Fair value estimate

The fair value of financial instruments traded on an active market is based on market prices quoted at the end of the reporting period. The fair value of financial instruments that are not traded on an active market is set using valuation techniques.

The book value less the adjustment for the impairment of trade receivables and commercial debt is deemed to approximate their fair value. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the Company for similar financial instruments.

7. INDIVIDUAL ECONOMIC AND FINANCIAL STATEMENT

7.1 Individual financial position

According to Article 1 of Order 881/25 June 2012 of the Ministry of Public Finance on the application of the International Financial Reporting Standards by companies having securities admitted to trading on a regulated market. Starting with financial year 2012, the companies having securities admitted to trading on a regulated market are obliged to apply the International Financial Reporting Standards (IFRS) upon preparation of the individual annual financial statements.

The statement of the individual financial position as at 31.12.2022 as compared to 31.12.2021 is as follows:

Indicator	31.12.2022	31.12.2021	Dynamics
	Thousand lei	Thousand lei	(%)
0	1	2	3=1/2 -1
Tangible assets	418.132	454.059	-7,91%
Rights of use for the leased assets	16.935	19.617	-13,67%
Intangible assets	3.909.577	3.997.028	-2,19%
Financial assets	191.123	296.576	-35,56%
Trade receivables and other receivables	2.141.205	1.788.571	19,72%
Deferred tax	0	1.443	-100,00%
Fixed assets	6.676.972	6.557.294	1,83%
Inventories	609.877	308.541	97,66%
Commercial receivables and other receivables	335.331	536.070	-37,45%
Cash at hand and in bank	384.237	321.185	19,63%
Current assets –TOTAL	1.329.445	1.165.796	14,04%
TOTAL ASSETS	8.006.417	7.723.090	3,67%
Debts to be paid over a one-year period	956.858	929.707	2,92%
Debts to be paid over a period of more than one year	2.966.813	2.904.357	2,15%
Total debts	3.923.671	3.834.064	2,34%
Shareholders' equity	4.082.746	3.889.026	4,98%
Share capital	1.883.815	117.738	1500,01%
Hyperinflation adjustment of share capital	441.418	441.418	0,00%
Share premium	247.479	247.479	0,00%
Other reserves	1.265.797	1.265.797	0,00%
Retained earnings	244.237	1.816.594	-86,56%
Total equity and debts	8.006.417	7.723.090	3,67%

Table 28- Statement of individual financial position in 2022 compared to 2021

Tangible assets

Tangible assets include auxiliary buildings of operating assets, office buildings, land, assets used for the international transmission activity, as well as objectives related to the national transmission system taken over free of charge.

Tangible assets decreased by lei 35.927 thousand as compared to the value as at 31.12.2021, mainly due to the fact that the tangible assets entries did not exceed the depreciation cost for tangible assets.

Rights of use of leased assets

As at 1 January 2019 the company applies IFRS 16 for lease contracts complying with the recognition criteria and recognized as intangible asset right of use related to the lease contracts. The rights of use of leased assets decreased by lei 2.682 thousand as compared to 31 December 2021 due to the fact that the initial value of the leased assets contracts was higher than the depreciation cost .

Intangible assets

IT Programs

The purchased licenses related to the rights to use the IT programmes are capitalized on based on the costs incurred with the procurement and commissioning of the respective IT programmes. Such costs are depreciated over their estimated useful life (three years). Costs related to the development or maintenance of the IT programmes are recognized as costs during the period when they are registered.

Service concession agreement

From 2010, in accordance with the EU approval process, the company started to apply IFRIC 12, **Service Concession Arrangements**, adopted by the EU.

The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

The company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right. As they occur, costs of replacements are recorded as expense, while the improvements of assets used within SCA are recognized at fair value. Intangible assets are amortized at zero value during the remaining period of the concession agreement.

Intangible assets decreased by lei 87.451 thousand as compared with the value as at 31.12.2021, this decrease being mainly due to the fact that the intangible assets entries did not exceed the cost of amortization of intangible assets.

Financial assets

The financial assets decreased by lei 105.453 thousand as compared to 31.12.2021 following the decrease of the share capital of the company EUROTRANSGAZ SRL Chisinau in the Republic of Moldova, established by EGMS Resolution 10/12.12.2017 of SNTGN Transgaz SA. By BoA Resolution 39/2021 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 13,15 million, amount received by Transgaz in Q I 2022 and by BoA Resolution 19/2022 Transgaz approved the reduction of Eurotransgaz's share capital by EUR 8,52 million, amount received by Transgaz in Q IV 2022.

Trade receivables and other receivables/ Fixed assets

The receivables regarding the right to collect the regulated value remaining unamortized at the end of the concession agreement on 31 December 2022 increased by the amount of lei 352.634 thousand, receivables registered according to Law 127/2014 of 5 October 2014, which states that in case of termination of the concession agreement for any reason, or upon termination, the investment of the national transmission system operator shall be transferred to the owner of

the national transmission system or another concession provider on payment of a compensation equal to the regulated value remaining not amortized, established by ANRE.

The increase of lei 352.634 thousand compared to the value at 31 December 2021 is mainly due to the updating of the receivables with the changes recorded in the regulated asset base and the adjustment of the regulated value of the assets with the inflation rate as from 2019, as per ANRE Order 41/2019. The amount of the adjustment of the receivable with inflation increased in 2022 compared to 2021 due to the increase of the inflation rate in 2022 to 13,80% (5,05% in 2021) and the increase of the regulated asset base with the fixed asset entries in gas year October 2020-September 2021 in the amount of lei 1.297.561,31 thousand and the asset entries in the regulated asset base in gas year October 2021-September 2022 in the amount of lei 326.631,19 thousand.

Fixed assets recognised in the regulated asset base in a gas year are discounted with the rate of inflation from the following gas year.

Inventories

On 31 December 2022 inventories increased by lei 301.336 thousand compared to the value as at 31 December 2021, due to the increase in the stock of natural gas purchased to cover technological consumption by lei 163.891 thousand, to the increase in the value of the natural gas procured within the balancing activity by lei 131.717 thousand and to the increase in the stock of raw materials and materials.

Commercial receivables and other receivables

On 31 December 2022, the balance of the commercial receivables and other receivables **decreased by lei 200.739 thousand** as compared to 31 December 2021, mainly due to the following factors:

- decrease of the client receivables balance by lei 65.463 thousand mainly generated by the collection of the balance of the receivables from transmission and balancing;
- increase of the provisions for the impairment of the trade receivables and of other receivables by lei 42.126 thousand;
- decrease of the grants received as subventions by lei 125.585 thousand;
- decrease of debts to the state budget by lei 5.738 thousand;
- increase of the balance of other receivables by lei 38.173 thousand.

Cash at hand and in bank

On 31 December 2022 the company's cash increased by lei 63.052 thousand as compared to the end of 2021. The cash in bank accounts in lei decreased by lei 55.987 thousand and the cash in bank accounts in currency increased by lei 119.008 thousand. Other cash elements and cash equivalent register an increase by lei 31 thousand compared with 2021.

Debts to be paid over a one-year period

In the structure of debts to be paid over a one-year period, the following changes are recorded compared to 31 December 2021:

- decrease of the balance of the commercial debt and other debt by lei 2.938 thousand;

- increase of the provision for risks and charges by lei 13.752 thousand, mainly on account of registering the provision for voluntary departures;
- increase of the provision for employees benefits over the short term by lei 577 thousand;
- increase of the deferred revenue over the short term by lei 15.767 thousand;
- decrease of short-term loans by lei 6 thousand.

Long-term debts

The evolution of long-term debts is due to the following aspects:

- increase of long-term loans by the amount of lei 159.580 thousand;
- increase of the provision for employees benefits by lei 4.854 thousand;
- decrease of deferred revenue and of the subsidies by lei 100.664 thousand;
- the recording of the payment deferred tax in the amount of lei 1206 thousand;
- decrease of the commercial debts and other debts in the amount of lei 2.521 thousand.

Equity

On 7 December 2022 the Extraordinary General Meeting of the Shareholders approved the increase of the share capital of the company by incorporating the reserves constituted from the net profit of the previous financial years in the amount of lei 1.766.076 thousand.

7.2 Individual comprehensive income

The situation of the individual profit and loss account in 2022 compared to 2021:

Specification	Obtained 2022	Obtained 2021	Dynamics (%)
1	2	3	4=2/3*100
TOTAL revenue of which:	3.341.886	2.640.751	126,55%
Operating revenue before the construction activity, according to IFRIC12 and balancing	1.575.186	1.364.511	115,44%
Revenue from the balancing activity	1.005.544	442.200	227,40%
Revenue from the construction activity according to IFRIC12	299.868	704.027	42,59%
Financial revenue	461.287	130.013	354,80%
TOTAL costs of which:	2.904.412	2.401.482	120,94%
Operating costs before the construction activity, according to IFRIC12, and balancing	1.415.554	1.230.118	115,07%
Cost of balancing	1.005.544	442.200	227,40%
Cost of constructed assets according to IFRIC12	299.868	704.027	42,59%
Financial costs	183.446	25.138	729,77%
Total GROSS PROFIT, of which:	437.474	239.268	182,84%
GROSS PROFIT, of which:	159.632	134.393	118,78%
Result from operation	277.841	104.875	264,93%
Result from the financial activity	71.719	52.327	137,06%
PROFIT TAX	365.755	186.941	195,65%

Specification	Obtained 2022	Obtained 2021	Dynamics (%)
1	2	3	4=2/3*100
Other elements of the comprehensive income	2.452	15.783	15,54%
Comprehensive income of the period	368.207	202.724	181,63%

Table 29 - Individual profit and loss account in 2022 compared to 2021

Operating revenue

Operating revenue before the balancing and the construction activity according to IFRIC 12 obtained in 2022 as compared to 2021 is as follows:

No.	Specification	Obtained (thousand lei)		Dynamics (%)
		2022	2021	
0	1	2	3	4=2/3*100
1.	Revenue from the transmission activity			
	- Thousand lei	1.351.931	1.164.419	116,10
	- MWh	141.967.887	153.149.483	92,72
	- lei/MWh	9,52	7,60	125,25
3.	Revenue from the international transmission activity			
	- Thousand lei	73.927	72.037	102,62
4.	Other operating revenue			
	- Thousand lei	149.329	128.055	116,61
TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12		1.575.186	1.364.511	115,44

Table 30 - Revenue from the operating activity –Obtained in 2022 compared to Obtained in 2021

Operating expense

The operating expense obtained in 2022 as compared to 2021:

No.	Specification	2022	2021	Dynamics (%)
0	1	2	3	4=2/3*100
1.	Depreciation	423.650	351.054	120,68
2.	Indemnities, salaries, other expenditures related to salaries and benefits to employees	491.588	464.596	105,81
3.	Technological consumption, materials and consumables used, of which:	185.132	112.818	164,10
	- Transmission system technological loss and consumption	152.430	76.005	200,55
	- technological consumption quantity - (MWh)	753.681	744.510	101,23
	- Auxiliary materials	30.562	33.474	91,30

No.	Specification	2022	2021	Dynamics (%)
	- Other material expenditures	2.140	3.339	64,10
4.	Expenditures related to royalties	5.703	4.946	115,32
5.	Maintenance and transport, of which:	36.914	32.769	112,65
	- Works, services performed by third parties	21.002	18.561	113,15
6.	Taxes and other amounts due to the State, of which:	86.782	86.201	100,67
	- Gas transmission and international transit license fee	12.862	10.784	119,26
	- Monopoly tax	65.551	66.808	98,12
7.	Cost of the provision for risks and charges	18.088	-7.308	X
8.	Other operating expense	167.697	185.042	90,63
TOTAL OPERATING EXPENSE before the balancing and the construction activity according to IFRIC12		1.415.554	1.230.118	115,07

Table 31 - Operating costs obtained in 2022 compared to Obtained in 2021

7.3 Individual cash flow statement

The cash flow statement on 31 December 2022 is as follows:

Indicator	Financial year ended 31 December (thousand lei)	
	2022	2021
Profit before tax	437.474	239.268
<i>Adjustments for:</i>	-	-
Depreciation	423.650	351.054
Gain/(loss) from the transfer of fixed assets	-452	-743
Provisions for risks and charges	13.752	-8.348
Write-down of inventories	13.249	849
Revenue from connection fees, grants and goods taken free of charge	-107.067	-82.528
Provisions for employee benefits	2.342	1.157
Loss on amounts receivable and sundry debtors	1.696	248
Adjustment of impairment of receivables	42.126	90.592
Interest revenue	-50.732	-38.975
Interest expenses	51.914	13.515
Concession Agreement receivable adjustment	-286.877	-87.970
The effect of the currency exchange rate variation on other elements than operation	-125	6.087
Other costs and revenue	-835	0
Effect of discounting the provision for employee benefits	5.541	3.165
Operating profit before the changes in working capital	545.655	487.371
(Increase)/decrease in trade and other receivables	45.564	-54.939
(Increase)/decrease in inventories	-320.447	-172.088

Indicator	Financial year ended 31 December (thousand lei)	
	2022	2021
Increase/(decrease) in commercial debt and other debt	343.602	377.412
Cash from operations	614.373	637.756
Received interest	-66.823	973
Paid interest	1.278	-5.089
Paid profit tax	-77.533	-24.096
Net cash inflows from operation	471.296	609.545
Cash flow from investments		
Payments for the acquisition of intangible assets	-596.564	-840.718
Payments for the acquisition of tangible assets	-18.831	-47.305
Financial investments/shares	105.453	-12.303
Receipts from the transfer of tangible assets	479	862
Cash from connection fees and non-reimbursable funds	133.209	206.422
Net cash used in investment activities	-376.253	-693.042
Cash flow from financing activities		
Disbursements on long term loans	0	320.000
Repayments of long term loans	-143.485	-70.180
Credit drawings/payments for the working capital	291.740	-20.285
Leasing payments (IFRS 16)	-5.157	-4.704
Paid dividends	-175.089	-96.322
Net cash used in financing activities	-31.991	128.508
Net change in cash and cash equivalents	63.052	45.011
Cash and cash equivalents at the beginning of the year	321.185	276.174
Cash and cash equivalents at the end of the period	384.237	321.185

Table 32 - Individual cash flow statements in 2022 compared to 2021

The analysis of the cashflow as at 31 December 2022 shows an increase of liquid assets by **lei 63.052 thousand** as compared to 31 December 2021.

The changes to the structure of the cash flow for are:

- cash flow from operation is of lei 471.296 thousand, lower by lei 138.249 thousand than in 2021;
- cash flow from the investment activity is of lei -376.253 thousand, higher by lei 316.789 thousand than in 2021;
- cash flow used in the financing activity is of lei -31.991 thousand, lower by lei 160.500 thousand than in 2021.

As at 31 December 2022, the balance of liquid assets in the company's bank accounts was lei 384.048 thousand, of which 33,39% represented liquid assets denominated in foreign currency, mostly in EUR.

7.4 Evaluation of the activity related to the financial risk management

Financial risk factors

By the nature of the activities performed, the company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk.

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company does not use derivative financial instruments to protect itself from certain risk exposures.

Market risk

Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets and recognized liabilities.

The Company does not perform formal actions to minimize the currency risk related to its operations. The Company does not apply hedge accounting.

The management believes that the Company is covered in terms of the currency risk, given that sales in foreign currencies (mainly incomes from international transmission) are used to settle liabilities denominated in foreign currencies.

The following table shows the sensitivity of profit or loss and equity, to reasonably possible changes in exchange rates applied to the end of the reporting period of the functional currency of the Company, with all variables held constant:

	31 December 2022	31 December 2021
(lei)		
Impact on profit and loss and on equity of:		
USD appreciation by 10%	717.466	130.464
USD depreciation by 10%	(717.466)	(130.464)
EUR appreciation by 10%	(32.592.226)	(36.386.664)
EUR depreciation by 10%	32.592.226	36.386.664

Price risk

The company is exposed to commodity price risk on gas purchased for its own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 6.204.117 (December 2021 : lei 3.040.424).

Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by deposits with banks and loans with variable interest taken. The Company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the

other variables maintained constant, the profit related to the period and equity would have been higher/lower by lei 7.916.887 (lower/higher by lei 6.981.227 in December 2021), as a net result of the change of interest rate for variable interest loans and interest rate for bank deposits.

Credit risk

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company prepared a number of policies ensuring that products and services are sold to proper customers. The accounting value of the receivables without the adjustments for uncertain receivables represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the five main customers, which together account for 50% of the trade receivable balances as at 31 December 2022 (31 December 2021: 45%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made.

On 31 December 2022 the Company has payment guarantees from clients amounting to lei 346.445.075.

The cash is placed in financial institutions which are considered to be associated with a minimum performance risk.

	31 December 2022	31 December 2021
Without rating	336.387	331.743
BB+	146.038.192	168.175.800
BBB-	147.205.763	1.250.380
BBB+	90.012.913	151.020.967
A+	135.448	136.085
AA	319.570	112.021
	384.048.273	321.026.996

(lei)

All financial institutions are presented to Fitch rating or equivalent.

Liquidity risk

Cautious liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities. The company forecasts the cash flows.

The financial structure of the Company continuously monitors the Company's liquidity requirement to make sure there is enough cash to meet the operational requirements, maintaining at the same time a sufficient level of unused borrowing facilities at any time, so that the Company does not break the limits or breach loan agreements (where applicable) for any of its credit facilities.

Such forecasts consider the Company's debt financing plans, compliance with agreements, compliance with internal objectives on the balance sheet indicators and, if appropriate, external regulations or provisions.

The Financial Division of the Company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.

The table below shows the obligations as at 31 December 2022 in terms of remained contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

The analysis of financial liabilities on 31 December 2022 in terms of maturity is as follows:

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	2.634.794.054	263.429.208	1.446.470.332	924.894.514
Commercial debts and other debts	560.594.670	546.416.189	14.178.481	-
	3.195.388.724	809.845.397	1.460.648.813	924.894.514

(lei)

The analysis of financial liabilities on 31 December 2021:

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	2.071.100.560	169.478.217	924.070.250	977.552.093
Commercial debts and other debts	572.954.064	556.254.739	16.699.325	-
	2.644.054.624	725.732.956	940.769.575	977.552.093

(lei)

Commercial and other debts comprise trade payables, suppliers of fixed assets, dividends payable and other debts which are not included: debt generated as a result of the legal provisions imposed by the authorities, debts to employees and deferred revenue.

Categories of financial instruments:

	31 December 2022	31 December 2021
Financial assets		
Cash and cash equivalents	199.548.510	155.425.430
Term bank deposits	184.688.625	165.759.831
Credits and receivables	2.423.462.073	2.268.837.728
Financial assets - shares	215.700.939	321.154.407
Adjustments for financial assets - shares	(24.578.237)	(24.578.237)
	2.998.821.910	2.886.599.159

(lei)

	31 December 2022	31 December 2021
Financial liabilities		
Debts measured at depreciated cost:		-
-Loans	2.003.481.321	1.843.906.821
Debts measured at fair value:		-
-Financial guarantees related to contracts	44.668.511	50.028.771
-Commercial debts and other debts	501.747.678	506.225.968
	2.549.897.510	2.400.161.560

The loans and receivables category does not include the receivables from the relationship with employees and advance expenses.

Capital risk management

The company's objectives related to capital management refer to maintaining the Company's capacity to continue its activity in order to provide compensation to shareholders and benefits to the other stakeholders and maintain an optimal structure of the capital, as to reduce capital expenditure.

There are no capital requirements imposed from outside.

Like the other companies in this sector, Transgaz monitors the capital based on the debt leverage. This factor is calculated as net debt divided by total capital.

The net debt is calculated as total borrowings (including `current and long-term borrowings`, as indicated in the statement of financial position), except cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of financial position, plus the net debt.

The net leverage at 31 December 2022 and at 31 December 2021 is as follows:

	31 December 2022	31 December 2021
Total loans	2.003.481.321	1.843.906.821
Less: cash and cash equivalents	(384.237.135)	(321.185.261)
Net cash position	1.619.244.186	1.522.721.560
Equity	4.086.951.406	3.889.027.037
Leverage	0,40	0,39

(lei)

Fair value estimate

The fair value of financial instruments traded on an active market is based on market prices quoted at the end of the reporting period. The fair value of financial instruments that are not traded on an active market is set using valuation techniques.

The book value less the adjustment for the impairment of trade receivables and commercial debt is deemed to approximate their fair value. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the Company for similar financial instruments.

8. CORPORATE GOVERNANCE

Corporate governance is a concept with a very broad connotation, including the totality of systems and processes put in place to manage and control a company to increase its performance and value. In practical terms, it refers to the effectiveness of management systems, emphasising the role of the Board of administration, the accountability and remuneration of board members, the credibility of financial statements and the effectiveness of risk management systems.

Corporate governance defines the totality of principles, rules and regulations that ensure the administration and management of the company by its managers in the interest of current and potential investors. In its context, managers are studied in relation to shareholders. As it is a relationship that also includes other stakeholders, governance is also of wider interest.

In principle it refers to the decision and control support in a company, achieved through formal and informal rules and procedures, internal or externally imposed by competent bodies, implemented at both strategic and operational levels.

In detail, corporate governance refers to how the rights and responsibilities are divided between the categories of participants in the company's activities, such as the board of administration, managers, shareholders, and other interest groups, while also specifying how business decisions are made, how to define strategic objectives, how to reach them and how to monitor economic performance.

The practice confirms the need to intensify efforts to accept corporate governance, as it has been noted that organisations which are committed to implementing its principles managed to maximise their performance. The general and specific strategic objectives of Transgaz are set in the context of the alignment with the requirements of the new European energy policy on energy security and safety, sustainable development and competitiveness.

In this context, the implementation and development of corporate governance principles as well as the development of responsible, transparent business practices, is increasingly becoming a necessity in the substantiation and application of business strategies and business policies.

By subscribing to this aim, Transgaz aims to provide, by its own Corporate Governance Rules, a rigorous framework for sizing and regulating corporate governance principles at the company level.

The Corporate Governance Rules of SNTGN TRANSGAZ SA were approved by the Ordinary General Meeting of the Shareholders on 2 March 2011, by GMS Resolution 1/2011 (Art. 4), and the updating of the document was approved in the Board of Administration meeting of 29.06.2022, according to the Code of Corporate Governance of the Bucharest Stock Exchange. Subsequently, within the Rules, the name of the Advisory Committees set up at the level of the Board of Administration was modified, according to the Resolution of the Board of Administration of 08.12.2022.

The updated corporate governance reference document has a structure in line with corporate governance requirements and comprises **7 chapters**, as follows::

Chapter 1 - **Corporate Governance Structures:** Management System, Board of Administration, Advisory Committees, Executive Management.

Chapter 2 - **The Board of Administration:** Role and Obligations of the Board of Administration, Structure of the Board of Administration, Election of the Members of the Board of Administration, Remuneration of the Members of the Board of Administration.

Chapter 3 - **Shareholders` rights:** Shareholder Rights, Shareholder Treatment.

Chapter 4-**Transparency and reporting, internal audit and risk management:** Transparency and Reporting, Internal Audit and Risk Management.

Chapter 5 - **Conflict of interests and important transactions with affiliated parties:** Code of Ethics of SNTGN Transgaz SA, Conflict of Interests; *Important Transactions with Affiliated Parties.*

Chapter 6 - **Corporate information regime**

Chapter 7 - **Social responsibility**

CORPORATE GOVERNANCE STATEMENT

I. STATEMENT OF COMPLIANCE WITH THE CODE

II. CORPORATE GOVERNANCE STATEMENT ITEMS

- Section A - Information on the composition, responsibilities and activities of the Board and the Committees.
- Section B - Risk and internal control information.
- Section C - Remuneration Information.
- Section D - Shareholder Information.

I. STATEMENT OF COMPLIANCE WITH THE CODE

SNTGN Transgaz SA as a company listed on BVB in the Premium category, voluntarily adopted the provisions of the Corporate Governance Code of the Bucharest Stock Exchange and had been reporting since 2010 total or partial compliance with its provisions by the **Statement of Compliance or Non-Compliance with the Code of Corporate Governance**, included in the Report issued by the Board of Administration.

In September 2015, a **new BSE Code of Corporate Governance** was launched for companies listed on the main market, applicable from 4 January 2016. The new Code was developed by the BSE as part of a new corporate governance framework for promoting higher governance and transparency standards for the listed companies. The implementation of the new rules is based on the apply and explain principle which provides the market with clear, accurate and timely information on how listed companies comply with corporate governance rules.

Transgaz is in full compliance with most of the provisions of the new Code, and the provisions with which the company was not yet in compliance were explicitly presented in a current report sent to the BVB in January 2016, which was also published on the company's website at the section: *Informații investitori/Raportări curente/2016.*

Later, on 12 October 2016, by a Current Report sent to BVB, SNTGN TRANSGAZ SA reported to the market the compliance with another provision A.2., and on 3 May 2022 the compliance with provision C.1. of the New BSE Code of Corporate Governance was reported. Any further compliance of the company in this respect will be reported to the capital market.

Table of compliance or non-compliance with the provisions of the new Code

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
Section A-Responsibilities			
A.1	All companies must have an internal Board Regulation that includes the terms of reference / responsibilities of the Board and the key management functions of the company and which applies, inter alia, the General Principles of Section A.	X	
A.2	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	X	
A.3	The Board of Administration or the Supervisory Board must be composed of at least 5 members.	X	
A.4	Most members of the Board of Administration should not hold executive positions. At least one member of the Board of Administration or the Supervisory Board must be independent in the case of companies from the Standard Category. In the case of Premium Category companies, no less than two non-executive members of the Board of Administration or the Supervisory Board must be independent. Each independent member of the Board of Administration or the Supervisory Board, as the case may be, must file a statement at the time of his/her nomination for election or re-election, and when any change of his/her status occurs, indicating the elements based on which he/she is considered as independent from the point of view of his/her character and judgment and according to the following criteria:	X	
	A.4.1. He / she is not the General Manager / Chief Executive Officer of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X	

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
A.4.2. He / she is not the employee of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
A.4.3. He/she does not receive and has not received any additional remuneration or other benefits from the company or a company controlled by it, other than those corresponding to the capacity of non-executive administrator.	X		
A.4.4. He/she is not or was not the employee or does not or did not have a contractual relationship in the previous year with a significant shareholder of the company, a shareholder controlling over 10% of the voting rights, or a company controlled by it.	X		
A.4.5. He/she has not and did not have a business or professional relationship with the company or a company controlled by it, either directly or as a client, partner, shareholder, member of the Board / Administrator, general manager / executive manager or employee of a company if, by virtue of its substantive nature, this relationship may affect his/her objectivity.	X		
A.4.6. He/she is not and was not, in the last 3 years, an external or internal auditor or a partner or employed associate of the current external financial auditor or the internal auditor of the company or a company controlled by it.	X		
A.4.7. He/she is not the general manager / executive director of another company where another general manager / executive director of the company is the non-executive administrator.	X		
A.4.8. He/she has not been a non-executive administrator of the company for more than 12 years.	X		
A.4.9. He/she has no family ties with a person in the cases mentioned in A.4.1 and A.4.4.	X		
A.5 Other relatively permanent commitments and obligations of a member of the Board, including executive or non-executive positions in the Board of Non-Profit organizations and companies, should be disclosed to potential shareholders and	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	investors prior to nomination and during his/her term of office.			
A.6	Any member of the Board must report to the Board any relationship with a shareholder directly or indirectly owning shares representing more than 5% of all voting rights. This obligation refers to any relationship that may affect the member's position on matters decided by the Board.		X	Information will be requested from Board of Administration members Transgaz will send to the BSE a current report at the time of compliance.
A.7	The company must designate a Board Secretary responsible for supporting the work of the Council.	X		
A.8	The Corporate Governance Statement will inform whether a Board assessment has taken place under the leadership of the Chairman or the nomination committee and, if so, will summarize the key measures and the resulting changes. The company must have a policy / guidance on the Council's assessment with regard to the purpose, criteria and frequency of the assessment process.		X	The activity of the Board of Administration is evaluated on the basis of the performance criteria included in the management plan as well as in the mandate contracts, and the extent to which they are fulfilled is included in the Board of Administration annual report. A separate report on the assessment of the achievement of financial and non-financial performance indicators is presented annually to the General Meeting of the Shareholders as an annex to the mandate contracts of the non-executive administrators. The company does not have a policy / guide for assessing the activity of the Board of Administration, the assessment being made on the basis of the above-mentioned criteria. TGN will send a current compliance report when drafting this policy.
A.9	The corporate governance statement should contain information on the number of Board and committee meetings over the	X		

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
A.10	X		
A.11	X		
Section B - Risk Management System and Internal Control System			
B.1	X		
B.2	X		
B.3	X		
B.4	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	the submission of relevant reports to the Board.			
B.5	The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties.	X		
B.6	The audit committee should assess the effectiveness of the internal control system and risk management system.	X		
B.7	The Audit Committee should monitor the application of generally accepted legal standards and auditing standards. The Audit Committee should receive and evaluate internal audit team reports.	X		
B.8	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they should be followed by regular reports (at least annually) or ad-hoc reports to be submitted to the Board.	X		
B.9	No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates.	X		
B.10	The Board must adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relationships with a value equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board following a binding opinion of the Board's Audit Committee and properly disclosed to shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.		X	This policy will be developed and approved in accordance with the BoA Rules of Procedure and organization and the Articles of Incorporation.
B.11	Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.	X		
B.12	In order to ensure the main functions of the internal audit department, it must report functionally to the Board through the audit committee. For administrative purposes and within the management's responsibility to monitor and mitigate risks,	X		

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
it must report directly to the Director General.			
Section C – Fair rewards and motivation			
<p>C.1</p> <p>The company must publish its remuneration policy on its intranet page and include a statement on the implementation of the remuneration policy in the annual report during the annual period under review.</p> <p>The remuneration policy should be formulated in such a way as to enable shareholders to understand the principles and arguments underpinning the remuneration of the members of the Board and of the Director General as well as the directors in the dualist system. It should describe the management of the decision-making process on remuneration and detail the components of the executive management's remuneration (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions, etc.) and describe the purpose the principles and assumptions underlying each component (including general performance criteria for any form of variable remuneration). In addition, the remuneration policy must specify the duration of the contract of the executive director and the notice period stipulated in the contract, as well as possible compensation for unjustified revocation.</p> <p>The remuneration report should present the implementation of the remuneration policy for the persons identified in the remuneration policy during the annual period under review.</p> <p>Any major change in the remuneration policy should be published in a timely manner on the company's website.</p>	X		
Section D-Building value by the relationship with investors			
<p>D.1</p> <p>The company must organize an Investor Relations Service-indicating to the general public the responsible person(s) or organizational unit. In addition to the information required by law, the company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant</p>	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	information of interest to investors, including:			
	D.1.1. Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.	X		
	D.1.2. Professional CVs of members of the company's governing bodies, other professional engagements of Board members, including executive and non-executive positions in boards of administration in non-profit companies or institutions.	X		
	D.1.3. Current reports and regular reports (quarterly, half-yearly and annually) - at least those under D.8 - including current reports with detailed information on non-compliance with this Code;	X		
	D.1.4. Information on the general meetings of the shareholders: agenda and informative materials; the procedure for electing the members of the Board; the arguments that support the proposals of candidates for election in the Board together with their professional CVs; the shareholders' questions about the agenda items and the company's replies, including the resolutions adopted.		X	The Company partially applies this provision, in accordance with art. 29 of GEO 109/2011 on Corporate Governance of Public Enterprises, as subsequently amended and supplemented.
	D.1.5. Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of the rights of a shareholder, including the deadlines and the principles applied to such operations. Such information will be published within a time frame that will allow investors to make investment decisions.	X		
	D.1.6. Names and contact details of a person who will be able to provide relevant information upon request.	X		
	D.1.7. Company presentations (e.g., investor presentations, quarterly results presentations, etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.	X		
D.2	The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the		X	The distribution of the company's profits is made in accordance with

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
<p>Director General or the Directorate and adopted by the Board in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the policy regarding annual distribution to shareholders will be published on the company's website.</p>			<p>the provisions of Government Emergency Ordinance 64/2001 on the distribution of profits of national companies, and trade companies with full or majority state capital, as well as autonomous administrations, as amended.</p>
<p>D.3 The company will adopt a policy in relation to the forecasts, whether they are made public or not. The forecasts refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (so-called assumptions): by its nature, this projection has a high level of uncertainty, the actual results may differ significantly from the forecasts originally presented. The forecasting policy will determine the frequency, the period considered and the content of the forecasts. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The forecasting policy will be published on the company's website.</p>		<p>X</p>	<p>The activity of the company is regulated by ANRE. The management plan of Transgaz includes the management strategy during the mandate. It is rigorously structured and includes strategic action directions for managing all the resources, operational and management processes of the company in order to achieve, with maximum efficiency, the established performance targets.</p>
<p>D.4 The rules of the general meetings of the shareholders must not limit the participation of shareholders to general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting with the next meeting of the shareholders.</p>	<p>X</p>		
<p>D.5 External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.</p>	<p>X</p>		
<p>D.6 The Board will give a brief assessment to the Annual General Meeting of the Shareholders on the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting.</p>	<p>X</p>		<p>This information is included in the annual report of the Board of Administration as well as in the Statement of the management, drawn up in accordance with art. 30 of the Accounting Law no. 82/1991.</p>

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
D.7	Any specialist, consultant, expert, or financial analyst may attend the meeting of the shareholders on the basis of a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	X		
D.8	The quarterly and half-yearly financial reports will include both Romanian and English information on the key factors that affect changes in sales, operating profit, net profit and other relevant financial ratios from one quarter to another quarter, and from one year to another.	X		
D.9	A company will hold at least two meetings / teleconferences with analysts and investors each year. The information presented on these occasions will be published in the Investor Relations section of the company's website at the date of the meetings / teleconferences.	X		
D.10	If a company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities, and considers that their impact on the innovation and competitiveness of the company is part of its mission and development strategy, it will publish its activity policy in this area.	X		

II. CORPORATE GOVERNANCE STATEMENT ITEMS

Section A - Information on the composition, responsibilities and activities of the board and of the committees

Management System

Transgaz has a unitary management system and is managed by a Board of Administration. It has the general competence to take out all necessary actions in order to successfully carry out the object of the company, except for the issues that are within the competence of the General Meeting of the Shareholders according to the provisions of the Articles of Incorporation updated on 07.12.2022, or the applicable laws.

The management of Transgaz is provided by a Board of Administration formed mostly by non-executive and independent administrators within the meaning of Art.138² of the Companies Law no. 31/1990, republished, as further amended and supplemented.

The Board of Administration is composed of 5 members that guarantee the efficiency of the supervisory, analysing and evaluating capacity of the company as well as the fair treatment of the shareholders. Members of the Board of Administration are elected by the General Meeting of Shareholders for a four-year term. Depending on the extent to which they have fulfilled their duties, the administrators' mandates may be renewed or revoked, the decision being taken by the ordinary general meeting.

The Members of the Board of Administration may also be shareholders. The Transgaz Board of Administration is chaired by a Chairman appointed by the Board of Administration, from among its, which ensures the optimal functioning of the company's bodies. Members of the Board of Administration will participate in all the General Meetings of the Shareholders and will exercise their mandate in good faith and knowledge for the interest of the Company with care and without disclosing the confidential information and trade secrets of the Company during the term of office and after its termination.

The Articles of Incorporation of Transgaz, updated on 07.12.2022 and approved by the General Meeting of the Shareholders by Resolution 11/07.12.2022, regulates the duties, responsibilities and powers of the Board of Administration as well as the obligations of the company's administrators.

The Board of Administration operates in accordance with its own regulations and legal regulations in force. Following the implementation of the new Corporate Governance Code of the BVB, the Board of Administration approved the amendment of the *Rules of procedure and organization for the Board of Administration of TRANSGAZ S.A* in order to comply with its provisions and was approved based on Art. 2 of OGMS Resolution 8/17 December 2018 of the Ordinary General Meeting of the Shareholders . Later, during the meeting of the Board of Administration held on 08.12.2022, it was approved in Art.1 of BoA Resolution 37/08.12.2022 the modification of the Internal Rules on the organization and functioning of the Advisory Committees established at the level of the Board of Administration of SNTGN Transgaz SA, also aiming at the changing of the name of the following advisory committees:

- The NTS Safety and Security Advisory Committee became the NTS Regulatory, Safety and Security Advisory Committee;
- The Strategy and Development Advisory Committee became the Strategy, Sustainability and Equal Opportunities Advisory Committee ;
- The Advisory Committee on Regulatory Affairs and Relations with Public Authorities became the Corporate Governance and Relations with Public Authorities Advisory Committee.

The structure of the Transgaz Board of Administration ensures a balance between executive and non-executive members, so that no individual or restricted group of persons can dominate the decision-making process of the Board of Administration.

The decision-making process within the company will remain a collective responsibility of the Board of Administration, which will be held jointly and severally responsible for all decisions taken in the exercise of its powers. The renouncement of the mandate by independent administrators shall be accompanied by a detailed statement of the reasons for such renouncement.

The Members of the Board of Administration will constantly improve their competencies and their knowledge of the company's business and best corporate governance practices in order to fulfil their role.

Members of the Board of Administration of SNTGN Transgaz SA

Following OGMS Resolution 3/22.04.2021 the mandates of three administrators were renewed for a four-year term, as at 30.04.2021:

ION STERIAN	Executive Administrator- Director-General
PETRU ION VĂDUVA	Non-Executive Administrator
NICOLAE MINEA	Independent, Non-Executive Administrator

By OGMS Resolution 9/14.12.2021, the Mr Csaba Orosz and Ms Mihaela Virginia Toader were appointed administrators , as provisional members, for a maximum term of office of 4 months, starting on 17.12.2021, with the possibility of extending the term of office by another 2 months, until the completion of the selection procedure, and by OGMS Resolution 4/17.06.2021 it was approved the extension of the mandate of the provisional members by two months from the date of expiry, meaning 17.04.2022.

Subsequently, by OGMS Resolution 6/14.06.2022 it was approved the appointment Mr Csaba Orosz and Mr Gheorghiuță Agafitei as provisional members of the Board of Administration for a maximum term of office of 4 months, starting on 17.06.2022, with the possibility of extending the term of office by another 2 months, until the completion of the selection procedure, and by OGMS Resolution 9/12.10.2022 it was approved the extension of the Transgaz Board of Administration interim members mandate duration by two months from the expiry date, meaning 17 October 2022.

Then, by OGMS Resolution 10/07.12.2022 it was approved the appointment of Mr. Csaba Orosz and Mr. Gheorghiuță Agafitei as interim member of the Board of Administration with a maximum mandate period of 4 months, starting with 17.12.2022 with the possibility for the mandate extension by other two months until the completion of the selection procedure.

The CVs of the members of Transgaz's Board of Administration are available on the company's website at: www.transgaz.ro/Despre noi/ Consiliul de administrație.

Role and duties of the Board of Administration

Transgaz's management is ensured by a Board of Administration, which meets at the company's headquarters or at another location decided whenever necessary, but at least once every three months.

The Board of Administration is chaired by the Chairperson. If the Chairperson is temporarily unable to perform his/her duties, the Board of Administration may appoint another Administrator to act as President for the relevant duration.

The BoA and GMS Secretariat was established in the organizational structure of the company, with responsibilities in supporting the activity of the Board of Administration.

The meetings of the Board of Administration may take place by telephone or video-conference or other means of communication through which all persons present at the meeting may hear each other and participation in such a meeting shall be deemed to be participation for the purpose of fulfilling quorum and voting requirements.

In 2022 39 meetings of the Board of Administration were held, and the presence of the Board of Administration members in these meetings was as follows:

Administrator	Participation in the meetings	
	In person	In absence (by empowered person)
STERIAN ION	39	-
PETRU ION VĂDUVA	36	3 by empowered person
MINEA NICOLAE	38	1 by empowered person
OROSZ CSABA	39	-
TOADER MIHAELA VIRGINIA	19	-
AGAFIȚEI GHEORGHIȚĂ	16	4 by empowered person

The debates are recorded in the minutes of the meeting, which include the names of the participants, the agenda of the discussions, the decisions made, the number of votes cast and the separate opinions. The minutes is signed by the Chairman of the meeting and by at least one other administrator. Based on the minutes, the secretary of the Board of Administration prepares the decision, which is signed by the Chairman.

The Board of Administration may delegate the management of the company to the Director - General of SNTGN Transgaz SA, which is not the Chairman of the Board of Administration. The Director - General of the National Gas Transmission Company Transgaz S.A. represents the company in its relations with third parties.

The Director prepares and submits to the Board of Administration a proposal for the management component of the management plan for the duration of the mandate in order to achieve the financial and non-financial performance indicators.

The Board of Administration may require that the management plan be amended or revised if it does not provide for measures to achieve the objectives set out in the letter of expectation and does not include the expected results to ensure the assessment of the financial and non-financial performance indicators.

After the approval of the management plan by the Board of Administration, the management component or, as appropriate, the approved financial and non-financial performance indicators are an annex to the mandate contract concluded with the director.

The assessment of the directors' activity by the Board of Administration will concern both the execution of the mandate contract and the management plan management component. The Director - General prepares and submits to the Board of Administration the reports provided by law. The Director - General submits to the Board of Administration for approval the transactions concluded by the company with the administrators or directors, employees or shareholders holding control over Transgaz or with a company controlled by them, if the transaction has, individually or in a series of transactions, a value of at least the equivalent in lei of EUR 50,000.

The executive directors and the directors of subsidiaries are appointed by the Director-General and are subordinate to it, are officials of TRANSGAZ S.A., carry out its operations and are accountable to it for the performance of their duties under the same conditions as the members of the Board of Administration.

The duties of the executive directors and of the directors within the branches are established by Transgaz's Rules of Procedure.

Persons who are incompatible under the Companies Law no. 31/1990, republished, as amended and supplemented, may not be executive directors or Subsidiary directors.

According to Art. 19 (8¹) of the Articles of Incorporation, updated on 07.12.2022, the Board of Administration informs, at the first general meeting of the shareholders following the conclusion of the legal act on:

- the performance of any transaction with the administrators or with the directors, the employees, the shareholders who control the company or with a company controlled by them;
- the performance of any transactions concluded with the spouse, with relatives or kin up to the 4th degree including any of the persons above;
- the performance of any transaction concluded between TRANSGAZ S.A. and another public undertaking or with the public supervisory body, if the transaction has the value, individually or in a series of transactions, of at least the RON equivalent of EUR 100.000.

The Board of Administration has the obligation to provide the general meeting of the shareholders and the financial auditors the documents requested in relation to the activity of SNTGN TRANSGAZ S.A. and the activity reports in accordance with the law.

Liability of administrators

The liability of the administrators is governed by the legal provisions regarding the mandate as well as the special provisions of Companies Law no. 31/1990, republished, as further amended and supplemented.

Incompatibility

The persons provided for in Companies Law no. 31/1990, republished, as further amended and supplemented, are incompatible with the membership of the Board of Administration

The person who is incompatible with the status of administrator, according to Companies Law no.

31/1990, republished, as further amended and supplemented, may not be general - director of TRANSGAZ S.A.

Duties of the Board of Administration

The Board of Administration has the following main tasks:

- to establish the main directions of activity and development of the company, to prepare the policy of Transgaz S.A., according to the applicable laws;
- to draw up the management plan, which includes the management strategy for the duration of the mandate to achieve the objectives and performance criteria set by mandate contracts;
- to approve the internal regulation on the organization and functioning of the advisory committees set up at the level of the Board of Administration and their composition;
- to establish accounting policies and the financial control system and approve financial planning;
- to approve the organizational structure and the regulation of organization and functioning of TRANSGAZ S.A.;
- to appoint and revoke the general - director of TRANSGAZ S.A. and determine his/her remuneration;
- to approve the management plan for the duration of the mandate and for the first year of the term of the director - general of TRANSGAZ S.A.;
- to supervise the work of the director - general;
- to prepare the annual report, organize the general meeting of shareholders and implement its decisions;
- to introduce the request for initiating insolvency proceedings for TRANSGAZ S.A., in accordance with the legal regulations in force;
- to approve the level of guarantees for persons who are managers;
- to conclude legal documents by which to acquire, lease, rent, change or warrant assets in the patrimony of TRANSGAZ S.A., with the approval of the general meeting of shareholders when the law imposes this condition;
- to approve the competences of the branches by field of activity (economic, commercial, technical, administrative, financial, legal etc.) in order to achieve the activity of TRANSGAZ SA;
- to approve the change of the secondary activity scope of SNTGN Transgaz S.A.;
- to approve the set-up or closure of secondary establishments: subsidiaries, agencies, representative offices or other such establishments without legal personality, as well as objective work points of NTS;
- to approve the conclusion of any contracts for which it has not delegated the competence of the director - general of TRANSGAZ S.A. ;
- to submit annually to the general meeting of the shareholders, after the end of the financial year, the report on the activity of TRANSGAZ S.A., the balance sheet and the profit and loss account for the previous year;
- to submit to the general meeting of the shareholders the activity program and the draft income and expenditure budget for the following year;
- to convene the general meeting of shareholders whenever necessary;
- to establish the rights, obligations and responsibilities of the TRANSGAZ SA personnel, according to the approved organizational structure;
- to decide on the contracting of bank loans, including foreign ones; to establish the

- competencies and level of contracting of bank loans in the domestic and foreign markets, of trade credits and guarantees, including by pledging shares related to holdings held in other companies according to the law; to approve the release of guarantees;
- to approve the number of positions and the normative act for the establishment of functional and production departments;
 - to approve production, research, development and investment programs;
 - to approve policies for environmental protection, occupational safety, according to the legal regulations in force;
 - to approve, within the limits of the revenue and expenditure budget approved by the general meeting of shareholders, changes in its structure within the limits of the powers for which it was mandated;
 - to negotiate the collective labour agreement by mandating the director - general and to approve the status of the personnel;
 - to ensure and to be responsible for the fulfilment of any other tasks and duties established by the general meeting of the shareholders or which are provided by the legislation in force;
 - to decide on behalf of and for the General Meeting of the Shareholders of the limited liability company on the territory of the Republic of Moldova;
 - to adopt any other decisions concerning the activity of the company, except those which are within the competence of the general meeting of the shareholders.

Appointment of Board members

The Company set up a Nomination and Remuneration Committee to coordinate the process of appointing Board members and to make recommendations for both the position of administrator and the Board of Administration vacancies, in accordance with GEO 109/2011 on Corporate Governance of Public Enterprises, as further amended and supplemented.

In case of a Board of Administration vacancy, the election of a new member is made according to the law. The duration for which the new administrator is elected to fill the vacancy is equal to the period remaining until the expiry of his/her predecessor's term.

Advisory Committees set up at the level of the Board of Administration

Starting with **08.12.2022** by Board of Administration Resolution 37/08.12.2022 it was approved the modification of the Internal Rules on the organization and functioning of the Advisory Committees established at the level of the Board of Administration of SNTGN Transgaz SA, as follows:

- Nomination and Remuneration Committee
- Audit and Rating Committee
- NTS Regulatory, Safety and Security Advisory Committee
- Strategy, Sustainability and Equal Opportunities Advisory Committee
- Corporate Governance and Relations with Public Authorities Advisory Committee

The Internal Rules on the organization and functioning of the Advisory Committees established at the level of the Board of Administration of SNTGN Transgaz SA, updated on 08.12.2022, can be found on its own website in the www.transgaz.ro/Relatii_investitori/Guvernanta_Corporativa section.

