

THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ SA

# CONSOLIDATED REPORT ISSUED BY THE BOARD OF ADMINISTRATION

- 2019 -



## Contents

<b>THE ADMINISTRATORS' MESSAGE TO SHAREHOLDERS, INVESTORS</b> .....	3
<b>1. ISSUER IDENTIFICATION DATA</b> .....	5
1.1 Report and issuer identification data .....	5
1.2 Mission, Vision, Organizational Values.....	5
1.3 Shareholding .....	6
1.4 Structure.....	8
<b>2. EXECUTIVE SUMMARY</b> .....	9
2.1 Indicators of the economic and financial results .....	9
2.2 Key financial and non-financial performance indicators (KPIs).....	13
<b>3. THE DEVELOPMENT STRATEGY</b> .....	17
3.1 Strategic projects.....	17
3.2 European funds .....	67
3.3 International cooperation .....	71
3.4 Interconnection agreements .....	78
3.5 Retrofitting and automation - SCADA.....	80
3.6 Operation, development, repair, rehabilitation and maintenance of NTS .....	81
3.6.1 Main Components of NTS Infrastructure.....	81
3.6.2. The operation activity.....	86
3.6.3 The investment policy .....	88
3.6.4 NTS maintenance policy .....	92
3.7 Control of procurement.....	96
<b>4. CONSOLIDATED FINANCIAL REPORTING</b> .....	100
4.1 Consolidated financial position.....	100
4.2 Consolidated comprehensive result .....	105
4.3 Consolidated cash flow statement.....	106
4.4 Factor analysis of the activity .....	108
4.5 Evaluation of the activity related to the financial risk management .....	115
4.6 Indicators of the economic and financial results in the period 2017-2021 .....	119
<b>5. CONSOLIDATED NON-FINANCIAL REPORTING</b> .....	121
5.1 Non-financial statement.....	121
5.2 Responsible management and sustainable strategies .....	122
5.2.1 Integrated Management Quality-Environment, Health and Occupational Security.....	122
5.2.2. Environmental protection.....	125
5.2.3. Human resources.....	134
5.2.4. Social and corporate responsibility.....	142
5.2.5 Ethics and integrity.....	145
5.2.6 Compliance policy .....	147
5.2.7 Internal/Management Control System .....	149
5.2.8 Risk Management.....	157
5.2.9 Communication .....	163
5.2.10 Key non-financial performance indicators.....	166
<b>6. CORPORATE GOVERNANCE</b> .....	169
6.1 Corporate Governance Statement .....	170
6.2 Capital Market Activity .....	207
6.3 Dividend policy.....	213
6.4 Mergers or significant reorganisations .....	213
<b>7. THE MANAGEMENT OF THE COMPANY</b> .....	214
7.1 STRATEGIC OBJECTIVES RELATED TO TRANSGAZ'S MANAGEMENT DURING 2017-2021 .....	214
7.2 Executive Management.....	216

## THE ADMINISTRATORS' MESSAGE TO SHAREHOLDERS, INVESTORS

Dear shareholders,

Dear investors,

*With a tradition of 106 years 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 TRANSGAZ is today - a responsible company, a company of the future, a company in which the corporate governance model is working successfully.*

*SNTGN TRANSGAZ is the technical operator of the National Natural Gas Transmission System and ensures the performance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy 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.*

*As a transparent company, open to dialogue and good corporate practice, as a high-performance company, TRANSGAZ 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. TRANSGAZ is a company managed in a unitary management system, the Board of Administration being appointed by the General Meeting of the Shareholders in accordance with GEO 109/2011, as further amended and supplemented .*

***The strategic objectives included in the Management Plan of SNTGN Transgaz SA for 2017-2021 are aligned with the Shareholders' Letter of Expectations and aim to increase the company's performance, to make the company's activity more efficient, to redefine it strategically in accordance with the requirements of the modern standards of performance and competitiveness, and to transform TRANSGAZ into an internationally recognized company, a leader of the energy market in the region, capitalizing with maximum efficiency all existing and future opportunities, so that Romania becomes an important energy corridor in the field of natural gas to Europe.***

*In the context of profiling major new sources of natural gas supply, **the natural gas from the Caspian Sea region and those discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2019-2028, approved by ANRE Decision no. 2080/11.12.2019** are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.*

*In recognizing the importance of TRANSGAZ both as a driver of activities in the national economy and as a vector of the economic growth of the country, by its role in the development of the energy sector and in the transformation of Romania into an energy power of Europe, the company's administrators undertook to further launch and implement one of the largest and most important gas transmission infrastructure development plan in Romania over the past 20 years, with investment projects **estimated at 4,03 billion euros.***

*The sustainable development of the Romanian natural gas infrastructure requires a comprehensive investment plan enabling NTS alignment to gas transmission network transmission operation requirements compliant with the European environmental protection regulations .*

*The proposed investments secure an appropriate degree of interconnectivity with neighbouring countries; creating several natural gas transmission routes at a regional level for natural gas transmission from various new sources of supply; creating the necessary infrastructure for takeover and transmission of natural gas from offshore perimeters in the Black Sea in order to capitalize them on the Romanian market and other markets in the region; extending the natural gas transmission infrastructure in order to improve natural gas supply in deficient areas; creating an integrated single market in the European Union.*

*Given the need to finance a complex and extensive investment plan, Transgaz envisages, in addition to its own sources of funding, attracting and using additional external funding under advantageous conditions as well. 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.*

*In compliance with the principles of good corporate governance, the company administrators shall continue to act in the 2017-2021 mandate with the utmost responsibility, efficiency, transparency and professionalism for the efficient and competitive management of the company, in line with the expectations of the Shareholders' Letter of Expectations, namely: **operational efficiency and stability, energy safety and security, optimization of performance and sustainable development of the company.***

*At the same time, considering the current context regarding the state of emergency established on the territory of Romania, for 30 days, between in 16.03.2020 and 16.04.2020, by Presidential Decree No. 195/16.03.2020, published in OJ of Romania, Part I, No. 212/16.03.2020, as an event following the activity of 2019, presented in this report, we would like to inform all interested parties that the executive management of Transgaz prepared and the Board of Administration of the Company approved by Resolution No. 11/13.03.2020, the implementation of the Plan of Measures for the case the COVID-19 virus epidemic is declared and Transgaz health and activity is affected. The document is published at: <http://www.transgaz.ro/ro/prezentare-plan-de-masuri-covid-19> and will be updated periodically, depending on the changes*

Yours sincerely,

**ION STERIAN – Executive Administrator – Director General**

**REMUS GABRIEL LĂPUȘAN – Non-Executive Administrator – Chairman of the Board of Administration**

**PETRU ION VĂDUVA – Non-Executive Administrator**

**BOGDAN GEORGE ILIESCU – Non-Executive Administrator**

**NICOLAE MINEA– Non-Executive Administrator**

## 1. ISSUER IDENTIFICATION DATA

### 1.1 Report and issuer identification data

Report prepared according to the provisions of Law no. 24/2017, on issuers of financial instruments and market operations.

**For the year ended:** 16 April 2019

**Report date:** 16 March 2020

**Company name:** The National Gas Transmission Company TRANSGAZ SA

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

**VAT Number:** RO13068733

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

**Subscribed and paid up capital:** lei 117,738,440

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

### 1.2 Mission, vision, organizational values

Transgaz is a joint stock company, operating according to the provisions of the Romanian legislation and its updated Articles of Incorporation. It is a company listed on the Bucharest Stock Exchange, stock exchange symbol – TGN.

#### 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 is:

- The safe operation of the NTS based on economic efficiency;
- NTS rehabilitation, upgrading and development on the main consumption directions;
- 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:**

- tradition and professionalism;
- professional ethics and conduct;
- respect for the environment and for the people;
- responsibility towards business partners and social dialogue, towards the state institutions and the community;

**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.

**1.3 Shareholding**

According to the provisions of Government Emergency Ordinance no. 1/04.01.2017 on the establishment of measures in the field of the central public administration and for the amendment and supplementation of regulatory acts, the Ministry of Economy was established, by the reorganisation of the activities of the Ministry of Economy, Trade and Relations with the Business Environment.

Thus, on 02.03.2017 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 was registered at Depozitarul Central S.A..

From 14 November 2019, the exercising of the rights and the fulfilment of the obligations arising from the status 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

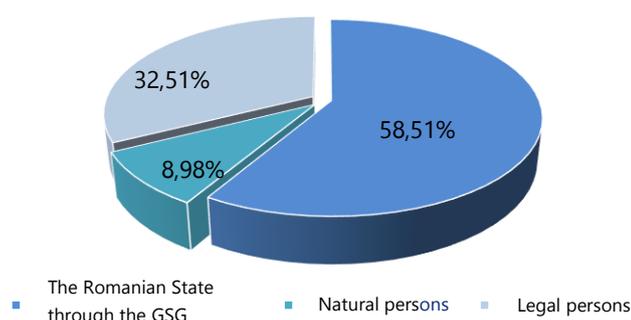
measures at the level of the central public administration and for the amending and supplementation of some normative acts.

On 31.12.2019 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
- natural persons	1.057.641	8,9830
- legal persons	3.827.363	32,5073
<b>Total</b>	<b>11.773.844</b>	<b>100,00</b>

**Table 1 - Shareholding on 31.12.2019**

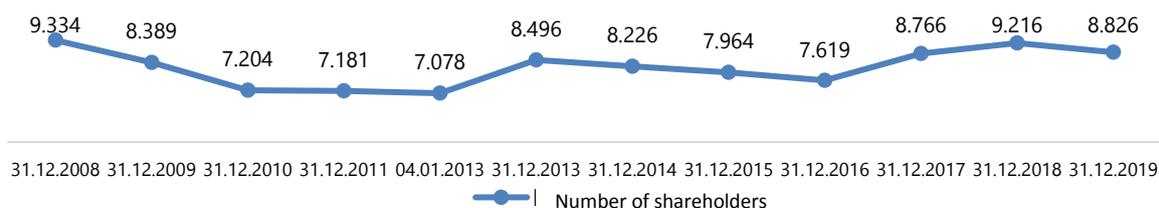
**TGN shareholding on 31 december 2019**



**Chart 1 - Transgaz's shareholding on 31.12.2019**

The share capital of Transgaz on 31 December 2019 amounted to Lei 117,738,440 and is divided into 11,773,844 registered shares, each share having a nominal value of Lei 10.

Regarding the number of shareholders, according to Transgaz shareholders' register at the reference date of 31.12.2019 a number of 8,826 TGN shareholders were registered, which is 390 shareholders less than on 31.12.2018.



**Chart 2 - Number of Transgaz shareholders from the listing and until 31.12.2019**

## 1.4 Structure

Transgaz established up in 2000, based on the GD no. 334/ 28 April 2000 *on the reorganisation of the former National Natural Gas Company (SNGN) Romgaz SA, published in the Official Journal of Romania, Part I, no. 194/04.05.2000.*

Based on GD no. 334/2000, SNGN Romgaz SA was restructured and reorganized, by division, SNGN Romgaz S.A. being disestablished, and the main activities in the natural gas sector were separated and organized in separate activities.

Following the abovementioned reorganising, Transgaz became the technical operator of the NTS and is responsible for its functioning in conditions of quality, safety, economic efficiency and environmental protection.

*By ANRE Order no. 3/22 January 2014 regarding the approval of the certification of the National Gas Transmission Company Transgaz - SA Mediaş as transmission and system operator of the National gas transport system was established that the National Gas Transmission Company Transgaz - SA Mediaş must be organized and must operate as an independent system operator.*

In addition, as operator of the NTS, Transgaz has the obligation, according to the legal provisions on the measures for ensuring the natural gas supply safety and to the regulations of the European Union, to ensure the interconnection with similar natural gas transmission systems from neighbouring countries, creating the technical and technological conditions necessary for ensuring the natural gas supply safety.

SNTGN Transgaz SA (Transgaz) conducts its activity in the following locations:

- Transgaz registered office: Mediaş, 1 C. I. Motaş Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaş, 11 George Enescu Street, Sibiu County, code 551018;
- Design and Research Department: Mediaş, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanţi Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street;
- Transgaz Representative Office - Chişinău – Republic of Moldova: Chisinau, 180 Stefan cel Mare si Sfânt Blvd, of. 506, Republic of Moldova;
- European Funds and International Relations Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.
- Design and Research Workshops - Braşov, 2 Nicolae Titulescu Street.
- Limited liability company EUROTRANSGAZ: MD-2004, Bvd.Ştefan cel Mare și Sfânt, 180, of.506, Chişinău city, Republic of Moldova.
- Transgaz secondary office: Mediaş, 3 I.C. Brătianu, building 3, flat 75, Sibiu County.

Transgaz owns **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, 12A Grigore Ureche Street, 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.

## 2. EXECUTIVE SUMMARY

### 2.1 Indicators of the consolidated economic and financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. in 2019 was conducted based on the indicators included in the revenue and expense budget approved by OGMS Resolution No. 3/2019.

The achieved value of the standard performance indicators on 31 December 2019 as compared to their value as at 31 December 2018 is as follows:

No	Performance criteria	Performance objective	MU	Weighting factor	Achieved	
					Sem. I 2019	Sem. I 2018 restated
1.	<b>Commissioned investments</b>	Plan achieved	Thousand lei	0,15	57.400	113.334
2.	<b>EBITDA</b>	EBITDA increase	Thousand lei	0,15	537.004	746.134
3.	<b>Labour productivity</b>	Increasing labour productivity in units of value (turnover / average no. of employees);	lei/ pers.	0,15	435.552	404.339
4.	<b>Outstanding payments</b>	Payments made during the contract duration (in current prices)	Thousand lei	0,15	0	0
5.	<b>Outstanding receivables</b>	Diminished amount of outstanding receivables (in current prices)	Thousand lei	0,1	404.509	315.637
6.	<b>Technological consumption</b>	Remaining within the gas quantities representing technological consumption	%	0,15	82,97%	69,81%
7	<b>OPEX at lei 1000 operating revenue</b>	Diminishing of OPEX at lei 1000 operating revenue	lei	0,15	783	654

**Table 2**–Performance standard indicators 2019 vs 2018

The main economic and financial indicators achieved between 2017 – 2019 are as follows:

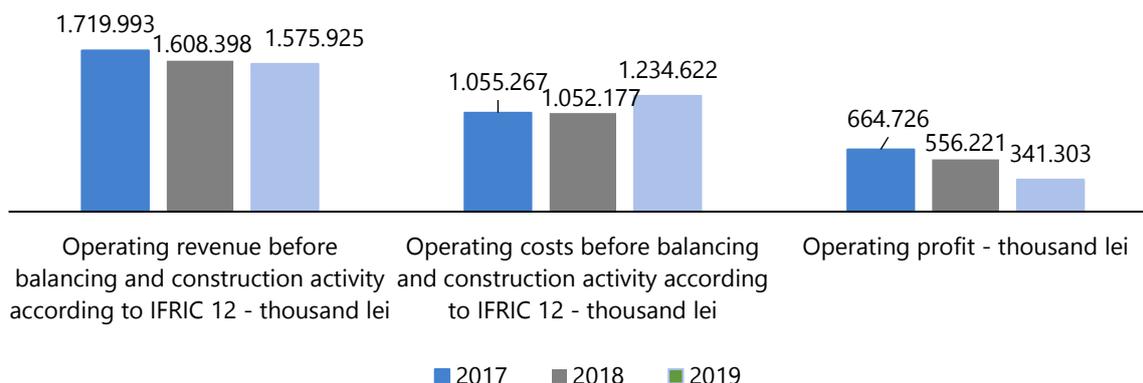
No.	Indicator	Achievements on 31 December (thousand lei)			Dynamics (%)
		2017	2018	2019	
0	1	2	3	4	$5=4/3*100$
1.	Turnover	1.800.079	1.741.890	1.849.353	106,17
2.	Operating revenue before the balancing and the construction activity acc. to IFRIC12	1.719.993	1.608.398	1.575.925	97,98
3.	Revenue from balancing	120.686	235.427	324.688	137,91
4.	Revenue from the construction activity acc. to IFRIC12	63.950	405.794	868.357	213,99
5.	Financial revenue	190.546	48.634	101.618	208,95
6.	Operating cost before the balancing and the construction activity acc. to IFRIC12	1.055.267	1.052.177	1.234.622	117,34
7.	Cost of balancing gas	120.686	235.427	324.688	137,91
8.	Cost of constructed assets according to IFRIC12	63.950	405.794	868.357	213,99
9.	Financial expense	150.227	26.973	30.779	114,11
10.	Gross profit	705.045	577.882	412.143	71,32
11.	Tax on profit	125.305	98.132	86.676	88,33
12.	Revenue from deferred tax	3.876	10.736	15.833	144,90
13.	Net Profit	583.616	490.486	341.394	69,60
14.	Total comprehensive result of the period	601.442	487.868	340.426	69,78
15.	Transmitted gas thousand cm*	12.869.908	12.975.921	13.227.501	101,94
16.	Investment cost	95.599	422.783	892.739	190,69
17.	Rehabilitatin cost	13.954	21.645	12.687	58,61
18.	Technological consumption	73.831	70.003	66.257	94,65
19.	Technological consumption thousand cm	95.243	81.034	65.208	80,47

**Table 3-** The main economic and financial indicators between 2017-2019

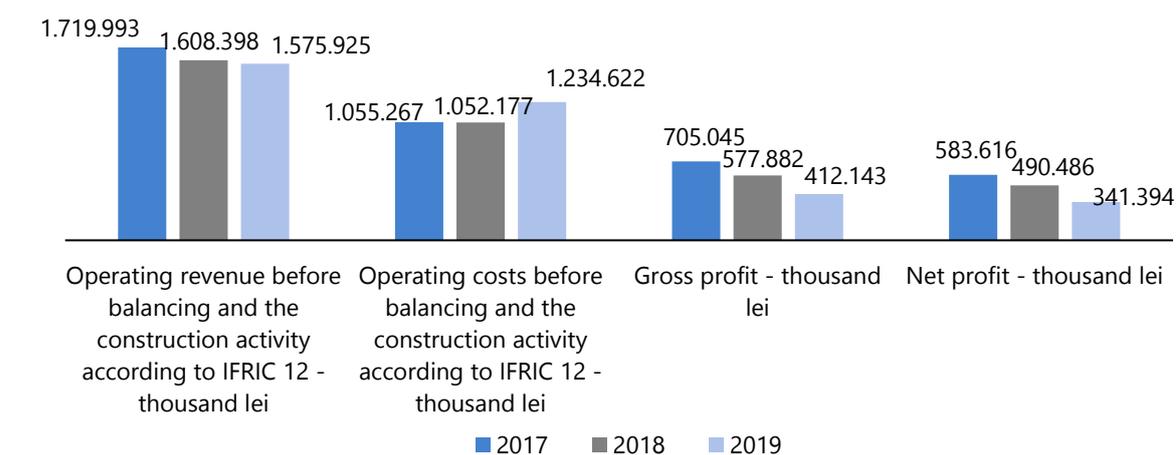


**Chart 3 -** Turnover 2017-2019 (thousand lei)

**Chart 4 -** Net profit 2017-2019 (thousand lei)



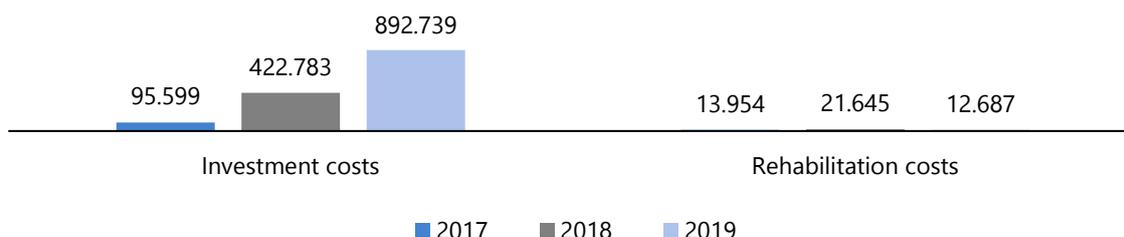
**Chart 5** Operating revenue, expense and operating profit before the balancing and construction activity according to IFRIC 12 between 2017-2019



**Chart 6** - Main economic and financial indicators between 2017-2019

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

On 31 December 2019 the Company's cash in bank accounts amounted to lei 352.780 thousand of which 71% was cash denominated in foreign currency, most of it in EUR.

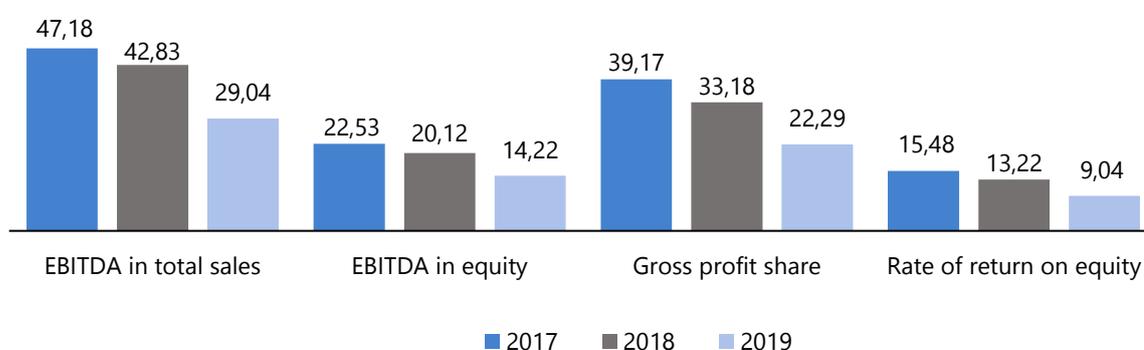


**Chart 7**-Investment and rehabilitation costs 2017-2019 (thousand lei)

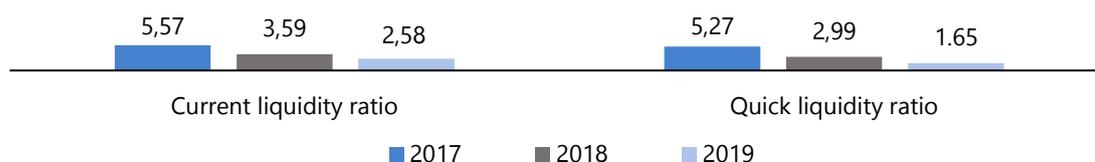
The values of the profitability, liquidity, risk and management indicators between 2017-2019:

No	Indicators	Calculation formula	2017	2018	2019
<b>1</b>	<b>Profitability indicators</b>				
	EBITDA in total sales	EBITDA Turnover	47,18%	42,83%	29,04%
	EBITDA in equity	EBITDA Equity	22,53%	20,12%	14,22%
	Gross profit share	Gross profit Turnover	39,17%	33,18%	22,29%
	Return on equity	Net profit Equity	15,48%	13,22%	9,04%
<b>2</b>	<b>Liquidity indicators</b>				
	Current liquidity indicator	Current assets Short term debts	5,57	3,60	2,58
	Quick liquidity indicator	Current assets - Stocks Short term debts	5,27	2,99	1,65
<b>3</b>	<b>Risk indicators</b>				
	Leverage indicator	Borrowed capital Equity	1,85%	6,29%	17,51%
	Interest coverage ration	EBIT Interest expense	X	220,69	78,88
<b>4</b>	<b>Management indicators</b>				
	Speed of debit - clients	Average accounts receivable x 365 days Turnover	142,85	141,49	137,17
	Speed of credit - suppliers	Average accounts payable x 365 days Turnover	19,43	35,55	40,80

**Table 4-** Profitability, liquidity, risk and management indicators 2017-2019



**Chart 8 -** Profitability indicators 2017-2019



**Chart 9 – Liquidity indications 2017-2019**

## 2.2 Key financial and non-financial performance indicators (KPIs)

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

No.	Indicator	Objective	2019		Achievement
			Budgeted	Achieved	
1	<b>Outstanding payments</b>	Maintaining outstanding payments to zero	0	0	100%
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 at the level undertaken in the Management Plan	1.070.891	1.038.921	103%
3	<b>Acid test ratio</b>	Acid test ratio to register annual values over 1.	0,91	1,65	181%
4	<b>Net debt-to-equity ratio</b>	Maintaining a net debt-to-equity ratio under the limits set for obtaining bank financing, namely: 3 –2017; 3- 2018; 5,5 –2019; 5,5 -2020; 4-2021	5,5	1,24	445%
5	<b>EBITDA</b> (thousand lei)	Achieving the EBITDA target undertaken in the Management Plan	329.594	537.004	163%

**Table 5 –Key financial performance indicators for the calculation of the variable component of remuneration in 2019 - achieved vs. budgeted**

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

No.	Indicator	Objective	No.	2019		Achievement degree	
				Planned	Achieved		
<b>Operational</b>							
6.	<b>Monitoring the Implementation and Investment Strategy</b>	<b>Achievement of the FID projects from the 10 years Development Plan</b> $I = (\text{achieved} + \text{initiated actions}) / \text{proposed actions}$					100%
		<b>Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).</b>	6.1	Construction Phase I	In progress –over 300 km of 479 km were welded for BRUA Phase I; <b>-CS Jupa - completed and commissioned on 30.09.2019;</b> <b>-CS Podișor - completed and commissioned on 31.10.2019,</b> -CS Bibești – under execution; commissioning is expected on 30 June 2020, <b>- Execution completion of Jupa – Recaș pipeline section (part of Lot 3)</b>		
		<i>Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea</i>	6.2	Procurement of design and execution works  Obtaining of comprehensive decision – phase 2	-Completed  -Completed		
		<i>Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;</i>	6.3	Isaccea I – start of construction Negru Vodă 1 – start of execution	- GMS Isaccea 1 execution in progress - FEED under preparation (updated deadline)		
7.	<b>Increasing energy efficiency</b>	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0.49	100%	
<b>Oriented towards public services</b>							
8.	<b>Performance indicators related to the gas transmission service</b>	<i>Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016)</i>	8.1	$IP_0^1 \geq 90\%$	92,44%	100%	
			8.2	$IP_1^1 \geq 95\%$	100%		
			8.3	$IP_1^2 \geq 95\%$	100%		
			8.4	$IP_1^3 \geq 95\%$	100%		
			8.5	$IP_1^4 \geq 95\%$	100%		
			8.6	$IP_1^5 \geq 95\%$	100%		
			8.7	$IP_2^1 \geq 95\%$	100%		
			8.8	$IP_2^2 \geq 95\%$	-		
			8.9	$IP_3^1 \geq 95\%$	100%		
			8.10	$IP_3^2 \geq 95\%$	-		
			8.11	$IP_3^3 \geq 95\%$	-		
			8.12	$IP_3^4 \geq 95\%$	-		
			8.13	$IP_4^1 \geq 95\%$	-		
			8.14	$IP_5^1 \geq 98\%$	100%		
			8.15	$IP_5^2 \geq 98\%$	100%		

			8.16	$IP_6^1 \geq 98\%$	100%	
			8.17	$IP_6^2 \geq 98\%$	100%	
			8.18	$IP_7^1 \geq 80\%$	96.77%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
<b>Corporate governance</b>						
<b>9.</b>	<b>Implementing the internal/managerial control system</b>	<p>Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p>I = implemented standards/standards provided by Order 600/2018*100</p>	9.1	94%	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Letter DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government on the Progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020.</li> <li>-Centralized progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019, no. 1387/13.01.2020.</li> <li>-Self-Assessment Questionnaire on the progress of the SCI/M standards implementation on 31.12.2019, no. 1383/13.01.2020.</li> <li>-Synthesis of self-assessment results on 31.12.2019, no. 1385/13.01.2020.</li> <li>-Updating of Decision no. 283/15.03.2019 on the establishing of Monitoring Committee;</li> <li>- Updating of Decision no. 282/15.03.2019 on the appointment of the SCI/M persons responsible;</li> <li>- Updating of the 2019 Transgaz SCI/M Development Plan no. 1330/10.01.2019;</li> <li>- Report on the SCI/M implementation on 31.12.2019, no. 8209/12.02.2020;</li> <li>- Report on 2019 Transgaz performance monitoring, no. DSMC/8211/12.02.2020.</li> </ul>	100%
<b>10.</b>	<b>Clients satisfaction</b>	<p>Achievement of the targets provided for in the administration 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)</p>	10.1	7,9	<p><b>Achieved</b></p> <p>SMC Letter no. 8521/13.02.2020 for year 2019</p>	100%
<b>11.</b>	<b>Setting the risk management policies and risk monitoring</b>	<p>Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial</p>	11.1	Updating of risk management specific documents	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Decision no. 284/15.03.2019 for the updating of the Risk Management Team;</li> <li>-2019 Tolerance Limit no. 3885/ 21.01.2019;</li> <li>-The risk profile of Transgaz, December 2018, no. 3885/21.01. 2019;</li> <li>- The risk profile of Transgaz, December 2019, no. 1512/13.01. 2020.</li> <li>-Analysis of the strategic risks included in the Register of the Risks at the company</li> </ul>	100%

		Control Code of public entities			level - year 2018 no. 2738/16.01.2019 and the reclassification of strategic risks; -Statement – Commitment of the Director - General regarding Risk management, updated in May 2019	
			11.2	Updating the Register of Risks Updating the Plan of measures to mitigate risks	<b>Achieved</b> - the Register of the Risks at the company level - year 2019, no. 2740/16.01.2019; -Plan of measures to mitigate risks, at the company level, year 2019, no. 2877/16.01.2019.	
			11.3	Report on risk management and monitoring	<b>Achieved</b> -Report on risk management and monitoring within the company, for 2019, no. 1518/ 13.01.2020; -Report on the progress of achievement of specific objectives and the Plan for the implementation of the measures set by the Risk management Strategy, no. DG 37873/27.06.2019; -The Report of the Audit and Rating Committee to the Board of Administration on the risk management and monitoring within SNTGN Transgaz SA for 2018, no. DG 37870/27.06.2019, BoA meeting of 04.07.2019.	
12.	Timely reporting of the key performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	12.1	Financial communication calendar to BSE	<b>Achieved</b>	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	<b>Achieved</b> Letter DSMC/16016/15.03.2019 Deadline: 15 March 2019 Letter DSMC/11471/26.02.2020 Deadline: 1 March 2020	
			12.3	SCIM reporting	<b>Achieved</b> Letter DSMC/4786/ 25/01.2019 – reporting for 2018. Letter no. DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government, on the Transgaz SCI/M progress of implementation and development on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. (reported annually)	
			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	<b>Achieved</b> Letter no. 69593/ 22.11.2019 - ANRE report for gas year 2018-2019 (reported annually)	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<b>Achieved</b> Letter DSMC 38243/28.06.2019 Report for Semester I 2019 Letter DSMC 393/07.01.2020 Report for Semester II 2019	

13.	<b>Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans</b>	Compliance with the measures undertaken by the approved Integrity Plan <i>I = measures achieved within the deadline /proposed measures *100</i>	13.1	Publication of the SCIM assessment results	<b>Achieved</b> Published report on the Internal/Management Control System on 31.12.2019, no. 1427/13.01.2020 at: <a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf</a>	100%
			13..	Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities	<b>Achieved</b> At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 3328/18.01.2019 the 17.01.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the Ministry of Economy (the coordinating ministry); At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 5573/31.01.2020, 31.12.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the General Secretariat of the Government;	
			13..	Annual publication of the performance indicators monitored within the company's Integrity Plan	<b>Achieved</b> (by the publication of the Annual Evaluation of the Integrity Plan on intranet): <a href="http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/">http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/</a>	

**Table 6** -Key performance indicators for the calculation of the variable component of remuneration in 2019

### 3. THE DEVELOPMENT STRATEGY

#### 3.1 Strategic projects

In consideration of the compliance with European Directive EC/73/2009 Art. 22 on the obligation to prepare the **Ten-Year Network Development Plans** (TYNDP) for all European Union gas transmission system operators and Article 125 (6) of Law 123/2012, SNTGN Transgaz SA Mediaș, as technical operator of the National Gas Transmission System of Romania prepared the **2019-2028 TYNDP**, which was approved by ANRE by Decision no. 2080/11.12.2019.

The document presents the development directions of the Romanian gas transmission network and the major projects that the company intends to implement in the next 10 years in order to achieve a maximum degree of transparency in the development of the national gas transmission system.

**The 2019– 2028 TYNDP** complies with the European energy policy on:

- ensuring safety of natural gas supply;

- increasing the interconnection of the national gas transmission network to the European network;
- increasing the flexibility of the national gas transmission network;
- liberalization of the gas market;
- integrating the gas market at the level of the European Union.

The projects included in the **2019– 2028 TYNDP** are:

1. Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor (BRUA) will be achieved in two phases:
  - 1.1 Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-**Phase 1**;
  - 1.2 Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-**Phase 2**;
2. Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas;
3. The interconnection of the national gas transmission system with the T1 international gas transmission pipeline;
4. NTS development in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova;
5. Extension of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3);
6. Project on new developments of the NTS for taking over Black Sea gas;
7. Interconnection between the Gas Transmission Systems of Romania and Serbia;
8. Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;
9. Interconnection of the gas transmission systems of Romania and Ukraine in the Gherăești – Siret direction;
10. Development/Upgrading of the gas transmission infrastructure in the North- Western part of Romania;
11. Increase in the gas transmission capacity of the interconnection Romania- Bulgaria, in the Giurgiu-Ruse direction;
12. Easting-Romania;
13. Monitoring system, data control and acquisition for the cathodic protection stations related to the National Gas Transmission System;
14. Development of the SCADA system for the National Gas Transmission System.

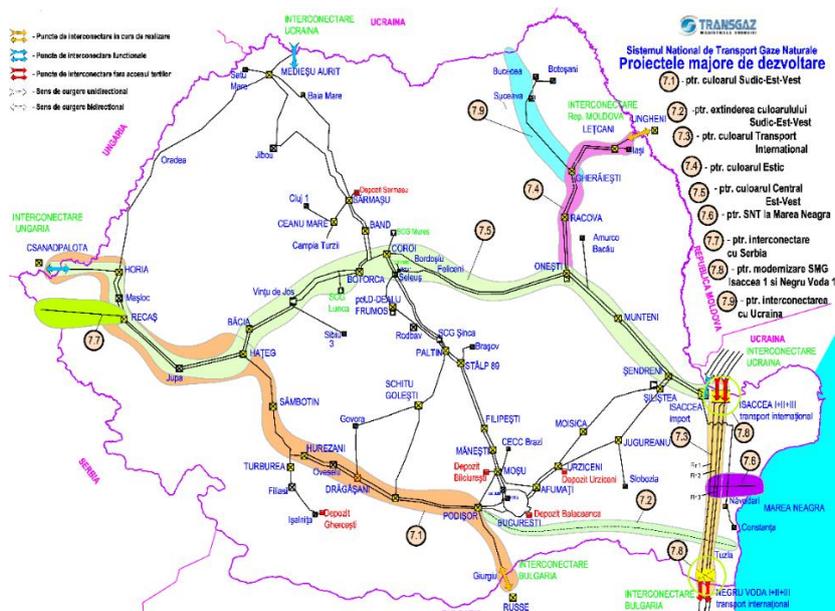


Figure 1-Map of the main NTS projects

## 1. Development on the Romanian territory of the National Gas Transmission System along the Bulgaria – Romania – Hungary – Austria corridor (BRUA)

Currently, at European level, the implementation of several major projects allowing for the diversification of Europe's gas supply sources by the transmission both of the Caspian gas and of the gas available from the LNG terminals to Central Europe is in progress:

- enhancement of the South Caucasus Pipeline;
- construction of the Trans-Anatolian Pipeline (TANAP);
- construction of the Trans Adriatic Pipeline (TAP);
- construction of the interconnection Greece - Bulgaria (IGB).

The implementation of these projects creates the possibility to transport Caspian gas to the Southern border of Romania.

Under such circumstances, the National Gas Transmission System needs to be adjusted to the new perspectives, by extending the transmission capacities between the existing interconnection points of the Romanian gas transmission system with the Bulgarian system (at Giurgiu) and the Hungarian system (at Nădlac).



**Figure 2** – The interconnection points of the Romanian gas transmission system with the similar Bulgarian and Hungarian systems

The NTS entry-exit points Giurgiu and Nădlac are linked through a system of pipelines with a long service life, with diameters of maximum 24" and design pressures of maximum 40 bar. The existing gas transmission capacities do not allow for the transmission of important gas volumes.

**The project `Development on the Romanian territory of the National Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Corridor`,** aims at the development of the gas transmission system capacities between the interconnections between the Romanian gas transmission system and the similar systems of Bulgaria and Hungary consisting in the construction of a new transmission pipeline to connect the Podișor Technological Node to the Horia GMS.

This project asserted itself as a necessity in the second half of 2013 based on the following:

- the deselection of the Nabucco project as the route preferred for the Caspian gas transmission to the Central European markets;
- ensuring adequate gas transmission capacities at the cross-border interconnection points between Romania and Bulgaria and between Romania and Hungary for increasing interconnectivity at the European level;
- ensuring gas transmission capacities so that Black Sea gas can reach the Central European markets.

The Project was included in the updated list of Projects of Common Interest published in November 2017 as an Annex to Regulation 347/2013.