The main responsibilities of the five advisory committees set up at the level of the Board of Administration are as follows:

ADVISORY COMMITTEE	MENTIONS	DUTIES
<p>THE NOMINATION AND REMUNERATION COMMITTEE</p>	<ul style="list-style-type: none"> ▪ shall consist of at least two members of the Board of Administration in accordance with Article 140²(1) of Law 31/1990 on companies, republished as amended; ▪ shall consist of non-executive administrators, at least one of the committee members shall be an independent non-executive administrator, in accordance with Article 140²(1) of Law 31/1990 on companies, republished as amended, and Article 34(4) of GEO 109/2011 on corporate governance of public companies. 	<ul style="list-style-type: none"> ▪ coordinates the appointment process of the members of the Board of Administration; ▪ draws up and proposes to the Board of Administration the procedure for electing the members of the Board of Administration; ▪ makes recommendations regarding both the position of administrator and the filling of Board of Administration vacancies; ▪ assess the accumulation of professional skills, knowledge and experience at Board of Administration, directors and other management positions; ▪ establishes the requirements for a particular position in the management of the company; ▪ draws up and proposes to the Board of Administration the procedure for the selection of candidates for the position of director and other management positions; ▪ recommends to the Board of Administration candidates for the positions listed; ▪ applies best corporate governance practices by improving the knowledge of the company's business and continuously updating the professional skills of the members of the Board of Administration; ▪ draws up the remuneration policy for administrators; ▪ submit the remuneration policy to the General Meeting of Shareholders for approval; ▪ makes proposals for the remuneration of directors and other management functions; ▪ informs about the remuneration policy in the Articles of Incorporation/Corporate Governance Regulations of the company; ▪ present in the Annual Report the total amount of the direct and indirect remuneration of administrators and directors, separately by fixed and variable component of such remuneration; in determining the remuneration of non-executive administrators, it shall respect the principle of proportionality of such remuneration to the responsibility and time dedicated to the performance of their duties; ▪ prepares an annual report on the remuneration and other benefits granted to administrators and directors during the

ADVISORY COMMITTEE	MENTIONS	DUTIES
		<p>financial year, which is submitted to the general meeting of shareholders and contains the information provided for in Article 55(3) of GEO no. 109/2011 on corporate governance of public companies;</p> <ul style="list-style-type: none"> ▪ can, if necessary, call on the external experts to carry out the required tasks.
<p>AUDIT AND RATING COMMITTEE</p>	<ul style="list-style-type: none"> ▪ shall consist of at least three members of the Board of Administration and the majority of the members must be independent, in accordance with Article B.1. of the BSE Code of Corporate Governance; ▪ shall be composed of non-executive administrators, at least one of the committee members shall be an independent non-executive administrator, in accordance with Article 140²(1) of Companies Law, republished and updated, and Article 34(4) of GEO 109/2011 on corporate governance of public enterprises; ▪ at least one member of the committee must be competent in the field of accounting and statutory audit, proven by qualification documents for the respective fields, in accordance with Article 65 paragraph (3) of Law 162/2017 on statutory audit of annual financial statements and annual consolidated financial statements and amending some normative acts; ▪ the chairman of the committee must be an independent non-executive member, in accordance with Article B.2. of the BSE Code of Corporate Governance; ▪ the chairman of the committee is appointed by its members or by the board of administration of the audited entity and is independent of the audited entity, in accordance with Article 65 (5) of Law 162/2017 on statutory audit of annual financial statements and annual consolidated financial statements 	<ul style="list-style-type: none"> ▪ assists and recommends to the Board of Administration proposals for the establishment of the accounting and financial control system and approves the financial-budgetary planning; ▪ monitors the effectiveness of the entity's internal quality control and risk management systems and, where applicable, internal audit in relation to the audited entity's financial reporting, without infringing its independence; ▪ monitor the statutory audit of the annual financial statements and the annual consolidated financial statements, in particular the conduct of the statutory audit, taking into account the findings and conclusions of the competent authority, in accordance with Article 26(2). (6) of EU Regulation 537/2014; ▪ carries out an annual assessment of the internal control system and submits relevant reports to the Board of Administration; ▪ assess conflicts of interest in relation to transactions of the company and its subsidiaries with related parties; ▪ monitors the application of legal standards and generally accepted internal auditing standards; ▪ receives and evaluates internal audit team reports; ▪ reports regularly to the Board of Administration; ▪ prepares and submits to the Board of Administration for approval an opinion on the policy to ensure that any transaction of the Company with any of its closely related companies whose value equals or exceeds 5% of the net assets of the Company (as per the latest financial report) is approved by the Board; ▪ meets as often as necessary, but at least twice a year when the half-yearly and annual reports are drawn up, when it ensures that they are disseminated to shareholders and the general public;

ADVISORY COMMITTEE	MENTIONS	DUTIES
	<p>and on amendment of some normative acts.</p>	<ul style="list-style-type: none"> ▪ verifies the conformity of the audit reports drawn up with the audit plan approved at company level; ▪ provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting standards applied by the company; ▪ collaborates with the company's external financial auditors who will provide them with a report describing all the relationships between the latter and the company and the group to which it belongs; ▪ is responsible for the selection procedure of the financial auditor or audit firm and recommends to the general meeting of shareholders the financial auditor or audit firm(s) to be appointed in accordance with Article 16 of EU Regulation 537/2014, unless Article 16(8) of EU Regulation 537/2014 applies; ▪ assesses and monitors the independence of financial auditors or audit firms in accordance with Articles 21 to 25, 28 and 29 of Law No.162/2017 on statutory audit of annual financial statements and annual consolidated financial statements and amending certain regulatory acts and Article 6 of EU Regulation No.537/2014 and, in particular, the appropriateness of providing non-audit services to the audited entity in accordance with Article 5 of that Regulation; ▪ informs the Board of Administration members of the results of the statutory audit and explains how the statutory audit contributed to the integrity of the financial reporting and what the committee's role was in this process; ▪ monitors the financial reporting process and makes recommendations or proposals to ensure its integrity; ▪ performs the duties provided for in Article 47 of GEO 90/2008, approved with amendments by Law 278/2008, in accordance with Article 34(3) of GEO 109/2011.
NTS REGULATORY, SAFETY AND	<ul style="list-style-type: none"> ▪ shall consist of at least two members of the Board of Administration in accordance with 	<ul style="list-style-type: none"> ▪ regularly reviews the list of Transgaz's critical infrastructure targets and the security measures established;

ADVISORY COMMITTEE	MENTIONS	DUTIES
SECURITY COMMITTEE	<p>Article 140²(1) of Law 31/1990 on companies, republished as amended,;</p> <ul style="list-style-type: none"> ▪ at least one of the committee members shall be an independent non-executive administrator in accordance with Article 140²(2) of Law 31/1990 on companies, republished as amended. 	<ul style="list-style-type: none"> ▪ monitors/analyses technology consumption reduction activity at NTS level; ▪ monitors/analyses the work of the Working Group for the preparation of the draft revisions of the Network Code for the National Gas Transmission System necessary for the configuration of a natural gas market model on the entry-exit system using the virtual trading point (VTP); ▪ ensures the necessary conditions for the implementation of protection measures for all critical infrastructure objectives of the company or under the authority/coordination of the company; ▪ monitors/updates its own programmes to prevent and combat terrorism through optimal physical and organisational protection measures, with recommendations to this effect to the Board of Administration; ▪ monitors the fulfilment of the maintenance and modernisation programmes for the development of the NTS as well as compliance with the technical regulations for the operation and maintenance of production capacities; ▪ analyses new investment projects that contribute to a sustainable natural gas transmission system to monitor and operate the NTS in a safe, efficient and environmentally friendly way; ▪ monitors the gas purchase contracts necessary for balancing the NTS and the evolution of purchase prices; ▪ monitors the expansion, development and upgrading of natural gas transmission infrastructure; ▪ assists the Board of Administration in analysing the regulatory activity and the legal obligations of the company in this field; ▪ monitors the company's compliance with the obligations set out in the regulations governing its activities; ▪ analyses and submits proposals to the Board of Administration on the creation of a common regulatory framework, a common strategy and vision for the development of the national system along with the European natural gas transmission system to create an integrated energy market.
STRATEGY, SUSTAINABILITY	<ul style="list-style-type: none"> ▪ shall consist of at least two members of the Board of 	<ul style="list-style-type: none"> ▪ assists the Board of Administration in fulfilling its responsibilities in the area of

ADVISORY COMMITTEE	MENTIONS	DUTIES
AND EQUAL OPPORTUNITIES COMMITTEE	<p>Administration in accordance with Article 140²(1) of Law 31/1990 on companies, republished as amended;</p> <ul style="list-style-type: none"> ▪ at least one of the committee members shall be an independent non-executive administrator in accordance with Article 140²(2) of Law 31/1990 on companies, republished as amended. 	<p>developing and updating the company's overall development strategy;</p> <ul style="list-style-type: none"> ▪ analyses identified business development opportunities and makes recommendations to the Board of Administration in this respect; ▪ analyses and assists the Board of Administration with regard to the company's development and international cooperation directions; ▪ monitors and analyses the fulfilment of strategic and action plans/programmes relating to Transgaz's obligations as technical operator of the NTS and issuer on the stock exchange; ▪ develops proposals for improving and streamlining strategic, development and collaborative work; ▪ makes recommendations to the Board of Administration on the effective implementation of strategic and action plans/programmes, meaning the Modernisation and Investment Development Plan, NTS Repair and Rehabilitation and Maintenance Plan, Design Plan, Research Plan, Procurement Plan, Other Third Party Services Plan;; ▪ analyses the proposals to modify the organisational structure of SNTGN Transgaz SA to make the company's activities more efficient and optimised; ▪ analyses the proposals contained in the Employee Training and Development Plan and monitors and implements it; ▪ periodically reviews the status of implementation of the company Annual Sector Procurement Plan approved; ▪ reviews the policy on granting sponsorships and social aid at SNTGN Transgaz SA; ▪ analyses/monitors the evolution of the inactive inventory and the degree of implementation of the plan of measures to reduce the inactive inventory at SNTGN Transgaz SA, with a view to making the company's activity more efficient; ▪ analyses proposals for the establishment/closing of TRANSGAZ work points; ▪ reviews the Sustainability Report of SNTGN Transgaz SA, for compliance with European and national non-financial reporting legislation;

ADVISORY COMMITTEE	MENTIONS	DUTIES
		<ul style="list-style-type: none"> ▪ monitors sustainability reporting and related processes within the company to identify information reported in accordance with relevant sustainability reporting standards; ▪ informs the Board of Administration of the outcome of the sustainability reporting assurance; ▪ assists the Board in defining the company's strategy on ESG (Environmental, Social and Governance) issues by understanding how the company's ability to create value is influenced by ESG issues; ▪ monitors external ESG trends, understands the associated risks and opportunities and the expectations of the company's key stakeholders in this regard; ▪ monitors the company's impact on the natural environment and its adaptation to climate change; monitor the company's interactions with employees, shareholders and the communities in which it operates, including applicable workplace policies (e.g. employee relations and engagement, diversity, non-discrimination and equality, health, safety and welfare), any social or community projects undertaken by the company; ▪ oversees the company's policies, practices and performance on ESG issues; ▪ reports to the Board of Administration on current and emerging issues related to ESG matters that may affect the company's business, operations, performance or public image or that are relevant to the company and its shareholders; ▪ monitors and provides guidance on actions or initiatives taken to prevent, mitigate and manage risks related to ESG issues that may have a material adverse impact on the company or are otherwise relevant to shareholders; ▪ monitors and analyses the achievement of the performance indicators of the transport system and the economic and financial performance of the company's activity.
CORPORATE GOVERNANCE AND RELATIONS WITH PUBLIC AUTHORITIES COMMITTEE	<ul style="list-style-type: none"> ▪ shall consist of at least two members of the Board of Administration in accordance with Article 140²(1) of Law 31/1990 on companies, republished as amended,; 	<ul style="list-style-type: none"> ▪ evaluates the overall performance of the company and regularly compares the results achieved with those planned; ▪ monitors the effectiveness/efficiency of governance practices across the company; ▪ monitors and resolves potential conflicts of interest;

ADVISORY COMMITTEE	MENTIONS	DUTIES
	<ul style="list-style-type: none"> ▪ at least one of the committee members shall be an independent non-executive administrator in accordance with Article 140²(2) of Law 31/1990 on companies, republished as amended,. 	<ul style="list-style-type: none"> ▪ recommends improvements to the corporate governance processes of the company to the Board of Administration; ▪ makes recommendations to the Board on the structure and responsibilities of the Advisory Committees established at Board level; ▪ provides oversight on significant public policy issues regarding the company's relationships with shareholders, employees, customers, competitors, suppliers and the communities in which it operates; ▪ reviews the company's Code of Ethics, including its programs to promote ethical conduct, and provides recommendations to the Board of Administration regarding approval of the Code of Ethics; ▪ assists the Board of Administration in developing the Management Plan; ▪ assists the Board of Administration in the evaluation of the work of the directors covering both the execution of the mandate contract and the management component of the Management Plan; ▪ monitors the achievement of the financial and non-financial performance indicators resulting from the management plan for the company's directors and officers; ▪ verifies compliance with the principles of non-discrimination, equal treatment and transparency in relations with the company's shareholders and stakeholders; ▪ monitors cooperation relations with public authorities and assists the Board of Administration in establishing and managing cooperation policy..

Composition of advisory committees set up at the level of the company's Board of Administration

Within the meeting of the Board of Administration held on 10.05.2021, it was decided to change the composition of the advisory committees set up at the level of the company's Board of Administration, according to Resolution 3/22.04.2021 of the Ordinary General Meeting of the Shareholders establishing the renewal of the mandates of three directors and appointing two members as interim administrators. Within the meeting of the Board of Administration held on 23.06.2021 it was decided to change of the composition of the advisory committees established at the level of the company's Board of Administration, according to Resolution 4/17.06.2021 of the Ordinary General Meeting of the Shareholders establishing the appointing of two new interim administrators, Ms. Mihaela Virginia Toader and Mr. Csaba Orosz. Within, the meeting of the Board of Administration held on 20.06.2022, following the termination of the mandate of interim administrator of Ms. Mihaela-Virginia Toader, as well as the appointment of Mr. Agafiței Gheorghită

as interim administrator, it was approved the modification of the composition of the advisory committees constituted at the level of the Board of Administration of the company.

As at 08.12.2022, the composition of the committees is as follows:

Name of advisory committee	Composition of the committee	
Nomination and Remuneration Committee	Văduva Petru Ion	- non-executive administrator
	Minea Nicolae	- non-executive, independent administrator
	Orosz Csaba	- non-executive, independent administrator
Audit and Rating Committee	Nicolae Minea	- non-executive, independent administrator, Chairman of the Audit and Rating Committee
	Csaba Orosz	- non-executive, independent administrator
	Gheorghiuță Agafiței	- non-executive, independent administrator
	Petru Ion Văduva	- non-executive administrator
NTS Regulatory, Safety and Security Committee	Ion Sterian	- executive administrator
	Petru Ion Văduva	- non-executive administrator
	Gheorghiuță Agafiței	- non-executive, independent administrator
Strategy, Sustainability and Equal Opportunities Committee	Ion Sterian	- executive administrator
	Nicolae Minea	- non-executive, independent administrator
	Gheorghiuță Agafiței	- non-executive, independent administrator
Corporate Governance and Relations with Public Authorities Committee	Ion Sterian	- executive administrator
	Gheorghiuță Agafiței	- non-executive, independent administrator
	Csaba Orosz	- non-executive, independent administrator

The activity carried out in 2022 by the five advisory committees set up at the level of the Board of Administration was performed on the basis of:

- **Law no. 31/1990**, as further amended and supplemented, republished, Art. 138¹ (2), Art. 138² (2), Art. 140² (1) and (2);
- **GEO no 109/2011** on corporate governance of public companies, Art. 34 and Art. 55 (2) and (3), as amended;
- **Law no 162/2017** on the statutory audit of the annual financial statements and consolidated annual financial statements and on the amending of some normative acts;
- **The Bucharest Stock Exchange Code of Corporate Governance** ;
- **The updated Articles of Incorporation of Transgaz SA**, Chapter V, Art.19 (11);
- **The Board of Administration resolutions:** BoA Resolution 37/08.12.2022; BoA Resolution 20/20.06.2022; BoA Resolution 19/23.06.2021; BoA Resolution 16/10.05.2021; BoA Resolution 10/28.02.2018; BoA Resolution 22/11.07.2017; BoA Resolution 15/16.05.2017; BoA Resolution 39/17.12.2015; BoA Resolution 43/19.11.2014; BoA Resolution 21/16.06.2014; BoA Resolution 2/10.02.2014; BoA Resolution 13/29.07.2013; BoA Resolution 7/27.05.2013; BoA Resolution 16/30.10.2009; BoA Resolution 13/24.09.2009,

and intended to monitor the actions of the members of the Advisory Committees in accordance with the areas in which they were designated and is reflected in their half-yearly/yearly activity report, which highlights:

- how the materials and documents of the different organizational structures of SNTGN Transgaz SA were consulted by the members of the Advisory Committees;
- analyses by members of the Advisory Committees on the content of documents and materials submitted, and the additional information or the clarifications requested;
- proposals / measures / recommendations of the members of the Advisory Committees regarding the content of materials and documents submitted for analysis and approval / endorsement to the Board of Administration; and
- the documents by which the Board of Administration in its plenary decided on the content and the issues addressed in the documents submitted for analysis/approval/endorsement.

The structure of the activity report prepared at the level of the advisory committees set up at the Board of Administration level in 2022 was designed so as to reflect in a comprehensive and accurate manner the entire activity regarding the analysis, consultation and the decision making process regarding the activity of the company.

No.	Description	Responsible	Composition of the Committee
1.	Activity Report of the Nomination and Remuneration Advisory Committee between 1 January and 30 June 2022	Nomination and Remuneration Advisory Committee	Petru Ion Văduva Nicolae Minea Csaba Orosz
2.	Activity Report of the Strategy and Development Advisory Committee between 1 January and 30 June 2022	Strategy and Development Advisory Committee	Ion Sterian Nicolae Minea Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022)
3.	Activity Report of the Regulatory and Public Authority Relations Advisory Committee between 1 January and 30 June 2022	Regulatory and Public Authority Relations Advisory Committee	Ion Sterian Toader Mihaela Virginia (from 23.06.2021 to 16.06.2022) Orosz Csaba Agafiței Gheorghită (from 20.06.2022)
4.	Activity Report of the Safety and Security Advisory Committee of NTS between 1 January and 30 June 2022	Safety and Security Advisory Committee of NTS	Ion Sterian Petru Ion Văduva Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022)
5.	Activity Report of the Audit and Rating Advisory Committee between 1 January and 30 June 2022	Audit and Rating Advisory Committee	Nicolae Minea President (from 10.05.2021) Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022) Csaba Orosz
6.	Activity Report of the Nomination and Remuneration Advisory Committee between 1 January and 31 December 2022	Nomination and Remuneration Advisory Committee	Petru Ion Văduva Nicolae Minea Csaba Orosz

No.	Description	Responsible	Composition of the Committee
7.	Activity Report of the Strategy and Development Advisory Committee and of the Strategy, Sustainability and Equal Opportunities Committee (from 08.12.2022) between 1 January and 31 December 2022	Strategy and Development Advisory Committee and Strategy, Sustainability and Equal Opportunities Committee (from 08.12.2022)	Ion Sterian Nicolae Minea Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022)
8.	Activity Report of the Regulatory and Public Authority Relations Advisory Committee and of the Corporate Governance and Relations with Public Authorities Committee (from 08.12.2022) between 1 January and 31 December 2022	Regulatory and Public Authority Relations Advisory Committee and Corporate Governance and Relations with Public Authorities Committee (from 08.12.2022)	Ion Sterian Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Csaba Orosz Agafiței Gheorghită (from 20.06.2022)
9.	Activity Report of the Safety and Security Advisory Committee of NTS and of the NTS Regulatory, Safety and Security Committee (from 08.12.2022) between 1 January and 31 December 2022	Safety and Security Advisory Committee of NTS and NTS Regulatory, Safety and Security Committee (from 08.12.2022)	Ion Sterian Petru Ion Văduva Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022)
10.	Activity Report of the Audit and Rating Advisory Committee between 1 January and 31 December 2022	Audit and Rating Advisory Committee	Nicolae Minea President (from 10.05.2021) Mihaela Virginia Toader (from 23.06.2021 to 16.06.2022) Agafiței Gheorghită (from 20.06.2022) Csaba Orosz

Section B - Risk and internal control information

At the level of Transgaz an Audit Committee was initially established, but following the approval of the new structure of the Advisory Committees by the Board of Administration Resolution no. 7 of 27 May 2013, the *Audit and Rating Committee* was established to regularly review the compliance of financial reporting, internal control, and the company's risk management and rating system. The audit committee must be composed of at least three members and the majority of the members must be independent. The Chairman of the Audit Committee should be an independent non-executive member. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee.

The members of the Committee shall assist and make recommendations to the Board of Administration on the establishment of the accounting and financial control system as well as the financial and budgetary planning. The Committee conducts auditing analyses and draws up audits reports based on them, while verifying the fulfilment of the audit plan at the company level. Within the company the Internal Audit Unit is established, being operationally subordinated to the Board of Administration. It reports to the Audit and Rating Committee on a quarterly basis, a synthesis of the internal audit work carried out.

The Committee provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by reviewing the relevance and consistency of accounting standards applied by the Company.

The Committee collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other;

The Audit and Rating Committee monitors the independence and accountability of the financial auditor, in particular by monitoring the rotation of the company's dedicated partners in the audit firm, and makes recommendations to the Board of Administration on the selection, appointment, replacement of the financial auditor, and terms and conditions of its remuneration.

Conflict of interests

The members of the Board of Administration will make decisions in the sole interest of the company and will not take part in the debates or decisions that create a conflict between their personal interests and those of the company or the subsidiaries controlled by it. In this respect, the Board of Administration approved the *Conflict of Interest Management Policy* in order to comply with Art. A.2. of the new Corporate Governance Code of the BSE, and was approved at Art. 2 by the OGMS Resolution 4 of 23 June 2016.

Transactions with involved persons

Each member of the Board of Administration shall ensure that there is no conflict of interest either directly or indirectly with the company or a subsidiary controlled by it, and in the event of such conflict, it will refrain from debating and voting on those matters, in accordance with the legal provisions in force.

In order to ensure the procedural fairness of the transactions with the parties involved, the members of the Board of Administration resort to the following criteria, but not limited to:

- retaining the competence of the Board of Administration or the GMS, as appropriate, to approve the most important transactions;
- asking for a prior opinion on the most important transactions from internal control structures;
- entrusting negotiations relating to these transactions to one or more independent administrators or to administrators who have no links with the concerned parties;
- the use of independent experts.

Section C - Remuneration Information

At the level of the Board of Administration the company established a Nomination and Remuneration Committee approved by Board of Administration Resolution 7 of 27.05.2013, which, in accordance with Law 24/2017 on issuers of financial instruments and market operations, as amended, develops the Remuneration Policy for Transgaz's Administrators', Director-General and Chief Financial Officer, and assists the Board of Administration in establishing/supervising the remuneration policies and practices. In accordance with the provisions of Article 37 of GEO 109/2011 on the corporate governance of public enterprises, as amended, the General Meeting of the Shareholders establishes the remuneration of the Board of Administration members.

Based on the legal provisions and in accordance with the Bucharest Stock Exchange Governance Code, by Article 13 of OGMS Resolution 3/27.04.2021 it was approved the **Remuneration Policy and Criteria for the Administrators, Director-General and CFO of SNTGN TRANSGAZ S.A.**, which mainly define the following:

1. Legal framework
2. Scope, coverage, field of application and decision-making process
3. Objectives of the Remuneration Policy
4. General principles underlying the remuneration policy
5. Structure of the remuneration of the administrators, director - general and chief financial officer of SNTGN TRANSGAZ S.A.
6. Other types of benefits
7. Duration of the mandate contracts, applicable notice periods, conditions of termination/termination of contracts
8. Making payments
9. Conflict of interest
10. Policy derogations

The remuneration policy is consistent with the company's business strategy, objectives, values and long-term interests and includes measures to avoid conflicts of interest and to ensure effective corporate governance of the company.

The remuneration and other benefits provided to administrators and directors are disclosed in the annual financial statements and in the annual report of the nomination and remuneration committee on remuneration and other benefits provided to administrators and directors.

The remuneration policy sets the general framework for the remuneration of the administrators, director - general and the chief financial officer in the company, which is supplemented in its implementation by the legal provisions applicable to the core business, the provisions of the Collective Labour Contract of SNTGN TRANSGAZ SA, the mandate contracts as well as the resolutions of the Board of Administration and of the General Meeting of the Shareholders.

STATEMENT ON THE IMPLEMENTATION OF THE REMUNERATION POLICY IN 2022

The remuneration policy of SNTGN TRANSGAZ S.A. , approved by Resolution 3/27.04.2021 of the Ordinary General Meeting of the Shareholders, Art.13, is based on the good national and international practices as well as on the applicable legislative amendments.

The remuneration policy is consistent with the company's business strategy, objectives, values and long-term interests and includes measures to avoid conflicts of interest and ensure the company's effective corporate governance.

The remuneration and benefits provided under the law or the mandate contract to the administrators, the director-general and the chief financial officer under the unitary system shall be disclosed in the annual financial statements, the annual report of remuneration and the annual report of the administrators.

The role of the Nomination and Remuneration Committee is to assist the Board in establishing and monitoring remuneration policies and practices.

The Nomination and Remuneration Committee is responsible for proposing the remuneration policy, monitors its implementation and will ensure that conflicts of interest are avoided.

The remuneration conditions of the members of the Board of Administration, the Director - General and the CFO of SNTGN TRANSGAZ S.A. are established on the basis of a study prepared by a specialized company, carried out on the recommendation of the Nomination and Remuneration Committee.

The remuneration policy of SNTGN TRANSGAZ S.A. aims at stimulating the growth of financial and operational efficiency and sustainable development of the company, in compliance with the principles of good corporate governance.

Section D - Shareholder Information

All holders of financial instruments issued by Transgaz of the same type and class of securities receive equal treatment and the company always makes sustained efforts to achieve effective, active and permanent communication in order to exercise rights in a fair manner.

All Transgaz shareholders will be treated fairly. All issued shares give the holders equal rights and any modification of the rights conferred by them will be subject to the approval of the holders directly affected in the special meetings of the respective holders.

Transgaz makes every effort to facilitate the participation of shareholders in the works of the General Meetings of the Shareholders, the dialogue between shareholders and members of the Board of Administration and/or management, as well as the full exercise of their rights. The participation of the shareholders in the works of the General Meetings of the Shareholders is fully encouraged, and shareholders who cannot participate in the meetings are given the possibility of voting in absentia - on a special proxy basis, or by correspondence.

The Company created a special section, called *Investor Relations*, on its own website, where relevant information on procedures for access to and participation in the general meetings of the shareholders, convenings, supplementations of agenda, exercise of voting rights, materials for the issues on the agenda, special proxy templates, resolutions, current reports, company financial statements, information regarding dividends, financial calendar, corporate governance are constantly updated and accessible, thus contributing to transparent and fair information to all interested.

At the same time, Transgaz set up a specialized organizational structure for the management of the capital market activity, namely the *Investor Relations Department*, whose activity is dedicated to the relationship with investors and shareholders. The personnel of the department is permanently instructed / prepared / professionally trained on issues related to the company's relationship with its shareholders, the capital market institutions as well as the principles of corporate governance.

Transparency

Transgaz performs regular continuous reports on the important events related to the company, including, without limitation, the financial standing, performance, ownership structure and management both in mass media and on its own webpage (www.transgaz.ro).

The company prepares and disseminates regular continuous and relevant information on the International Financial Reporting Standards (IFRS) and other reporting standards, namely environmental, social and governance (ESG –Environment, Social and Governance). The information is disseminated both in Romanian and English.

The company organizes regular meetings with financial analysts, brokers, market specialists and investors for the presentation of the financial results (annual, quarterly, half-yearly), relevant meetings in their investment decision.

The general and specific strategic objectives of SNTGN TRANSGAZ SA are set in the context of alignment with the requirements of the new European energy policy on energy security and security, sustainable development and competitiveness.

In this context, the implementation and development of corporate governance principles, the development of responsible, transparent business practices, is increasingly becoming a necessity in substantiating and implementing corporate business strategies and policies.

By subscribing to this goal, SNTGN TRANSGAZ SA also aims, through its own governance regulation, to provide a rigorous framework for sizing and regulating corporate governance at the company level, developing an effective and proactive relationship system with shareholders and stakeholders.

Transgaz administrators appreciate that, acting in the spirit of the best corporate governance practices, the proposed objectives can be attained and the stakeholders' confidence can be increased in the capabilities of the company to maximize the efficiency of the activity.

Corporate social responsibility (CSR)

Corporate Social Responsibility is an aspect of corporate governance through which companies have initiated a range of socially responsible actions that can be quantified in terms of sustainability and sustainable performance.

SNTGN TRANSGAZ SA, consistent with the principle of applying a responsible management in fulfilling the undertaken mission, is aware of the importance that sometimes financial support for a noble cause or for an important purpose is vital and, in this respect, through the programs and projects of social responsibility initiated, it is actively involved in community life, demonstrating his status as a *good citizen*.

Corporate social Responsibility is an aspect of corporate governance, with TRANSGAZ's key role in the energy field in Romania and Europe being naturally complemented by the desire to support the real needs of all those who are constantly contributing to the smooth way of its activity.

As part of Transgaz's sustainable development strategy, the *social responsibility policy* aims to increase the company's commitment to employees, shareholders, partners, the community and the environment, as well as streamlining the impact of social responsibility programs initiated for this purpose.

The commitment undertaken by the company's management through the *Environmental Quality Management System Policy Statement* is a definite proof that TRANSGAZ acknowledges the importance of ensuring an organizational climate where all stakeholders: employees, shareholders, customers, suppliers, community and the environment can effectively and responsibly network both from an economic and social point of view.

The company's social responsibility policy is based on a set of principles that define this interaction between Transgaz on the one hand and employees, shareholders, partners, community and the environment on the other. The priority areas in which TRANSGAZ carries out social responsibility programmes are: sport, community development (churches, schools, kindergartens), education, arts and culture, humanitarian actions, health (hospitals), environment.

SPORT - *We are among those who believe that sport has the power to ensure harmony between body and mind!* We support the entire sports movement (football, judo, athletics, basketball, tennis, volleyball, etc.) both in the Mediaş area and at county and national level.

COMMUNITY DEVELOPMENT - *We are where it's needed!* TRANSGAZ supports through financial aid the construction and/or reconstruction of churches, monasteries; restoration of national heritage vestiges; construction and/or reconstruction, renovation of buildings of educational institutions (schools, kindergartens).

EDUCATION - *We believe in the potential of the young generation and that's why we invest in their education!* We are involved through financial and social support in the educational construction of the young generation. We support through financial partnership technical projects, symposiums and conferences on natural gas topics organized by the University of Oil and Gas in Ploiesti. We are active through various professional and social partnerships in the training of a new generation of gas workers. We contribute financially and through material support to the provision of teaching material in educational institutions, so necessary for a continuous education.

ART AND CULTURE - *Development through culture ensures a sustainable development of man and society, and we are at the side of those who initiate projects in this regard!* We support financially through partnerships, cultural events, the organization of theatre performances and music festivals, competitions and artistic creations of pupils and students. We support cultural foundations in their work. We support both the established values of Romanian art and culture and young talents.

HUMANITARIAN ACTIONS - *TRANSGAZ is always there for those who really need help!* We try through our financial support to get involved in solving some of the life problems of disabled people, needy people, people without material possibilities, or people who need medical care. We are next to those who, whether our employees or not, have suffered damage due to natural disasters. We financially support cultural, sports, artistic actions of disabled pupils and students of Mediaş as well as NGOs and foundations that care for these people.

HEALTH- We take care of other people's health as well as our own! We contribute financially to investments in hospitals in Romania through the project "HEALTH FOR ROMANIA" and we are present when financial support is needed to solve medical cases of our employees or their relatives.

ENVIRONMENT- We all want a healthy life and a clean environment, and that's why we care about everything around us! We financially support partnerships between NGOs and schools or public institutions for environmental protection projects and green areas. We also support the greening projects initiated by the local public administration of Mediaş and those initiated by other town halls in the country, where Transgaz has units.

Complying with the principles of financial prudence and transparency, the communication and CSR actions proposed for 2022 were rigorously quantified both in structure and value and responded to Transgaz's reporting requirements as a securities issuer, but also to the requirements related to the company's image and reputation. Detailed information on social responsibility is available on the Transgaz website at: <http://www.transgaz.ro/responsabilitate-sociala>.

LEGAL DOCUMENTS CONCLUDED ACCORDING TO ART. 52 (1) AND (6) OF GEO 109/30.11.2011

In accordance with Art. 234 (1) (i) of FSA Regulation 5/2018, Transgaz reported in 2022 two legal documents the value of which exceeds 10% of the net turnover related to the financial year 2021:

Contract data	Contract clauses
Funding contract concluded with Raiffeisen Bank SA	
Contracting parties	Contract concluded between SNTGN Transgaz SA and Raiffeisen Bank SA
Contract date and type	Loan contract dated 14 July 2022
Contract scope	Covering working capital needs for the balancing activity
Loan value	lei 300.000.000
Contract duration	2 years
Supplementation of the funding contract with Banca Transilvania	
Contracting parties	Contract concluded between SNTGN Transgaz SA and Banca Transilvania
Contract date and type	Addendum to the Loan contract dated 18 July 2022
Contract scope	Covering working capital needs
Loan value	lei 453.000.000
Contract duration	12 months from contract signature

8.1 Key performance indicators established in the contracts of mandate

By OGMS Resolution 8/6.12.2021 the financial and non-financial performance indicators for 2021 - 2025, which are annexed to the directors' mandate contracts, were approved and the revision of some financial key performance indicators for the same period was approved by OGMS Resolution 3/28 February 2022 and by OGMS Resolution 10/7 December 2022 the revision of some key non-financial performance indicators for the same period was approved.

Key financial performance indicators for the calculation of the variable component of the remuneration

No.	Indicator	Objective	2022
			Budgeted
1.	Outstanding payments	Maintaining outstanding payments to zero	0
2.	Operating expenses (except for depreciation, balancing, construction activity and provisions for the asset depreciation and for risks and charges) (thousand lei)	Maintaining the level of the operating expenses (except for depreciation, balancing, construction activity and provisions for the asset depreciation and for risks and charges) at the level undertaken in the Management Plan	1.112.356
3.	Liquidity ratio	Liquidity ratio to register annual values over 1.	1
4.	Net debt-to-equity ratio	Maintaining a net debt-to-equity ratio under the limits set for obtaining bank financing, namely: 5-2021, 5,5-2022, 5 – 2023-2024, 4,5 2025	5,5
5.	EBITDA (thousand lei)	Achieving the EBITDA target undertaken in the Management Plan	354.495

Table 33 - Key financial performance indicators for the calculation of the variable component of the remuneration in 2022

Key non-financial performance indicators for the calculation of the variable component of remuneration

Indicator	Objective	No.	2022
			Planned
Operational			
6	Monitoring investment strategy and implementation	Achievement of FID projects under the 2022-2031 TYNDP approved by ANRE	
		$I = (achieved\ actions + started) / proposed\ actions$	
	Project for NTS developments in the North Eastern part of Romania in order to improve the gas supply to the region and to ensure transmission capacities to the Republic of Moldova	6.1	-

		Project for new NTS developments for taking over Black Sea gas	6.2	-
		Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas	6.3	Construction 2023-2025 The completion date depends on the upstream offshore projects implementation schedules.
		Achievement of the pilot project for the metering and use of gas and hydrogen blending	6.4	The design, execution and mounting of the installation of the pilot project related to the use of hydrogen gas blend and the studying of the influences on materials, metering systems and combustion equipment.
7	Energy efficiency increase	Maintenance of the NTS gas consumption share in the total circulated gas under 1%	7.1	<1
8	Client satisfaction	Achievement of the targets provided for in the management plan (According to PP 165 Assessment of customer satisfaction, a score between 6-8 means that the services provided have adequately met the customer's requirements)	8.1	8
9	Strengthening and diversification of the cooperation and collaboration relations with gas transmission system operators of the European Union	Conclusion of memoranda of cooperation and collaboration with gas transmission system operators of the European Union (minimum 5 operators) on hydrogen injection.	9.1	1
10	Performance indicators of the gas transmission service	Achievement of the targets provided for in the Performance Standard for natural gas transmission system service (ANRE Order 161/26.11.2015, in force since 1 October 2016) For 1 January 2022- 30 September 2022	10.1	$IP_0^1 \geq 90\%$
			10.2	$IP_1^1 \geq 90\%$
			10.3	$IP_2^2 \geq 95\%$
			10.4	$IP_1^3 \geq 95\%$
			10.5	$IP_1^4 \geq 95\%$
			10.6	$IP_1^5 \geq 95\%$
			10.7	$IP_2^1 \geq 95\%$
			10.8	$IP_3^1 \geq 95\%$
			10.9	$IP_3^2 \geq 95\%$
			10.10	$IP_4^1 \geq 95\%$
			10.11	$IP_5^1 \geq 98\%$
			10.12	$IP_5^2 \geq 98\%$
			10.13	$IP_6^1 \geq 98\%$
			10.14	$IP_6^2 \geq 98\%$
		Achievement of the targets provided for in the Performance Standard for natural gas transmission system service (ANRE Order 140/2021 in force since 1 October 2022). For 1 October 2022- 31 December 2022	10.1	$IP_0^1 \geq 90\%$
			10.2	$IP_1^1 \geq 90\%$
			10.3	$IP_1^2 \geq 95\%$
			10.4	$IP_1^3 \geq 95\%$
			10.5	$IP_1^4 \geq 95\%$
			10.6	$IP_1^5 \geq 95\%$

			10.7	$IP_2^1 \geq 95\%$
			10.8	$IP_3^1 \geq 95\%$
			10.9	$IP_3^2 \geq 95\%$
			10.10	$IP_4^1 \geq 95\%$
			10.11	$IP_5^1 \geq 98\%$
			10.12	$IP_5^2 \geq 98\%$
			10.13	$IP_6^1 \geq 98\%$
			10.14	$IP_6^2 \geq 98\%$
Corporate governance				
11	Optimization of the internal control / management system	<p>Implementation of the provisions of Order no. 600/2018 of the General Secretariat of the Government for the approval of the Internal/Management Control Code of Public Entities as amended.</p> <p>$I = \text{standards implemented/standards provided for by Order 600/2018} * 100$</p> <p>Implementation of the measures provided for in the IMCS Implementation Programme</p> <p>$I = \text{implemented measures /proposed measures} * 100$</p>	11.1	Development of the internal/managerial control system in order to maintain it at a level deemed to be compliant with the standards contained in the Internal/Management Control Code.
			11.2	Streamlining of the processing and management of IMCS documentation by implementing an IMCS Web Platform .
12	Optimizing the risk management process	<p>Implementation of the requirements of Standard 8 of Order No 600/2018 of the General Secretariat of the Government for the approval of the Internal/Management Control Code of the public entities as amended.</p> <p>Transition to the 5-step risk assessment scale.</p>	12.1	Continuous monitoring and adaptation of the organisational, conceptual and methodological framework of the risk management process
			12.2	Systematic analysis of risks associated with operational objectives at the level of organisational structures.
			12.3	Implementation of Risk Management policy, procedures and legal requirements in the field of Risk Management and the monitoring of their application at company level.
13	Timely reporting of key performance indicators	<p>Compliance with legal reporting deadlines</p> <p>$I = \text{actual reporting deadlines/ expected reporting deadlines} * 100$</p>	13.1	Calendar of the financial communication to BVB
			13.2	Reporting on TYNDP achievement status
			13.3	IMCS reporting
			13.4	Reporting on the achievement of natural gas transmission service performance indicators
			13.5	Reporting form S1100 on monitoring the application of the provisions of GEO 109/2011
14	ANS Implementation 2021-2025	<p>Implementation of the NSA measures =</p> <p>$\text{measures achieved to the deadline/proposed measures} * 100$</p>	14.1	Achievement of the objectives established in Integrity Plan for the implementation of the Anti-Corruption Strategy 2021-2025

Table 34 - Key non-financial performance indicators for the calculation of the variable component of remuneration in 2022

8.2 Key financial and non-financial performance indicators achievement

Key financial performance indicators for the calculation of the variable component of the remuneration (individual)

No.	Indicator	Objective	2022		Achievement ¹
			Budgeted	Achieved	
1.	Outstanding payments	Maintenance of the outstanding payments at zero.	0	0	100%
2.	Operating expenses (less depreciation, balancing, construction activity and provisions for impairment of assets and for risks and charges) (thousand lei)	Maintenance of the operating expenses at the level under the Management Plan	1.112.356	918.441	121%
3.	Liquidity ratio	Liquidity ratio to record values higher than 1	1	1,39	139%
4.	Net leverage rate	Maintenance of a net leverage rate below the limits set for obtaining bank financing, i.e.: 5-2021, 5,5-2022, 5 – 2023-2024, 4,5 2025	5,5	2,78	198%
5.	EBITDA (thousand lei)	Achievement of the EBITDA target under the Management Plan	354.459	583.282	165%

Table 35 - Key financial performance indicators for the calculation of the variable component of remuneration in 2022 compared to the 2022 Budget (according to the management Plan 2021-2025)

Key non-financial performance indicators for the calculation of the variable component of the remuneration

No.	Indicator	Objective	No.	2022		Achievement
				Planned	Achieved 2022	
Operational						
6	Monitoring the Implementation and Investment Strategy	Achievement of the FID projects from the TYNDP (2022-2031) <i>I = (achieved+initiated actions)/proposed actions</i>				
		NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova	6.1	-	- Completed 2021	100%
		New NTS developments for taking over Black Sea gas	6.2	-	- Completed 2021	
		Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas	6.3	Construction 2023-2025 The completion date depends on the upstream offshore projects implementation schedules.	All design and permitting activities were completed and the works contract was signed. The incremental capacity process was started at the NTS planned entry point from the	

					Black Sea - MP Tuzla - Non-binding phase.		
		Achievement of the pilot project for metering and using the hydrogen gas blending	6.4		The design, execution and mounting of the installation of the pilot project related to the use of hydrogen gas blend and the studying of the influences on materials, metering systems and combustion equipment .	All activities related to the design, execution and the mounting of the installation of the pilot project for the use of the hydrogen gas blend and the studying of the influences on the materials, metering systems and combustion equipment were performed .	100%
7	Increasing energy efficiency	Maintaining the share of the NTS gas consumption in the total circulated gas below 1%	7.1	<1		0,54%	100%
8	Customer satisfaction	Achievement of the targets established in the management plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)	8.1	8		Achieved - 8 Report SMC/ 11972/15.02.2023 on the evaluation of SNTGN Transgaz SA clients satisfaction for 2022	100%
9	Strengthening and diversifying cooperation and collaboration relations with European gas transmission system operators	Conclusion of memoranda of cooperation and collaboration with European gas transmission system operators (minimum 5 operators) regarding the collaboration on hydrogen injection	9.1	1		The Memorandum of Understanding between four gas transmission system operators in Central Europe (Transgaz - Romania, Gaz-System - Poland, Eustream - Slovakia and FGSZ - Hungary, on exploring the possibilities of decarbonising their operations, transmitting green gas and investigating the potential of transmitting CO2 was signed on 07.04.2022 .	100%
Public service oriented							
10	Performance indicators related to the gas transmission service	Achievement of the targets established in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016). For 1 January 2022- 30 September 2022	10.1	$IP_0^1 \geq 90\%$		99,36%	100%
			10.2	$IP_1^1 \geq 90\%$		*	
			10.3	$IP_1^2 \geq 95\%$		*	
			10.4	$IP_1^3 \geq 95\%$		98,73%	
			10.5	$IP_1^4 \geq 95\%$		100%	
			10.6	$IP_1^5 \geq 95\%$		100%	
			10.7	$IP_2^1 \geq 95\%$		100%	
			10.8	$IP_3^1 \geq 95\%$		100%	
			10.9	$IP_3^2 \geq 95\%$		*	
			10.10	$IP_4^1 \geq 95\%$		*	
			10.11	$IP_5^1 \geq 98\%$		100%	
			10.12	$IP_5^2 \geq 98\%$		100%	
			10.13	$IP_6^1 \geq 98\%$		100%	
			10.14	$IP_6^2 \geq 98\%$		100%	

		Achievement of the targets provided for in the Performance Standard for natural gas transmission system service (ANRE Order 140/2021 in force since 1 October 2022).	10.1	$IP_0^1 \geq 90\%$	100%	100%
			10.2	$IP_1^1 \geq 90\%$	100%	
			10.3	$IP_1^2 \geq 95\%$	*	
			10.4	$IP_1^3 \geq 95\%$	*	
		For 1 October 2022- 31 December 2022	10.5	$IP_1^4 \geq 95\%$	100%	
			10.6	$IP_1^5 \geq 95\%$	*	
			10.7	$IP_2^1 \geq 95\%$	100%	
			10.8	$IP_3^1 \geq 95\%$	96,96%	
			10.9	$IP_3^2 \geq 95\%$	*	
			10.10	$IP_4^1 \geq 95\%$	*	
			10.12	$IP_5^1 \geq 98\%$	100%	
			10.12	$IP_5^2 \geq 98\%$	*	
			10.13	$IP_6^1 \geq 98\%$	*	
			10.14	$IP_6^2 \geq 98\%$	*	
Corporate governance						
11	Optimization of internal/management control system	<p>Implementing the provisions of GSG Order 600/2018 for the approval of the Internal/Management Control Code of public enterprises as subsequently amended.</p> <p>$I = \text{implemented standards/ standards provided by Order 600/2018} * 100$</p> <p>Implementation of the measures established in the SCIM Implementation Plan</p> <p>$I = \text{Implemented measures /proposed measures} * 100$</p>	11.1	Development of the internal/management control system for maintaining it at a level considered compliant with the standards included in the Internal/Management Control Code.	<p>Achieved</p> <p>-Decision no. 15/06.01.2022;</p> <p>-Letter 2649/12.01.2022, sent to the General Secretariat of the Government, Entry no. SGG 17/876/12.01.2022. . SGG SCIM IT platform loading data. By the email of 10.05.2022 the General Secretariat of the Government communicates the approval of the forms uploaded to the IT Platform.</p> <p>- SCI/M Development Plan no. DSMC/778/04.01.2022, updated for 2022;</p> <p>-Progress of the internal/management control system at Transgaz for 2021, no. DSMC/ 21884/18.03.2022;</p> <p>-Report on 2021 Transgaz performance monitoring no. DSMC/21726/18.03.2022;</p> <p>The Board of Administration took note of Report 27999/07.04.2022 on the Progress of the SCI/M implementation and Report 28259/11.04.2022 on Performance Monitoring for 2021, by BoA Resolution 13/20.04.2022;</p> <p>- The Risk Management System Procedure is prepared in draft. The approval is planned for Q I 2023.</p>	100%

					- preparation of ROF EGR code REG DJ 01 .	
			11.2	Streamline the processing and management of SCI/M documentation by implementing an SCI/M web platform (preparation of procurement documents).	<p>Achieved</p> <p>-Specification no. 43806/08.06.2021 for the design and implementation of the SCI/M web platform . The analysis, diagnosis, assessment of the Internal/Managerial Control System is included in Chapter 2 of the Specifications. The implementation of the platform was postponed to 2023.</p> <p>The implementation of the platform was delayed after the implementation of MAIS.</p>	100%
12	Optimization of risk management process	<i>Implementation of the requirements of Standard 8 of GSG Order no. 600/2018 for the approval of the internal/management Control Code of public entities as further amended. Moving to a 5-step risk assessment scale</i>	12.1	<i>Continuous monitoring and adaptation of the organisational, conceptual and methodological framework of the risk management process</i>	<p>Achieved</p> <p>- EGR Decision 104/28.01.2022</p> <p>-2021-2025 Risk Management Strategy, no. DSMC/38586/19.05.2021 was approved by BoA Resolution 25/31.08.2021;</p> <p>- The Risk Management System Procedure is prepared in draft. The approval is planned for Q I 2023.</p> <p>- preparation of the EGR Rules of Procedure, code REG DJ 01;</p> <p>- preparation of the document Risk Grouping System identified at Transgaz , registration number DSMC/51290/30.06.2022.</p> <p>- 3-step risk tolerance limit for 2022 no. DSMC/4711/19.01.2022, circulated by Letter DSMC/17518/04.03.2022 and published at: https://portal.intranet.transgaz.ro/zonapublică/ Sistem de Control Managerial /Managementul Riscului / 6. Limita de toleranță</p> <p>- The employees in charge with risks in the organisational structures were trained on the change to the use of the 5-step Tolerance Limit in the consultations held between 20.03.2022-28.06.2022 and in the professional counselling on risk management offered to the designated employees in charge with risks in 2022.</p>	100%
			12.2	<i>Systematic analysis of risks associated with operational objectives at the level of organisational structures.</i>	<p>Achieved</p> <p>According to Letter 17518/04.03.2022 all organisational structures:</p>	

					<p>-published the List of objectives, performance indicators, activities, risks for year 2022,;</p> <p>-published the Registers of Risks, at the divisions, units, departments level;</p> <p>-published the risk mitigation plans of measures, at the level of the departments, units, divisions and independent offices;</p> <p>- according to Letter DSMC/94975/02.12.2022 all organisational structures: published the revised registers of risk, December 2022 and the Risk Management Report at the level of the departments, independent divisions, independent offices, regional offices, Medias Subsidiary.</p>	
			12.3	<p>Implementation of risk management policy, procedures and legal requirements and monitoring their application at company level.</p>	<p>Achieved</p> <p>- the Register of the Risks at the company level no. DSMC/4713/19.01.2022;</p> <p>- the Register of the Risks at the company level no. DSMC/4713/ 19.01.2022, revised in December 2022;</p> <p>- Plan of measures to mitigate risks, at the company level no. DSMC/4715/19.01.2022;</p> <p>- Report on risk management and monitoring within the company, for 2021, no. DSMC/4715/19.01.2022;</p> <p>- The Board of Administration took note of Report 27998/07.04.2022 on risk management and monitoring at SNTGN Transgaz SA, by BoA Resolution 13/20.04.2022;</p> <p>- the risk profile, December DSMC/4711/19.01.2022.</p>	
13	Timely reporting of the performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	13.1	Financial communication calendar to BVB	Achieved (see the company's website)	100%
			13.2	Report on the status of achievement of the TYNDP	Achieved Letter DSMC/15455/25.02. 2022 Deadline 1 March 2022	
			13.3	SCIM reporting	Achieved It was sent to the General Secretariat of the Government by Letter no. DSMC/2649/12.01.2022, entry no. SGG 17/876/12.01.2022, Progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2021: -Centralized Progress Report on the implementation and	

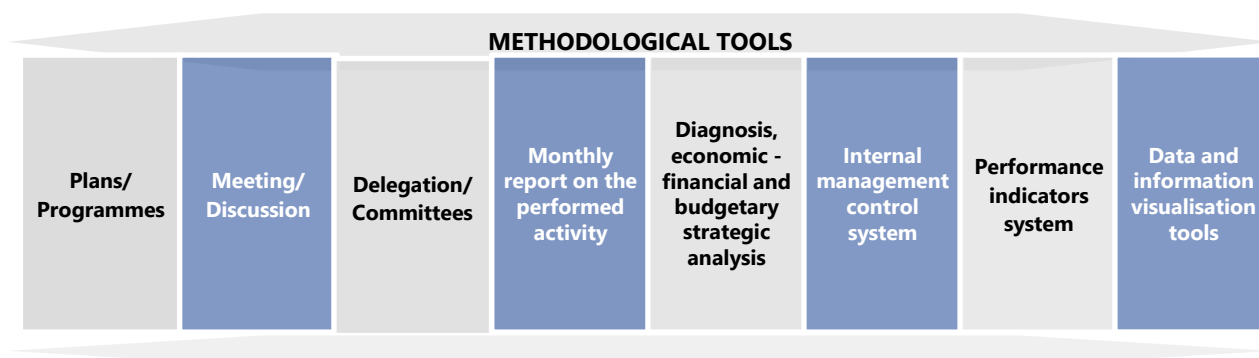
					<p>development of the internal/management control system in SNTGN Transgaz SA on 31 December 2021;</p> <p>-Report on the internal/management control system on 31 December 2021;</p> <p>-Self-assessment questionnaire on the progress of implementation of internal/management control standards;</p> <p>-Summary of the results of the self-assessment on 31 December 2021. (reported annually)</p>	
			13.4	<p><i>Reporting related to the achievement of the performance indicators of the gas transmission service</i></p>	<p>Achieved</p> <p>-Letter 92556/ 23.11.2022ANRE report for gas year 2021-2022 (reported annually on 1 October)</p>	
			13.5	<p><i>Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011</i></p>	<p>Achieved</p> <p>- Letter 50601/24.06.2022 S1100 report for Half I 2022</p> <p>- Letter 373/04.01.2023 S1100 report for Half II 2022</p>	
14	2021-2025 NAS implementation	<p>Implementation of the measures established in the NAS</p> <p>I = measures achieved within the deadline /proposed measures *100</p>	14.1	<p><i>Achievement of the objectives established in Integrity Plan for the implementation of the Anti-Corruption Strategy 2021-2025</i></p>	<p>In December 2021, the new National Anti-Corruption Strategy 2021-2025 was adopted, and the deadline established by it for the development and approval of the Integrity Plan for the new Strategy was 30.06.2022. Consequently, no Integrity Plan was in execution in Half I 2022. The measures set out in the 2021-2025 National Anti-Corruption Strategy for 2022 (Declaration on the undertaking of the organisational integrity agenda, Integrity Plan, designation of the implementation coordinator and transmission of contact persons to the Technical Secretariat) were carried out within the established deadline.</p> <p>The measures set out in the Integrity Plan for the implementation of the 2021-2025 National Anti-Corruption Strategy for 2022 (identification, analysis, assessment and monitoring of corruption risks, as well as the establishment and implementation of measures for their prevention and control; creation, on the</p>	100%

					<p>website of Transgaz S.A., of a link to the new NAS portal on its website; permanent updating of the database of companies that have not properly executed the contracts concluded with Transgaz S.A. and using it as a permanent working tool; open publication of economic and performance indicators; preparation and approval of strategic documents on competition policy.</p>
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Table 36 – Key non-financial performance indicators achievements for the calculation of the variable component of remuneration in 31.12.2022

Note: Given that in the period analysed for the performance indicators of the gas transmission service marked * no requests/notifications/complaints were registered, we conclude that the potential risk did not materialize, and, therefore, it results that the indicators are met according to the requirements established in the Performance Standard, although the degree of fulfilment of these indicators cannot be determined by mathematical calculation.