Thus, the updated list of the Union’s List of Projects of Common Interest (List 3/2017) comprises the Project BRUA with both phases at sections 6.24.1-2 and 6.24.4-4 within **Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as "ROHUAT/BRUA") to enable**

**1.75 bcm/a in the 1<sup>st</sup> phase, 4.4 bcm/a in the 2<sup>nd</sup> phase, and including new resources from the Black Sea.**

The implementation phases of the BRUA Project, in accordance with the provisions of the Third PCI List /2017 are:

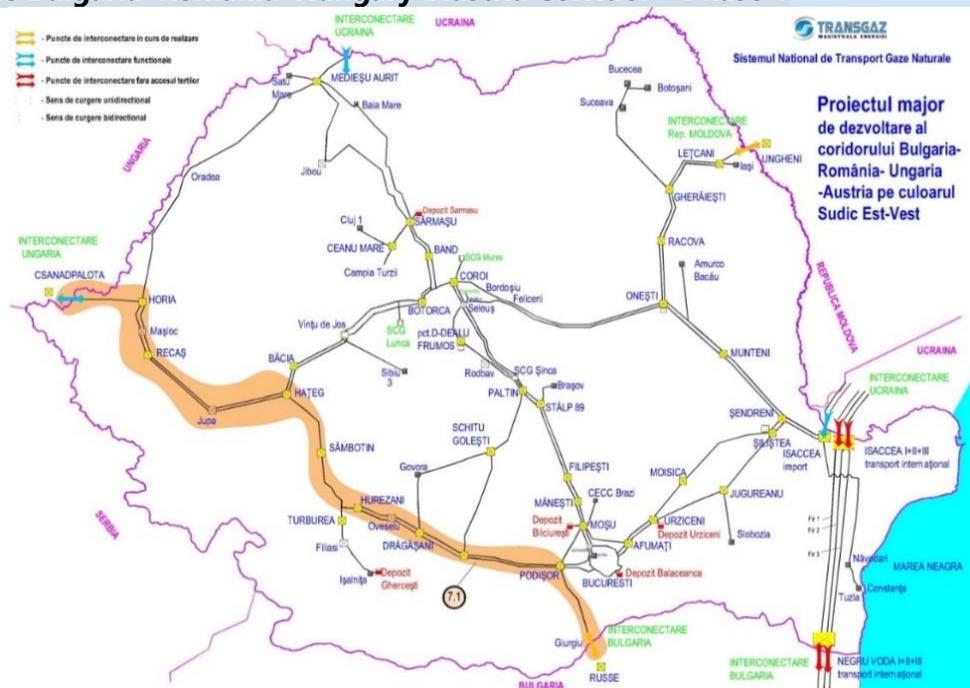
- Development of the transmission capacity in Romania from Podișor to Receaș, including a new pipeline, metering station and three new compressor stations in Podișor, Bibești and Jupa – **BRUA Phase I** – 6.24.1-2 in the ThirsPCI List /2017-BRUA Phase 1;
- Expansion of the transmission capacity in Romania from Recas to Horia towards Hungary up to 4.4 bcm/a and expansion of the compressor stations in Podisor, Bibesti and Jupa – **BRUA Phase II** – 6.24.4-4 in List 3 PCI/2017- BRUA Phase 2.

Furthermore, the BRUA Project with was included in the list of priorities of the CESEC (Central East Europe Gas Connectivity) working group as follows:

- **Phase I** of the BRUA Project was included in the list of priority projects;
- **Phase II** of the BRUA Project was included in the list of conditional priority projects.

The BRUA project both of its phases (Phase I and Phase II) is included in the 2018 European TYNDP identified with the code TRA-F-358 (Phase I), and TRA-N-1322 (Phase II).

**1. Development on the territory of Romania of the National Gas Transmission System along the Bulgaria–Romania–Hungary–Austria Corridor – Phase 1**



**Figure 3** -Map of the key development project of the Bulgaria-Romania-Hungary-Austria Corridor – Phase 1

## Project description:

**BRUA Phase I** consists in the achievement of the following objectives:

- pipeline Podișor-Recaș 32" x 63 bar approximately 479 km long:
  - **LOT 1** from km 0 (in the vicinity of Podisor, Giurgiu county) to km 180 (in the vicinity of Valeni village, Zatrene locality, Valcea county)
  - **LOT 2** from km 180 in the vicinity of Valeni village, Zatrene locality, Valcea county) to km 320 (in the vicinity of Pui, Hunedoara county)
  - **LOT 3** from km 320 (in the vicinity of Pui, Hunedoara county) to km 479 (in the vicinity of Recas, Timis county).
- three gas compressor stations (Podișor CS, Bibești CS and Jupa CS) each station being equipped with two compressor units (one in operation and one back-up), with the possibility to ensure bidirectional gas flow.

The implementation of BRUA Phase 1 results in the provision of permanent bidirectional gas flows possibilities between the interconnections with Bulgaria and Hungary, the following gas transmission capacities being ensured:

- gas transmission capacity to Hungary of 1.75 bcm/a and of 1.5 bcm/a to Bulgaria

## Indicative project development schedule

Development stages	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Environmental Impact Assessment	completed	completed
FEED	completed	completed
FID	Obtained in 2016	completed
Environmental Permit	obtained - December 2016	completed
Construction Permit	obtained – February 2017	completed
Exhaustive decision	obtained – March 2018	completed
Conclusion of contracts for the execution works	November 2017	completed
Issuing of the pipeline execution works commencement order	Issued on 4 June 2018	completed
Delivery of the pipeline site and Public consultation in the related territorial Administrative units	May–June 2018	completed
Conclusion of the contract for the compressor station execution works	March 2018	completed
Delivery to the constructor of the sites of the Compressor stations	11-13 April 2018	completed

Development stages	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
and Public consultations in the related TAUs		
Issue of the works commencement order for the execution of the three compressor station	Issued on 16 April 2018	completed
Conclusion of the contract for the execution works related to the pipeline automation and security	July 2018	completed
Pipeline construction –Phase I	2018-2020	2018–2020 (in progress)
- Section Jupa – Recaş (part of Lot 3)	2019	completed
- Lot 1, Lot 2 and Pui-Jupa section	2020	2020
Construction of the compressor stations –Phase I	2018-2020	2018– 2020 (in progress)
- TCS Jupa	2019	completed
- TCS Podişor	2019	completed
- TCS Bibeşti	2020	2020 (in progress)
Start of operation Phase 1	December 2020	October 2020

**Estimated completion deadline: 2020**

**Total investment value: Euro 478.6 million**

#### The inclusion of the project in international plans

- **PCI project** (first list of European Projects of Common Interests): **BRUA** 7.1.5;
- **PCI project** (second list of European Projects of Common Interests): **BRUA** Phase I: 6.24.2.
- **PCI project** (third list of European Projects of Common Interests): **BRUA** Phase I: 6.24.1–position 2;

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

#### Current project status

Considering the status of project of common interest even from the first PCI list, Transgaz received a grant through the Connecting Europe Facility (CEF) for the FEED related to the three compressor stations.

For the design of the three compressor stations a Financing Contract was signed with **Innovation and Networks Executive Agency (INEA)** for a grant in the amount of **1.519.342 EUR**, representing 50% of the total estimated FEED costs for the compressor stations.

In May 2016 the design contract for the three compressor stations (CS Podișor, CS Bibești and CS Jupa) FEED contract was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z.o.o.

In October 2015 Transgaz submitted a grant application to obtain financing for BRUA Phase I. The grant request was submitted on the Innovation and Networks Executive Agency (INEA) portal on 12.10.2015. On 19.01.2016 the CEF Committee validated the list of proposed projects for receiving financial support through CEF. BRUA–Phase I was proposed for receiving a grant of EURO 179.3 million. On 9 September 2016 the Grant Agreement was signed.

The Environmental Impact Assessment Procedure for the BRUA project was completed and in December 2016 the National Environmental Protection Agency issued the Environmental Agreement .

The order for the commencement of the works for pipeline LOT 1, LOT 2 and LOT 3 was issued on 4 June 2018. The mounting and construction works are ongoing.

**The pipeline automation and securing works** are performed along the entire route, from km 0 (in the vicinity of Podisor, Giurgiu county) to km 479 (in the vicinity of Recas, Timis county). The Contract was signed on 24 July 2018 and the works commencement order was issued on 30 August 2018.

The works commencement order for the **CS Podisor, CS Jupa and CS Bibesti construction works** was issued on 16 April 2018. The **CS Podisor** and **CS Jupa** construction and mounting works were completed. The CS Bibesti works are performed according the schedule.

### **The strategy for the procurement of the long-lead items and of the construction works**

Having carefully analysed the options available, Transgaz' management established the following procurement strategy:

- The long-lead items (compressor groups, pipes, bends, electrically insulated joints and valves) will be procured by Transgaz and made available to the constructors;
- Considering the length of the projects, the linear pipeline was split into 3 lots;
- The 3 compressor stations will be constructed by the same contractor;
- The pipeline automation and security works will be performed under a distinct contract.

### **Progress of the procurement procedures**

In December 2016, Transgaz launched the sectoral tenders for the procurement of the following material and equipment related to BRUA phase I by the Electronic System for Public Procurements (SEAP):

- pipe material and curves;
- compressor units;
- valves;
- electro insulating joints.

In 2017 and 2018 the activities related to the preparation of the execution works for the implementation of the BRUA project –Phase I continued:

The status of the public procurement:

- the contract for the procurement of electro insulating joints was signed on **04.08.2017** and it is executed, all the materials being received;
- the contract for the procurement of the compressor units was signed on **24.08.2017** and it is ongoing;
- the contracts for the procurement of the Lot 1, 2, and 3 pipeline execution works were signed on **28.11.2017** and are in progress;
- the contract for the procurement of the valves was signed on **28.02. 2018** and it is executed, all the materials being received;
- the contracts for the procurement of the execution works related to the compressor stations was signed **23.03.2018** and it is in progress;
- the contract for the procurement of the pipe material and of the curves was signed on **23.04.2018** and it is in progress;
- The frame-agreements for *Biodiversity monitoring services for gas transmission pipeline and related facilities projects* was signed on **11.07.2018**. The awarding procedure related to the subsequent contracts for the BRUA project was completed and the contracts were signed on **23-24.08.2018**;
- the contract for the execution works related to the pipeline automation and security was signed on **24.07.2018** and it is in progress.

### Progress of the works for the construction of the pipeline

#### *Works for the construction of the compressor stations*

The works commencement order was issued on **16 April 2018**.

The works related to the compressor stations are executed by the **Association INSPET SA (LEADER) – PETROCONST SA – MOLDOCOR SA – HABAU PPS PIPELINE SYSTEMS SRL – IRIGC IMPEX SRL – SUTECH SRL – TIAB SA – ROCONSULT TECH SRL**, based on the works contract number **333/23.03.2018**.

The awarded amount of the contract is **355.402.142,30 lei (VAT excluded)**, split as follows:

- 118.305.339,77 lei for the construction works related to TCS Podișor;
- 120.216.784,49 lei for the construction works related to STC Bibești;
- 115.548.607,35 lei for the construction works related to STC Jupa;
- 1.331.410,64 lei for the maintenance services related to the 3 compressor stations.

### The progress of the works for the construction of the three compressor stations

#### **PODIȘOR COMPRESSOR STATION (CS PODIȘOR)**

CS Podișor was inaugurated on 31 October 2019.

## **BIBESTI COMPRESSOR STATION (CS BIBESTI)**

The works for the construction of CS Bibesti were influenced by the need to perform intrusive archaeological inspection works beforehand.

To this effect, the works to CS Bibesti started on 06 July 2018 in phases subject to the completion of the intrusive archaeological inspection of lands related to the compressor station, .

In 2019 the civil construction and mechanical works continued and works were started in the electric and automation domain.

## **JUPA COMPRESSOR STATION (CS JUPA)**

CS JUPA was inaugurated on 30 September 2019.

### **Works for the construction of the pipeline**

**Until 31 December 2019 all of the Ø813 pipeline requested by the specification was manufactured.**

The logistics services are provided by ARKAS Lojistik A.S., under a service contract signed with TOSCELIK. **The total quantity discharged until the end of December 2019 is of approximately 471.050 m and is the entire quantity requested by the specification.**

From Constanța Bay the pipe material is either transported directly by truck in the pipe warehouses, either transported by lighter at Orșova and then by truck to warehouses.

### **Progress of the works for the construction of the pipeline**

#### **CONSTRUCTION WORKS PIPELINE LOT 1(KM 0 – KM 180)**

Construction works for the pipeline LOT 1 are executed from KM 0 (in the area of Podișor, the county of Giurgiu) at KM 180 (in the area of Văleni, Zătreni commune, the county of Vâlcea).

The construction of the pipeline related to LOT 1 is achieved by the **Association INSPET SA (leader) – PETROCONST SA – ARGENTA SA – IRIGC IMPEX SRL – COMESAD RO SA**, based on the works contract no **601/28.11.2017**.

The awarded value of the contract is of **144.491.287,48** lei (VAT excluded).

The LOT 1 works were launched in the second half of September 2018.

The progress of the execution works for **LOT 1** at the end of Q IV 2019 is as follows:

MAIN ACTIVITIES	UM	TOTAL LOT 1
Pipeline laying on the route	m	<b>164.104</b>
Removal of the vegetal layer	m	<b>163.126</b>
Excavation of trench	m	<b>135.757</b>
Executed welds	Piece	<b>13.141</b>
Pipeline laying in the trench	m	<b>134.776</b>
Trench landfill	m	<b>129.901</b>

The pipeline amounting works and the pressure tests were completed as follows:

- Section 1- Section 17 (from Podișor to Corbu/SR6 with total length of approx. 82 km)
- Section 21 (km 100 -105), contractor INSPET Ploiești
- Section 22 (km 105 -110), contractor INSPET Ploiești
- Section 23 (km 110 -115), contractor INSPET Ploiești
- Section 24 (km 115 – 120), contractor INSPET Ploiești (for approx. 4,6 km)

#### **CONSTRUCTION WORKS PIPELINE LOT 2 (KM 180 – KM 320)**

Construction works for the pipeline LOT 2 are executed from KM 180 (in the area of the locality Văleni, Zătreni commune, the county of Vâlcea) at KM 320 (in the area of the locality Pui, the county of Hunedoara).

The construction of the pipeline related to LOT 2 is achieved by the **Association HABAU PPS PIPELINE SYSTEMS SRL(LEADER) – INSPET SA – IPM PARTNERS ROMÂNIA SA – PETROCONST SA – MOLDOCOR SA – ARGENTA SA – ANTREPRIZĂ MONTAJ INSTALAȚII SA – ROMINSTA SA – COMESAD RO SA**, based on the works contract number **602/28.11.2017**.

The awarded value of the contract is of **187.745.693,93** lei (VAT excluded).

The LOT 2 works were launched in the second half of September 2018.

The progress of the execution works for **LOT 2** at the end of Q IV 2019 is as follows:

MAIN ACTIVITIES	UM	TOTAL LOT 2
Pipeline laying on the route	m	<b>67.620</b>
Removal of the vegetal layer	m	<b>62.119</b>
Excavation of trench	m	<b>31.056</b>
Executed welds	piece	<b>4.601</b>
Pipeline laying in the trench	m	<b>26.019</b>
Trench landfill	m	<b>19.800</b>

### CONSTRUCTION WORKS PIPELINE LOT 3 (KM 320 – KM 479)

Construction works for the pipeline LOT 3 are executed from KM 320 (in the area of the locality Pui, the county of Hunedoara) at KM 479 (in the area of the locality Recaş, the county of Timiş).

The construction of the pipeline related to LOT 3 is achieved by the **Association HABAU PPS PIPELINE SYSTEMS SRL (LEADER) – IPM PARTNERS ROMÂNIA SA - MOLDOCOR SA - ANTREPRIZĂ MONTAJ INSTALAȚII SA - ROMINSTA SA**, based on the works contract number **603/28.11.2017**.

The awarded value of the contract is **176.586.719,79** lei (VAT excluded).

The LOT 3 works were launched in the second half of August 2018

The progress of the execution works for **LOT 3** at the end of Q IV 2019 is as follows:

MAIN ACTIVITIES	UM	TOTAL LOT 3
Pipeline laying on the route	m	<b>137.209</b>
Removal of the vegetal layer	ml	<b>122.571</b>
Excavation of trench	ml	<b>98.577</b>
Executed welds	piece	<b>11.153</b>
Pipeline laying in the trench	ml	<b>98.040</b>
Trench landfill	ml	<b>90.192</b>

The execution works and the pressure tests were completed on the Jupa – Recaş pipeline section of approximately 70 km ( T100 – T86).

### LOT 4 PIPELINE AUTOMATION AND SECURITY

The pipeline automation and security works on the entire section, from KM 0 (in the area of the locality Podișor, the county of Giurgiu) at KM 479 (in the area of the locality Recaş, the county of Timiş).

The conclusion of the contract on the execution of the pipeline automation and security works took place of 24 July 2018. The works are executed by the **Association SOCIETATEA S&T ROMÂNIA SRL – ADREM ENGINEERING SRL**, based on the works contract number **585/24.07.2018**.

The value of the contract is 42.381.616,86 lei (VAT excluded).

The works commencement order was issued on **30 August 2018**.

Until now all of the 1767 deliverables related to the execution details (DDE) were issued and all of the main equipment necessary for the implementation of the project was procured.

The specific works at CS Podisor and CS Jupa were completed (optical fibre infrastructure, specific equipment mounted and installed).

Specific works are in execution at 11 valve stations.

**Steps taken in order to obtain the necessary funds for the implementation of the BRUA project – Phase I from the European Reconstruction and Development Bank (EBRD) and the European Investment Bank (EIB)**

Considering the status of project of common interest, Transgaz obtained EUR 1.54 million funding under Connecting Europe Facility for the FEED of the three compressor stations.

In October 2015, Transgaz submitted an application during the session for submitting applications for funding to obtain a grant for the execution works related to Phase I of the BRUA Project.

On 19 January 2016, the Meeting of the CEF-Energy Coordination Committee (responsible for managing the procedures for granting European financial assistance to Projects of Common Interest for energy) took place in Brussels and the list of projects of common interest proposed for receiving European funding under the 2015 Connecting Europe Facility was validated.

In September 2016 SNTGN Transgaz SA signed with INEA (Innovation and Networks Executive Agency) the **Financing Contract** having a value of approximately **EUR 179.3 million**.

In 2016, Transgaz worked closely with EBRD specialists to carry out the technical, economic and environmental due diligence process related to Transgaz and to the project. The environmental and social documentation prepared according to EBRD's performance standards was published on 12.07.2017 for public consultation for a period of 120 days according to the EBRD's policy on EBRD's and Transgaz web pages. On 13 December 2017 EBRD's Board approved the funding for BRUA project.

On 23 February 2018, Transgaz and EBRD signed a loan agreement under which the EBRD will provide the company with a loan amounting to up to 278 million lei, equivalent to EUR 60 million, with the following essential characteristics: duration-15 years, grace period 3 years. No disbursements were made.

On 27 October 2017 a Loan contract was concluded with the European Investment Bank for the amount of EUR 50 million with a 15 years maturity, 3 years grace period with a fixed interest negotiated for each disbursement. 3 disbursements were made summing up the entire contract amount.

A Loan Agreement was concluded with the European Investment Bank on 14 December 2017, for the amount of EUR 50 million with a maturity of 15 years, 3-year grace period with the fixed or variable interest to be negotiated at the date of the disbursement. There were 2 disbursements totalling the entire contract amount.

A loan contract for the amount of lei 186 million, i.e. EUR 40 million equivalent, was signed with Banca Comercială Română on 24 April 2019, with disbursement and reimbursement in lei, maturity of 15 years, the main loan's grace period for repayment being 3 years. There were two disbursements totalling the entire contract amount.

## Aspects connected to archaeology

In August 2017, following the tender procedure 4 framework contracts were concluded for specific archaeological services necessary for the implementation of the BRUA project Phase 1 and the following Subsequent Contracts were signed:

- Archaeological surveillance of the above ground facilities;
- Intrusive archaeological diagnosis;
- Preventive archaeological research of the sites identified within the preparation of the FEED.

Decision of Screening Stage 167/09.12.2019 issued by the National Environmental Protection Agency.

## NORMATIVE ACTS NECESSARY FOR THE IMPLEMENTATION OF THE PROJECT

Along the route of the BRUA Phase I project, the gas transmission pipeline crosses the following types of land in the 10 counties: arable, clean pastures, tree pastures, hedges and bushes, wooded pastures, cultivated grasslands, vineyards, hybrid vineyards, noble vineyards, classical orchards, fruit nurseries, intensive orchard, orchard fruit bushes, clean meadows, grassy meadow and bushes, tree meadows, wooded meadows, garden, vegetable gardens, other lands.

In order to acquire the right to use agricultural and forest land for the execution of the works, it is necessary to issue two government decisions as follows:

### **- Obtaining a government resolution for the temporary removal of the agricultural circuit of the agricultural land located outside of the built-up areas**

The Government of Romania issued Government Resolution 110/15.03.2018 for the approval of the list of agricultural land located outside of the built-up areas, for the project of common interest in the gas domain `Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor – the Podișor – Horia GMS pipeline and three new compressor stations (Jupa, Bibești and Podișor) (Phase 1).

### **Obtaining a government resolution for the temporary occupation of the forest lands**

The Government of Romania issued Government Resolution **727/13.09.2018** on the approval of the temporary occupation of 42,1315 ha national forest area land by TRANSGAZ SA Mediaș, for the project of national importance in the gas domain `Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor`.

## The construction permit and the comprehensive decision

In February 2017 the Ministry of Energy issued Construction Permit No. 1/24.02.2017 authorizing the execution of the construction works related to the `Development on the Romanian territory of the National Gas Transmission System along Bulgaria - Romania - Hungary - Austria Corridor (BRUA) (including the power supply, cathodic protection and optical fibre) Phase I: Podișor –Recaș gas transmission pipeline, 479 km long, Podișor, Bibești, Jupa gas compressor stations, Site arrangements and pipe storage facilities.

Considering the status of project of common interest and the applicability of EU Regulation 347/2013 of the European Parliament and of the Council on trans-European energy infrastructures (EU Regulation No. 347/2013), the implementation of the BRUA project implies the obtaining of the Comprehensive Decision.

According to EU Regulation No. 347/2013, the Comprehensive Decision is the decision or the sum of the decisions taken by an authority or authorities of the Member States, except for the courts, which determines whether or not a project initiator is authorized to carry out a project.

Romania chose the `collaborative system` of issuing the comprehensive decision. Under this system, the Ministry of Energy, acting as the Competent National Authority responsible for facilitating and coordinating the authorization procedure for projects of common interest (ACPIC) for the implementation of Regulation (EU) No.347/2013, coordinates the issuance of the comprehensive decision and the process of issuing individual decisions.

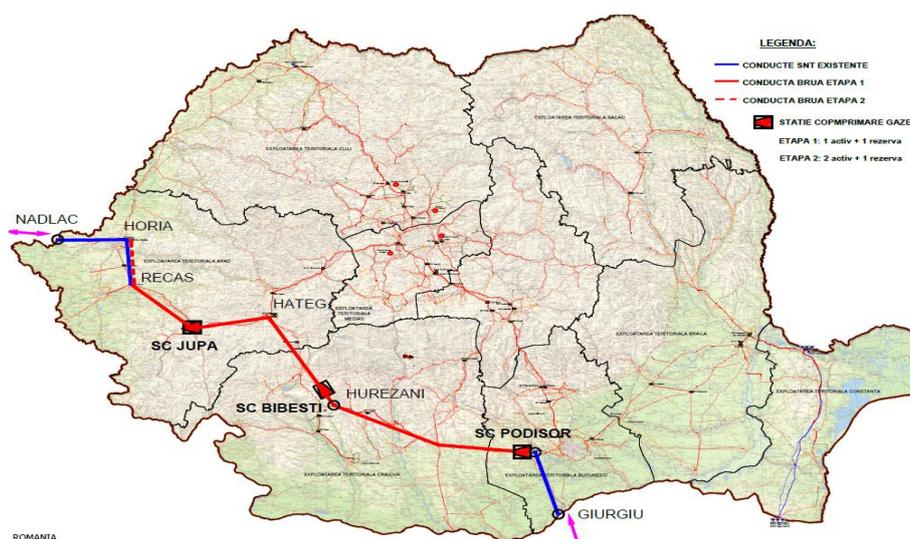
By issuing the Comprehensive Decision, the entire authorization process necessary to execute a project of common interest, according to the provisions of Regulation (EU) 347/2013 and the national legislation is applied.

Transgaz took the following steps for obtaining the Comprehensive Decision:

- On 19 December 2016 Transgaz S.A. sent the application file for BRUA Phase I to A.C.P.I.C for the issuing of the Comprehensive Decision (according to EU Regulation 347/2013).
- On 18 October 2017 Transgaz S.A. sent to APCIC the Project Final Report for the permitting process and the public consultation concept for BRUA Phase I.

Following the actions taken, on 21.03.2018 the Comprehensive Decision was issued.

## 1.2 Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor – Phase II



**Figure 4–** Map of the main development project related to the Corridor Bulgaria-Hungary-Austria – Phase 2

### Project description:

**BRUA Phase II** Project consists in the construction of the following facilities:

- 32" x 63 bar Recaș–Horia gas transmission pipeline, approximately 50 km long;
- Expansion of the three compressor stations (Podișor CS, Bibești CS and Jupa CS) each compressor station being equipped with an additional compressor;
- Extension of the Horia GMS gas metering station.

The BRUA– Phase 2 project generates the possibility to enable permanent bidirectional gas flow between the interconnections with Bulgaria and with Hungary ensuring at the same time the following gas transmission capacities:

- Gas transmission towards Hungary of 4.4 bcm/year, respectively of 1.5 bcm/year towards Bulgaria.

### Indicative project implementation timeline:

Development stages	Progress/ Estimated completion deadline acc. to 2019-2027 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Environmental Permit	completed	completed
FEED and technical documentation for obtaining the construction permit	completed	completed
FID Phase 2	2019*	2020*
Construction Phase 2	2022*	anul 2022*
Commissioning Phase 2	2022*	anul 2022*
Operation start-up Phase 2	2022*	anul 2022*

\*The completion of Phase 2 depends on procedure for capacity booking at Csanadpalota IP and on the timeline of this procedure.

### Estimated completion deadline: 2022

### Estimated value: Euro 68.8 million

### The inclusion of the project in international plans

- **PCI project** (first list of European Projects of Common Interests): 7.1.5;
- **PCI project** (second list of European Projects of Common Interests):  
Phase II: 6.24.7.
- **PCI project** (third list of European Projects of Common Interests):  
Phase II: 6.24.4–position 4;
- **ENTSOG TYNDP 2018**: TRA-N-358

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### **Project progress:**

Since 2016 SNTGN Transgaz S.A., FGSZ – Hungary and Gas Connect – Austria and the regulatory authorities of Romania, Hungary and Austria prepared the documentation necessary for the Binding Open Season for the booking of capacity at the interconnection points between Romania and Hungary and Hungary and Austria, with the support and active participation of the European Commission.

In the autumn of 2017, FGSZ Hungary announced that the Binding Open Season procedure will be limited to the Romania – Hungary Interconnection Point, since there were available capacities at the interconnection pipelines of Hungary with the neighbouring countries, without any additional investments for the achievement of the Hungary – Austria interconnection being necessary.

Accordingly, SNTGN Transgaz S.A. together with FGSZ had developed at the end of the year 2017 the Binding Open Season Procedure for Romania - Hungary Interconnection Point. The offered capacity was over-subscribed, demonstrating thus the interest of the market and ensuring the commercial durability of BRUA project, Phase 2, the economic tests being passed successfully.

The network users who had booked capacity within the Open Season Procedure had exerted their step back right from the capacity booked up to the date of 14<sup>th</sup> December 2018; accordingly, the procedure will continue with the third period of submitting the capacity booking offers, in accordance with the provisions of the Binding Open Season Procedure Rulebook RO-HU.

Although SNTGN Transgaz S.A. wanted to finalize Phase II at the end of 2020 (as it was previously approved in the Company's 10 years Development Plan), FGSZ can finalize the corresponding project on the Hungarian territory only in the course of 2022, reason for which its commissioning is estimated in October 2022.

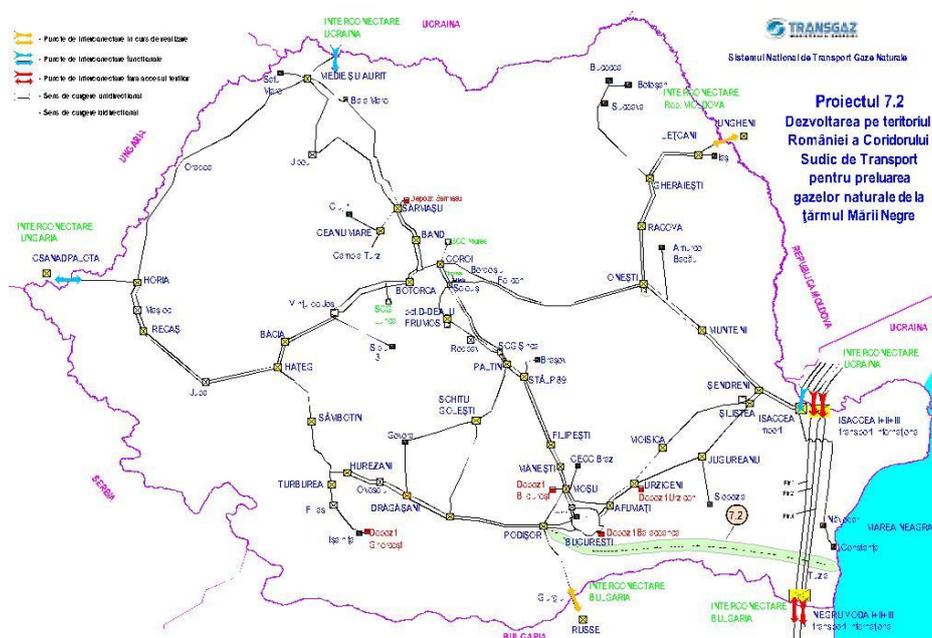
The technical documentation for obtaining the construction permit is completed, and the reendorsement by the TEC of the updated FEED is in progress.

## **2. Development on the territory of Romania of the Southern Corridor for taking over Black Sea gas (Tuzla–Podișor pipeline)**

As Europe becomes more dependent on natural gas imports, the development on the Romanian territory of a gas transmission infrastructure from the Black Sea to the Romania/Hungary border is one of TRANSGAZ's major priorities for enabling access to Black Sea gas.

## Project description:

The project consists in the construction of a 308.3 km Tuzla-Podișor telescopic gas transmission pipeline to connect the gas resources available at the Black Sea shore and the BRUA corridor, enabling gas transmission to Bulgaria and Hungary through the existing interconnections, Giurgiu – Ruse (with Bulgaria) and Nădlac – Szeged (with Hungary).



**Figure 5-Southern Corridor Black Sea – Podișor**

This pipeline will also be interconnected with the current international gas transmission pipeline - T1.

The pipeline is telescopic and consists of two sections, as follows:

- Section I, Black Sea shore – Amzacea, 32.4 km long, will have a diameter of Ø 48" (Dn1200) and the technical capacity of 12 bcm/y;
- Section II, Amzacea – Podișor, 275.7 km long, will have a diameter of Ø 40" (Dn1000) and the technical capacity of 6 bcm/y;

## Indicative project implementation schedule

Development stages	Progress/ Estimated completion deadline acc. to 2018-2027 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
FEED	completed	completed
Environmental assessment study	completed	completed
Environmental Permit	completed	completed
Technical documentation for obtaining the construction permit	completed	completed

Construction permit	completed	completed
Comprehensive decision	obtained –2019	completed
Final Investment Decision	2019	2020
Construction	2019 – 2021*	2020-2022*
Commissioning/start-up	2021*	2022*

\* Subject to the final investment decision being taken

**Estimated completion deadline: 2022**

**Estimated value: Euro 360.4 million**

updated at the date of the report at 371,6 million Euro

### The inclusion of the project in international plans

- **PCI project (second list):** 6.24.8;
- **PCI Project (third list):** 6.24.4 6.24.4 - 5
- **ENTSOG TYNDP 2018:** TRA-N-362

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### The project status

- The **Feasibility study** was endorsed in the Technical-Economic Committee (CTE) of 26.01.2016;
- The archaeological investigations carried out in 2017 led to the modification of the pipeline route. Following these changes, the **Feasibility Study** was updated and reviewed by Transgaz's CTE on 11.05.2017;
- The **FEED** was endorsed by Transgaz's CTE. The documentation for the procurement of the execution works is being prepared; in 2019 the FEED estimated value was updated and endorsed;
- The activity related to the **identification of the land owners** affected by the execution works is ongoing:
  - The county of Constanța: 9 territorial administrative units - 100%;
  - The county of Călărași: 19 territorial administrative units - 99% (on the territory of the Territorial Administrative Unit Borcea there are no clear data on the situation of the land plots plans);
  - The county of Giurgiu: 14 territorial administrative units - 99% (on the territory of the Greaca Territorial Administrative Unit there are no clear data on the situation of the land plots plans).
- Environmental Agreement no 1 of 10.05.2018 was obtained;

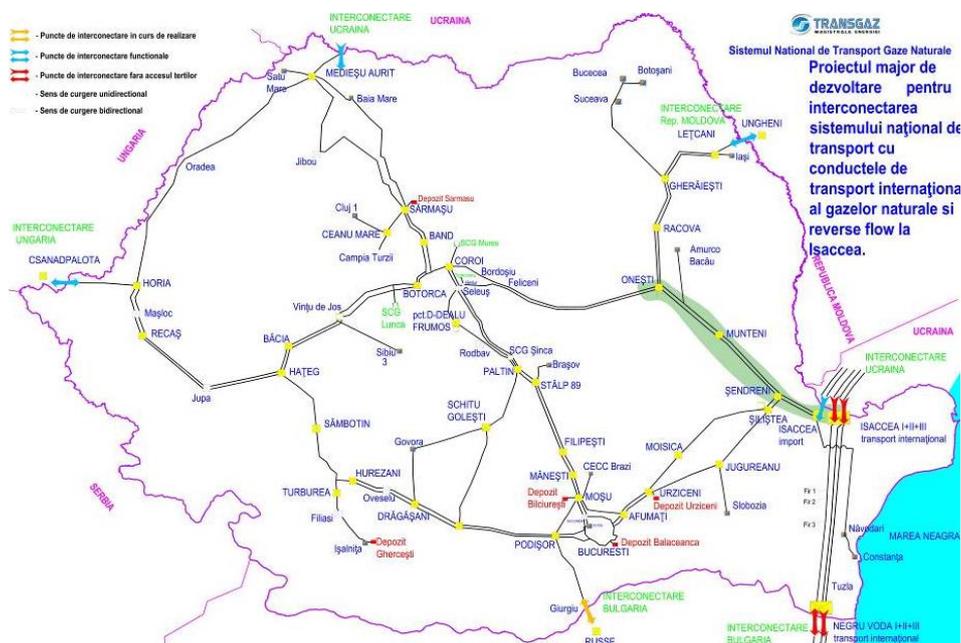
- Construction Permit no 5 of 17.05.2018 was obtained, according to Law 185/2016;
- Comprehensive Decision 4/25.04.2019 was obtained according to Law 185/2016;
- The procurement procedure for the execution works was initiated. On 31.10.2019 the bids were submitted and are now under analysis (DUAE and technical);
- The **Notification in view of the initiation of the pre-submission procedure** was submitted to the Competent Authority for Projects of Common Interest (ACPIC) on 24.02.2017 and its approval was received on 23.03.2017;
- The **Stakeholder Engagement Plan** for the Project of Common Interest *Black Sea Shore - Podisor (RO) for taking over Black Sea gas* was submitted to the ACPIC on 24.05.2017 and approved by the Ministry of Energy through the Letter no.110800/27.06 .2017;
- Between 17-27.07.2017, public consultations were held on the basis of Regulation (EU) 347/2013 in the following locations: Tuzla, Amzacea, Cobadin, Alexandru Odobescu, Borcea, Frăsinet, Izvoarele, Baneasa and Stoenesti;
- The application file was submitted on 08.06.2018 in order to obtain the Comprehensive Decision. The application file was accepted by ACPIC on 12.07.2018;
- The Comprehensive Decision no 4 of 25.04.2019 was taken ;
- In 2018, the incremental **capacity booking process was carried out for MP Tuzla** and such process was completed by the capacity allocation and by the conclusion of gas transmission contracts; following the unilateral termination of the gas transmission contracts by the titleholders, the process was declared to be unsuccessfully completed.
- a new process started following the receipt of a new request for incremental capacity for the entry / exit point in /out of the NTS, which was planned to be created in the area of Tuzla locality; no additional requests were received in the secondary allocation phase, the minimum threshold was not reached, so the incremental capacity booking process ended without capacity allocation.
- GR 9/2019 approved the list of agricultural land outside the built-up area which are the object of the project, according to Law 185/2016.

### 3. Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea

This project is very important because:

- By its implementation a transmission corridor is created between the markets of Greece, Bulgaria, Romania and Ukraine, in the conditions in which the new interconnection between Greece and Bulgaria is achieved;
- The transmission contract for the capacity of Transit 1 pipeline expired on 1 October 2016. Starting with gas year 2016-2017, the transmission capacity of Transit 1 pipeline is auctioned according to the European Code on capacity allocation mechanisms at the cross-border interconnection points and to ANRE Order no. 34/2016;
- Physical reverse flows could be ensured at Negru Voda 1 point in accordance with Regulation (EU) 1938/2017;

- Its implementation enables the taking over of the newly discovered Black Sea gas by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.



**Figure 6** Map of the major development project for NTS interconnection with the international transmission pipeline Transit 1

### The project description:

The project consists of the following:

**Phase 1** – category of energy infrastructure *Gas and biogas transmission pipelines which are part of a network mainly comprising mainly high-pressure pipelines, with the exception of high-pressure pipelines used for upstream or downstream gas distribution, with the following investment objectives:*

- Isaccea Interconnection, location: Isaccea territorial administrative unit;
- Rehabilitation of the DN 800 Onești – Cosmești pipeline.

**Phase 2** – category of energy infrastructure *Any equipment or installations essential to the secure, efficient and safe operation of the system or to provide bidirectional capacity, including compressor stations, with the following investment objectives:*

- Upgrading the Siliștea Gas Compressor Station and the Siliștea Technological Node (TN), located within the Siliștea territorial administrative unit, Brăila County;
- Works within the Șendreni Technological Node, located within the Vădeni territorial administrative unit, Brăila County;
- Upgrading the Onești Gas Compressor Station and the Onești Technological Node, located within the Onești territorial administrative unit, Bacău County.

The project does not develop additional capacities at the Negru Vodă NTS entry/exit point.

### Indicative project implementation schedule:

Development stages	Progress/ Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
<b>Phase I</b>	<b>2018</b>	<b>2018</b>
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Environmental Impact Assessment	completed	completed
Technical documentation for permitting	completed	completed
Construction permits	completed	completed
Comprehensive decision	2018	obtained
Construction	2018	completed
Commissioning/start up	2018	completed
<b>Phase II</b>	<b>2020</b>	<b>2020</b>
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Technical specifications for the design and execution	completed	completed
Procurement of the design and execution works	2019	completed
Comprehensive decision	2019	completed
Completion of basic design and execution details/Construction permits	2020	2020 (in preparation)
Construction	2020	2020
Commissioning/start up	2020	2020

### Estimated completion date: Phase 1 2018 and Phase 2 2020

Estimated investment value	Acc. to 2018-2027 TYNDP	Updated at the date of the Report
Phase 1	Euro 8,8 mil.	Euro 8,8 million
Phase 2	Euro 68,9 mil.	Euro 68,9 million
<b>TOTAL</b>	<b>Euro 77,7 mil</b>	<b>Euro 77,7 million</b>

### The inclusion of the project in international plans

- **PCI Project (second list):** 6.15;
- **PCI Project (third list):** 6.24.10 – 1;
- **ENTSOG TYNDP 2018:** TRA-N-139
- **Priority Corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

## Project progress:

- The **Prefeasibility Study** (endorsed on 12.06.2017), the **Feasibility Study** (03.11.2017) and the **FEED** for the Isaccea Interconnection Phase 1 were completed;
- **The documents for the endorsement of the intervention works** (DALI) and the **FEED** for the repair of the DN 800 Onești–Cosmești pipeline–Phase 1 were completed;
- For Phase 1 of the project Government Resolution 638/23.08.2018 for the approval of the agricultural land located outside the built-up area was issued and the permitting process according to the town planning certificate was completed;
- For Phase 1 Construction Permit 6/07.06.2018 was issued;
- **2 regulating documents in environmental area** were obtained for Phase 1 of the project, namely:
  - Isaccea interconnection– Decision of Screening Stage no. 144/06.03.2018 issued by APM Tulcea;
  - Repair of the pipeline DN 800 Onești–Cosmești (3 counties) – Decision of Screening Stage no. 27/16.05.2018 issued by ANPM.
- The **Tender book for the design and execution works** Phase 2 for the procurement of the design and execution works was finalized in August 2018. It was revised with an updating of the value in 2019;
- The owners of the lands from Șendreni Technological Node, Siliștea Gas Compressor Station, Isaccea Interconnection, Onești Gas Compressor Station were identified;
- The owners of the land affected by the repair of the DN 800 Onești–Cosmești pipeline were identified;
- for Phase 2, **the FEED** for the works at the existing Șendreni Technological Node was endorsed in Trangaz's Technical Economic Committee;
- for the Phase 2, **the endorsements and agreements** requested by CU were obtained, as well as the following **environmental regulating documents**, respectively:
  - Șendreni technological Node works – Screening decision 2907/09.03.2018 issued by Environmental Protection Agency Brăila was obtained;
  - Upgrading of the Siliștea Compressor Station and of the Siliștea Technological Node (existing) – Screening decision 5031/01.04.2019 issued by Environmental Protection Agency Brăila was obtained;
  - Upgrading of the Onești Compressor Station and of the Onești Technological Node (existing) - Screening decision 20/28.01.2019 issued by Environmental Protection Agency Bacău was obtained.
- Construction Permit 7/04.07.2019 for Phase 2 was obtained;
- for the Phase II, **Government Decision** no. 230/18.04.2019 for the approval of the temporary removal of the agricultural lands outside the build-up areas was issued;
- Regarding Phase 2 at the CS Silistea and CS Onesti objectives, the design and execution contract for the upgrading of CS Onești and CS Siliștea was signed in August 2019, the design and execution activities being launched;

- The **Notification for the initiation of the procedure prior to the submission of the application** was submitted to the Competent Authority for the Projects of Common Interest (ACPIC) on 20.12.2017; it was approved by APIC on 17.01.2018;
- **The Stakeholder Engagement Concept** was submitted to A.C.P.I.C. on 21.03.2018 and was approved by the Ministry of Energy by Letter 110638/04.04.2018; between 07.05.2018 and 11.05.2018, according to European Regulation 347/2013, **the public consultations** was carried out in the following locations: Onești, Buciumi (Bacău county), Mărășești (Vrancea County), Cosmești (Galați County), Isaccea (Tulcea County), Siliștea, Vădeni (Brăila County);
- **The Final Synthetic Report regarding the results of the stakeholder engagement activities** was issued, published on the Company's website and sent to A.C.P.I.C. as part of the application file;
- On 20.07.2018 **Application File** for Phase 1 of the project was sent to APIC and was accepted on 03.08.2018;
- On 05.09.2018 it was submitted to APIC **Final Report** no. 44749/04.09.2018 regarding the authorization process and the consultation and participation process of the public for the Project of Common Interest Enhancement of the Romanian transmission system between Onesti-Isaccea and reverse flow at Isaccea – Phase 1 (Reference number in the Union's List: 6.24.10.–1), including the attached documents, in order to obtain the comprehensive decision; **Comprehensive Decision no. 2/11.09.2018** was issued, document which certifies the ending of the authorization procedure in accordance with the provisions of the Regulation (EU) no. 347/2013 for Phase 1 of the Project.

#### 4. NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova

Taking into account the need for improving gas supply to the North-East Romania and also keeping in mind the perspective offered by the interconnection pipeline between Romania and the Republic of Moldova (Iași-Ungheni) to offer gas transmission capacities to the Republic of Moldova, a series of developments need to be performed in the Romanian gas transmission system to ensure the required technical parameters to satisfy the consumption need of the relevant regions.

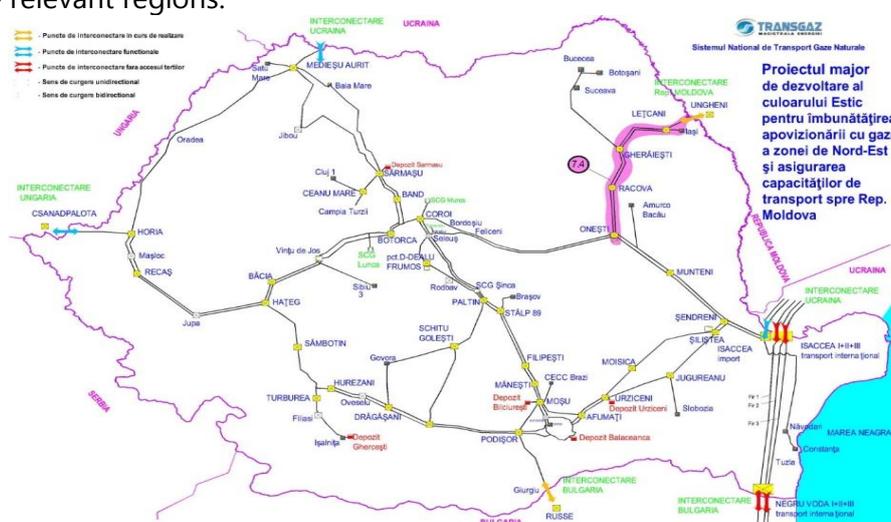


Figure 7 - NTS developments in the North-Eastern area of Romania

### Project description:

In order to streamline the implementation and the process for absorbing grants under the EU regional development programmes, the project consists in the achievement of the following milestones:

- Construction of a new DN 700 gas transmission pipeline, Pn 55 bar, in the Onești – Gherăești direction, 104.1 km long. The route of this pipeline will be parallel mainly to the existing pipelines DN 500 Onești – Gherăești
- Construction of a new DN 700 gas transmission pipeline, Pn 55 bar, in the Gherăești – Lețcani direction, 61.05 km long. This pipeline will replace the existing DN 400 pipeline Gherăești – Iași on the Gherăești – Lețcani section
- Construction of a new gas compressor station at Onești with an installed power of 9.14 MW, 2 compressors of 4.57 MW each, one active one backup
- Construction of a new gas compressor station at Gherăești with an installed power of 9.14 MW, 2 compressors of 4.57 MW each, one active one backup.

### Indicative project implementation schedule:

Development stages	Progress/ Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
FEED for the pipelines	completed	completed
FEED for the Compressor stations	completed	completed
Obtaining the construction permits	completed	completed
Obtaining construction permits related to Compressor stations	completed	completed
Construction	2019-2021	2020-2021
Commissioning/start-up	2021	2021

### Estimated completion deadline: 2021

Estimated value: Euro 174,25 million, split as follows:

Estimated investment value	Acc. to 2019-2028 TYNDP	Updated at the date of the Report
Estimated amount for the procurement of materials	Eur 64,95 mil	Eur 64,95 mil.
Construction of the gas transmission pipeline Onești–Gherăești	Eur 17,32 mil	Eur 17,32 mil.
Construction of the gas transmission pipeline Gherăești–Lețcani	Eur 15,19 mil	Eur 15,19 mil.
Onești Compressor Station	Eur 48,46 mil	Eur 48,46 mil.

Gherăești Compressor Station		
Pipeline automation and securing		
Other activities (land acquisition, design, technical consultancy, audit and technical assistance)	Eur 28,32 mil	Eur 28,32 mil.
<b>TOTAL</b>	<b>Eur 174,25 mil.</b>	<b>Eur 174,25 mil</b>

## The inclusion of the project in international plans

- **ENTSOG TYNDP 2018:** TRA-N-357

By the achievement of this project, the necessary pressure and gas transmission capacity of 1.5 billion cubic meters/a can be ensured at the interconnection point between the gas transmission systems of Romania and the Republic of Moldova.

The project meets the eligibility criteria of the Large Infrastructure Operational Programme (POIM). Priority Axis 8 - Strategic Objective (OS) 8.2, programme developed by the Management Authority of the Ministry of European Funds and receiving a non-reimbursable funding through PAP8 - Intelligent and sustainable transport systems for electricity and natural gas amounting to lei 214,496,026.71 (EUR 46.3 million).

For this purpose on 22.11.2018 Grant Agreement 226 was signed with the Ministry of European Funds.

## Project progress

- **The Feasibility Study** Rev 0 was completed in January 2016; Following the clarifications on the details related to the eligibility of the costs stipulated in the Applicant's Guide and JASPERS' recommendations the Feasibility Study was revised and completed in January 2018;
- **The FEED for the gas transmission pipeline, the FEED for the two compressor stations and the FEED for the electrical installations, cathode protection, automation and security of the pipeline** were completed in January 2018;
- **The environmental agreement** was obtained in 06.07.2017;
- **The decision of the screening stage** for the revision of the environmental agreement was obtained on 09.01.2018 (**Note:** it is not necessary to obtain other documents from the environmental authority);
- In July 2018 the documentation for the issue of the Governmental Decision (according to Law no 185/2016) was submitted for the temporary removal from the agricultural circuit.
- **The construction permit** was obtained on 15.09.2017, according to Law no. 185/2016.
- Government Resolution 316/23.05.2019 was issued (according to Law 185/2016) on the temporary withdrawal from agricultural use of the land outside the built-up area;

- Following the evaluation of the financing request, the financing of the project a fost aprobată finanțarea proiectului, și s-a semnat contractul de finanțare din the Large Infrastructure Operational Programme (POIM).

## PROCUREMENT

Transgaz conducted 5 public procurement procedures for this project as follows:

- Execution of the two compressor stations - Onești and Gherăești, automation and pipeline securing for the project *NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova*

The procedure is completed and the contract is signed;

- Execution of the Onești – Gherăești – Lețcani gas transmission pipeline (LOT 1 and LOT 2) for the project *NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova*

The procedure is completed and the contract is signed;

- pipe material and bends necessary for the execution of the project *NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova*

The procedure is completed and the contract is signed;

- valves and single-block electroinsulating joints necessary for the execution of the project *NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova*

The procedure is completed and the contract is signed;

- compressor assemblies – centrifugal compressors driven by gas turbines necessary for the execution of the project *NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova*

The procedure is completed and the contract is signed;

By G.R. no. 562/2017 the objective, designated as *National Transmission System capacity development for ensuring gas flow in the Romania–the Republic of Moldova direction*, was declared as a project of national importance, thus benefiting from the provisions of Law 185/2016 on some measures necessary for the implementation of projects of national importance in the field of natural gas.

## **5. Enhancement of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase III)**

Provided that the gas transmission capacities required to transport the Black Sea gas to the Central-Western EU market exceed the transmission potential of BRUA Phase II, Transgaz envisaged the development of the **central corridor**, which follows the route of existing pipelines currently operated at technical parameters inadequate for main pipelines.

### Project description

Depending on the Black Sea gas volumes available (not be taken over on the BRUA corridor), over the long term it is considered the development of the transmission capacity on the Onești–Coroi–Hațeg–Nădlac corridor.

The development of this gas transmission corridor entails the following:

- Upgrading of the existing pipelines belonging to the NTS;
- Replacement of existing pipelines belonging to the NTS or new pipelines installed in parallel with existing ones;
- The development of 4 or 5 new compressor stations with a total installed power of approx. 66 - 82.5 MW.
- Increasing gas transmission capacity towards Hungary by 4.4 bcm/year.

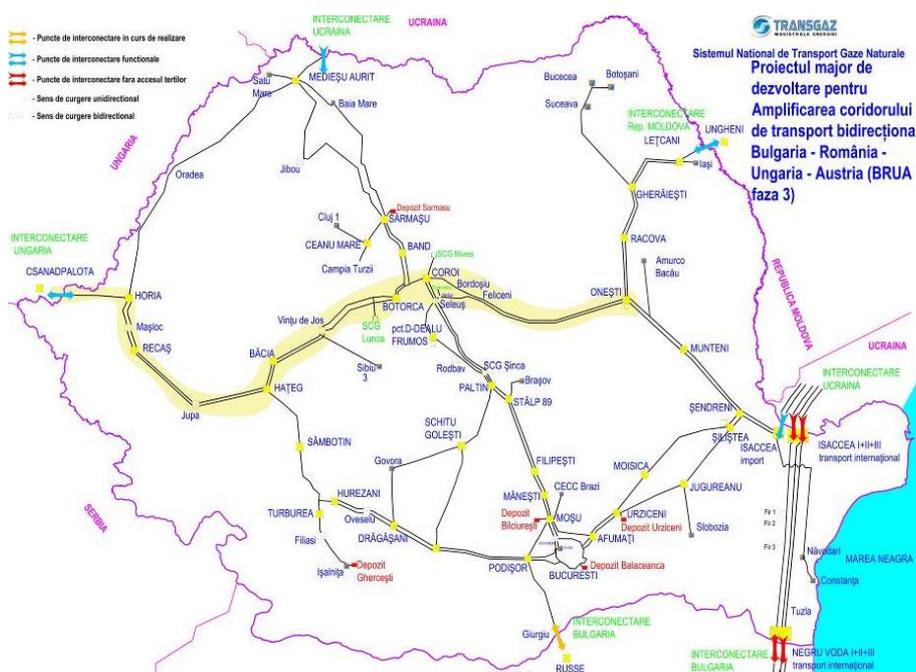


Figure 8 - Development of BRUA phase 3

Transgaz prepared the pre-feasibility study on the development of this gas transmission corridor, and in order to optimize and streamline both the implementation process and the possibilities of attracting non-reimbursable funds, the corridor was divided into two projects:

### The two projects are as follows:

1. Ensuring reverse flow on the Romania–Hungary interconnection:
  - New gas transmission pipeline Băcia–Hațeg–Horia–Nădlac approximately 280 km long;
  - Two new gas compressor stations located along the route.

2. NTS development between Onești and Băcia:
  - Upgrading some pipeline sections;
  - Replacement of existing pipelines with new pipelines with higher diameters and operating pressure ;
  - Two or three new gas compressor stations

#### Inclusion in international plans

- **PCI Project (second list):** 6.25.3;
- **PCI Project (third list):** 6.24.10–2;
- **ENTSOG TYNDP 2018:** TRA-N-959.

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

The projects mentioned above were merged in the updated list (List 3/2017) of **Projects of Common Interest** published as annex to regulation 347/2013 being included at **position 6.24** under the name ***Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as "ROHUAT/BRUA") to enable 1.75 bcm/a in the 1st phase, 4.4 bcm/a in the 2nd phase, and including new resources from the Black Sea in the 2<sup>nd</sup> and/or 3<sup>rd</sup> phase***

**Estimated completion date: 2025**

**Estimated value: Euro 530 million.**

#### Project progress

The pre-feasibility study was completed.

SNTGN Transgaz SA will start the feasibility study when additional data and information from the title holders of the Black Sea blocks will be available (capacity requests confirmations, approximate availability of gas on the Black Sea shore, etc.).

**We reiterate again that the development of this corridor still depends on the evolution of the capacity demand, respectively on the results of the exploration processes of the Black Sea or other on-shore blocks, a final investment decision being taken only when the demand for additional capacity is confirmed by agreements and booking contracts.**

#### 6. New NTS developments for taking over Black Sea gas

Taking into account the discovered Black Sea gas reserves, Transgaz intends to expand the NTS with the aim of creating an additional taking over point for the natural gas coming from the Black Sea off-shore blocks.

This project became necessary as a result of the discussions held/initiated by Transgaz during 2015 with holders of licenses for exploration and exploitation of the Black Sea blocks

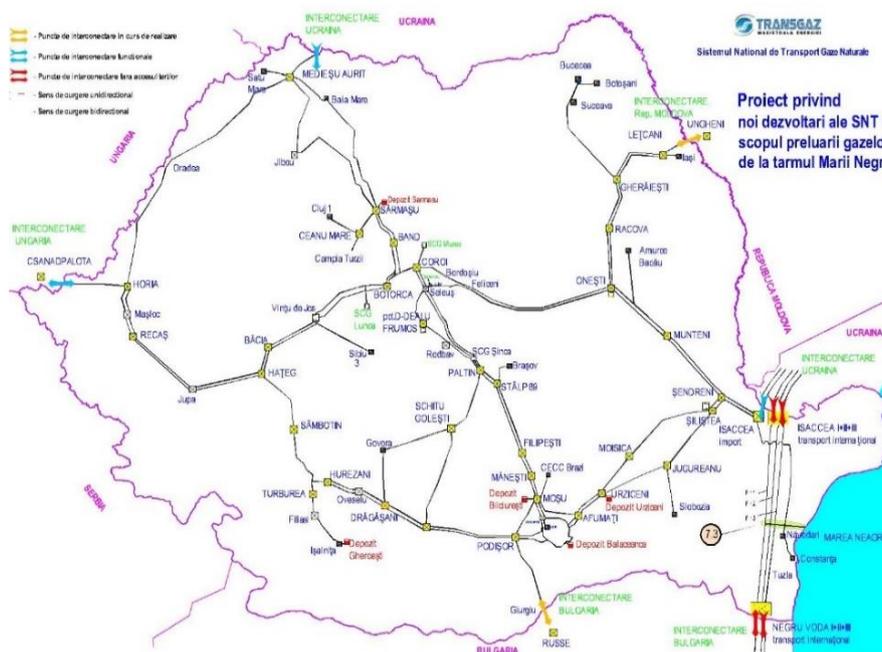


Figure 9- NTS developments related to the Black Sea

### Project description

Transgaz completed the feasibility study and the FEED for the DN 500 25 km gas transmission pipeline, from the Black Sea shore to the existing T1 international gas transmission pipeline. The transmission capacity is of 1.23 bcm/year according to the Open Season procedure published on Transgaz’s website.

### Indicative project development calendar:

Development stages	Progress/ Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Technical documentation for obtaining the construction permits	completed	completed
Construction permits	completed	completed
Comprehensive decision	obtained	completed
Final Investment Decision	2019	2020
Construction	2019-2020	2020
Commissioning/start up	2021	2021

**Estimated completion deadline: 2021**, depending on the upstream offshore project implementation schedules.

**Estimated value: EUR 9.14 million**

### **The inclusion of the project in international plans**

- **PCI project (third list): 6.24.10 – 3**
- **ENTSOG TYNDP 2018: TRA-N-964**

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### **Project progress:**

- The Pre-feasibility Study was completed and the endorsement of the Technical and Economic Committee of Transgaz was issued on 16.09.2016;
- The Feasibility Study was completed and approved by the Technical and Economic Committee of Transgaz on 31.05.2017.
- The town planning certificates (CU) were obtained in March 2017 from the Constanța County Council and the Grădina Territorial Administrative Unit, Constanța County;
- The environmental agreement was obtained on 24.11.2017;
- The Construction Permit from the Ministry of Energy was obtained based on Law 185/2016, on 20.12.2017. All permits and authorizations requested through the town planning certificates were obtained and the Final Report was issued on 29.06.2018 by the working group established according to Order 1081/15.12.2017 of the Ministry of Energy, confirming the fulfilment of all the legal conditions and requirements for Construction Permit 4/20.12.2017, according to Law 185/2016
- FEED was endorsed by the Technical and Economic Committee of Transgaz on 19.01.2018;
- The incremental capacity process for MP Vadu was completed with the allocation of the capacity and the conclusion of the gas transmission contract;
- In November 2018, Government Decision no. 890/9.11.2018 on the approval of the list of lands located outside the town built-up was issued;
- The notification for launching of procedure prior to bid submission was submitted to the Competent Authority for the Projects of Common Interest (ACPIC) on 06.07.2018 and was approved on 18.07.2018;
- The public consultation concept for the Project was submitted to ACPIC on 03.08.2018 and approved by the Ministry of Energy by Letter 111518/09.08.2018;
- The public consultations under Regulation (EU) 347/2013 were held on 11.09.2018 at Grădina and Săcele;

- The final synthetic report on the public participation activities results was prepared and published on the company's website (the project page)
- The application file was submitted to ACPIE on 10.10.2018 and was accepted on 22.10.2018.
- Comprehensive Decision no. 3/12.12.2018 was issued.
- The public procurement procedure for the execution works was carried out.
- The execution works for the objective are currently in progress.

## 7. Romania – Serbia Interconnection – interconnection of the national gas transmission system with the similar gas transmission system in Serbia

In the context of the provisions of the EU Strategy on the Energy Union and of the actions for the implementation of the objectives of such strategy (competitiveness, sustainability and security of energy supply), Romania shows special interest to safeguarding energy security, the development of the energy infrastructure by the diversification of energy transmission sources and routes, by increasing solidarity between member states and by ensuring effective operation of the energy market.

In order to increase the interconnectivity between gas transmission systems of the EU member states and to increase energy security in the region, the project for the interconnection between the gas transmission systems of Romania and Serbia is necessary.

The appraised gas export version towards Serbia is to take over gas from the future BRUA pipeline (Phase I).

**The project Romania – Serbia Interconnection – interconnection of the national gas transmission system with the similar gas transmission system in Serbia** consists of the construction of a 97 km pipeline connecting the national gas transmission system with the natural gas transmission system in Serbia in the Recaş–Mokrin direction and of a gas metering station.

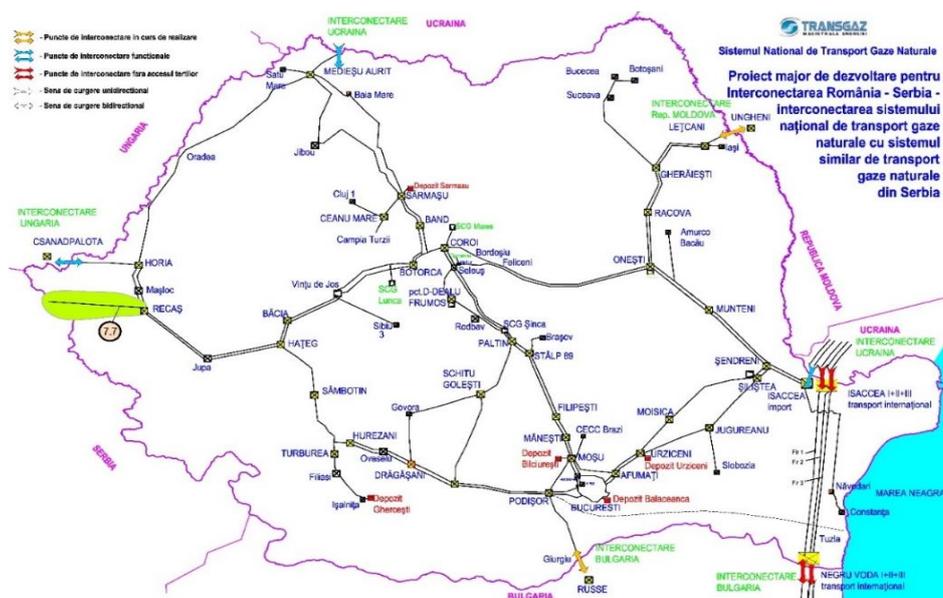


Figure 10- Interconnection of the NTS with Serbia in the Recaş – Mokrin direction

### Project description:

The project *Romania – Serbia Interconnection – interconnection of the national gas transmission system with the similar gas transmission system in Serbia* consists in the construction of a new gas transmission pipeline connecting BRUA main gas transmission pipeline to the Technological Node Mokrin in Serbia.

On the Romanian territory, the gas transmission pipeline will be connected to BRUA Phase 1 pipeline (Petrovaselo, Timis County) and will be 85.56 km long (Romanian-Serbian border – Comlosu Mare, Timis County).

The diameter determined based on the hydraulic calculations will be 24" (DN 600) at a design pressure of 63 bar.

The project consists in the following:

- Construction of an approximately 97 km long pipeline to interconnect the national gas transmission system in Serbia, in the Recas – Mokrin direction of which 85 km on the territory of Romania and 12 km on the territory of Serbia with the following characteristics:
  - Pressure of the BRUA pipeline in the Recaş area: 50 – 54 bar (PN BRUA – 63 bar);
  - Diameter of the interconnection pipeline: Dn 600;
  - Transmission capacity: max. 1 bcm/y (115,000 cm/h), pressure at Mokrin: 48.4 – 52.5 bar;
  - Transmission capacity: 1.6 bcm/y (183,000 cm/h), pressure at Mokrin: 45.4- 49.9;
- Construction of a gas metering station (located on the Romanian territory).

### Estimated project implementation schedule

Development stages	Progress/ Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Prefeasibility Study	completed in February 2018	completed
Feasibility Study	completed in November 2018	completed
FEED and Tender Books	completed in January 2019	completed
Authority engineering	2019	2020
Start of the construction works procurement procedure	2019	2020
Construction	2019 - 2020	2020 - 2021
Commissioning/start-up	2020	2021

**Estimated completion date:** 2021

**Estimated value of the investment: EURO 53,76 million**, of which:

Estimated investment value	Acc. to 2019-2028 TYNDP	Updated at the date of the Report
Execution works	41,93 mil Euro	41,93 mil Euro
Other activities (obtaining the land, design, technical consultancy, audit and technical assistance)	11,83 mil Euro	11,83 mil Euro
<b>TOTAL</b>	<b>53,76 million Euro</b>	<b>53,76 milion Euro</b>

The gas exports to Serbia will be possible as soon as BRUA (Phase I) has been completed.

If gas will be taken over from Serbia to Romania, it may be redirected towards the Timisoara – Arad consumption area, through the DN 600 Horia – Maşloc – Recaş (25 bar) pipeline, at lower pressures than through the BRUA pipeline.

#### The inclusion of the project in international plans

- **ENTSOG TYNDP 2018:** TRA-N-1268

#### Project progress

- A Memorandum of Understanding was concluded between Transgaz and Srbijagas on 30.06.2017;
- Transgaz and Srbijagas prepared the Prefeasibility Studies for the facilities related to each country, the necessary data and solutions for their completion were agreed within the joint meetings;
- The procedure for obtaining the Environmental Agreement:
  - The Decision on the initial assessment stage no. 459/08.10.2018 was obtained
  - The Environmental Protection Agency Timiş carried out the environmental impact assessment procedure in accordance with the provisions of Law no. 292/2018 and issued the Decision Screening Stage no. 142/25.06.2019 by which the project is not subject to environmental impact assessment, is not subject to appropriate assessment and is not subject to impact assessment on water bodies.
  - The National Agency for Natural Protected (ANANP) issued the Notice no. 451/21.05.2019 approving the works provided for in the project.
  - During the environmental impact assessment procedure, the cross-border impact procedure, coordinated by the Ministry of the Environment through the Ministry of Foreign Affairs, was carried out. A notification was sent to the Republic of Serbia of the intention to carry out the project in accordance with Article 3 of the Espoo Convention. The Ministry of Environmental Protection of the Republic of Serbia communicated by address no. 352-02-00307/2019-03 of 13.03.2019 that it does not estimate a negative environmental impact on the territory of the Republic of Serbia of the activities

provided for by the project and does not consider it necessary to participate in the impact assessment procedure carried out for the project, in accordance with Article 3 point 3 of the Espoo Convention.

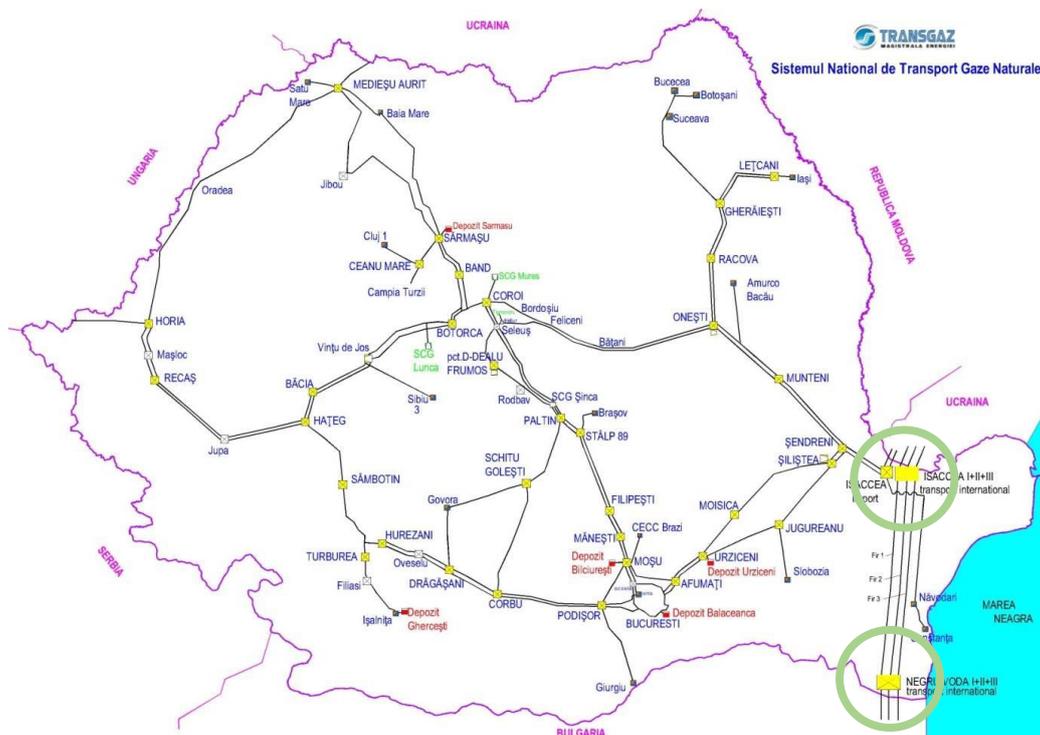
- The Environmental Protection Agency Timiș issued the Declaration by the Authority responsible for monitoring Natura 2000 Sites no. 10927/23.10.2019 stating that the project is not possible to have significant effects on a Natura 2000 site.
  - The Banat Basin Water Administration issued for the project the Declaration of the Competent Authority responsible for Water Management no. 14305/17.10.2019 declaring that the project does not lead to the risk of deterioration of the chemical condition and the ecological state/ ecological potential of surface and groundwater bodies in respect of which the investment is made.
- Following the meetings between the experts of Transgaz and Srbijagas, the following aspects were agreed/established:
    - The pipeline will be designed so as to ensure bidirectional flows of 1.6 bcm/year (183 000 Scm/h), which may be increased to up to 2.5 bcm/year (285 000 Scm/h), ensuring a 39 ÷ 45 bar pressure at Mokrin;
    - The construction on the Romanian territory (Territorial Administrative Unit Comloșu Mare, Timiș county), approximately 400 m distance from the border, of a Fiscal Gas Metering Station with two pig launching/receiving stations, one towards Petrovaselo and one towards Mokrin;
    - Configuration of the Fiscal Gas Metering Station;
    - The border crossing point between Romania and Serbia (marking by poles and setting its coordinates);
    - Mounting an electro insulating joint at the border, at the point of interconnection between the two gas transmission systems with the purpose to separate the two systems from a cathodic point of view.
  - The Feasibility Study (endorsed by TEC in 08.11.2018) and the FEED (endorsed by TEC in 18.07.2019) were completed;
  - The necessary documentation was submitted for the declaration of the project, by Governmental Resolution, as project of national importance;
  - in terms of interference of the project with Natura 2000 sites, the following aspects are distinguished:
    - the route of the pipeline crosses ROSPA 0142 Teremia Mare-Tomnatic over a length of about 2300 m and passes through the vicinity of ROSCI0402 Valea din Sânanđrei at a distance of about 100 m;
    - the fiscal gas measuring station is located outside the protected natural areas, but in the vicinity of ROSPA 0142 Teremia Mare-Tomnatic, at a distance of approx. 1620 m.

## **8. Upgrading GMS Isaccea 1 and GMS Negru Vodă 1**

In order to increase the level of energy security in the region, the following Interconnection Agreements were signed:

- **Interconnection Agreement for the Interconnection Point Isaccea 1**, concluded with PJSC Ukrtransgaz, Ukraine, on 19.07.2016;
- **Interconnection Agreement for the Interconnection Point Negru Vodă 1**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016.

The actions under these agreements include the upgrading of the gas metering stations at the two interconnection points.



**Figure 11- Upgrading GMS Isaccea 1 and Negru Vodă 1**

**Project description:**

The project **Upgrading GMS Isaccea 1 and Negru Vodă 1** consists in the construction of two new gas metering stations to replace the current ones.

In the case of the GMS Isaccea 1 the station will be constructed within the existing station, and in the case of GMS Negru Vodă 1 in a location near the one of the current station.

**1. Gas Metering Station GMS Isaccea 1**

The upgraded Metering Station will be equipped with a separating/filtering installation and a metering installation:

- Separation/filtering is ensured by a separating/filtering battery.
- The metering equipment will consist of several parallel metering lines (in operation and back up) equipped with ultrasonic meters for metering the delivered gas quantities, each line being equipped identically with three independent metering systems (Pay,

Check and Verification). The independent systems Pay and Check will employ dual ultrasonic meters and the systems for the Verification will use a simple ultrasonic meter.

The number of the metering lines is sufficient to allow for the metering of the gas quantities to be delivered through the GMS. The number of lines in operation will depend on the quantities of natural gas to be circulated through the GMS.

To verify the traceability of ultrasonic meters on the metering lines, they will be periodically connected in series with a reference metering line equipped with a turbine meter.

If one of the systems no longer meets the established standards and/or error limits, that metering line will be closed and withdrawn from normal operation until the malfunctions' causes are remedied.

The volumes resulting from the independent metering of the Pay, Check and Verification systems will be monitored continuously.

## **2. The metering station GMS Negru Vodă 1**

The upgraded Metering Station will be equipped with a separating/filtering installation and a metering installation

- The Separation/filtering is ensured by a separating/filtering battery.
- The metering installation will be made up of several parallel metering lines (in operation and back up) equipped with ultrasonic meters for metering the delivered gas quantities, each line being equipped identically with two independent metering systems (Pay and Check). The independent Pay and Check systems will use dual ultrasonic meters.

The number of the metering lines is sufficient to allow for the metering of the gas quantities to be delivered through the GMS. The number of lines in operation will depend on the quantities of natural gas to be circulated through the GMS. To verify the traceability of ultrasonic meters on the metering lines, they will be periodically connected in series with a reference metering line equipped with a turbine meter.

The project implies the upgrading of the two metering stations for the existing capacities and enables the bidirectional operation in Isaccea as well.

If one of the systems no longer meets the established standards and/or error limits, that metering line will be closed and withdrawn from normal operation until the causes that caused these malfunctions are remedied.

The volumes resulting from the independent metering of the Pay, Check and Verification systems will be monitored continuously.