In order to optimize the performed activities, the company's administrators and management will continue to act with maximum responsibility and will efficiently use modern administration/management methods and techniques, adequate for the optimization of all processes and activities carried out by the company, as they are presented:



ION STERIAN – Executive Administrator – Director - General

PETRU ION VĂDUVA – Non-Executive Administrator

NICOLAE MINEA– Non-Executive Administrator

CSABA OROSZ – Non-Executive, Interim Administrator

MIHAELA VIRGINIA TOADER - Non-Executive, Interim Administrator

GHEORGHITĂ AGAFIȚEI - Non-Executive, Interim Administrator

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THE NATIONAL GAS TRANSMISSION COMPANY
TRANSGAZ S.A.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2022

PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION

This version of the financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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CONSOLIDATED STATEMENT OF FINANCIAL
POSITION

(expressed in lei, unless otherwise stated)



	Note	31 December 2022	31 December 2021
ASSET			
Fixed assets			
Tangible Assets	7	801.193.708	852.178.630
Rights of use of the leased assets	9	16.934.813	19.617.136
Intangible Assets	9	3.909.592.137	3.997.052.066
Goodwill	10	9.566.769	9.704.675
Trade receivables and other receivables	12	2.141.205.428	1.788.570.507
Deferred tax	18	—	352.591
		<u>6.878.492.855</u>	<u>6.667.475.605</u>
Current assets			
Inventories	11	613.182.876	311.708.204
Commercial receivables and other receivables	12	346.798.529	612.007.279
Cash and cash equivalent	13	<u>418.666.555</u>	<u>414.955.056</u>
		<u>1.378.647.960</u>	<u>1.338.670.539</u>
Total asset		8.257.140.815	8.006.146.144
EQUITY AND DEBTS			
Equity			
Share capital	14	1.883.815.040	117.738.440
Hyperinflation adjustment of share capital	14	441.418.396	441.418.396
Share premium	14	247.478.865	247.478.865
Other reserves	15	1.265.796.861	1.265.796.861
Retained earnings	15	199.648.810	1.785.866.415
Exchange rate differences from consolidation		<u>19.932.259</u>	<u>16.520.600</u>
		<u>4.058.090.231</u>	<u>3.874.819.577</u>
Shareholders` equity			
Non-controlling interests		<u>82.818.034</u>	<u>93.548.755</u>
		<u>4.140.908.265</u>	<u>3.968.368.332</u>
Long-term debts			
Long-term loans	16	2.054.247.351	1.899.193.227
Provision for employee benefits	21	110.895.341	106.041.177
Deferred revenue	17	969.150.112	1.069.813.639
Deferred tax payment	18	3.053.157	—
Commercial debt and other debts	19	<u>14.178.481</u>	<u>16.699.325</u>
		<u>3.151.524.442</u>	<u>3.091.747.368</u>

Notes 1 to 33 are part of these financial statements.

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CONSOLIDATED STATEMENT OF FINANCIAL
POSITION

(expressed in lei, unless otherwise stated)



	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Current debts			
Commercial debts and other debts	19	634.601.301	650.466.973
Deferred revenue	17	107.439.092	91.671.887
Provision for risks and charges	20	81.438.491	67.779.988
Short-term loans	16	136.644.990	132.104.365
Provision for employee benefits	21	<u>4.584.234</u>	<u>4.007.231</u>
		<u>964.708.108</u>	<u>946.030.444</u>
 Total debts		 <u>4.116.232.550</u>	 <u>4.037.777.812</u>
 Total equity and debts		 8.257.140.815	 8.006.146.144

Endorsed and signed on behalf of the Board of Administration on 21 March 2023 by:

Chairman of the Board of Administration

Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

This version of the financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

STATEMENT OF COMPREHENSIVE INCOME
(expressed in lei, unless otherwise stated)



	<u>Note</u>		
Revenue from the domestic transmission activity		1.356.044.593	1.164.418.613
Revenue from the international transmission activity and similar		73.926.517	72.037.147
Other revenue	22	<u>149.312.392</u>	<u>128.493.903</u>
Operational revenue before the balancing and construction activity according to IFRIC12		1.579.283.502	1.364.949.663
Depreciation	7, 9	(435.409.965)	(359.741.684)
Employees costs	24	(495.131.807)	(467.705.112)
NTS gas consumption, materials and consumables used		(180.267.951)	(112.818.316)
Expenses with royalties		(5.703.430)	(4.945.824)
Maintenance and transmission		(37.253.061)	(32.925.423)
Taxes and other amounts owed to the state		(86.781.521)	(86.200.783)
Revenue/ (Expenses) with provisions for risks and charges		(18.096.076)	7.226.509
Other operating cost	23	<u>(174.323.882)</u>	<u>(187.128.338)</u>
Operational profit before the balancing and construction activity according to IFRIC12		146.315.809	120.710.692
Revenue from the balancing activity		1.005.543.997	442.199.967
Cost of balancing gas		(1.005.543.997)	(442.199.967)
Revenue from the construction activity according to IFRIC12	32	299.868.442	704.026.548
Cost of assets constructed according to IFRIC12	32	<u>(299.868.442)</u>	<u>(704.026.548)</u>
Operational profit		146.315.809	120.710.692
Financial revenue	25	498.370.151	152.208.435
Financial cost	25	<u>(225.110.222)</u>	<u>(42.669.235)</u>
Financial revenue, net		<u>273.259.929</u>	<u>109.539.200</u>
Profit before tax		419.575.738	230.249.892
Profit tax expense	18	<u>(72.507.267)</u>	<u>(53.445.225)</u>
Net profit for the period		347.068.471	<u>176.804.667</u>
Attributable to the parent company		351.895.142	178.145.746
Attributable to the non-controlling interests		(4.826.671)	(1.341.079)
Number of shares		188.381.504	11.773.844
Other items of comprehensive income			-
Basic and diluted earnings per share (expressed in lei per share)	28	1,84	15,03
Actuarial gain / loss for the period		2.452.222	15.782.924
Exchange rate difference		(8.396.441)	31.649.572
Total comprehensive income for the period		<u>341.124.252</u>	<u>224.237.163</u>
Attributable to the parent company		345.950.923	224.390.110
Attributable to the non-controlling interests		(4.826.671)	(152.947)

Chairman of the Board of Administration

Văduva Petru Ion

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(expressed in lei, unless otherwise stated)



	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Consolidation exchange rate difference</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
Balance on 1 January 2021	<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.687.776.834</u>	<u>(13.940.839)</u>	<u>-</u>	<u>3.746.268.557</u>
Net profit for the period	-	-	-	-	178.145.746	-	(1.341.079)	176.804.667
Actuarial gain / loss for the period	-	-	-	-	15.782.924	-	-	15.782.924
	-	-	-	-	193.928.670	-	(1.341.079)	192.587.591
Dividends related to 2020	-	-	-	-	(95.839.089)	-	-	(95.839.089)
Consolidation exchange rate difference	-	-	-	-	-	30.461.439	1.188.132	31.649.571
Non-controlling interests	-	-	-	-	-	-	93.701.702	93.701.702
Balance on 31 December 2021	<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.785.866.415</u>	<u>16.520.600</u>	<u>93.548.755</u>	<u>3.968.368.332</u>
Net profit for the period reported	-	-	-	-	351.895.142	-	(4.826.671)	347.068.471
Actuarial gain / loss for the period	-	-	-	-	2.452.222	-	-	2.452.222
	-	-	-	-	354.347.364	-	(4.826.671)	349.520.693
Establishing profit reserves	-	-	-	-	(21.873.676)	-	-	(21.873.676)
Legal reserve increase	-	-	-	-	21.873.676	-	-	21.873.676
<i>Transactions with shareholders:</i>								
Increase of share capital	1.766.076.600	-	-	-	(1.766.076.600)	-	-	-
Dividends related to 2021	-	-	-	-	(174.488.368)	-	-	(174.488.368)
Consolidation exchange rate difference	-	-	-	-	-	3.411.659	(11.808.100)	(8.396.441)
Non-controlling interests	-	-	-	-	-	-	5.904.050	5.904.050
Balance on 31 December 2022	<u>1.883.815.040</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>199.648.810</u>	<u>19.932.259</u>	<u>82.818.034</u>	<u>4.140.908.265</u>

The exchange rate differences on consolidation arise from the presentation of the financial statements of the subsidiary Eurotransgaz in the reporting currency of the parent company (RON).

Chairman of the Board of Administration

Văduva Petru Ion

Director - General

Ion Sterian

Chief Financial Officer

Marius Lupean

Notes 1 to 33 are part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
(expressed in lei, unless otherwise stated)

	<u>Note</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
Cash generated from operations	26	661.712.514	622.542.890
Interest paid		(69.604.175)	(7.369.936)
Interest received		1.277.835	972.988
		<u>(77.532.781)</u>	<u>(24.095.578)</u>
Paid profit tax			
Net cash inflow from operation activities		515.853.393	592.050.364
Cash flow from investment activities			
Payments to acquire intangible assets		(598.243.216)	(941.370.046)
Payments to acquire tangible assets		(18.801.250)	(47.304.652)
Receipts from the disposal of tangible assets		479.363	861.814
Cash flow from connection fees and grants		<u>133.208.997</u>	<u>206.422.259</u>
Net cash used in investment activities		<u>(483.356.106)</u>	<u>(781.390.625)</u>
Cash flow from financing activities			
Increase of share capital		3.205.405	-
Long-term loans withdrawals		-	403.248.362
Shareholder's contrubutions		-	103.086.442
Long term loans repayments		(143.485.273)	(70.179.940)
Credit withdrawals/repayments for working capital		291.740.052	(20.285.208)
Payments IFRS 16		(5.157.454)	(4.704.239)
Dividends paid		<u>(175.088.518)</u>	<u>(96.322.140)</u>
Net cash used in financing activities		(28.785.788)	314.843.277
Net change in cash and cash equivalents		<u>3.711.499</u>	<u>125.503.016</u>
Cash and cash equivalent as at the beginning of the year	13	<u>414.955.056</u>	<u>289.452.040</u>
Cash and cash equivalent as at the end of the period	13	<u>418.666.555</u>	<u>414.955.056</u>

Chairman of the Board of Administration
Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (‘company’) has as main activity the transmission of natural gas. Also, the company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 December 2022, the majority shareholder of the company is the Romanian state, through the General Secretariat of the Government.

The company was established in May 2000, following several reorganizations of the gas sector in Romania: its predecessor was part of the former national gas monopoly SNGN Romgaz SA (‘predecessor company’), which was reorganized under Government Decision 334/2000.

The natural gas sector is regulated by the ‘National Energy Regulatory Authority’ - ‘ANRE’. ANRE’s main responsibilities are the following:

- issuing or withdrawing licenses for companies operating in the natural gas sector;
- publishing framework contracts for the sale, transmission, acquisition and distribution of natural gas;
- setting the criteria, requirements and procedures related to the selection of eligible consumers;
- setting the pricing criteria and the calculation methods for the natural gas sector.

The company is headquartered in **1 C.I. Motaş Square, Mediaş, Romania**.

From January 2008, the company is listed at the Bucharest Stock Exchange, as a Tier 1 company, under the TGN symbol.

On 18 December 2017, the limited liability company EUROTRANSGAZ SRL Chisinau (EUROTRANSGAZ S.R.L.) was established in the Republic of Moldova. SNTGN Transgaz SA **Mediaş is the sole shareholder of EUROTRANSGAZ S.R.L. under EGMS Resolution no. 10/12** December 2017 on the establishment company.

The core business of EUROTRANSGAZ is:

1. Natural gas production; natural gas transmission; natural gas distribution; natural gas storage; natural gas supply
2. Transmission through pipelines
3. Storage
4. Business and management consulting activities.

The share capital of EUROTRANSGAZ S.R.L. as of 31 December 2022 is in the amount of MDL 772.687.005 (equivalent in RON of lei 187.608.405) and is wholly owned by SNTGN Transgaz SA Medias - the founder of the Company, as sole shareholder.

The Decision of the Board of Administration of March 2018 approved the signing of the Sale and Purchase Agreement of I.S Vestmoldtransgaz and the payment of the price offered for the privatization and all taxes and fees related to the privatization process.

Based on the Decision no.39/05.09.2019, the Board of Directors of SNTGN Transgaz S.A. approved the authorization of Eurotransgaz (ETG) administrators to register the sale-purchase contract and the transfer of the property right on the single asset complex IS ‘‘Vestmoldtransgaz’’ and also to carry out any actions necessary for the reorganization procedure of Vestmoldtransgaz (VTMG) into a limited liability company.

In 2021 the European Bank for Reconstruction and Development (EBRD) became a 25% shareholder of Vestmoldtransgaz S.R.L., by depositing funds in amount of MDL 414.986.000, of which MDL 394.178.670 was recorded as a contribution to the statutory capital and the difference of MDL 20.807.330 was recognized as capital premia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

1. GENERAL INFORMATION (CONTINUED)

For the purpose of consolidating this set of financial statements, the non-controlling interest in the Group's share capital in amount of MDL 360.974.897 represents EBRD's share in the total net assets of the Vestmoldtransgaz S.R.L. in statement as at 31 December 2022.

The consolidation method applied is the global integration method, based on a percentage of control by the parent company greater than 50%.

The Ordinary General Meeting of Shareholders approves the annual financial statements of the Company based on the reports of the Board of Administration and of the financial auditors.

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

The continuation of the economic reforms by the Romanian authorities is necessary for the consolidation of the internal macro-financial framework. The positive performances the Romanian economy registered must be consolidated by the application of a coherent mix of policies. In this context it can be noticed that:

- (i) According to European Commission forecasts, after a high-growth 2022, Romania's economy is set to slow, with real GDP expected to grow by around 2% in the coming years, due to rising inflation, tightening financial conditions and the aftermath of Russia's war of aggression against Ukraine. Inflation is expected to peak at the end of 2022 and remain high in 2023 before falling in 2024. Unemployment will remain at around 5-6%. The general government deficit is projected to gradually decline to 4,8% in 2024, as a result of high revenues and falling current expenditure as a share of GDP, mainly on the back of a significant increase in nominal GDP. The debt-to-GDP ratio will be around 47,6% in 2024. Overall, real GDP is projected to grow by 5,8% in 2022, 1,8% in 2023 and 2,2% in 2024.
- (ii) In the meeting of 10 January 2023, the Board of the National Bank of Romania decided:
 - to increase the monetary policy rate to 7,00 % per year, from 6,75 % per year from 11 January 2023;
 - increase the interest rate on the lending facility (Lombard) to 8,00 per cent per year from 7,75 per cent per year and increase the interest rate on the deposit facility to 6,00 per cent from 5,75 per cent per year from 11 January 2023;
 - to maintain the current levels of the mandatory minimum reserves for the lei and currency liabilities of the credit institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(expressed in lei, unless otherwise stated)**

- (iii) In view of the November 2022 NBR Inflation Report, the annual CPI inflation rate rose to 15,88 percent in September (0,83 percentage points higher than in June), but slowed down compared to the previous quarter. Disinflationary action was exerted by the fuel group as a result of the government's measure to compensate the price of a litre of fuel by 50 bani (starting in July), but also of the slightly downward slope of the Brent price throughout the third quarter. Also in the energy segment, the electricity and gas bill payment support scheme continued to strongly dampen the pass-through of successive shocks in the energy markets into final prices. The economic environment remains burdened by inflationary pressures stemming from production costs, the pass-through of which to consumer prices is facilitated by resilient demand. The phenomenon is more pronounced for food commodities - especially processed food, with a substantial contribution to the increase in adjusted core CORE2 inflation, whose annual change reached 11,9% in September.
- (iv) Fitch International Rating Agency confirmed on 17.06.2022 the rating of the National Natural Gas Transmission Company Transgaz at "BBB-" with stable outlook. "The confirmation of Transgaz' rating is based on its strong business profile as title holder and operator of the gas transmission network in Romania, as well as our expectations regarding the continuity of the regulatory framework in the new regulatory period from October 2024," the agency's report said.
- (v) Fitch Ratings confirmed Romania's sovereign rating at "BBB " with a negative outlook, which is the last rating in the "investment-grade" category (recommended for investment), according to a press release from the financial rating agency of 07.10.2022. The negative outlook reflects downside risks to Romania's economic, fiscal and external performance from the war in Ukraine and the European energy crisis, aggravated by the much weaker euro area growth outlook and tighter external financing conditions than at the time of the last review in April. These risks are compounded by the competing policy objectives underlying the persistent macroeconomic imbalances. They also reflect continued uncertainty about the implementation of policies to address structural fiscal imbalances over the medium term, despite the progress made this year.

At the end of 2021, as compared to the end of 2020, the LEU depreciated both against the EURO (`EUR`) and the US dollar (`USD`). Thus, as compared to the end of 2020, the LEU depreciated by 1,62% against EUR (4,9481 as at 31 December 2021; 4,8694 as at 31 December 2020) and depreciated by 10,20% against the USD (4,3707 as at 31 December 2021; 3,9660, as at 31 December 2020).

At the end of 2022, the LEU increased against the EURO (`EUR`) and depreciated against the US **dollar (`USD`)**. Thus, as compared to the end of 2022 the LEU increased by by 0,01% against EUR (4,9474 as at 31 December 2022, ; 4,9481 as at 31 December 2021 and depreciated by 6,04% against USD (4,6346 as at 31 December 2022, 4,3707 lei as at 31 December 2021).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared based on a going concern principle.

The main accounting policies applied in the preparation of these financial statements are presented below. These policies were consistently applied to all the financial years considered, unless otherwise stated.

3.1 Basis of preparation

The financial statements of the company were prepared in accordance with the International Financial Reporting Standards adopted by the European Union (`EU IFRS`). The financial statements were prepared based on the historical cost convention, except for the financial assets which are measured at fair value by the profit and loss account or at the fair value among other elements of the comprehensive income.

The preparation of the financial statements in accordance with EU IFRS requires the use of critical accounting estimates. Also, the management is required to use judgment in applying the company's accounting policies. Areas with a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 5.

Since 2017, the year in which EUROTRANSGAZ was established with SNTGN Transgaz S.A. as its founder, the company is required to prepare consolidated financial statements in accordance with IFRS 10-Consolidated Financial Statements, IFRS 12-Disclosure of Interests in Other Entities and IAS 21-The Effects of Changes in Foreign Exchange Rates.

As of 2018, following the acquisition of Vestmoldtransgaz SRL in Moldova by Eurotransgaz SRL, Transgaz, as the parent company, files consolidated group financial statements including the consolidation of Eurotransgaz SRL with Vestmoldtransgaz SRL in Moldova.

The consolidation of Transgaz with ETG was done in stages, i.e. the consolidation of ETG with VTMG in the first phase, followed by their consolidation in the financial statements of the parent company, Transgaz.

The annual financial statements of non-resident companies are converted using the closing rate method, which means that the balance sheet is converted at the NBR rate issued on 31 December 2022 (closing rate) and the income statement is converted at the average annual rate published by the NBR for Q3 2022. The use of these different rates results in a conversion difference.

In accordance with the Accounting Law no. 82/1991 republished, as amended and supplemented, and with OMFP 2844/2016, as amended and supplemented, for the approval of accounting regulations in accordance with International Financial Reporting Standards, the parent company must prepare both its own individual financial statements and consolidated financial statements of the Group.

IFRS 10 sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee and also sets out the accounting requirements for the preparation of consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The parent company must prepare consolidated financial statements using uniform accounting policies for similar transactions and events in similar circumstances. Consolidation of an investee shall begin at the date when the investor obtains control and shall cease when the investor loses control of the investee.

The parent company must disclose non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent company. Changes in a parent's interest in the equity of a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e., transactions with owners, in their capacity as owners).

If a parent-company loses control of a subsidiary, the parent shall: (a) derecognise the assets and liabilities of the former subsidiary in the consolidated statement of financial position; (b) recognise any undistributed investment in the former subsidiary at its fair value when it loses control and subsequently account for those investments and amounts due from or to the former subsidiary in accordance with the relevant IFRSs. That fair value shall be deemed to be the fair value at initial recognition of a financial asset in accordance with IFRS 9 or, if applicable, the cost at initial recognition of an investment in an association or joint venture; (c) recognise the gain or loss associated with the loss of control attributable to the former controlling interest.

The consolidated financial statements incorporate the financial statements of the Company and the affiliated entity, EUROTRANSGAZ under the control of the Company by combining similar items of assets, liabilities, equity, expenses and cash flows of the parent company with those of the affiliated company, offsetting (eliminating) the carrying amount of the parent's investment in each subsidiary and the parent's share of each subsidiary's equity and eliminating in full the assets and liabilities, equity, income, expenses and cash flows within the group that relate to intra-group transactions.

A company controls an investee when it is exposed to or has rights to variable income based on its ownership interest in the investee and has the ability to influence that income through its authority over the investee. The control principle therefore establishes the following three elements of control:

1. Authority over the investee;
2. Exposure or rights to variable income based on participation in the investee; and
3. Ability to use authority over the investee to influence the value of the investor's results.

The Company presents investments in the affiliated entity in the separate financial statements as "**Financial assets**".

IFRS 3 requires the acquirer, after recognising identifiable assets, liabilities and all non-controlling interests to identify any differences between:

- a) Aggregation of the consideration transferred, any non-controlling interests in the entity acquired and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interests in the acquiree, and
- b) Net identifiable assets acquired;

Generally the difference will be recognised as goodwill. In accordance with IAS 36 - Impairment of Assets, goodwill acquired in a business combination shall be tested for impairment annually.

Consolidation procedures under IFRS 10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated financial statements:

- combines similar items of assets, liabilities, equity, income, expenses and cash flows of the parent company with those of subsidiaries;
- offsets (eliminates) the carrying amount of the parent's investment in the subsidiary and the parent's share of the subsidiary's equity; accounting is in accordance with IFRS 3;
- fully eliminates assets and liabilities, equity, income, expenses and cash flows within the group that relate to transactions between group entities: profits or losses arising from intra-group transactions that are recognised in assets, such as inventories and fixed assets, are fully eliminated.

Accounting regulations applicable as of 2016

Amendments to various Improvements to IFRSs (2014-2016 Cycle) resulting from the project to improve IFRSs (IFRS 1, IFRS 12, IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (Amendments to IFRS 12 are applicable for the annual periods beginning on or after 1 January 2017 and the Amendments to IFRS 1 and IAS 28 are applicable for the annual periods beginning on or after 1 January 2018).

(a) Standards and interpretations applicable as of 2017

The following standards and amendments of the current standards, issued by the International Accounting Standard Board (IASB) and adopted by the European Union (EU) became applicable in 2017:

Amendments to IAS 12 "Income Tax"

Recognition of Deferred Tax Assets for Unrealised Losses (applicable for the annual periods beginning on or after 1 January 2017);

Amendments to deferred tax recognition for unrealized assets clarify the following aspects:

- Unrealized loss on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;
- The accounting value of an asset does not limit the estimation of the future taxable profits
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;
- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax loss, an entity will estimate deferred tax in combination with other deferred tax of the same type.

The Amendments are applicable for the period starting from or after 2017. The previous application is allowed;

The amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (applicable for the annual periods beginning on or after 1 January 2017);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Standards and interpretations applicable as of 2018

At the date of reporting of these Financial Statements, the following standards, revisions and interpretations became applicable:

IFRS 9 Financial Instruments - adopted by the UE on 22 November 2016 (applicable for the annual periods beginning on or after 1 January 2018) replaces IAS 39 – Financial Instruments - Recognition and Measurement;

IFRS 9 includes the requirements on financial instruments referring to recognition, classification, evaluation, depreciation loss, derecognition and hedge accounting against risks:

- Classification and evaluation: IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income elements, at fair value through profit or loss. The IFRS 9 classification is determined by the cash flow and business model in which an asset is held. This unitary approach based on principles eliminates the financial asset classification categories in IAS 39: held-to-maturity, loans and advances and available-for-sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.
- According to IFRS 9, derivatives incorporated into contracts, where the host instrument is a financial instrument for the purpose of this standard, are not separate, but the entire hybrid instrument is considered for classification.
- Impairment loss: IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected loss from impairment of receivables. The standard requires entities to recognize the anticipated impairment loss on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment loss over their lifetime. The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.
- *Impairment*: applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows);
- *Hedge accounting*: IFRS 9 introduces a significantly improved hedge accounting model which includes additional disclosure requirements for risk management activity. The new model is a significant revision of the hedge accounting principles, which allows the alignment of the accounting treatment with the risk management activities.

IFRS 15 "Revenue from Contracts with Customers" as subsequently amended and amendments to IFRS 15 "Effective Date of IFRS 15" adopted by the EU on 22 September 2016 (applicable for the annual periods beginning on or after 1 January 2018);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15 establishes a single model for the entities for revenue accounting resulting from customer contracts, replacing the following standards and interpretations from the date of entry into force:

- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programmes;

Standards and interpretations that will come into force/applicable as of 2019 or at a future date

- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 – Income - Barter Transactions Involving Advertising Services

The core principle of IFRS 15 is that an entity recognizes revenue when the goods or services promised to customers are transferred at a value that reflects the consideration the entity expects to have the right to exchange for those goods or services. An entity recognizes revenue in accordance with this core principle by applying the following steps: contract identification; identifying performance obligations from the contract; determining the transaction price; allocating the transaction price for the contract performance obligations; recognizing revenue when (or as) it fulfils an execution obligation.

The revenue from services provision is recognized as follows:

- based on the tariffs regulated by ANRE for firm/ interruptible natural gas transmission services through the National Transmission System;

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- based on the transmission tariffs approved by ANRE for the transmission capacity booking on the entry/ exit points in/out of the natural gas transmission pipeline Isaccea 2-**Negru Vodă 2**;
- based on the tariffs negotiated within the transmission contract for the transmission capacity booking on the Isaccea 3-**Negru Vodă 3 gas transmission pipeline**;
- by auction, on the Regional Capacity Booking Platform (RBP) for the trading of bundled and unbundled capacity at cross-border interconnection points with transmission systems from European Union member countries,
- on the basis of regulated tariffs for activities related to the operation of the gas transmission system;
- prices determined on the basis of ANRE regulations for the balancing and neutrality activity within the provision of the transmission service;
- tariffs determined based on ANRE regulations for the administration of the balancing market.

For goods developed under the Concession Agreement, achieved in-house, the revenue is recognized at the level of the costs incurred.

Amendments to IAS 40 "Property Investment"—*property related to Investment transactions (applicable for the annual periods beginning on or after 1 January 2018)*;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (applicable for the annual periods beginning on or after 1 January 2018); the interpretation refers to the determination of the transaction date to determine the exchange rate to be used for the initial recognition of an asset, expense or income (or part thereof) in the derecognition of a non-monetary asset or non-monetary debt generated by a payment in advance in foreign currency. IFRIC 22 does not provide for guidance on the definition of the monetary and non-monetary items. A payment or advance payment generally leads to the recognition of a non-monetary asset/liability, but it may also lead to the recognition of a monetary asset/liability.

At the date of the reporting of these Financial Statements the following standards and interpretations are not applicable and they will enter into force on or after 1 January 2019:

- IFRS 16 Leases (applicable for the annual periods beginning on or after 1 January 2019): at the date of entry into force IFRS 16 will replace the following standards and interpretations:
 - IAS 17 - Leases;
 - IFRIC 4- Determining whether an Arrangement Contains a Lease;
 - SIC 15 – Operating Leases - Incentives;
 - SIC 27- Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 provides a control model for the identification of leases by establishing principles for the recognition, measurement and disclosure of leases, i.e. the right to control the use of an identified asset for a specified period of time in return for consideration. The right to control the use of the identified asset exists if the customer has the right to obtain substantially all the economic benefits and also the right to determine the manner and purpose for which the asset is used.

IFRS 16 introduces significant changes in lease accounting, in particular by eliminating the distinction between finance lease and operating lease, and requires the lessee to recognize a usable asset and a lease liability at the date of commencement of the contract, except for short-term leases or low-value asset lease.

As of 1 June 2020, IFRS 16 was amended to provide a practical expedient to lessees` rent concessions occurring as direct consequence of the COVID-19 pandemic and meeting the following criteria:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) The reduction in lease payments relates only to payments due on or before 30 June 2021; and (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions meeting these criteria can be accounted according to the practical opportunity, which means that the lessee does not assess whether the rent concession meets the definition of a lease modification. The lessees apply other IFRS 16 requirements in the accounting of the accounting for the concession.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IFRS 2 `Share-based Payment` – Classification and measurement of share-based payment transactions (applicable for the annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 4 `Insurance Contracts` - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`);
- Amendments to IFRS 10 `Consolidated Financial Statements` and IAS 28 `Investments in Associates and Joint Ventures` - Sale or contribution of assets between an investor and its associate or joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);
- IFRIC 23- `Uncertainty over Income Tax Treatment` was prepared as an interpretation regarding IAS 12 Income Taxes, to specify the way of the uncertainty over the income tax accounting is presented.

The IFRS Interpretation Committee developed IFRIC 23 to clarify uncertainties over how tax law applies to a particular transaction or circumstance or the extent to which a tax authority will accept a company`s tax treatment company. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty .

In 2020, the IASB finalizes the amendments to IAS 1 and IAS 8 on the definition of “significant” “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity based on that financial statement, which provides financial information about a particular reporting entity. ”

The following changes are valid as of 1 January 2022:

- Onerous contracts - The cost of performing a contract (Amendments to IAS 37); IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts - Cost of Fulfilling a Contract) - In May 2020, the IASB issued amendments to IAS 37 that specify the costs that a company includes when assessing whether a contract will result in a loss and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts as they increase the scope of costs that are included in the assessment of the onerous contract.
- Annual Improvements to IFRSs: 2018-2020 Cycle - In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples accompanying IFRS 16 Leasing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The Conceptual Framework for Financial Reporting (Amendments to IFRS 3) - In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
- IAS 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use) - In May 2020, the IASB issued amendments to IAS 16 that prohibit a company from deducting amounts received from the sale of items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales revenue and any related costs in profit or loss.

New standards, interpretations and amendments with subsequent applicability.

The company has chosen not to apply in advance these standards, interpretations and amendments to be subsequently applicable

- IFRS 17 Insurance Contracts - IFRS 17 introduces an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there was significant diversity worldwide in the accounting and presentation of insurance contracts, with IFRS 4 allowing many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. In December 2021, the IASB amended IFRS 17 to add a transition option to address potential accounting mismatches between financial assets and insurance contract liabilities in comparative information presented on initial application of IFRS 17 and IFRS 9, thereby improving the usefulness of comparative information for users of financial statements.
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Long-Term) - In January 2020, the IASB issued amendments to IAS 1 that clarify how an entity classifies liabilities as current or long-term. The amendments originally had an effective date of 1 January 2022, however, in July 2020, this was delayed until 1 January 2023 due to the COVID-19 pandemic. These changes are expected to have a significant impact on many entities, with several debts being classified as current, particularly those with loan-related conditionalities. The International Accounting Standards Board (IASB) issued **“Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)” providing a more general approach to the classification of liabilities in accordance with IAS 1 based on existing contractual arrangements in the reporting.** The International Accounting Standards Board (IASB) issued **“Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)” providing a more general approach to the classification of liabilities in accordance with IAS 1 based on existing contractual arrangements in the reporting.**
- The changes were initially valid for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was postponed to annual reporting periods beginning on or after 1 January 2023:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Classification of Liabilities in Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of the recognition of any assets, income or expenses or the information that entities disclose about these items. The following is clarified:

- ✓ The classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period and the wording shall be aligned in all relevant paragraphs to refer to the "right" to defer settlement by at least twelve months and clarify that only the rights in force "at the end of the reporting period" should affect the classification of a debt;
 - ✓ The classification is not affected by expectations that an entity will exercise its right to defer the settlement of a debt;
 - ✓ Settlement refers to the transfer to the counterparty of the cash, equity instruments, other assets or services.
 - ✓ An entity applies this interpretation for annual reporting periods beginning on at or after 1 January 2019. Application prior to this date is permitted.
 - ✓ An `uncertain tax treatment` is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under the tax law.
- Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2) - In February 2021, the IASB issued amendments to IAS 1 that change the disclosure requirements regarding accounting policies from "significant accounting policies" to "disclosures about material accounting policies". The amendments provide guidance on when accounting policy information can be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-binding guidance, no mandatory effective date has been specified for amendments to IFRS Practice Statement 2.
 - Definition of accounting estimates (amendment to IAS 8) - In February 2021, the IASB issued amendments to IAS 8 that added to the definition of accounting estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless they result from correcting prior period errors.
 - Deferred tax relating to assets and liabilities arising from a single transaction (amendments to IAS 12) - In May 2021, the IASB issued amendments to IAS 12 clarifying whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability recognised simultaneously (for example, a lease within the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability that, at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Reporting on segments

Reporting on business segments is made consistently with the internal reporting by the main operating decision-maker. The main operating decision-maker, which is in charge with resource allocation and assessment of business segments' performance, was identified as being the Board of Administration, which makes the strategic decisions.

3.3 Transactions in foreign currency

a) *Functional currency*

The items included in the financial statements of the company are valued using the currency of the economic environment where the entity operates (‘functional currency’). The financial statements are presented in Romanian leu (‘lei’), which is the functional currency and the currency of company presentation.

b) *The rounding level used in the presentation of the financial statements*

In the financial statements the value are presented rounded by units.

c) *Transactions and balances*

Transactions in foreign currency are converted into functional currency using the exchange rate valid on the date of transactions or valuation at the balance sheet date. Profit and loss resulting from exchange rate differences following the conclusion of such transactions and from the conversion at the exchange rate at the end of the reporting period of monetary assets and liabilities denominated in foreign currency are reflected in the statement of the comprehensive income.

3.4 Accounting for the effects of hyperinflation

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 ‘Financial Reporting in Hyperinflationary Economies’. This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the company no longer applies IAS 29.

Therefore, values reported in terms of purchasing power on 31 December 2003 are treated as basis for the accounting values of these financial statements.

3.5 Intangible Assets

Computer Software

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years).

Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service Concession Agreement

From 2010, the company started to apply IFRIC 12 *Service Concession Arrangements*, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, the modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

As presented in Note 8, the company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement (`SCA`) had no commercial substance (i.e. nothing substantial changed in the way the company operated assets; cash flows changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of the derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12). Consequently, the company continued to recognize the asset, but reclassified it as intangible asset. The company tested the intangible assets recognized at the time without identifying depreciation. As they occur, costs of replacements are recorded as expense, while the improvements of assets used within SCA are recognized at cost.

Intangible assets are amortized at zero value during the remaining period of the concession agreement.

3.6 Tangible Assets

Tangible assets include buildings, land, assets used for the non-regulated international transmission activity (e.g. pipelines, compressors, filtering installations, devices).

The company's policy is to reflect intangible assets at their cost at their cost less any accumulated depreciation and any impairment accumulated losses.

Buildings include particularly ancillary buildings of operating assets, a research centre and office buildings.

Further expenses are included in the book value of the asset or recognized as separate asset, as the case may be, only when the entry of future economic benefits for the company associated to the item is likely and the cost of the respective item can be valued in a reliable manner. The book value of the replaced asset is taken off the books. All the other expenses with repairs and maintenance are recognized in the statement of comprehensive income in the financial period when they occur.

Land is not depreciated. Depreciation on other items of tangible assets is calculated based on the straight-line method in order to allocate their cost minus the residual value, during their useful life, as follows:

	<u>Number of years</u>
Buildings	50
Assets of the gas transmission system	20
Other fixed assets	4 - 20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of a long lead asset are those costs of indebtedness that would have been avoided if expenses with the asset hadn't been made. To the extent that funds are borrowed specifically for obtaining a long-lead asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the revenue from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for obtaining the long-lead asset.

The costs of the funds borrowed for obtaining a long lead asset (achievement of the investment) are capitalized by the company on the asset as a difference between the current leverage costs related to such loan during the period and any revenue from the investments obtained from the temporary investment of these loans.

Borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred, unless the operator has the contractual right to receive an intangible asset, in which case the borrowing costs attributable to an arrangement are capitalized during the engagement stage.

The residual values **of the assets** and their useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

The book value of the asset is written down immediately to its recoverable amount if the book value of the respective asset is greater than its estimated recoverable amount (Note 3.7).

Gain and loss on disposal are determined by comparing amounts to be received with the book value and are recognized in the statement of comprehensive income in the period in which the sale took place.

3.7. Impairment of non-financial assets

Depreciated assets are reviewed for impairment loss whenever events or changes in circumstances indicate that the book value may not be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The impairment loss is the difference between the book value and the recoverable amount of the asset. The recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. An impairment loss recognized for an asset in prior periods is reversed if there are changes in the estimates used to determine the recoverable amount of the asset at the date the last impairment loss was recognized. For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent cash flows (cash generating units).

Depreciated non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474.952.575 (31 December 2017: RON 474.952.575), representing gas pipelines, are managed by the company. Therefore, the company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8). The company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the company is directly influenced by the state of the network. Therefore, before 1 January 2010, the company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.).

Accounting policies applied to these assets were the same as those applied to the company's tangible assets (Notes 3.7 and 3.6).

The company adopted IFRIC 12 as of 1 January 2010 and reclassified these assets and the subsequent improvements as intangible assets (except for international transmission pipelines).

Starting with 01.01.2018, IFRS 15 "Revenues from the contracts with the clients" became applicable in Romania. This standard replaces a set of older standards (such as IAS 11, IAS 18) and changes IFRIC 12 giving a new interpretation to the contract notion. Therefore, our company registered the discounted receivables related to the regulated value remained undepreciated at the end of the concession agreement as a counterperformance and an intangible asset at a value diminished with the amount of the discounted receivables.

In accordance with Public Concession Law No. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the government. As of October 2007, the royalty was set at 10% of the revenue. The duration of the concession agreement is 30 years, until 2032.

Subsequent to entry into force of the provisions of art. 103 para. 2 of Law no. 123/2012, as of 12 November 2020, the royalty was set at 0,4%, from the domestic and international gas transmission services provided by the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial assets

The company classifies its financial assets into the following categories: measured at fair value through profit or loss, measured at depreciated cost and measured at fair value by other elements of the comprehensive income. Classification is made depending on the purpose for which the financial assets were acquired. The management sets the classification of these fixed assets upon initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in the current assets, except for those which have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the company include `trade receivables and other receivables` and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.

In 2019, ANRE Order no. 41/2019 on the adjustment of asset regulated value to the inflation rate. The company records the present value of the contractual cash flows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

(b) Financial assets measured at fair value through the profit or loss account or measured at fair value by other elements of the comprehensive income

IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income, at fair value through profit or loss. The classification on IFRS 9 is determined by the cash flow characteristics and the business model in which an asset is held. This unitary approach based on principles eliminates the classification of financial assets in IAS 39: held-to-maturity investments, loans and receivables, and available for sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Upon initial recognition, an entity may make an irrevocable choice to present to other comprehensive income elements the subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is it a recognized contingent consideration by an acquirer in a business combination to which IFRS 3 applies. In this case it will recognize the dividends from that investment in the income statement.

(c) Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset or group of financial assets suffered impairment. A financial asset or group of financial assets is impaired and impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a `loss generating event`) and if such event (or events) which generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for individual financial assets in the portfolio, including:
 - adverse changes in the payment status of debtors in the portfolio; and
 - economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The company assesses first whether objective evidence of impairment exists.

(i) Assets registered at amortized cost

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the book value of the asset and the updated value of estimated future cash flows (excluding future credit loss which was not incurred), discounted at the asset's original rate; the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), the reconsidered of impairment loss recognized previously in profit or loss.

(ii) Assets measured at cost

The share held at Eurotrangaz SRL is recognized at its fair value as of the date of trading, being evaluated, after the initial recognition, at cost according to Art.4.1.2 of IFRS 9 and Art.10.a- IAS 27- Separate Financial Statements:

”When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 or using the equity method.”

In 2022 the company evaluated the stake held in Eurotrangaz SRL in order to identify any possible impairment losses. No impairments were found.

3.10. Inventories

Inventories are stated at the lower of cost and net achievable value.

The components recovered from disassemblings and repairs of pipelines built by the company are recorded as stocks at a value determined by a technical committee. The amount so determined does not exceed the net achievable value.

The cost is determined based on the first in, first out method. Where necessary, adjustment is made for obsolete and slow moving inventories. Individually identified obsolete inventories are adjusted for the full value or written off. For slow moving inventory, an estimate is made of the age of each main category on inventory rotation.

3.11. Value added tax

The calculation of the general adjustment for the depreciation of stocks is made monthly depending on the age of the existing items in stock, applying the following percentages according to age: 0 - 12 months 0%; 1 - 2 years 10%; 2 - 3 years 30% - 40%; over 3 years 75% - 80%.

The cost of natural gas used for the balancing activity related to the transmission system is determined based on the average weighted cost method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **(expressed in lei, unless otherwise stated)**

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The minimum gas stock that the company, as holder of the national natural gas transmission system operating license is required to have in underground storage facilities, is established by decision of the President of the National Energy Regulatory Authority (ANRE President). The Decision no. 588/08.04.2020 of the ANRE President established the obligation for the company to have a minimum level of natural gas stock of 560.724,517 MWh as at 31 October 2020, and the Decision no. 748/14.04.2021 of the ANRE President established the obligation for the company to have a level of natural gas stock of 597.115,143 MWh as at 31 October 2021.

The debt adjustment policy according to IFRS9 is presented in note 12.

3.12. Trade receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If the collection period is one year or less (or in the normal operating cycle of the business), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, minus the adjustments for impairment.

The value added tax must be paid to tax authorities based on the monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If the deductible VAT is higher than the output VAT, the difference is refundable at the request of the company. That VAT can be refunded after a tax audit, or, even in its absence, if certain conditions are met. VAT on sales and purchases which are not settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability. In cases where adjustments were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT has to be paid to the State and can be recovered, as from the date of the judgment or, as the case may be, the date of the closure of the bankruptcy, according to the insolvency law.

3.13. Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, cash in current accounts with banks, other short-term investments with high liquidity and with maturity terms of up to three months and overdrafts from banks. In the statement of financial position, overdraft facilities are registered at loans, under current liabilities.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Additional costs directly attributable to the issue of new shares or options are registered at equity as a deduction, net of tax, from the receipts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Dividends are recognized as liabilities and deducted from equity at the end of the reporting period if they are declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

The company did not distribute partial dividends during the financial year.

3.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs recorded. Subsequently, borrowings are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss during the borrowings, based on the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer payment of debt for no less than 12 months after the end of the reporting period.

3.16 Current and deferred profit tax

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The company periodically evaluates situations where the applicable tax regulations are subject to interpretation and establishes provisions/ adjustments for impairment, where appropriate, for the amounts with accounting/fiscal impact.

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which

are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

Deferred revenue tax assets are recognized to the extent that it is probable that future taxable profit be derived from temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Commercial payables and other payables

Suppliers and other payables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. Commercial payable accounts and other payables are closed as a result of the payment of debts, offsetting with receivables or their write-off through the profit and loss account.

3.18 Deferred revenue

Deferred revenue is recorded for connection fees applied to customers upon their connection to the gas transmission network, for the objectives received free of charge and for grants collected.

The grants collected are assimilated to the governmental subsidies.

The governmental subsidies are acknowledged to their market value when there is a reasonable assurance that they will be received and that the relevant conditions will be met.

For the connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge, for the grants the company chose to record the total asset value and a deferred revenue.

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the remaining unamortised value at the end of the concession agreement at a counterperformance and an intangible asset at a value less the updated receivable.

3.19 Employee benefits

In the normal course of business, the company makes payments to the Romanian state on behalf of its employees, for health funds, pensions and unemployment benefits. All the company employees are members of the pension plan of the Romanian state, which is a fixed contribution plan. These costs are recognized in the profit and loss account with the recognition of salary expenses.

Benefits granted on retirement

Under the collective agreement, the company must pay the employees on retirement a compensatory amount equal to a certain number of gross salaries, depending on the time worked in the gas industry, working conditions etc. The company recorded a provision for such payments (see

Note 10). The obligation recognized in the balance sheet represents the present value of the obligation at the balance sheet date. The obligation is calculated annually by independent experts using the Projected Unit Credit Method. The present value is determined by discounting future cash flows with the interest rate of the long-term government bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The current service cost is recognized in the profit and loss account in the employee costs. Interest expense is included in the profit and loss account in the financial costs.

Actuarial gain or loss due to changes in actuarial assumptions is recognized in the statement of comprehensive income in the period for which the actuarial calculation is made.

Social insurance

The company records expenses related to its employees, as a result of granting social insurance benefits. These amounts mainly include the implicit costs of employing workers and, therefore, are included in the salary expenses.

Profit sharing and bonuses

The company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the company's shareholders, after certain adjustments. The company recognizes an obligation where it is required under contract or where there is a past practice which created an implicit obligation.

3.20 Provisions for risks and charges

The provisions for risks and charges are recognized when the company has a legal or implicit obligation as a result of past events, when for the settlement of the obligation an outflow of resources is required, which incorporates economic benefits and for which a credible estimate can be made in terms of the obligation value. Where there are similar obligations, the probability for an outflow of resources to be necessary for settlement is set after the assessment of the obligation class as a whole. The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the company expects the writing back to revenue of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is theoretically certain.

Provisions are measured at the discounted value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.21 Revenue recognition

Revenue covers the fair value of amounts received or receivable from the sale of services and/or goods in the normal course of business of the company. Revenue is recorded net of value added tax, returns, rebates and discounts.

The company recognizes the revenue when their amount can be estimated with certainty, when it is probable that the entity collects future economic benefits and when certain criteria are met for each of the company's activities as described below. The amount of revenue is not considered reliably estimated until all contingencies relating to the sale are settled. The company bases its estimates on historical results, taking into account the type of customer, type of transaction and the specifics of each commitment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(expressed in lei, unless otherwise stated)**

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Revenue from services

Revenue from the domestic and international gas transmission results from the booking the transmission capacity and from the transmission through the NTS of the determined quantities of natural gas, expressed in units of energy, during the validity of a gas transmission contract, and are recognized at the moment of their delivery. During the administration of the transmission contracts, the TSO issues and submits to the NU, by day 15 of the month following the month for which the transmission service was provided: an invoice for the transmission services provided for the previous month, based on the final allocations; an invoice related to the final daily imbalances registered in the previous month; and an invoice exceeding of the capacity booked.

Revenue from international transmission and similar activities are represented by the transmission capacity booking on the Isaccea 2.3 - Negru Voda 2.3 international transmission pipelines and by the amounts receivable for the reporting period under the Termination Agreement of the legacy contract between SNTGN Transgaz SA and GPE concluded for the transmission of natural gas through the T3 transit pipeline on Romanian territory to third countries. According to the Agreement for the termination of the legacy Contract between SNTGN Transgaz SA and GPE, the payment of the remaining amounts to be paid will be made in instalments over a maximum period of three years and the revenues received from transmission are regulated according to ANRE Order 41/2019 and ANRE Order 34/2014 respectively depending on the points where capacity is booked, the monthly difference being classified as assimilated revenues.