## Indicative project development calendar

Development stages	Estimated completion deadline acc. to 2019-2028 TYNDP		Progress/ Estimated completion deadline updated at the date of the Report	
	GMS Isaccea 1	GMS Negru Vodă 1	GMS Isaccea 1	GMS Negru Vodă 1
Pre-feasibility study	completed	2019 (if the necessary land is obtained)	completed	completed
Engineering	completed	2019 (if the necessary land is obtained)	completed	under preparation
Technical documentation for obtaining the construction permits	obtained	2019 (if the necessary land is obtained)	completed	2020
Construction	2019	2019 - 2021	2019 – 2020 (ongoing)	2020 - 2021
Commissioning/start up	2020	2021	2020	2021

\*the deadline depends on the land legal regulation

**Estimated completion deadline: 2020** for GMS Isaccea 1, **2021** for GMS Negru Vodă 1

**Estimated value of the investment: EURO 26,65 million**, of which:

Total estimated investment value	Acc. to 2019-2028 TYNDP	Updated at the date of the Report
<b>GMS Isaccea 1</b>	EUR 13,88 mil.	EUR 13,88 mil.
<b>GMS Negru Vodă 1</b>	EUR 12,77 mil.	EUR 12,77 mil.
<b>TOTAL</b>	<b>EUR 26,65 mil.</b>	<b>EUR 26,65 mil</b>

## The inclusion of the project in international plans

- **ENTSOG TYNDP 2018: TRA-N-1277**

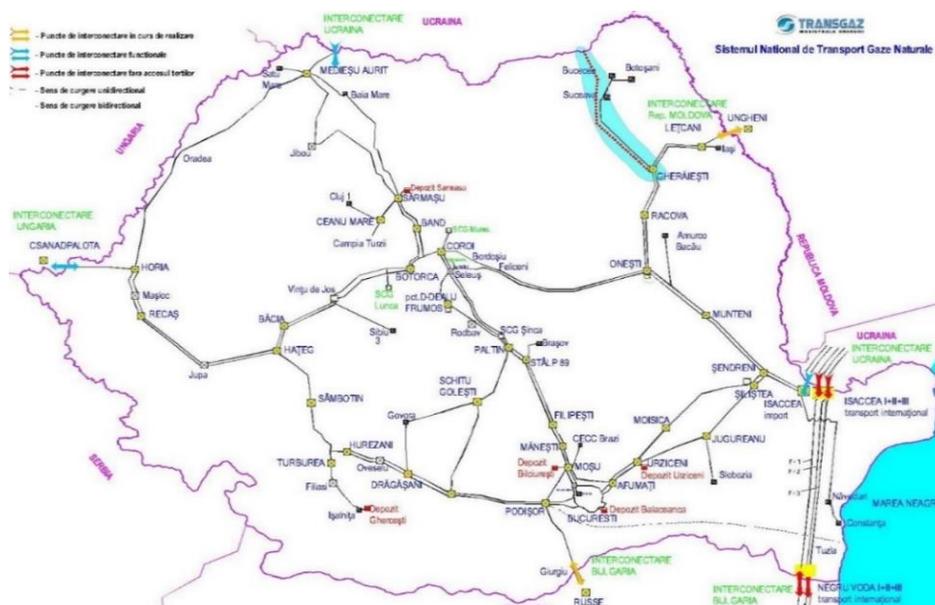
## Project progress

The Feasibility Study and the FEED for the newly designed objective GMS Isaccea 1 . The public procurement procedure for the execution works was carried out and the the works execution contract was signed.

The feasibility study for the objective GMS Negru Vodă 1 was completed and endorsed by the TEC and the FEED is under preparation.

## 9. Interconnection of the gas transmission systems of Romania and Ukraine in the Gherăești – Siret direction

In addition to the project for NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova, Transgaz identified the opportunity to construct an interconnection between the NTS and the gas transmission system of Ukraine, in the Gherăești – Siret direction.



**Figure 12-** Interconnection between the National Gas Transmission System and the Ukrainian gas transmission system, in the direction Gherăești-Siret

### Project description:

The project consists of:

- the construction of a 130 km gas transmission pipeline and the related facilities, in the Gherăești – Siret direction;
- the construction of a cross-border gas metering station;
- the extension of the Onești and Gherăești compressor stations, if applicable.

### Estimated project development calendar

Development stages	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	2019-2020	2019 - 2020
Engineering	2020 – 2021*	2020 – 2021*
Procurement (materials and works)	2021*	2021*
Construction	2022-2024*	2022 - 2024*
Commissioning/start of operation	2025*	2025*

\*It depends on setting the parameters for the interconnection point and on the schedule of implementation of the project on the territory of Ukraine.

**Estimated completion date:** 2025

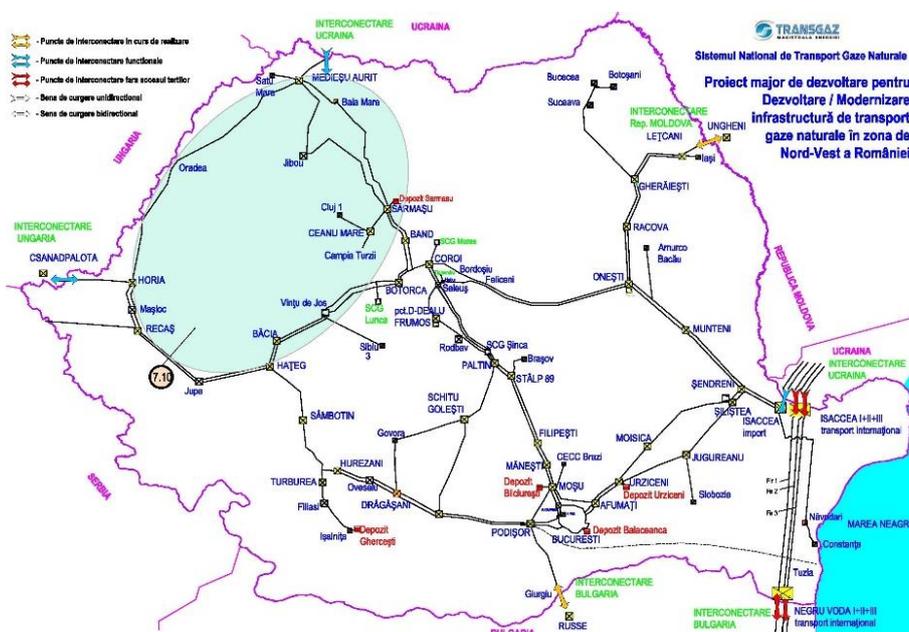
**Total estimated value of the investment:** EUR 125 million

**Project progress:**

The Project is in an early stage and the capacities to be developed under the project will be established subsequently.

**10. Development/Upgrading of the gas transmission infrastructure in the North-Western part of Romania**

The project aims to achieve/upgrade objectives related to the National Gas Transmission System in the North-Western part of Romania for the creation of new gas transmission capacities or for the increase in the existing ones.



**Figure 13-** Development/Upgrading of the gas transmission infrastructure in the North-Western part of Romania

**Project description:**

According to the Pre-Feasibility study, the project consists of:

- construction of a pipeline and of the related equipment in the direction Horia–Medieșu Aurit;
- construction of a pipeline and of the related equipment in the direction Sărmășel–Medieșu Aurit;
- construction of a pipeline and of the related equipment in the direction Huedin–Aleșd;
- construction of a Gas Compressor Station at Medieșu Aurit.

The project is to be developed taking into account the ongoing key importance projects to be implemented on the territory of Romania. The prioritization of this project is based on the evolution of the other projects.

Considering the large dimension of such project, it is supposed to be implemented in stages, as follows:

- **Stage 1:**
  - construction of the pipeline and of the related equipment in the direction Horia–Borș.
- **Stage 2:**
  - construction of the pipeline and of the related equipment in the direction Borș–Abrămuț;
  - construction of a Gas Compressor Station Medieșu Aurit;
  - construction of the pipeline and of the related equipment in the direction Huedin–Aleșd.
- **Stage 3:**
  - construction of the pipeline and of the related equipment in the direction Abrămuț–Medieșu Aurit;
  - construction of the pipeline and of the related equipment in the direction Sărmășel–Medieșu Aurit.

#### Estimated project implementation schedule:

Milestones	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
<b>Stage 1</b>	<b>2022</b>	<b>2022</b>
Pre-feasibility study	Completed	Completed
Feasibility study	2019-2020	2020
FEED	2020-2021	2020-2021
Public procurement	2021	2021
Construction	2021-2022	2021-2022
Commissioning/start up	2022	2022
<b>Stage 2</b>	<b>2025</b>	<b>2025</b>
Pre-feasibility study	Completed	Completed
Feasibility study	2019-2020	2020
FEED	2021-2022	2021-2022
Public procurement	2022	2022
Construction	2023-2025	2023-2025
Commissioning/start up	2025	2025
<b>Stage 3</b>	<b>2026</b>	<b>2026</b>
Pre-feasibility study	Completed	Completed
Feasibility study	2019-2020	2020

Milestones	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
FEED	2022-2023	2022-2023
Public procurement	2023	2023
Construction	2024-2026	2024-2026
Commissioning/start up	2026	2026

**Estimated completion deadline: 2022 Stage 1, 2025 Stage 2 and 2026 Stage 3**

**Estimated value: Euro 405 million**

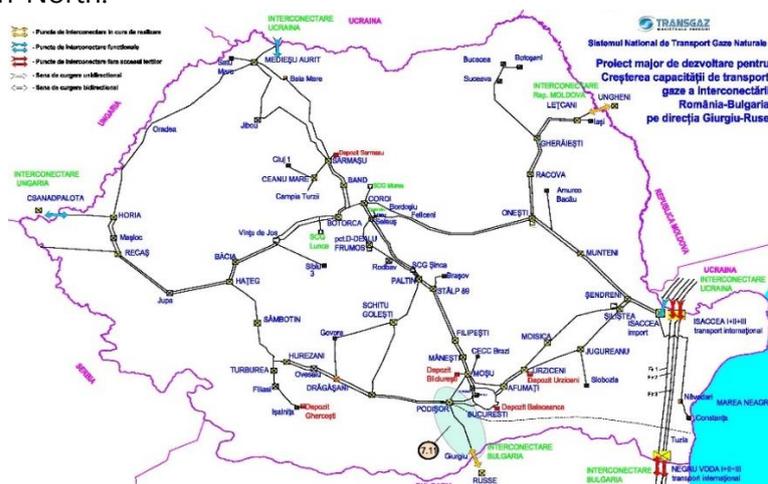
**Project progress:**

The project is at an early phase – completed Pre-feasibility Study.

**11. Increase in the gas transmission capacity of the interconnection Romania-Bulgaria, in the Giurgiu-Ruse direction**

In July 2017, in Bucharest, Transgaz, Bulgartransgaz, DESFA, FGSZ and ICGB signed a Memorandum of Understanding on the Vertical Corridor. In order to achieve its scope, the parties agreed to assess the technical requirements such as new pipelines, interconnections or enhancements of the national transmission systems.

The estimations in terms of the gas transport in the Southern part of Europe illustrate a rapid evolution and the new key projects to be achieved in Southern Europe envisage gas flows in the direction South-North.



**Figure 14** Increase in the gas transmission capacity of the interconnection Romania-Bulgaria, in the direction Giurgiu-Ruse

**Project description**

Based on the capacities, the project consists of:

- construction of a new gas transmission pipeline and of the related facilities

- construction of a new Danube undercrossing
- enhancement of SMG Giurgiu

### Estimate project development schedule:

Milestones	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Pre-feasibility study	2019-2020	2020
Feasibility study	2020-2021	2020-2021
FEED	2022-2024	2022-2024
Public procurement	2024	2024
Construction	2025-2027	2025-2027
Commissioning/start up	2027	2027

### Estimated completion deadline: 2027

### Estimated value: Euro 51.8

### Project progress:

The project is at an early implementation stage, the capacities to be developed within this project will be later on established and the final technical solution will be based on such capacities.

## 12. *Eastring-Romania*

The Eastring project promoted by Eustream is a bidirectional gas transmission pipeline dedicated to Central and South-Eastern Europe which is meant to interconnect the gas transmission systems of Slovakia, Hungary, Romania and Bulgaria in order to ensure access to the Caspian and Middle East gas reserves.



Figure 15 - Eastring

## Project description

EASTRING is a bidirectional gas transmission pipeline with an annual capacity between 225.500 GWh and 451.000 GWh (approx. 20 bcm up to 40 bcm) which connects Slovakia with the EU external border through Bulgaria, Hungary and Romania.

EASTRING will ensure the most cost-reflective and direct transmission route between the gas platforms from the Western European region and the Balkans/Western Turkey – a region with very high potential to offer gas from various sources. The possibility to diversify transmission routes and gas supply sources will safeguard the regional security of gas supply to the region, mainly in the South-Eastern European countries.

According to the feasibility study, the project will be implemented in two stages as follows:

- Stage 1 – Maximum capacity 20 bcm/a;
- Stage 2 – Maximum capacity 40 bcm/a.

## Estimated project implementation schedule:

Milestones	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
<b>Stage 1</b>	<b>2025</b>	<b>2025</b>
Pre-feasibility study	Completed	Completed
Feasibility study	Completed	Completed
FEED	2019-2023	2019-2023
Public procurement	2022-2023	2022-2023
Construction	2023-2025	2023-2025
Commissioning/start up	2025	2025
<b>Stage 2</b>	<b>2030</b>	<b>2030</b>
Pre-feasibility study	Completed	Completed
Feasibility study	Completed	Completed
FEED	2025-2028	2025-2028
Public procurement	2028-2029	2028-2029
Construction	2028-2030	2028-2030
Commissioning/start up	2030	2030

## Estimated completion deadline: 2025 Stage 1, 2030 Stage 2

## Estimated investment:

- **Stage 1 - Euro 1,297 mil. for Romania (2.600 mil. Euro-total);**

- **Stage 2 - Euro 357 mil. for Romania (739 mil. Euro-total).**

#### **Project inclusion in international plans**

- **PCI Project (List III):** 6.25.1;
- **2018 ENTSOG TYNDP (Eastring-Romania):** TRA-N-655.

#### **Project progress:**

The Feasibility Study was completed in 2018. The scope of the Feasibility Study was the design of a bidirectional pipeline to interconnect the Slovakian gas transmission system with the South-Eastern European border (Black Sea or Turkey) through Hungary, Romania and Bulgaria.

#### **13. Monitoring system, data control and acquisition for the cathodic protection stations related to the National Gas Transmission System**

The implementation of the data acquisition, control and monitoring system for the cathodic protection system will ensure increased durability and safety in the operation of the transmission pipelines based on the data acquired, will ensure simplicity in operation for a complex pipeline protection system with low maintenance costs.

At the same time, it will provide information about the electro-security of the pipeline as well as for the intrinsic cathodic protection (without external cathodic power source) by providing information at some points or sections for the limiting recovery of the induced alternating currents in the pipeline.

#### **Project description**

For TRANSGAZ, the cathodic protection stations are the main active protection system of the gas transmission pipelines.

There are currently approximately 1.038 cathodic protection stations recorded (CPS). The reduction in the corrosion of the pipelines maintaining them in operation for a longer period of time and the reduction in the maintenance costs are the main objectives.

The centralized cathodic protection system will provide the possibility the remotely set, monitor and operate clearly and precisely the points of interest in the system, it will eliminate costs related to data reading it will avoid the situations when because of the weather conditions it is impossible to read data and human errors, it will allow for the distributed control of the locations, it will reduce operation and maintenance costs and considerably reduce the configuration time.

The implementation of such a system will reduce the micro-management, the testing time and the commissioning.

The architecture distributed will offer minimum unavailability risks and it will offer maximum viability of the cathodic protection system.

The system will be intuitive, easy to use and acceptable in any SCADA system structure and the training requirements for the operators are short and simple.

The implementation of such a system will reduce personnel costs and will train the personnel responsible for operation and maintenance.

The decision on the system maintenance and the related regulation of the cathodic protection station in integrated system will be the decision of a well-trained dispatcher relying on the data received in real time and based on a historical data base.

The remote control of the parameters of the cathodic protection stations and corrosion monitoring in the critical points of the gas transmission system is mandatory for corrosion reduction and proper management of the power consumers in each location.

The implementation of the SCADA system for cathodic protection will ensure increased sustainability and safety in the exploitation of the gas transmission pipelines based on the data acquired it will ensure the simple operation of a complex pipeline protection system.

**Indicative project development calendar:**

<b>Development stages</b>	<b>Estimated completion deadline acc. to 2019-2028 TYNDP</b>	<b>Progress/ Estimated completion deadline updated at the date of the Report</b>
Feasibility study	2019	2020
FEED	2019-2020	2020-2021
Environmental impact assessment	N/A	-
Obtaining the Environmental Agreement =	N/A	-
Technical documentation for obtaining the construction permit	N/A	-
Obtaining the construction permit	N/A	-
Making the final investment decision	2020	2020
Construction	2020-2023	2021-2023
Commissioning/start up	2021-2023	2023

**Estimated completion deadline: 2023**

**Estimated investment value: EURO 8 million**

**Project progress:**

The analysis and planning stages of the project *Monitoring system, data control and acquisition for the cathodic protection stations related to the National Gas Transmission System* were completed and the technical documentation - *Conceptual Note and Design Theme* - will be completed and endorsed - documents contained in the project schedule and which will be the base for the the start-up and subsequent stages of the feasibility study, FEED and execution.

#### **14. Development of the SCADA system for the National Gas Transmission System**

SNTGN Transgaz implemented and commissioned in 2015 a SCADA system structured as follows:

- 2 central dispatching centres, Mediaş and Bucharest;
- 9 local dispatching units;
- 948 MRSs;
- 106 line valves;
- 33 technological nodes;
- 3 compressor stations;
- 4 international transmission stations;
- 2 import stations;
- 7 underground storage facilities.

The National Gas Transmission System has a continuous evolution justified by the dynamics of the gas flows circulated and the strategic position Romania has in ensuring the national and European energy independence and security:

- Development of the Southern Transit Corridor on the territory of Romania for taking over the natural gas from the Black Sea shore;
- Interconnection of the national gas transmission system with the T1 natural gas international transmission pipeline and reverse flow at Isaccea;
- NTS developments in the North-East of Romania in order to improve the natural gas supply of the area and to ensure the transmission capacities to/from the Republic of Moldova;
- Enhancement of Bulgaria-Romania-Hungary-Austria bi-directional gas transmission corridor (BRUA-Phase III);
- Capitalization of Romania's technical and energy resources through the development of the NTS interconnection projects with other European transmission systems (Ukraine, Moldova, Serbia, Hungary, Bulgaria);
- Project on new NTS developments for taking over gas from the Black Sea shore;
- Romania-Serbia interconnection - interconnection of the National Gas Transmission System with the similar natural gas transmission system of Serbia;
- Upgrading GMS Isaccea 1 and GMS Negru Vodă 1;
- Interconnection of the national gas transmission system with the natural gas transmission system from Ukraine, on the Gherăesti-Siret direction;
- Expansion, development and upgrading of natural gas transmission infrastructure (development of the natural gas compressor stations, modernization of the storage system infrastructure, etc.);

- Meeting the legislative requirements imposed by the National Regulatory Authority for Energy (ANRE) regarding the integration into the SCADA system TRANSGAZ of all the exit points from the NTS, which were not included in the SCADA System implemented by the Supply Contract no.17095 / 2009.

Security of gas supply underlies any energy policy - any gas supply disruption has important consequences for the economies of EU Member States.

In order to strengthen this security, the EU countries have to diversify their energy vectors and energy sources, but at the same time they have to act in order to upgrade the gas transmission infrastructure.

The upgrading of the gas transmission infrastructure must be supported in the coming years by the development of an efficient and flexible SCADA system by modernizing the hardware and software architecture by migrating to a decentralized architecture with control distributed on organizational administrative units in accordance with the structure of SNGG TRANSGAZ.

### **Project description:**

The project on the Development of the SCADA System (*Supervisory Control And Data Acquisition*) (*for the National Gas Transmission System*) will consist in:

- The analysis of the possibilities to optimise the SCADA system architecture
- Replacement of the morally and physically worn-out hardware equipment within the national/regional SCADA dispatching centres on order to ensure by the new firmware/operation systems/ software applications used the increase in the volume and data processing power as well as in the IT security
- Provision of a hardware/software capacity reserve within the national/regional SCADA dispatching centres necessary for the future integration of the NTS objectives to be commissioned during 2022-2027 with the SCADA system
- Additional integration of approx.. 170 Metering Regulating Stations into the National Gas Transmission System
- Ensuring the continuous transmission, real-time monitoring within the national and regional SCADA dispatching centres of the relevant and necessary NTS objectives technological parametres the according to the short and medium term degree and rhythm of the technological equipment development for the purpose of NTS monitoring and operation under safety, efficiency and environmental protection conditions.
- Integration of the new local automations to be commissioned by 2022 resulted from the upgrading/development of the gas compressor stations, of the technological nodes, of the block valves located on the main pipelines, etc.
- Mounting of SCADA Intrusion Detection System LAN SCADA system
- Mounting of dedicated IP&DS type systems with surveillance at the level of industrial protocols for sensitive applications (SCADA remote controlled stations: technological

nodes, interconnection stations, compressor stations, future pipeline automation systems

- Installation of a simulation system and Pipeline Monitoring Software (PMS) or Network Programme Management (NSM)
- Identification and provision of technical solutions for securing the industrial data network where the SCADA systems are installed
- Analysis of the technical opportunities for design and achievement of an emergency dispatching centre if the study on the need and appropriateness of such an emergency dispatching centre proves such need; training of the SCADA operating, technical, maintenance personnel for the use of the newly implemented security technics and policies.

### Indicative project development timeline:

Development stages	Estimated completion deadline acc. to 2019-2028 TYNDP	Progress/ Estimated completion deadline updated at the date of the Report
Feasibility study	2019-2020	2020-2021
FEED	2020-2022	2021-2022
Environmental impact assessment	N/A	-
Obtaining the Environmental Agreement	N/A	-
Technical documentation for obtaining the construction permit	N/A	-
Obtaining the construction permit	N/A	-
Making the final investment decision	2020	2020 -2021
Construction	2020-2023	2020-2023
Commissioning/start up	2023	2023

### Estimated completion deadline: 2023

### Estimated investment amount: EURO 5.5 million

### Project progress:

The analysis and planning stages of the project *Development of the SCADA (Supervisory Control and Data Acquisition) System for the National Gas Transmission System* were completed and the technical documentation - *Conceptual Note and Design Theme* - will be completed and endorsed - documents contained in the project schedule and which will be the base for the the start-up and subsequent stages of the feasibility study, FEED and execution.

### Achievement of TYNDP – December 2019

No.	Name of project	Total estimated value mil.Euro	Planned	Achievements 2013-2018		Achievements 2019 (lei)	TOTAL 2013-2019	
				lei	mil. Euro	lei	lei	mil Euro
1.1	Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor <b>BRUA Phase 1</b>		Feasibility studies	4.296.872	0,95		4.296.872	0,95
			FEED (without guarantees-forests)	35.576.523	7,91	9.129.961	44.706.484	9,82
			Development	307.018.041	68,2	706.001.674	1.013.019.715	215,95
			<b>TOTAL BRUA Phase 1</b>	<b>478,6</b>		<b>346.891.436</b>	<b>77,09</b>	<b>715.131.635</b>
1.2	Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor <b>BRUA Phase 2</b>		Feasibility studies	-	-		-	-
			FEED (without guarantees-forests)	882.088	0,20	178.614	1.060.702	0,24
			Development	-	-	0	-	-
			<b>TOTAL BRUA Phase 2</b>	<b>68,8</b>		<b>882.088</b>	<b>0,2</b>	<b>178.614</b>
2	Development on the Romanian territory of the <b>Southern Transmission Corridor</b> for taking over the Black Sea gas		Feasibility studies	935.391	0,21		935.391	0,21
			Third party FEED (without guarantees-forests)	5.293.184	1,18	175.545	5.468.729	1,22
			Development	-	-	122.245	122.245	0,03
			<b>TOTAL</b>	<b>360,36</b>		<b>6.228.575</b>	<b>1,39</b>	<b>297.790</b>
3	NTS interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea		Feasibility studies	765.438	0,17	0	765.438	0,17
			Third party FEED (without guarantees-forests)	1.075.265	0,24	1.045.256	2.120.521	0,46
			Development	1.694.142	0,38	40.602.013	42.296.155	8,87
			<b>TOTAL</b>	<b>77,7</b>		<b>3.534.846</b>	<b>0,79</b>	<b>41.647.269</b>
4	NTS development in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the <b>Republic of Moldova</b>		Feasibility studies	3.463.535	0,8	-	3.463.535	0,8
			Third party FEED (without guarantees-forests)	7.542.599	1,65	1.030.912	8.573.511	1,87
			Development	-	-	-	-	-
			<b>TOTAL</b>	<b>174,25</b>		<b>11.006.134</b>	<b>2,45</b>	<b>1.030.912</b>
5	Extension of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3)		Feasibility studies	-	-	-	-	-
			FEED (without guarantees-forests)	-	-	-	-	-
			Development	-	-	-	-	-
			<b>TOTAL</b>	<b>530</b>		<b>0</b>	<b>0</b>	<b>0</b>
6	Project on new NTS developments for taking over Black Sea gas		Feasibility studies + Engineering	563.418	0,13	66.298	629.716	0,14
			Development	-	-	14.288.689	14.288.689	2,99
			<b>TOTAL</b>	<b>9,14</b>		<b>563.418</b>	<b>0,13</b>	<b>14.354.987</b>
7	Romania - Serbia Interconnection		Feasibility studies + FEED	505.027	0,11	2.286.020	2.791.047	0,59
			Development	-	0	1.601.166	1.601.166	0,33
			<b>TOTAL</b>	<b>53,76</b>		<b>505.027</b>	<b>0,11</b>	<b>3.887.186</b>
8	Upgrading GMS Isaccea 1 and GMS Negru Vodă 1		Feasibility studies + FEED	1.582.163	0,35	428.349	2.010.512	0,44
			Development	-	-	1.833.849	1.833.849	0,38
			<b>TOTAL</b>	<b>26,65</b>		<b>1.582.163</b>	<b>0,35</b>	<b>2.262.198</b>
9	Romania – Ukraine Interconnection in the Gherăești - Siret direction		Feasibility studies + FEED	-	-	-	-	-
			Development	-	-	-	-	-
			<b>TOTAL</b>	<b>125</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>GRAND TOTAL</b>		<b>1.904,3</b>		<b>371.193.686</b>	<b>82,5</b>	<b>778.790.590</b>	<b>1.150.409.788</b>	<b>245,46</b>

Table 7 - Achievement of the TYNDP major projects

### 3.2 European funds

The company continuously monitors and seeks to identify opportunities, sources, funds and structural instruments for EU funding, funding programs managed by Romania through the Management Authorities (MAs) and state aids and manages procedures for accessing grants to fund Transgaz projects for modernization/upgrading/development of the National Gas Transmission System (NTS), ensuring:

- Identification of financing sources relevant for the company's projects;
- Analysis of the eligibility conditions and elaboration of the project proposals for the approval;
- Drawing up the grant application files and submitting them to the financing authorities;
- Preparation and submission of the interim and final requests for the payment of the balance;
- Monitoring the implementation/post-implementation of projects from the perspective of the grant agreements;
- Interface with the project partners and with expert consultants, with the competent national and international authorities, throughout the implementation/post-implementation of projects with non-reimbursable financing;
- Operation of the platform MySMIS 2014+;
- Operation of the platform AEGIS - ACER Electricity and Gas Information System;
- Operation of the platform TENtec a INEA;
- Participation in events related to the European Funds field;
- Collaboration with the Management Authorities and Regional Infrastructure Unit Bacău, the Ministry of the European Funds, the Ministry of Economy, the Ministry of Energy, the Competent Authority for Projects of Common Interest, the Director-Generates of the European Commission and the project partners, internal and external
- Management of the custom statements alternative proof, for gas transit to Greece;
- Filling in and submitting the Intrastat statement.

#### **The following activities were performed for obtaining new funds for Transgaz's projects:**

- constant monitoring of the funding programs managed by the European Commission, of the financing lines relevant websites and of the Ministry of European Funds (MEF) website to identify updated information and instructions regarding grants
- Maintaining the connection with the Large Infrastructure Operational Program Management Authority in order to identify the possibilities for financing TRANSGAZ projects;
- taking the necessary steps to open the funding line for Priority Axis 8 Intelligent and sustainable electricity and gas transmission systems Specific objective 8.2; increasing the interconnectivity between the National Gas Transmission System and other neighbouring countries;
- Drawing up / submitting reports to TRANSGAZ management / departments on the financing opportunities based on the Financing Programs managed by the European Commission and National Bodies;

- The preparation of the annual report on the value of the outcome ratios, namely The Capacity of the National Natural Gas Transmission System at the interconnection points, based on the Collaboration Protocol concluded between Transgaz and MFE.

The promotion of the funding under the Large Infrastructure Operational Programme is considered for the project *Interconnection between the Romanian and the Serbian Gas Transmission Systems* – projects contemplated in Transgaz' TYNDP 2019-2028.

To this effect, the procedures necessary in order to obtain funding were conducted to:

- Check the existence of the necessary primary documents
- Prepare the funding request and the annexes thereto
- Check the Feasibility study and to prepare revision proposals to ensure the compatibility with the applicable laws and with the requirements related to LIOP funding.

Under the Priority Axis 3 – *Jobs for everybody*, Specific objective 3.8 - Increasing the number of employees who benefit from tools, methods, practices, etc., standard of human resource management and improved working conditions in order to adapt the activity to the dynamics of the dynamic sectors with competitive potential identified according to the CNS / intelligent expertise areas according to the SNCDI, the financing opportunity of the TransGasFormation project was identified. To this effect, the procedures necessary in order to obtain funding were conducted to:

- Check the existence of the necessary primary documents
- Prepare the funding request and the annexes thereto
- Start the procedure to load data into the MySMIS platform
- Preparation of the project budget and identification of the eligible and ineligible costs.

**The following general activities were performed in respect of the projects under implementation which obtained EU grants:**

- Preparation of progress reports, sustainability reports and letters regarding the management of Transgaz projects which obtained grants – documents which were delivered to the Financing Entities, according to the provisions of the Financing Contracts/Decisions;
- Ensuring the communication between the Project management Unit and the Management Authority.

**TRANSGAZ's Projects co-financed from non-reimbursable funds, in process of implementation, are the following:**

1. Development on Romanian territory of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria direction, execution works Stage 1 (*"the action"*), action number 7.1.5-0029-RO-W-M-15

The project is co-funded by the Connecting Europe Facility and the activities carried out were the following:

- Ensuring the delivery of updated reports from BRUA Project Management Unit (PMU) to INEA
- Cooperation with the BRUA PMU in respect of the submission of the Interim Payment Request and procurement of the audit services in order to complete the Audit Report.

2. *NTS developments in the North-Eastern area of Romania so as to improve gas supply in the area and to ensure transmission capacities to the Republic of Moldova*

The project is co-funded through the Large Infrastructure Operational Program 2014- and the activities carried out were the following:

- tracking the fulfillment of TRANSGAZ obligations stipulated in the Financing Contract no. 226/22.11.2018, concluded with the Managing Authority for the Large Infrastructure Operational Program 2014-2020,
- preparation of the documents related to the monthly and weekly reports, according to the provisions of the Financing Contract no. 226/22.11.2018,
- Preparation of the awarding documentation related to the contracts concluded and the submission thereof to LIOP Management Authority. The loading of the entire awarding documentation to the MySMIS platform.
- Preparation of the documents related to the amendments resulted in the process for the project implementation with the purpose of informing/notifying the LIOP 2014-2020 Management Authority:
  - Preparation of four Notifications and of an Addendum
  - Revising of the project budget and of the implementation calendar
  - Update of the information regarding the public procurement contracts, addenda, necessity report, cancelled procedures, resumed procedures, cost reimbursement requests on MySMIS platform
  - Participation in Reimbursement Request no. 1 – submitted on 30 October 2019
- Management of Transgaz account on MySMIS platform in respect of the project
- Notification to the involved departments of the legislative provisions impacting the project implementation
- managing the communication relationship with the Managing Authority for the Large Infrastructure Operational Program 2014-2020.

**For the project which obtained non-reimbursable financing from European Funds, which are in the post-implementation period, the following activities were developed:**

*Modernisation of Şinca Turbocompressor Station and related installations*

In accordance with the provisions of the Grant Agreement, the Report on Durability of Investment for the period January – December 2018, together with the attached documents, was issued and sent to the Ministry of Energy, The Intermediary Body for Energy (IBE).

*Romania - Bulgaria Interconnection Project*

*The Romania - Bulgaria Interconnection Project* is the only project that can ensure the gas transmission from the Southern Azerbaijan-Turkey-Greece gas route to Austria, through the transit of Bulgaria and the segment on the territory of Romania, The gas pipeline from Bulgaria to Austria, via Romania and Hungary (BRUA - code 7.15, according to List 1 Projects of Common Interest).

Following the submission of the documentation related to the Payment Request of the final balance and the payment made by the European Commission to the SNTGN TRANSGAZ account between 19 June and 21 June 2018, the Financial Audit Mission was held at the company's headquarters, in connection with the cost final statement for EEPR-2009-INTg-RO-BG-SI2.569565 / SI2.569582 Action - Interconnection of gas transmission systems in Romania and Bulgaria.

Based on the Interim Audit Report, proposals for updating / amending the findings were submitted and included in the Final Report.

The members of the audit team announced the completion of the audit mission and the Final Audit Report was made available to TRANSGAZ on 19<sup>th</sup> March 2019.

#### *Romania – Hungary Interconnection Project*

The Company's point of view on granting the access of a third party to the documents related to the project (documents corresponding to the Final Payment Request) was issued and submitted at the European Commission's request.

#### *Project: 7.1.5-0026-RO- S-M-14 – FEED for the three Compressor Stations in the corridor PCI 7.1.5. – Romanian Section*

Following the Notification sent by the Executive Agency for Innovation and Networks, by which it was communicated that in accordance with the provisions of Regulation No.1316 /2013 of the European Parliament and of the Council, it was decided to carry out the financial audit for the project: 7.1.5-0026-RO-SM-14 - FEED for the three Compressor Stations in the PCI corridor 7.1.5. - Romanian Section, the Transgaz specialists in the domain participated in:

- Collection of documents and information contained in the Audit Notification,
- Filling in the pre-audit questionnaires and sending them to the audit team,
- Verification together with the financial manager from PMU BRUA of the costs settled by the EC,
- Providing support during the audit mission.

#### **Activities carried out on the AEGIS (Agency for the Cooperation of Energy Regulators – ACER) platform for TRANSGAZ projects comprised in the Ten-Year Network Development Plan (TYNDP)**

- The documents / questionnaires on TRANSGAZ projects were extracted from ACER communication platform.
- the questionnaires of the project managers were sent for completion;
- completed information was verified, and updated data on Transgaz projects were entered on the ACER platform.

### 3.3 International cooperation

In the current context where new gas transmission corridors or new alternative solutions are necessary to diversify the gas supply sources and to increase the energy security of the EU member States, the rapid implementation of Transgaz TYNDP (by the achievement of projects enabling future gas transmission pipelines with considerable regional impact) is crucial for Romania's strategic energy role.

Meeting strategic objectives requires a close collaboration with the national institutions (ministries, agencies, intermediate bodies, competent authorities, etc.), with the European entities, with the European Commission Directorate General for Energy, the neighbouring gas transmission system operators (Bulgaria, Hungary, Moldova, Ukraine, Serbia), but also with gas companies and other European Union gas transmission system operators (Spain, France, Belgium, Greece, the Central Eastern European countries) and non-EU countries, but especially impacting the Balkans and the Southern Corridor for gas transmission (Turkey, Azerbaijan, Turkmenistan, Georgia and Iran).

**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 interconnections**

#### ***BULGARTRANSGAZ EAD (Bulgaria):***

Regarding the joint operation of the Giurgiu-Ruse, Negru Vodă I, II and III cross-border IPs.

Contact with the Bulgartransgaz representatives was kept for the joint operation of the Giurgiu-Ruse, Negru Vodă I, II and III cross-border IPs and for trading relevant capacity according to the applicable regulatory framework.

The cooperation between the parties is based on interconnection agreements for the Ruse/Giurgiu and Negru Voda I IPs, concluded in 2016 and related addenda. These agreements establish the procedures for nomination, matching and allocation of gas quantities to be circulated through the interconnections and establishing the technical details regarding the operation of the gas metering stations related to the two points are governed by the provisions of Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules.

In this regard, the Parties have collaborated to:

Agree and sign the necessary amendments to the Interconnection Agreement for Ruse-Giurgiu Interconnection Point and the Interconnection Agreement for Negru Vodă 1 Interconnection Point.

As for the Interconnection Point Negru Vodă 2+3/Kardam, considering that on the territory of Bulgaria the international gas transmission pipelines Transit 2 and 3 are converging into one pipeline, Transgaz and Bulgartransgaz agreed to prepare only one interconnection agreement for the Negru Voda 2+3/Kardam virtual interconnection point.

In respect of Interconnection Point Negru Voda 2,3/Kardam, Transgaz and Bulgartransgaz resumed the discussions on the conclusion of an Interconnection Agreement. Following the completion of the public consultations according to the provisions of Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules (INT NC), the clauses of the Agreement were agreed between the parties. The Agreement will be concluded as soon as the following conditions will be met:

- Conclusion of the Interconnection Agreement for VIP Isaccea 2,3
- Amendment of the legacy contract with Gazprom Export on the T3 pipeline

**FGSZ Ltd. (Hungary):**

*The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:*

- The contact regarding the coordinated development of the BRUA project was maintained.

*Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT):*

- Pursuant to the Interconnection Agreement concluded for the Csanadpalota Interconnection Point, concluded in 2015 between TRANSGAZ and FGSZ in accordance with the provisions of Regulation no. 703 (EU) 2015/703 of the Commission dated 30<sup>th</sup> April 2015 for establishing a network code for the rules on interoperability and data exchange;
- The parties maintained contact regarding the updating of the Interconnection Agreement on IP Csanádpalota in accordance with the provisions of the applicable European regulations.
- In order to harmonize the requirements regarding the quality of natural gas in the ROHU corridor, in May, June and July of 2019 took place at the registered office of the Romanian Energy Regulatory Authority (ANRE), at the registered office of the the Hungarian Energy Regulatory Authority (MEKH), and at the Transgaz Representative Office in Bucharest, meetings of the working group consisting of representatives of ANRE, MEKH, TRANSGAZ and FGSZ. During these meetings, the analysis of the regulatory framework of the two states on gas quality was started and the discussions will be continued in order to identify a solution for harmonizing the quality of natural gas.