According to the Network Code, the gas delivery day is defined as the time period beginning at 7:00 a.m. Romanian local time on any day and ending at 7:00 a.m. Romanian local time on the following day. The gas day shall be reduced to 23 hours at the changeover to daylight saving time and increased to 25 hours at the changeover to winter time, so that all related rights and obligations under the gas transmission contracts shall be increased or reduced accordingly on those gas days

b) Revenue from the sale of goods

Revenue from the sale of goods is registered when the goods are delivered.

c) Interest revenue

Interest revenue is recognized proportionally, based on the effective interest method.

d) Revenue from dividends

Dividends are recognized when the right to receive payment is recognized.

e) Mutual compensation and barter transactions

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies. Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on the available market information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-cash transactions were excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

No barter transactions were performed in 2022 and in 2021.

f) *Revenue from penalties*

Revenue from penalties for late payment is recognized when future economic benefits are expected for the company.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

By the nature of the activities performed, the company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk. company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company. The company does not use derivative financial instruments to protect itself from certain risk exposures.

(a) *Market risk*

(i) Currency risk

The company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets (Note 12) and recognized liabilities.

The company does not perform formal actions to minimize the currency risk related to its operations; so the Company does not apply hedge accounting. The management believes however, that the Company is covered in terms of the currency risk, given that the foreign currency incoming payments (mainly revenue from international transmission) are used to settle liabilities denominated in foreign currency.

The following table shows the sensitivity of profit or loss and equity, to reasonably possible changes in exchange rates applied at the end of the reporting period of the functional currency of the company, with all variables held constant:

	<u>31 December 2022</u>	<u>31 December 2021</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	717.466	130.464
USD depreciation by 10%	(717.466)	(130.464)
EUR appreciation by 10%	(48.434.205)	(45.921.358)
EUR depreciation by 10%	48.434.205	45.921.358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Price risk

The company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 6.204.117 (on December 2021: lei 3.040.424).

(iii) Interest rate risk on cash flow and fair value

The company is exposed to interest rate risk by its bank deposits and variable interest loans. The company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been higher/lower by 8.799.596 (December 2021: 7.912.653 higher/lower) as a result of reducing the interest rate for variable interest loans and the interest rate on the bank deposits.

(b) *Credit risk*

Credit risk is especially related to cash and cash equivalents and trade receivables. The company drew up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of adjustments for doubtful debts, represents the maximum value exposed to credit risk. The company's credit risk is concentrated on the 5 main customers, which together account for 50% of the trade receivable balances on 31 December 2022 (31 December 2021: 45%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. As at 31 December 2022 the company has available payment guarantees from its clients amounting to lei 346.445.075.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

	<u>31 December 2022</u>	<u>31 December 2021</u>
Fără rating	336.387	331.743
BB+	146.038.192	168.203.478
BBB-	147.205.763	1.250.380
BBB	34.429.420	9.243
BBB+	90.012.913	244.753.841
A+	135.448	136.085
AA	<u>319.570</u>	<u>112.021</u>
	<u>418.477.693</u>	<u>414.796.791</u>

All the financial institutions are presented in the Fitch rating or equivalent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) *Liquidity risk*

Preventive liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities.

The company projects cash flows. The financial function of the company continually monitors the company's liquidity requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities (Note 16) at any time, so the company does not violate the limits or loan agreements (where applicable) for any of its borrowing facilities. These projections take into account the company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions.

The Financial Division of the company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.

The table below shows obligations on 31 December 2022 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 31 December 2022 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Loans	2.870.185.324	274.804.999	1.531.875.310	1.063.505.015
Commercial payables and other payables	<u>561.713.941</u>	<u>547.535.460</u>	<u>14.178.481</u>	<u>-</u>
	<u>3.431.899.265</u>	<u>822.340.459</u>	<u>1.546.053.791</u>	<u>1.063.505.015</u>

Maturity analysis of financial liabilities on 31 December 2021 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	2.278.593.629	171.952.005	984.570.956	1.122.070.668
Commercial payables and other payables	<u>588.649.616</u>	<u>571.950.291</u>	<u>16.699.325</u>	<u>-</u>
	<u>2.867.243.245</u>	<u>743.902.296</u>	<u>1.001.270.281</u>	<u>1.122.070.668</u>

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables and other payables (see Note 19) and are not included: payables generated as a result of the legal provisions imposed by the authorities, payables to the employees and advance registered revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments categories:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Financial assets		
Cash and cash equivalents	233.977.930	249.195.225
Term bank deposits	184.688.625	165.759.831
Loans and receivables	2.432.068.467	2.344.915.484
Financial assets - stakes	24.578.237	24.578.237
Provisions related to financial assets - stakes	<u>(24.578.237)</u>	<u>(24.578.237)</u>
	<u>2.850.735.022</u>	<u>2.759.870.540</u>
Financial liabilities		
Debts evaluated to amortised cost:		
Loans	2.190.892.341	2.031.297.592
Liabilities evaluated at fair value:		
Financial securities for contracts	44.668.511	50.028.771
Commercial liabilities and other liabilities	<u>504.810.001</u>	<u>522.356.500</u>
	<u>2.740.370.853</u>	<u>2.603.682.863</u>

In the category including loans and liabilities, the liabilities related to employees and payables registered in advance are not included.

Capital risk management

The company's objectives related to capital management refer to keeping the company's capacity to continue its activity to provide compensation to shareholders and benefits to the other stakeholders and to maintain an optimal structure of the capital, as to reduce capital expenditure. There are no capital requirements imposed from outside.

As for the other companies in this sector, the company monitors the capital based on the indebtedness degree. This coefficient is calculated as net debt divided by total capital. The net debt is calculated as total borrowings (including `current and long-term borrowings`, according to the statement of financial position), except for cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of the financial position, plus the net debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The net indebtedness degree on 31 December 2022 and on 31 December 2021 is reflected in the table below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Total borrowings	2.190.892.341	2.031.297.592
Except: cash and cash equivalents (Note 13)	<u>(418.666.554)</u>	<u>(414.955.056)</u>
Net cash position	<u>1.772.225.786</u>	<u>1.616.342.536</u>
Equity capital	4.140.908.265	3.968.368.332
Leverage ratio	0,43	0,41

Fair value estimate

The fair value of the financial instruments traded on an active market is based on market prices quoted at the end of the reporting period. The fair value of the financial instruments that are not traded on an active market is set using valuation techniques.

It is considered that the book value less the impairment adjustment of trade receivables and payables approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the company for similar financial instruments.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events considered reasonable under certain circumstances.

The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions that have a significant risk of causing an important material adjustment to the book value of assets and liabilities within the next financial year are presented below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

5.1 Assumptions for the determination of the provision for retirement benefits

This provision was calculated based on estimates of the average wage, the average number of employees and the average number of wage payment at retirement, as well as based on the benefits payment scheme. The provision was brought to the present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

The present value of the obligations at 31 December 2022 is of lei 115.479.575 (on 31 December 2020: lei 110.048.408) (Note 21).

Current value presentation for the year 2022 according to the following variables:

	<u>31 December 2022</u>
Inflation rate +1%	126.823.240
Inflation rate -1%	105.427.034
Investment return +10%	107.561.146
Investment return -10%	124.374.482

Analysis of the maturity of benefits payments:

	<u>31 December 2022</u>
Up to one year	5.282.194
Between 1 and 2 years	3.249.417
Between 2 and 5 years	116.985.162
Between 5 and 10 years	321.262.300

5.2 The accounting treatment of the concession agreement

As indicated in Note 8, in May 2002 the company concluded a Concession Agreement with the National Agency for Mineral Resources (‘ANRM’), which entitles the company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, Government Decision (‘GD’) No. 491/1998 and GD No. 334 of 2000 by which the company was established. According to the provisions of this agreement, the company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the company recognized these assets in the statement of the financial position, with an appropriate reserve in equity.

Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the company’s management considered that it is, in substance, an equity component, defined as the residual interest in the company’s assets after the deduction of all debts. In addition, because the company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the company applied IFRIC 12 (Note 3.5).

5.3 The accounting treatment of royalties payable for using the national gas transmission system

As indicated in Note 8, the company pays royalties, calculated as percentage of the gross revenue achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from revenue, because they are not of the nature of taxes collected from customers and sent to the state, given the nature of activity and the regulatory framework:

- the company's revenue is based on tariffs approved by another regulator than the one setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;

As of 1 January 2020, according to ANRE Order no. 1/2020, the company has the obligation to pay annually to ANRE a tariff amounting to 0.062 lei MWh applied to the quantity of natural gas transmitted for carrying out activities in the natural gas sector based on a license.

5.4 Long-term receivables

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor in exchange for the payment of a compensation equal to the unamortized regulated value set by ANRE.

The company believes that the legislative change represents a compensation for the value of the investments made, which the company will not recover through the tariff, implicitly the value of the intangible asset not recovered through the tariff, recognized for the right to charge users.

From 01.01.2018, IFRS 15 Revenue from Contracts with Customers became applicable in Romania. This standard replaces some older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to the notion of a contract. As a result, the company applies the bifurcated model registering the updated receivable related to the regulated amount remaining unamortized at the end of the concession agreement as a financial asset the intangible asset will be presented in the financial statements by the residual method resulted less the value of the construction works, achieved at fair value with the amount of the updated long term receivable (compensation) upon the commissioning of the investment.

The present value was determined for the remaining period of the concession contract (the year 2032), because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(expressed in lei, unless otherwise stated)****5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

In 2019 ANRE Order n0. 41/2019 on the adjustment of the regulated value of the assets at the inflation rate entered into force. The company records the present value of the contractual cashflows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

From 2021 onwards, the company has changed the way of estimating the discount rate for the present value calculation, using instead of the Bloomberg rate the NBR reference rate for government securities (fixing), considering that this rate reflects with increased fidelity the internal context in which the transactions take place; by using a rate fixed for a period of 10 years, there is no need for a sensitivity analysis associated with this calculation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS

Reporting segments are set according to the nature of the activities conducted by the company: the regulated activity, the unregulated activity and other activities. As transmission system operator, the company reported annually to the National Regulatory Authority on the activity performed on the four reporting segments.

The segment information provided to the Board of Administration, which makes strategic decisions for reportable segments, for the period ended 31 December 2022 is:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.356.044.593	-	-	-	1.356.044.593
Revenue from international transmission and similar	-	73.926.517	-	-	73.926.517
Other revenue	<u>64.311.464</u>	<u>-</u>	<u>-</u>	<u>85.000.927</u>	<u>149.312.392</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.420.356.058</u>	<u>73.926.517</u>	<u>-</u>	<u>85.000.927</u>	<u>1.579.283.502</u>
Depreciation	(392.636.059)	(29.334.202)	-	(13.439.704)	(435.409.965)
Operating expenses other than depreciation	<u>(892.220.675)</u>	<u>(24.216.023)</u>	<u>-</u>	<u>(81.121.030)</u>	<u>(997.557.728)</u>
Profit from operation before the balancing and construction activity according to IFRIC12	<u>135.499.324</u>	<u>20.376.292</u>	<u>-</u>	<u>(9.559.807)</u>	<u>146.315.809</u>
Revenue from the balancing activity	-	-	1.005.543.997	-	1.005.543.997
Cost of balancing gas	-	-	(1.005.543.997)	-	(1.005.543.997)
Revenue from the construction activity according to IFRIC12	-	-	-	299.868.442	299.868.442
Cost of constructed assets according to IFRIC12	-	-	-	(299.868.442)	(299.868.442)
Operating profit	<u>135.499.324</u>	<u>20.376.292</u>	<u>-</u>	<u>(9.559.807)</u>	<u>146.315.809</u>
Net financial gain	-	-	-	-	273.259.929
Profit before tax	-	-	-	-	419.575.738
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72.507.267)</u>
Net profit	-	-	-	-	347.068.471
Assets on segments	6.560.071.640	175.201.017	646.355.866	875.512.292	8.257.140.815
Liabilities on segments	3.426.729.582	558.370	492.686.382	196.258.216	4.116.232.550
Capital expenditure - increases in assets in progress	335.905.595	812.328	-	82.421	336.800.344
Non-monetary expenses other than depreciation	48.601.989	22.035.187	9.544.329	497.538	80.679.043

In 2022 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz carried out the transmission activity, their assets of RON 250.723.298 and liabilities of RON 192.560.793 are shown under the unallocated segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. Assets shown for the balancing segment comprise mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

Unallocated assets include:

Tangible and intangible assets	415.225.550
The right of use of the leased assets	16.934.813
Goodwill	9.566.769
Cash	418.666.555
Other assets	<u>15.118.604</u>
	875.512.292

Unallocated liabilities include:

Deffered tax	3.053.157
Dividends payable	1.627.487
Loans	187.411.020
Other debts	<u>4.166.551</u>
	196.258.216

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts **from the balancing activity** și the borrowings contracted to finance the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the write-down of inventories, provisions for risks.

Transmission services are performed for several domestic and foreign clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.146.821.286	209.223.307	1.356.044.593
Revenue from international transmission and similar	-	73.926.517	73.926.517
Other revenue	<u>149.312.392</u>	<u>-</u>	<u>149.312.392</u>
	1.296.133.678	283.149.824	1.579.283.502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

<i>Domestic clients with over 10% of the total revenue include:</i>	<u>Percentage of the total revenue</u>
OMV PETROM S.A.	12%
ENGIE ROMANIA S.A	11%
SNGN ROMGAZ S.A.	10%

All parent company's assets are located in Romania. All parent company's activities are carried out in Romania.

The company has external trade receivables amounting to lei 30.908.640 (31 December 2021: lei 20.783.737).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which is regulated by the National Regulatory Authority as well as the operating and financial revenue related to the claims for the regulated value of the regulated asset base remained undepreciated at the end of the Concession Agreement; the *international gas transmission* segment includes information related to the activity of pipeline gas transmission without the transshipment of the Romanian territory and similar; the *balancing* segment includes expenses and revenue related to the national transmission system balancing activity developed starting with 1 December 2015, neutral in financial terms, any profit or loss from this activity will be distributed to clients for whom domestic transmission services are provided; the *unallocated* segment includes activities with a low share in the company's revenue such as sales of assets, rents, royalties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2021, is as follows:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.164.418.613	-	-	-	1.164.418.613
Revenue from international transmission and similar	-	72.037.147	-	-	72.037.147
Other revenue	<u>68.525.222</u>	<u>929.966</u>	-	<u>59.038.715</u>	<u>128.493.903</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	1.232.943.835	72.967.113	-	59.038.715	1.364.949.663
Depreciation	(317.241.420)	(32.197.050)	-	(10.303.214)	(359.741.684)
Operating expense other than depreciation	<u>(803.300.547)</u>	<u>(14.099.924)</u>	-	<u>(67.096.816)</u>	<u>(884.497.287)</u>
Profit from operation before the balancing activity according to IFRIC12	112.401.868	26.670.139	-	(18.361.315)	120.710.692
Revenue from the balancing activity	-	-	442.199.967	-	442.199.967
Cost of balancing gas	-	-	(442.199.967)	-	(442.199.967)
Revenue from the construction activity according to IFRIC12	-	-	-	704.026.548	704.026.548
Cost of constructed assets according to IFRIC12	-	-	-	(704.026.548)	(704.026.548)
Profit from operation	112.401.868	26.670.139	-	(18.361.315)	120.710.692
Net financial gain					109.539.200
Profit before tax					230.249.892
Profit tax					(53.445.225)
Net profit					176.804.667
Assets on segments	6.355.911.803	201.129.595	494.208.099	954.896.647	8.006.146.144
Liabilities on segments	3.523.771.217	566.587	306.561.727	206.878.281	4.037.777.812
Capital expenditure - increases in assets in progress	794.706.329	318.145	-	117.891	795.142.365
Non-cash expenses other than depreciation	28.228.266	1.896	56.173.700	11.802.053	96.205.915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

In 2021 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz did not carry out any transmission activity, the assets recorded by the subsidiaries in the amount of lei 283.055.655 and the liabilities in the amount of 203.714.360 lei are presented in the unallocated segment.

Assets indicated for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. The presented assets for the balancing segment are mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

Unallocated assets include:

Tangible and intangible assets	430.746.174
Right of use of leased assets	19.617.136
Goodwill	9.704.675
Deferred tax	352.591
Cash	414.955.056
Other assets	<u>79.521.015</u>
	954.896.647

Unallocated liabilities include:

Dividends payable	2.227.637
Loans	187.390.771
Other debts	<u>17.259.873</u>
	206.878.281

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the write-down of inventories, provisions for risks.

Transmission services are provided for several foreign customers, while the domestic transmission activity is performed for several domestic customers.

	<u>Domestic</u> <u>Clients</u>	<u>Foreign</u> <u>Clients</u>	<u>Total</u>
Revenue from domestic transmission	1.092.860.930	71.557.683	1.164.418.613
Revenue from international transmission and the similar	-	72.037.147	72.037.147
Other revenue	<u>126.615.605</u>	<u>1.878.298</u>	<u>128.493.903</u>
	1.219.476.535	145.473.128	1.364.949.663

Domestic clients with over 10% of the total revenue include: Percentage of the total
revenue

ENGIE ROMANIA S.A.	16%
OMV PETROM S.A.	12%
SNGN ROMGAZ S.A.	12%
E.ON ENERGIE ROMANIA SA	10%

All the parent company's assets are located in Romania. All the parent company's activities are carried out in Romania.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

7. TANGIBLE ASSETS

	Lands and buildings	Transmission system assets	Other fixed assets	Assets in progress	Total
On 31 December 2021					
Cost on 1 January 2021	315.990.135	961.742.372	566.670.110	10.910.005	1.855.312.622
Depreciation accumulated	(166.899.579)	(698.136.920)	(257.867.504)	-	(1.122.904.003)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Exchange rate difference	22.160	-	663.250	-	685.410
Initial net book value	<u>149.112.716</u>	<u>263.605.452</u>	<u>309.465.856</u>	<u>9.253.823</u>	<u>731.437.847</u>
Inflows	-	-	862.705	164.538.819	165.401.524
Reclassifications	671.248	-	12.270	5.309.799	5.993.317
Transfers	7.048.509	11.899.327	42.646.100	(61.593.936)	-
Outflow (net value)	(212.159)	(19.490)	(93.453)	-	(325.102)
Expense with depreciation	(7.583.150)	(31.478.796)	(30.538.937)	-	(69.600.883)
Exchange rate difference	2.152.120	-	16.742.836	376.971	19.271.927
Final net book value	<u>151.189.284</u>	<u>244.006.493</u>	<u>339.097.377</u>	<u>117.885.476</u>	<u>852.178.630</u>
Cost	327.070.830	972.044.444	616.986.657	119.541.658	2.035.643.589
Accumulated depreciation	(175.826.406)	(728.037.951)	(277.025.016)	-	(1.180.889.373)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Exchange rate difference	(55.140)	-	(864.264)	-	(919.404)
Final net book value	<u>151.189.284</u>	<u>244.006.493</u>	<u>339.097.377</u>	<u>117.885.476</u>	<u>852.178.630</u>
On 31 December 2022					
Initial net book value	<u>151.189.284</u>	<u>244.006.493</u>	<u>339.097.377</u>	<u>117.885.476</u>	<u>852.178.630</u>
Inflows	-	-	142.779	31.214.996	31.357.775
Reclassification	(4.155.654)	4.092.161	(37.456)	-	(100.949)
Transfers	16.183.601	8.843.457	111.869.059	(136.896.117)	-
Outflow (net value)	(6.170)	-	(21.443)	-	(27.613)
Expense with depreciation	(7.432.204)	(32.625.704)	(36.738.668)	-	(76.796.577)
Exchange rate difference	(450.523)	-	(3.483.402)	(1.483.633)	(5.417.558)
Final net book value	<u>155.328.333</u>	<u>224.316.407</u>	<u>410.828.247</u>	<u>10.720.721</u>	<u>801.193.708</u>
Cost	337.971.864	984.844.069	720.044.406	12.376.903	2.055.237.243
Accumulated depreciation	(182.714.685)	(760.527.662)	(309.826.037)	-	(1.253.068.384)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Exchange rate difference	71.154	-	609.877	-	681.031
Final net book value	<u>155.328.333</u>	<u>224.316.407</u>	<u>410.828.247</u>	<u>10.720.721</u>	<u>801.193.708</u>

The gross book value of the fully depreciated assets, still used, is lei 362.285.728 (31 December 2021: lei 327.452.026).

On 31 December 2022 no advances granted for the procurement of tangible assets are registered.

Regarding the assets developed by the company, which are complementary to the provision of services according to the concession agreement, the State has the option to acquire these assets at the end of the concession agreement. The company does not have the obligation to keep these assets until the end of the concession agreement and it is allowed to sell them. These assets do not fall within the scope of IFRIC 12. All the other assets related to the domestic transmission activity and which are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to the ANRM at the end of the concession agreement fall within the scope of IFRIC 12.

The company does not depreciate the tangible assets approved for discarding and does not own pledged fixed assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

8. SERVICE CONCESSION AGREEMENT

In May 2002, the company concluded a Service Concession Agreement (`SCA`) with the ANRM, which entitles the company to operate the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, GD No. 491/1998 and GD No. 334/2000 by which the company was established. All modernizations and improvements made by the company to the system are considered part of the system and become property of the ANRM at the end of their useful life. The company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the state.

At the expiration of the agreement, the assets belonging to the public domain, existing upon signing the agreement and all investments made in the system will be returned to the State. The company owns and will develop other assets that are not directly part of the national gas transmission system, but are complementary assets for gas transmission operations. The ANRM has the option to buy these assets at the end of the concession agreement, at the fair value.

The main terms of the Concession Agreement are the following:

- The company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the company and then approved by the ANRE;
- The company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The company must annually publish by 30 October the available capacity of the system for the following year;
- The company must annually respond to the clients' orders by 30 November and the ANRM must be informed on all rejected orders decided by the company's management;
- The company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, as of October 2007: 10%) of the gross revenue from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the company;
- The company may cancel the agreement by notifying the ANRM 12 months in advance;
- The ANRM may cancel the agreement by a 6-month prior notice, if the company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for `national interest` reasons; in this case, the company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The Concession Agreement does not include an automatic renewal clause.

The terms of the Concession Agreement were not amended after June 2003, except for the approval of the minimum investment plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS

	Assets related to the ACS	Consolidation goodwill	Information programmes	Intangible assets	Assets related to the ACS
On 1 December 2021					
Cost on 1 January 2021	8.171.222.202	-	58.534.013	1.062.450.560	9.292.206.775
Accumulated depreciation	(4.337.236.324)	-	(55.108.164)	-	(4.392.344.488)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(1.159.196.071)	-	-	-	(1.159.196.071)
Concession Agreement receivable depreciation	200.168.159	-	-	-	200.168.159
Exchange rate difference	-	(330.976)	963	-	(330.013)
Net book value	<u>2.874.957.966</u>	<u>9.082.126</u>	<u>3.426.812</u>	<u>1.053.307.783</u>	<u>3.940.774.687</u>
Net book value	2.874.957.966	9.082.126	3.426.812	1.053.307.783	3.940.774.687
Inflow	-	-	-	652.514.874	652.514.874
Reclassifications	(683.518)	-	-	-	(683.518)
Transfers	1.300.435.881	-	16.314.633	(1.316.750.514)	-
Outflow	(13.356)	-	-	-	(13.356)
Depreciation	(375.359.164)	-	(1.894.603)	-	(377.253.767)
Concession Agreement receivables	(298.769.079)	-	-	-	(298.769.079)
Concession Agreement receivable depreciation	89.562.670	-	-	-	89.562.670
Exchange rate difference	-	622.549	1.681	-	624.230
Final net book value	<u>3.590.131.400</u>	<u>9.704.675</u>	<u>17.848.523</u>	<u>389.072.143</u>	<u>4.006.756.741</u>
Cost	9.470.896.188	-	74.283.903	398.214.920	9.943.395.011
Accumulated depreciation	(4.712.530.466)	-	(56.429.757)	-	(4.768.960.223)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(1.457.965.151)	-	-	-	(1.457.965.151)
Concession Agreement receivable depreciation	289.730.829	-	-	-	289.730.829
Exchange rate difference	-	291.573	(5.623)	-	285.950
Net book value	<u>3.590.131.400</u>	<u>9.704.675</u>	<u>17.848.523</u>	<u>389.072.143</u>	<u>4.006.756.741</u>
On 31 December 2022					
Initial net book value	<u>3.590.131.400</u>	<u>9.704.675</u>	<u>17.848.523</u>	<u>389.072.143</u>	<u>4.006.756.741</u>
Inflow	96.448	-	-	283.898.470	283.994.918
Reclassifications	(206.242)	-	(6.193)	-	(212.435)
Transfers	138.864.565	-	7.252.587	(146.117.151)	-
Outflow	-	-	-	-	-
Depreciation	(459.406.384)	-	(5.345.239)	-	(464.751.624)
Concession Agreement receivables	(16.426.221)	-	-	-	(16.426.221)
Concession Agreement receivable depreciation	109.935.585	-	-	-	109.935.585
Exchange rate difference	-	(137.905)	(152)	-	(138.058)
Final net book value	3.362.989.151	9.566.769	19.749.525	526.853.461	3.919.158.907
Cost	9.609.650.958	-	81.530.297	535.996.238	10.227.177.494
Accumulated depreciation	(5.171.936.850)	-	(61.766.282)	-	(5.233.703.132)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(1.474.391.371)	-	-	-	(1.474.391.371)
Concession Agreement receivable depreciation	399.666.414	-	-	-	399.666.414
Exchange rate difference	-	153.667	(14.490)	-	139.178
Net book value	3.362.989.151	9.566.769	19.749.525	526.853.461	3.919.158.907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. INTANGIBLE ASSETS (CONTINUED)

The minimum NTS gas quantity required to ensure the pressures and flow rates for the end consumers under the contractual conditions (NTS linepack) is recognized in the value of the right to use, as an intangible asset. On 31 December 2022 the linepack is of 837.142 MWh and amounts to lei 84.633.624, of which NTS linepack is 692.629 MWh and amounts to lei 55.557.837. On 31 December 2021 the line pack is of 696.964 MWh and amounts to lei 57.240.411, of which NTS linepack is of 574.965 MWh and amounts lei 45.012.893.

As at 31 December 2022, the company capitalized depreciation expenses of lei 94.282 and interest expense amounting to lei 20.128.777 (in 2021, the company capitalized depreciation expenses of 1.426.001 and interest expense amounting to lei 15.529.046).

On 31 December 2022 the advances granted for the procurement of national gas transmission system development works in the amount of lei 6.689.361 are presented in the intangible assets in progress (lei 27.533.952 on 31 December 2021).

The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

As at 31 December 2022, the Company capitalized the amount of 3.345.386 lei, representing additional costs for the procurement of natural gas, incurred between 1 January 2022 and 31 December 2022, in order to cover its own technological consumption compared to the costs included in the regulated tariffs, in accordance with the provisions of the Order of the Ministry of Finance no. 3900/19 October 2022, the Order of the President of ANRE no.128 /12 October 2022 and ANRE's clarifications according to which the natural gas referred to in Article 11 letter r of ANRE's Order No 41/2019 does not represent natural gas intended to cover the technological consumption of the NTS and therefore the additional costs with their purchase cannot be capitalised.

Following the acquisition of Vestmoldtransgaz SRL (VTMG) by Eurotransgaz SRL (ETG), goodwill calculated as the difference between the value of the interest and the value of the equity of VTMG weighted by the percentage of interest held, respectively 100%, was recorded in the consolidated financial statements as intangible assets. Goodwill was calculated at the date of acquisition, i.e. March 2018, and presented in the consolidated financial statements at the closing rate.

The rights of use of the leased assets (IFRS 16)

As of 1 January 2019 the company applies IFRS 16 for the leasing contracts complying with the recognition criteria and recognized the intangible asset as a right of use related to the leasing contract:

	<u>Leases according to IFRS16</u>
Cost on 1 January 2022	30.660.861
Accumulated depreciation	(11.043.725)
<u>Net book value</u>	<u>19.617.136</u>
Inflow	1.517.869
Outflow	(560.701)
Depreciation	(3.639.491)
Final net book value on 31 December 2022	<u>16.934.813</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS (CONTINUED)

Detailed information on IFRS 16 as at 31 December 2022:

	31 December 2022	Of which related to the class - Forestry conventions
Value as use (DU)	31.618.029	15.944.147
Depreciation related to DU	14.683.216	4.055.249
DU interest	732.980	474,687
Debt regarding DU	17.929.828	12.577.841
From which:		
Short term	3,751,347	1.152.956
Long term	14.178.481	11.424.885

	<u>Leases according to IFRS16</u>
Cost on 1 January 2021	26.397.047
Accumulated depreciation	(7.204.978)
Net book value	<u>19.192.069</u>
Inflow	4.439.371
Outflow	(175.556)
Depreciation	(3.838.748)
Final net book value on 31 December 2021	<u>19.617.136</u>

Detailed information on IFRS 16 as at 31 December 2021:

	31 December 2021	Of which related to the class of low value assets-Forestry conventions
Value as use (DU)	30.660.861	14.997.449
Depreciation related to DU	11.043.725	2.804.014
DU interest	777.546	453.814
Debt regarding DU	20.470.837	12.722.651
From which:		
Short term	3.771.512	1.037.891
Long term	16.699.325	11.684.760

Debt according to IFRS 16 is presented in the balance sheet at long-term and short-term trade payables.

The Company recognizes a class of support assets with a cumulative value of more than USD 5000 - forestry conventions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	Percentage	Percentage	31 December	31 December
		owned	owned	2022	2021
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
	Gas production	17,47	17,47	6.461.736	6.461.736
Mebis SA	distribution and supply				
Minus adjustments for impairment of investments in: Resial SA, Mebis SA				<u>(24.578.237)</u>	<u>(24.578.237)</u>
				<u>-</u>	<u>-</u>

Shares in Resial SA

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a client. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the company, which is why the stake is not consolidated and is recorded at cost less the adjustment for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully adjusted. The management does not expect the company to recover any amount of this stake and the company does not guarantee any type of residual obligations for Resial SA.

Shares in Mebis SA

Shares owned in Mebis SA were obtained in February 2004, as a result of a procedure for the recovery of claims due from a client. Mebis SA is in the liquidation procedure, which is why the stake in Mebis SA was fully adjusted. The company has no obligations to Mebis SA.

In case of the financial assets held by Transgaz, i.e. Mebis SA and Resial SA, the application of IFRS 9 has no impact whatsoever, as such assets are measured at the fair value by the profit and loss account and 100% impairment adjustments were established.

Goodwill

On 28 March 2018 the Moldovan company Eurotransgaz S.R.L. owned by "SNTGN Tansgaz" S.A. Romania, concluded as buyer with the Public Property Agency of the Republic of Moldova, the contract for the sale and purchase of the single asset complex - state-owned enterprise Vestmoldtransgaz.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

10. FINANCIAL FIXED ASSETS (CONTINUED)

Name	Fair value MDL
Net assets	140.798.149
Fair value of the consideration paid	180.200.000
Goodwill – MDL	39.401.851
Goodwill - lei equivalent on 31.12.2022	9.566.769

At the date of acquisition, the net assets of Vestmoldtransgaz SRL amounted to MDL 140.798.149 and the share capital and unregistered capital to MDL 177.408.819. The fair value of the consideration paid at the date of acquisition was MDL 180.200.000. The difference between the fair value of the consideration paid and the share capital including unregistered capital is included in goodwill and amounts to MDL 2.791.181.

Goodwill is included in the financial position of Eurotransgaz S.R.L. (parent entity) as a result of the consolidation of the financial statements, obtained by the difference between the sale value of the daughter company - Vestmoldtransgaz S.R.L. and the value of the net assets recorded in the accounts of the daughter entity at the date of purchase.

By Decision of the Extraordinary Meeting of the Shareholders No. 10 of 12.12.2017 was approved the establishment on the territory of the Republic of Moldova of the company Eurotransgaz S.R.L. in order to successfully participate in the privatization procedure of the State Enterprise Vestmoldtrasgaz.

The investment made for the purpose of the purchase was offset against the share capital of the purchased entity Vestmoldtransgaz S.R.L.

In 2021 the European Bank for Reconstruction and Development (EBRD) became a 25% shareholder of Vestmoldtransgaz S.R.L., by depositing funds in the amount of MDL 414.986.000, of which MDL 394.178.670 were recorded as a contribution to the share capital and the difference of MDL 20.807.330 was recognized as capital premiums.

For the purpose of consolidating this set of financial statements, the non-controlling interest in the Group's share capital of MDL 360.974.897 represents EBRD's share in the total net assets of Vestmoldtransgaz S.R.L. (lei 0,2428).

Non-controlling interests	<u>31 December 2022</u>	<u>31 December 2021</u>
Shareholders' deposits (EBRD)	99.452.805	93.701.702
Net profit for the period	(4.826.671)	(1.341.079)
Conversion differences from consolidation	<u>(11.808.100)</u>	<u>1.188.132</u>
Non-controlling interests	82.818.034	93.548.755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

11. INVENTORIES

	<u>31 December 2022</u>	<u>31 December 2021</u>
Gas inventories	358.991.931	227.379.198
Gas for NTS consumption	177.148.436	13.257.485
Spare parts and materials	118.564.992	93.479.391
Materials in custody at third parties	1.229.524	7.092.278
Adjustments for write-down of inventories	(42.752.007)	<u>(29.500.148)</u>
	<u>613.182.876</u>	<u>311.708.204</u>

ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

The company does not hold any restricted stocks and has established safety stocks amounting to Lei 9.718.830 as at 31 December 2022 (Lei 9.143.403 on 31 December 2021)

Discharge for the balancing activity is achieved by applying the weighted average cost method, and for the remaining operations by applying the first-in-first-out method (FIFO).

Movements in the adjustments account are analysed below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Adjustment on 1 January	29.500.148	28.577.038
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	<u>13.251.859</u>	<u>923.110</u>
Adjustment at the end of the period	<u>42.752.007</u>	<u>29.500.148</u>

In 2021 adjustments for write-down of inventories were established according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 December 2022</u>	<u>31 December 2021</u>
Trade receivables	792.042.763	931.533.538
Advance payments to suppliers for goods and services	273.170	317.599
Loan to Resial SA (Note 10)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	2.141.205.427	1.788.570.507
Non-refundable loans as subsidies	17.564.563	143.149.971
State budget receivables	58.526.123	54.639.636
Other receivables	116.281.051	78.129.524
Adjustment of impairment of trade receivables	(554.671.720)	(542.126.364)
Adjustment of impairment of other receivables	<u>(84.987.767)</u>	<u>(55.406.971)</u>
	<u>2.488.003.956</u>	<u>2.400.577.786</u>
Financial assets/ Loans and receivables (Note 4)	<u>2.432.068.467</u>	<u>2.344.915.484</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(expressed in lei, unless otherwise stated)****12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)**

The company challenged administratively the tax decision on additional tax payment obligations in the amount of lei 25.409.833 issued in 2016 by ANAF consisting of revenue tax, VAT, penalties and late payments, and set up an adjustment. The company paid the amounts mentioned in the tax decision in order to be able to carry out the activities in the directions set by the management and to facilitate the financing of future projects.

In 2020, the Company administratively challenged the tax decision regarding additional fiscal payment obligations amounting to lei 7.642.671 issued by ANAF in 2020 consisting of profit tax and VAT and constituted an adjustment. In 2022 the amount of the tax decision was reduced to 7.023.213 lei and the amount of the adjustment was also reduced by the Company.

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022. The advance payments granted to the Company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee.

On 31 December 2022, the amount of lei 30.908.640 (31 December 2021: lei 110.805.049) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 23% in USD (31 December 2021: 1%) and 77% in EUR (31 December 2021: 99%).

For consolidation purposes as at 31 December 2022, eliminated internal transactions amount to RON 68.027 (as at 31 December 2021: Lei 461.131).

As at 31 December 2022 the Parent Company records VAT to be refunded in the amount of 16.424.377 lei which is shown under Other receivables (31 December 2021: 21.546.877 lei). VAT receivables 9.624.224 lei (MDL39.638.483) represent receivables from the budget formed from deductible VAT through purchases of services and raw materials related to the process of construction of gas distribution networks which is managed by Vestmoldtransgaz S. R.L. In the year 2022 until 31.12.2022 Vestmoldtransgaz S.R.L. recovered VAT in the amount of lei 65.459.614 (MDL 269.603.025). Advances granted in the country represent advances for custom duties and advances granted to partners for material purchases. During 2022 and 2021, no provision was made for receivables from insolvent companies or companies experiencing significant financial difficulties.

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized gains amounting to lei 286.877.258 according to IFRS 9 (31 December 2021: lei 87.969.821).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

	<u>31 December 2022</u>	<u>31 December 2021</u>
Initial balance	1.788.570.507	1.364.268.828
Inflow	16.426.221	298.769.079
Interest	49.353.233	37.810.509
Inflation update	286.877.258	87.969.821
Outflow	<u>(21.793)</u>	<u>(247.730)</u>
	<u>2.141.205.427</u>	<u>1.788.570.507</u>

Commercial receivables analysis according to IFRS9 is as follows:

	<u>30 September 2022</u> <u>(unaudited)</u>	<u>31 December 2021</u>
Current and unamortized		
Transit receivables	-	4.792.478
Doubtful or insolvency receivables	168.036.776	169.099.079
Affiliated party receivables	261.704.717	312.057.251
Other trade receivables	337.394.775	369.494.488
Receivables from various debtors	<u>52.980.353</u>	<u>15.636.334</u>
	820.116.621	871.079.630
Impairment		
Transit receivables	23.303.149	
Doubtful or insolvency receivables	168.036.776	169.091.680
Affiliated party receivables	161.978.362	226.218.824
Other trade receivables	201.353.434	146.815.860
Receivables from various debtors	<u>45.565.452</u>	<u>15.365.200</u>
Total impairment	600.237.173	557.491.564
Total trade receivables net of provision	219.879.448	313.588.066

IFRS 9 introduces a new model for forecasting impairment loss based on the estimated loss. This model entails the anticipated recognition of the loss from receivables impairment. The standard provides for the fact that the entities register the anticipated loss by receivables impairment from the moment of the financial instrument initial recognition and recognize the anticipated loss from the impairment over their entire life. The value of the anticipated loss will be discounted for each reporting period so that it reflects the credit risk changes as opposed to the initial recognition.

For the application of IFRS 9 on the held receivables, based on a loss estimation model, the clients categories were reconsidered starting from the IFRS 9 principle for the anticipation of a non-cashing in risk related to the current receivables.

To estimate the trade receivables non-collection risk, a non-collection rate based on risk categories was applied as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

- international transmission receivables - receivables with a risk of non-collection on-time. Impairment adjustments are calculated at 100% of the amount of the receivable;
- doubtful or contested other than affiliated parties receivables - receivables with high risk of non-collection that are subject to certain court actions. Impairment adjustments of 100% of the receivables amount are calculated;
- affiliated parties receivables - risk-free receivables are adjusted by seniority instalments, i.e. within the range 31-60 a 10% percentage, 61-90 a 20% percentage, 91-120 a 30% percentage, 121-150 a 35%, 151-180 a 60%, and over 181 with a 100% percentage. Doubtful receivables subject to court actions are provisioned with up to 100% of the amount. An adjustment of 100% for receivables exceeding 30 days and of 5% for current receivables is made up for the receivables that are not subject to court actions and have a non-collection risk;
- Various clients (other trade receivables and receivables from various debtors) - the risk-free receivables are provisioned by seniority instalments, 10% for the range 31-60, 20% for the 61-90, 30% for the range 91-120, 35% for the range 121-150, 60% for the range 151-180, and 100% for the receivables over 181. Doubtful receivables subject to court actions are provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, a provision of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up.

The company constantly analyzes the customers' situation and records adjustments whenever there are indications of an increase in the non-collection risk.

The payment of the equivalent value of the invoices for the natural gas transmission services, issued according to the provisions of the Network Code, is made within 15 calendar days from the date of issuing the invoice. If the due date is a non-working day, the deadline is considered fulfilled on the next working day.

Movements in the provision account are analysed below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Adjustment on 1 January	597.533.335	506.940.947
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	<u>42.126.152</u>	<u>90.592.388</u>
Adjustment at the end of the period	<u>639.659.487</u>	<u>597.533.335</u>

The Company makes adjustments for receivables from insolvent companies or companies that encountered significant financial difficulties.

As at 31 December 2022, the company recorded adjusting expenses for the clients recording an increased non-collection risk, mainly for the receivables of Electrocentrale Constanta (lei 59.360.566), GAZPROM EXPORT LLC (lei 23.303.149) and Black Sea Oil & Gaz SA (lei 29.355.298), and decreased the adjustment to Electrocentrale Bucuresti by lei 116.337.652 due to the collection of outstanding receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022.

13. CASH AND CASH EQUIVALENT

	<u>31 December 2022</u>	<u>31 December 2021</u>
Cash at bank in RON	258.848.438	311.808.782
Cash at bank in foreign currency	159.629.255	9.218.214
Other cash equivalents	<u>188.862</u>	<u>158.265</u>
	<u>418.666.555</u>	<u>321.185.261</u>
	<u>31 December 2022</u>	<u>31 December 2021</u>
Restricted cash (management guarantee)	1.989.947	1.020.791

Cash at bank in foreign currency is mostly denominated in EUR.

The weighted average of the effective interest related to short-term bank deposits was of 3,13% on 31 December 2022 (1,50% on 31 December 2021) and these deposits have a maximum maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	Number of ordinary shares	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
On 31 December 2021	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	<u>441.418.396</u>	-	<u>441.418.396</u>
On 31 December 2021	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>
Increase of share capital by incorporation of reserves		<u>1.766.076.600</u>	-	<u>1.766.076.600</u>
On 31 December 2022	188.381.504	2.325.233.436	247.478.865	2.572.712.301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The authorized number of ordinary shares is 188.381.504 (31 December 2021: 11,773,844) with a nominal value of LEI 10 each. Each share represents one vote. The ownership structure registered at Central Depository on 31 December 2022 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value</u> (lei)	<u>Percentage</u> (%)
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

In the statutory accounting, before 1 January 2012, the company included in the share capital certain reserves from revaluation for revaluations made before 31 December 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by 31 December 2003. Therefore, in these financial statements, the company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on 31 December 2003 and the increase in the share capital that took place after 1 January 2004 was recognized in nominal terms.

The Extraordinary General Meeting of Shareholders approved on 7 December 2022 the increase of the share capital of the Company by incorporating the reserves constituted from the net profit of the previous financial years in the amount of 1.766.076.600 lei, through the issuance of 176.607.660 new shares with a par value of 10 lei/share

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

Other reserves

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as `Reserve of the public domain` at the value of the respective assets restated depending on inflation until 1 January 2004. It was renamed `Other reserves` at the adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of the related assets. The Company does not intend to change the allocation of deferred income arising from the first-time adoption of IAS 29.

Legal reserve

In accordance with the Romanian law and the company's Articles of Incorporation, the Transgaz must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 December 2022, amounts to lei 45.421.364 (31 December 2021: lei 23.547.688). The legal reserve is included in the `Retained earnings` in these financial statements. The company does not intend to change the allocation of the legal reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS (CONTINUED)

Reserve relating to reinvested profit

The company will submit to the approval of the OGMS the constitution from the profit of the year 2022 of a reserve in the amount of 17.275.596 lei representing tax incentives provided for by Law 237/2015 on the Tax Code on the profit invested in technological equipment-machinery, machinery and work installations, electronic computers and peripheral equipment, cash register, control and invoicing machines and appliances, as well as in software, produced and/or purchased and put into operation, used for the purpose of carrying out the economic activity.

The reserve for reinvested profits is entered in the accounts after the general meeting of shareholders has approved the distribution of profits, in accordance with the law.

Dividend allocation

In 2022, the company declared and allocated a dividend of lei 14,82 /share, related to the profit of the previous year (2021: lei 8,14 /share). The total dividends declared from the profit of 2021 are lei 174.488.368 (dividends declared from the profit of 2020: lei 95.839.090,16).

16. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 31 December 2022:

	<u>31 December 2022</u>	<u>31 decembrie 2021</u>
EIB 83644RO	204.822.360	224.643.740
EIB 88825RO	227.642.534	247.405.000
EIB ETG 90703	187.411.021	187.390.771
BCR 20190409029	156.240.000	171.120.000
BCR 20201028056	316.800.000	345.600.000
BCR 20210817030	91.666.666	100.000.000
BCR 20211124044	201.666.666	220.000.000
IBRD	233.467.920	255.702.960
BT	271.175.174	279.435.121
Raiffeisen Bank	<u>300.000.000</u>	-
Total	<u>2.190.892.341</u>	<u>2.031.297.592</u>

Loans breakdown by maturity range:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	136.644.990	132.104.365
Over 1 year	<u>2.054.247.351</u>	<u>1.899.193.227</u>
Total	<u>2.190.892.341</u>	<u>2.031.297.592</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. LONG-TERM BORROWINGS (CONTINUED)

The European Investment Bank (EIB)

The company signed with the European Investment Bank the following loans for the financing of the project `Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1).

- Loan Agreement no. 83644RO concluded on 27.10.2017 for the amount of EUR 50 million, fixed interest rate, maturity of 15 years, grace period of 3 years at principal repayment.
- Loan Agreement no.88825RO concluded on 14.12.2017 for the amount of EUR 50 million, with disbursements in lei or EUR (at the choice of the company), with fixed or variable interest (at the choice of the company), maturity of 15 years, the grace period of 3 years of repayment of the principal.

The company signed with the EIB Loan Agreement no.89417RO on 17.12.2018 for the financing of the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas` (Black Sea - **Podișor**) **for the amount of EUR 50 million**, maturity of 15 years, grace period of 3 years at principal repayment. The open-ended contract allows the use of the loan in lei or in EUR (at the option of the company) with fixed or variable interest (at the option of the company)

On 24 January 2019, the company signed a loan agreement with the European Investment Bank for the amount of EUR 100 million, maturity 15 years, grace period of 3 years at the repayment of the principal, in order to finance the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas`.

On 24 January 2019, the Company signed a loan agreement with the European Investment Bank for an amount of EUR 38 million, maturity of 15 years, grace period of 3 years for the repayment of the principal, for the purpose of financing the project "Construction of the pipeline interconnecting the national natural gas transmission system of the Republic of Moldova with the natural gas transmission system of the European Union, through Romania, in the direction Ungheni - **Chisinau**".

The financial commitments undertaken by the loan agreements requires the company to comply with the negotiated limits of the following financial indicators: the ratio of the total net debts to the **Borrower's RAB, the net leverage ratio and the Interest coverage rate.**

In 2017 the company received the first tranche of Loan Agreement number 83644RO of EUR 15 million issued by EIB on 30 November 2017, in 28 February 2018 the second tranche of the loan amounting to EUR 15 million and on 30 April 2018, the third tranche of the loan amounting to EUR 20 million was received.

The maturity of the loan 83644RO from the EIB is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	19.789.000	19.792.400
Between 1 and 5 years	79.158.400	79.169.600
Over 5 years	<u>105.874.360</u>	<u>125.681.740</u>
	<u>204.822.360</u>	<u>224.643.740</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

In 2019 the company received under Loan Agreement no. 88825RO two tranches totalling EUR 50 million.

The maturity of the loan 88825RO from the EIB is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	19.727.466	19.730.257
Between 1 and 5 years	78.909.865	78.921.030
Over 5 years	<u>129.005.203</u>	<u>148.753.713</u>
	<u>227.642.534</u>	<u>247.405.000</u>

The book value of the short term loans approximates their fair values.

On 24 April 2020, the Company received the first tranche of EUR 22 million from the EIB loan No 90703RO and on 22 January 2021, the second tranche of EUR 16 million.

The EBRD 90703RO loan maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	4.546.216	-
Between 1 and 5 years	62.675.551	51.563.644
Over 5 years	<u>120.189.254</u>	<u>135.827.127</u>
	<u>187.411.021</u>	<u>187.390.771</u>

The European Bank for Reconstruction and Development (EBRD)

On 23 February 2018 Transgaz signed with EBRD a contract amounting to lei 278 million, the equivalent of EUR 60 million, for the financing of the BRUA Project.

The loan was fully disbursed by two equal disbursements: on 29 April 2020 and on 29 May 2020.

The EBRD loan maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	22.235.040	22.235.040
Between 1 and 5 years	88.940.160	88.940.160
Over 5 years	<u>122.292.720</u>	<u>144.527.760</u>
	<u>233.467.920</u>	<u>255.702.960</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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16. LONG-TERM BORROWINGS (CONTINUED)

The Romanian Commercial Bank (BCR)

The company signed on 24.04.2019 the contract no. 20190409029 with the Romanian Commercial Bank for committing the financing in the amount of 186 million lei, the equivalent of 40 million EUR, with drawing and repayment in lei, maturity 15 years, grace period for principal repayment of 3 years, variable interest for the financing of the project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1).

The BCR loan no. 20190409029 is fully disbursed and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	14.880.000	14.880.000
Between 1 and 5 years	59.520.000	59.520.000
Over 5 years	<u>81.840.000</u>	<u>96.720.000</u>
	<u>156.240.000</u>	<u>171.120.000</u>

On 29.10.2020, the Company signed contract no.20201028056 with Banca Comercială Română contemplating the Company's benefiting from a lei 360 million loan for a period of 13 years, destined to refinance two major projects carried out by Transgaz: "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)"and "The interconnection of the National Transmission System with the international gas transmission pipeline T1 and reverse flow at Isaccea Phase II (Onești - Siliștea)".

BCR loan no. 20201028056 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	28.800.000	28.800.000
Between 1 and 5 years	115.200.000	115.200.000
Over 5 years	<u>172.800.000</u>	<u>201.600.000</u>
	<u>316.800.000</u>	<u>345.600.000</u>

On 17.08.2021, the Company signed contract no. 20210817030 with Banca Comercială Română contemplating the Company's benefiting from a lei 100 million loan for a period of 12 years, destined to refinance the project "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)".

BCR loan no. 20210817030 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	8.333.334	8.333.334
Between 1 and 5 years	33.333.336	33.333.336
Over 5 years	<u>49.999.996</u>	<u>58.333.330</u>
	<u>91.666.666</u>	<u>100.000.000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

On 24.11.2021, the Company signed contract no. 20211124044 with Banca Comercială Română contemplating the Company's benefiting from a lei 220 million loan for a period of 12 years, destined to refinance the project: "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)".

BCR loan no. 20211124044 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	18.333.334	18.333.334
Between 1 and 5 years	73.333.333	73.333.333
Over 5 years	<u>109.999.999</u>	<u>128.333.333</u>
<u>Total</u>	<u>201.666.666</u>	<u>220.000.000</u>

Transilvania Bank (BT)

On 15 July 2020, as a result of a competitive negotiation procedure, the company signed a contract with Transilvania Bank allowing the company to benefit from a credit facility amounting to lei 300 million, for 2 years, to cover the necessary working capital and partly to issuing letters of guarantee. The repayment of the credit line has been extended until 19.12.2023, based on the conclusion of the Addendum No. 1/20.12.2021.

On 15.07.2022, the Addendum No.2 to the contract for the credit facilities and the issuance of letters of guarantee was signed with Banca Transilvania, which increased the initial amount of the facility (300 million lei) by a maximum of 153.000.000 lei, in order to issue a letter of guarantee in favour of ANAF to guarantee the payment obligation imposed by the mandatory order no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, during the period of the procedures for challenging the administrative act.

As at 31 December 2022, out of the total of credit line the amount of Lei 271.175.175 was used to cover working capital requirements and the amount of Lei 20.500.000 from the threshold for the issuing of letters of guarantee was used to cover two bank letters of guarantee issued in favour of third parties, and the amount of lei 152.964.894 was used to cover a letter of guarantee issued in favour of ANAF. The company has negotiated with Banca Transilvania the terms for a two-year extension of the credit line and is expected to sign the addendum in the first quarter of next year. The Company considers that the conditions for presenting the credit line under the long-term loan category are met.

RAIFFEISEN BANK

The company signed on 14 July 2022, following a competitive negotiation procedure, a contract with Raiffeisen Bank under which it benefits from a credit facility of 300 million lei for a period of 2 years, intended to finance working capital for the commercial balancing activity.

As at 31 December 2022 the credit facility is drawn down to the maximum level of 300.000.000 lei. The obligation is presented under long-term loans.

As at 31 December 2022, the balance of interest due for the loans of the company is lei 15.071.341 broken down by loans as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

	<u>31 December 2022</u>	<u>31 December 2021</u>
EIB 83644RO	533.008	584.153
EIB 88825RO	906.961	-
EIB ETG 90703	1.814.195	658.684
BCR 20190409029	1.272.555	502.614
BCR 20201028056	4.512.968	1.605.478
BCR 20210817030	2.500.943	644.959
BCR 20211124044	1.325.088	641.315
EBRD	<u>2.205.623</u>	<u>985.167</u>
	<u>15.071.341</u>	<u>5.622.370</u>

The exposure of the company's loans to the changes of the interest rate is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Variable interest rate loans	1.986.069.981	1.806.653.852
Fixed interest rate loans	<u>204.822.360</u>	<u>224.643.740</u>
Total loans	<u>2.190.892.341</u>	<u>2.031.297.592</u>

17. DEFERRED REVENUE

Deferred revenue consists of connection fees charged to clients for their connection to the national gas transmission system, assets taken over for free for connection to the network, grants and the right to recover the unamortized regulated value of the assets related to the investments made as a licensee. The company uses the connection fee to achieve the connection of the client's facilities to the national transmission system. Deferred revenue (presented as `revenue from the connection fees`) is registered as revenue for the period when the related assets are depreciated and estimating the duration of the relationship with the client (Note 20).

Based on the connection contracts, the necessary infrastructure is built to ensure the estimated transmission capacity to be used over the duration of the concession agreement.

	<u>31 December 2022</u>	<u>31 December 2021</u>
Initial balance	1.161.485.526	1.112.663.468
Increases	21.447.219	131.117.814
Revenue from connection fees (Note 22)	(13.267.714)	(12.908.125)
Income from non-reimbursable funds and goods taken over free of charge (Note 22)	<u>(93.075.827)</u>	<u>(69.387.631)</u>
Final balance	<u>1.076.589.204</u>	<u>1.161.485.526</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

17. DEFERRED REVENUE (CONTINUED)

The balance of the deferred revenue consists of:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Connections and assets received free of charge	238.213.439	237.981.685
Grants	<u>838.375.765</u>	<u>923.503.841</u>
	<u>1.076.589.204</u>	<u>1.161.485.526</u>

For the BRUA project the company obtained from the European Union through the National Agency for Innovation and Networks (INEA) a grant of 1.519.342 Euros, representing 50% of the estimated **eligible costs for financing the FEED for the three compressor stations (Podișor, Bibești and Jupa)** and a grant of 159.449.379 Euro, representing 40% of the estimated eligible costs, for financing the BRUA Phase I project implementation.

The following amounts were received as pre-financing to finance the implementation of the BRUA Phase I project: EUR 25.834.489,60 (in 2016) and EUR 13.839.087,37 (in 2018) and EUR 29.192.463,92 (in 2019), EUR 37.740.347 (in 2020) and EUR 20.953.114,91 in 2021.

On 22.11.2018 the company signed with the Ministry of European Funds AM POIM Financing Contract 226 for non-reimbursable financing for the implementation of the draft project code MYSMIS 2014-122972 NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova within the Specific objective 8.2 – Increasing the interconnectivity of the National Transmission System with neighbouring states. The amount of the grant is lei 214.496.026,71, namely 32,53% of the value of the eligible expenses. For the financing of the works for the implementation of the project NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova, the amount of lei 199.345.792 was collected as eligible expenses reimbursement.

On 18.06.2020 the company signed Grant Agreement no. HCOP/685/3/8/132556 on the **implementation of the project „TransGasFormation” Code 132556 for the amount of LEI 701.259,60** with the Ministry of European Funds, as Management Authority for the Human Capital Operational Programme.

The company recognizes a right to collect the grant when there is reasonable assurance that it will comply with the conditions attached to its award and that the grant will be received. The Company considers that the reasonable assurance that the grant will be received can be confirmed by the fulfillment of the eligibility conditions in the funding applications, prior to the approval of the funding application.

Therefore, on 31 December 2021, the company registered the right to receive non-reimbursable financing in the amount of Lei 104.567.843, corresponding to the amounts expected to be received from INEA, plus Lei 28.188.869,85 corresponding to the amounts expected to be received from AM POIM. The latter includes the amount of a reimbursement request of Lei 10.628.059,64 submitted to the AM POIM before 31 December 2022.

The income from the grant is recognized proportionally from the amortization of the financed assets, applying the percentage of financing of the eligible expenses on the monthly amortization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX

Profit tax expense

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Expense with the profit tax - current	69.101.519	48.812.710
Deferred tax - impact of temporary differences	<u>3.405.748</u>	<u>4.632.515</u>
Profit tax expense	<u>72.507.267</u>	<u>53.445.225</u>

As at 31 December 2022 and 31 December 2021 the parent Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Profit before tax	437.473.521	239.268.327
Profit/loss (ETG-VTMG)	(17.897.783)	(9.018.435)
Theoretical expense with the tax the statutory rate of 16% (2021: 16%)	70.784.378	39.401.302
Non-taxable expenses, net	<u>1.722.890</u>	<u>14.043.923</u>
Profit tax expense	<u>72.507.267</u>	<u>53.445.225</u>
Profit tax related liability, current	<u>-</u>	<u>-</u>

Depreciation of tangible assets hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

At Eurotransgaz the current expenses regarding income tax is calculated based on the the taxable income in the statutory financial statements. For tax purposes, the deductibility of certain expenses, such as protocol expenses, is limited to a certain percentage of the profit specified in the tax legislation. On 31 December 2022, the standard rate of income tax was set at 12% (31 December 2021: 12%).

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 31 December 2022 (31 December 2021: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(revenue from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

	<u>31 December 2022</u>	<u>Movement</u>	<u>31 December 2021</u>	<u>Movement</u>	<u>1 January 2021</u>
Deferred tax payment					
Tangible and intangible assets	123.639.748	14.577.989	109.061.759	13.559.317	95.502.442
Recoverable deferred tax					
Provision for Employee benefits	(18.496.492)	(908.806)	(17.587.686)	3.990.395	(21.578.081)
Risks and charges	(12.991.679)	(2.200.261)	(10.791.418)	(4.707.289)	(6.084.129)
Receivables and other assets	<u>(89.098.420)</u>	<u>(8.063.174)</u>	<u>(81.035.246)</u>	<u>(8.209.908)</u>	<u>(72.825.338)</u>
	<u>3.053.157</u>	<u>3.405.748</u>	<u>(352.591)</u>	<u>4.632.515</u>	<u>(4.985.106)</u>

Deferred revenue tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts. Temporary differences for receivables and other assets arise from impairment adjustments for bad debts. In the consolidated financial statements of ETG with VTMG, a deferred tax liability of Lei 1.866.713 has been recognised for property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

The amounts presented in the statement of the financial position include the following:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Deferred tax liabilities/receivables in more than 12 months as reported	3.053.157	(352.591)

19. TRADE PAYABLES AND OTHER PAYABLES

Short term payables

	<u>31 December 2022</u>	<u>31 December 2021</u>
Trade payables	282.546.544	394.318.166
Suppliers of fixed assets	52.284.961	38.764.763
Dividends payable	1.627.487	2.227.637
Debts related to royalties	1.677.975	1.442.920
Other taxes	26.440.372	24.102.671
Amounts payable to employees	17.157.304	16.164.863
Transmission service guarantees	35.679.099	42.772.922
Transmission services advance payments	39.975.995	36.806.228
Tender guarantees	126.591.894	55.360.467
Other debts	<u>50.619.670</u>	<u>38.506.336</u>
	<u>634.601.301</u>	<u>650.466.973</u>
Financial debts (Note 4)	<u>549.478.512</u>	<u>572.385.271</u>

Long term payables

	<u>31 December 2022</u>	<u>31 December 2021</u>
Other debts	<u>14.178.481</u>	<u>16.699.325</u>
	<u>14.178.481</u>	<u>16.699.325</u>

On 31 December 2022, of the total trade payables and other debts the amount of lei 44.068.581 (31 December 2021: lei 10.065.779) is expressed in foreign currency, especially in EUR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

20.	PROVISIONS FOR RISKS AND CHARGES	<u>31 December 2022</u>	<u>31 December 2021</u>
	<i>Current provision</i>		
	Provision for litigation	38.870.414	38.870.414
	Provision term contract	3.268.931	3.206.340
	Provision for employee participation in profits	18.215.362	17.370.468
	Provision for voluntary leaving employment	14.840.000	2.584.036
	Other provision	<u>6.243.784</u>	<u>5.748.730</u>
		81.438.491	67.779.988

Employees` participation in the profit is calculated within the limit of 10% of the net profit, but not more than a monthly average salary achieved in the relevant financial year according to the provisions of GO 64/2001 and the Collective Labour Agreement.

The company was the subject of an investigation of the Competition Council regarding the way in which procedures for the awarding of the contracts for the procurement of works carried out by Transgaz in 2009 -2011, before the implementation of the private management, according to the provisions of GEO 109/2011 on corporate governance of public enterprises. In 2020, the Competition Council communicated Decision no. 43/11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616.

Following the conclusion of the arbitration proceedings which had as dispute the restitution of the quantity of natural gas from the Tranzit 1 pipeline, the arbitral tribunal admitted Bulgargaz EAD's action, and a provision for litigation in the amount of Lei 1.673.984, the equivalent in Lei for legal interest and incidental expenses was established. The arbitral tribunal's decision was appealed, and the action for annulment was registered with the Bucharest Court of Appeal.

The company also made provisions for the following disputes: with Blue Star SRL for the MRS Timisoara I - Timisoara pipeline in the amount of Lei 2.300.000, with PF Galaction Laurentiu for the dismantling of the construction/removal of the MRS Vaslui connection pipeline in the amount of Lei 332.000. lei, with PF **Bălăsoiu Marian for claims for compensation for lack of use of land in the** amount of lei 296.341, with Ippon Med S.R.L. for contesting public procurement in the amount of lei 17.325 and with employees for contesting suspended employment contracts in the amount of lei 84.147.

For the strategic redefinition and efficiency of the activity, the Company drafted the Program of voluntary departures for 2023 in the amount of 14.840 thousand lei, the annual value being provided by the budget of revenues and expenses approved by the GMS.

As at 31 December 2022 the amount of the provision for voluntary departures is Lei 14.840.000 (LEI 2.584.036 as at 31 December 2022).

The Company records provisions for untaken leave at the end of the financial year. The Company has recorded provisions for untaken leave in the amount of lei 3.295.885 relating to the period ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

According to the collective labour contract, the company must pay to employees upon retirement a compensatory amount equal to a certain number of salaries, calculated as the average of the monthly salary average achieved over the last 12 months, depending on the period worked in the gas industry, working conditions etc. The present value of the provision was determined based on the Projected Unit Credit Method. Retirement benefits received by an employee were first raised by the contributions of the employer and then every benefit was updated taking into account the rotation of employees, layoffs and the probability of survival until retirement. The number of years until retirement was calculated as the difference between retirement age and age at time of reporting. The expected average of the remaining work period was calculated based on the number of years until retirement, also taking into account the rate of layoffs, employee rotation rate and the probability of survival.

Assumptions 2022

The amount of the provision has been calculated individually for each distinct employee/beneficiary of the company using the actuarial calculation method and taking into account International Accounting Standards, in particular the IAS 19. The provision is calculated taking into account the long-term liabilities undertaken by the company under the collective labour contract. The calculation assumptions and specifications for the calculation model were established based on the company's previous experience and a set of assumptions about the company's future experience. The most important actuarial assumptions used are as follows:

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement;
- Employee rotation is calculated based on departures from the company and a probability has been assigned for each age and gender group;
- the mortality of the entity's employees is calculated according to the data provided by the National Institute of Statistics for the years 2011 – 2021;
- the employee rotation was calculated by grouping employees by age into groups of 5 starting from 16 years old;
- the method used is the projected credit factor method;
- Retirement age at retirement considered: 65 for men and 63 for women;
- Long-term wage growth rate is considered equal to the forecast inflation rate for the euro area, and is 2,3 % and in the short term is considered equal to the forecast inflation rate for RON and is 12,4% in the first year, 7,5% in the second year and 4,2% for the next 8 years for both women and men;
- the plan is not financed by the entity and employees.
- It has been estimated that people approaching retirement age are likely to retire early
- For the death benefit, for retired former Trangaz employees, in the first year after retirement, mortality at the age of 66 men and 64 years women was used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

Financial assumptions

The discount rate is the interest rate curve in lei without adjustments provided by EIOPA for December 2022.

The long-term salary growth rate is considered equal to the forecast inflation rate for the euro area, and is 2,3% and in the short term is considered equal to the forecast inflation rate for RON and is 12,4% in the first year, 7,5% in the second year and 4,2% in the following 8 years for both feminine as well as masculine genders.

Movement in the provision for employee benefits

1 January 2021	<u>121.509.096</u>
of which:	
Short-term	2.898.092
Long-term	118.611.004
Interest cost	3.165.348
Current service cost	5.692.366
Payments from provisions during the year	(4.535.478)
Actuarial gain/loss related to the period	(15.782.924)
31 December 2021	<u>110.048.408</u>
of which:	
Short-term	4.007.231
Long-term	106.041.177
Interest cost	5,541.410
Current service cost	5.917.932
Payments from provisions during the year	(3.575.953)
Actuarial gain/loss related to the period	(2.452.222)
31 December 2022	<u>(115.479.575)</u>
of which:	
Short-term	4.584.234
Long-term	110.895.341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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22. OTHER REVENUE

	The year ended <u>31 December 2022</u>	The year ended <u>31 December 2021</u>
Revenue from penalties applied to clients for delay payments	19.186.967	11.431.114
	1.706.063	12.908.124
Revenue from connection fees		
Revenue from grants and goods taken free of charge	104.629.899	70.133.469
	3.127.906	4.132.698
Revenue from the sale of residual materials		
Revenue from leases	1.951.375	1.748.145
Revenue from recovered materials	4.721.562	5.362.282
Revenue from grants for operating expenses	730.934	232.251
Other revenue from operation	<u>13.257.686</u>	<u>22.545.820</u>
	<u>149.312.392</u>	<u>128.493.903</u>

On 31 December 2022, within operating income, the amount of Lei 779.437 (MDL 3.169.732) was recognized, representing the value of fixed assets received by Vestmoldtransgaz S.R.L. free of charge from ACI CLUJ SA, and on 31 December 2021 the amount of 780.705 lei (3.169.732 MDL) representing income from the execution of letters of guarantee as a result of non-compliance by the contractor with the conditions of the contract for the execution of works.

As at 31 December 2022 the intra-group income eliminated is Lei 68.027 and as at 31 December 2021 the intra-group income eliminated is Lei 461.131.

23. OTHER OPERATING EXPENSES

	The year ended <u>31 December 2022</u>	The year ended <u>31 December 2021</u>
Loss/gain on impairment of receivables	42.126.152	90.592.388
Sponsorship costs	3.012.538	5.046.705
Utilities	20.518.959	8.965.544
Insurance premium	1.043.192	1.097.924
Maintenance expenses	786.366	1.873.740
Security and protection expenses	28.606.064	24.346.057
Professional training	3.362.399	1.688.280
Telecommunications	3.295.434	3.349.966
Bank charges and other fees	2.379.999	2.328.108
Rents	1.813.535	1.055.493
Loss on amounts receivable	1.695.530	247.729
Loss/(gain) on inventory impairment	13.249.122	848.843
Marketing and protocol expenses	521.269	296.875
Costs related to studies and research	-	222.071
Penalties and fines	725.153	163.022
Gas storage capacity booking	14.754.361	9.772.999
Computer service	7.167.727	8.765.557
Other	<u>29.266.080</u>	<u>26.467.037</u>
	<u>174.323.882</u>	<u>187.128.338</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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24. EMPLOYEE COSTS

	The year ended 31 December 2022	The year ended 31 December 2021
Salaries and benefits	454.188.446	430.192.862
Cost of insurance and social security	29.340.429	27.489.784
Other employee costs	<u>11.602.932</u>	<u>10.022.466</u>
	<u>495.131.807</u>	<u>467.705.112</u>

Average number of employees in financial year:

	The year ended 31 December 2022	The year ended 31 December 2021
Blue collars	2.274	2.370
White collars	<u>1.740</u>	<u>1.727</u>
	<u>4.014</u>	<u>4.097</u>
Eurotransgaz S.R.L.	3	3
Vestmoldtransgaz S.R.L.	<u>40</u>	<u>39</u>
	<u>43</u>	<u>42</u>

25. NET FINANCIAL REVENUE/(EXPENSES)

	The year ended 31 December 2022	The year ended 31 December 2021
Foreign exchange revenue	53.844.467	25.256.233
Interest revenue	50.739.681	38.979.410
Revenue from the adjustment of the Concession Agreement receivable	286.877.258	87.969.821
Revenue from shares	-	-
Other financial revenue	<u>106.908.745</u>	<u>2.971</u>
	498.370.151	152.208.435
Foreign exchange loss	(54.514.787)	(25.212.533)
The effects of the update of the provision for employee benefits	(5.541.410)	(3.165.348)
Interest loss related to IFRS16	(634.684)	(728.139)
Interest loss	(55.752.281)	(13.563.215)
Expenditure on financial fixed assets transferred	<u>(108.667.060)</u>	<u>-</u>
	(225.110.222)	(42.669.235)

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized on 31 December 2022 gains amounting to lei 286.877.258 according to IFRS 9 (lei 87.969.821 as at 31 December 2021).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

25. NET FINANCIAL REVENUE/(EXPENSES) (CONTINUED)

The amount of the inflation adjustment of the claim increased in 2022 compared to 2021 due to the increase in the inflation rate in 2022 to 13,80% (5,05% in 2021) and the increase of the regulated asset entries base with the inflows in the gas year October 2021 - September 2022 in the amount of lei 326.631.190. Fixed assets recognised in the regulated asset base in a gas year are discounted at the inflation rate from the following gas year. The income from the adjustment of the receivable related to the Concession Agreement is a non-monetary item (Note 26).

By the resolution of the BA no. 39/2021 Transgaz approved the reduction of Eurotransgaz share capital by EUR 13,15 million, amount received by Transgaz in Q1 2022.

By BoA Decision no. 19/2022 Transgaz approved the reduction of Eurotransgaz share capital by the amount of 172.024.718 MDL (equivalent to 8,5 million Euro).

26. CASH FROM OPERATION

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Profit before tax	419.575.738	230.249.892
<i>Adjustments for:</i>		
Depreciation	435.409.965	359.741.684
Gain/(loss) on transfer of fixed assets	(451.748)	(743.351)
Provisions for risks and charges	13.759.358	(8.348.417)
Revenue from connection fees, grants and goods taken free of charge	(107.066.896)	(82.528.005)
Provisions for employee benefits	2.341.979	1.238.790
The effect of updating the provision for employee benefits	5.541.410	3.165.348
Adjustment of the Claim regarding the Concession Agreement	(286.877.258)	(87.969.821)
Sundry debtors and receivable loss	1.695.530	247.729
Loss/(gain) on receivables impairment	13.249.122	848.843
Adjustments for the receivables impairment	42.126.151	90.592.388
Interest revenue	(50.739.681)	(38.979.408)
Interest expenses	55.752.281	13.563.216
Effect of exchange rate fluctuation on other items than from operation	2.312.196	(761.003)
Other revenue and expenses	<u>(834.770)</u>	<u>-</u>
Operating profit before the changes in working capital	<u>545.793.377</u>	<u>480.317.885</u>
(Increase)/decrease in trade and other receivables	110.453.918	(75.164.629)
(Increase)/decrease in inventories	(320.635.665)	(171.968.274)
Increase/(decrease) in trade payables and other debts	<u>326.100.884</u>	<u>389.357.908</u>
Cash generated from operations	<u>661.712.514</u>	<u>622.542.890</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. TRANSACTIONS WITH RELATED PARTIES

The Parties are considered related if one of the parties has the ability to control the other party, to exercise a significant influence over the other party in financial or operational decision making, if they are under the common control with another party, if there is a joint venture in which the entity is an associate or a member of the management as described in the IAS 24 `Related Party Disclosures`. In evaluating each possible related party relationship, the focus is on the essence of this relationship and not necessarily on its legal form. Related parties may enter into transactions which unrelated parties cannot conclude, and transactions between related parties will not apply the same terms, conditions and values as for unrelated parties.

The prices / tariffs related to the transport and balancing contracts are approved by the National Energy Regulatory Authority (ANRE), are regulated and are not established under market conditions.

Procurement is carried out in compliance with the legal regulations on public procurement.

In the periods ended 31 December 2022 and 31 December 2021 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

i) Benefits granted to the members of the Board of Administration and of the management

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Salary paid to the members of the Board of Administration and management	22.377.657	21.222.651
Social contribution of the company	<u>1.304.256</u>	<u>1.224.066</u>
	<u>23.681.913</u>	<u>22.446.717</u>

In the periods ended 31 December 2022 and 31 December 2021, no advance payments and loans were granted to the company's administrators and management, except for advance payments from salaries and those for business trips, and they don't owe any amount from such advance payments to the company at the end of the period .

The company has no contractual obligations related to pensions towards the current administrators and directors.

The provision for the mandate contract is presented in Note 20.

The company has no contractual obligations related to pensions towards the former administrators and directors.

ii) Loan to a related party

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment for loan impairment	<u>(1.770.346)</u>	<u>(1.770.346)</u>

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

iii) Revenue from related parties – services supplied (VAT excluded)

	<u>Relationship</u>	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
SNGN Romgaz	Entity under common control	105.473.064	161.781.503
Electrocentrale București SA	Entity under common control	53.386.931	48.680.300
Electrocentrale Constanța	Entity under common control	4.113.599	4.193.177
E.ON Energie Romania	Entity under common control	<u>123.227.823</u>	<u>138.850.367</u>
		<u>331.852.643</u>	<u>353.505.347</u>

iv) Sales of other goods and services (VAT excluded)

	<u>Relationship</u>	<u>The year ended</u> <u>31 December</u> <u>2022</u>	<u>The year ended</u> <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	1.531	3.696
Electrocentrale Deva SA	Entity under common control	546.670	725.547
Electrocentrale Bucuresti	Entity under common control	1.200	588
Electrocentrale Constanța	Entity under common control	353.119	770.893
E.ON Energie Romania	Entity under common control	<u>421</u>	<u>199.025</u>
		<u>902.941</u>	<u>1.699.749</u>

v) Gas sales – the balancing activity (VAT excluded)

	<u>Relationship</u>	<u>The year ended</u> <u>31 December</u> <u>2022</u>	<u>The year ended</u> <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	5.582.732	14.742.212
Electrocentrale București	Entity under common control	27.877	1.089.733
Electrocentrale Deva SA	Entity under common control	422.437	-
Electrocentrale Constanța	Entity under common control	101.062.657	47.304.442
Termo Calor Pitesti	Entity under common control	346.816	-
E.ON Energie Romania	Entity under common control	<u>89.004.356</u>	<u>45.492.894</u>
		<u>197.114.312</u>	<u>108.629.281</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

vi) Receivables from related parties (without the adjustment)

	<u>Relationship</u>	The year ended 31 December <u>2022</u>	The year ended 31 December <u>2021</u>
SNGN Romgaz	Entity under common control	13.337.958	19.078.343
Electrocentrale Deva SA	Entity under common control	-	20.116
Electrocentrale București	Entity under common control	26.006.049	19.020.413
Electrocentrale Constanța	Entity under common control	-	29.276
Termo Calor Pitesti	Entity under common control	2.939	
E.ON Energie Romania	Entity under common control	<u>35.969.746</u>	<u>38.151.354</u>
		<u>75.316.692</u>	<u>76.299.502</u>

vii) Client receivables – the balancing activity (without the adjustment)

	<u>Relationship</u>	The year ended 31 December <u>2022</u>	The year ended 31 December <u>2021</u>
SNGN Romgaz	Entity under common control	9.971	319
Electrocentrale Deva SA	Entity under common control	-	65.954
Electrocentrale Bucuresti	Entity under common control	792.941	848.134
Electrocentrale Constanța	Entity under common control	-	15.614.007
Termo Calor Pitesti	Entity under common control	314.570	
E.ON Energie Romania	Entity under common control	<u>23.292.181</u>	<u>(6.848.924)</u>
		<u>24.409.663</u>	<u>9.679.490</u>

viii) Procurement of services from related parties (other services – VAT excluded)

	<u>Relationship</u>	The year ended 31 December 2022	The year ended 31 December 2021
SNGN Romgaz	Entity under common control	33.957.915	8.455.693
E.ON Energie Romania	Entity under common control	180.445.384	2.355
Termo Calor Pitesti	Entity under common control	1.165.222	-
Electrocentrale București	Entity under common control	<u>78.933.647</u>	<u>6.169</u>
		<u>294.502.168</u>	<u>8.464.217</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ix) Procurement of gas – the balancing activity (VAT excluded)

		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	2.520.556	24.338.825
Electrocentrale București	Entity under common control	40.841.743	17.389.447
Electrocentrale Constanța	Entity under common control	326.798	3.592.194
E.ON Energie Romania	Entity under common control	<u>101.131.739</u>	<u>59.101.928</u>
		<u>144.820.836</u>	<u>104.422.394</u>

x) Debts to affiliated parties from services (other services - VAT included)

		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	2.452.358	317.594
Electrocentrale București	Entity under common control	<u>1.194</u>	<u>889</u>
		<u>2.453.551</u>	<u>318.483</u>

xi) Debts to suppliers – balancing activity (VAT included)

		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	3.229.577	19.873.114
Electrocentrale București	Entity under common control	2.018.612	17.474.941
Electrocentrale Constanța	Entity under common control	2.095.909	2.486.589
Termo Calor Pitesti	Entity under common control	1.951.308	-
E.ON Energie Romania	Entity under common control	<u>16.848.247</u>	<u>43.791.122</u>
		<u>26.143.653</u>	<u>83.625.766</u>

xii) Guarantees from affiliates (bank guarantee letter)

		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	15.015.388	22.593.205
Termo Calor Pitești	Entity under common control	-	210
Electrocentrale Constanța	Entity under common control	-	1.000
E.ON Energie Romania	Entity under common control	<u>-</u>	<u>21.828.961</u>
		<u>15.015.388</u>	<u>44.423.376</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

xiii) Loans and interest to be reimbursed		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>233.467.920</u>	<u>256.688.127</u>
		<u>233.467.920</u>	<u>256.688.127</u>

xiv) Transactions during the period		The year ended 31 December 2022	The year ended 31 December 2021
	<u>Relationship</u>		
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>16.439.443</u>	<u>8.567.690</u>
		<u>16.439.443</u>	<u>8.567.690</u>

28. EARNINGS PER SHARE

The company shares are listed on the first category of the Bucharest Stock Exchange.

Basic earnings per share are calculated by dividing the profit attributable to the company's equity holders to the average number of ordinary shares existing during the year.

	The year ended 31 December 2022	The year ended 31 December 2021
Profit attributable to the company's equity holders	347.068.471	176.804.667
Weighted average of the number of shares	188.381.504	11.773.844
Basic and diluted earnings per share (lei per share)	1,84	15,03

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 12,25 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2022 (31 December 2021: 5,130,95%). Transactions mainly represent sales of products and services in exchange for raw materials and services or offsets with clients and suppliers within the operating cycle and receivables registered with the state budget.

Barter transactions

No barter transactions were made in 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

The Service Concession Agreement (S.C.A. - Note 8) provides that, at the end of the agreement, the ANRM is entitled to receive back, all goods of public property existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The company also has other obligations related to the concession agreement, which are described in Note 8.

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 December 2022 the value of the contractual firm obligations of parent Company for the purchase of tangible and intangible assets is of lei 70.071.442, and subsidiary Eurotransgaz SRL has no capital commitments.

Eurotransgaz SRL, the company established and owned by Transgaz in Moldova, was appointed the winner of the privatization investment contest for the single patrimonial complex State Enterprise Vestmoldtransgaz operating the Iasi-Ungheni gas transmission pipeline on the territory of Moldova.

The company is a guarantor of the loan agreement concluded on 24 January 2019 between the European Investment Bank and Eurotransgaz, in total amount of Euro 38 million, for the funding of the construction by Vestmoldtransgaz of the Ungheni-Chisinau gas transmission pipeline.

On December 11, 2019 the European Bank for Reconstruction and Development approved project No 50410, which represents capital investment in the form of a capital increase in exchange for a stake in the share capital of Vestmoldtransgaz SRL daughter company of Eurotransgaz SRL, which is ultimately owned and controlled by the Romanian gas transmission operator SNTGN Transgaz SA. The Bank's investment will finance the construction of the Ungheni-Chisinau natural gas pipeline in Moldova with a length of approx. 120 km and a planned capacity of 1.5 bcm.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The company's management believes that fiscal obligations included in these financial statements are properly presented and that it is not necessary for any additional provisions to be established to cover the uncertainties related to tax treatment.

The royalty rate for the use of gas transmission pipelines is set by the government. Since October 2007, the royalty has been set at 10% of revenue. After the entry into force of Art. 103 para. 2 of the Law no. 123/2012, starting from 12 November 2020 the fee was set at 0,4% of the domestic and international gas transmission services value performed by the company. ANRM requests Transgaz to calculate and pay the royalty by applying the percentage of 10% according to Law 238/2004. The company considers that it is obliged to calculate and pay a single royalty at the rate of 0,4% established by the special law, namely Law 123/2012. Law 248/July 2022 approving GEO 143/2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

amending and supplementing the Electricity and gas Law 123/2012 sets the royalty percentage at 0.4% of the gross revenue from natural gas transmission and the specialist report drawn up by the specialist committees of the Chamber of Deputies clarifies that the Electricity and gas Law 123/2012 is a special regulation in the field of natural gas, in relation to Oil Law 238/2004. Administrative and judicial dispute settlement is detailed in the chapter "Court and other actions".

iii) Insurance policies

The company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 57 managers in 2021 (54 managers in 2020).

iv) Environmental aspects

Environmental regulations are under development in Romania and the company did not record any obligation on 31 December 2022 and on 31 December 2021 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

v) Lawsuits and other actions

During the normal activity of the company, there were complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives, commercial and labour disputes. Based on its own estimates and internal and external consulting, the company's management believes there will be no material loss exceeding the provisions established in these financial statements and is not aware of circumstances that give rise to potentially significant obligations in this regard.

The company was the subject of an investigation by the Competition Council regarding the manner in which procedures were awarded for works contracts carried out by Transgaz during 2009-2011, before the implementation of private management according to the provisions of GEO 109/2011 on corporate governance of public enterprises.

In 2020, the Competition Council communicated Decision no. 43 / 11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616. The company challenged in court the decision of the Competition Council. (Note 20). The dispute concerns an action for annulment of the decision. At first instance, Transgaz's application was dismissed as unfounded. The company lodged an appeal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. **CONTINGENȚE. ANGAJAMENTE ȘI RISCURI OPERAȚIONALE (CONTINUARE)**

Control Y Montajes Industriales S.A

As at 31 December 2022, the daughter company is involved in a dispute with the entity Control Y Montajes Industriales S.A. The dispute arose in the context of the procurement procedure in connection with the disagreement of the participant Control Y Montajes Industriales S.A. regarding the way in which the tender was conducted. In court, the applicant seeks the annulment of the results of the procurement procedure by invoking certain clauses in the regulation of the National Agency for Energy Regulation. Until the results of the procurement procedure were announced, the applicant submitted an incomplete tender file, of which it was repeatedly informed. The probability of Vestmoldtransgaz winning is qualified as high.

National Agency for Energy Regulation (ANRE)

As at 31 December 2022, the daughter company is involved in two disputes with ANRE as follows:

- First dispute concerning the partial annulment of the Decision of the Board of Directors of ANRE no.211/14.05.2021, approving the basic costs of the Transmission System Operator. The Decision was challenged in the part concerning the approval in the basic costs of the expenses related to the remuneration of local and external staff involved in the implementation of the Investment Project. Given that ANRE has announced that ex officio it will amend its decision contested by Vestmoldtransgaz, the dispute will be settled in favour of Vestmoldtransgaz;
- Second dispute concerning the partial annulment of the Decision of the ANRE Board of Directors No 432 of 28.09.2021 with an order to issue an individual administrative act amending the contested act and approving the amounts of the calculation basis and related expenses concerning the annual depreciation of fixed assets and intangible assets relating to the natural gas transmission service provided by Vestmoldtransgaz in the amount proposed by Vestmoldtransgaz, in accordance with the present Application, and annulment in part of the Decision of the Board of Directors of ANRE No 447 of 12 October 2021 with an order that ANRE issue in this part an individual administrative act amending the contested act, by which it is approved in full at the amount requested by Vestmoldtransgaz the reserve prices for firm capacity reservation products (MWh/product) as well as the direct entry/exit tariffs for the natural gas transmission service provided by Vestmoldtransgaz.

As of 6 June 2016, the company was subject to an inspection carried out by the European Commission - Directorate General for Competition under Art. 20 (4) of Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which became Articles 101 and 102 of the Treaty on the Functioning of the European Union. In 2020, the European Commission approved the Company's commitments to address concerns related to a possible breach of Article 102 of the Treaty on the Functioning of the European Union, namely:

- to provide a minimum export capacity of 1.75 billion cubic meters per year at the **interconnection point between Romania and Hungary (Csanádpalota)**;
- to make available minimum export capacities of 3.7 billion cubic meters per year in total at two **interconnection points between Romania and Bulgaria (Giurgiu / Ruse and Negru Vodă I / Kardam)**;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

- to make sure that the tariffs to be proposed to the Romanian Energy Regulatory Authority (ANRE) will not make any difference between the export and the domestic markets, thus avoiding interconnection tariffs that render exports commercially non-feasible;
- refrain from using any other means of obstructing exports.

Based on their own estimates, the company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

Following the conclusion of the arbitration proceedings with Bulgargaz EAD, the arbitral tribunal upheld Bulgargaz EAD's claim and ordered the restitution of the quantity of natural gas of 6.733.433 cm and, if restitution in kind is not possible, the reimbursement of the monetary equivalent of the linepack, and statutory interest (Note 20). The decision of the arbitral tribunal has been appealed and the action for annulment has been registered with the Bucharest Court of Appeal. The action for annulment was dismissed as unfounded. Transgaz lodged an appeal.

The company was an intervener in a dispute concerning the annulment of ANRE's 2017 decision on the interpretation and application of the provisions of Article 99 of the Network Code, namely on the calculation of the invoices related to the excess of capacity booked by network users, in this case ENGIE Romania SA. By civil decision no. 3829/2021, the High Court of Cassation and Justice accepted Transgaz's and ANRE's appeal and, on retrial, dismissed as unfounded the application brought by the applicant Engie Romania on annulment of Decision no. 2 of 31 May 2017 of the Commission for the settlement of disputes on the wholesale and retail market set up within ANRE. The decision is final. Moreover, as the revenue is regulated, the amount deducted would be subject to recovery from the regulated revenue of the following gas year. In 2020 and in 2021 the network user initiated several lawsuits for the recalculation of the tariff related to the exceeding of the capacity booked during November 2016-February 2017, and March 2017 – December 2017 and January-April 2018 and the payment of the amount of lei 57.444.164, 5.112.291,07 and 17.789.789. The resolutions have not been appealed by ENGIE, the decision to dismiss the action being final. (Transgaz appealed against the decision as regards lawsuit costs, which were partially awarded by the court). Based on its own estimations, the company's management considers that there are no circumstances that would give rise to obligations in this regard, and the above-mentioned disputes were settled at first court and ENGIE's claims for recovery of the above-mentioned amounts were dismissed.

The dispute between ANRM and Transgaz was the subject of a tax inspection of the royalty which ended with the issuance of a mandatory order to pay two royalties, namely 10% and 0,4% of the value of domestic and international natural gas transmission services performed by the company. The company lodged a preliminary complaint against the mandatory provision no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, by which Transgaz S.A. was charged with the payment of the amount of 152,964,894 lei, representing the royalty due to the state budget and ancillaries. The preliminary complaint was upheld and the Ministry of Finance, by decision 82/P/2022, ordered the annulment in its entirety of binding order No 6006/250938/IEF/14.04.2022 and the issue of a new order taking into account the considerations put forward by the Ministry of Finance in the decision. Transgaz challenged that decision before the court, seeking partial annulment of the decision in respect of its unclear recitals. The case has not yet been settled. However, following decision No 85/P/2022i issued by the Ministry of Finance, binding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

order No 6009/253087/IEF of 14.12.2022 was issued, which only supplements the recitals of the first decision, maintaining the same amount payable by Transgaz. The company lodged a preliminary complaint against this new provision, which has not yet been resolved. It is also intended to challenge the administrative act consisting of binding order 6009/253087/IEF in court within the legal time limit. The company has lodged a bank guarantee letter in order to suspend the execution of this mandatory provision, in accordance with the provisions of the Tax Procedure Code.

vi) Government policies in the gas sector in Romania

ANRE is an autonomous public institution and sets tariffs for the natural gas transmission activity charged by the company. It is likely that the Agency decides the implementation of changes of the government strategies in the gas sector, determining changes in the tariffs approved for the company and, thus, having a significant impact on the company's revenue. At the same time, the Romanian government could decide to change the royalty applied to the company for using the assets part of the public domain according to SCA.

Currently, the effects cannot be determined, if they exist, of the future government policies in the gas sector in Romania on the company's asset and liability.

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties. The company's management believes that its obligations to ANRE are properly presented in these financial statements.

ANRE Order no.126/12.2021 approved the modification of the contractual clauses for the balancing activity and access to the PVT which allows the Company to terminate access to the virtual trading point (VTP) and to terminate balancing contracts, for network users who register cumulative imbalances of the Deficit type during the month higher than the guarantees established.

GEO 27/2022 provides that in order to cover the additional costs related to own technological consumption and technological consumption, respectively, generated by the increase in prices on the anglo market above the value taken into account by the regulator when calculating the natural gas transmission tariffs for 2021, the Energy Regulatory Authority (ANRE) modifies the regulated tariffs, with effect from 1 April 2022, and the resulting tariffs shall remain unchanged for the period from 1 April 2022 to 31 March 2023. ANRE did not modify the transmission tariffs with the price increase substantiated by the company.

By Order no. 95/18.05.2022, ANRE extends the deadlines laid down in ANRE Order no. 32/2021 on the approval of the adjusted regulated revenue and transmission tariffs for the transmission of natural gas through the National Transmission System until 30 September 2023 and provides that the differences resulting from the recalculation of the regulated revenue and the adjusted regulated revenue for the fourth regulatory year, 1 October 2022 - 30 September 2023, of the fourth regulatory period, shall be determined and adjusted with the adjustment of the regulated revenue and the approval of the revenue for the last year of the fourth regulatory period, i.e. 1 October 2023 - 30 September 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

According to GEO no. 119/1 September 2022 amending and supplementing Government Emergency Ordinance no. 27/2022 on measures applicable to end customers in the electricity and natural gas market for the period from 1 April 2022 to 31 March 2023, the natural gas transmission service provider is required to capitalise on a quarterly basis the additional costs for the procurement of natural gas incurred during the period from 1 January 2022 to 31 August 2023 to cover technological consumption, compared to the costs included in the regulated tariffs, and the assets resulting from the capitalisation shall be recognised in the accounting records and financial statements in accordance with the instructions issued by the Ministry of Finance.

By Order 111/24 August 2022, ANRE stipulates, as of 1 October 2022, that the mechanism ensuring cost and revenue neutrality of the TSOs take into account the following categories of costs and revenues:

- a) costs and revenues of the TSO as a result of the payment or collection of imbalance charges under the provisions of the Network Code in relation to individual NUs;
- b) costs and revenues arising from the purchase/sale of gas by the TSO for the physical balancing of the NTS, in compliance with the procedure on the operating limits of the NTS, approved by the TSO and endorsed by ANRE;
- c) costs and revenues resulting from the activity of natural gas storage intended to ensure the physical balance of the transmission system in accordance with the provisions of Article 130(1) of the Law no. 123/2012 on electricity and natural gas, as amended;
- d) costs arising from the taking out of a credit line to finance physical and commercial balancing activity;
- e) costs and revenues arising from the contracting of balancing services, in accordance with the provisions of Article 832 of the Network Code and Article 6(3) b of Regulation (EU) No 312/2014.

Eurotransgaz has fulfilled all its obligations under the Contract for Sale and Purchase of the State Enterprise Vestmoldtransgaz, concluded between Eurotransgaz S.R.L. on the one hand and the Public Property Agency ("APP") and the Ministry of Economy and Infrastructure ("MEI") on the other hand, for which Eurotransgaz received in 2022 the certificate on the full performance of the contractual obligations assumed by S.R.L. "Eurotransgaz" under the Contract for Sale and Purchase of the investment tender of the single asset complex of the State Enterprise "Vestmoldtransgaz".

vii) The impact of COVID-19

In the context of the COVID-19 pandemic, the company cooperates with the authorities and takes the necessary measures to ensure the provision of the gas transmission service in a safe manner and to ensure the safety of the personnel. The company prepared and published a plan of measures approved by the Board of Administration, which aims to minimize the effects of the epidemic on the health and safety of the employees and to ensure the continuity of the natural gas transmission service and the safety of the National Transmission System.

The company provides a public service of national interest being included in the regulated segment of the internal gas market. The gas transmission activity is regulated by the National Energy Regulatory Authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

viii) The military conflict in Ukraine

As of 24 February 2022 a military conflict is taking place on the territory of Ukraine. Gas flows can be redirected through the Negru Voda entry point and other interconnection points with transmission operators in Bulgaria and Hungary.

31. FEES OF THE STATUTORY AUDITOR

The fees for the financial year ended 31 december 2022 charged by BDO Audit SRL are: lei 79.682 (VAT excluded) for the limited review as at 30 June 2022 and 29.760 lei (excluding VAT) for other services than statutory audit services.

The fees for the financial year ended 31 December 2021 charged by BDO Audit SRL, invoiced in 2022 are: lei 174.989 (VAT excluded) for statutory audit services and lei 15.000 (VAT excluded) for other services than the statutory audit.

The fees for the financial year ended 31 December 2021 charged by BDO Audit SRL invoiced in 2021 are: lei 79.682 (VAT excluded) for the limited review as at 30 June 2021 and lei 22.320 (VAT excluded) other services than the statutory audit.

32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

In accordance with IFRIC 12 the revenue and costs of network construction should be recognized in accordance with IFRS 15 Revenue from Contracts with Customers.

	<u>The year ended</u> <u>31 December 2022</u> <u>(unaudited)</u>	<u>The year ended</u> <u>31 December 2021</u> <u>(unaudited)</u>
Revenue from the construction activity according to IFRIC12	299.868.442	704.026.548
Cost of assets constructed according to IFRIC12	(299.868.442)	(704.026.548)

The related costs were equal to the revenue, the company did not obtain any profit from the construction activity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

33. EVENTS SUBSEQUENT TO THE BALANCE DATE

In January 2023, the Company concluded with Banca Transilvania an addendum to the loan agreement in order to update the bank guarantee letter issued by the Company in favour of the National Tax Administration Agency to guarantee the debt instrument represented by the mandatory provision no. 6006/253087/IEF/14.12.2022, issued by the Ministry of Finance, which established the payment by Transgaz S.A. of the amount of 152.964.894 lei, representing the royalty due to the state budget. The amendment amends the previous binding provision number 6006/250938/IEF/14.04.2022 on the basis of which the initial letter was issued in 2022.

The company has successfully carried out an incremental capacity process for the entry/exit point to/from the National Natural Gas Transmission System (NTS) planned to be created in the area of **Tuzla, Constanța county. The value of the allocated capacity** for the period 01.05.2026 - 01.10.2042 is 1.323.920.520 MWh, and the cumulative value of the commitments of the successful applicants is 2.819.621.116 lei.

Based on the decision of the sole shareholder Eurotransgaz SRL no.1 of 11 January 2023 on the decrease of the share capital of Eurotransgaz SRL by the amount of EUR 2,31 million, the procedure for the decrease of the share capital was initiated in accordance with the legislation of the Republic of Moldova and we anticipate that this procedure will be completed in the first half of 2023.

Following the Resolution of the General Meeting of the Shareholders of Vestmoldtransgaz No. 08 of 17 January 2023, Eurotransgaz on 17 January 2023 received the amount of EUR 2,31 million as advance payment of the loan granted by Eurotransgaz SRL to the subsidiary Vestmoldtransgaz SRL.

On the basis of the resolution of the General Meeting of the Shareholders of Vestmoldtransgaz Ltd. no. 07 dated 7 September 2022, the shareholders decided to decrease the share capital of Vestmoldtransgaz Ltd. by

MDL 98.893.062 in order to compensate the losses of the previous periods. The procedure for the reduction of the share capital was registered with the Public Services Agency on 10 January 2023, and the corresponding extract was issued.

VMTG has settled amicably a dispute with ANRE pending before the court, i.e. the administrative case filed on the basis of the Complaint filed by Vestmoldtransgaz SRL, against the National Agency for Energy Regulation, regarding the partial annulment of the Decision of the ANRE Board of Directors no.211/14.05.2021, on the approval of the basic costs of the Transmission System Operator. The decision was contested in the part concerning the approval in the basic costs of the expenses related to the remuneration of local and external staff involved in the implementation of the Investment Project (UIPIGUC). The costs were approved by ANRE, respectively VMTG will file a request for withdrawal of the claims.

Chairman of the Board of Administration

Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

THE NATIONAL GAS TRANSMISSION COMPANY
TRANSGAZ S.A.

INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2022

PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
ADOPTED BY THE EUROPEAN UNION

This version of the interim financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION
(expressed in lei, unless otherwise stated)



	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
ASSET			
Fixed assets			
Tangible Assets	7	418.131.904	454.058.620
Rights of use of the leased assets	9	16.934.813	19.617.136
Intangible Assets	9	3.909.577.432	3.997.028.494
Financial assets	10	191.122.702	296.576.170
Trade receivables and other receivables	12	2.141.205.427	1.788.570.507
Deferred tax	18	<u>-</u>	<u>1.442.960</u>
		6.676.972.278	6.557.293.887
Current assets			
Inventories	11	609.876.837	308.541.252
Commercial receivables and other receivables	12	335.331.267	536.070.089
Cash and cash equivalent	13	<u>384.237.135</u>	<u>321.185.261</u>
		1.329.445.239	1.165.796.602
Total asset		8.006.417.517	7.723.090.489
EQUITY AND DEBTS			
Equity			
Share capital	14	1.883.815.040	117.738.440
Hyperinflation adjustment of share capital	14	441.418.396	441.418.396
Share premium	14	247.478.865	247.478.865
Other reserves	15	1.265.796.861	1.265.796.861
Retained earnings	15	<u>244.236.598</u>	<u>1.816.594.475</u>
		4.082.745.760	3.889.027.037
Long-term debts			
Long-term loans	16	1.871.382.547	1.711.802.456
Provision for employee benefits	21	110.895.341	106.041.177
Deferred revenue	17	969.150.112	1.069.813.639
Deferred tax	18	1.206.204	-
Commercial debt and other debts	19	<u>14.178.481</u>	<u>16.699.325</u>
		2.966.812.685	2.904.356.597

Notes 1 to 33 are part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
(expressed in lei, unless otherwise stated)



	<u>Note</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
Current debts			
Commercial debts and other debts	19	631.538.978	634.477.008
Deferred revenue	17	107.439.092	91.671.887
Current payable tax	18	-	-
Provision for risks and charges	20	81.197.994	67.446.364
Short-term loans	16	132.098.774	132.104.365
Provision for employee benefits	21	<u>4.584.234</u>	<u>4.007.231</u>
		<u>956.859.072</u>	<u>929.706.855</u>
Total debts		<u>3.923.671.757</u>	<u>3.834.063.452</u>
Total equity and debts		8.006.417.517	7.723.090.489

Endorsed and signed on behalf of the Board of Administration on 21 March 2023 by:

Chairman of the Board of Administration

Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

This version of the financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

STATEMENT OF COMPREHENSIVE INCOME
(expressed in lei, unless otherwise stated)



	<u>Note</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
Revenue from the domestic transmission activity		1.351.930.670	1.164.418.613
Revenue from the international transmission activity and similar		73.926.517	72.037.147
Other revenue	22	<u>149.328.948</u>	<u>128.055.482</u>
Operational revenue before the balancing and construction activity according to IFRIC12		1.575.186.135	1.364.511.242
Depreciation	7, 9	(423.649.671)	(351.054.254)
Employees costs	24	(491.588.137)	(464.596.008)
NTS gas consumption, materials and consumables used		(180.267.951)	(112.818.316)
Expenses with royalties		(5.703.430)	(4.945.824)
Maintenance and transmission		(36.913.734)	(32.769.283)
Taxes and other amounts owed to the state		(86.781.521)	(86.200.670)
Revenue/ (Expenses) with provisions for risks and charges		(18.088.348)	7.308.411
Other operating cost	23	<u>(172.561.046)</u>	<u>(185.042.332)</u>
Operational profit before the balancing and construction activity according to IFRIC12		159.632.297	134.392.966
Revenue from the balancing activity		1.005.543.977	442.199.967
Cost of balancing gas		(1.005.543.977)	(442.199.967)
Revenue from the construction activity according to IFRIC12	32	299.868.442	704.026.548
Cost of assets constructed according to IFRIC12	32	<u>(299.868.442)</u>	<u>(704.026.548)</u>
		159.632.297	134.392.966
Operational profit			
Financial revenue	25	461.287.140	130.012.861
Financial cost	25	<u>(183.445.916)</u>	<u>(25.137.500)</u>
Financial revenue, net		<u>277.841.224</u>	<u>104.875.361</u>
Profit before tax		437.473.521	239.268.327
Profit tax expense	18	<u>(71.718.653)</u>	<u>(52.326.855)</u>
Net profit for the period		<u>365.754.868</u>	<u>186.941.472</u>
Shares number		188.381.504	11.773.844
Basic and diluted earnings per share (expressed in lei per share)	28	1,94	15,88
Actuarial gain / loss for the period		2.452.222	15.782.924
Total comprehensive income for the period		<u>368.207.090</u>	<u>202.724.396</u>

Chairman of the Board of Administration
Petru Ion **Văduva**

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
(expressed in lei, unless otherwise stated)



	Note	Share Capital	Share capital adjustments	Share premium	Other reserves	Retained earnings	Total equity
Balance on 1 January 2021		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.709.709.168</u>	<u>3.782.141.730</u>
<i>Elemente ale rezultatului global</i>							
Net profit for the period		-	-	-	-	186.941.472	186.941.472
Actuarial gain / loss for the period		-	-	-	-	<u>15.782.924</u>	<u>15.782.924</u>
						202.724.396	202.724.396
<i>Transactions with shareholders:</i>							
Dividends related to 2020	15	-	-	-	-	<u>(95.839.089)</u>	<u>(95.839.089)</u>
Balance on 31 December 2021		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.816.594.475</u>	<u>3.889.027.037</u>
<i>Elemente ale rezultatului global</i>							
Net profit for the period		-	-	-	-	365.754.868	365.754.868
Actuarial gain / loss for the period		-	-	-	-	<u>2.452.222</u>	<u>2.452.222</u>
						368.207.090	368.207.090
Establishing profit reserves							
Legal reserve increase		-	-	-	-	(21.873.676)	(21.873.676)
						21.873.676	21.873.676
<i>Transactions with shareholders:</i>							
Increase of share capital by incorporation of reserves		1.766.076.600	-	-	-	(1.766.076.600)	-
Dividends related to 2021	15	-	-	-	-	<u>(174.488.367)</u>	<u>(174.488.367)</u>
		1.766.076.600				(1.940.564.967)	(174.488.367)
Balance on 31 December 2022		<u>1.883.815.040</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>244.236.598</u>	<u>4.082.745.760</u>

Chairman of the Board of Administration

Petru Ion Văduva

Director - General

Ion Sterian

Chief Financial Officer

Marius Lupean

Notes 1 to 33 are part of these financial statements.

INTERIM CASH FLOW STATEMENT
(expressed in lei, unless otherwise stated)

	Note	The year ended 31 December 2022	The year ended 31 December 2021
Cash generated from operations	26	614.373.376	637.756.213
Interest received		1.277.835	972.988
Interest paid		(66.822.526)	(5.088.953)
Paid profit tax		<u>(77.532.781)</u>	<u>(24.095.578)</u>
Net cash inflow from operation activities		471.295.904	609.544.670
Cash flow from investment activities			
Payments to acquire intangible assets		(596.593.415)	(840.718.251)
Payments to acquire tangible assets		(18.801.250)	(47.304.652)
Financial investment/shares		105.453.468	(12.303.322)
Receipts from the disposal of tangible assets		479.363	861.814
Cash flow from connection fees and grants		<u>133.208.997</u>	<u>206.422.259</u>
Net cash used in investment activities		<u>(376.252.837)</u>	<u>(693.042.152)</u>
Cash flow from financing activities			
Long-term loan withdrawals		-	320.000.000
Long term loans repayments		(143.485.273)	(70.179.940)
Credit withdrawals/repayments for working capital		291.740.052	(20.285.208)
Leasing payments (IFRS 16)		(5.157.454)	(4.704.239)
Dividends paid		<u>(175.088.518)</u>	<u>(96.322.140)</u>
Net cash used in financing activities		<u>(31.991.193)</u>	<u>128.508.473</u>
Net change in cash and cash equivalents		<u>63.051.874</u>	<u>45.010.991</u>
Cash and cash equivalent as at the beginning of the year	13	<u>321.185.261</u>	<u>276.174.270</u>
Cash and cash equivalent as at the end of the period	13	<u>384.237.135</u>	<u>321.185.261</u>

Chairman of the Board of Administration
Petru Ion Văduva

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (‘company’) has as main activity the transmission of natural gas. Also, the company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 December 2022, the majority shareholder of the company is the Romanian state, through the General Secretariat of the Government.

The company was established in May 2000, following several reorganizations of the gas sector in Romania: its predecessor was part of the former national gas monopoly SNGN Romgaz SA (‘predecessor company’), which was reorganized under Government Decision 334/2000.

The natural gas sector is regulated by the ‘National Energy Regulatory Authority’ - ‘ANRE’. ANRE’s main responsibilities are the following:

- issuing or withdrawing licenses for companies operating in the natural gas sector;
- publishing framework contracts for the sale, transmission, acquisition and distribution of natural gas;
- setting the criteria, requirements and procedures related to the selection of eligible consumers;
- setting the pricing criteria and the calculation methods for the natural gas sector.

The company is headquartered in **1 C.I. Motaş Square, Mediaş, Romania**.

From January 2008, the company is listed at the Bucharest Stock Exchange, as a Tier 1 company, under the TGN symbol.

The Ordinary General Meeting of Shareholders approves the annual financial statements of the Company based on the reports of the Board of Administration and of the financial auditors.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

The continuation of the economic reforms by the Romanian authorities is necessary for the consolidation of the internal macro-financial framework. The positive performances the Romanian economy registered must be consolidated by the application of a coherent mix of policies. In this context it can be noticed that:

- (i) According to European Commission forecasts, after a high-growth 2022, Romania's economy is set to slow, with real GDP expected to grow by around 2% in the coming years, due to rising inflation, tightening financial conditions and the aftermath of Russia's war of aggression against Ukraine. Inflation is expected to peak at the end of 2022 and remain high in 2023 before falling in 2024. Unemployment will remain at around 5-6%. The general government deficit is projected to gradually decline to 4,8% in 2024, as a result of high revenues and falling current expenditure as a share of GDP, mainly on the back of a significant increase in nominal GDP. The debt-to-GDP ratio will be around 47,6% in 2024. Overall, real GDP is projected to grow by 5,8% in 2022, 1,8% in 2023 and 2,2% in 2024.
- (ii) In the meeting of 10 January 2023, the Board of the National Bank of Romania decided:
 - to increase the monetary policy rate to 7,00 % per year, from 6,75 % per year from 11 January 2023;
 - increase the interest rate on the lending facility (Lombard) to 8,00 per cent per year from 7,75 per cent per year and increase the interest rate on the deposit facility to 6,00 per cent from 5,75 per cent per year from 11 January 2023;
 - to maintain the current levels of the mandatory minimum reserves for the lei and currency liabilities of the credit institutions.
- (iii) In view of the November 2022 NBR Inflation Report, the annual CPI inflation rate rose to 15,88 percent in September (0,83 percentage points higher than in June), but slowed down compared to the previous quarter. Disinflationary action was exerted by the fuel group as a result of the government's measure to compensate the price of a litre of fuel by 50 bani (starting in July), but also of the slightly downward slope of the Brent price throughout the third quarter. Also in the energy segment, the electricity and gas bill payment support scheme continued to strongly dampen the pass-through of successive shocks in the energy markets into final prices. The economic environment remains burdened by inflationary pressures stemming from production costs, the pass-through of which to consumer prices is facilitated by resilient demand. The phenomenon is more pronounced for food commodities - especially processed food, with a substantial contribution to the increase in adjusted core CORE2 inflation, whose annual change reached 11,9% in September.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

- (iv) Fitch International Rating Agency confirmed on 17.06.2022 the rating of the National Natural Gas Transmission Company Transgaz at "BBB-" with stable outlook. "The confirmation of Transgaz' rating is based on its strong business profile as title holder and operator of the gas transmission network in Romania, as well as our expectations regarding the continuity of the regulatory framework in the new regulatory period from October 2024," the agency's report said.
- (v) Fitch Ratings confirmed Romania's sovereign rating at "BBB " with a negative outlook, which is the last rating in the "investment-grade" category (recommended for investment), according to a press release from the financial rating agency of 07.10.2022. The negative outlook reflects downside risks to Romania's economic, fiscal and external performance from the war in Ukraine and the European energy crisis, aggravated by the much weaker euro area growth outlook and tighter external financing conditions than at the time of the last review in April. These risks are compounded by the competing policy objectives underlying the persistent macroeconomic imbalances. They also reflect continued uncertainty about the implementation of policies to address structural fiscal imbalances over the medium term, despite the progress made this year.

At the end of 2021, as compared to the end of 2020, the LEU depreciated both against the EURO (`EUR`) and the US dollar (`USD`). Thus, as compared to the end of 2020, the LEU depreciated by 1,62% against EUR (4,9481 as at 31 December 2021; 4,8694 as at 31 December 2020) and depreciated by 10,20% against the USD (4,3707 as at 31 December 2021; 3,9660, as at 31 December 2020).

At the end of 2022, the LEU increased against the EURO (`EUR`) and depreciated against the US **dollar (`USD`). Thus, as compared to the end of 2022 the LEU increased by** by 0,01% against EUR (4,9474 as at 31 December 2022, ; 4,9481 as at 31 December 2021 and depreciated by 6,04% against USD (4,6346 as at 31 December 2022, 4,3707 lei as at 31 December 2021).

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared based on a going concern principle.

The main accounting policies applied in the preparation of these financial statements are presented below. These policies were consistently applied to all the financial years considered, unless otherwise stated.

3.1 Basis of preparation

The financial statements of the company were prepared in accordance with the International Financial Reporting Standards adopted by the European Union (‘EU IFRS’). The financial statements were prepared based on the historical cost convention, except for the financial assets which are measured at fair value by the profit and loss account or at the fair value among other elements of the comprehensive income.

The preparation of the financial statements in accordance with EU IFRS requires the use of critical accounting estimates. Also, the management is required to use judgment in applying the company's accounting policies. Areas with a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 5.

Accounting regulations applicable as of 2016

Amendments to various Improvements to IFRSs (2014-2016 Cycle) resulting from the project to improve IFRSs (IFRS 1, IFRS 12, IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (Amendments to IFRS 12 are applicable for the annual periods beginning on or after 1 January 2017 and the Amendments to IFRS 1 and IAS 28 are applicable for the annual periods beginning on or after 1 January 2018).

(a) Standards and interpretations applicable as of 2017

The following standards and amendments of the current standards, issued by the International Accounting Standard Board (‘IASB’) and adopted by the European Union (EU) became applicable in 2017:

Amendments to IAS 12 "Income Tax"

Recognition of Deferred Tax Assets for Unrealised Losses (applicable for the annual periods beginning on or after 1 January 2017);

Amendments to deferred tax recognition for unrealized assets clarify the following aspects:

- Unrealized loss on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;
- The accounting value of an asset does not limit the estimation of the future taxable profits
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax loss, an entity will estimate deferred tax in combination with other deferred tax of the same type.

The Amendments are applicable for the period starting from or after 2017. The previous application is allowed;

The amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative (applicable for the annual periods beginning on or after 1 January 2017);

(b) Standards and interpretations applicable as of 2018

At the date of reporting of these Financial Statements, the following standards, revisions and interpretations became applicable:

- IFRS 9 Financial Instruments - adopted by the UE on 22 November 2016 (applicable for the annual periods beginning on or after 1 January 2018) replaces IAS 39 – Financial Instruments - Recognition and Measurement;

IFRS 9 includes the requirements on financial instruments referring to recognition, classification, evaluation, depreciation loss, derecognition and hedge accounting against risks:

- *Classification and evaluation:* IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income elements, at fair value through profit or loss. The IFRS 9 classification is determined by the cash flow and business model in which an asset is held. This unitary approach based on principles eliminates the financial asset classification categories in IAS 39: held-to-maturity, loans and advances and available-for-sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

According to IFRS 9, derivatives incorporated into contracts, where the host instrument is a financial instrument for the purpose of this standard, are not separate, but the entire hybrid instrument is considered for classification.

- *Impairment loss:* IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected loss from impairment of receivables. The standard requires entities to recognize the anticipated impairment loss on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment loss over their lifetime. The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.
- *Impairment:* applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows;

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Hedge accounting:* IFRS 9 introduces a significantly improved hedge accounting model which includes additional disclosure requirements for risk management activity. The new model is a significant revision of the hedge accounting principles, which allows the alignment of the accounting treatment with the risk management activities.

IFRS 15 "Revenue from Contracts with Customers" as subsequently amended and amendments to IFRS 15 "Effective Date of IFRS 15" adopted by the EU on 22 September 2016 (applicable for the annual periods beginning on or after 1 January 2018);

IFRS 15 establishes a single model for the entities for revenue accounting resulting from customer contracts, replacing the following standards and interpretations from the date of entry into force:

- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 – Income - Barter Transactions Involving Advertising Services

The core principle of IFRS 15 is that an entity recognizes revenue when the goods or services promised to customers are transferred at a value that reflects the consideration the entity expects to have the right to exchange for those goods or services. An entity recognizes revenue in accordance with this core principle by applying the following steps: contract identification; identifying performance obligations from the contract; determining the transaction price; allocating the transaction price for the contract performance obligations; recognizing revenue when (or as) it fulfils an execution obligation.

The revenue from services provision is recognized as follows:

- based on the tariffs regulated by ANRE for firm/ interruptible natural gas transmission services through the National Transmission System;
- based on the transmission tariffs approved by ANRE for the transmission capacity booking on the entry/ exit points in/out of the natural gas transmission pipeline **Isaccea 2-Negru Vodă 2;**
- based on the tariffs negotiated within the transmission contract for the transmission capacity booking on the **Isaccea 3-Negru Vodă 3 gas transmission pipeline;**
- by auction, on the Regional Capacity Booking Platform (RBP) for the trading of bundled and unbundled capacity at cross-border interconnection points with transmission systems from European Union member countries,

Standards and interpretations that will come into force/applicable as of 2019 or at a future date

- on the basis of regulated tariffs for activities related to the operation of the gas transmission system;
- prices determined on the basis of ANRE regulations for the balancing and neutrality activity within the provision of the transmission service;
- tariffs determined based on ANRE regulations for the administration of the balancing market.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For goods developed under the Concession Agreement, achieved in-house, the revenue is recognized at the level of the costs incurred.

Amendments to IAS 40 "Investment Property" – *property related to Investment transactions (applicable for the annual periods beginning on or after 1 January 2018)*;

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (applicable for the annual periods beginning on or after 1 January 2018); the interpretation refers to the determination of the transaction date to determine the exchange rate to be used for the initial recognition of an asset, expense or income (or part thereof) in the derecognition of a non-monetary asset or non-monetary debt generated by a payment in advance in foreign currency. IFRIC 22 does not provide for guidance on the definition of the monetary and non-monetary items. A payment or advance payment generally leads to the recognition of a non-monetary asset/liability, but it may also lead to the recognition of a monetary asset/liability.

At the date of the reporting of these Financial Statements the following standards and interpretations are not applicable and they will enter into force on or after 1 January 2019:

- IFRS 16 Leases (applicable for the annual periods beginning on or after 1 January 2019); at the date of entry into force IFRS 16 will replace the following standards and interpretations:
 - IAS 17 - Leases;
 - IFRIC 4- Determining whether an Arrangement Contains a Lease;
 - SIC 15 – Operating Leases - Incentives;
 - SIC 27- Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 provides a control model for the identification of leases by establishing principles for the recognition, measurement and disclosure of leases, i.e. the right to control the use of an identified asset for a specified period of time in return for consideration. The right to control the use of the identified asset exists if the customer has the right to obtain substantially all the economic benefits and also the right to determine the manner and purpose for which the asset is used.

IFRIC 22 „Foreign exchange transactions and advances” (applicable for annual periods beginning on or after 1 January 2018); the interpretation relates to the determination of the transaction date for determining the exchange rate to be used for the initial recognition of an asset, expense or income (or part thereof) on derecognition of a non-monetary asset or a non-monetary liability arising from a foreign currency prepayment. IFRIC 22 does not provide guidance on the definition of monetary and non-monetary items. A prepayment or cash receipt generally results in the recognition of a non-monetary asset/non-monetary liability, but may also result in the recognition of a monetary asset/monetary liability.

At the reporting date of these financial statements, the following standards and interpretations are not applicable and will become effective on or after 1 January 2019:

- **IFRS 16 „Leasing”** (effective for annual periods beginning on or after 1 January 2019); Upon application, IFRS 16 will supersede the following standards and interpretations:
 - IAS 17 – Leasing;

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- IFRIC 4- Determining the extent to which a commitment contains a lease;
- SIC 15- Operational Leasing-Incentives;
- SIC 27- Valuation of the economic substance of transactions involving the legal form of a leasing contract.

IFRS 16 provides a model of control for lease identification by establishing principles for the recognition, measurement and presentation of lease contracts, that is the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of the identified asset exists if the client has the right to obtain substantially all the economic benefits and also the right to determine the manner and purpose in which the asset is used.

IFRS 16 introduces significant changes in lease accounting, in particular by eliminating the distinction between finance lease and operating lease, and requires the lessee to recognize a usable asset and a lease liability at the date of commencement of the contract, except for short-term leases or low-value asset lease.

As of 1 June 2020, IFRS 16 was amended to provide a practical expedient to lessees` s rent concessions occurring as direct consequence of the COVID-19 pandemic and meeting the following criteria:

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) the reduction in lease payments relates only to payments due on or before 31 December 2021; and (c) there is no substantive change to other terms and conditions of the lease.

Rent concessions meeting these criteria can be accounted according to the practical opportunity, which means that the lessee does not assess whether the rent concession meets the definition of a lease modification. The lessees apply other IFRS 16 requirements in the accounting of the accounting for the concession.

Amendments to IFRS 2 `Share-based Payment` – Classification and measurement of share-based payment transactions (applicable for the annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 4 `Insurance Contracts` - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`);
- Amendments to IFRS 10 `Consolidated Financial Statements` and IAS 28 `Investments in Associates and Joint Ventures` - Sale or contribution of assets between an investor and its associate or joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);
- IFRIC 23- `Uncertainty over Income Tax Treatment` was prepared as an interpretation regarding IAS 12 Income Taxes, to specify the way of the uncertainty over the income tax accounting is presented.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The IFRS Interpretation Committee developed IFRIC 23 to clarify uncertainties over how tax law applies to a particular transaction or circumstance or the extent to which a tax authority will accept a company's tax treatment company. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty .

In 2020, the IASB finalizes the amendments to IAS 1 and IAS 8 on the definition of "significant" *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity based on that financial statement, which provides financial information about a particular reporting entity."*

The following changes are valid as of 1 January 2022:

- Onerous contracts - The cost of performing a contract (Amendments to IAS 37); IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts - Cost of Fulfilling a Contract) - In May 2020, the IASB issued amendments to IAS 37 that specify the costs that a company includes when assessing whether a contract will result in a loss and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts as they increase the scope of costs that are included in the assessment of the onerous contract.
- Annual Improvements to IFRSs: 2018-2020 Cycle - In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples accompanying IFRS 16 Leasing.
- The Conceptual Framework for Financial Reporting (Amendments to IFRS 3) - In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
- IAS 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use) - In May 2020, the IASB issued amendments to IAS 16 that prohibit a company from deducting amounts received from the sale of items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales revenue and any related costs in profit or loss.

New standards, interpretations and amendments with subsequent applicability.

The company has chosen not to apply in advance these standards, interpretations and amendments to be subsequently applicable

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

STANDARDS AND AMENDMENTS IN MANDATORY FORCE AS OF 1 JANUARY 2023

- IFRS 17 Insurance Contracts - IFRS 17 introduces an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there was significant diversity worldwide in the accounting and presentation of insurance contracts, with IFRS 4 allowing many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. In December 2021, the IASB amended IFRS 17 to add a transition option to address potential accounting mismatches between financial assets and insurance contract liabilities in comparative information presented on initial application of IFRS 17 and IFRS 9, thereby improving the usefulness of comparative information for users of financial statements.
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Long-Term) - In January 2020, the IASB issued amendments to IAS 1 that clarify how an entity classifies liabilities as current or long-term. The amendments originally had an effective date of 1 January 2022, however, in July 2020, this was delayed until 1 January 2023 due to the COVID-19 pandemic. These changes are expected to have a significant impact on many entities, with several debts being classified as current, particularly those with loan-related conditionalities. The International Accounting Standards Board (IASB) issued **“Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)”** providing a more general approach to the classification of liabilities in accordance with IAS 1 based on existing contractual arrangements in the reporting.
- The changes were initially valid for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was postponed to annual reporting periods beginning on or after 1 January 2023:

Changes in the Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of the recognition of any assets, income or expenses or the information that entities disclose about these items. The following is clarified:

- ✓ The classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period and the wording shall be aligned in all relevant paragraphs to refer to the "right" to defer settlement by at least twelve months and clarify that only the rights in force "at the end of the reporting period" should affect the classification of a debt;
- ✓ The classification is not affected by expectations that an entity will exercise its right to defer the settlement of a debt;
- ✓ Settlement refers to the transfer to the counterparty of the cash, equity instruments, other assets or services.
- ✓ An entity applies this interpretation for annual reporting periods beginning on at or after 1 January 2019. Application prior to this date is permitted.
- ✓ An `uncertain tax treatment` is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under the tax law.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2) - In February 2021, the IASB issued amendments to IAS 1 that change the disclosure requirements regarding accounting policies from "significant accounting policies" to "disclosures about material accounting policies". The amendments provide guidance on when accounting policy information can be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-binding guidance, no mandatory effective date has been specified for amendments to IFRS Practice Statement 2.
- Definition of accounting estimates (amendment to IAS 8) - In February 2021, the IASB issued amendments to IAS 8 that added to the definition of accounting estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless they result from correcting prior period errors.
- Deferred tax relating to assets and liabilities arising from a single transaction (amendments to IAS 12) - In May 2021, the IASB issued amendments to IAS 12 clarifying whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability recognised simultaneously (for example, a lease within the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability that, at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

3.2 Reporting on segments

Reporting on business segments is made consistently with the internal reporting by the main operating decision-maker. The main operating decision-maker, which is in charge with resource allocation and assessment of business segments' performance, was identified as being the Board of Administration, which makes the strategic decisions.

3.3 Transactions in foreign currency

a) *Functional currency*

The items included in the financial statements of the company are valued using the currency of the economic environment where the entity operates (‘functional currency’). The financial statements are presented in Romanian leu (‘lei’), which is the functional currency and the currency of company presentation.

b) *The rounding level used in the presentation of the financial statements*

In the financial statements the value are presented rounded by units.

c) *Transactions and balances*

Transactions in foreign currency are converted into functional currency using the exchange rate valid on the date of transactions or valuation at the balance sheet date. Profit and loss resulting from exchange rate differences following the conclusion of such transactions and from the conversion at the exchange rate at the end of the reporting period of monetary assets and liabilities denominated in foreign currency are reflected in the statement of the comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Accounting for the effects of hyperinflation

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 `Financial Reporting in Hyperinflationary Economies`. This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the company no longer applies IAS 29.

Therefore, values reported in terms of purchasing power on 31 December 2003 are treated as basis for the accounting values of these financial statements.

3.5 Intangible Assets

Computer Software

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years).

Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

Service Concession Agreement

From 2010, the company started to apply IFRIC 12 *Service Concession Arrangements*, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, the modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

As presented in Note 8, the company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement (`SCA`) had no commercial substance (i.e. nothing substantial changed in the way the company operated assets; cash flows changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of the derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12). Consequently, the company continued to recognize the asset, but reclassified it as intangible asset. The company tested the intangible assets recognized at the time without identifying depreciation.

As they occur, costs of replacements are recorded as expense, while the improvements of assets used within SCA are recognized at cost.

Intangible assets are amortized at zero value during the remaining period of the concession agreement.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Tangible Assets

Tangible assets include buildings, land, assets used for the non-regulated international transmission activity (e.g. pipelines, compressors, filtering installations, devices).

The company's policy is to reflect intangible assets at their cost at their cost less any accumulated depreciation and any impairment accumulated losses.

Buildings include particularly ancillary buildings of operating assets, a research centre and office buildings.

Further expenses are included in the book value of the asset or recognized as separate asset, as the case may be, only when the entry of future economic benefits for the company associated to the item is likely and the cost of the respective item can be valued in a reliable manner. The book value of the replaced asset is taken off the books. All the other expenses with repairs and maintenance are recognized in the statement of comprehensive income in the financial period when they occur.

Land is not depreciated. Depreciation on other items of tangible assets is calculated based on the straight-line method in order to allocate their cost minus the residual value, during their useful life, as follows:

	<u>Number of years</u>
Buildings	50
Assets of the gas transmission system	20
Other fixed assets	4 - 20

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of a long lead asset are those costs of indebtedness that would have been avoided if expenses with the asset hadn't been made. To the extent that funds are borrowed specifically for obtaining a long-lead asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the revenue from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for obtaining the long-lead asset.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of the funds borrowed for obtaining a long lead asset (achievement of the investment) are capitalized by the company on the asset as a difference between the current leverage costs related to such loan during the period and any revenue from the investments obtained from the temporary investment of these loans.

Borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred, unless the operator has the contractual right to receive an intangible asset, in which case the borrowing costs attributable to an arrangement are capitalized during the engagement stage.

The residual values of the assets and their useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

The book value of the asset is written down immediately to its recoverable amount if the book value of the respective asset is greater than its estimated recoverable amount (Note 3.7).

Gain and loss on disposal are determined by comparing amounts to be received with the book value and are recognized in the statement of comprehensive income in the period in which the sale took place.

3.7. Impairment of non-financial assets

Depreciated assets are reviewed for impairment loss whenever events or changes in circumstances indicate that the book value may not be recoverable.

The impairment loss is the difference between the book value and the recoverable amount of the asset. The recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. An impairment loss recognized for an asset in prior periods is reversed if there are changes in the estimates used to determine the recoverable amount of the asset at the date the last impairment loss was recognized. For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent cash flows (cash generating units).

Depreciated non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474,952,575 (31 December 2017: RON 474,952,575), representing gas pipelines, are managed by the company. Therefore, the company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8).

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the company is directly influenced by the state of the network. Therefore, before 1 January 2010, the company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.). Accounting policies applied to these assets were the same as those applied to the company's tangible assets (Notes 3.7 and 3.6).

The company adopted IFRIC 12 as of 1 January 2010 and reclassified these assets and the subsequent improvements as intangible assets (except for international transmission pipelines).

Starting with 01.01.2018, IFRS 15 "Revenues from the contracts with the clients" became applicable in Romania. This standard replaces a set of older standards (such as IAS 11, IAS 18) and changes IFRIC 12 giving a new interpretation to the contract notion. Therefore, our company registered the discounted receivables related to the regulated value remained undepreciated at the end of the concession agreement as a counterperformance and an intangible asset at a value diminished with the amount of the discounted receivables.

In accordance with Public Concession Law No. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the government. As of October 2007, the royalty was set at 10% of the revenue. The duration of the concession agreement is 30 years, until 2032. Subsequent to entry into force of the provisions of art. 103 para. 2 of Law no. 123/2012, as of 12 November 2020, the royalty was set at 0.4%, from the domestic and international gas transmission services provided by the company.

3.9 Financial assets

The company classifies its financial assets into the following categories: measured at fair value through profit or loss, measured at depreciated cost and measured at fair value by other elements of the comprehensive income. Classification is made depending on the purpose for which the financial assets were acquired. The management sets the classification of these fixed assets upon initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in the current assets, except for those which have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the company include `trade receivables and other receivables` and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

sheet date an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.

In 2019, ANRE Order no. 41/2019 on the adjustment of asset regulated value to the inflation rate. The company records the present value of the contractual cash flows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

(b) *Financial assets measured at fair value through the profit or loss account or measured at fair value by other elements of the comprehensive income*

IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income, at fair value through profit or loss. The classification on IFRS 9 is determined by the cash flow characteristics and the business model in which an asset is held. This unitary approach based on principles eliminates the classification of financial assets in IAS 39: held-to-maturity investments, loans and receivables, and available for sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

Upon initial recognition, an entity may make an irrevocable choice to present to other comprehensive income elements the subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is it a recognized contingent consideration by an acquirer in a business combination to which IFRS 3 applies. In this case it will recognize the dividends from that investment in the income statement.

(c) *Impairment of financial assets*

At each reporting date, the company assesses whether there is objective evidence that a financial asset or group of financial assets suffered impairment. A financial asset or group of financial assets is impaired and impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss generating event") and if such event (or events) which generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for individual financial assets in the portfolio, including:
 - adverse changes in the payment status of debtors in the portfolio; and
 - economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The company assesses first whether objective evidence of impairment exists.

(i) *Assets registered at amortized cost*

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the book value of the asset and the updated value of estimated future cash flows (excluding future credit loss which was not incurred), discounted at the asset's original rate; the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), the reconsidered of impairment loss recognized previously in profit or loss.

(ii) *Assets measured at cost*

The share held at Eurotrangaz SRL is recognized at its fair value as of the date of trading, being evaluated, after the initial recognition, at cost according to Art.4.1.2 of IFRS 9 and Art.10.a- IAS 27- Separate Financial Statements:

“When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 or using the equity method.”

In 2020 the company evaluated the stake held in Eurotrangaz SRL in order to identify any possible impairment losses. No impairments were found.

3.10. Inventories

Inventories are stated at the lower of cost and net achievable value.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The components recovered from disassemblings and repairs of pipelines built by the company are recorded as stocks at a value determined by a technical committee. The amount so determined does not exceed the net achievable value.

The cost is determined based on the first in, first out method. Where necessary, adjustment is made for obsolete and slow moving inventories. Individually identified obsolete inventories are adjusted for the full value or written off. For slow moving inventory, an estimate is made of the age of each main category on inventory rotation.

The calculation of the general adjustment for the depreciation of stocks is made monthly depending on the age of the existing items in stock, applying the following percentages according to age: 0 - 12 months 0%; 1 - 2 years 10%; 2 - 3 years 30% - 40%; over 3 years 75% - 80%.

The cost of natural gas used for the balancing activity related to the transmission system is determined based on the average weighted cost method.

The minimum gas stock that the company, as holder of the national natural gas transmission system operating license is required to have in underground storage facilities, is established by decision of the President of the National Energy Regulatory Authority (ANRE President). The Decision no. 588/08.04.2020 of the ANRE President established the obligation for the company to have a minimum level of natural gas stock of 560.724,517 MWh as at 31 October 2020, and the Decision no. 748/14.04.2021 of the ANRE President established the obligation for the company to have a level of natural gas stock of 597.115,143 MWh as at 31 October 2021.

3.11. Trade receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If the collection period is one year or less (or in the normal operating cycle of the business), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, minus the adjustments for impairment.

The debt adjustment policy according to IFRS9 is presented in note 12.

3.12. Value Added Tax

The value added tax must be paid to tax authorities based on the monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If the deductible VAT is higher than the output VAT, the difference is refundable at the request of the company. That VAT can be refunded after a tax audit, or, even in its absence, if certain conditions are met. VAT on sales and purchases which are not settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability. In cases where adjustments were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT has to be paid to the State and can be recovered, as from the date of the judgment or, as the case may be, the date of the closure of the bankruptcy, according to the insolvency law.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, cash in current accounts with banks, other short-term investments with high liquidity and with maturity terms of up to three months and overdrafts from banks. In the statement of financial position, overdraft facilities are registered at loans, under current liabilities.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Additional costs directly attributable to the issue of new shares or options are registered at equity as a deduction, net of tax, from the receipts.

Dividends

Dividends are recognized as liabilities and deducted from equity at the end of the reporting period if they are declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

The company did not distribute partial dividends during the financial year.

3.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs recorded. Subsequently, borrowings are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss during the borrowings, based on the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer payment of debt for no less than 12 months after the end of the reporting period.

3.16 Current and deferred profit tax

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The company periodically evaluates situations where the applicable tax regulations are subject to interpretation and establishes provisions/ adjustments for impairment, where appropriate, for the amounts with accounting/fiscal impact.

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

Deferred revenue tax assets are recognized to the extent that it is probable that future taxable profit be derived from temporary differences.

3.17 Commercial payables and other payables

Suppliers and other payables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. Commercial payable accounts and other payables are closed as a result of the payment of debts, offsetting with receivables or their write-off through the profit and loss account.

3.18 Deferred revenue

Deferred revenue is recorded for connection fees applied to customers upon their connection to the gas transmission network, for the objectives received free of charge and for grants collected.

The grants collected are assimilated to the governmental subsidies.

The governmental subsidies are acknowledged to their market value when there is a reasonable assurance that they will be received and that the relevant conditions will be met.

For the connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge, for the grants the company chose to record the total asset value and a deferred revenue.

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the remaining unamortised value at the end of the concession agreement at a counterperformance and an intangible asset at a value less the updated receivable.

3.19 Employee benefits

In the normal course of business, the company makes payments to the Romanian state on behalf of its employees, for health funds, pensions and unemployment benefits. All the company employees are members of the pension plan of the Romanian state, which is a fixed contribution plan. These costs are recognized in the profit and loss account with the recognition of salary expenses.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Benefits granted on retirement

Under the collective agreement, the company must pay the employees on retirement a compensatory amount equal to a certain number of gross salaries, depending on the time worked in the gas industry, working conditions etc. The company recorded a provision for such payments (see Note 21). The obligation recognized in the balance sheet represents the present value of the obligation at the balance sheet date. The obligation is calculated annually by independent experts using the Projected Unit Credit Method. The present value is determined by discounting future cash flows with the interest rate of the long-term government bonds.

The current service cost is recognized in the profit and loss account in the employee costs. Interest expense is included in the profit and loss account in the financial costs.

Actuarial gain or loss due to changes in actuarial assumptions is recognized in the statement of comprehensive income in the period for which the actuarial calculation is made.

Social insurance

The company records expenses related to its employees, as a result of granting social insurance benefits. These amounts mainly include the implicit costs of employing workers and, therefore, are included in the salary expenses.

Profit sharing and bonuses

The company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the company's shareholders, after certain adjustments. The company recognizes an obligation where it is required under contract or where there is a past practice which created an implicit obligation.

3.20 Provisions for risks and charges

The provisions for risks and charges are recognized when the company has a legal or implicit obligation as a result of past events, when for the settlement of the obligation an outflow of resources is required, which incorporates economic benefits and for which a credible estimate can be made in terms of the obligation value. Where there are similar obligations, the probability for an outflow of resources to be necessary for settlement is set after the assessment of the obligation class as a whole.

The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the company expects the writing back to revenue of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is theoretically certain.

Provisions are measured at the discounted value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition

Revenue covers the fair value of amounts received or receivable from the sale of services and/or goods in the normal course of business of the company. Revenue is recorded net of value added tax, returns, rebates and discounts.

The company recognizes the revenue when their amount can be estimated with certainty, when it is probable that the entity collects future economic benefits and when certain criteria are met for each of the company's activities as described below. The amount of revenue is not considered reliably estimated until all contingencies relating to the sale are settled. The company bases its estimates on historical results, taking into account the type of customer, type of transaction and the specifics of each commitment.

a) *Revenue from services*

Revenue from the domestic gas transmission results from the booking the transmission capacity and from the transmission through the NTS of the determined quantities of natural gas, expressed in units of energy, during the validity of a gas transmission contract, and are recognized at the moment of their delivery. During the administration of the transmission contracts, the TSO issues and submits to the NU, by day 15 of the month following the month for which the transmission service was provided: an invoice for the transmission services provided for the previous month, based on the final allocations; an invoice related to the final daily imbalances registered in the previous month; and an invoice exceeding of the capacity booked.

Revenue from international transmission and similar activities are represented by the transmission capacity booking on the Isaccea 2.3 - Negru Voda 2.3 international transmission pipelines and by the amounts receivable for the reporting period under the Termination Agreement of the legacy contract between SNTGN Transgaz SA and GPE concluded for the transmission of natural gas through the T3 transit pipeline on Romanian territory to third countries. According to the Agreement for the termination of the legacy Contract between SNTGN Transgaz SA and GPE, the payment of the remaining amounts to be paid will be made in instalments over a maximum period of three years and the revenues received from transmission are regulated according to ANRE Order 41/2019 and ANRE Order 34/2014 respectively depending on the points where capacity is booked, the monthly difference being classified as assimilated revenues.

According to the Network Code, the gas delivery day is defined as the time period beginning at 7:00 a.m. Romanian local time on any day and ending at 7:00 a.m. Romanian local time on the following day. The gas day shall be reduced to 23 hours at the changeover to daylight saving time and increased to 25 hours at the changeover to winter time, so that all related rights and obligations under the gas transmission contracts shall be increased or reduced accordingly on those gas days

b) *Revenue from the sale of goods*

Revenue from the sale of goods is registered when the goods are delivered.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

c) *Interest revenue*

Interest revenue is recognized proportionally, based on the effective interest method.

d) *Revenue from dividends*

Dividends are recognized when the right to receive payment is recognized.

e) *Mutual compensation and barter transactions*

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies. Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on the available market information.

Non-cash transactions were excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

No barter transactions were performed in 2022 and in 2021.

f) *Revenue from penalties*

Revenue from penalties for late payment is recognized when future economic benefits are expected for the company.

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

By the nature of the activities performed, the company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk. company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company. The company does not use derivative financial instruments to protect itself from certain risk exposures.

(a) *Market risk*

(i) Currency risk

The company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets (Note 12) and recognized liabilities.

The company does not perform formal actions to minimize the currency risk related to its operations; the company does not apply hedge accounting. The management believes that the company is covered in terms of the currency risk, given that the foreign currency

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

incoming payments (mainly revenue from international transmission) are used to settle liabilities denominated in foreign currency.

The following table shows the sensitivity of profit or loss and equity, to reasonably possible changes in exchange rates applied at the end of the reporting period of the functional currency of the company, with all variables held constant:

	<u>31 December 2022</u>	<u>31 December 2021</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	717.466	130.464
USD depreciation by 10%	(717.466)	(130.464)
EUR appreciation by 10%	(32.592.226)	(36.386.664)
EUR depreciation by 10%	32.592.226	36.386.664

(ii) Price risk

The company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 6.204.117 (on December 2021: lei 3.040.424).

(iii) Interest rate risk on cash flow and fair value

The company is exposed to interest rate risk by its bank deposits and variable interest loans. The company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been higher/lower by 7.916.887 (December 2021: 6.981.227 higher / lower) as a result of reducing the interest rate for variable interest loans and the interest rate on the bank deposits.

(b) Credit risk

Credit risk is especially related to cash and cash equivalents and trade receivables. The company drew up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of adjustments for doubtful debts, represents the maximum value exposed to credit risk. The company's credit risk is concentrated on the 5 main customers, which together account for 50% of the trade receivable balances on 31 December 2022 (31 December 2021: 45%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. As at 31 December 2022 the company has available payment guarantees from its clients amounting to lei 346.445.075.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>31 December 2022</u>	<u>31 December 2021</u>
Without rating	336.387	331.743
BB+	146.038.192	168.175.800
BBB-	147.205.763	1.250.380
BBB+	90.012.913	151.020.967
A+	135.448	136.085
AA	<u>319.570</u>	<u>112.021</u>
	<u>384.048.273</u>	<u>321.026.996</u>

All the financial institutions are presented in the Fitch rating or equivalent.

(c) *Liquidity risk*

Preventive liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities.

The company projects cash flows. The financial function of the company continually monitors the company's liquidity requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities (Note 16) at any time, so the company does not violate the limits or loan agreements (where applicable) for any of its borrowing facilities. These projections take into account the company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions.

The Financial Division of the company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.

The table below shows obligations on 31 December 2022 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 31 December 2022 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Loans	2.634.794.054	263.429.208	1.446.470.332	924.894.514
Commercial payables and other payables	<u>560.594.670</u>	<u>546.416.189</u>	<u>14.178.481</u>	<u>-</u>
	<u>3.195.388.724</u>	<u>809.845.397</u>	<u>1.460.648.813</u>	<u>924.894.514</u>

Maturity analysis of financial liabilities on 31 December 2021 is as follows:

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	2.071.100.560	169.478.217	924.070.250	977.552.093
Commercial payables and other payables	<u>572.954.064</u>	<u>556.254.739</u>	<u>16.699.325</u>	<u>-</u>
	<u>2.644.054.624</u>	<u>725.732.956</u>	<u>940.769.575</u>	<u>977.552.093</u>

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables and other payables (see Note 19) and are not included: payables generated as a result of the legal provisions imposed by the authorities, payables to the employees and advance registered revenue.

Financial instruments categories:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Financial assets		
Cash and cash equivalents	199.548.510	155.425.430
Term bank deposits	184.688.625	165.759.831
Loans and receivables	2.420.601.205	2.268.837.728
Financial assets - stakes	215.700.939	321.154.407
Provisions related to financial assets - stakes	<u>(24.578.237)</u>	<u>(24.578.237)</u>
	<u>2.995.961.042</u>	<u>2.886.599.159</u>

	<u>31 December 2022</u>	<u>31 December 2021</u>
Financial liabilities		
Debts evaluated to amortised cost		
Loans	2.003.481.321	1.843.906.821
Liabilities evaluated at fair value		
Financial securities for contracts	44.668.511	50.028.771
Commercial liabilities and other liabilities	<u>501.747.678</u>	<u>506.225.968</u>
	<u>2.549.897.510</u>	<u>2.400.161.560</u>

In the category including loans and liabilities, the liabilities related to employees and payables registered in advance are not included.

Capital risk management

The company's objectives related to capital management refer to keeping the company's capacity to continue its activity to provide compensation to shareholders and benefits to the other stakeholders and to maintain an optimal structure of the capital, as to reduce capital expenditure. There are no capital requirements imposed from outside.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

As for the other companies in this sector, the company monitors the capital based on the indebtedness degree. This coefficient is calculated as net debt divided by total capital. The net debt is calculated as total borrowings (including `current and long-term borrowings`, according to the statement of financial position), except for cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of the financial position, plus the net debt.

The net indebtedness degree on 31 December 2022 and on 31 December 2021 is reflected in the table below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Total borrowings	2.003.481.321	1.843.906.821
Except: cash and cash equivalents (Note 13)	<u>(384.237.135)</u>	<u>(321.185.261)</u>
Net cash position	<u>1.619.244.186</u>	<u>1.522.721.560</u>
Equity capital	4.082.745.760	3.889.027.037
Leverage ratio	0,40	0,39

Fair value estimate

The fair value of the financial instruments traded on an active market is based on market prices quoted at the end of the reporting period. The fair value of the financial instruments that are not traded on an active market is set using valuation techniques.

It is considered that the book value less the impairment adjustment of trade receivables and payables approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the company for similar financial instruments.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events considered reasonable under certain circumstances.

The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions that have a significant risk of causing an important material adjustment to the book value of assets and liabilities within the next financial year are presented below.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

5.1 Assumptions for the determination of the provision for retirement benefits

This provision was calculated based on estimates of the average wage, the average number of employees and the average number of wage payment at retirement, as well as based on the benefits payment scheme. The provision was brought to the present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

The present value of the obligations at 31 December 2022 is of lei 115.479.575 (on 31 December 2020: lei 110.048.408) (Note 21).

The presentation of the current value for the 2022 depending on the following variables:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Inflation rate +1%	126.823.240	123.853.864
Inflation rate -1%	105.427.034	98.056.517
Investment return +10%	107.561.146	104.052.637
Investment return -10%	124.374.482	116.610.244

Analysis of the maturity of benefits payments:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Up to one year	5.282.194	4.592.018
Between 1 and 2 years	3.249.417	2.785.733
Between 2 and 5 years	12.661.427	10.993.273
Between 5 and 10 years		72.309.686

5.2 The accounting treatment of the concession agreement

As indicated in Note 8, in May 2002 the company concluded a Concession Agreement with the National Agency for Mineral Resources (‘ANRM’), which entitles the company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, Government Decision (‘GD’) No. 491/1998 and GD No. 334 of 2000 by which the company was established. According to the provisions of this agreement, the company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the company recognized these assets in the statement of the financial position, with an appropriate reserve in equity.

Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the company’s management considered that it is, in substance, an equity component, defined as the residual interest in the company’s assets after the deduction of all debts. In addition,

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

because the company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the company applied IFRIC 12 (Note 3.5).

5.3 The accounting treatment of royalties payable for using the national gas transmission system

As indicated in Note 8, the company pays royalties, calculated as percentage of the gross revenue achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from revenue, because they are not of the nature of taxes collected from customers and sent to the state, given the nature of activity and the regulatory framework:

- the company's revenue is based on tariffs approved by another regulator than the one setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;

As of 1 January 2020, according to ANRE Order no. 1/2020, the company has the obligation to pay annually to ANRE a tariff amounting to 0.062 lei MWh applied to the quantity of natural gas transmitted for carrying out activities in the natural gas sector based on a license.

5.4 Long-term receivables

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor in exchange for the payment of a compensation equal to the unamortized regulated value set by ANRE.

The company believes that the legislative change represents a compensation for the value of the investments made, which the company will not recover through the tariff, implicitly the value of the intangible asset not recovered through the tariff, recognized for the right to charge users.

From 01.01.2018, IFRS 15 Revenue from Contracts with Customers became applicable in Romania. This standard replaces some older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to the notion of a contract. As a result, the company applies the bifurcated model registering the updated receivable related to the regulated amount remaining

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

unamortized at the end of the concession agreement as a financial asset the intangible asset will be presented in the financial statements by the residual method resulted less the value of the construction works, achieved at fair value with the amount of the updated long term receivable (compensation) upon the commissioning of the investment.

The present value was determined for the remaining period of the concession contract (the year 2032), because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)).

In 2019 ANRE Order n0. 41/2019 on the adjustment of the regulated value of the assets at the inflation rate entered into force. The company records the present value of the contractual cashflows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

From 2021 onwards, the company has changed the way of estimating the discount rate for the present value calculation, using instead of the Bloomberg rate the NBR reference rate for government securities (fixing), considering that this rate reflects with increased fidelity the internal context in which the transactions take place; by using a rate fixed for a period of 10 years, there is no need for a sensitivity analysis associated with this calculation

6. INFORMATION ON SEGMENTS

Reporting segments are set according to the nature of the activities conducted by the company: the regulated activity, the unregulated activity and other activities. As transmission system operator, the company reported annually to the National Regulatory Authority on the activity performed on the four reporting segments.