*Implementation of the requirements imposed by the EU Regulation no. 459/2017 (CAM NC - European Network Code on Capacity Allocation Mechanisms) establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) no. 984/2013:*

- According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the bundled and unbundled capacity of the cross-border IPs with Hungary and Bulgaria. With a view to maximizing bundled capacity offers, TRANSGAZ cooperates annually with FGSZ so as to annually agree on

the technical capacities available at the joint Interconnection Point Csanadpalota. In this respect the Parties signed within May Joint method for setting the technical capacity for IP Csanadpalota

***UKRTRANSGAZ / TSO OF UKRAINE LLC (Ukraine):***

The contact with the representatives of Ukrtransgaz/TSO of Ukraine LLC was maintained for the joint operation of the cross - border interconnection points Isaccea 1/Orlovka, Isaccea 2,3/Orlovka and Medieșu Aurit/Tekovo.

*Joint operation of the Isaccea 1/Orlovka Cross-Border Interconnection Point*

The cooperation between the parties for the joint operation of the cross-border Interconnection Point Isaccea 1/Orlovka is based on the Interconnection Agreement concluded in 2016 and on the amendment regarding the bidirectional physical gas flow at this interconnection point signed in December 2019.

This agreement is governed by the provisions of Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules (INT NC).

Transgaz and Ukrtransgaz conducted negotiation regarding the Interconnection Point Isaccea 1/Orlovka in order to complete the Addenda to the Interconnection Agreement.

*Operation of the Virtual Interconnection Point Isaccea 2,3/Orlovka.*

The parties' negotiations on the Interconnection Agreement are in progress. Therefore, at the end of 2017, the parties conducted joint public consultations on the business rules applicable at VIP Isaccea 2,3.

*Operation of the Medieșu-Aurit-Tekovo Cross-Border Interconnection Point*

Regarding the operation of cross-border IP Medieșu-Aurit-Tekovo, the parties are in the process of negotiating an Interconnection Agreement.

The Business Rules under the Interconnection Agreement on cross-border Interconnection Point Medieșu-Aurit/Tekovo were subject to a public consultation process which were conducted during 1 July – 1 September 2017. Afterwards, the parties published a joint statement on the results of such public consultations.

***VESTMOLDTRANSGAZ (Republic of Moldova):***

Based on the EGMS Resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfilment of its core business, Eurotransgaz S.R.L. participated in the investment contest for Vestmoldtransgaz privatization.

On 26 February 2018, the Commission for privatisation contests of the Republic of Moldova notified the result of the contest, declaring Eurotransgaz SRL the winner of the contest. On 28 March 2018 Eurotransgaz signed the contract for the taking over of Vestmoldtransgaz Chisinau.

### **SRBIJAGAS (Serbia):**

In 2017, Transgaz and Srbijagas signed a Memorandum of Understanding on the development of the cooperation between the two companies.

The document is part of a set of actions for strengthening the bilateral cooperation in fields of activities pertaining to the gas transmission system operators of Romania and Serbia and establishes a framework for promoting projects of mutual interest.

By creating the infrastructure necessary for the interconnection of the gas transmission systems, Transgaz and Srbijagas aim at contributing to the increase in the predictability of energy supply to the region, by alternatives which are more effective than the gas supply solutions provided by other options.

The parties are cooperating for the implementation of the project Interconnection between the National Gas Transmission Systems of Romania and Serbia in the ARAD-MOKRIN direction which envisages the construction of a new gas transmission pipeline ensuring the connection of the main gas transmission pipeline BRUA and the Technological Node Mokrin, of Serbia.

Transgaz și Srbijagas completed the pre-feasibility and the feasibility studies and the FEED.

### ***Cooperation with other companies of the gas sector:***

**National and international shippers and gas producers/storage companies:** (Gazprom Export, Bulgargaz, titleholders of on-shore și off-shore fields in Romania (ExxonMobil, Lukoil, OMV Petrom, Black Sea Oil and Gas, Romgaz, Depogaz, Conpet)

### **GAZPROM EXPORT (the Russian Federation):**

At the date of the Report the contract for Transit II expired and the contract for Transit III is applicable until 31.12.2023.

### **BULGARGAZ (Bulgaria):**

After the historical gas transmission contract between Transgaz and Bulgargaz regarding the international gas transmission pipeline Transit 1 expired on 1 October 2016, the EU regulatory framework was enacted to govern capacity booking operations related to Transit 1 pipeline such as the procedures for the nomination, matching and allocation of capacities pursuant to *Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules* and to *Regulation (EU) 984/2015 establishing a network code on the capacity allocation mechanisms*.

Such regulations also provide rules for the access of all network users to the gas transmission systems to ensure the proper functioning of the domestic gas market - rules contemplating the application of a transparent and non-discriminatory treatment in the relationship between the operators and all potential network users.

Starting with October 2016, Bulgargaz constantly participated in the annual, quarterly and monthly capacity auctions organized by Transgaz, on a transparent basis, by means of the RBP (Regional Booking Platform) platform.

**TRANSGAZ collaborates with the titleholders of the on-shore and off-shore fields in Romania** for a regular exchange of information of a technical, economic, financial and legal nature with the purpose of coordinating the necessary developments in the National Natural Gas Transmission System.

### **Cooperation with the European and neighbouring gas Transmission System Operators within the Trans Balkan Corridor project**

As part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative, under the patronage of the European Commission Transgaz together with other Gas Transmission System Operators signed the *Memorandum of Understanding on a joint approach and action plan to address bidirectional natural gas transportation via the Trans-Balkan pipelines to cope diversification and security of supply challenges (MoU on the Trans-Balkan Corridor)*.

On the sidelines of the CESEC High Level Group meeting held in Budapest, 8-9 September 2016, the MoU on the Trans-Balkan Corridor was concluded between the TSOs of Greece, Bulgaria, Romania and Ukraine (i.e. DESFA, Bulgartransgaz, Transgaz and Ukrtransgaz) in the presence of high officials from Brussels and of Ministers of Energy from the CESEC countries.

This MoU defines the common intention of the Trans-Balkan TSOs to ensure, by coordinated actions (infrastructure projects included), physical reverse flows in the direction Greece-Bulgaria-Romania-Ukraine by means of the Trans-Balkan pipelines beyond 2019 and allows for the increase in the regional gas supply.

The kick-off meeting on the MoU was hosted by Transgaz in Bucharest, on 28 September 2017, in the margins of the CESEC High-Level Group Meeting, under the patronage of the European Commission and under the coordination of DG ENER. The Moldavian company Moldovagaz that operates a gas transmission system integrated with the Trans-Balkan Corridor was also invited to attend the meeting chaired by Mr. Klaus-Dieter Borchardt (Director DG ENER).

Based on this Memorandum, a joint working group was set up to identify efficient solutions to the capacity of Trans-Balkan pipelines. Transgaz actively participates in the activity of the Working Group by contributing to the preparation of the relevant documents.

In order to extend its activity **TRANSGAZ is considering the development of new partnerships with relevant international companies in the energy field** and in this respect is carrying discussions for the conclusion of cooperation agreements.

### **Collaboration with European and adjacent Transmission System Operators within the Vertical Gas Corridor Project (Transgaz, DESFA Greece, ICGB, Bulgartransgaz Bulgaria, FGSZ Hungary)**

On 19 July 2017, in Bucharest, under the coordination of the Directorate General for Energy within the European Commission (DG ENERGY), the companies Transgaz, DESFA, ICGB (the

company responsible for the development, construction and operation of the Greece-Bulgaria Interconnection), Bulgartransgaz and FGSZ and - they undertook the achievement of a south-north corridor that would allow bidirectional flows of natural gas by interconnecting the natural gas transmission systems from Greece, Bulgaria, Romania and Hungary.

In order to materialize this goal, the parties involved in the project of the Vertical Gas Corridor decided to renew their commitment by signing a new Memorandum of Understanding under the aegis of DG ENERGY.

Thus, on 12 December 2019, at the headquarters of DG ENERGY in Brussels, under the coordination of Mr. Klaus-Dieter Borchardt - Deputy Director General of DG ENERGY, the ceremony for the signing of a new Memorandum of Understanding by the CEOs of the companies involved took place ( Mr Ion Sterian - Transgaz, Mr Nicola Battilana - DESFA, Mrs Teodora Georgieva - ICGB, Mr Vladimir Malinov - Bulgartransgaz, Mr Szabolcs Ferencs - FGSZ).

The event was attended by representatives of the transmission system operators from the states involved in the Vertical Corridor, of the Moldovagaz company from the Republic of Moldova and DG ENERGY.

### **Collaboration with Natural Gas Transmission System Operators at regional level**

Transgaz initiated contacts with natural gas transmission operators from the European Union in order to develop partnerships aimed at exchanging experiences and analysing the potential of bilateral cooperation to promote possible joint projects (Gaz-System Poland, ICGB - the company implementing the Greece-Bulgaria Interconnection project etc.)

### **Cooperation with national and international bodies, the European Commission and other institutional relations**

SNTGN Transgaz S.A. became member or kept its quality of member within gas national and international bodies. The advantages and benefits of such membership are mainly: promoting the company and its objectives and interests, access to the updated information in the gas regulatory, policy, innovation, standards and products domain, and the participation in national and international events (conferences, seminars, forums, symposiums, etc.).

The EU Funds and International Relations Division manages most of the cooperation relations with the bodies where Transgaz is a member.

- *International associations:* Gas Infrastructure Europe (GIE), Pipping Products and Services Association (PP&SA) of UK.
- *National associations:* CNR- CME, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, Romanian Fracture Mechanics Association ARME, the Romanian Energy Centre (CRE), American Chamber (AmCham), the ICC National Committee Romania.

All membership fees and taxes were paid to date according to the association contracts. The membership in the national and international organizations and bodies was extended and the company was represented at the meetings organized by the structures in which TRANSGAZ is a member.

According to Board of Administration Resolution 23/31.06.2019, it was approved the membership to Federația Patronală Petrol și Gaze (FPPG).

In 2019, Transgaz representatives participated in a series of meetings with external partners and with European profile organizations, as well as to international and national events dedicated to the gas sector with a significant impact on the company's activity and objectives. Within such national and international events, the representatives of Transgaz SA promoted and supported the interests of the company while identifying the potential for developing new cooperation relationships.

### **Transgaz Representative Office in Brussels**

**In line with the tasks and responsibilities set, the work of the Representative Office focused on the following lines of action:**

- Promoting Transgaz's interests in the main strategic actions directions and by domains having an impact on the company's activity;
- Identification and reporting to the EU Funds and International Relation Division of events / activities organized in Brussels over the short and medium term, relevant to Transgaz in terms of information / documentation, promotion of company's interests / image and networking;
- Individual study (materials / analysis published by the COM / PE / EC on energy / natural gas / European gas transmission infrastructure / geo-political and geostrategic future projections, relevant to the company);
- Provide assistance to all Transgaz delegations in Brussels to participate in various approved activities / events;
- Organizing, the activities carried out at the headquarters of the representation;
- Active participation in all workshops organized by GIE in order to represent the company's interests regarding the European gas infrastructure;
- Developing relationships with other transmission system operators in Brussels;
- Planning and organizing meetings and working groups with the staff of the Romanian Representative in charge of the energy files together with ENTSO-g și GIE;
- Solving tasks on the administrative line.
- Development of the portfolio of direct relationships with the relevant actors in the institutional and private sphere, present in Brussels, and cultivation of relations with significant added value:
  - ✓ the new management of the European Parliament's Committee on Industry, Research and Energy (ITRE).
  - ✓ the European Parliament expert team serving the ITRE Committee
  - ✓ the network of think tanks with relevant activity in the field of energy policies
  - ✓ coordinators of the representations of other TSOs present in Brussels (Gaz System, Plinacro, Eustream)
- Taking and solving administrative actions.

## Transgaz Representative Office in Chisinau

**Transgaz Representative Office** in Chişinău was established mainly to develop partnerships and infrastructure projects in the gas field in cooperation with Moldova. It carried out intensive activities in cooperation with other entities within the company and in particular with Vestmoldtransgaz for the development of the Ungheni-Chisinau gas pipeline project on the territory of Moldova.

At present, considering the fact that starting with the month of October 2018, SNTGN TRANSGAZ SA has a subsidiary in Chisinau (Eurotransgaz SRL) and entirely controls Vestmoldtransgaz SRL, the duties and responsibilities of Chişinău Representative Office being taken over by Eurotransgaz SRL and Vestmoldtransgaz SRL.

## Cooperation with the relevant ministries

In 2019 information on the status of strategic projects undertaken by Transgaz, on the regional gas transmission projects impacting Romania and on the cooperation relationships with external partners was sent to the Ministry of Economy, Ministry of Energy, Ministry of Foreign Affairs and Romanian Government. Moreover, replies to the relevant ministries' requests for information on Transgaz' international relations were duly submitted.

By means of the organizational structures the relationship with the Competent Authority for Projects of Common Interest (ACPIC) is managed to implement projects of common interest (PCI) included in EU list of PCIs and promoted by Transgaz, according to EU Regulation 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure repealing Decision No. 1364/2006/EC and amending Regulation (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009.

## 3.4. Interconnection agreements

Interconnection agreements concluded between 2013 and 2019:

- **The Operation Agreement for the Ungheni IP**, concluded with Vestmoldtransgaz, the Republic of Moldova, on 14.08.2014;
- **The Interconnection Agreement for the Csanadpalota Interconnection Point**, concluded with FGSZ Zrt., Hungary on 02.12.2015;
- **The Interconnection Agreement for the Isaccea 1 Interconnection Point**, concluded with PJSC Ukrtransgaz, Ukraine on 19.07.2016;
- **Interconnection Agreement for the Negru Voda 1 Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016;
- **Interconnection Agreement for the Ruse - Giurgiu Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 22.12.2016.

In 2017 - 2019 the following addendums were concluded:

- Amendment no. 2 / 25.01.2017 to the Interconnection **Agreement for IP Negru Voda 1 / Kardam** (regarding the application of the gas day 08:00-08:00 at IP Negru Voda 1 / Kardam until 01.10.2017);

- Amendment no. 2/23.02.2017 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.05.2017);
- Amendment no. 3/28.04.2017 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.07.2017);
- Amendment no. 4/23.09.2017 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.10.2017);
- Amendment no. 5/28.09.2017 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.01.2018);
- Amendment no. 6/27.12.2017 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.07.2018).
- Amendment no. 7/22.06.2018 to the **Interconnection Agreement for IP Isaccea 1** (on suspending the application of business rules at IP Isaccea 1 until 01.01.2019).
- Agreement for the amendment of the Interconnection Agreement and the transfer of the rights and obligations arising from the **Interconnection Agreement for IP Isaccea 1/Orlovka 1**, concluded between SNTGN Transgaz SA, JSC Ukrtransgaz and LLC TSO Gas of Ukraine dated 16.12.2019
- Amendment no. 1/30.04.2019 to the Interconnection **Agreement for IP Ruse-Giurgiu** (on the new business rules applicable in the IP Ruse-Giurgiu as of 01.05.2019);
- Amendment no. 2/04.10.2019 to the **Interconnection agreement for IP Ruse-Giurgiu** (amendment of the technical conditions for gas transmission through IP Ruse-Giurgiu in the context of the upgrading of a pipeline of the National Gas Transmission system of TRANSGAZ located upstream of GMS Giurgiu and the commissioning of CS Podișor, until 01.11.2019);
- Amendment no. 3/30.04.2019 to the Interconnection **Agreement for IP Negru Vodă 1/Kardam** (on the new business rules applicable in the IP Negru Vodă 1/Kardam as of 01.05.2019);
- Amendment no. 4/06.11.2019 to the **Interconnection agreement for IP Negru Vodă 1/Kardam** (creation of the technical conditions for gas transmission for the physical delivery of gas in Bulgaria towards Romania through IP Negru Vodă 1/Kardam in the context of ensuring the bidirectional physical flow on the transmission pipeline Isaccea 1 - Negru Vodă 1 until 01.01.2020 and the supplementing of the daily gas quality parameters determined in GMS Negru Vodă 1 with the low calorific power);
- Addendum no. 5/20.12.2019 to the **Interconnection agreement for IP Negru Vodă 1/Kardam** (the new technical conditions related to gas transmission);
- Amendment no. 1/30.05.2019 to the **Interconnection Agreement for IP Csanádpalota** (on the amendment of the technical conditions for gas transmission through IP Csanádpalota as of 01.10.2019);
- Amendment no. 2/25.06.2019 to the **Interconnection Agreement for IP Csanádpalota** (on the temporary replacement of metering at GMS Csanádpalota with the metering from GMS Algyő).
- Addendum no. 3/25.10.2019 to the **Interconnection agreement for IP Csanádpalota** (amendment of the technical conditions for gas transmission through IP Csanádpalota following the technical restriction related to the exploitation of a pipeline section related to Transgaz' Gas transmission system located upstream of GMS Csanádpalota, until the completion of the BRUA project, phase 2).

- Addendum no. 1/18.07.2019 to the **Operation Agreement for IP Ungheni** (regarding the extension of the validity of the Operation Agreement until the completion of the Interconnection Agreement for IP Ungheni);

### 3.5 Retrofitting and automation - SCADA

In order to improve the quality and efficiency of the operational activity within Transgaz SA the **Data procurement and Control System SCADA** was implemented. The warranty of the SCADA project ended on 30.11.2018.

The implementation of the SCADA System facilitates and allows for a constant flow:

- Ensures the transmission, in real time, of the technological parameters (pressure, flow, temperature, gas quality, calorific power) to the National and all Regional Dispatching Centres;
- Exports technological values to a new data base to satisfy internal/external communication requirements according to the procedures/provisions/agreements concluded at the Company's level;
- Improves TRANSGAZ' ability to control and react promptly and efficiently to any potential risk of interruption of the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensures the necessary conditions to offer short term gas transmission services in the entry/exit points in/out of the national transmission system and to perform the contracts related to such types of services according to the requirements of Regulation (EC) no 715/2009.

#### **The extension of the SCADA system aims at:**

- Verification of the implementation level of the automation, local monitoring and SCADA installations;
- Contracting and implementation of SCADA to NTS objectives not included in SCADA Transgaz System;
- SCADA telecommunication services;
- Determining the degree of local automation of NTS objectives;
- Design of remote control systems for NTS objectives;
- Analysis of the current mode of operation in order to elaborate the procedures;
- Preparation of the maintenance plan and identification of the relevant objectives;
- Implementation of SCADA at interconnection points:

Thus, in 2019, technical activities for the integration of new SCADA equipment:

- Completion, preparation, endorsement in the TEC - TRANSGAZ: design theme no. 10/27.03.2019-Integration of 10 MRS locations into the SCADA System;
- Completion:

- ✓ Preparation of the FEEDs - Integration of 10 MRS locations into the SCADA System, collaboration with the Research and Design Division within TRANSGAZ in view of their endorsement in the TEC TRANSGAZ;
- ✓ Procurement procedures for the products necessary for the execution works in-house- TRANSGAZ- Integration of 10 MRS locations into the SCADA System.
- The FEED is being prepared „ Integration of 10 MRS locations into the SCADA System; achieved 5 integrations out of 10;
- Completion: preparation, endorsement into the TEC-TRANSGAZ: design theme no 11/27.03.2019–Integration of 138 MRS locations into the SCADA System;
- Completion: Feasibility study – Integration of 138 MRS locations into the SCADA System, collaboration with the Research and Design Division within TRANSGAZ for their endorsement in the TEC TRANSGAZ.

Status of technological parameters at the interconnection points on 31.12.2019

Interconnection point	Progress	
	Local integration of technological parameters at GMS	SCADA integration of technological parameters
GMS Horia	Fulfilled	Fulfilled
GMS Csanádpalota	Fulfilled	Fulfilled
GMS Giurgiu	Fulfilled	Fulfilled
GMS Ruse	Fulfilled ( <i>the technological parameters are present also in the Giurgiu GMS</i> ).	Fulfilled
GMS Negru Vodă	Fulfilled	Fulfilled
GMS Kardam	Fulfilled ( <i>the technological parameters are also present at the Negru Vodă GMS</i> ).	Under analysis
GMS Medieșu Aurit	Fulfilled	Fulfilled
GMS Isaccea	Fulfilled	Fulfilled
Automation centre Iași-Ungheni: TN LEȚCANI	Fulfilled	Fulfilled
Automation Centre Iași-Ungheni: TN UNGHENI	Fulfilled ( <i>the technological parameters are also present at the Automation Centre at the Iasi Sector and Lețcani TN</i> ).	Under analysis

In 2019 a series of activities were performed for the maintenance, development and modernisation of the National Gas Transmission System, according to the intelligent network concept (SCADA), to ensure that its operation is compatible with similar European transmission systems for integration into the European Single Market:

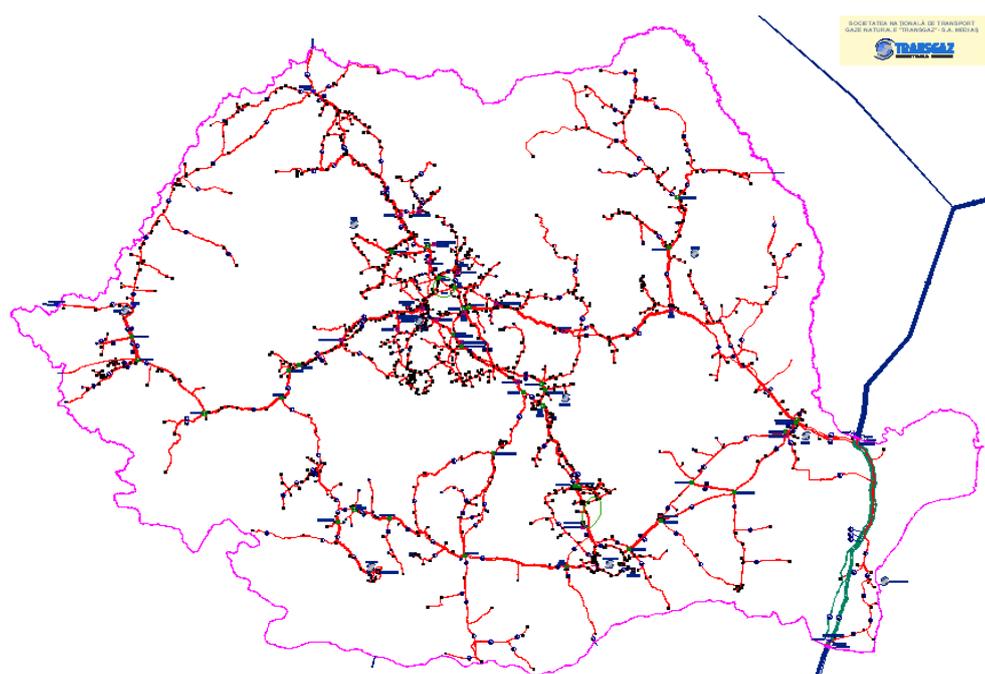
### 3.6 Operation, development, repair, rehabilitation and maintenance of NTS maintenance services

#### 3.6.1 Main Components of NTS Infrastructure

The main components of the National Gas Transmission System on 30 December 2019 are as follows:

Name of the NTS objective / component	U.M.	Value
Main pipelines and gas supply connections, of which international transmission pipelines	km	13.430 369
Operating metering-regulating stations (MRS)	pc.	1.127 (1.233 metering directions)
Valve control stations (VCS, TN)	pc.	58
Import gas metering stations (GMS) ( <b>Giurgiu, Horia, Isaccea Import, Negru Vodă IV, Medieșu Aurit, Isaccea Transit I, Negru Vodă I</b> )	pc.	7
Gas metering stations located on the international gas transmission pipelines (GMS) ( <b>Isaccea Transit II, Isaccea Transit III, Negru Vodă II, Negru Vodă III</b> )	pc.	4
Gas compressor station (CS) ( <b>Șinca, Onești, Siliștea, Jupa , Podișor</b> )	pc.	5
Cathodic protection stations (CPS)	pc.	1.038
Gas odorising stations (GOS)	pc.	902

**Table 8** – Main components of the NTS on 31.12.2019



**Figure 16** - Map of the National Gas Transmission System

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 40 bar, with the exception of international transmission (63 bar).

## Description and analysis of the degree of wear of the NTS components

An analysis of the main objectives belonging to the NTS in terms of service life is shown in the table below:

Service life	Transmission pipelines (km)	Supply pipelines (km)	Number of directions of MRSs
> 40 years	6.907	351	148
Between 30 and 40 years	1.727	164	60
Between 20 and 30 years	692	302	250
Between 10 and 20 years	1.505	851	568
< 10 years	564	108	161
< 5 years	239	20	44
<b>TOTAL</b>	<b>11.634</b>	<b>1.796</b>	<b>1.127 MRSs (1.233 metering directions)</b>
	<b>13.430</b>		

**Table 9-** The main components of the NTS on 31.12.2019, from the perspective of the service life

With regard to natural gas pipelines and connections, of the 13.430 km in operation, approx. 76% have an effective service life of more than 20 years, close to their normal service life.

The pig inspection services conducted until 2018 (included) for approx. **2,789 km (4.495 km** due to multiple inspections) reveal quite high levels of pipe defects, mainly due to the long pipeline operation.

In 2019 the intelligent PIG inspection was performed for the identification of the possible defects and for the determination of the technical condition of the **63 km** Ø28 Nădlac – Arad pipeline.

At the same time the intelligent PIG inspection was performed for the determination of the geometry of the following pipelines: Ø28" Nădlac - Arad and Ø40" Isaccea – Şendreni, activity which is a preliminary stage of the intelligent PIG inspection for the identification of pipeline defects.

Inner cleaning was performed on **21** of pipelines with a total length of **1.907 km**.

79.4% of the natural gas transmission pipelines have passive insulation made through a currently bitumen system, which also leads to increased electricity consumption registered at the **1.038** pipeline cathodic protection stations.

Approximately **95,5%** of the pipelines and fittings that are in use have cathodic protection. Until 30.12.2019 intensive metering was performed for **195.88** km of pipelines.

The gas delivery to the distributors and end users is performed by the **1.233** MRSs (metering directions), **44** MRSs (metering directions) being temporarily inactive /in preservation.

MRSs are included in the upgrading/rehabilitation programs to be integrated into the SCADA automatic control and monitoring system.

Out of the **1.233** MRSs (consumption directions) in operation in the first stage, a total of **948** are considered for the implementation of the SCADA system.

*The compression capability* is provided by **5** gas compressor stations, placed on the main transmission directions.

Two of the **5** compressor stations, namely GCS Onești and GCS Siliștea, have entered into a modernization program, which involves replacing the existing compressor groups and the related technological installations.

In this respect, until the completion of the modernization process 31.03.2020 the two compressor stations will be inoperative.

In order to ensure the continuity of the maintenance activities at Șinca Compressor Station in 2019, maintenance works were performed on the basis of the service contracts in force, as follows:

- Verification of automation and vibration lines at Șinca Compressor Station, SOLAR B and Ingersoll Rand 1 and 2 Compressor Units
- Technical revisions and service at the instrumental air installation at TCS Șinca (SOLAR units).

CS JUPA and CS Podisor were accepted.

In order to ensure full safety conditions during the interventions on the gas transmission pipelines, to ensure a considerable reduction of the technological consumptions and, at the same time, to achieve the objective regarding the minimization of the natural gas emissions in the atmosphere by using the Portable gas compressor - recovery station, a number of 6 works of recovery by pumping over for natural gas transfer through the portable gas compressor/pump over station (SMCTG) was performed until 30.12.2019.

The recovered gas volume was of 799.352 cm.

From the existing technological nodes about 20% are new or rehabilitated.

During the implementation of the SCADA system, the process of upgrading the technological nodes will continue.

*Gas odorization* is ensured by a number of **902** odorization facilities of which **604** systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas.

Out of the **604** modern systems, a total of **37** are centralized - serving several delivery points. **298** `evaporation/drip` type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or overodorization and thus to an increased consumption of odorant.

Out of these **12** facilities are centralized.

In 2019 a number of **9** old odourisation facilities were replaced with automatic odorization installations.

It should be stressed that although the technical condition of the NTS is maintained at an appropriate level due to the fact that the operation is carried out based on a predominantly

preventive planned and corrective maintenance system and based on some upgrading programs.

These programs are based on the Technical Rules on the maintenance of the NTS as they are carried out on a longer period of time due to their high levels.

### Cross-border interconnection points

Currently, the import/export of natural gas to/from Romania is achieved by 7 cross-border interconnection points:

Cross-border interconnection pipeline features	
UKRAINE	<b>Orlovka (UA)–Isaccea (RO)</b> - DN 1000, Capacity 8.6 bcma, $P_{max} = 55$ bar
	<b>Tekovo (UA)–Medieșu Aurit (RO)</b> - DN 700, Capacity =4.0 bcma, $P_{max} = 70$ bar
	<b>Isaccea 1/Orlovka 1</b> , $P_{max} = 49.5$ bar in the import direction and $P_{max} = 45$ bar in the export direction
HUNGARY	<b>Szeged (HU)–Arad(RO)–Csanadpalota</b> - DN 700, Capacity = 1.75 bcma, $P_{max} = 63$ bar
REPUBLIC OF MOLDOVA	<b>Ungheni (MO) – Iași (RO)</b> - DN 500, Capacity = 1.5 bcma, $P_{max} = 50$ bar
BULGARIA	<b>Ruse (BG)–Giurgiu (RO)</b> - DN 500, Capacity = 1.5 bcma $P_{max} = 40$ bar in the export direction and $P_{max} = 30$ bar in the import direction
	<b>Negru Vodă 1/Kardam</b> , $P_{max} = 55$ bar in both transmission directions

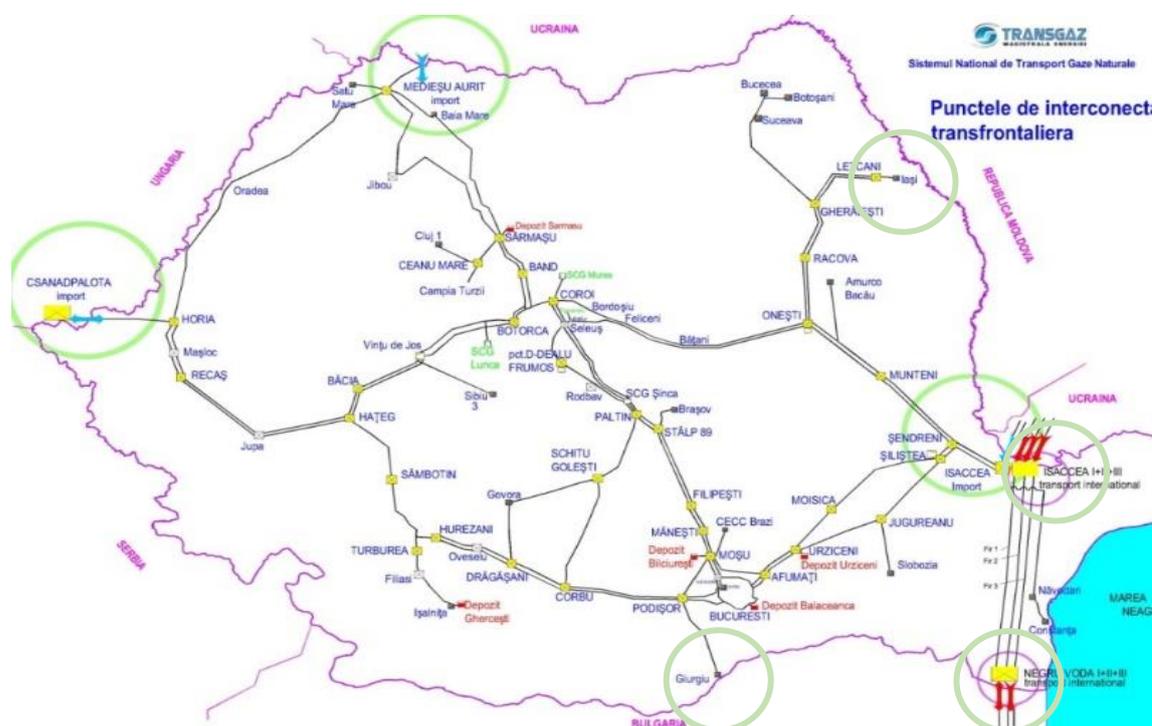


Figure 17 - Cross border NTS interconnection points

### 3.6.2. The operation activity

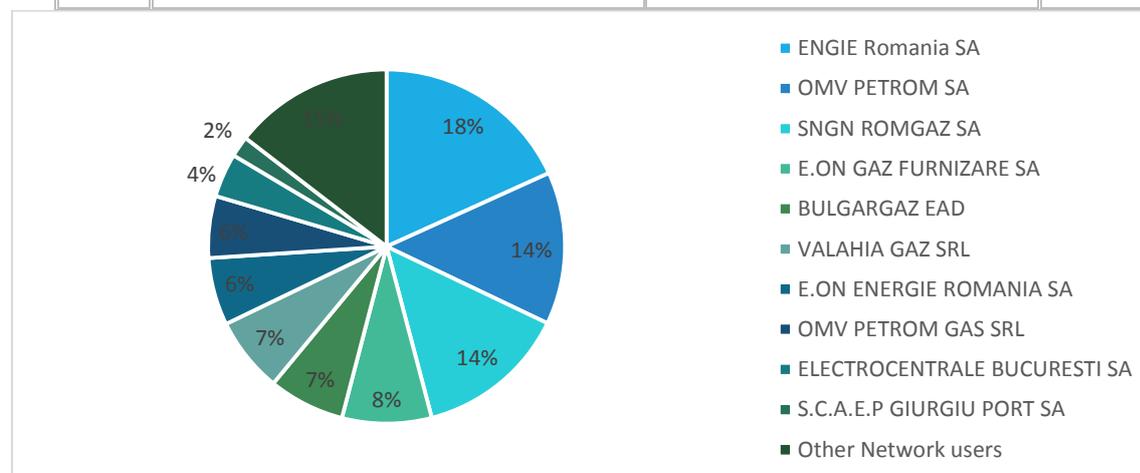
Between **1 October 2018–31 September 2019** the regulated tariffs for gas transmission for gas transmission through the National Gas Transmission System were set based on **ANRE Order 98/29 May 2018 on the approval** of regulated revenue, total revenue and transmission tariffs for gas transmission through the National Gas Transmission System.

Between **1 October 2019–31 December 2019** the regulated tariffs for the provision of the gas transmission services through the NTS were set based on **ANRE Order no 64/30 may 2019**, on the approval of the regulated revenue, the total revenue and the transmission tariffs for the gas transmission activity through the National gas transmission system.

**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.

**The main beneficiaries** of the gas transmission service between 1 January – 31 December 2019:

No.	Main network users	INVOICE AMOUNT WITHOUT WATT (lei)	%
1	ENGIE Romania SA	234.191.956,85	18,19
2	OMV PETROM SA	179.392.542,00	13,94
3	SNGN ROMGAZ SA	177.549.408,19	13,79
4	E.ON GAZ FURNIZARE SA	104.447.011,16	8,11
5	BULGARGAZ EAD	88.897.690,04	6,91
6	VALAHIA GAZ SRL	88.337.457,40	6,86
7	E.ON ENERGIE ROMANIA SA	79.253.496,83	6,16
8	OMV PETROM GAS SRL	72.760.119,57	5,65
9	ELECTROCENTRALE BUCURESTI SA	51.487.483,87	4,00
10	SCAEP GIURGIU PORT SA	24.269.148,11	1,89
11	OTHER NETWORK USERS	186.710.843,80	14,50
	<b>TOTAL</b>	<b>1.287.297.157,82</b>	<b>100,00%</b>



**Chart 10** - Main NTS users between 1 January and 31 December 2019

**1.862 contracts** were concluded and signed in 2019 with the network users for annual, quarterly, monthly and daily transmission services for the NTS entry/exit points, including the Csanadpalota, Ruse–Giurgiu, Negru Voda 1, Negru Voda–locality, Mangalia-locality interconnection points.