The segment information provided to the Board of Administration , which makes strategic decisions for reportable segments, for the period ended 31 December 2022 is:

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.351.930.670	-	-	-	1.351.930.670
Revenue from international transmission and similar	-	73.926.517	-	-	73.926.517
Other revenue	<u>64.311.465</u>	<u>-</u>	<u>-</u>	<u>85.017.483</u>	<u>149.328.948</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.416.242.135</u>	<u>73.926.517</u>	<u>-</u>	<u>85.017.483</u>	<u>1.575.186.135</u>
Depreciation	(392.636.059)	(29.334.202)	-	(1.679.410)	(423.649.671)
Operating expenses other than depreciation	<u>(892.220.675)</u>	<u>(24.216.023)</u>	<u>-</u>	<u>(75.467.469)</u>	<u>(991.904.167)</u>
Profit from operation before the balancing and construction activity according to IFRIC12	<u>131.385.401</u>	<u>20.376.292</u>	<u>-</u>	<u>7.870.604</u>	<u>159.632.297</u>
Revenue from the balancing activity	-	-	1.005.543.977	-	1.005.543.977
Cost of balancing activity	-	-	(1.005.543.977)	-	(1.005.543.977)
Revenue from the construction activity according to IFRIC12	-	-	-	299.868.442	299.868.442
Cost of constructed assets according to IFRIC12	-	-	-	(299.868.442)	(299.868.442)
Operating profit	<u>131.385.401</u>	<u>20.376.292</u>	<u>-</u>	<u>7.870.604</u>	<u>159.632.297</u>
Net financial gain	-	-	-	-	277.841.224
Profit before tax	-	-	-	-	437.473.521
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71.718.653)</u>
Net profit	-	-	-	-	365.754.868
Assets on segments	6.560.071.640	175.201.017	646.355.866	624.788.994	8.006.417.517
Liabilities on segments	3.426.729.582	558.370	492.686.382	3.697.423	3.923.671.757
Capital expenditure - increases in assets in progress	335.905.595	812.328	-	82.421	336.800.344
Non-monetary expenses other than depreciation	48.601.989	22.035.187	9.544.329	497.538	80.679.043

6. INFORMATION ON SEGMENTS (CONTINUED)

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. Assets shown for the balancing segment comprise mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

Unallocated assets include:

Tangible and intangible assets	32.149.041
The right of use of the leased assets	16.934.813
Financial assets	191.122.702
Cash	384.237.135
Other assets	<u>345.303</u>
	624.788.994

Unallocated liabilities include:

Dividends payable	1.627.487
Deffered tax	1.206.204
Other debts	<u>863.732</u>
	3.697.423

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity și the borrowings contracted to finance the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the write-down of inventories, provisions for risks.

Transmission services are performed for several domestic and foreign clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.146.821.286	205.109.384	1.351.930.670
Revenue from international transmission and similar	-	73.926.517	73.926.517
Other revenue	<u>149.327.077</u>	<u>1.871</u>	<u>149.328.948</u>
	1.296.148.363	279.037.772	1.575.186.135

Domestic clients with over 10% of the total revenue include:

	<u>Percentage of the total revenue</u>
OMV PETROM SA	12%
ENGIE ROMANIA S.A.	11%
SNGN ROMGAZ SA	10%

All company's assets are located in Romania. All company's activities are carried out in Romania.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

The company has external trade receivables amounting to lei 30.908.640 (31 December 2021: lei 20.783.737).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which is regulated by the National Regulatory Authority as well as the operating and financial revenue related to the claims for the regulated value of the regulated asset base remained undepreciated at the end of the Concession Agreement; the *international gas transmission* segment includes information related to the activity of pipeline gas transmission without the transshipment of the Romanian territory and similar; the *balancing* segment includes expenses and revenue related to the national transmission system balancing activity developed starting with 1 December 2015, neutral in financial terms, any profit or loss from this activity will be distributed to clients for whom domestic transmission services are provided; the *unallocated* segment includes activities with a low share in the company's revenue such as sales of assets, rents, royalties.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2021, is as follows:

	Domestic gas <u>transmission</u>	International gas <u>transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.164.418.613	-	-	-	1.164.418.613
Revenue from international transmission	-	72.037.147	-	-	72.037.147
Other revenue	<u>64.537.492</u>	<u>-</u>	<u>-</u>	<u>63.517.990</u>	<u>128.055.482</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.228.956.105</u>	<u>72.037.147</u>	<u>-</u>	<u>63.517.990</u>	<u>1.364.511.242</u>
Depreciation	(317.241.421)	(32.197.050)	-	(1.615.783)	(351.054.254)
Operating expense other than depreciation	<u>(803.300.547)</u>	<u>(14.099.924)</u>	<u>-</u>	<u>(61.663.551)</u>	<u>(879.064.022)</u>
Profit from operation before the balancing activity according to IFRIC12	108.414.137	25.740.173	-	238.656	134.392.966
Revenue from the balancing activity	-	-	442.199.967	-	442.199.967
Cost of balancing gas	-	-	(442.199.967)	-	(442.199.967)
Revenue from the construction activity according to IFRIC12	-	-	-	704.026.548	704.026.548
Cost of constructed assets according to IFRIC12	-	-	-	(704.026.548)	(704.026.548)
Profit from operation	<u>108.414.137</u>	<u>25.740.173</u>	<u>-</u>	<u>238.656</u>	<u>134.392.966</u>
Net financial gain	-	-	-	-	104.875.361
Profit before tax	-	-	-	-	239.268.327
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52.326.855)</u>
Net profit	-	-	-	-	186.941.472
Assets on segments	6.355.911.803	201.129.595	494.208.099	671.840.992	7.723.090.489
Liabilities on segments	3.523.771.217	566.587	306.561.727	3.163.921	3.834.063.452
Capital expenditure - increases in assets in progress	794.706.329	318.145	-	117.891	795.142.365
Non-cash expenses other than depreciation	28.228.266	1.896	56.173.700	46.486	84.450.348

Assets indicated for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. The presented assets for the balancing segment are mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

Unallocated assets include:

Tangible and intangible assets	32.602.593
Right of use of leased assets	19.617.136
Financial assets	296.576.170
Cash	321.185.261
Other assets	416.872
Deferred tax	<u>1.442.960</u>
	671.840.992

Unallocated liabilities include:

Dividends payable	2.227.637
Other debts	<u>936.284</u>
	3.163.921

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the write-down of inventories, other provisions for risks.

International transmission services are provided for several foreign customers, while the domestic transmission activity is performed for several domestic customers.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from domestic transmission	1.092.860.930	71.557.683	1.164.418.613
Revenue from international transmission	-	72.037.147	72.037.147
Other revenue	<u>126.615.605</u>	<u>1.439.877</u>	<u>128.055.482</u>
	1.219.476.535	145.034.707	1.364.511.242

Domestic clients with over 10% of the total revenue include: Percentage of the total revenue

ENGIE ROMANIA S.A.	16%
OMV PETROM S.A.	12%
SNGN ROMGAZ S.A.	12%
E.ON ENERGIE ROMANIA SA	10%

All the company's assets are located in Romania. All the company's activities are carried out in Romania.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

7. TANGIBLE ASSETS

	<u>Lands and buildings</u>	<u>Transmission system assets</u>	<u>Other fixed assets</u>	<u>Assets in progress</u>	<u>Total</u>
On 31 December 2021					
Cost on 1 January 2021	283.683.016	961.742.372	306.625.921	10.720.302	1.562.771.611
Depreciation accumulated	(166.527.564)	(698.136.920)	(246.733.074)	-	(1.111.397.558)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Initial net book value	<u>117.155.452</u>	<u>263.605.452</u>	<u>59.892.847</u>	<u>9.064.120</u>	<u>449.717.871</u>
Inflows	-	-	-	64.749.729	64.749.729
Reclassifications	671.248	-	12.270	-	683.518
Transfers	7.048.509	11.899.327	40.924.800	(59.872.636)	-
Outflow (net value)	(1.539)	(19.490)	(91.093)	-	(112.122)
Expense with depreciation	<u>(6.286.766)</u>	<u>(31.478.796)</u>	<u>(23.214.814)</u>	-	<u>(60.980.376)</u>
Final net book value	118.586.904	244.006.493	77.524.010	13.941.213	454.058.620
Cost	292.759.786	972.044.444	336.535.669	15.597.395	1.616.937.294
Accumulated depreciation	(174.172.882)	(728.037.951)	(259.011.659)	-	(1.161.222.492)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	118.586.904	244.006.493	77.524.010	13.941.213	454.058.620
On 31 December 2022					
Initial net book value	118.586.904	244.006.493	77.524.010	13.941.213	454.058.620
Inflows	-	-	-	29.246.843	29.246.843
Reclassification	(4.155.654)	4.092.161	(37.456)	-	(100.949)
Transfers	7.269.245	8.843.457	16.286.606	(32.399.308)	-
Outflow (net value)	(6.170)	-	(21.443)	-	(27.613)
Expense with depreciation	<u>(5.781.472)</u>	<u>(32.625.704)</u>	<u>(26.637.821)</u>	-	<u>(65.044.997)</u>
Final net book value	<u>115.912.853</u>	<u>224.316.407</u>	<u>67.113.896</u>	<u>10.788.748</u>	<u>418.131.904</u>
Cost	295.234.035	984.844.069	347.853.482	12.444.930	1.640.376.516
Accumulated depreciation	(179.321.182)	(760.527.662)	(280.739.586)	-	(1.220.588.430)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	115.912.853	224.316.407	67.113.896	10.788.748	418.131.904

The gross book value of the fully depreciated assets, still used, is lei 362.285.428 (31 December 2021: lei : 327.452.026).

On 31 December 2022 no advances granted for the procurement of tangible assets are registered.

Regarding the assets developed by the company, which are complementary to the provision of services according to the concession agreement, the State has the option to acquire these assets at the end of the concession agreement. The company does not have the obligation to keep these assets until the end of the concession agreement and it is allowed to sell them. These assets do not fall within the scope of IFRIC 12. All the other assets related to the domestic transmission activity and which are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to the ANRM at the end of the concession agreement fall within the scope of IFRIC 12.

The company does not depreciate the tangible assets approved for discarding and does not own pledged fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

8. SERVICE CONCESSION AGREEMENT

In May 2002, the company concluded a Service Concession Agreement (`SCA`) with the ANRM, which entitles the company to operate the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, GD No. 491/1998 and GD No. 334/2000 by which the company was established. All modernizations and improvements made by the company to the system are considered part of the system and become property of the ANRM at the end of their useful life. The company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the state.

At the expiration of the agreement, the assets belonging to the public domain, existing upon signing the agreement and all investments made in the system will be returned to the State. The company owns and will develop other assets that are not directly part of the national gas transmission system, but are complementary assets for gas transmission operations. The ANRM has the option to buy these assets at the end of the concession agreement, at the fair value.

The main terms of the Concession Agreement are the following:

- The company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the company and then approved by the ANRE;
- The company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The company must annually publish by 30 October the available capacity of the system for the following year;
- The company must annually respond to the clients' orders by 30 November and the ANRM must be informed on all rejected orders decided by the company's management;
- The company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, between October 2007 and 11 November 2020: 10% as of 12 November 2020: 0,4%) of the gross revenue from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the company;
- The company may cancel the agreement by notifying the ANRM 12 months in advance;

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

- The ANRM may cancel the agreement by a 6-month prior notice, if the company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for `national interest` reasons; in this case, the company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The Concession Agreement does not include an automatic renewal clause.

The terms of the Concession Agreement were not amended after June 2003, except for the approval of the minimum investment plans.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS

	Assets related to the ACS	Information programmes	Intangible assets under construction	Total
On 31 December 2021				
Cost on 1 January 2021	8.171.222.202	58.488.655	1.062.450.559	9.292.161.416
Accumulated depreciation	(4.337.236.324)	(55.092.001)	-	(4.392.328.325)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.159.196.071)	-	-	(1.159.196.071)
Concession Agreement receivable depreciation	<u>200.168.159</u>	-	-	<u>200.168.159</u>
Net book value	<u>2.874.957.966</u>	<u>3.396.654</u>	<u>1.053.307.782</u>	<u>3.931.662.402</u>
Inflow				
Reclassifications	(683.518)	-	652.514.874	652.514.874
Transfers	1.300.435.881	16.314.633	(1.316.750.514)	(683.518)
Outflow	(13.356)	-	-	(13.356)
Depreciation	(375.359.164)	(1.886.335)	-	(377.245.499)
Concession Agreement receivables	(298.769.079)	-	-	(298.769.079)
Concession Agreement receivable depreciation	<u>89.562.670</u>	-	-	<u>89.562.670</u>
Final net book value	<u>3.590.131.400</u>	<u>17.824.952</u>	<u>389.072.142</u>	<u>3.997.028.494</u>
Cost				
Cost	9.470.896.188	74.238.546	398.214.919	9.943.349.653
Accumulated depreciation	(4.712.530.466)	(56.413.594)	-	(4.768.944.060)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.457.965.151)	-	-	(1.457.965.151)
Concession Agreement receivable depreciation	<u>289.730.829</u>	-	-	<u>289.730.829</u>
Net book value	<u>3.590.131.400</u>	<u>17.824.952</u>	<u>389.072.142</u>	<u>3.997.028.494</u>
On 31 December 2022				
Initial net book value	3.590.131.400	17.824.952	389.072.142	3.997.028.494
Inflow	-	3.345.386	280.342.343	283.687.729
Reclassifications	100.948	-	-	100.948
Transfers	138.653.823	3.907.201	(142.561.024)	-
Outflow	-	-	-	-
Depreciation	(459.406.384)	(5.342.719)	-	(464.749.103)
Concession Agreement receivables	(16.426.221)	-	-	(16.426.221)
Concession Agreement receivable depreciation	<u>109.935.585</u>	-	-	<u>109.935.585</u>
Final net book value	<u>3.362.989.151</u>	<u>19.734.820</u>	<u>526.853.461</u>	<u>3.909.577.432</u>
Cost				
Cost	9.609.650.958	81.484.939	535.996.238	10.227.132.135
Accumulated depreciation	(5.171.936.850)	(61.750.119)	-	(5.233.686.969)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.474.391.371)	-	-	(1.474.391.371)
Concession Agreement receivable depreciation	<u>399.666.414</u>	-	-	<u>399.666.414</u>
Final Net book value	<u>3.362.989.151</u>	<u>19.734.820</u>	<u>526.853.461</u>	<u>3.909.577.432</u>

NOTES TO THE FINANCIAL STATEMENTS

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9. INTANGIBLE ASSETS (CONTINUED)

The minimum NTS gas quantity required to ensure the pressures and flow rates for the end consumers under the contractual conditions (NTS linepack) is recognized in the value of the right to use, as an intangible asset. On 31 December 2022 the linepack is of 837.142 MWh and amounts to lei 84.633.624, of which NTS linepack is 692.629 MWh and amounts to lei 55.557.837. On 31 December 2021 the line pack is of 696.964 MWh and amounts to lei 57.240.411, of which NTS linepack is of 574.965 MWh and amounts lei 45.012.893.

As at 31 December 2022, the company capitalized depreciation expenses of lei 94.282 and interest expense amounting to lei 20.128.777 (in 2021, the company capitalized depreciation expenses of 1.426.001 and interest expense amounting to lei 15.529.046).

On 31 December 2022 the advances granted for the procurement of national gas transmission system development works in the amount of lei 6.689.361 are presented in the intangible assets in progress (lei 27.533.952 on 31 December 2021).

The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

As at 31 December 2022, the Company capitalized the amount of 3.345.386 lei, representing additional costs for the procurement of natural gas, incurred between 1 January 2022 and 31 December 2022, in order to cover its own technological consumption compared to the costs included in the regulated tariffs, in accordance with the provisions of the Order of the Ministry of Finance no. 3900/19 October 2022, the Order of the President of ANRE no.128 /12 October 2022 and ANRE's clarifications according to which the natural gas referred to in Article 11 letter r of ANRE's Order No 41/2019 does not represent natural gas intended to cover the technological consumption of the NTS and therefore the additional costs with their purchase cannot be capitalised.

The rights of use of the leased assets (IFRS 16)

As of 1 January 2019 the company applies IFRS 16 for the leasing contracts complying with the recognition criteria and recognized the intangible asset as a right of use related to the leasing contract:

	<u>Leases according to IFRS16</u>
Cost on 1 January 2022	30.660.861
Accumulated depreciation	(11.043.725)
<u>Net book value</u>	<u>19.617.136</u>
Inflow	1.517.869
Outflow	(560.701)
Depreciation	(3.639.491)
Final net book value on 31 December 2022	<u>16.934.813</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS (CONTINUED)

Detailed information on IFRS 16 as at 31 December 2022:

	31 December 2022	Of which related to the class - Forestry conventions
Value as use (DU)	31.618.029	15.944.147
Depreciation related to DU	14.683.216	4.055.249
DU interest	732.980	474.687
Debt regarding DU	17.929.828	12.577.841
From which:		
Short term	3.751.347	1.152.956
Long term	14.178.481	11.424.885
		<u>Leases according to IFRS16</u>
Cost on 1 January 2021		26.397.047
Accumulated depreciation		(7.204.978)
Net book value		<u>19.192.069</u>
Inflow		4.439.371
Outflow		(175.556)
Depreciation		(3.838.748)
Final net book value on 31 December 2021		<u>19.617.136</u>

Detailed information on IFRS 16 as at 31 December 2021:

	31 December 2021	Of which related to the class of low value assets-Forestry conventions
Value as use (DU)	30.660.861	14.997.449
Depreciation related to DU	11.043.725	2.804.014
DU interest	777.546	453.814
Debt regarding DU	20.470.837	12.722.651
From which:		
Short term	3.771.512	1.037.891
Long term	16.699.325	11.684.760

Debt according to IFRS 16 is presented in the balance sheet at long-term and short-term trade payables.

The Company recognizes a class of support assets with a cumulative value of more than USD 5000 - forestry conventions.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	Percentage	Percentage	31 December	31 December
		owned	owned	2022	2021
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
	Gas production	17,47	17,47	6.461.736	6.461.736
Mebis SA	distribution and supply				
Eurotransgaz	Gas transmission	100	100	191.122.702	296.576.170
Minus adjustments for impairment of investments in: Resial SA, Mebis SA				<u>(24.578.237)</u>	<u>(24.578.237)</u>
				<u>191.122.702</u>	<u>296.576.170</u>

Shares in Resial SA

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a client. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the company, which is why the stake is not consolidated and is recorded at cost less the adjustment for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully adjusted. The management does not expect the company to recover any amount of this stake and the company does not guarantee any type of residual obligations for Resial SA.

Shares in Mebis SA

Shares owned in Mebis SA were obtained in February 2004, as a result of a procedure for the recovery of claims due from a client. Mebis SA is in the liquidation procedure, which is why the stake in Mebis SA was fully adjusted. The company has no obligations to Mebis SA.

Participation in the Limited liability company Eurotransgaz Ltd.

By EGMS Resolution 10/12.12.2017 the establishment of the company EUROTRANSGAZ Ltd. on the territory of the Republic of Moldova was approved for the successful participation in the privatization of the State Enterprise Vestmoldtransgaz. In 2018, Transgaz participated in the **increase of Eurotransgaz's share capital to ensure the financial sources necessary for the procurement of the State Enterprise Vestmoldtransgaz.**

In 2018 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 9.735.000 euro for the operation and ensuring the financial sources necessary for the procurement of the State Enterprise Vestmoldtransgaz.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

10. FINANCIAL ASSETS (CONTINUED)

In 2019 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 31.467.089 euro and 83.471.503 Moldavian lei for the operation and ensuring the financial sources necessary for the performance of the investment program of the State Enterprise Vestmoldtransgaz.

In 2020 Transgaz participated in the increase of the share capital of EUROTRANSGAZ by the amount of EUR 14.236.983 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In 2021 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of EUR 2.503.871 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In 2022 Transgaz participated in the share capital increase of EUROTRANSGAZ with the amount of EUR 649,460 in order to operate and secure the financial sources necessary to carry out the investment programme of the State Enterprise Vestmoldtransgaz.

By the BoA Resolution 39/2021 Transgaz approved the decrease of Eurotransgaz share capital in the amount of LEI 66.117.064 (EUR 13,15 million), registered in March 2022.

By the BoA Resolution 19/2022 Transgaz approved the decrease of Eurotransgaz share capital in the amount of MDL 172.024.718 (equivalent to Euro 8.5 million).

The equity securities held at Eurotransgaz S.R.L represent a capital investment recognized according to IFRS 9, at the date of the transaction being measured at its fair value at the date of the transaction, and assessed, after the initial recognition, at the cost.

In case of the financial assets held by Transgaz, i.e. Mebis SA and Resial SA, the application of IFRS 9 has no impact whatsoever, as such assets are measured at the fair value by the profit and loss account and 100% impairment adjustments were established.

11. INVENTORIES

	<u>31 December 2022</u>	<u>31 December 2021</u>
Gas inventories	358.874.907	227.158.062
Gas for technological consumption	177.148.436	13.257.485
Spare parts and materials	115.259.616	90.419.949
Materials in custody at third parties	1.229.524	7.092.278
Adjustments for write-down of inventories	<u>(42.635.646)</u>	<u>(29.386.522)</u>
	<u>609.876.837</u>	<u>308.541.252</u>

ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

The company does not hold any restricted stocks and has established safety stocks amounting to Lei 9.718.830 as at 31 December 2022 (Lei 9.143.403 on 31 December 2021)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

11. INVENTORIES (CONTINUED)

Movements in the adjustments account are analysed below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Adjustment on 1 January	29.386.522	28.537.680
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	<u>13.249.124</u>	<u>848.842</u>
Adjustment at the end of the period	<u>42.635.646</u>	<u>29.386.522</u>

In 2022 adjustments for write-down of inventories were established according to Note 3.10.

The company recorded in 2022 a provision for the negative difference between the quantities of natural gas invoiced as initial imbalance and the final monthly imbalances, which will be requested to ANRE for recovery through the neutrality tariff

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 December 2022</u>	<u>31 December 2021</u>
Trade receivables	790.439.416	855.854.996
Advance payments to suppliers for goods and services	103.307	151.077
Loan to Resial SA (Note 27)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	2.141.205.427	1.788.570.507
Non-refundable loans as subsidies	17.564.563	143.149.971
State budget receivables	48.901.899	54.639.636
Other receivables	116.211.223	78.037.398
Adjustment of impairment of trade receivables	(554.671.720)	(542.126.364)
Adjustment of impairment of other receivables	<u>(84.987.767)</u>	<u>(55.406.971)</u>
	<u>2.476.536.694</u>	<u>2.324.640.596</u>
Financial assets/ Loans and receivables (Note 4)	<u>2.423.462.073</u>	<u>2.268.837.728</u>

The company challenged administratively the tax decision on additional tax payment obligations in the amount of lei 25.409.833 issued in 2016 by ANAF consisting of revenue tax, VAT, penalties and late payments, and set up an adjustment. The company paid the amounts mentioned in the tax decision in order to be able to carry out the activities in the directions set by the management and to facilitate the financing of future projects.

In 2020, the Company administratively challenged the tax decision regarding additional fiscal payment obligations amounting to lei 7.642.671 issued by ANAF in 2020 consisting of profit tax and VAT and constituted an adjustment. In 2022 the amount of the tax decision was reduced to 7.023.213 lei and the amount of the adjustment was also reduced by the Company.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022.

The advance payments granted to the company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee.

On 31 December 2022, the amount of lei 30.908.640 (31 December 2021: lei 110.805.049) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 23% in USD (31 December 2021: 1%) and 77% in EUR (31 December 2021: 99%).

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized gains amounting to lei 286.877.258 according to IFRS 9 (31 December 2021: LEI 87.969.821).

	<u>31 December 2022</u>	<u>31 December 2021</u>
Initial balance	1.788.570.507	1.364.268.828
Inflow	16.426.221	298.769.079
Interest	49.353.233	37.810.509
Inflation update	286.877.258	87.969.821
Outflow	<u>(21.792)</u>	<u>(247.730)</u>
	<u>2.141.205.427</u>	<u>1.788.570.507</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Commercial receivables analysis according to IFRS9 is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Current and unamortized		
Transit receivables	23.303.149	4.792.478
Doubtful or insolvency receivables	168.036.776	169.099.079
Affiliated party receivables	261.704.717	312.197.817
Other trade receivables	337.394.775	369.494.488
Receivables from various debtors	<u>52.980.353</u>	<u>15.636.334</u>
	843.419.770	871.220.196
Amortization		
Transit receivables	23.303.149	-
Doubtful or insolvency receivables	168.036.776	169.091.680
Affiliated party receivables	161.978.362	226.218.824
Other trade receivables	201.353.434	146.815.860
Receivables from various debtors	<u>45.565.452</u>	<u>15.365.200</u>
Transit receivables	600.237.173	557.491.564
Total trade receivables net of provision	243.182.597	313.728.632

IFRS 9 introduces a new model for forecasting impairment loss based on the estimated loss. This model entails the anticipated recognition of the loss from receivables impairment. The standard provides for the fact that the entities register the anticipated loss by receivables impairment from the moment of the financial instrument initial recognition and recognize the anticipated loss from the impairment over their entire life. The value of the anticipated loss will be discounted for each reporting period so that it reflects the credit risk changes as opposed to the initial recognition.

For the application of IFRS 9 on the held receivables, based on a loss estimation model, the clients categories were reconsidered starting from the IFRS 9 principle for the anticipation of a non-cashing in risk related to the current receivables.

To estimate the trade receivables non-collection risk, a non-collection rate based on risk categories was applied as follows:

- international transmission receivables - receivables with no risk of collection in 2021 and with risk of non-collection on-time in 2022. As at 31 December 2022, depreciation adjustments are calculated at 100% of the amount of the receivable;
- doubtful or contested other than affiliated parties receivables - receivables with high risk of non-collection that are subject to certain court actions. Impairment adjustments of 100% of the receivables amount are calculated;
- affiliated parties receivables - risk-free receivables are adjusted by seniority instalments, i.e. within the range 31-60 a 10% percentage, 61-90 a 20% percentage, 91-120 a 30% percentage, 121-150 a 35%, 151-180 a 60%, and over 181 with a 100% percentage.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

- Doubtful receivables subject to court actions are provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, an adjustment of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up;
- Various clients - the risk-free receivables are provisioned by seniority instalments, 10% for the range 31-60 , 20% for the 61-90 , 30% for the range 91-120, 35% for the range 121-150, 60% for the range 151-180, and 100% for the receivables over 181. Doubtful receivables subject to court actions are provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, a provision of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up.

Category	10.00%	20.00%	30.00%	35.00%	60.00%	100.00%		TOTAL
	31-60	61-90	91-120	121-150	151-180	over 181 and doubtful	IFRS 9	
Transit receivables	-	-	-	-	-	-	23.303.149	23.303.149
Doubtful and insolvent receivables	-	-	-	-	-	168.036.776	-	168.036.776
Affiliated parties receivables	38.190	742.688	3.228	2.461.142	28.324.913	100.663.457	29.744.744	161.978.362
Various receivables	96.792	204.606	157.524	266.421	454.553	196.427.200	3.746.338	201.353.434
Receivables from various debtors	99.385	14.761	-	-	17.569.105	15.406.029	12.476.172	45.565.452
Total impairment	234.367	962.055	160.752	2.727.563	46.348.571	480.533.462	69.270.403	600.237.173

The company constantly analyzes the customers' situation and records adjustments whenever there are indications of an increase in the non-collection risk.

The payment of the equivalent value of the invoices for the natural gas transmission services, issued according to the provisions of the Network Code, is made within 15 calendar days from the date of issuing the invoice. If the due date is a non-working day, the deadline is considered fulfilled on the next working day.

Movements in the provision account are analysed below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Adjustment on 1 January	597.533.335	506.940.947
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	<u>42.126.152</u>	<u>90.592.388</u>
Adjustment at the end of the period	<u>639.659.487</u>	<u>597.533.335</u>

The Company makes adjustments for receivables from insolvent companies or companies that encountered significant financial difficulties.

As at 31 December 2022, the company recorded adjusting expenses for the clients recording an increased non-collection risk, mainly for the receivables of Electrocentrale Constanta (lei 59.360.566), Black Sea Oil & Gaz SA (lei 29.355.298), and Gazprom Export LLC (lei 23.303.149) and decreased the adjustment to Electrocentrale Bucuresti by lei 116.337.652 due to the collection of outstanding receivables.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022.

13. CASH AND CASH EQUIVALENT

	<u>31 December 2022</u>	<u>31 December 2021</u>
Cash at bank in LEI	255.822.046	311.808.782
Cash at bank in foreign currency	128.226.227	9.218.214
Other cash equivalents	<u>188.862</u>	<u>158.265</u>
	<u>384.237.135</u>	<u>321.185.261</u>
	<u>31 December 2022</u>	<u>31 December 2021</u>
Restricted cash (employees guarantee)	1.562.607	1.020.791

Cash at bank in foreign currency is mostly denominated in EUR.

The weighted average of the effective interest related to short-term bank deposits was of 3,13% on 31 December 2022 (1,50% on 31 December 2021) and these deposits have a maximum maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	Number of ordinary shares	Share capital	Share premium	Total
On 31 December 2021	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	<u>-</u>	<u>441.418.396</u>	<u>-</u>	<u>441.418.396</u>
On 31 December 2021,	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>
Increase of share capital by incorporation of reserves		<u>1.766.076.600</u>	<u>-</u>	<u>1.766.076.600</u>
31 December 2022	188.381.504	2.325.233.436	247.478.865	2.572.712.301

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The Extraordinary General Meeting of Shareholders approved on 7 December 2022 the increase of the share capital of the Company by incorporating the reserves constituted from the net profit of the previous financial years in the amount of 1.766.076.600 lei, through the issuance of 176.607.660 new shares with a par value of 10 lei/share. The date of 03 May 2023 is the date of registration of the shareholders on whom the effects of the Extraordinary General Meeting of Shareholders' Decision will be reflected. The share capital increase was registered at the National Trade Register Office on 19 December 2022.

The authorized number of ordinary shares registered at the National Trade Registry Office is 188.381.504 (31 December 2021: 11.773.844) with a nominal value of LEI 10 each. Each share represents one vote.

The ownership structure registered with the Central Depository on 31 December 2022 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value</u> (lei)	<u>Percentage</u> (%)
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

The ownership structure on 31 December 2021 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value</u> (lei)	<u>Percentage</u> (%)
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

In the statutory accounting, before 1 January 2012, the company included in the share capital certain reserves from revaluation for revaluations made before 31 December 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by 31 December 2003. Therefore, in these financial statements, the company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on 31 December 2003 and the increase in the share capital that took place after 1 January 2004 was recognized in nominal terms.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

Other reserves

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as `Reserve of the public domain` at the value of the respective assets restated depending on inflation until 1 January 2004. It was renamed `Other reserves` at the adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of the related assets. The Company does not intend to change the allocation of deferred income arising from the first-time adoption of IAS 29.

Legal reserve

In accordance with the Romanian law and the company's Articles of Incorporation, the Transgaz must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 December 2022, amounts to lei 45.421.364 (31 December 2021: lei 23.547.688).

The legal reserve is included in the `Retained earnings` in these financial statements. The company does not intend to change the allocation of the legal reserve.

Reserve relating to reinvested profit

The company will submit to the approval of the OGMS the constitution from the profit of the year 2022 of a reserve in the amount of 17.275.596 lei representing tax incentives provided for by Law 237/2015 on the Tax Code on the profit invested in technological equipment-machinery, machinery and work installations, electronic computers and peripheral equipment, cash register, control and invoicing machines and appliances, as well as in software, produced and/or purchased and put into operation, used for the purpose of carrying out the economic activity.

The reserve for reinvested profits is entered in the accounts after the general meeting of shareholders has approved the distribution of profits, in accordance with the law.

Dividend allocation

In 2022, the company declared and allocated a dividend of lei 14,82 /share, related to the profit of the previous year (2021: lei 8,14 /share). The total dividends declared from the profit of 2021 are lei 174.488.368 (dividends declared from the profit of 2020: lei 95.839.090,16).

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 31 December 2022:

	<u>31 December 2022</u>	<u>31 December 2021</u>
BEI 83644RO	204.822.360	224.643.740
BEI 88825RO	227.642.534	247.405.000
BCR 20190409029	156.240.000	171.120.000
BCR 20201028056	316.800.000	345.600.000
BCR 20210817030	91.666.666	100.000.000
BCR 20211124044	201.666.666	220.000.000
BERD	233.467.920	255.702.960
BT	271.175.175	279.435.121
Raiffeisen Bank	<u>300.000.000</u>	-
	<u>2.003.481.321</u>	<u>1.843.906.821</u>

Loans breakdown by maturity range:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	132.098.774	132.104.365
Over 1 year	<u>1.871.382.547</u>	<u>1.711.802.456</u>
	<u>2.003.481.321</u>	<u>1.843.906.821</u>

The European Investment Bank (EIB)

The company signed with the European Investment Bank the following loans for the financing of the project `Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1).

- Loan Agreement no. 83644RO concluded on 27.10.2017 for the amount of EUR 50 million, fixed interest rate, maturity of 15 years, grace period of 3 years at principal repayment.
- Loan Agreement no.88825RO concluded on 14.12.2017 for the amount of EUR 50 million, with disbursements in lei or EUR (at the choice of the company), with fixed or variable interest (at the choice of the company), maturity of 15 years, the grace period of 3 years of repayment of the principal.

The company signed with the EIB Loan Agreement no.89417RO on 17.12.2018 for the financing of the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas` (Black Sea - **Podișor**) **for the amount of EUR 50 million, maturity of 15 years, grace period of 3 years at principal repayment.** The open-ended contract allows the use of the loan in lei or in EUR (at the option of the company) with fixed or variable interest (at the option of the company)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

On 24 January 2019, the company signed a loan agreement with the European Investment Bank for the amount of EUR 100 million, maturity 15 years, grace period of 3 years at the repayment of the principal, in order to finance the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas`.

The financial commitments undertaken by the loan agreements requires the company to comply with the negotiated limits of the following financial indicators: the ratio of the total net debts to the **Borrower's RAB, the net leverage ratio and the Interest coverage rate.**

In 2017 the company received the first tranche of Loan Agreement number 83644RO of EUR 15 million issued by EIB on 30 November 2017, in 28 February 2018 the second tranche of the loan amounting to EUR 15 million and on 30 April 2018, the third tranche of the loan amounting to EUR 20 million was received.

The maturity of the loan 83644RO from the EIB is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	19.789.600	19.792.400
Between 1 and 5 years	79.158.400	79.169.600
Over 5 years	<u>105.874.360</u>	<u>125.681.740</u>
	<u>204.822.360</u>	<u>224.643.740</u>

In 2019 the company received under Loan Agreement no. 88825RO two tranches totalling EUR 50 million.

The maturity of the loan 88825RO from the EIB is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	19.727.466	19.730.257
Between 1 and 5 years	78.909.865	78.921.030
Over 5 years	<u>129.005.203</u>	<u>148.753.713</u>
	<u>227.642.534</u>	<u>247.405.000</u>

The book value of the short term loans approximates their fair values.

The European Bank for Reconstruction and Development (EBRD)

On 23 February 2018 Transgaz signed with EBRD a contract amounting to lei 278 million, the equivalent of EUR 60 million, for the financing of the BRUA Project. The loan was fully disbursed by two equal disbursements: on 29 April 2020 and on 29 May 2020.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

The EBRD loan maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	22.235.040	22.235.040
Between 1 and 5 years	88.940.160	88.940.160
Over 5 years	<u>122.292.720</u>	<u>144.527.760</u>
	<u>233.467.920</u>	<u>255.702.960</u>

The Romanian Commercial Bank (BCR)

The company signed on 24.04.2019 the contract no. 20190409029 with the Romanian Commercial Bank for committing the financing in the amount of 186 million lei, the equivalent of 40 million EUR, with drawing and repayment in lei, maturity 15 years, grace period for principal repayment of 3 years, variable interest for the financing of the project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1).

The BCR loan no. 20190409029 is fully disbursed and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	14.880.000	14.880.000
Between 1 and 5 years	59.520.000	59.520.000
Over 5 years	<u>81.840.000</u>	<u>96.720.000</u>
	<u>156.240.000</u>	<u>171.120.000</u>

On 29.10.2020, the Company signed contract no.20201028056 with Banca Comercială Română contemplating the Company's benefiting from a lei 360 million loan for a period of 13 years, destined to refinance two major projects carried out by Transgaz: "National Transmission System **Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)**" and "The interconnection of the National Transmission System with the international gas transmission pipeline T1 and reverse flow at Isaccea **Phase II (Onești - Siliștea)**".

BCR loan no. 20201028056 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	28.800.000	28.800.000
Between 1 and 5 years	115.200.000	115.200.000
Over 5 years	<u>172.800.000</u>	<u>201.600.000</u>
	<u>316.800.000</u>	<u>345.600.000</u>

NOTES TO THE FINANCIAL STATEMENTS

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16. LONG-TERM BORROWINGS (CONTINUED)

On 17.08.2021, the Company signed contract no. **20210817030 with Banca Comercială Română** contemplating the Company's benefiting from a lei 100 million loan for a period of 12 years, destined to refinance the project "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)".

BCR loan no. 20210817030 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	8.333.334	8.333.334
Between 1 and 5 years	33.333.336	33.333.336
Over 5 years	<u>49.999.996</u>	<u>58.333.330</u>
	<u>91.666.666</u>	<u>100.000.000</u>

On 24.11.2021, the Company signed contract no. 20211124044 **with Banca Comercială Română** contemplating the Company's benefiting from a lei 220 million loan for a period of 12 years, destined to refinance the project: "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)".

BCR loan no. 20211124044 is fully collected and its maturity is presented below:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Within 1 year	18.333.334	18.333.334
Between 1 and 5 years	73.333.333	73.333.333
Over 5 years	<u>109.999.999</u>	<u>128.333.333</u>
	<u>201.666.666</u>	<u>220.000.000</u>

Transilvania Bank (BT)

On 15 July 2020, as a result of a competitive negotiation procedure, the company signed a contract with Transilvania Bank allowing the company to benefit from a credit facility amounting to lei 300 million, for 2 years, to cover the necessary working capital and partly to issuing letters of guarantee. The repayment of the credit line has been extended until 19.12.2023, based on the conclusion of the Addendum No. 1/20.12.2021.

On 15.07.2022, the Addendum No.2 to the contract for the credit facilities and the issuance of letters of guarantee was signed with Banca Transilvania, which increased the initial amount of the facility (300 million lei) by a maximum of 153.000.000 lei, in order to issue a letter of guarantee in favour of ANAF to guarantee the payment obligation imposed by the mandatory order no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, during the period of the procedures for challenging the administrative act.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

As at 31 December 2022, out of the total of credit line the amount of Lei 271.175.175 was used to cover working capital requirements and the amount of Lei 20.500.000 from the threshold for the issuing of letters of guarantee was used to cover two bank letters of guarantee issued in favour of third parties, and the amount of lei 152.964.894 was used to cover a letter of guarantee issued in favour of ANAF. The company has negotiated with Banca Transilvania the terms for a two-year extension of the credit line and is expected to sign the addendum in the first quarter of next year. The Company considers that the conditions for presenting the credit line under the long-term loan category are met.

RAIFFEISEN BANK

The company signed on 14 July 2022, following a competitive negotiation procedure, a contract with Raiffeisen Bank under which it benefits from a credit facility of 300 million lei for a period of 2 years, intended to finance working capital for the commercial balancing activity.

As at 31 December 2022 the credit facility is drawn down to the maximum level of 300.000.000 lei. The obligation is presented under long-term loans.

As at 31 December 2022, the balance of interest due for the loans of the company is lei 13.257.146 broken down by loans as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
BEI 83644RO	533.008	584.153
BEI 88825RO	906.961	-
BCR 20190409029	1.272.555	502.614
BCR 20201028056	4.512.968	1.605.478
BCR 20210817030	2.500.943	644.959
BCR 20211124044	1.325.088	641.315
EBRD	<u>2.205.623</u>	<u>985.167</u>
	<u>13.257.146</u>	<u>4.963.686</u>

The exposure of the company's loans to the changes of the interest rate is as follows:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Variable interest rate loans	1.798.658.961	1.619.263.081
Fixed interest rate loans	<u>204.822.360</u>	<u>224.643.740</u>
Total loans	2.003.481.321	1.843.906.821

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

17. DEFERRED REVENUE

Deferred revenue consists of connection fees charged to clients for their connection to the national gas transmission system, assets taken over for free for connection to the network, grants and the right to recover the unamortized regulated value of the assets related to the investments made as a licensee. The company uses the connection fee to achieve the connection of the client's facilities to the national transmission system. Deferred revenue (presented as `revenue from the connection fees`) is registered as revenue for the period when the related assets are depreciated and estimating the duration of the relationship with the client (Note 22).

Based on the connection contracts, the necessary infrastructure is built to ensure the estimated transmission capacity to be used over the duration of the concession agreement.

	<u>31 December 2022</u>	<u>31 December 2021</u>
Initial balance	1.161.485.526	1.112.663.468
Increases	21.447.219	131.117.814
Revenue from connection fees (Note 22)	(13.267.714)	(12.908.125)
Income from non-reimbursable funds and goods taken over free of charge (Note 22)	<u>(93.075.827)</u>	<u>(69.387.631)</u>
Final balance	<u>1.076.589.204</u>	<u>1.161.485.526</u>

The balance of the deferred revenue consists of:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Connections and assets received free of charge	238.213.439	237.981.685
Grants	<u>838.375.765</u>	<u>923.503.841</u>
	<u>1.076.589.204</u>	<u>1.161.485.526</u>

For the BRUA project the company obtained from the European Union through the National Agency for Innovation and Networks (INEA) a grant of 1.519.342 Euros, representing 50% of the estimated **eligible costs for financing the FEED for the three compressor stations (Podișor, Bibești and Jupa)** and a grant of 159.449.379 Euro, representing 40% of the estimated eligible costs, for financing the BRUA Phase I project implementation.

The following amounts were received as pre-financing to finance the implementation of the BRUA Phase I project: EUR 25.834.489,60 (in 2016) and EUR 13.839.087,37 (in 2018) and EUR 29.192.463,92 (in 2019), EUR 37.740.347 (in 2020) and EUR 20.953.114,91 in 2021. On 19 July 2022 the amount of EUR 21.129.634,05 was received from INEA.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

17. DEFERRED REVENUE (CONTINUED)

On 22.11.2018 the company signed with the Ministry of European Funds AM POIM Financing Contract 226 for non-reimbursable financing for the implementation of the draft project code MYSMIS 2014-122972 NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova within the Specific objective 8.2 – Increasing the interconnectivity of the National Transmission System with neighbouring states. The amount of the grant is lei 214.496.026,71, namely 32,53% of the value of the eligible expenses. For the financing of the works for the implementation of the project NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova, the amount of lei 199.345.792 was collected as eligible expenses grant funding.

On 18.06.2020 the company signed Grant Agreement no. HCOP/685/3/8/132556 on the **implementation of the project „TransGasFormation” Code 132556 for the amount of LEI 701.259,60** with the Ministry of European Funds, as Management Authority for the Human Capital Operational Programme.

The company recognizes a right to collect the grant when there is reasonable assurance that it will comply with the conditions attached to its award and that the grant will be received. The Company considers that the reasonable assurance that the grant will be received can be confirmed by the fulfillment of the eligibility conditions in the funding applications, prior to the approval of the funding application.

Therefore, on 31 December 2021, the company registered the right to receive non-reimbursable financing in the amount of Lei 104.567.843, corresponding to the amounts expected to be received from INEA, plus Lei 28.188.869,85 corresponding to the amounts expected to be received from AM POIM. The latter includes the amount of a reimbursement request of Lei 10.628.059,64 submitted to the AM POIM before 31 December 2021.

The income from the grant is recognized proportionally from the amortization of the financed assets, applying the percentage of financing of the eligible expenses on the monthly amortization.

18. PROFIT TAX

Profit tax expense

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2022</u>
Expense with the profit tax - current	69.069.489	48.447.397
Deferred tax - impact of temporary differences	<u>2.649.164</u>	<u>3.879.458</u>
Profit tax expense	<u>71.718.653</u>	<u>52.326.855</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

In 2021 and 2022 the company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
Profit before tax	437.473.521	239.268.327
Theoretical expense with the tax the statutory rate of 16% (2021: 16%)	69.995.763	38.282.932
Non-taxable expenses, net	<u>1.722.890</u>	<u>14.043.923</u>
Profit tax expense	<u>71.718.653</u>	<u>52.326.855</u>
Profit tax related liability, current	<u>-</u>	<u>-</u>

Depreciation of tangible assets hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 31 December 2022 (31 December 2021: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(revenue from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:



NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

	<u>31 December 2022</u>	<u>Movement</u>	<u>31 December 2021</u>	<u>Movement</u>	<u>1 January 2021</u>
Deferred tax payment					
Tangible and intangible assets	121.773.034	13.781.585	107.991.449	12.852.930	95.138.519
Recoverable deferred tax					
Provision for					
Employee benefits	(18.476.731)	(868.986)	(17.607.745)	3.961.588	(21.569.333)
Risks and charges	(12.991.679)	(2.200.261)	(10.791.418)	(4.707.289)	(6.084.129)
Receivables and other assets	<u>(89.098.420)</u>	<u>(8.063.174)</u>	<u>(81.035.246)</u>	<u>(8.227.771)</u>	<u>(72.807.475)</u>
	<u>1.206.204</u>	<u>2.649.164</u>	<u>(1.442.960)</u>	<u>3.879.458</u>	<u>(5.322.418)</u>

Deferred revenue tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts. Temporary differences for receivables and other assets arise from impairment adjustments for bad debts.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

The amounts presented in the statement of the financial position include the following:

	<u>31 December 2022</u>	<u>31 December 2021</u>
Deferred tax liabilities/receivables in more than 12 months as reported	<u>1.206.204</u>	<u>(1.442.960)</u>

19. TRADE PAYABLES AND OTHER PAYABLES

Short term payables

	<u>31 December 2022</u>	<u>31 December 2021</u>
Trade payables	281.427.273	379.281.298
Suppliers of fixed assets	52.284.961	38.764.763
Dividends payable	1.627.487	2.227.637
Debts related to royalties	1.677.975	1.442.920
Other taxes	26.440.372	24.102.671
Amounts payable to employees	17.028.447	15.870.450
Transmission service guarantees	35.679.099	42.772.922
Transmission services advance payments	39.975.995	36.806.228
Tender guarantees	126.591.894	55.360.467
Other debts	<u>48.805.475</u>	<u>37.847.652</u>
	<u>631.538.978</u>	<u>634.477.008</u>
Financial debts (Note 4)	<u>546.416.189</u>	<u>556.254.739</u>

Long term payables

	<u>31 December 2022</u>	<u>31 December 2021</u>
Other debts	<u>14.178.481</u>	<u>16.699.325</u>
	<u>14.178.481</u>	<u>16.699.325</u>

On 31 December 2022, of the total trade payables and other debts the amount of lei 44.065.419 (31 December 2021: lei 9.995.992) is expressed in foreign currency, especially in EUR.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

20. PROVISIONS FOR RISKS AND CHARGES

	<u>31 December 2022</u>	<u>31 December 2021</u>
<i>Current provision</i>		
Provision for litigation	38.870.414	38.870.414
Provision term contract	3.268.931	3.206.340
Provision for employee participation in profits	18.026.397	17.178.424
Provision for voluntary leaving employment	14.840.000	2.584.036
Other provision	<u>6.192.252</u>	<u>5.607.150</u>
	<u>81.197.994</u>	<u>67.446.364</u>

Employees` participation in the profit is calculated within the limit of 10% of the net profit, but not more than a monthly average salary achieved in the relevant financial year according to the provisions of GO 64/2001 and the Collective Labour Agreement.

The company was the subject of an investigation of the Competition Council regarding the way in which procedures for the awarding of the contracts for the procurement of works carried out by Transgaz in 2009 -2011, before the implementation of the private management, according to the provisions of GEO 109/2011 on corporate governance of public enterprises. In 2020, the Competition Council communicated Decision no. 43/11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616.

Following the conclusion of the arbitration proceedings which had as dispute the restitution of the quantity of natural gas from the Tranzit 1 pipeline, the arbitral tribunal admitted Bulgargaz EAD's action, and a provision for litigation in the amount of Lei 1.673.984, the equivalent in Lei for legal interest and incidental expenses was established. The arbitral tribunal's decision was appealed, and the action for annulment was registered with the Bucharest Court of Appeal.

The company also made provisions for the following disputes: with Blue Star SRL for the MRS Timisoara I - Timisoara pipeline in the amount of Lei 2.300.000, with PF Galaction Laurentiu for the dismantling of the construction/removal of the MRS Vaslui connection pipeline in the amount of Lei 332.000. lei, with PF **Bălăsoiu Marian for claims for compensation for lack of use of land in the** amount of lei 296.341, with Ippon Med S.R.L. for contesting public procurement in the amount of lei 17.325 and with employees for contesting suspended employment contracts in the amount of lei 84.147.

For the strategic redefinition and efficiency of the activity, the Company drafted the Program of voluntary departures for 2023 in the amount of 14.840 thousand lei, the annual value being provided by the budget of revenues and expenses approved by the GMS.

As at 31 December 2022 the amount of the provision for voluntary departures is Lei 14.840.000 (LEI 2.584.036 as at 31 December 2022).

The Company records provisions for untaken leave at the end of the financial year. The Company has recorded provisions for untaken leave in the amount of lei 3.295.885 relating to the period ended 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

According to the collective labour contract, the company must pay to employees upon retirement a compensatory amount equal to a certain number of salaries, calculated as the average of the monthly salary average achieved over the last 12 months, depending on the period worked in the gas industry, working conditions etc. The present value of the provision was determined based on the Projected Unit Credit Method. Retirement benefits received by an employee were first raised by the contributions of the employer and then every benefit was updated taking into account the rotation of employees, layoffs and the probability of survival until retirement. The number of years until retirement was calculated as the difference between retirement age and age at time of reporting. The expected average of the remaining work period was calculated based on the number of years until retirement, also taking into account the rate of layoffs, employee rotation rate and the probability of survival.