Total number of NTS contracts between January- December 2019:

Contract type	Annual	Quarterly	Monthly	Daily	Total
No. of contracts	94	210	781	91	<b>1076</b>

Total contracts in the interconnection points concluded on the RBP during January-December 2019:

Contract type	Annual	Quarterly	Monthly	Daily	Total
No. of contracts	13	35	83	655	<b>786</b>

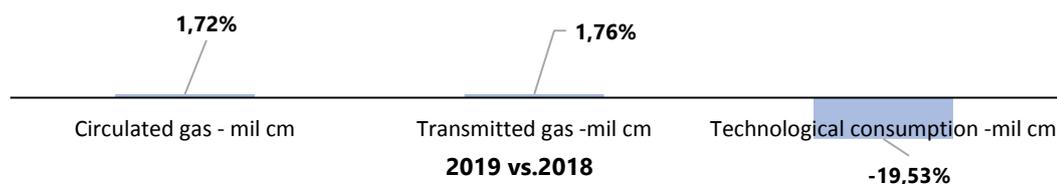
Gas quantities circulated and transmitted through the National Gas Transmission System and the technological consumption between 2017-2019 is the following:

Indicator	MU	Sem. I 2017	Sem. I 2018	2019	+/-	%
0	1	2	3		5=4-3	6=4/3-1
<b>Circulated gas</b>	Thousand cm	12.974.819	13.074.676	13.299.834	225.158	1,72%
<b>Transmitted gas</b>	Thousand cm	12.872.891	12.998.423	13.227.501	229.078	1,76%
<b>Technological consumption</b>	Thousand cm	95.242	81.034	65.208	-15.826	-19,53%
<b>Technological consumption/circulated gas</b>	%	0,73%	0,62%	0,49%		-20,9%

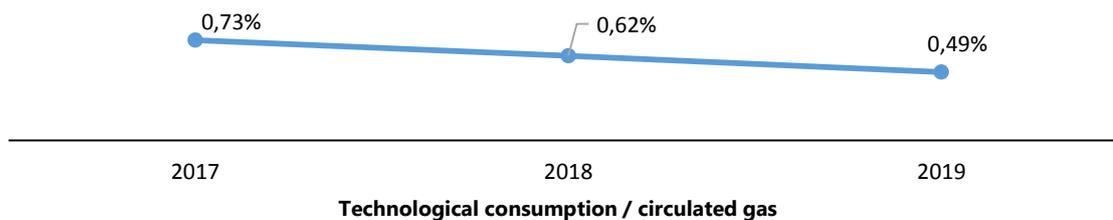
**Table 10** - Gas quantities circulated and transmitted and the technological consumption between 2017-2019



**Chart 11** - Gas quantities circulated and transmitted and the technological consumption between 2017-2019



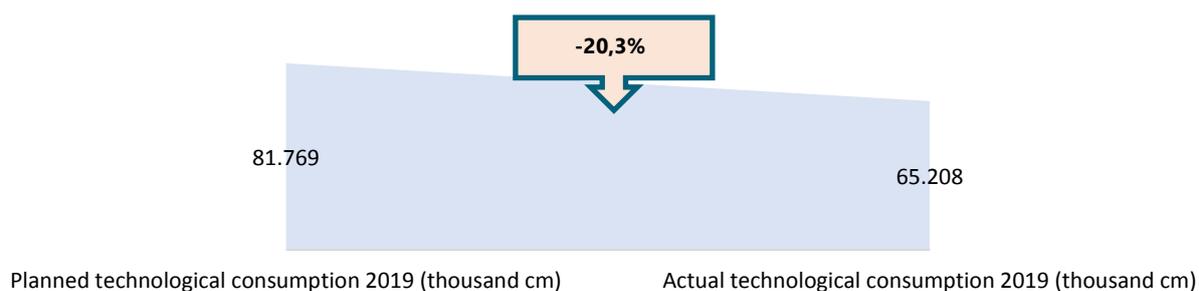
**Chart 12**- Gas quantity circulated and technological consumption 2019 vs. 2018



**Chart 13-**Technological consumption share in total circulated gas between 2017-2019

	2017	2018	2019
<b>PLANNED TECHNOLOGICAL CONSUMPTION- thousand cm</b>	105.346	105.437	81.769
<b>ACTUAL TECHNOLOGICAL CONSUMPTION- thousand cm</b>	95.242	81.034	65.208

**Table 11-** Gas quantities for technological consumption achieved vs planned in 2017-2019



**Chart 14 -**Total actual technological consumption vs. total planned in 2019

Therefore, as it may be noticed, in 2019, the evolution of the technological consumption in the NTS continued downward trend being 31,5% lower than the one recorded in 2017 and 19,5% lower than the level recorded in 2018.

### 3.6.3 The investment policy

#### Modernization and Investment Development Plan (MIDP)

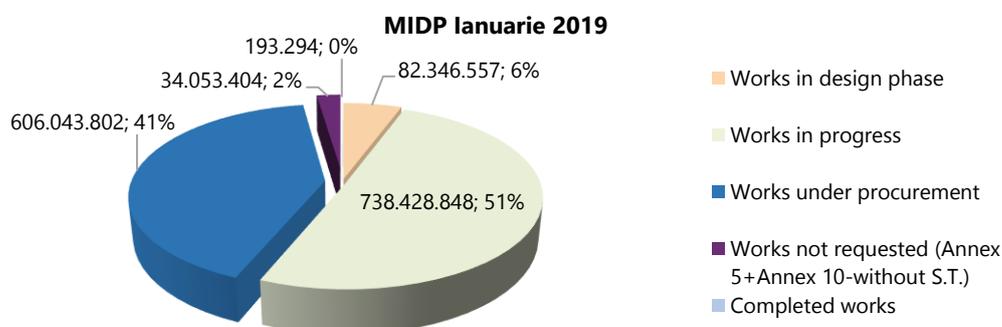
The investment activity is mainly directed towards the modernization and development of the NTS in order to improve the efficiency and to increase its capacity and also to develop new consumption areas.

The value of the investment funds, approved in the revenue and expense budget, is 2.441.000 thousand lei. The value of the achievements at the end of 2019 is 1.063.025 thousand lei, which includes: 606.935 thousand lei expenditure on the execution of works covered by the modernisation and investment development plan, 23.064 thousand lei design and feasibility

studies, 170.286 thousand lei financial investments, 267.253 thousand lei pipe purchase, 4.396 thousand lei capitalized interest and (8.910) thousand lei intangible assets in execution, and for difference, up to the budgeted value, the company has contracts in progress as well as works in procurement procedures.

The amount of modernisation and development funds for 2019, approved in the revenue and expense budget, is 1.461.065 thousand lei. The value of achievements at the end of 2019 is 606.935 thousand lei, which also includes the amount of 5.808 thousand lei representing the connection works to the NTS of new consumers, carried out under the NTS access regulation approved by GR no.1043/2004, replaced by the ANRE Order 82/2017, of which 4.432 thousand lei of funds allocated by the modernisation and development plan and 1.376 thousand lei from the NTS connection tariff.

Of the total budgeted amount of MIDP for 2019, in January 2019, works in progress represented 51%, works under procurement 41% and works in design phase 6%.

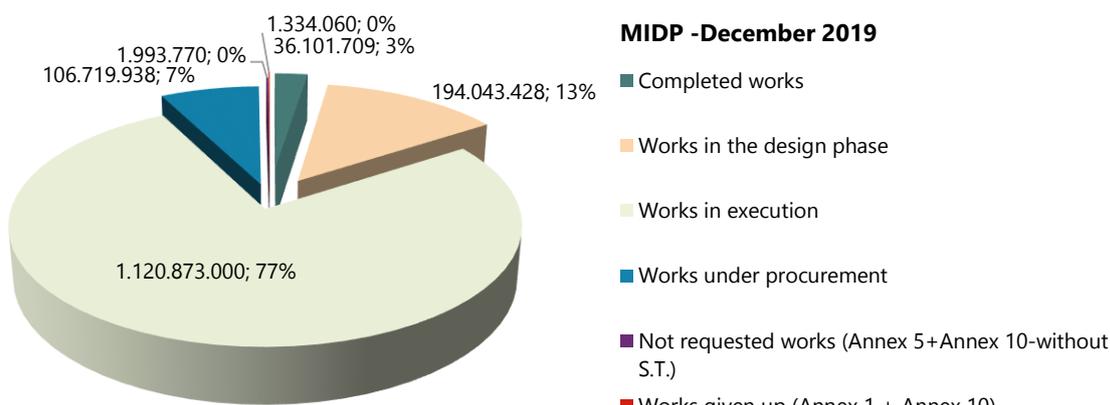


**Chart 15 - MDIP- January 2019**

At the end of 2019, reported to the budgeted value, the works completed represented 2.47%, the execution works 76,72%, the design works 13,28%, the works in the procurement procedure 7,30%, the works for which the necessary documentation was not sent for the initiation of the procedure, the machines and equipment to be disposed of 0,14%, and the works or equipment to be disposed of representing 0.09%.

***The increase in the percentage of completed works can be noticed and of the ones in progress, in accordance with the decrease of the works in the design phase or for which the procurement procedure was started. For the works in the design phase, the total value includes the works planned in Chapter D - Development of the NTS according to Law 123/2012 (Updated), Art.130, of e<sup>1</sup> and e<sup>2</sup>, for which funds were allocated in the amount of 150.000.000 lei.***

At the works in Annex 2 and the equipment included in Annex 10 of the program, for which reports of withdrawal were received, the allocated funds were redistributed for the purchase of other machinery and products, or, as the case may be, the supplementation of the funds initially allocated as a result of the change in the exchange rate.



**Chart 16** – MIDP - December 2019

**The main works finalized in 2019 are:**

- Compressor Stations CS Jupa and CS Podișor (BRUA Phase 1)
- Connection pipe DN700 MRS SIDEX GALATI;
- The smoke and gas detecting system in the turbo compressors hall at TCS Șinca;
- Interconnection of TCS Jupa to the NTS – construction works;
- DN600 Mașloc – Recaș gas transmission pipeline, stage I, area through the forestry fund;
- Mounting of DN 800 pig receiving trap (temporary) on the Bățani – Onești pipeline, the area of Bogdănești;
- Protection of the DN250 Târgu Ocna - Slănic Moldova gas transmission pipeline, the area of Cerdac, the county of Bacău;
- The Moisica technological node – automation works;
- Works on ensuring the security of the MRS BRĂILA natural gas supply connection, Agricultural Farm area;
- Works on ensuring the security of Bogdana undercrossing with DN 800 Onești- Han Domnești pipeline, in Bogdana area;
- Upgrading MRS Nădrag;
- Connection of the electronic commercial metering systems with orifice plate at the process gaschromatographs;
- MRS Dej II;
- Cathodic protection stations Vădeni, Bogatu Român and Crăciunelul de Jos;
- The works for the restoration of the working point Hurezani;
- Upgrading the offices of the Cluj sector;
- Building and fencing at MRS Timișoara I;
- Completion of the procurement of several machines and equipment in the amount of lei 13.308.667.

**The main works in progress:**

- Development on the Romanian territory of the Bulgaria-Romania-Hungary-Austria Corridor (BRUA)
  - Compressor station execution works (Bibești);
  - Pipeline execution works (Phase 1);
  - pipeline automation and security works
- NTS developments in the North-Eastern area of Romania so as to improve gas supply in the area and to ensure transmission capacities to the Republic of Moldova
  - ✓ Procurement of the compressor units
  - ✓ Construction of the compressor stations Onești and Gherăești, pipeline automation and securing;
- Enhancement of the Romanian gas transmission system between Onești – Isaccea and reverse flow at Isaccea – phase 2 (interconnection of the national gas transmission system with the international transmission system and reverse flow at Isaccea) – phase 2 upgrading of GCS Onești and upgrading of GCS Siliștea;
- NTS Interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea;
- Replacement of the gas metering station GMS Isaccea 1;
- Replacement of the technological equipment of MRS Timișoara I;
- Gas transmission pipeline DN 500 Craiova - Segarcea - Băilești - Calafat, et.I, tr. Craiova – Segarcea;
- Gas transmission pipeline DN 600 Mașloc – Recaș – stage I (part II- area thorough the forestry fund).
- Undercrossing of the Olt river by the DN 300 Drăgășani – Caracal pipeline (gas supply connection to the municipality of Caracal);
- Gas transmission pipeline DN 300 Mintia - Brad - stei, et.I Mintia – Brad;
- Gas transmission pipeline DN400 Vaslui - Iași (tr. Vaslui - Mogoșești) - reunification in the area of the Bârnova forest;
- Systematization of the pipelines in the area of the technological node Moșu;
- Technological nodes Recaș and Racova;
- Upgrading of the building of Transgaz offices in 6 Carpați Street.

**The main works in the procurement procedure are:**

- NTS developments in the North-Eastern area of Romania so as to improve gas supply in the area and to ensure transmission capacities to the republic of Moldova
  - ✓ DN700 Onești - Gherăiești – Lețcani gas transmission pipeline
- Development on the territory of Romania of the Southern gas transmission corridor for taking over gas from the Black Sea shore (Black sea shore-Podisor)
- Interconnection of the NTS with the international gas transmission system and reverse flow at Isaccea – stage 2 – works in the TN Șendreni - existing
- Securing DN350 Luna - Aiud, DN250 Luna–Ocna Mureș (line I) and DN250 Luna-Ocna Mureș (line II) pipeline, the Războieni area;
- Gas transmission pipeline Sărmășel – Satu Mare, the area Sucutard;
- Gas transmission DN 250 Câmpulung Moldovenesc - Vatra Dornei pipeline (Pojorâta - Vatra Dornei section);

- Security of the gas transmission pipeline DN 500 Hațeg – Paroșeni, the area of Dealu Babii;
- Securing DN 300 Agârbiciu – Sibiu pipeline, the area of Șeica Mare;
- Upgrading MRS Chișineu Criș;
- Technological node Drăgășani;
- Installation works and planning of the security and surveillance systems and the fencing of the NTS facilities.

Based on the letter received from the departments and divisions within the company during the development of the investment program 2019, for several works and equipment requested initially from various reasons the cancellation of the execution of some initially planned works was requested as well as the renunciation to procure some machines and equipment.

Part of the available funds resulting from such renunciations were redistributed to ensure the funds necessary for the achievement of some new investment objectives requested throughout 2019.

There are still difficulties in achieving investment objectives such as:

- Lack of the necessary permits to obtain the Construction Authorization from land owners and the local authorities for the following investment objectives:
  - DN 700 Moșu - Buciumeni gas transmission pipeline;
  - DN 500 Plătărești–Bălăceanca gas transmission pipeline;

In order to solve the problems that occurred during the execution of the works and the achievement of the objectives according to the plan, the following measures were taken:

- In some more difficult areas, from the point of view of obtaining agreements from landowners or at the request of local governments, the decision was taken to redesign the pipeline route or technical solutions for the construction;

### 3.6.4 NTS maintenance policy

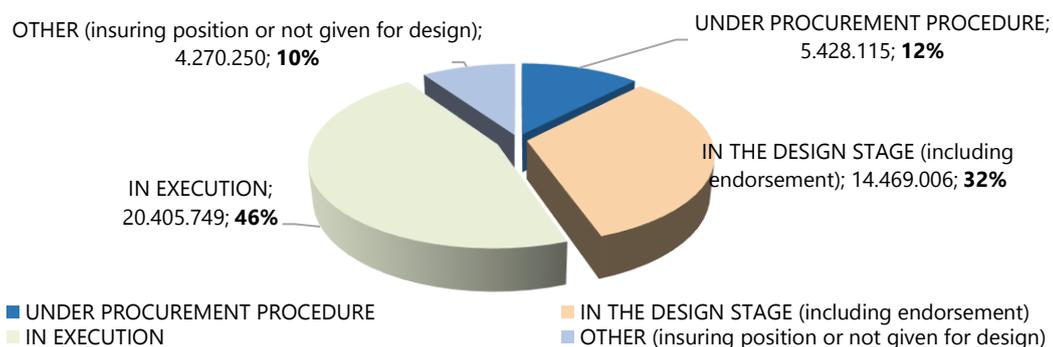
#### Repair, Rehabilitation and Maintenance Services Plan

The **2019 Maintenance, Repair and Maintenance Services Plan (update 17)** has an allocated amount of **80.283.391 lei**, out of which 43.939.811 lei for NTS Repair and Rehabilitation Works and 36.343.580 lei for NTS Maintenance Services.

#### A. NTS repair and rehabilitation works

Of the total NTS Repair and Rehabilitation Works budgeted amount, in January 2019, the executed works represented 46%, (works contracted in the previous years) works being designed 32%, works during the procurement procedure stage 12%, and the works not included in the previous categories (Security positions or works which were not sent for design) 10%;

### PRRASM 2018 - Repairs and NTS Upgrading January 2019



**Chart 17 - PRRASM 2019 - NTS Repair and Rehabilitation - January 2019**

**In 2019 (at the level of December 2019), the repairs and upgrading works (Annexes 1, 2, 6, 7 and 8 of PRRASM 2019) which were being executed had a share of 55,89% from the budgeted value.**

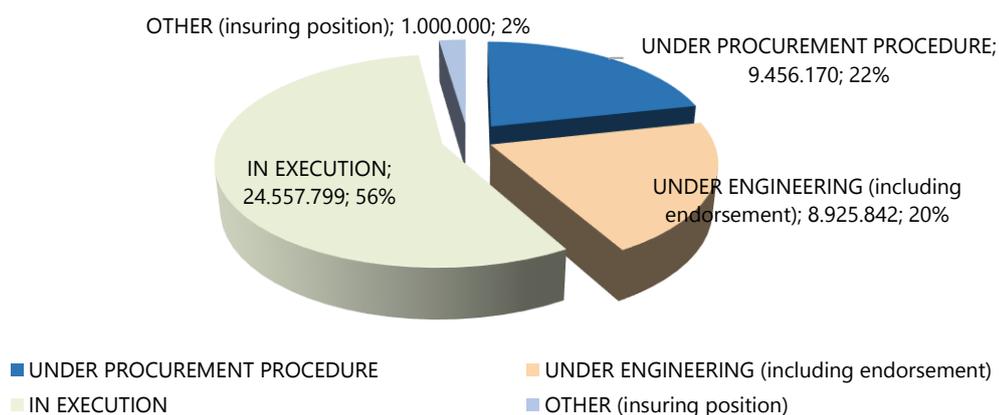
Procurement procedures in an advanced state:

- The Ø8 supply connection ELSID Titu pipeline .
- Replacement of the Ø 32`` pipeline section on the Ø 28`` Platou Izvor Sinaia-Filipești transmission pipeline, the area Drăgăneasa;
- Repairs of the abovecrossings (framework agreements for 2 years);
- Ø24`` Paltin Schitu-Golești pipeline (the county of Brasov).
- Preparation of the Ișalnița-Cruce Ghercești pipeline for pigging;

The procurement procedures were completed by the conclusion of execution contracts (for the works of PRRASM 2019):

- Security of the 12`` Vlădeni-Mănești pipeline ;
- Repairs of the 32`` Cosmești-Onești pipeline (third party works);

### PRRASM 2018 - NTS Repairs and Rehabilitation -December 2019



**Chart 18 - PRRASM 2019 - NTS Repair and Rehabilitation - December 2019**

**Note 1:** Part of the works (Cosmești-Onesti, Bacia - Caransebes -HD, CS, Podisor - Giurgiu, Șendreni – Albești BZ) was executed partly or completely in-house – Mediaș Subsidiary. The achievements were calculated based on the report of expenses sent by the Mediaș Subsidiary (the report of expenses Nov. 2018-March 2019 =value 3.109.677,22 lei, Report of expenses Apr.2019-Jun.2019 =value 7.929.195,38 lei, Report of Jul.2019-Nov.2019 =value 11.221.907,68 lei).

**Note 2:** The construction works (Annex 8) for which the technical specifications/pre-measurements were not completed were included in the category 'UNDER ENGINEERING'.

### Main contracts concluded in 2019:

- Visa river aerial crossing by Ø 10 - 12 pipe connection PM Soala, Agârbiciu area;
- Pipeline insulation works in fixed stations.
- Securing of the 12`` Vlădeni-Mănești pipeline;
- Repairs of the 32`` Cosmești-Onești pipeline (third party works) ;

### FEEDs completed in 2019:

- repair works LEA 0,4 kV power supply CPS Oituz 1-2;
- Ø 20 Onești-Racova-Gherăști pipeline -line II (the county of Bacău) ;

### There are difficulties in carrying out repairs and rehabilitation of main pipelines due to certain issues external to the company:

- Problems with the ownership agreements for the following objectives:
  - ✓ Ø48`` Isaccea - Negru Voda pipeline - TRANSIT 3;
  - ✓ Repair pipeline Ø 32`` Cosmești-Onești;
  - ✓ Ø24`` Paltin Schitu - Golesti pipeline (Arges stage I)
- Absence or expiration of the necessary permits for obtaining the Construction Authorization for the following objectives (caused by the procedural term of the public procurement, namely, the procurement procedure cannot be started without AC's and, until the end of the procedure, the approvals/AC's lose their validity):
  - ✓ Ø24`` Paltin Schitu - Golesti pipeline (Arges)
  - ✓ Ø48`` Isaccea-Negru Vodă-TRANZIT 3 gas transmission pipeline.
- The necessity to apply the provisions of GEO 114/2018 made it difficult to carry out and settle the works for some of the objectives under execution:
  - ✓ Pipeline 20`` Adjudul Vechi, areas of Branistea, Schela and Independența;
- The need to re-design some works (following successive changes):
  - ✓ Ø 20`` Onești-Racova-Gherăști Pipeline, pipe II ( Bacău county).
- Non-submission of bids:
  - ✓ Ø 24`` Paltin Schitu-Golești pipeline (Brasov county).

### In order to solve the problems that have arisen, the following measures were taken:

<ul style="list-style-type: none"> <li>▪ The priority works were achieved inhouse (Mediaș Subsidiary and Regional Office);</li> </ul>
<ul style="list-style-type: none"> <li>▪ Documents for obtaining opinions/authorizations were restored and submitted to the competent authorities;</li> </ul>
<ul style="list-style-type: none"> <li>▪ In some more difficult areas, from the point of view of obtaining the agreements from the landowners or at the request of the local administrations, the decision was made to redesign the pipeline route or the technical solutions for the achievement of the construction;</li> </ul>
<ul style="list-style-type: none"> <li>▪ Addendums to contracts were drawn up (and reports were prepared) for maintenance work (for the application of GEO 114/2018).</li> </ul>
<ul style="list-style-type: none"> <li>▪ Unfinished works by contractors were approached with their own forces (Mediaș Subsidiary and RO).</li> </ul>
<ul style="list-style-type: none"> <li>▪ It was proposed to approach the procurements by counties to obtain authorizations, in order not to condition the works where all the conditions are created on the difficulties encountered in the areas having approval/authorization issues from the local administration;</li> </ul>

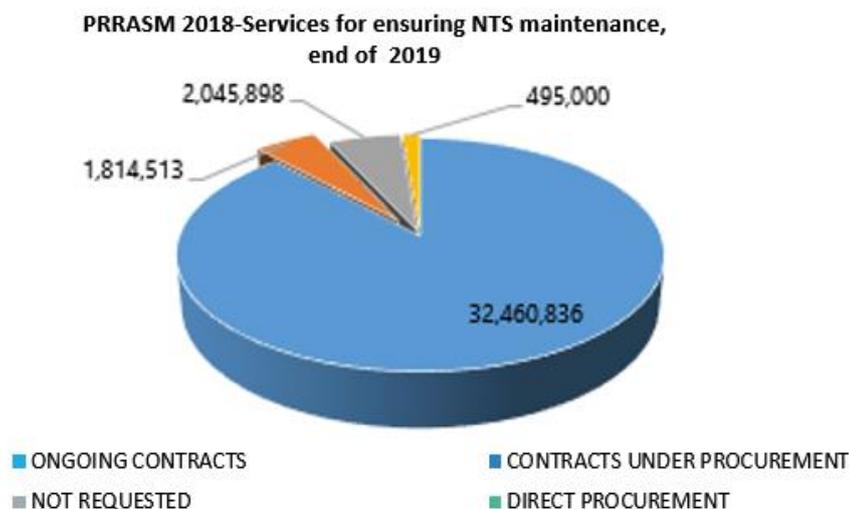
## B. NTS Maintenance Assurance Services

Of the budget allocated to the NSS Maintenance Services of **36.373.580** lei, representing **45,3%** of the total amount of the Maintenance Plan, **13.926.024 lei** was achieved at the end of December.

Therefore the total budgeted amount of the NTS Maintenance Services for 2019, between January and December 2019, has the following allocation reported to 98 budget lines ensured:

- A number of **75 positions** with a budget amounting to **lei 32.461 thousand** were contracted and recorded in the end of the year achievements amounting to **lei 13.926 thousand**.
- **4 positions** with a total budget of **lei 1.815 thousand** were in the end of 2019 in the procurement procedure.
- **19 positions** of services remained unrequested (out of which two are direct procurements allocated to the Mediaş Subsidiary and Regional Offices). Such services with a budget allocation of **lei 2.046 thousand** were the ones with the amounts ensured for reduced predictability.

The graphical expression of this distribution can be seen in the following chart:



**Chart 19 - PRRASM 2019 - NTS Maintenance Services – December 2019**

In conclusion at the end of 2019, **the number of ongoing NTS maintenance services increased to 83%, and only 6%**, representing amounts ensured for unpredictable situations.

### Main contracts concluded in 2019:

- Revision and repair services to MRSs and odorisation plants;
- Inspection services with intelligent pig for Isaccea-Negru Vodă-Transit 1 pipeline;
- Automation and vibration lines verification services at compressor stations;
- Instrumentation services, revisions, repair, calibration, conformation controls, for the measuring system and gas quality and quantity checks;
- Revision and maintenance services for the car park.

- Authorization or certification services in the field of welding

Regarding the services having significant values, the procurement of regulated services required by the laws in the field of river transmission safety, namely the inspection of the Danube river crossing by gas transmission pipelines is in progress.

### 3.7 Control of procurement

Procurement of the technical-material basis is based on firm contracts or orders, in compliance with the applicable laws, both on the domestic and import markets.

At the substantiation of **PAAS 2019, the necessary works, products and services** were taken into account, as they were included in:

- **Investment Upgrading Development Program**
- **Program of Repairs, Rehabilitation and Assurance of Maintenance Services**
- **Supply Program**
- **The Program regarding Other Services Performed by Third Parties**
- **Design Program**
- **The Research Program**, approved by the BoA Resolution no. 1/18.01.2019.

The Program includes **all the contracts/framework agreements** that SNTGN Transgaz S.A. Medias intends to award/conclude in 2019. Also, procedures started in 2018, which were not awarded/ not completed by the end of the year, were taken over in the 2019 program, with the indication that they are in progress in previous years.

The total value of the **Sectoral Procurement Annual Program for 2019 (PASS 2019)**, approved by Resolution no 3/31.01.2019 of the Board of Administration, was of **lei 2.723.171.227,46**, and the value for the Annual Program of Sectoral procurement for 2019-NTS development in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the **Republic of Moldova** (PASS 2019 – Moldova) was of **lei 890.330.194**;

Following 29 updates of PAAS 2019 which became necessary after the revision of the execution programs underlying the substantiation of the REB the total value of the PAAS became **lei 2.974.188.417,33** and the value of the PAAS 2018 – Moldova became **lei 933.148.303,00**.

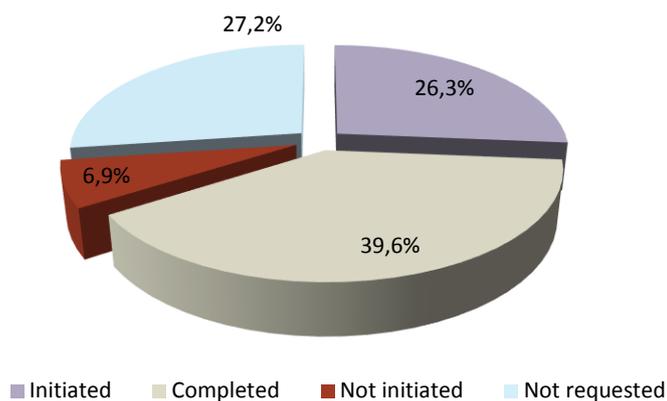
#### **PROCUREMENT PROCEDURES:**

On the basis of the PAAS 2019 (Procedures section, updated) out of the **467 active positions, 308 procedures** were launched, of which **185 procedures were finalized (39.61%)** and **123 procedures are started (26.34%)**, in progress at different stages.

In addition, a total of **32 procedures (6.85%)** are currently **requested** with DASC documents, and up to the total number of active positions in the program a total of **127 positions** are not requested by interested departments/ divisions/units (**27,19%**).

Schematically the status of the procurement procedures is as follows:

Procedures centralizer (physical)		
<b>Total procedures as of 31.12.2019, where:</b>	<b>467</b>	% realized through PAAS (procedure section)
- initiated	123	26,3 %
- completed	185	39,6 %
- not initiated	32	6,9 %
- not requested	127	27,2 %



**Chart 20-** Procurement procedures as at 30.01.2019

Procedures centralizer (value) - lei		
<b>Total value as of 31.12.2019, where:</b>	<b>2.941.934.826,81</b>	PAAS % achievement (procedures section)
- initiated	1.663.831.286,35	56,6 %
- completed	738.803.574,38	25,1 %
- not initiated (in progress at DASC)	94.850.414,37	3,2 %
- not requested	396.897.748,8	13,5 %

NOTE\* From the value point of view, the sum of the percentages is less than 100%, for the value differences from the estimated values to those awarded (lower than the estimated value).

For the **185 positions achieved** in the PAAS 2019 procedure section, the situation of the achievements against the estimated values (only these ones) is presented according to the following table:

No. positions of completed procedures in PAAS	Estimated value lei VAT excluded	Achieved value lei VAT excluded	%
185	786.355.377,29	738.803.574,38	94

**The total number of contracts concluded** (including the subsequent contracts awarded under the framework agreements as set out in Annex 1 to PAAS 2018) is presented schematically in the following table:

Contract type	Total value contracts	Number of contracts/ Frame agreements assigned	Out of which number of subsequent contracts	Value of subsequent contracts	Value achievement from PAAS
	(lei without VAT)				
0	1	2	3	4	5=1-4
<b>Contract of works</b>	453.880.490,25	23	0	0	453.880.490,25
<b>Contracts of services</b>	119.614.064,02	201	105	30.212.098,54	89.401.965,48
<b>Contracts of products</b>	217.595.903,65	112	17	22.074.785,00	195.521.118,65
<b>TOTAL CONTRACTS</b>	<b>791.090.457,92</b>	<b>336</b>	<b>122</b>	<b>52.286.883,54</b>	<b>738.803.574,38</b>

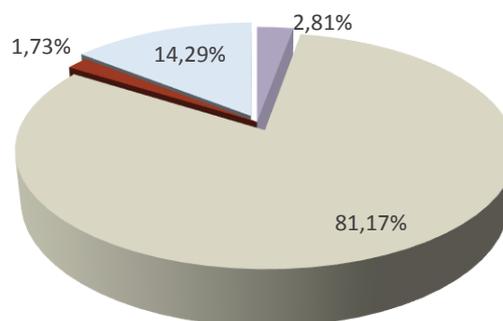
**Table 12** - The situation of the contracts concluded through procurement procedures (*simplified procedures/open auctions/NFIPPCO*)– between 01.01 and 31.12..2019

### **DIRECT PURCHASES:**

On the basis of the updated PAAS 2019, out of **462 active positions**, **387 direct purchases** were initiated, out of which **375 direct purchases were completed (81,17%)**, and **13 direct purchases started (2.81%)**, ongoing in different stages.

In addition, a total of **8 direct purchases (1.73%)** are currently requested, with Procurement Division documentation, and up to the total active positions in the program **66 positions** are not requested by interested departments / divisions/ offices (representing a percentage of **14.29%**).

<b>Centralizer of direct purchases (physical)</b>		
<b>Total pos. at 31.12.2018, where:</b>	<b>462</b>	<b>% realization direct purchases</b>
- initiated	13	2,81%
- achieved	375	81,17%
- not initiated	8	1,73%
- not requested	66	14,29%



■ Initiated ■ Completed ■ Not initiated ■ Not requested

**Chart 21**-Situation of direct procurements as at 31.12.2019

Centralizer of direct purchases (value)		
<b>Total value as of 31.12.2019, where:</b>	<b>18.147.050,06</b>	<b>% realization direct purchases</b>
- initiated	775.802,24	4,28%
- achieved	<b>9.827.548,55</b>	54,16%
- not initiated	295.290,71	1,63%
- not requested	5.206.528,2	28,69%

NOTE\* From the value point of view, the sum of the percentages is less than 100%, for the value differences from the estimated values to those awarded (lower than the estimated amount).

For the **375 positions achieved** from PAAS 2019 - Direct Purchases, the situation of the achievements against the estimated values (numai a acestora) is presented in accordance with the following table:

No. positions completed from PAAS 2019 - AD	Estimated value lei VAT excluded	Achieved value lei VAT excluded	%
375	11.869.428,91	9.827.548,55	83 %

### The recorded situation of the contracts concluded by direct procurement between 01.01-31.12.2019:

Type of contract	Total Value contracts / orders / delegation of competences	No. Contracts concluded by purchase office	Value of contracts concluded by purchase office	No. orders concluded by purchase office	Value orders concluded by purchase office	Value of purchases which are not comprised into PAAS - AD	No. Orders delegations of competences of services and products	Value of orders delegations of competences of services and products	Value of realizations from PAAS - AD
	(lei without VAT)	-	(lei without VAT)	-	(lei without VAT)	(lei without VAT)	-	(lei without VAT)	(lei without VAT)
0	1=3+5+8	2	3	4	5	6	7	8	9=1-6
<b>Works</b>	1.896.804,33	15	1.882.608,32	1	14.196,01	0,00	0	0,00	1.896.804,33
<b>Services</b>	3.818.103,24	63	2.784.968,45	92	582.743,6	13.072,95	14	450.391,19	3.805.030,29
<b>Products</b>	4.125.713,92	11	618.971,48	117	909.989,64	0,00	113	2.596.752,8	4.125.713,92
<b>TOTAL</b>	<b>9.840.621,5</b>	<b>89</b>	<b>5.286.548,26</b>	<b>210</b>	<b>1.506.929,25</b>	<b>13.072,95</b>	<b>127</b>	<b>3.047.143,99</b>	<b>9.827.548,55</b>

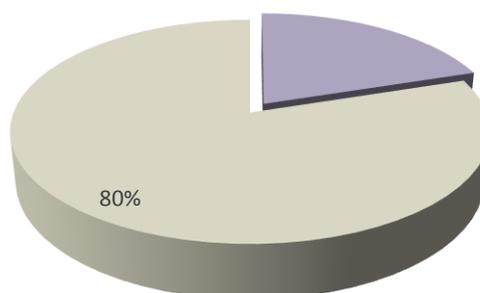
Table 13 - Situation of contracts concluded through direct purchases during the period 01.01-31.12.2019

### PURCHASE PROCEDURES-PAAS 2019 (Moldova)

On the basis of the PAAS 2019 (Moldova), from **5 active positions**, following the requests of the departments/ divisions/offices concerned, **5 procedures were initiated**, of which **4 procedures were completed (80%)**, and **1 procedure (20%) is ongoing**.

PAAS Moldova procurement progress:

<b>Centralizer of procedures PAAS-for BRUA – PHASE 1 (physical)</b>		
<b>Total pos. at 31.12.2019, where:</b>	<b>5</b>	<b>% of achievement procedures</b>
- initiated	1	20,0%
- completed	4	80,0%
- processed by DASC but not initiated	0	0,00%
- not requested	0	0,00%



■ Initiated ■ Completed ■ Not initiated ■ Not requested

**Chart 22 - PAAS procedures for Moldova as at 31.12.2019**

<b>Procedures centralizer PASS-2019 Moldova (value)</b>		
<b>Total value at 31.12.2019, where:</b>	<b>933.148.303</b>	<b>% of realization procedures</b>
- initiated (estimated)	328.343.959	35,19 %
- completed (concluded contracts)	583.602.764,52	62,54 %
- not initiated	0,00	0,0%
- not requested	0,00	0,0%

*NOTE. In terms of value, the sum of percentages is less than 100%, the difference resulting from the estimated value of the procedures and the awarded value (different from the estimated value).*

## 4. CONSOLIDATED FINANCIAL REPORTING

### 4.1 Consolidated financial position

According to Article 1 of Order no. 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 consolidated financial position on 31.12.2019 as compared to 31.12.2018 is as follows:

Indicator	31.12.2019 Thousand lei	31.12.2018 Thousand lei	Dynamics (%)
0	1	2	3=1/2
Tangible assets	622.962	543.637	114,59%
Rights of use for the leased assets	9.359	0	-
Intangible Assets	3.058.597	2.301.806	132,88%
Financial assets	0	0	-
Goodwill	9.776	9.413	103,86%
Trade receivables and other receivables	723.922	629.755	114,95%
<b>Fixed assets</b>	<b>4.424.616</b>	<b>3.484.611</b>	<b>126,98%</b>
Inventories	494.614	255.307	193,73%
Commercial receivables and other receivables	524.500	541.785	96,81%
Cash at hand and in bank	352.985	711.318	49,62%
<b>Current assets –TOTAL</b>	<b>1.372.099</b>	<b>1.508.410</b>	<b>90,96%</b>
<b>TOTAL ASSETS</b>	<b>5.796.715</b>	<b>4.993.021</b>	<b>116,10%</b>
Debts to be paid over a one-year period	<b>531.439</b>	<b>419.176</b>	<b>126,78%</b>
Debts to be paid over a period of more than one year	<b>1.490.000</b>	<b>864.583</b>	<b>172,34%</b>
<b>Total debts</b>	<b>2.021.439</b>	<b>1.283.759</b>	<b>157,46%</b>
<b>Equity</b>	<b>3.775.277</b>	<b>3.709.262</b>	<b>101,78%</b>
Share capital	117.738	117.738	100,00%
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	1.699.176	1.635.006	103,92%
Exchange difference form consolidation	3.669	1.824	201,15%
<b>Total equity and debts</b>	<b>5.796.715</b>	<b>4.993.021</b>	<b>116,10%</b>

**Table 14-** Statement of consolidated financial position on 31 December 2018 vs 31 December 2019

### **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 increased in the consolidated balance by lei 79.325 thousand** as compared to the value as at 31.12.2018, mainly due to the fact that the tangible assets inflow exceeded the depreciation cost for tangible assets. Advance payments for tangible assets

amounting to lei 366 thousand were recorded at the end of the period. Eurotransgaz SRL consolidated tangible assets are higher by lei 116.182 thousand.

### **Rights of use of leased assets**

As of 1 January 2019 the company applies IFRS 16 for lease contracts complying with the recognition criteria and recognized as intangible asset a right of use related to the lease contracts and thus the amount recorded on 31 December 2019 for the right of use is lei 9.359.

### **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.

#### *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.

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 unrecognized 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 fair value.

Intangible assets are amortized at zero value during the remaining period of the concession agreement.

**Intangible assets increased by lei 756.791 thousand** as compared with the value as at 31.12.2017, this increase being mainly due to the investment works related to the main projects under the TYNDP. Advance payments for intangible assets amounting to lei 45.260 thousand were recorded at the end of the period.

### **Financial assets**

**The financial assets are not presented in the consolidated statements.** For the purpose of consolidation, the financial assets representing the investment in Eurotransgaz amounting to lei 221.879 thousand were offset by the share capital of Eurotransgaz amounting to lei 215.887 thousand being related to intragroup transactions in accordance with IFRS 10 - Consolidated Financial Statements. From the offsetting of the financial assets with Eurotransgaz's share capital exchange differences resulted amounting to lei 5.992 thousand, which were adjusted by the exchange difference and reserves, affecting only the equity value.

### **Trade receivables and other receivables**

**The receivables to ANRM on 31 December 2019 increased by the amount of lei 94.166 thousand**, calculated after the entry into force of 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 by lei **94.166** thousand compared to the one as at 31 December 2018 is determined mainly by the updating of the receivables with the modifications registered in the RAB and the adjustment of the regulatory asset value by the inflation rate starting with 2019, according to ANRE Order 41/2019.

### **Inventories**

**As at 31 December 2019, inventories increased by lei 239.307 thousand** compared to the value as at 31 December 2018, mainly due to the increase in the stock of the materials necessary for the implementation of the project *Development on the Romanian territory of the National Gas Transmission System Bulgaria-Romania-Hungary-Austria* (BRUA Phase 1) and of the VTMG project, amounting to lei 6.495 thousand.

### **Commercial receivables and other receivables**

**As at 31 December 2019** the balance of the commercial receivables and other receivables decreased by lei **17.285** thousand as compared to 31 December 2018, mainly due to the following factors:

- **decrease of the client receivables balance by lei 20.149 thousand** mainly generated by the decrease in the balance of the receivables resulted from the gas transmission and international transit activity;
- **increase of the provisions for the impairment of the trade receivables and of other receivables by lei 80.260 thousand;**
- **increase of the advance payment to suppliers by lei 102.674 thousand;**
- **increase of the balance of other receivables by lei 19.549 thousand.**

### ***Cash at hand and in bank***

**On 31 December 2019 the company's cash decreased by lei 358.333 thousand** as compared to the end of 2018.

The cash in bank accounts in lei decreased by lei 53.623 thousand and the cash in bank accounts in currency decreased by lei 304.733 thousand.

Other cash elements and cash equivalent register an increase by lei 24 thousand compared with 2018.

### ***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 noticed compared to 31 December 2018:

- **increase of the balance of the commercial debt and other debt by lei 56.891 thousand;**
- **increase of the provision for risks and charges by lei 53.592 thousand** on account of reconsideration in the revenue of the provision for the employees' share in to profit and for the mandate contract which exceeded the value of the provision established for the participation of employees to the profit and of the litigations recorded in 12 months 2019.
- **decrease of the debt related to the provision for the employees benefit by lei 1.086 thousand.**
- **recording of short-term loans in amount of lei 2.868 thousand.**

### ***Long-term debts***

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

- **increase of loans by lei 427.86 thousand;**
- **increase of the provision for the employees benefit by lei 12.786 thousand;**
- **increase of deferred revenue and of the subsidies by lei 128.010 thousand.**
- **increase of the debt related to the deferred tax by lei 3.474 thousand** is caused mainly by the reduction of the differences between the accounting base and the fiscal base of Transgaz and Eurotransgaz consolidated tangible and intangible assets of the deferred tax related to the provision for claims and litigations.
- the recording of the commercial debt and other debts in the amount of **lei 53.279**

### ***Equity***

The subscribed and paid up capital remained unchanged.

The increasing of the retained earnings by lei 64.168 thousand is influenced mainly by the recalculation of the deferred tax for the previous years, the registration of the reserve from the consolidation, and the allocation of the profit related to 2018 to dividends owed to shareholders, which exceeded the profit registered in 12 months 2019, and the loss registered by Eurotransgaz consolidated.

The exchange rate differences increased by lei 1.844 thousand.

## 4.2 Consolidated comprehensive result

The consolidated profit and loss account statement in 2018-2019:

Specification	Obtained (thousand lei)		Dynamics (%)
	31-Dec-19	31-Dec-18	
1	2	3	4=2/3
<b>TOTAL revenue, of which:</b>	<b>2.870.588</b>	<b>2.298.252</b>	<b>124,90%</b>
Operating revenue before the construction activity, according to IFRIC12	1.575.925	1.608.398	97,98%
Revenue from the balancing activity	324.688	235.427	137,91%
Revenue from the construction activity according to IFRIC12	868.357	405.794	213,99%
Financial revenue	101.618	48.634	208,95%
<b>TOTAL cost, of which:</b>	<b>2.458.445</b>	<b>1.720.371</b>	<b>142,90%</b>
Operating costs before the construction activity, according to IFRIC12	1.234.622	1.052.177	117,34%
Cost from the balancing activity	324.688	235.427	137,91%
Cost of assets built according to IFRIC12	868.357	405.794	213,99%
Financial costs	30.779	26.973	114,11%
<b>GROSS PROFIT, of which:</b>	<b>412.143</b>	<b>577.882</b>	<b>71,32%</b>
Profit from operation	341.303	556.221	61,36%
Financial result	70.840	21.661	327,04%
PROFIT TAX	70.749	87.396	80,95%
<b>NET PROFIT</b>	<b>341.394</b>	<b>490.486</b>	<b>69,60%</b>
Exchange differences	3.668	1.828	200,68%
Actuarial (gain)/loss related to the period	-4.637	-4.442	104,37%
<b>Total comprehensive result of the period</b>	<b>340.426</b>	<b>487.871</b>	<b>69,78%</b>

Table 15 – Consolidated profit and loss account 2019 vs 2018

### Operating revenue

Operating revenue before the balancing and the construction activity according to IFRIC 12 obtained in 2019 as compared to 2018 is as follows:

No.	Specification	Obtained (thousand lei)		Dynamics (%)
		2019	2018	
0	1	2	3	4=2/3*100
1.	<b>Revenue from the transmission activity</b>			
	- Thousand lei	1.192.598	1.178.420	101,20
	- MWh*	145.615.593	139.164.634	104,64
	- lei/MWh	8,19	8,47	96,72
3.	<b>Revenue from the international transmission activity</b>			
	- Thousand lei	327.696	324.381	101,02
4.	<b>Other operating revenue</b>			
	- Thousand lei	55.631	105.597	52,68
	<b>TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12</b>	<b>1.575.925</b>	<b>1.608.398</b>	<b>97,98</b>

\* transmitted quantity for which transmission services are invoiced

Table 16 - Revenue from the operating activity –Obtained 2019 vs. 2018

### Operating expense

The operating expense obtained in 2019 as compared to the same 2018:

No.	Specification	Obtained (thousand leithousand lei)		Dynamics (%)
		2019	2018	
<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4=2/3*100</b>
1.	Depreciation	195.701	189.913	103,05
2.	Indemnities, salaries, other expenditures related to salaries and benefits to employees	415.818	383.250	108,50
3.	Technological consumption, materials and consumables used, of which:	99.267	96.881	102,46
	Transmission system technological consumption and loss	66.257	70.003	94,65
	Technological consumption amount MWh	640.705	847.810	75,57
	Auxiliary materials	28.611	23.789	120,27
	Other material expenditures	4.399	3.089	142,43
4.	Expenditures related to royalties	151.374	151.027	100,23
	Maintenance and transport, of which:	29.899	35.884	83,32
	Works, services performed by third parties	12.687	21.646	58,61
6.	Taxes and other amounts due to the State, of which:	111.290	76.449	145,58
	The fee for obtaining the license for gas transmission and international transit	37.891	10.645	355,96
	Monopoly tax	66.697	59.336	112,40
7.	Cost of the provision for risks and charges	49.819	5.946	837,81
8.	Other operating expenditures	181.453	112.827	160,82
<b>TOTAL OPERATIONAL REVENUE before the balancing and the construction activity according to IFRIC12</b>		<b>1.234.622</b>	<b>1.052.177</b>	<b>117,34</b>

*Table 17 - Operating costs 2019 vs. 2018*

### 4.3 Consolidated cash flow statement

The consolidated cash flow statement on 31 December 2019 as compared to 2018 is presented below:

Indicator	Financial year ended 31 December (thousand lei lei)	
	2019	2018
Profit before tax	412.143	577.882
Adjustments for:		
Depreciation	195.701	189.913
Adjustment for depreciation of intangible assets	2.129	3.814
Gain/(loss) from the transfer of fixed assets	-102	-182
Provisions for risks and charges	53.592	3.690
Adjustments for write-down of inventories	647	8.169

Indicator	Financial year ended 31 December (thousand lei lei)	
	2019	2018
Revenue from connection fees, grants and goods taken free of charge	-23.347	-22.886
Provisions for guarantees	-969	698
Provisions for employees benefits	2.846	2.256
The effect of updating the provision for employees benefits	4.218	3.850
Bad debts written off	13	4
Provision for doubtful debts	81.229	18.335
Adjustments for impairment of financial fixed assets	70	238
Interest revenue	-24.683	-25.232
Adjustment of debt from the Concession Agreement	-49.677	0
The effect of the currency exchange rate variation on other elements than operation	6.817	137
Other costs and revenue	-306	-153
<b>Operating profit before the changes in working capital</b>	<b>660.321</b>	<b>760.535</b>
(Increase)/decrease in trade and other receivables	-99.793	-184.018
(Increase)/decrease in inventories	-239.954	-181.383
Increase/(decreas) in commercial debt and other debt	92.633	-14.797
<b>Cash from operations</b>	<b>413.207</b>	<b>380.338</b>
Paid interest	0	0
Received interest	2.067	4.760
Paid profit tax	-69.822	-127.665
<b>Net cash inflows generated from operating activities</b>	<b>345.452</b>	<b>257.433</b>
<b>Cash flow from investments</b>		
Payments for the acquisition of tangible and intangible assets	-1.026.338	-294.175
Financial investments/shares	-70	-238
Receipts from the transfer of intangible assets	146	296
Cash from connection fees and non-reimbursable funds	151.275	67.113
<b>Net cash used in investment activities</b>	<b>-874.987</b>	<b>-227.004</b>
<b>Cash flow from financing activities</b>		
Disbursements on long term loans	423.477	163.300
Paid dividends	-255.942	-546.773
<b>Net cash used in financing activities</b>	<b>167.535</b>	<b>-383.474</b>
<b>Exchange rate loss</b>	<b>0</b>	<b>-99</b>
<b>Exchange differences</b>	<b>3.668</b>	<b>1.923</b>
<b>Net change in cash and cash equivalents</b>	<b>-358.333</b>	<b>-351.221</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>711.318</b>	<b>1.062.538</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>352.985</b>	<b>711.318</b>

*Table 18 – Statement of consolidated cash flow –2019 vs. 2018*

The analysis of the cash flow as of 31 December 2019 show **a decrease of liquid assets by Lei 358.333 thousand** as compared to 31 December 2018.

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

- cash flow from operation is of lei 345.452 thousand, higher by lei 88.019 thousand than in 2018;

- cash flow from the investment activity is of lei -874.987 thousand, lower by lei 647.983 thousand than in 2018;
- cash flow used in the financing activity is of lei 167.535 thousand, higher by lei 551.008 thousand than in 2018.

On 31 December 2019 the balance of the resources available in the bank accounts of the company was of lei 352.780 thousand, of which 71% are available resources denominated in foreign currency, mostly in EURO.

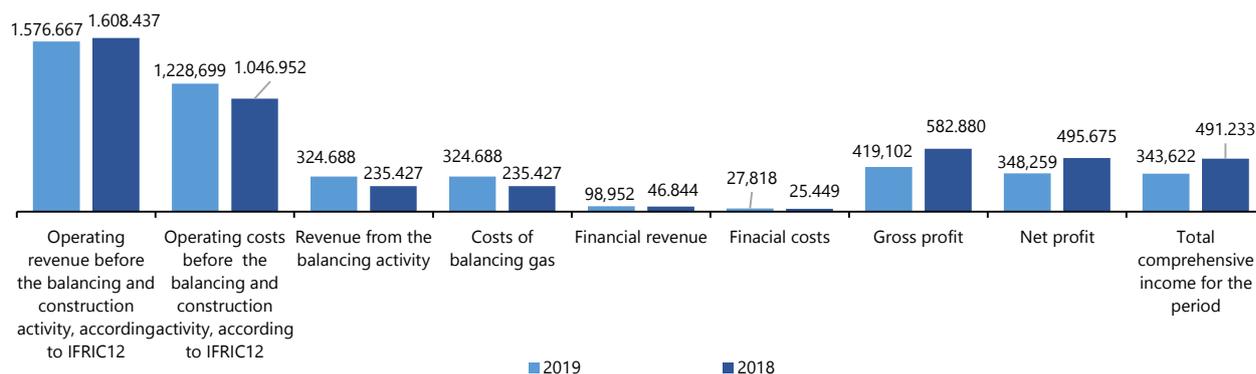
#### 4.4 Factor analysis of the activity

##### Obtained 2019 vs. Obtained 2018

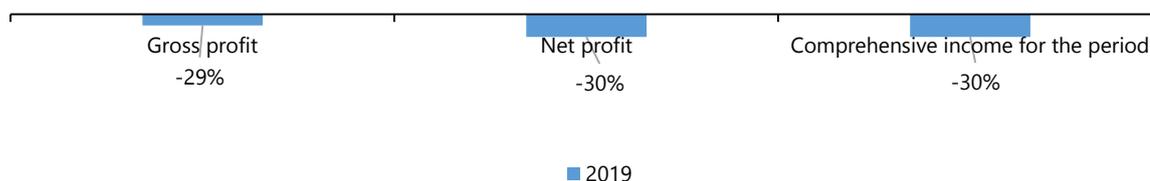
The financial results obtained on 31 December 2019 as compared to the same period of 2018 is as follows:

Name	Obtained 2019	Obtained 2018	Chnges
0	1	2	$4 = \frac{1}{2} \times \frac{100 - 100}{100}$
Operating revenue before the balancing and construction activity, according to IFRIC12	1.575.925	1.608.398	-2%
Revenue from the balancing activity	324.688	235.427	38%
Revenue from the construction activity according to IFRIC12	868.357	405.794	114%
Financial revenue	101.618	48.634	109%
Operating costs before the balancing and construction activity, according to IFRIC12	1.234.622	1.052.177	17%
Costs of balancing gas	324.688	235.427	38%
Cost of assets according to IFRIC12	868.357	405.794	114%
Financial costs	30.779	26.973	14%
<b>GROSS PROFIT, of which:</b>	<b>412.143</b>	<b>577.882</b>	<b>-29%</b>
· from operation	341.303	556.221	-39%
· from the financial activity	70.840	21.661	227%
<b>Income tax</b>	<b>70.749</b>	<b>87.396</b>	<b>-19%</b>
<b>NET PROFIT</b>	<b>341.394</b>	<b>490.486</b>	<b>-30%</b>
Other comprehensive income	-4.637	-4.442	X
<b>Exchange differences</b>	<b>3.668</b>	<b>1.824</b>	<b>101%</b>
<b>Total comprehensive income for the period</b>	<b>340.426</b>	<b>487.868</b>	<b>-30%</b>

Table 19– Financial results 2019 vs. 2018



**Chart 23 - Financial results 2019 vs. 2018 (thousand lei)**



**Chart 24 - Financial results 2019 (%)**

**Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 2% as compared to 2018, which is lower by lei 32.473 thousand.**

**The revenue was influenced mainly by the following factors:**

- commodity component revenue lower by **lei 61.286 thousand** due to:
  - the commodity transmission tariff lower by lei 0,54 lei/MWh, with a negative influence of lei 83.934 thousand;
  - the gas transmitted capacities higher by 6.450.960 MWh as compared to 2018, with a positive influence of lei 22.647 thousand, detailed by categories of consumers as follows:

		12 months 2018	12 months 2019	Differences
Quantity transmitted for direct consumers	MWh	60.559.629	69.513.278	8.953.649
	thousand m <sup>3</sup>	5.672.485	6.147.306	474.821
Quantity transmitted for distribution	MWh	78.605.004	76.102.315	-2.502.689
	thousand m <sup>3</sup>	7.303.436	7.080.195	-223.241
Total	MWh	139.164.633	145.615.593	6.450.960
	thousand m <sup>3</sup>	12.975.921	13.227.501	251.580

In 2019 as compared to 2018 the tariffs the tariffs decreased mainly due to:

- a lower approved revenue in gas year October 2018- September 2019 (lei 882.983 thousand) as compared to the revenue approved in gas year October 2017 - September 2018 (lei 954.322 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2018-2019 (the efficiency gain redistribution component, the correction component of the total revenue, etc);
  - the commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing 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 2018-2019 the variable component of the total revenue at the basis of the commodity tariffs is 30% of the total revenue and in gas year 2019-2020 it decreased to 25% of the total revenue;
  - at the substantiation of the tariffs for gas year 2019-2020 the tax on the monopoly was not recognised by ANRE in the category of the costs passed-through and implicitly in the regulated revenue.
- revenue from capacity booking higher by **lei 75.464 thousand** due to:
    - capacity booking tariff higher by 0,08 lei/MWh, with a positive influence of lei 28.611 thousand;
    - booked capacities higher by 20.335.403 MWh, with a positive influence of lei 46.854 thousand;
  - international gas transmission revenue higher by **lei 3.316 thousand** due to the appreciation of the contract currencies;
  - other operating revenue lower by **lei 49.966 thousand** due to the recording in 2018 compensation revenue from the exercise of the right to unilaterally terminate natural gas contracts concluded following the incremental capacity process for the allocation of incremental capacity.

Revenue from the balancing activity increased by **lei 89.261 thousand** based on the following factors:

- quantity higher by 1.068.387 MWh with a positive influence of lei 114.764 thousand;
- trading price lower by lei 7,82 lei/MWh, with a negative influence of lei 25.503 thousand.

Revenue from the construction activity higher by **lei 462.563 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.

Financial revenue has a positive influence of **lei 52.984 thousand** based on the discounting by the inflation rate of the regulatory asset base, according to ANRE Order 41/2019.

**Operating costs before the balancing and construction activity according to IFRIC12** increased by **17%** as compared to 2018, which is higher by **lei 182.445 thousand**.

**The company made savings of lei 9.737 thousand**, mainly in relation to the following cost elements:

- cost of maintenance and transmission: lei 5.985 thousand;
- cost of technological consumption: lei 3.746 thousand, due to:
  - in 2018 the quantity of gas for technological consumption lower than by 207.105 MWh, with a positive influence of lei 17.100 thousand;
  - in 2018 the average preliminary purchase price higher by 20,84 lei/MWh with a negative influence of lei 13.354 thousand;

**An expense surplus of lei 192.176 thousand** was recorded mainly in relation to the following cost elements:

- cost of auxiliary materials and other material costs: lei 6.132 thousand;
- cost of personnel: lei 32.568 thousand;
- depreciation costs: lei 5.788 thousand;
- cost of royalty: lei 348 thousand;
- cost of taxes and duties: lei 34.841 thousand, following the introduction of the 2% turnover payment contribution according to Art. 78 of GEO 114/2018;
- cost of provision for risks and charges: lei 43.873 thousand;
- other operating costs: lei 68.627 thousand, mainly due to the establishing of corrections for the depreciation of the current assets.

**The financial cost** is higher by **lei 3.806 thousand** based on the increasing of the foreign exchange gains.

**As compared to 2018 the gross profit obtained in 2019 decreased by 29%, which is lower by lei 165.739 thousand.**

#### Achievements 2019 versus Budget 2019

The main economic and financial indicators achieved in 2019 as compared to the Revenue and Expense Budget approved by OGMS Resolution 3/16 May 2019 are as follows:

*(thousand lei)*

Name	REB 2019	Obtained 2019	Changes
0	1	2	$3 = \frac{1}{2} \times 100 - 100$
Operating revenue before the balancing and construction activity, according to IFRIC12	1.394.460	1.575.925	13%
Revenue from the balancing activity	25.540	324.688	1.171%
Revenue from the construction activity, according to IFRIC12	1.619.788	868.357	-46%
Financial revenue	34.551	101.618	194%

Name	REB 2019	Obtained 2019	Changes
0	1	2	$3 = \frac{1}{2} \times 100 - 100$
Operating costs before the balancing and construction activity, according to IFRIC12	1.263.554	1.234.622	-2%
Cost of balancing gas	25.540	324.688	1.171%
Cost of assets according to IFRIC12	1.619.788	868.357	-46%
Financial costs	15.000	30.779	105%
<b>GROSS PROFIT, of which:</b>	<b>150.457</b>	<b>412.143</b>	<b>174%</b>
from operation	130.906	341.303	161%
from the financial activity	19.551	70.840	262%
<b>Income tax</b>	<b>25.534</b>	<b>70.749</b>	<b>177%</b>
<b>NET PROFIT</b>	<b>124.924</b>	<b>341.394</b>	<b>173%</b>

*Table 20 - Financial results 2019 vs. Budget 2019*

**Operating revenue before the balancing and construction activity according to IFRIC12** increased by **lei 181.465 thousand** as compared to the REB. The revenue was influenced by the following:

Gas transmission services increased by **lei 226.612 thousand** due to:

- capacity booking revenue higher by **lei 227.186 thousand**, due to:
  - o Capacities booked higher by 39.629.022 MWh with a positive influence of **lei 78.452 thousand**, mainly based on the invoicing of the booking capacity surplus for 2019 with lei 49.562 thousand, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
  - o Capacity booking tariff higher by lei 0,399/MWh with a positive influence of **lei 148.734 thousand**, mainly based on the invoicing of the Csanadpalota interconnection point capacity booking auction premium additional revenue amounting to lei 68.889 thousand.
- gas transmitted capacities lower than planned by 3.631.881 MWh with a negative influence of lei **6.513 thousand**;
- the commodity transmission tariff higher by lei 0,05 lei/MWh, with a positive influence of **lei 5.938 thousand**;
- Revenue from international gas transmission services increased by **lei 12.488 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;

- Other operating revenue decreased by **lei 57.635 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 299.147 thousand** based on the following:

- quantity higher by 3.035.889 MWh with a positive influence of lei 345.848 thousand;
- trading price lower by lei 14,33/MWh, cu with a negative influence of lei 46.701 thousand.

**Financial revenue** increased by **lei 67.067 thousand** as compared to the REB, based on the discounting by the inflation rate of the regulatory asset base, according to ANRE Order 41/2019.

**The operating costs before the balancing and construction activity according to IFRIC12** decreased by 2% as compared to the plan approved, which is lower by **lei 28.932 thousand** as compared to the REB.

**Savings amounting to lei 158.181 thousand** were recorded mainly the following cost elements:

- transmission system technological gas consumption and loss amounting to **lei 16.340 thousand**, due to the following:
  - ✓ amount of gas for technological consumption lower by 185.267 MWh, than planned, with a positive influence of lei 18.527 thousand;
  - ✓ average purchase price higher by lei 3,41/MWh as compared to the REB, with a negative influence of lei 2.186 thousand;
- costs of personnel: lei 30.393 thousand;
- costs of auxiliary materials and other materials: lei 23.179 thousand;
- costs of maintenance an transmission: lei 65.589 thousand;
- cost of taxes and duties: lei 19.692 thousand;
- cost of depreciation: lei 2.987 thousand;

**An expense surplus of lei 129.249 thousand** was recorded mainly in relation to the following cost elements:

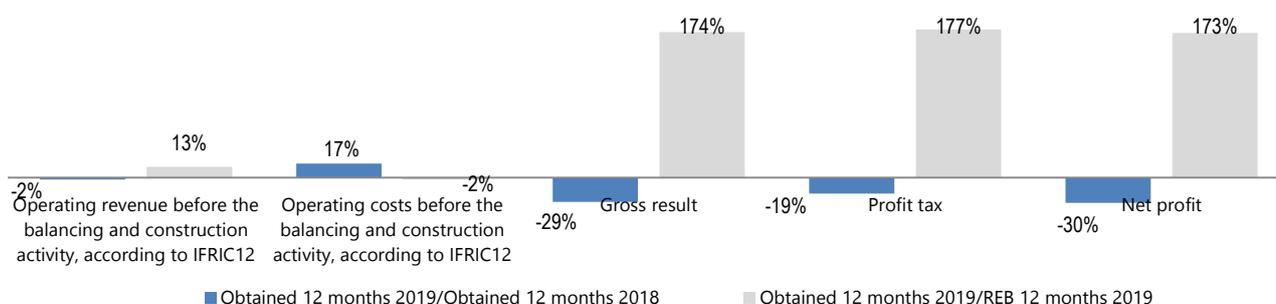
- NTS concession royalty: lei 23.255 thousand;
- cost of provision for risks and charges: lei 40.062 thousand;
- other operating costs: lei 65.931 thousand based on the adjustment of impairment on receivables.

**The financial cost** is higher by **lei 15.779 thousand** as compared to the REB, based on the foreign currency exchange gain.

The gross profit increased by 174% as compared to the plan, which is higher by lei 261.685 thousand as compared to the REB, and the net profit increased by 173% as compared to the plan, which is higher by lei 216.471 thousand as compared to the REB.

	Obtained 12 months 2019 vs. Obtained 12 months 2018	Obtained 12 months 2019 vs. REB 12 months 2019
Operating revenue before the balancing and construction activity, according to IFRIC12	-2%	13%
Operating costs before the balancing and construction activity, according to IFRIC12	17%	-2%
Gross result	-29%	174%
Profit tax	-19%	177%
Net profit	-30%	173%

**Table 21**– Obtained 12 months 2019 vs. Obtained 12 months 2018 and Obtained 12 months 2019 vs. REB(%)



**Chart 25**- Obtained 12 months 2019 vs. Obtained 12 months 2018 and Obtained 12 months 2019 vs. REB 2019

### Obtained 2019 versus Management Plan 2019

The key financial performance indicators revised by OGMS Resolution 3/2019 were substantiated based on the company's Revenue and Expense Budget data approved by OGMS Resolution 3/2019.

The level of the financial performance indicators achieved as compared to the Management Plan is as follows:

(thousand lei)

No	Performance criteria	Management Plan 2019	Obtained 2019	Percentage	Difference
1.	Outstanding payments –thousands lei	0	0	100%	0
2.	Operating expense (without the depreciation, balancing, construction activity and provision for asset depreciation and for risks and charges) - thousands lei	1.070.891	1.038.921	103%	31.970
3.	Acid test ratio	0,91	1,65	181%	0,74
4.	Net debt-to-equity ratio	5,50	1,24	445%	4,26
5.	EBITDA – thousand lei	329.594	537.004	163%	207.410

**Table 22** - Obtained 2019 vs. Management Plan 2019

## 4.5 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; thus, the Company does not apply hedge accounting.

The management believes, however, 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 2019	31 December 2018
<i>Impact on profit and loss and on equity of:</i>		
USA dollar appreciation by 10%	125.419	121.191
USA dollar depreciation by 10%	(125.419)	(121.191)
Euro appreciation by 10%	32.214.164	36.181.580
Euro depreciation by 10%	(32.214.164)	(36.181.580)

#### Price risk

The Company is exposed to the commodity price risk related to the 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 2.989.892 in December 2019 (December 2018: : 2.940.121).

#### Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by deposits with banks.

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 by lei 497.755 lower/higher (December 2018: lei 3.051.941 lower/higher), as a result of the interest rate variation for bank deposits, interest rate on variable interest securities.

### **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 5 main customers, which together account for 50% of the trade receivable balances as at 31 December 2019 (31 December 2018: 50%).

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 2019 the Company has payment guarantees from clients amounting to lei 208.514.053.

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

	<b>31 December 2019</b>	<b>31 December 2018</b>
Without rating	43.030.956	4.672.134
BB+	61.134.709	347.913.691
BBB-	7.691.934	13.569.848
BBB+	240.441.135	344.645.980
A	137.355	137.989
AA-	363.482	216,037
	352.799.571	711.155.679

*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 take into account 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 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 2019 in terms of remained contractual maturity.

The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Analysis of financial liabilities on 31 December 2019 in terms of maturity:

	<b>Total amount</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>
Loans	733.796.269	12.395.649	181.382.883	540.017.737
Commercial debts and other debts	<u>344.728.433</u>	<u>291.449.595</u>	<u>53.278.838</u>	-
	<u>1.078.524.702</u>	<u>303.845.244</u>	<u>234.661.721</u>	<u>540.017.737</u>

Analysis of financial liabilities on 31 December 2019 in terms of maturity:

	<b>Total amount</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>
Loans	259.278.444	3.121.315	70.206.550	185.950.579
Commercial debts and other debts	<u>258.826.722</u>	<u>258.826.722</u>	-	-
	<u>518.105.166</u>	<u>261.948.037</u>	<u>70.206.550</u>	<u>185.950.579</u>

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 advanced revenue.

Categories of financial instruments:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Financial assets		
Cash and cash equivalents	339.753.878	419.910.424
Term bank deposits	13.231.240	291.407.201
Credits and receivables	1.244.132.492	1.108.155.574
Financial assets available for sale	24.887.146	24.816.713
Adjustments for available-for-sale financial assets	<u>(24.887.146)</u>	<u>(24.816.713)</u>
	<b><u>1.597.117.612</u></b>	<b><u>1.819.473.199</u></b>

	31 December 2019	31 December 2018
Financial liabilities		
Debts measured at depreciated cost	-	-
Loans	663.930.000	233.195.000
Debts assessed at the fair value:		
-Financial guarantees related to contracts	75.006.895	6.311.084
-Commercial debts and other debts	<u>216.442.700</u>	<u>252.515.638</u>
	<b><u>955.379.595</u></b>	<b><u>492.021.722</u></b>

In the loans and receivables category the receivables from the relationship with employees and advance expenses are not included.

### 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, the company 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.

In 2019, the Company's strategy which remained unchanged compared to 2018, was to keep the debt leverage degree as low as possible to keep a significant borrowing capacity for future investments.

The net leverage at 31 December 2019 and at 31 December 2018.

	31 December 2019	31 December 2018
Total loans	663.930.000	233.195.000
Less: cash and cash equivalents	<u>(352.985.119)</u>	<u>(711.317.624)</u>
Net cash position	<u>(310.944.881)</u>	<u>(478.122.624)</u>

### 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.

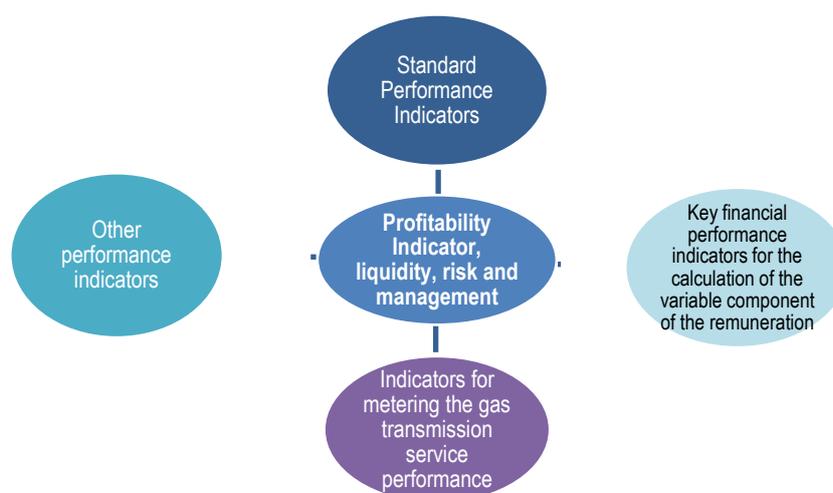
The fair value of financial instruments that are not traded on an active market is set using valuation techniques.

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.

#### 4.6 2017-2021 economic and financial performance indicators

In line with the provisions of sub-chapter 5.4 of Transgaz's Management Plan in the period 2017-2021 entitled *Performance indicators in the period 2017-2021* the criteria and the performance objectives are defined and set as follows:



**Figure 18 – Performance Indicators**

##### 4.6.1. Standard performance indicators

Performance criteria	Performance objective	Management Plan 2019	Obtained 2019	Degree of achievement %
Commissioned investments -thousand lei	Plan achieved	206.991	57.400	27,73%
EBITDA– thousand lei	EBITDA increase	329.594	537.004	162,93%
Labour productivity – thousand lei/pers.	Increasing labour productivity in units of value (turnover / average no. of employees);	311	436	140,05%
Outstanding payments –thousand lei	Payments made during the contract duration (in current prices)	0	0	100,00%

Performance criteria	Performance objective	Management Plan 2019	Obtained 2019	Degree of achievement %
Outstanding receivables –thousand lei	Diminished amount of outstanding receivables (in current prices)	299.855	404.509	74,13%
Technological consumption -%	Remaining within the gas quantities representing technological consumption	100%	82,97%	120,52%
OPEX at lei 1000 operating revenue - lei	Diminishing of OPEX at lei 1000 operating revenue	906	783	115,64%

**Table 23** – Degree of achievement of the standard performance indicators on 31 December 2019 vs Management Plan 2017-2021

#### 4.6.2. Profitability, liquidity, risk and management indicators

Achievements between 2017- 2019 and estimation Transgaz performance between 2020-2021:

No.	Indicators	Calculation formula	Obtained 2017	Obtained 2018	Obtained 2019	2020	2021
<b>1.</b>	<b>Profitability Indicators</b>						
	EBITDA in total sales	EBITDA	47,18%	42,83%	29,04%	45,75%	55,28%
		Turnover					
	EBITDA in equity	EBITDA	22,53%	20,12%	14,22%	17,14%	23,72%
		Equity					
	Gross profit share	Gross profit	39,17%	33,18%	22,29%	16,17%	25,42%
		Turnover					
	Return on equity	Net profit	15,48%	13,22%	9,04%	5,17%	9,20%
		Equity					
<b>2.</b>	<b>Liquidity indicators</b>						
	Current liquidity indicator	Current assets	5,57	3,60	2,58	1,29	1,14
		Short term debts					
	Immediate liquidity indicator	Current assets - Stocks	5,27	2,99	1,65	1,11	1,09
		Short term debts					
<b>3.</b>	<b>Risk indicators</b>						
	Indebtness indicator	Borrowed capital	1,85%	6,29%	17,51%	85,28%	47,83%
		Equity					
		EBIT	X	220,69	78,88	3,62	5,24

No.	Indicators	Calculation formula	Obtained 2017	Obtained 2018	Obtained 2019	2020	2021
	Interest coverage ration	Interest expense					
<b>4.</b>	<b>Management indicators</b>						
	Speed of debit - clients	Average accounts receivable x 365 days	142,85	141,49	137,17	67,38	71,86
		Turnover					
	Speed of credit - suppliers	Average accounts payable x 365 days	19,43	35,55	40,80	79,08	37,90
		Turnover					

**Table 24** – Profitability, liquidity, risk and management indicators in 2019 vs Management Plan 2017-2021

## 5. CONSOLIDATED NON-FINANCIAL REPORTING

### 5.1 Non-financial statement

According to the provisions of the Order of the Ministry of Public Finance no. 2844 of 12 December 2016 on the approval of the accounting regulations compliant with International Financing Reporting Standards, public interest entities the securities of which are admitted to trading on a regulated market, must include in the administrators' report a non-financial statement containing, to the extent to which this is necessary to understand the development, performance and position of the entity and the impact of its activity, information on at least environmental, social and staff issues, the guaranteeing of human rights, the fight against corruption and bribery (Art. 39 (1)) or must draw up a separate report (Art. 42 (1)).

SNTGN Transgaz SA submitted the non-financial statement in the administrators' report.

In defining and establishing non-financial expectations, the shareholder, the Romanian State through the General Secretariat of the Government and the other shareholders must ensure that non-financial expectations do not impede the fulfilment of financial expectations related to improving profitability and reducing losses.

For TRANSGAZ, the non-financial expectations of the public supervisory body and other shareholders expressed in the letter of expectation are.

- Compliance with the requirements of the European and national regulatory framework for natural gas transmission;
- Optimizing the quality of implementation of the principles of good corporate governance, ethics and integrity;
- Improving the process of strategic budgeting and monitoring of systems and management processes;
- Strengthening and diversifying the relations of internal and external collaboration;

- Increasing energy efficiency and reducing the negative impact of technological processes on the environment;
- Increasing the adaptability and the capacity of the company to react to the permanent changes of the environment in which it operates;
- Increasing the satisfaction of customers, business partners, suppliers and the quality of the services provided;
- Improving occupational safety and security;
- Improving the general, internal and external communication process of the company, of the image capital;
- Improving the professional training, improvement and development process of the staff;
- Increasing the market value, stock market capitalization and investor confidence in the company's shares;
- Optimizing the company's rating;
- Implementing an internal control mechanism to protect the investment made by shareholders in the company and its assets and to assist administrators in the annual assessment of the effectiveness of control mechanisms;
- Optimizing the social responsibility policy model and granting of sponsorship.

## **5.2 Responsible management and sustainable strategies**

Starting from the definition of sustainability, 'meeting today's needs without sacrificing the ability of future generations to meet their own needs,' also known as sustainable development, we underline and support the importance of such a development policy.

Sustainable development policy helps the organization to avoid, mitigate or control the harmful impact of its activities on the environment and the population, to comply with applicable legal requirements and may be part of a trend that customers value.

Responsible management can be described as an attempt to maintain the balance between the interests of the entire world (people, companies, the environment) for the prosperity of both the present and future generations.

In order to comply with this principle, the policies adopted within the company aim at:

- minimizing the negative impact of the activity on the natural and social environment;
- generating economic benefits to the local community;
- improving working conditions;
- preserving natural heritage.

### **5.2.1 Integrated Management Quality-Environment, Health and Occupational Security**

The company aligned itself with the international management systems and with the implementation and certification of the Quality, Environment, Occupational Health and Safety Integrated Management according to SR EN ISO 9001: 2015, SR EN ISO 14001: 2015 and SR-OHSAS 18001: 2008. The Standard allows for the control of the health and safety risks of its own employees or providers operating on the company's premises.