Assumptions 2022

The amount of the provision has been calculated individually for each distinct employee/beneficiary of the company using the actuarial calculation method and taking into account International Accounting Standards, in particular the IAS 19. The provision is calculated taking into account the long-term liabilities undertaken by the company under the collective labour contract. The calculation assumptions and specifications for the calculation model were established based on the company's previous experience and a set of assumptions about the company's future experience. The most important actuarial assumptions used are as follows:

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement;
- Employee rotation is calculated based on departures from the company and a probability has been assigned for each age and gender group;
- the mortality of the entity's employees is calculated according to the data provided by the National Institute of Statistics for the years 2011 – 2021;
- the employee rotation was calculated by grouping employees by age into groups of 5 starting from 16 years old;
- the method used is the projected credit factor method;
- Retirement age at retirement considered: 65 for men and 63 for women;
- Long-term wage growth rate equal to the forecast inflation rate for the euro area, and is 2,3% and in the short term equal to the forecast inflation rate for RON and is 12,4% in the first year, 7,5% in the second year and 4,2% for the next 8 years for both women and men;
- the plan is not financed by the entity and employees.
- It has been estimated that people approaching retirement age are likely to retire early
- For the death benefit, for retired former Trangaz employees, in the first year after retirement, mortality at the age of 66 men and 64 years women was used.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

Financial assumptions

The discount rate is the interest rate curve in lei without adjustments provided by EIOPA for December 2022.

The long-term salary growth rate considered equal to the forecast inflation rate for the euro area is 2,3% and in the short term considered equal to the forecast inflation rate for RON is 12,4% in the first year, 7,5% in the second year and 4,2% in the following 8 years for both feminine as well as masculine genders.

Movement in the provision for employee benefits

1 January 2021	<u>121.509.096</u>
of which:	
Short-term	2.898.092
Long-term	118.611.004
Interest cost	3.165.348
Current service cost	5.692.366
Payments from provisions during the year	(4.535.478)
Actuarial gain/loss related to the period	(15.782.924)
31 December 2021	<u>110.048.408</u>
of which:	
Short-term	4.007.231
Long-term	106.041.177
Interest cost	5.541.410
Current service cost	5.917.932
Payments from provisions during the year	(3.575.953)
Actuarial gain/loss related to the period	(2.452.222)
31 December 2022	<u>115.479.575</u>
of which:	
Short-term	4.584.234
Long-term	110.895.341

22. OTHER REVENUE

The year ended
31 December 2022

The year ended
31 December 2021

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

Revenue from penalties applied to clients for delay payments	19.186.967	11.431.114
Revenue from connection fees	13.209.882	12.908.124
Revenue from grants and goods taken free of charge	93.126.080	69.387.631
Revenue from grants for operating expenses	730.934	232.251
Revenue from the sale of residual materials	3.127.906	4.132.698
Revenue from leases	1.951.375	1.748.145
Revenue from recovered materials	4.721.562	5.362.282
Other revenue from operation	<u>13.274.242</u>	<u>22.853.237</u>
	<u>149.328.948</u>	<u>128.055.482</u>

23. OTHER OPERATING EXPENSES

	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
Loss/gain on impairment of receivables	42.126.152	90.592.388
Utilities	20.518.959	8.965.544
Insurance premium	1.043.192	1.097.924
Other maintenance services expenses	447.039	1.873.740
Security and protection expenses	28.369.936	24.346.057
Professional training	3.362.399	1.688.280
Telecommunications	3.295.434	3.349.966
Loss/(gain) on inventory impairment	13.249.124	848.843
Bank charges and other fees	2.252.392	2.063.210
Rents	1.813.535	1.055.493
Loss on amounts receivable	1.695.530	247.729
Marketing and protocol expenses	521.269	296.875
Studies and research expenses	-	222.071
Penalties and fines	725.153	163.022
Gas storage capacity booking	14.754.361	9.772.999
Sponsorship costs	3.012.538	5.046.705
Computer service	7.167.727	8.765.557
Other	<u>28.206.306</u>	<u>24.645.929</u>
	<u>172.561.046</u>	<u>185.042.332</u>

24. EMPLOYEE COSTS

<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
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NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

Salaries and benefits	450.644.776	427.882.302
Cost of insurance and social security	29.340.429	27.489.784
Other employee costs	<u>11.602.932</u>	<u>9.223.922</u>
	<u>491.588.137</u>	<u>464.596.008</u>

Average number of employees in financial year:

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Blue collars	2.273	2.370
White collars	<u>1.740</u>	<u>1.727</u>
	<u>4.013</u>	<u>4.097</u>

25. NET FINANCIAL REVENUE/(EXPENSES)

	<u>The year ended</u> <u>31 December</u> <u>2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Foreign exchange revenue	16.768.639	3.065.012
Interest revenue	50.732.498	38.975.057
Revenue from the adjustment of the Concession Agreement receivable	286.877.258	87.969.821
Revenue from shares	106.907.802	-
Other financial revenue	<u>943</u>	<u>2.971</u>
	461.287.140	130.012.861
Foreign exchange loss	(16.688.966)	(7.729.173)
The effects of the update of the provision for employee benefits	(5.541.410)	(3.165.348)
Interest loss related to IFRS16	(634.684)	(728.139)
Interest loss	(51.913.796)	(13.514.840)
Expenditure on financial fixed assets transferred	<u>(108.667.060)</u>	<u>-</u>
	(183.445.916)	(25.137.500)

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized on 31 December 2022 gains amounting to lei 286.877.258 according to IFRS 9 (lei 87.969.821 as at 31 December 2021).

25. NET FINANCIAL REVENUE/(EXPENSES) (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

The amount of the inflation adjustment of the claim increased in 2022 compared to 2021 due to the increase in the inflation rate in 2022 to 13,80% (5,05% in 2021) and the increase of the regulated asset base with the inflows in the gas year October 2021 - September 2022 in the amount of lei 326.631.190. Fixed assets recognised in the regulated asset base in a gas year are discounted at the inflation rate from the following gas year. The income from the adjustment of the receivable related to the Concession Agreement is a non-monetary item (Note 26).

By the resolution of the BA no. 39/2021 Transgaz approved the reduction of Eurotransgaz share capital by EUR 13,15 million, amount received by Transgaz in Q1 2022.

By BoA Decision no. 19/2022 Transgaz approved the reduction of Eurotransgaz share capital by the amount of 172.024.718 MDL (equivalent to 8,52 million Euro).

26. CASH FROM OPERATION

	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
Profit before tax	437.473.521	239.268.327
<i>Adjustments for:</i>		
Depreciation	423.649.671	351.054.254
Gain/(loss) on transfer of fixed assets	(451.748)	(743.351)
Provisions for risks and charges	13.751.630	(8.348.417)
Adjustments for impairment of receivables	13.249.122	848.843
Revenue from connection fees, grants and goods taken free of charge	(107.066.896)	(82.528.005)
Provisions for employee benefits	2.341.979	1.156.888
The effect of updating the provision for employee benefits	5.541.410	3.165.348
Sundry debtors and receivable loss	1.695.530	247.729
Adjustments for the receivables impairment	42.126.151	90.592.388
Interest revenue	(50.732.498)	(38.975.057)
Interest expenses	51.913.796	13.514.842
Adjustment of the Claim regarding the Concession Agreement	(286.877.258)	(87.969.821)
Effect of exchange rate fluctuation on other items than from operation	(124.977)	6.086.757
Other expenses and revenue	(834.770)	-
Operating profit before the changes in working capital	<u>545.654.663</u>	<u>487.370.725</u>
(Increase)/decrease in trade and other receivables	45.563.916	(54.938.973)
(Increase)/decrease in inventories	(320.447.461)	(172.087.978)
Increase/(decrease) in trade payables and other debts	<u>343.602.258</u>	<u>377.412.439</u>
Cash generated from operations	<u>614.373.376</u>	<u>637.756.213</u>

27. TRANSACTIONS WITH RELATED PARTIES

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

The Parties are considered related if one of the parties has the ability to control the other party, to exercise a significant influence over the other party in financial or operational decision making, if they are under the common control with another party, if there is a joint venture in which the entity is an associate or a member of the management as described in the IAS 24 `Related Party Disclosures`. In evaluating each possible related party relationship, the focus is on the essence of this relationship and not necessarily on its legal form. Related parties may enter into transactions which unrelated parties cannot conclude, and transactions between related parties will not apply the same terms, conditions and values as for unrelated parties.

The prices / tariffs related to the transport and balancing contracts are approved by the National Energy Regulatory Authority (ANRE), are regulated and are not established under market conditions.

Procurement is carried out in compliance with the legal regulations on public procurement.

Transactions with Vestmoldtransgaz were concluded at the market value established by the cost plus method and represent services provided by specialized personnel for the conduct of the procurement and equipment rental procedures.

In the periods ended 31 December 2022 and 31 December 2021 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

- i) Benefits granted to the members of the Board of Administration and of the management

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Salary paid to the members of the Board of Administration and management	19.695.102	18.912.091
Social contribution of the company	<u>443.141</u>	<u>425.522</u>
	<u>20.138.243</u>	<u>19.337.613</u>

In the periods ended 31 December 2022 and 31 December 2021, no advance payments and loans were granted to the company's administrators and management, except for advance payments from salaries and those for business trips, and they don't owe any amount from such advance payments to the company at the end of the period .

The company has no contractual obligations related to pensions towards the current administrators and directors.

The provision for the mandate contract is presented in Note 20.

The company has no contractual obligations related to pensions towards the former administrators and directors.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

ii) Loan to a related party

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment for loan impairment	<u>(1.770.346)</u>	<u>(1.770.346)</u>

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.8.

iii) Revenue from related parties – services supplied (VAT excluded)

	<u>Relationship</u>	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
SNGN Romgaz	Entity under common control	150.473.064	161.781.503
Electrocentrale București SA	Entity under common control	53.386.931	48.680.300
Electrocentrale Constanța	Entity under common control	4.113.599	4.193.177
Termo Calor Pitesti	Entity under common control	651.227	-
E.ON Energie Romania	Entity under common control	<u>123.227.823</u>	<u>138.850.367</u>
		<u>331.852.644</u>	<u>353.505.347</u>

iv) Sales of other goods and services (VAT excluded)

	<u>Relationship</u>	<u>The year ended</u> <u>31 December</u> <u>2022</u>	<u>The year ended</u> <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	1.531	3.696
Electrocentrale Deva SA	Entity under common control	546.670	725.547
Electrocentrale Bucuresti	Entity under common control	1.200	588
Electrocentrale Constanța	Entity under common control	353.119	770.893
E.ON Energie Romania	Entity under common control	421	199.025
Vestmoldtransgaz SRL	Entity owned by the Company's subsidiary	<u>68.027</u>	<u>461.131</u>
		<u>970.968</u>	<u>2.160.880</u>

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

v) Gas sales – the balancing activity (VAT excluded)

	<u>Relationship</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	5.582.732	14.742.212
Electrocentrale București	Entity under common control	695.314	1.089.733
Electrocentrale Deva SA	Entity under common control	422.437	-
Electrocentrale Constanța	Entity under common control	101.062.657	47.304.442
Termo Calor Pitesti	Entity under common control	346.816	-
E.ON Energie Romania	Entity under common control	<u>89.004.356</u>	<u>45.492.894</u>
		<u>197.114.312</u>	<u>108.629.281</u>

vi) Receivables from related parties (without the adjustment)

	<u>Relationship</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	13.337.958	19.078.343
Electrocentrale Deva SA	Entity under common control	-	20.116
Electrocentrale București	Entity under common control	26.006.049	19.020.413
Electrocentrale Constanța	Entity under common control	-	29.276
Termo Calor Pitesti	Entity under common control	2.939	-
E.ON Energie Romania	Entity under common control	<u>35.969.746</u>	<u>38.151.354</u>
		<u>75.316.692</u>	<u>76.299.502</u>

vii) Client receivables – the balancing activity (without the adjustment)

	<u>Relationship</u>	The year ended <u>31 December 2022</u>	The year ended <u>31 December 2021</u>
SNGN Romgaz	Entity under common control	9.971	319
Electrocentrale Deva SA	Entity under common control	-	65.954
Electrocentrale Bucuresti	Entity under common control	792.941	848.134
Electrocentrale Constanța	Entity under common control	-	15.614.007
Termo Calor Pitesti	Entity under common control	314.570	-
E.ON Energie Romania	Entity under common control	<u>23.292.181</u>	<u>(6.848.924)</u>
		<u>24.409.663</u>	<u>9.679.490</u>

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

viii) Procurement of services from related parties (other services – VAT excluded)

	<u>Relationship</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	33.957.915	8.455.693
E.ON Energie Romania	Entity under common control	180.445.384	2.355
Termo Calor Pitesti	Entity under common control	1.165.222	-
Electrocentrale București	Entity under common control	<u>78.933.647</u>	<u>6.169</u>
		<u>294.502.168</u>	<u>8.464.217</u>

ix) Procurement of gas – the balancing activity (VAT excluded)

	<u>Relationship</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	2.520.556	24.338.825
Electrocentrale București	Entity under common control	40.841.743	17.389.447
Electrocentrale Constanța	Entity under common control	326.798	3.592.194
E.ON Energie Romania	Entity under common control	<u>101.131.739</u>	<u>59.101.928</u>
		<u>144.820.836</u>	<u>104.422.394</u>

x) Debts to affiliated parties from services (other services - VAT included)

	<u>Relationship</u>	The year ended <u>31 December</u> <u>2022</u>	The year ended <u>31 December</u> <u>2021</u>
SNGN Romgaz	Entity under common control	2.452.358	317.594
Electrocentrale București	Entity under common control	<u>1.194</u>	<u>889</u>
		<u>2.453.552</u>	<u>318.483</u>

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

xi) Debts to suppliers – balancing activity (VAT included)

	<u>Relationship</u>	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
SNGN Romgaz	Entity under common control	3.229.577	19.873.114
Electrocentrale București	Entity under common control	2.018.612	17.474.941
Electrocentrale Constanța	Entity under common control	2.095.909	2.486.589
Termo Calor Pitesti	Entity under common control	1.951.308	-
E.ON Energie Romania	Entity under common control	<u>16.848.247</u>	<u>43.791.122</u>
		<u>26.143.653</u>	<u>83.625.766</u>

xii) Guarantees from affiliates (bank guarantee letter)

	<u>Relationship</u>	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
SNGN Romgaz	Entity under common control	15.015.388	22.593.205
Termo Calor Pitești	Entity under common control	-	210
Electrocentrale Constanța	Entity under common control	-	1.000
E.ON Energie Romania	Entity under common control	<u>-</u>	<u>21.828.961</u>
		<u>15.015.388</u>	<u>44.423.376</u>

xiii) Loans and interest to be reimbursed

	<u>Relationship</u>	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>235.673.543</u>	<u>256.688.127</u>
		<u>235.673.543</u>	<u>256.688.127</u>

xiv) Transactions during the period

	<u>Relationship</u>	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>16.439.443</u>	<u>8.567.690</u>
		<u>16.439.443</u>	<u>8.567.690</u>

28. EARNINGS PER SHARE

The company shares are listed on the first category of the Bucharest Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

Basic earnings per share are calculated by dividing the profit attributable to the company's equity holders to the average number of ordinary shares existing during the year.

	<u>The year ended</u> <u>31 December 2022</u>	<u>The year ended</u> <u>31 December 2021</u>
Profit attributable to the company's equity holders	365.754.868	186.941.472
Weighted average of the number of shares	188.381.504	11.773.844
Basic and diluted earnings per share (lei per share)	1,94	15,88

By Decision no. 11/7 December 2022, the Extraordinary General Meeting of Shareholders of Transgaz approved the increase of the share capital of the Company by incorporating the reserves constituted from the net profit of previous years in the amount of 1.766.076.600 lei, from the amount of 117.738.440 lei to the amount of 1.883.815.040 lei, through the issue of 176.607.660 new shares with a value of 10 lei/share. The share capital increase was registered with the National Trade Register Office on 19 December 2022.

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 12,25% of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2022 (31 December 2021: 5,13%). Transactions mainly represent offsets with clients and suppliers within the operating cycle and offsets between tax debts and receivables registered with the state budget.

Barter transactions

No barter transactions were made in 2022 and 2021.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

The Service Concession Agreement (S.C.A. - Note 8) provides that, at the end of the agreement, the ANRM is entitled to receive back, all goods of public property existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The company also has other obligations related to the concession agreement, which are described in Note 8.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the owner on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 December 2022 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 22.217.647.

Eurotransgaz SRL, the company established and owned by Transgaz in Moldova, was appointed the winner of the privatization investment contest for the single patrimonial complex State Enterprise Vestmoldtransgaz operating the Iasi-Ungheni gas transmission pipeline on the territory of Moldova.

The company is a guarantor of the loan agreement concluded on 24 January 2019 between the European Investment Bank and Eurotransgaz, in total amount of Euro 38 million, for the funding of the construction by Vestmoldtransgaz of the Ungheni-Chisinau gas transmission pipeline.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The company's management believes that fiscal obligations included in these financial statements are properly presented and that it is not necessary for any additional provisions to be established to cover the uncertainties related to tax treatment.

The royalty rate for the use of gas transmission pipelines is set by the government. Since October 2007, the royalty has been set at 10% of revenue. After the entry into force of Art. 103 para. 2 of the Law no. 123/2012, starting from 12 November 2020 the fee was set at 0,4% of the domestic and international gas transmission services value performed by the company. ANRM requests Transgaz to calculate and pay the royalty by applying the percentage of 10% according to Law 238/2004. The company considers that it is obliged to calculate and pay a single royalty at the rate of 0,4% established by the special law, namely Law 123/2012. Law 248/July 2022 approving GEO 143/2021 amending and supplementing the Electricity and gas Law 123/2012 sets the royalty percentage at 0.4% of the gross revenue from natural gas transmission and the specialist report drawn up by the specialist committees of the Chamber of Deputies clarifies that the Electricity and gas Law 123/2012 is a special regulation in the field of natural gas, in relation to Oil Law 238/2004. Administrative and judicial dispute settlement is detailed in the chapter "Court and other actions".

iii) Insurance policies

The company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 57 managers in 2022 (57 managers in 2021).

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

iv) Environmental aspects

Environmental regulations are under development in Romania and the company did not record any obligation on 31 December 2022 and 31 December 2021 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

v) Lawsuits and other actions

During the normal activity of the company, there were complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives, commercial and labour disputes. Based on its own estimates and internal and external consulting, the company's management believes there will be no material loss exceeding the provisions established in these financial statements and is not aware of circumstances that give rise to potentially significant obligations in this regard.

The company was the subject of an investigation by the Competition Council regarding the manner in which procedures were awarded for works contracts carried out by Transgaz during 2009-2011, before the implementation of private management according to the provisions of GEO 109/2011 on corporate governance of public enterprises.

In 2020, the Competition Council communicated Decision no. 43 / 11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616. The company challenged in court the decision of the Competition Council. (Note 20). The dispute concerns an action for annulment of the decision. At first instance, Transgaz's application was dismissed as unfounded. The company lodged an appeal.

As of 6 June 2016, the company was subject to an inspection carried out by the European Commission - Directorate General for Competition under Art. 20 (4) of Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which became Articles 101 and 102 of the Treaty on the Functioning of the European Union. In 2020, the European Commission approved the Company's commitments to address concerns related to a possible breach of Article 102 of the Treaty on the Functioning of the European Union, namely:

- to provide a minimum export capacity of 1,75 billion cubic meters per year at the **interconnection point between Romania and Hungary (Csanádpalota);**
- to make available minimum export capacities of 3.7 billion cubic meters per year in total at two interconnection points between Romania and Bulgaria (Giurgiu / **Ruse and Negru Vodă I / Kardam**);
- to make sure that the tariffs to be proposed to the Romanian Energy Regulatory Authority (ANRE) will not make any difference between the export and the domestic markets, thus avoiding interconnection tariffs that render exports commercially non-feasible;
- refrain from using any other means of obstructing exports.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Based on their own estimates, the company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

Following the conclusion of the arbitration proceedings with Bulgargaz EAD, the arbitral tribunal upheld Bulgargaz EAD's claim and ordered the restitution of the quantity of natural gas of 6.733.433 cm and, if restitution in kind is not possible, the reimbursement of the monetary equivalent of the linepack, and statutory interest (Note 20). The decision of the arbitral tribunal has been appealed and the action for annulment has been registered with the Bucharest Court of Appeal. The action for annulment was dismissed as unfounded. Transgaz lodged an appeal.

The company was an intervener in a dispute concerning the annulment of ANRE's 2017 decision on the interpretation and application of the provisions of Article 99 of the Network Code, namely on the calculation of the invoices related to the excess of capacity booked by network users, in this case ENGIE Romania SA. By civil decision no. 3829/2021, the High Court of Cassation and Justice accepted Transgaz's and ANRE's appeal and, on retrial, dismissed as unfounded the application brought by the applicant Engie Romania on annulment of Decision no. 2 of 31 May 2017 of the Commission for the settlement of disputes on the wholesale and retail market set up within ANRE. The decision is final. Moreover, as the revenue is regulated, the amount deducted would be subject to recovery from the regulated revenue of the following gas year. In 2020 and in 2021 the network user initiated several lawsuits for the recalculation of the tariff related to the exceeding of the capacity booked during November 2016-February 2017, and March 2017 – December 2017 and January-April 2018 and the payment of the amount of lei 57.444.164, 5.112.291,07 and 17.789.789. The resolutions have not been appealed by ENGIE, the decision to dismiss the action being final. Based on its own estimations, the company's management considers that there are no circumstances that would give rise to obligations in this regard, and the above-mentioned disputes were settled at first court and ENGIE's claims for recovery of the above-mentioned amounts were dismissed.

The dispute between ANRM and Transgaz was the subject of a tax inspection of the royalty which ended with the issuance of a mandatory order to pay two royalties, namely 10% and 0,4% of the value of domestic and international natural gas transmission services performed by the company. The company lodged a preliminary complaint against the mandatory provision no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, by which Transgaz S.A. was charged with the payment of the amount of 152,964,894 lei, representing the royalty due to the state budget and ancillaries. The preliminary complaint was upheld and the Ministry of Finance, by decision 82/P/2022, ordered the annulment in its entirety of binding order No 6006/250938/IEF/14.04.2022 and the issue of a new order taking into account the considerations put forward by the Ministry of Finance in the decision. Transgaz challenged that decision before the court, seeking partial annulment of the decision in respect of its unclear recitals. The case has not yet been settled. However, following decision No 85/P/2022i issued by the Ministry of Finance, binding order No 6009/253087/IEF of 14.12.2022 was issued, which only supplements the recitals of the first decision, maintaining the same amount payable by Transgaz. The company lodged a preliminary complaint against this new provision, which has not yet been resolved. It is also intended to challenge the administrative act consisting of binding order 6009/253087/IEF in court within the legal time limit. The company has lodged a bank guarantee letter in order to suspend the execution of this mandatory provision, in accordance with the provisions of the Tax Procedure Code.

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

vi) Government policies in the gas sector in Romania

ANRE is an autonomous public institution and sets tariffs for the natural gas transmission activity charged by the company. It is likely that the Agency decides the implementation of changes of the government strategies in the gas sector, determining changes in the tariffs approved for the company and, thus, having a significant impact on the company's revenue. At the same time, the Romanian government could decide to change the royalty applied to the company for using the assets part of the public domain according to SCA.

Currently, the effects cannot be determined, if they exist, of the future government policies in the gas sector in Romania on the company's asset and liability.

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties. The company's management believes that its obligations to ANRE are properly presented in these financial statements.

ANRE Order no.126/12.2021 approved the modification of the contractual clauses for the balancing activity and access to the PVT which allows the Company to terminate access to the virtual trading point (VTP) and to terminate balancing contracts, for network users who register cumulative imbalances of the Deficit type during the month higher than the guarantees established.

GEO 27/2022 provides that in order to cover the additional costs related to own technological consumption and technological consumption, respectively, generated by the increase in prices on the anglo market above the value taken into account by the regulator when calculating the natural gas transmission tariffs for 2021, the Energy Regulatory Authority (ANRE) modifies the regulated tariffs, with effect from 1 April 2022, and the resulting tariffs shall remain unchanged for the period from 1 April 2022 to 31 March 2023. ANRE did not modify the transmission tariffs with the price increase substantiated by the company.

By Order no. 95/18.05.2022, ANRE extends the deadlines laid down in ANRE Order no. 32/2021 on the approval of the adjusted regulated revenue and transmission tariffs for the transmission of natural gas through the National Transmission System until 30 September 2023 and provides that the differences resulting from the recalculation of the regulated revenue and the adjusted regulated revenue for the fourth regulatory year, 1 October 2022 - 30 September 2023, of the fourth regulatory period, shall be determined and adjusted with the adjustment of the regulated revenue and the approval of the revenue for the last year of the fourth regulatory period, i.e. 1 October 2023 - 30 September 2024.

According to GEO no. 119/1 September 2022 amending and supplementing Government Emergency Ordinance no. 27/2022 on measures applicable to end customers in the electricity and natural gas market for the period from 1 April 2022 to 31 March 2023, the natural gas transmission service provider is required to capitalise on a quarterly basis the additional costs for the procurement of natural gas incurred during the period from 1 January 2022 to 31 August 2023 to cover technological consumption, compared to the costs included in the regulated tariffs, and the assets resulting from the capitalisation shall be recognised in the accounting records and financial statements in accordance with the instructions issued by the Ministry of Finance.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

By Order 111/24 August 2022, ANRE stipulates, as of 1 October 2022, that the mechanism ensuring cost and revenue neutrality of the TSOs take into account the following categories of costs and revenues:

- a) costs and revenues of the TSO as a result of the payment or collection of imbalance charges under the provisions of the Network Code in relation to individual NUs;
- b) costs and revenues arising from the purchase/sale of gas by the TSO for the physical balancing of the NTS, in compliance with the procedure on the operating limits of the NTS, approved by the TSO and endorsed by ANRE;
- c) costs and revenues resulting from the activity of natural gas storage intended to ensure the physical balance of the transmission system in accordance with the provisions of Article 130(1) of the Law no. 123/2012 on electricity and natural gas, as amended;
- d) costs arising from the taking out of a credit line to finance physical and commercial balancing activity;
- e) costs and revenues arising from the contracting of balancing services, in accordance with the provisions of Article 832 of the Network Code and Article 6(3) b of Regulation (EU) No 312/2014.

vii) The impact of COVID-19

In the context of the COVID-19 pandemic, the company cooperates with the authorities and takes the necessary measures to ensure the provision of the gas transmission service in a safe manner and to ensure the safety of the personnel. The company prepared and published a plan of measures approved by the Board of Administration, which aims to minimize the effects of the epidemic on the health and safety of the employees and to ensure the continuity of the natural gas transmission service and the safety of the National Transmission System.

The company provides a public service of national interest being included in the regulated segment of the internal gas market. The gas transmission activity is regulated by the National Energy Regulatory Authority.

viii) The military conflict in Ukraine

As of 24 February 2022 a military conflict is taking place on the territory of Ukraine. Gas flows can be redirected through the Negru Voda entry point and other interconnection points with transmission operators in Bulgaria and Hungary.

31. FEES OF THE STATUTORY AUDITOR

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

The fees for the financial year ended 31 december 2022 charged by BDO Audit SRL are: lei 79.682 (VAT excluded) for the limited review as at 30 June 2022 and 29.760 lei (excluding VAT) for other services than statutory audit services.

The fees for the financial year ended 31 December 2021 charged by BDO Audit SRL, invoiced in 2022 are: lei 174.989 (VAT excluded) for statutory audit services and lei 15.000 (VAT excluded) for other services than the statutory audit.

The fees for the financial year ended 31 December 2021 charged by BDO Audit SRL invoiced in 2021 are: lei 79.682 (VAT excluded) for the limited review as at 30 June 2021 and lei 22.320 (VAT excluded) other services than the statutory audit.

32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

In accordance with IFRIC 12 the revenue and costs of network construction should be recognized in accordance with IFRS 15 Revenue from Contracts with Customers.

	<u>The year ended 31 December 2022</u>	<u>The year ended 31 December 2021</u>
Revenue from the construction activity according to IFRIC12	299.868.442	704.026.548
Cost of assets constructed according to IFRIC12	(299.868.442)	(704.026.548)

The related costs were equal to the revenue, the company did not obtain any profit from the construction activity.

33. EVENTS SUBSEQUENT TO THE BALANCE DATE

NOTES TO THE FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

In January 2023, the Company concluded with Banca Transilvania an addendum to the loan agreement in order to update the bank guarantee letter issued by the Company in favour of the National Tax Administration Agency to guarantee the debt instrument represented by the mandatory provision no. 6006/253087/IEF/14.12.2022, issued by the Ministry of Finance, which established the payment by Transgaz S.A. of the amount of 152.964.894 lei, representing the royalty due to the state budget. The amendment amends the previous binding provision number 6006/250938/IEF/14.04.2022 on the basis of which the initial letter was issued in 2022.

The company has successfully carried out an incremental capacity process for the entry/exit point to/from the National Natural Gas Transmission System (NTS) planned to be created in the area of **Tuzla, Constanța county. The value of the allocated capacity** for the period 01.05.2026 - 01.10.2042 is 1.323.920.520 MWh, and the cumulative value of the commitments of the successful applicants is 2.819.621.116 lei.

Chairman of the Board of Administration

Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of: **Societatea Naționala de Transport Gaze Naturale TransGaz SA**

Headquarter: Piața Constantin I. Moțaș, nr. 1, Mediaș, Jud. Sibiu, Postal Code 551130, Romania
Fiscal registration code: 13068733

Report on the Audit of the Consolidated Financial Statements

Opinion

1. We have audited the consolidated financial statements of Societatea Naționala de Transport Gaze Naturale TransGaz S.A. („the Company” or „S.N.T.G.N. TransGaz S.A.”), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the consolidated financial statements.
2. The financial statements as at and for the year ended 31 December 2022 are identified as follows:

Net assets/Total equity:	4,140,908,265 RON
Net profit for the year:	347,068,471 RON

3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU (“Order 2844/2016”).

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The “Regulation”) and Law 162/2017 (“the Law”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

5. We draw attention to Note 30 to the consolidated financial statements which describe that the company has significant ongoing litigation as at December 31, 2022. The impact on the consolidated financial statements is uncertain and cannot be quantified at the current stage of litigation. Our opinion is not qualified in respect of this matter.

Key Audit Matters

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue Recognition

Revenues represent a significant value of RON 1,579 million, consisting of a large volume of transactions. Identified types of transactions, related to revenue recognition, lead to the following risks:

- ▶ Completeness and existence of recorded revenue;
- ▶ Complex accounting policies and estimates;
- ▶ Transactions with the same partner on the basis of several contracts;
- ▶ Numerous transactions recorded near the end of the financial year;
- ▶ Changes and updates of prices and their application according to the gas year;
- ▶ The revenue recognition policy is set out in Note 3 "Summary of significant accounting policies".

Audit tests performed:

Our audit procedures included, but are not limited to:

- ▶ Assessment of the principles of revenue recognition in accordance with the provisions of IFRS and in relation to the Company's accounting policies;
- ▶ Performing detail tests in order to verify the correct registration of transactions;
- ▶ Verification of capacity bookings by network users through the booking platform, with electronic approval and generated contract;
- ▶ Reconciling reserved capacity through platform versus billed reserved capacity;
- ▶ Verification of delivery minutes signed by network users (quantity confirmation);
- ▶ Sample verification of manual debit records in the booking platform for technology points for which readings are not automatically imported;
- ▶ Conversion of flows from cubic meters and calorific value into MWh, for the year 2022;
- ▶ Calculation of billing quantities per partner starting from the flows in MWh recorded for the technological points;
- ▶ Reconciling quantities calculated on partners versus quantities invoiced for 2022;
- ▶ Examining the accuracy of the adjustments made by the Company or those to be made, in order to respect the principle of independence of the exercises;

Testing trade receivables on a sample basis by sending confirmation letters.

Application of IFRIC 12 "Service Concession Agreements" *Audit tests performed:*

IFRIC 12, although not an accounting standard, is an interpretation that implies a great deal of professional reasoning, especially in the Romanian legislative context.

According to IFRIC 12, Transgaz may receive an intangible asset, a financial asset, or a combination of the two, in exchange for construction work (upgrading / expansion) on the infrastructure (SNTG).

The Service Concession Agreement (ACS) was concluded by Transgaz in 2002 for a period of 30 years and IFRIC 12 was applicable starting with 2010. Law 127/2014, which entered into force on 5 October 2014, states that in the event of termination of the concession contract for any reason, the investment made by Transgaz shall be transferred to the owner of SNTG or another operator in exchange for the payment of a compensation equal to the net regulated accounting value established according to the regulations imposed by ANRE.

According to the latest methodologies for establishing the tariffs regulated by ANRE, approved by Order 41/2019, Transgaz obtains the right to adjust to the inflation the net regulated accounting value and, consequently, the assessment of the long-term receivable.

Transgaz presents all the details related to the application of IFRIC 12 and the impact of ANRE Order no. 41/2019 in Note 3.5 "Intangible assets" and Note 12 „Accounts receivable”.

Our audit procedures included, but are not limited to:

- ▶ The analysis of the service concession agreement concluded in 2002, as well as the specific legislation supplementing the contractual provisions (especially Law 127/2014).
- ▶ The reasonableness of applying the bifurcated model in the context of first-time application of IFRS 15 and restatement of comparative information has been revised.
- ▶ The criteria for recognizing the financial asset as well as the method for assessing the long-term receivable as mentioned in Note 5.4 to the consolidated financial statements (the residual value, the discount rate used) were also reviewed.
- ▶ We've also examined how the information required by IFRIC 12 was disclosed in the financial statements.
- ▶ Consultations have taken place with the management of the Company.

Other matters

7. This report of the Independent Auditor is addressed exclusively to the Company's shareholders, as a body. Our audit was undertaken in order to report to the Company's shareholders all those aspects that we are required to state to them in a financial audit report and for no other purposes whatsoever. To the extent permitted by law, we do not accept or take responsibility to anyone other than the Company and its shareholders, as a body, for our audit work, for the report on the consolidated financial statements and the report on the Administrators' Report, or for the opinion we have formed.

Other information - Consolidated Administrators' Report

8. Administrators are responsible for the preparation and presentation of Other information. The Other information comprises the consolidated Administrator's report, including the non-financial representation, and the Remuneration Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the consolidated Administrator's report, which includes the non-financial representation, we read and report whether the consolidated Administrators' report is prepared, in all material respects, in accordance with the Order of Minister of Public Finance no 2844/2016, articles 15-19, 26-28 respectively 39-42 of the accounting regulations in accordance with International Financial Reporting Standards.

With respect to the Remuneration Report, we have read and reported whether it has been prepared, in all material respects, in accordance with the provisions of the Law on issuers of financial instruments and market operations no. 24/2017 ("Law 24/2017"), article no. 107.

Based solely on the work required to be undertaken in the course of the audit of the consolidated financial statements, in our opinion:

- a) The information given in the Administrators' for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the consolidated financial statements;
- b) The administrators' Report, including the non-financial representation has been prepared, in all material respects, in accordance with OMFP no. 2844/2016, points 15-19, respectively 39-42, of the accounting regulations compliant with the International of Financial Reporting Standards.
- c) The remuneration report has been prepared, in all material respects, in accordance with the provisions of Law 24/2017, articles no. 106-107

In addition, based on our knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Administrators' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements

9. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

11. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated financial statements

12. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidated or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

13. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

14. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

15. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

16. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or

regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

17. We have been appointed by the General Assembly of Shareholders on December 03, 2018 to audit the consolidated financial statements of S.N.T.G.N. Transgaz S.A. for the financial years ended December 31, 2018 to December 31, 2022. The uninterrupted total duration of our commitment is 4 year, covering the financial years 2018 - 2021.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014

Report on compliance with Commission Delegated Regulation (EU) 2018/815 (European Single Electronic Format Regulatory Technical Standard or ESEF)

18. We have undertaken a reasonable assurance engagement on the compliance with Commission Delegated Regulation (EU) 2018/815 applicable to the consolidated financial statements included in the annual financial report of S.N.T.G.N. Transgaz S.A. (the Company) as shown in the digital files containing the unique code 254900R11L2IUTHIZ779 (Digital Files).

Responsibility of management and those charged with governance for Digital Files prepared in accordance with ESEF

19. Management is responsible for preparing the Digital Files in accordance with ESEF. This responsibility includes:

- the design, implementation and maintenance of the internal control relevant to the application of ESEF;
- ensuring consistency between the Digital Files and the consolidated financial statements that will be published in accordance with Order no. 2844/2016 with subsequent amendments.
- selection and application of appropriate iXBRL markers

20. Those in charge of governance are responsible for overseeing the preparation of Digital Files in accordance with ESEF.

Auditor's Responsibilities for Audit the Digital Files

21. Our responsibility is to express a conclusion on whether the consolidated financial statements included in the annual financial report complies in all material respects with the requirements of the ESEF, based on the evidence we have obtained. We conducted our reasonable assurance assignment in accordance with International Standard on Assurance Assignments 3000 (revised), Assurance Assignments other than audits or reviews of historical financial information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.



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22. A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with ESEF. The nature, timing, and extent of the procedures selected depend on the auditor's judgement, including the assessment of the risk of material departures from the requirements set out in ESEF, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the Company's process for the preparation of the Digital Files in accordance with the ESEF, including the relevant internal controls;
- reconciling the Digital Files with the audited consolidated financial statements of the Company that will be published in accordance with Order no. 2844/2016 with subsequent amendments.
- evaluating if all consolidated financial statements that are included in the annual financial report have been prepared in a valid XHTML format.
- assessing whether all iXBRL markings comply with ESEF requirements

23. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In our opinion, the consolidated financial statements for the financial year ended December 31, 2022 included in the annual financial report and presented in the Digital Files comply, in all material respects, with the requirements of ESEF.

24. In this section we do not express an audit opinion, a review conclusion or any other assurance conclusion on consolidated financial statements. Our audit opinion on the Company's consolidated financial statements for the financial year ended December 31, 2022 is included in the " Report on the Audit of the Consolidated financial statements" section above.

On behalf of, BDO AUDIT

Victory Business Center, 24 Invingatorilor Street
Bucharest 3, Romania, 030922

Registered on Financial Auditors Public Register, code FA18

Name of signing person:

Mircea Tudor

Bucharest, Romania

22.03.2023

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of: **Societatea Națională de Transport Gaze Naturale TransGaz SA**

Headquarter: Piața Constantin I. Moțaș, nr. 1, Mediaș, Jud. Sibiu, Postal Code 551130, Romania
Fiscal registration code: 13068733

Report on the Audit of the individual Financial Statements

Opinion

1. We have audited the individual financial statements of Societatea Națională de Transport Gaze Naturale TransGaz S.A. („the Company” or „S.N.T.G.N. TransGaz S.A.”), which comprise the individual statement of financial position as at December 31, 2022, and the individual statement of comprehensive income, individual statement of changes in equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the individual financial statements.
2. The financial statements as at and for the year ended 31 December 2022 are identified as follows:

Net assets/Total equity:	4,082,745,760 RON
Net profit for the year:	365,754,868 RON

3. In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU (“Order 2844/2016”).

Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The “Regulation”) and Law 162/2017 (“the Law”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Individual financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

5. We draw attention to Note 30 to the individual financial statements which describe that the company has significant ongoing litigation as at December 31, 2022. The impact on the individual financial statements is uncertain and cannot be quantified at the current stage of litigation. Our opinion is not qualified in respect of this matter.

Key Audit Matters

6. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual financial statements of the current period. These matters were addressed in

the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Revenues represent a significant value of RON 1,575 million, consisting of a large volume of transactions. Identified types of transactions, related to revenue recognition, lead to the following risks:

- ▶ Completeness and existence of recorded revenue;
- ▶ Complex accounting policies and estimates;
- ▶ Transactions with the same partner on the basis of several contracts;
- ▶ Numerous transactions recorded near the end of the financial year;
- ▶ Changes and updates of prices and their application according to the gas year;
- ▶ The revenue recognition policy is set out in Note 3 "Summary of significant accounting policies".

Audit tests performed:

Our audit procedures included, but are not limited to:

- ▶ Assessment of the principles of revenue recognition in accordance with the provisions of IFRS and in relation to the Company's accounting policies;
- ▶ Performing detail tests in order to verify the correct registration of transactions;
- ▶ Verification of capacity bookings by network users through the booking platform, with electronic approval and generated contract;
- ▶ Reconciling reserved capacity through platform versus billed reserved capacity;
- ▶ Verification of delivery minutes signed by network users (quantity confirmation);
- ▶ Sample verification of manual debit records in the booking platform for technology points for which readings are not automatically imported;
- ▶ Conversion of flows from cubic meters and calorific value into MWh, for the year 2022;
- ▶ Calculation of billing quantities per partner starting from the flows in MWh recorded for the technological points;
- ▶ Reconciling quantities calculated on partners versus quantities invoiced for 2022;
- ▶ Examining the accuracy of the adjustments made by the Company or those to be made, in order to respect the principle of independence of the exercises;

Testing trade receivables on a sample basis by sending confirmation letters.

Application of IFRIC 12 "Service Concession Agreements"

IFRIC 12, although not an accounting standard, is an interpretation that implies a great deal of professional reasoning, especially in the Romanian legislative context.

According to IFRIC 12, Transgaz may receive an intangible asset, a financial asset, or a combination of the two, in exchange for construction work

Audit tests performed:

Our audit procedures included, but are not limited to:

- ▶ The analysis of the service concession agreement concluded in 2002, as well as the specific legislation supplementing the contractual provisions (especially Law 127/2014).

(upgrading / expansion) on the infrastructure (SNTG).

The Service Concession Agreement (ACS) was concluded by Transgaz in 2002 for a period of 30 years and IFRIC 12 was applicable starting with 2010. Law 127/2014, which entered into force on 5 October 2014, states that in the event of termination of the concession contract for any reason, the investment made by Transgaz shall be transferred to the owner of SNTG or another operator in exchange for the payment of a compensation equal to the net regulated accounting value established according to the regulations imposed by ANRE.

According to the latest methodologies for establishing the tariffs regulated by ANRE, approved by Order 41/2016, Transgaz obtains the right to adjust to the inflation the net regulated accounting value and, consequently, the assessment of the long-term receivable.

Transgaz presents all the details related to the application of IFRIC 12 and the impact of ANRE Order no. 41/2019 in Note 3.5 "Intangible assets" and Note 12 „Accounts receivable”.

The recoverable value of the investment in the Eurotransgaz subsidiary in the Republic of Moldova

As it results from Note 10 "Financial instruments" the Company's management performed an assessment of the recoverability of the value of the investment made in Eurotransgaz Moldova and, indirectly, in Vestomoldtransgaz, using an independent valuator.

Two approaches were used to measure participation: the income approach based on discounted cash flows, and the asset approach, which seeks to measure adjusted net assets.

The discounted cash flow model requires the use of professional reasoning and significant estimates, mainly regarding the forecasted revenues (based on the specific methodology for determining regulated income in the Republic of Moldova), discount rate and residual value.

This aspect is considered key due to the complexity of the estimates and reasoning used in the evaluation, but also to the significant value of the participation.

- ▶ The reasonableness of applying the bifurcated model in the context of first-time application of IFRS 15 and restatement of comparative information has been revised.
- ▶ The criteria for recognizing the financial asset as well as the method for assessing the long-term receivable as mentioned in Note 5.4 to the individual financial statements (the residual value, the discount rate used) were also reviewed.
- ▶ We've also examined how the information required by IFRIC 12 was disclosed in the financial statements.
- ▶ Consultations have taken place with the management of the Company.

Audit tests performed:

Our audit work included, among others, the following specific procedures:

- ▶ Obtaining the evaluation performed by the expert employed by the Company to test the impairment of participation;
- ▶ Verification of the experience and accreditations of the expert employed by the company;
- ▶ Analysis of evaluation reports with the help of an expert BDO evaluator.
- ▶ Analysis of the reasonableness of the estimates made and the hypotheses used.
- ▶ Adequacy of the methods used with the activity of companies.
- ▶ Assessing the adequacy of the information contained in the financial statements, including the explanatory notes.

Other matters

7. This report of the Independent Auditor is addressed exclusively to the Company's shareholders, as a body. Our audit was undertaken in order to report to the Company's shareholders all those aspects that we are required to state to them in a financial audit report and for no other purposes whatsoever. To the extent permitted by law, we do not accept or take responsibility to anyone other than the Company and its shareholders, as a body, for our audit work, for the report on the individual financial statements and the report on the Administrators' Report, or for the opinion we have formed.

Other information - Administrators' Report

8. Administrators are responsible for the preparation and presentation of Other information. The Other information comprises the Administrator's report, including the non-financial representation, and the Remuneration Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the individual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual financial statements, our responsibility is to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the individual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Administrator's report, which includes the non-financial representation, we read and report whether the consolidated Administrators' report is prepared, in all material respects, in accordance with the Order of Minister of Public Finance no 2844/2016, articles 15-19, 26-28 respectively 39-42 of the accounting regulations in accordance with International Financial Reporting Standards.

With respect to the Remuneration Report, we have read and reported whether it has been prepared, in all material respects, in accordance with the provisions of the Law on issuers of financial instruments and market operations no. 24/2017 ("Law 24/2017"), article no. 107.

Based solely on the work required to be undertaken in the course of the audit of the individual financial statements, in our opinion:

- a) The information given in the Administrators' for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the individual financial statements;
- b) The administrators' Report, including the non-financial representation has been prepared, in all material respects, in accordance with OMFP no. 2844/2016, points 15-19, respectively 39-42, of the accounting regulations compliant with the International of Financial Reporting Standards.
- c) The remuneration report has been prepared, in all material respects, in accordance with the provisions of Law 24/2017, articles no. 106-107

In addition, based on our knowledge and understanding of the entity and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Administrators' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Individual financial statements

9. Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of individual financial statements that are free from material misstatement, whether due to fraud or error.

10. In preparing the individual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

11. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Individual financial statements

12. Our objectives are to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidated or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual financial statements.

13. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

14. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

15. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

16. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

17. We have been appointed by the General Assembly of Shareholders on December 03, 2018 to audit the individual and consolidated financial statements of S.N.T.G.N. Transgaz S.A. for the financial years ended December 31, 2018 to December 31, 2022. The uninterrupted total duration of our commitment is 5 year, covering the financial years 2018 - 2022.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014

Report on compliance with Commission Delegated Regulation (EU) 2018/815 (European Single Electronic Format Regulatory Technical Standard or ESEF)

18. We have undertaken a reasonable assurance engagement on the compliance with Commission Delegated Regulation (EU) 2018/815 applicable to the individual financial statements included in the annual financial report of S.N.T.G.N. Transgaz S.A. (the Company) as shown in the digital files containing the unique code 254900R11L2IUTHIZ779 (Digital Files).

Responsibility of management and those charged with governance for Digital Files prepared in accordance with ESEF

19. Management is responsible for preparing the Digital Files in accordance with ESEF. This responsibility includes:

- the design, implementation and maintenance of the internal control relevant to the application of ESEF;
- ensuring consistency between the Digital Files and the individual financial statements that will be published in accordance with Order no. 2844/2016 with subsequent amendments.

20. Those in charge of governance are responsible for overseeing the preparation of Digital Files in accordance with ESEF.

Auditor's Responsibilities for Audit the Digital Files

21. Our responsibility is to express a conclusion on whether the individual financial statements included in the annual financial report complies in all material respects with the requirements of the ESEF, based on the evidence we have obtained. We conducted our reasonable assurance assignment in accordance with



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International Standard on Assurance Assignments 3000 (revised), Assurance Assignments other than audits or reviews of historical financial information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

22. A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with ESEF. The nature, timing, and extent of the procedures selected depend on the auditor's judgement, including the assessment of the risk of material departures from the requirements set out in ESEF, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the Company's process for the preparation of the Digital Files in accordance with the ESEF, including the relevant internal controls;
- reconciling the Digital Files with the audited individual financial statements of the Company that will be published in accordance with Order no. 2844/2016 with subsequent amendments.
- evaluating if all individual financial statements that are included in the annual financial report have been prepared in a valid XHTML format.

23. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In our opinion, the individual financial statements for the financial year ended December 31, 2022 included in the annual financial report and presented in the Digital Files comply, in all material respects, with the requirements of ESEF.

24. In this section we do not express an audit opinion, a review conclusion or any other assurance conclusion on individual financial statements. Our audit opinion on the Company's individual financial statements for the financial year ended December 31, 2022 is included in the " Report on the Audit of the Individual financial statements" section above.

On behalf of, BDO AUDIT

Victory Business Center, 24 Invingatorilor Street
Bucharest 3, Romania, 030922
Registered on Financial Auditors Public Register, code FA18

Name of signing person:

Mircea Tudor

Bucharest, Romania

22.03.2023

Registered on Financial Auditors Public Register, code
AF2566

No. 20288/16.03.2022

STATEMENT

According to Art. 65 (2) (c) of Law 24/2017 on the issuers of financial instruments and market operations, and to Art. 223 (A) (1) (c) of Financial Supervisory Authority Regulation 5/2018 on the issuers of financial instruments and market operations, we declare the following:

- To the best of our knowledge, the annual financial and accounting statement at 31 December 2022 was prepared in accordance with the International Financing Reporting Standards approved by the European Union and provides a correct and true view of the assets, obligations, financial position, profit and loss account;
- The consolidated report issued by the Board of Administration includes a correct analysis of the company's development and performance and a description of the principal risks and uncertainties specific to the performed activity.

Petru Ion Văduva– Non-Executive Administrator, BoA Chairman

Ion Sterian– Director - General, Executive Administrator

Nicolae Minea - Non-Executive Administrator

Csaba Orosz - Non-Executive, Interim Administrator

Mihaela Virginia Toader - Non-Executive, Interim Administrator