The advantages of OHS implementation are:

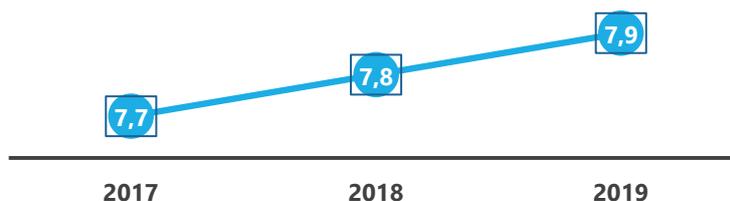
- improving the company image;
- improving relations with business partners;
- improving relations with competent authorities in the field;
- creating a unique and coherent framework for the elimination of hazards and risks related to work;
- achieving more effective control over the risk factors of injury and / or professional illness;
- improving working conditions for employees;
- improving the level of knowledge and compliance of the applicable legislation;
- alignment with best practices in the field;
- integration with the existing quality-environment integrated management system.

### Customer satisfaction

In order to be successful on the internal and external market, the company is increasingly focusing on the understanding of the implicit and explicit requirements of customers, in order to continuously increase the satisfaction of their needs and expectations, taking into account both current customers and potential ones.

Customer satisfaction is also a key non-financial performance indicator for calculating the variable remuneration component of the board of administration during 2019, aiming to maintain a customer satisfaction rating of more than 7, the target being 7.9. (According to PP 165- Customer Satisfaction Assessment, a score of 6-8 indicates that the services provided satisfactorily met customer requirements). Monitoring this indicator is performed in the first quarter of this year for the previous year.

#### Evolution of clients' satisfaction



According to the PP 15 procedure Customer Satisfaction Survey, **123 questionnaires were sent to the users of the natural gas transmission network.**

The centralised data show that 74 of them submitted completed questionnaires.

The analysis of the questionnaires highlighted the following:

- no customer complaints were received;
- **Excellent scores were given by clients to the professionalism and appropriate behaviour of the company's employees.**

## Quality policy

The theme addressed under the 2019 Annual Quality Management System Training Programme was Process Analysis in the Process List, Process Type Distribution and Process Map Development. The training addressed to the process managers and process owners of all organizational structures within the company. According to centralised data, the value achieved for the objective *Annual training and awareness of process managers and owners on the continuous implementation and improvement of the Quality Management System* was 85.75% within the proposed target.

At the end of the SMI CMSSO internal audits, the effectiveness of SMI CMSSO was assessed in the audited processes based on audit questionnaires. The data centralized in the following table allowed the identification of the requirements that the Quality Management Department should focus for the trainings it will perform in 2020.

Requirement Code	Requirement name	Total
4	Organizational context	<b>85.81</b>
5	Leadership	91.75
6	Planning	85.83
7	Support	92.20
8	Operation	89.69
9	Process performance	87.56
10	Improvement	<b>84.90</b>
<b>Total</b>		<b>88.50</b>

**Table 25** Training requirements 2020

The changes in SR EN ISO 19011:2018 Standard – *Guidelines for management systems auditing* imposed the dissemination of information with quality auditors in order to clarify the novelties and adapt the working forms, as follows:

- Training with internal trainer in January,
- Training with external trainer from the SRAC in November.

Given that, within VESTMOLDTRANSGAZ SRL, a quality management system was not implemented, there is no identification of the organization's processes, a clear definition of responsibilities and authorities, an internal communication and discharge proceedings. Activities carried out within the company are not regulated by operational procedures.

In order to meet the new regulations, one of the priorities of VESTMOLDTRANSGAZ SRL is the implementation, within the company, of an integrated quality-environment, occupational safety and health management system, which should be a definite proof that VMTG grants great importance to ensuring an organizational climate in which all interested parties: employees, shareholders, customers, suppliers, community and the environment can interact efficiently and responsibly both economically and socially.

In this respect, the Administrator of the company will commit to this end and sign the *Policy Statement on the Integrated Quality-Environment, Health and Occupational Safety Management System*.

A system of internal procedures on the method of calculating the budget, operationalising, monitoring, control and evaluation of all activities to be carried out will be defined, developed and implemented.

According to the 2020-2029 TYNDP, Vestmoldtransgaz SRL plans to become a gas transmission system operator on the domestic market, with a modern and intelligent national transmission system, integrated at an European level and a management system aligned with international performance standards and legislative regulations.

### 5.2.2. Environmental protection

The commitment assumed by the company's management through the *Policy Statement on the Quality Management System, Occupational Health and Safety Management* is a clear proof that TRANSGAZ is responsible for ensuring an organizational climate in which all stakeholders: employees, shareholders, clients, suppliers, community and environment can interact effectively and responsibly both economically and socially.

The main activities in the field of environmental protection in 2019 were planned and organized aiming to prevent pollution, to reduce the risks of environmental incidents on the sites within the company, as well as to comply with the legislative provisions in the field.

#### A. Monitoring of regulatory acts

At the level of the company there are **17 environmental permits** authorizing a number of 1,195 objectives of SNTGN Transgaz SA, in semester I **2 requests for renewal of environmental permits** were not submitted for the Cluj and Bacău regional offices, being obtained both regulatory documents.

With regard to the water management permits, the legislation in the field requires the obtaining of regulatory acts for all the objectives related to waters. As a result, the company holds **130 water management permits** for crossing watercourses with natural gas pipelines and **renewal documentation was submitted for 34 of them**, being issued 33 new regulatory documents, the permitting procedure being in progress for one objective

In accordance with the procedures issued by the national environmental protection authorities, **5 national gas transmission system development, repair and maintenance projects** were registered in the Integrated Environmental System.

The projects submitted to the TEC were verified by the department and environmental protection opinions were issued for compliance with the law.

## **B. Assessment of compliance with relevant law**

### **Prevention action, counselling**

The environmental prevention and counselling action was launched. This action was attended by environmental inspectors within the Environmental Management Department, establishing the working method, organizing specific documents and counselling the job managers.

### **Internal assessment**

According to the yearly planning of the integrated internal inspections, a series of 10 internal inspections were performed at the territorial units, being imposed conformity measures in the domain of waste and hazardous substances management.

### **External assessment**

In 2019 S.N.T.G.N. Transgaz S.A was subjected to 17 external inspections listed in the table below. These were carried out by the control structures within the Romanian Water Administration and National Environmental Guard.

**Table of the external inspections performed in 2019**

<b>No.</b>	<b>Name of inspection authority</b>	<b>Inspected site</b>	<b>Date of inspection</b>
1.	ABA OLT	Braşov - Sector Băţani Regional Office	09.01.2019
2.	ABA DOBROGEA	Constanţa Regional Office	16.01.2019
3.	ABA DOBROGEA	Constanţa Regional Office	29.01.2019
4.	GNM DOLJ	Craiova Regional Office	30.01.2019
5.	GNM DÂMBOVIȚA	Bucureşti Regional Office	26.03.2019
6.	ABA SIRET- SGA IAȘI	Bacău Regional Office	12.04.2019
7.	ABA JIU	Craiova Regional Office	28.06.2019
8	GNM IASI	Bacău Regional Office	16.09.2019
9	ABA JIU	Arad – Sector Deva Regional Office	02.10.2019
10	ABA JIU	Craiova Regional Office	03.10.2019
11	GNM BRAȘOV	Braşov Regional Office	21.10.2019
12	ABA OLT	Braşov - Sector Băţani Regional Office	22.10.2019
13	ABA BUZĂU IALOMIȚA	Brăila Regional Office	23.10.2019
14	ABA BUZĂU IALOMIȚA	Bucureşti Regional Office	25.10.2019
15	GNM SIBIU	Botorca Storage	12.11.2019
16	ABA BUZĂU IALOMIȚA	Bucureşti Regional Office	19.11.2019
17	ABA BUZĂU IALOMIȚA	Bucureşti Regional Office	21.11.2019

Following inspections, **no sanctions were applied**, but the company received a **warning** for not notifying the authorities for the occurrence of an environmental incident. Improvement measures were established, as shown by inspection reports drafted by the control authorities, in the areas of water management, waste and dangerous substances management.

### **C. Specialized reporting to authorities in the field**

**Monthly and quarterly reporting** to the relevant authorities was prepared in accordance with the regulatory obligations of the company:

- according to the provisions of art. 9, c) of GEO no. 196/2005 on the Environmental Fund, the company has to pay the obligations to the **Environment Fund Administration**, which are the monthly charges for pollutant emissions into the atmosphere; in order to meet these financial obligations, the service follows the consumption of specific resources, quantifies and draws up the statement for the Environment Fund;
- in accordance with the provisions of Article 13 paragraph 2 of Law no. 132/2010 on Selective Collection of Waste in Public Institutions, they are tracked and centralized at the company level and the **Waste Register** is sent monthly to the National Environmental Protection Agency of Bucharest;
- the monitoring of waste management was performed at the company level and reports were submitted to the authorities in accordance with the obligations in the environmental permits;
- the annual Environmental Reports, related to each Territorial Operation, were elaborated and transmitted in accordance with the obligations of the environmental protection permits.

### **D. Environmental Protection Expenditure**

For the purpose of carrying out the environmental protection activity, expenses related to the purchase of specific services and expenses related to the fees requested by the authorities were provided.

The required environmental services were funded and budgeted, the most important ones being:

- services for the recovery of hazardous and non-hazardous waste within the company;
- physical-chemical analysis services for the characterization and classification of liquid/solid waste generated from the pigging operations/cleaning activity of the filter elements/separators;
- physical and chemical analysis services for waste water;
- services for drawing up technical documentation for obtaining water management permits;
- air environment factor analysis services;
- soil environment factor analysis services;
- decontamination services.

In 2019, the procurement of the *Physical and Chemical Analysis Services for the characterization and classification of the liquid / solid waste resulting from the filters/separators pigging/cleaning activity* and of the *Physical and Chemical Analysis Services for Wastewater* was completed and *Services for drawing up technical documentation for obtaining water management authorizations* was launched.

Through the 2019 Procurement Plan, environmental protection materials and products were requested at each regional offices.

In order to comply with the obligations of the company under the legal provisions/regulatory acts in the field of environmental protection, to avoid environmental sanctions, to comply with environmental principles, to solve the needs of services specific to the field, the exercising of tasks within the competence of the Director-General was delegated to the management of the functional entities within SNTGN Transgaz S.A. and to the directors of the regional offices and the Mediaș Subsidiary.

#### ***E. Certification of the Environmental Management System to the new ISO 14001:2015 standard***

In August the environmental management system monitoring audit was performed according to ISO 14001:2015 by the SRAC certification body, and the revising of the system documents and the environmental protection procedures continued.

#### ***F. Activity carried out by the Environmental Factors Monitoring Laboratory***

The planning of the activities carried out in 2019 by the Environmental Factors Monitoring Laboratory consisted of the following:

- monitoring the pollution sources on sites within the regional offices;
- identifying and evaluating the environmental aspects for sites within the regional offices.
- In accordance with the requirements of the Environmental Permits issued by the National Environmental Protection Agency in Bucharest, the monitoring involved systematically conducting measurements on environmental factors at the company's sites, as follows:
  - conducting measurements on the noise level;
  - check of sewerage technology facilities for the detection of methane and ethylmercaptan emissions;
  - determination of emissions of atmospheric pollutants (CO, NO<sub>x</sub>, SO<sub>2</sub>) from the combustion gases from the compressor stations, thermal power stations, convection stoves and gas heaters;
  - identification of different situations not complying with the legislation on environmental protection and/or accidental pollution;
  - preparation of measuring bulletins, environmental assessment sheets and monitoring reports.

On the basis of the endowment with equipment, the monitoring of the sources of pollution and the assessment of the environmental issues materialized in **monitoring reports with measurement bulletins followed by corrective action plans**, prepared by the Environmental Management Department. These plans to remedy the nonconformities found are subject to the approval of SNTGN Transgaz SA Mediaș management and also represent a **control and guidance activity** for Regional Offices.

## Occupational health policy

By means of such policy the top management undertakes permanently their legal obligations for:

- Ensuring the health and security of the personnel in all aspects connected to work;
- Consultation, information and personnel training;
- Ensuring the organizational framework and the necessary means for Occupational health and security;

According to the requirements arising from the legislation in force in the field of occupational health and safety - Occupational Health and Safety Law 319/2006 and GR 1425/2006 for the approval of the methodological rules for applying the provisions of Occupational Health and Safety Law 319/2006, the conditions of safety and health at work and for the prevention of accidents at work and occupational diseases are ensured, as follows:

- The activities of prevention and protection are organized internally through the Internal department of prevention and protection of SIPP;
- Hazards are identified and risks are evaluated for each component of the work system using the method of the National Research Institute for Labour Protection;
- The job evaluation is constantly updated;
- The frequency of risk reassessment is correlated with the programs of measures, respectively of management, after evaluating the effectiveness of the actions taken;
- Based on the risk assessment, the Prevention and Protection Plans for each workplace are developed;
- Own instructions (ISSM) are developed, updated and disseminated for all work equipment and activities taking into account their particularities;
- Responsibilities are established in the field of occupational health and safety for all personnel in the organization, both management and executives;
- There are established the areas that require security signals and types of signals required for each area according to the identified dangers, according to the GD 971/2006 regarding the minimum requirements for safety / health signalling at the workplace;
- The records of the work equipment are ensured, the periodic maintenance that is carried out by the corresponding personnel in compliance with the legal requirements so that the equipment does not constitute a danger to the health and safety of the executing personnel;
- Individual protective equipment including noise protection (anti-noise) is provided;
- The sanitary hygienic materials and facilities suitable for the personnel are ensured;
- The functioning status of the alarm systems, warning, emergency signalling, as well as the safety systems is performed;
- Private health insurance for all employees was concluded (MEDOC).

In 2019, the activity in the field of occupational safety and health aimed at reducing and / or eliminating the risks of producing events, accidents at work, dangerous incidents and occupational diseases at work places within the company, as well as compliance with the legislative provisions in the field. safety and health at work, through the implementation of the measures included in the **2019 Prevention and Protection Plan**.

In 2019, the procurements included in the **Annual Plan of Services Performed by Third Parties** and the **2019 Supply Program** were started to ensure the following services and products:

- Occupational healthcare services;
- Rental and maintenance services for retention toilet discharge equipment;
- Personal protective equipment
- Hygiene – health products
- First aid kits
  
- Consultancy services for migration from OHSAS 18001/2008 to ISO 45001/2018;
- Services for the preparation of the technical documentation for the certification of the Pilot Rescue Station at INSEMEX Petroșani

In order to ensure an integrated approach and efficient training of Transgaz's workers, training programs / tests in the field of occupational safety and health and topics of training in all phases (introductory training general - employment, workplace training, regular training and additional training) were developed. The training of staff at all levels for all newly hired employees and third-party personnel performing works in TRANSGAZ facilities was conducted.

From the analysis of the achievement of the prevention and protection activities set in the above-mentioned programmes:

**A. The organizational measures** were carried out as planned, as follows:

The monitoring and supervision of the state of health of the workers in accordance with the applicable legal standards was ensured through specialized medical centres of occupational medicine. Employees' health was monitored with accredited external providers. In accordance with the final report the state of health of Transgaz employees was in general good (the CAPABLE opinion was 89.50%), with chronic conditions unrelated to the existing work hazards and some influences of occupational health exposures.

There were problems caused by the fact that the workforce is aging, an aspect which lead to:

- a large number of employees with chronic health problems, occupationally conditioned,
- the existence of several requests for voluntary redundancy,
- a large number of retirements for age.

**Between 01.01 and 31.12.2019 no cases of occupational diseases reported were reported.**

**B. Technical measures**

In 2019 the achievement of the technical measures included in the *2019 Prevention and Protection Plan* was observed considering the company projects related to the policy for the modernization of the National Transmission System, of which we mention:

- the upgrading of the power and earthing installations in the working sites specified in the *Prevention and Protection Plan*;
- the modernization of toilet facilities and the connection to the drinking water networks in the working sites specified in the *Prevention and Protection Plan*;
- the execution of the modernization, hygienisation works at the cabins of the operators specified in the *Prevention and Protection Plan*.

### C. Health and hygiene measures

In view of the achievement of the measures related to the health and hygiene field (the provision of hygiene/sanitary materials, the filling in/replacement of the components of the sanitary first aid kits, etc.) the documents necessary for the procurement and the necessary materials were prepared.

### D. Report on the incidents (work related events) occurred within S.N.T.G.N. Transgaz Mediaș in 2019.

#### TRANSGAZ EVENTS NOTIFIED AND INVESTIGATED IN 2019

No.	Territorial unit	Location, date and time of event	Event causes	Classification
1.	Mediaș Subsidiary	DN 800 mm Onești – Comănești pipeline 14.05.2019 6.20 p.m.	Defective performance of a manoeuvre for detaching a metal part from the pipe.	work-related accident
2.	Mediaș Subsidiary	DN 14 Șura Mare Sibiu County 23.08.2019 7.00 p.m.	Road accident involving the tractor-trailer operating the mobile compressor	Not included in the category of work-related accident
3.	PMU BRUA	DN 66 at the entry in Jiului Valley from Petroșani. 17.09.2019 4.30 p.m..	Fire at the car Suzuki Vitara B-144-WTR	Not included in the category of work-related accident
4.	PMU BRUA - ARAD regional office	Site (beneficiary Transgaz) Mașloc, Remetea Mică – Timiș County 21.09.2019 4.50 p.m.	Fall from a height of an employee of SC BAT SA Mediaș	The work accident will be investigated and recorded by SC BAT Mediaș
5.	PMU BRUA – ARAD regional office	Site (beneficiary Transgaz) PMU BRUA, Jena – Timiș County 18.03.2019 9.00 a.m.	Crushing of a body between 2 machines (excavator and welding generator) during movement.	Deadly work accident investigated by ITM TIMIȘ and registered with SC BĂILE ȚICLENII SRL.

No.	Territorial unit	Location, date and time of event	Event causes	Classification
6.	PMU BRUA – ARAD regional office	Site (beneficiary Transgaz) PMU BRUA, Hațeg – Hunedoara County. 28.10.2019 11.45 9.m.	Crushing of a body by the drilling installation for the undercrossing of the Râul Mare river.	Deadly work accident investigated by ITM Hunedoara and registered with SC Revicond Canaltech SRL Tg. Mureș.

**Inspections carried out by the Regional Labour Inspectorates (ITM)  
EXTERNAL INSPECTIONS IN 2019**

No.	Inspection date	LOCATION (regional office/Division /Subsidiary)	Authority authorized to inspect	Inspection reason	Measures	Achievement
1.	25.02.2019	Arad Operating Office - Lugoj Sector	I.T.M Caraș Severin	SSM Control - Report 22246/ 25.02.2019	2 measures	Remedied
2.	29.03.2019	Cluj Operating Office	I.T.M. Cluj	SSM Control - Report 087292/ 29.03.2019	Participation in the meeting CSSM	-
3	11.03.2019	Bacău Operating Office	I.T.M. Bacău	SSM Control - Report 51084/ 11.03.2019	3 measures	Remedied
4.	06.08.2019	Brăila Operating Office	I.T.M. Brăila	SSM Control - Report 21803/ 06.08.2019	No measures were ordered.	-
5.	22.11.2019	Craiova Operating Office	I.T.M. Dolj	SSM Control - Report 24387/ 22.11.2019	3 measures	Remedied

**Note: SNTGN TRANSGAZ SA Mediaș was not penalized for non-compliance with the occupational safety and health provisions..**

Within VESTMOLDTRANSGAZ SRL there were no incidents (work related events) in 2019. Also, in 2019, there were no inspections carried out at VESTMOLDTRANSGAZ SRL by the Territorial Labour Inspectorates.

### Reducing technological consumption and keeping it within reasonable limits over the NTS

As a result of the annual balances of natural gas at SNTGN Transgaz SA level, between the quantities of gas entering and exiting the NTS, there are certain differences called technological consumption.

According to the Guidelines for the Determination of Technological Consumption Considered Losses of Natural Gas in Transmission and Distribution Networks, a guide prepared in 1999 and published by Ministry of Industry and Trade (currently the Ministry of Economy), technological consumption is divided into:

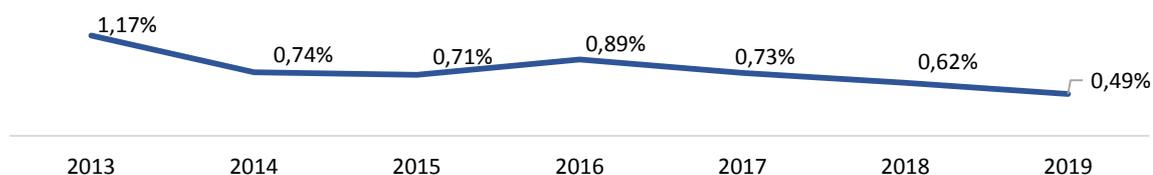
Determined technological consumptions	Technological consumptions not determined
Consumption at the compressor stations	Technological consumption of equipment in technological installations (NT, SRMP.s, a) - replacement, verification, adjustment, discharging of safety valves, leaks in the removable joints of the pipelines and at the MRS;
Facilities and processes consumption	Technological consumption unidentified losses / defects of pipe;
Consumption of repairs, pipeline rehabilitation, NTS development	Technological consumption measurement error - operation of meters under improper pressure conditions. Inappropriate gas quality, accuracy class of meters and gas chromatographs.
Consumption of technical accidents – pipeline cracks, breaks.	

Technological consumption includes the company's own consumption and technological losses. Compared to the total amount of natural gas circulated, technological consumption has been steadily decreasing in recent years, constituting a generator of economic efficiency for the company.

Filling in the quantities of natural gas representing the technological consumption is an important indicator of operational performance.

Between 2013 and 2019, the share of technological consumption in the total natural gas flowing through NTS was the following:

Indicator	UM	2013	2014	2015	2016	2017	2018	2019
0	1	2	3	4	5	6	7	8
<b>Natural gas circulated</b>	Thousand cm	13.696.258	13.082.740	12.383.825	12.201.157	12.974.819	13.074.676	13.299.834
<b>Technological consumption</b>	Thousand cm	160.140	96.940	88.103	108.874	95.242	81.034	65.208
<b>Share of technological consumption / gas emissions</b>	%	1,17%	0,74%	0,71%	0,89%	0,73%	0,62%	0,49%



**Chart 26** - Share of technological consumption in total natural gas transmitted through the NTS between 2013- 2019

The cost of technological consumption is recovered through the transmission tariff, which is included in the operational expenses. The decrease in the share of technological consumption in the total natural gas circulated through the NTS, from 1,17% in 2013 to 0,49% in 2019, is the result of the efficient management of NTS operation and use of the technical means used in this respect

### 5.2.3. Human resources - Transgaz

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.

In general, the human resource policy is to reduce the number of staff by retirement in the coming years and to maintain a level of the increase in salary expenses within the inflation rate.

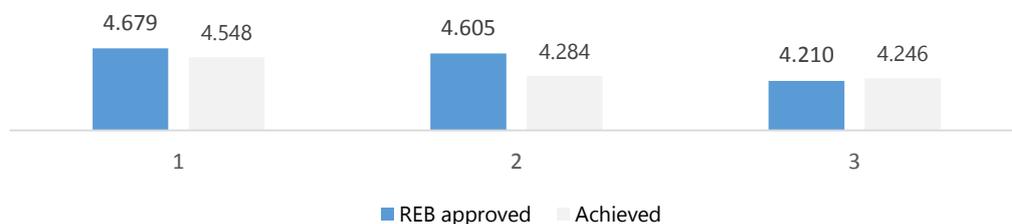
In 2019 due to the achievement of the maturity phase in the construction of the gas pipeline which is part of the European BRUA project as well as to accelerate the design stages of the new developments of NTS in the NE area of Romania and at the Black Sea, the need for specialists to contribute to the execution of the design activities, land access formalities, procurement increased. The coverage of this need led to an increase in the average number of personnel in 2019 compared to the estimated one. The average number of personnel in 2019 maintained the downward trend of the recent years, being lower than in 2018.

The number of employees in activity at the end of 2019 decreased, reaching to 4,089 persons due to the large number of employees who enrolled in the voluntary departures programme in the last quarter of 2019.

The average number of personnel between 2017–2019 was as follows::

Personnel indicator	2017	2018	2019
<b>Personnel reduction</b> (normal)	113	80	48
<b>Average number of personnel approved by the REB</b>	<b>4.679</b>	<b>4.605</b>	<b>4.210</b>
<b>Average number of personnel achieved</b>	<b>4.548</b>	<b>4.284</b>	<b>4.246</b>

**Table 26** - Average number of personnel between 2016-2018 approved in the Management Plan



**Chart 27** - Approved vs achieved average number of personnel between 2017-2019

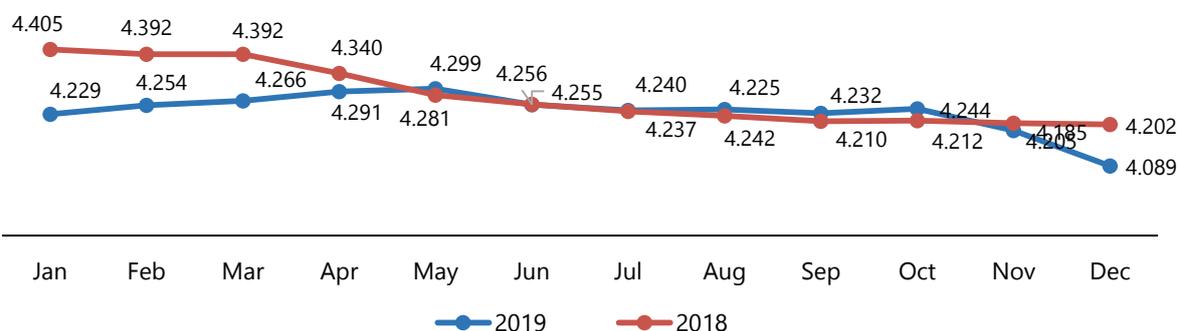
The evolution of the number of employees in the period 2017–2019 is as follows:

Specification	2017	2018	2019
Number of employees at the beginning of the period	4.607	4.405	4.202
Number of newly employed persons	187	187	233
Number of employees who terminated/suspended their working relations with the company	389	390	346
<b>Number of employees at the end of the period (Transgaz)</b>	<b>4.405</b>	<b>4.202</b>	<b>4.089</b>

**Table 27** - Number of employees between 2017-2019

In 2019, at Transgaz 233 persons were employed and 346 employees terminated their working relations with the company.

On 31 December 2019, SNTGN TRANSGAZ SA registered 4,089 employees out of which 4,016 employees with individual labour contracts for an indefinite term and 73 for a determined term.



**Chart 28** Number of employees in 2019 vs. 2018 (Transgaz)

In order to make more efficient the use of the qualified personnel to carry out in full the duties of the jobs, in accordance with the Management Plan of SNTGN Transgaz SA, during 2019

through the Plan of staggering the normation of the technical works within SNTGN TRANSGAZ approved by the Director General, the time norms for 206 technical works .

The company technical works validation committee validated the time rules for 208 technical works in 2019, representing 101% in relation to the rules expected to be validated in 2019.

Time and personnel standards validated in 2019:

Unit	Estimated in 2019	Validated in 2019
Regional offices	0	0
Compressor stations	5	0
Mediaş subsidiary	201	208
<b>Total</b>	<b>206</b>	<b>208</b>

**Table 28** - Technical works planned/ technical works standardized in 2019

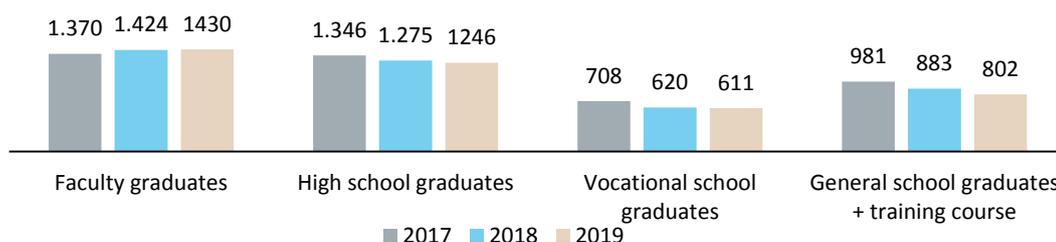
According to the Technical Work Regulation Schedule approved by the Director-General, 368 technical works were planned to be timed in 2019, with the normation team succeeding in the work carried out to time at the end of the year 399 technical works.

The development of the staff structure by category of studies reveals the interest of the company to cover the needs of staff through the employment of highly qualified specialists as well as the continuous improvement of the existing staff, 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.

Personnel structure by categories of studies between 2017-2019:

No.	Category	2017	2018	2019
1.	Faculty graduates	1.370	1.424	1.430
2.	High school graduates	1.346	1.275	1.246
3.	Vocational school graduates	708	620	611
4.	General school graduates + training course	981	883	802
<b>TOTAL employees</b>		<b>4.405</b>	<b>4.202</b>	<b>4.089</b>

**Table 29** - Personnel structure by categories of studies between 2017-2019



**Chart 29**- Personnel structure by categories of studies between 2017 – 2019

## VESTMOLDTRANSGAZ – Human Resources

The optimal sizing of the number of staff within the company will be correlated with the actual staff 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.

The current number of employees is 25, of which 11 at the Chisinau headquarters and 14 at GMS Ungheni. The number of employees may increase with the commissioning of the Iași – Ungheni – Chișinău pipeline, depending on the real needs of the future operation and development of the business.

The recruitment and selection of staff will be carried out through transparent employment procedures, in order to stimulate and attract the best specialists to work within VESTMOLDTRANSGAZ SRL.

The staff of VESTMOLDTRANSGAZ SRL. is appointed, employed and dismissed by the company administrator.

The development of the number of staff at Vestmoldtransgaz SRL in the period 2015-2019 is shown in the following table:

No.	Indicator	Period		
		2017	2018	2019
1	Number of employees VMTGN	20	22	25
2	Average number of employees VMTGN		23	24
3	Average number of employees Eurotransgaz		2	2

*Table 30 - Evolution of the number of employees within Vestmoldtransgaz*

## Improving the training and professional development process of staff

The high level of professional competence of the employees is considered a premise in achieving the objectives of any organization, which is why the investment in human resources is considered profitable in all areas of activity.

This is regulated by the following legislative documents: Law 53/2003 (Labour Code), republished, as subsequently amended and supplemented; Government Ordinance no. 129/2000 on the professional training of adults, republished, as subsequently amended and supplemented, approved by Law 375 / 2002, as amended; Law 227 / 2015 on the Fiscal Code, as subsequently amended and supplemented.

Within the company, the staff training process of is carried out continuously and planned, through courses with external trainers from the country or abroad or/and with internal trainers.

The training aims to develop the theoretical and practical knowledge common to most professions and to develop the theoretical and practical knowledge specific to certain activity areas, both objectives being necessary in order to carry out the activity, in order to fulfil the job's tasks.

The training, improvement and professional development of the employees within the company is carried out based on the 'Annual training and professional development programme for employees', drawn up at the company level, taking into account the provisions of articles 194 and 195 of Law 53/2003 (the Labour Code), republished, as subsequently amended and supplemented, according to which the employer-legal entity that has more than 20 employees elaborates annual training programs and has the obligation to ensure the participation of the employees to courses at least every two years.

In the field of continuous training and development, the programs focus on the areas of interest for the development of the company's activity, respectively the following fields: Engineering, Management of Gas Transmission Systems, including SCADA, Research and Design, Economic, Legal, Human Resources, Strategy and Corporate Management, Information Technology and Communication and Quality - Environment, Occupational Health and Safety, Guard, Security, Internal Audit, Internal Control and Financial Management Control, as well as other topics of general interest which are necessary for carrying out the activity of the Company.

In this respect, through the **Professional Training Office**, in 2019 **139 professional training and development courses** were organized with local and foreign external trainers for **1,626 participants**, out of which invoices for **136** courses attended by **1.619** persons were sent for payment until 31.12.2019. The remaining three courses attended by 7 persons are in progress – they started in 2019 and will end in 2020.

The participation of the employees in the courses organized within the Company through internal trainers from the Training Centre and other specialists from the structures of the company envisages either acquiring the skills specific to another profession which is different or related to the one practiced (qualification courses), or development / improvement of professional skills within the same occupation or related occupations (training and improvement courses).

Accordingly, through the **Training Centre**, between 01.01.2019 - 31.12.2019, the following activities were performed:

- A. The organization of **qualification courses** for trades for which SNTGN TRANSGAZ SA holds authorisations issued by AJPIS Sibiu, the qualification certificates obtained by employees being recognized at the national level. In 2019, 5 qualification courses (5 series) were held, as follows:
  - 1 group – series 9 for the job of universal maintenance and repair mechanical locksmith - classification code 7214.2.3 – **27 persons** participated in the course and **27 persons** took the exam
  - 2 groups – series 6 and series 7 for the job of security guard - classification code 5169.1.1 - **56 persons** participated in the courses and **57 persons** took the exam (1 employee was rescheduled for the exam after participating in the course, in 2018, series 4)
  - 2 groups – series 8 and series 9 for the job of security guard - classification code 5169.1.1 – **35 persons** participated in the courses and **33 persons** took the exam (2

employees could not participate in the exam and will be rescheduled for later examination in 2020)

Total: **118 persons** attended the courses in 2019 and **117 people** took and passed the exams.

The duration of preparation for the qualification course for universal maintenance and repair mechanical locksmith - classification code 7214.2.3 is 720 hours and for the qualification course for security guard - classification code 5169.1.1 is 360 hours.

- B. The organisation of **training courses** at the level of each sector within the regional offices, were performed and with specialised staff from SNTGN Transgaz SA structures, for **994 employees**, of which:
- **73 employees** for the job of electrician
  - **291 employees** for the job of mechanical locksmith
  - **568 employees** for the job of gas pipeline transmission and regulation operator
  - **62 employees** for the job of welder
- 968 employees** were trained as follows:
- **54 employees** for the job of electrician
  - **298 employees** for the job of mechanical locksmith
  - **563 employees** for the job of gas pipeline transmission and regulation operator
  - **53 employees** for the job of welder

At the beginning of 2019, the need for improvement at the level of each sector within the regional office was identified for 1,040 employees. At the time of the courses and examinations, some of the employees initially identified were no longer employed in the company (voluntary departures, retirements).

- C. Organizing a training workshop on the compressor station operation within the project Development on the Romanian territory of the NTS on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA) – Phase I, at the Şinca Compressor Station - the Brasov Regional Office. The workshop was performed held by internal trainers for **7 employees**.

The courses organized and sent for payment for the employees of the company for each month between 01.01-31.12.2019 is presented in the following tables:

No.	Category	Organized courses between 01.01 - 31.12.2019											
		Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec
1.	No. of courses with external trainers (organized through the Professional Training Office)	2	7	14	10	13	10	11	5	17	21	23	6
2.	No. of courses with internal trainers (through our own Training Centre)	-	3	3	3	2	1	1	1	2	0	0	0
<b>TOTAL</b>		<b>2</b>	<b>10</b>	<b>17</b>	<b>13</b>	<b>15</b>	<b>11</b>	<b>12</b>	<b>6</b>	<b>19</b>	<b>21</b>	<b>23</b>	<b>6</b>
No.	Category	Paid courses between 01.01 - 31.12.2019											
		Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec
1.	No. of courses with external trainers (organized through the Professional Training Office)	2	7	6	12	16	10	14	5	16	16	22	10
2.	No. of courses with internal trainers (through our own Training Centre)	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>		<b>2</b>	<b>7</b>	<b>6</b>	<b>12</b>	<b>16</b>	<b>10</b>	<b>14</b>	<b>5</b>	<b>16</b>	<b>16</b>	<b>22</b>	<b>10</b>

The courses organized and paid for the Company employees between 2017 and 2019, are presented below:

No	Category	2017	2018	2019	
		Total organized courses	Total organized courses	Total organized courses	Of which completed and paid courses
1.	No. of courses with external trainers (organized through the Professional Training Office)	110	144	139	136
2.	No. of courses with internal trainers (through our own Training Centre)	13	17	10	-
<b>TOTAL</b>		<b>123</b>	<b>154</b>	<b>149</b>	<b>136</b>

**Table 31- Courses organized for the Company employees between 2017 and 2019**

The situation of the number of employees who participated at courses between 2017-2019 is the following:

No.	Category	2017	2018	2019	
		No. of participants in organized courses	No. of participants in organized courses	No. of participants in organized courses	Of which no. of participants in paid courses
1.	No. of trained staff by courses with external trainers	1169	1245	1.626	1.619
2.	No. of trained staff by courses with internal trainers	834	903	1.092	-
<b>TOTAL</b>		<b>2003</b>	<b>2148</b>	<b>2.718</b>	<b>1.619</b>

**Table 32-The situation of the participants in qualification / improvement courses between 2017 and 2019**

On 31 December 2019 the trade union members rate was 96 %, of the total of 4,089 employees, and 3,923 were trade union members.

There are 4 trade unions with which the SNTGN Transgaz employees are registered, namely:

- The Transport Gaz Mediaş Trade Union;
- The Free Trade Union SNTGN TRANSGAZ SA Mediaş;
- The technological research trade union CERTEH Mediaş;
- The professional trade union Metan 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, registered with the Sibiu Territorial Labour Inspectorate under no. 121/21.06.2018 in the Single Recording Register, as well as by the individual labour agreements of the employees.

As of 25.06.2018, the new Collective Labour Agreement concluded at SNTGN TRANSGAZ SA entered into force with a 24-month validity period.

The relations between the employer and the employees are in line with the legal provisions in force in 2019, and there are no conflicting elements connected to these relations.

Within VESTMOLDTRANSGAZ SRL the professional training policy makes it mandatory for all employees to attend courses once a year. The professional training of the employees will be an ongoing and planned process by courses given by *external trainers from the country or abroad or by internal trainers*.

The training has two components: a professional one (technical, economic, other specialties) necessary to perform the tasks in the job description and a general one on professional improvement in various fields.

The training, improvement and professional development of employees will be carried out on the basis of the annual Professional Training and Improvement Programme developed at the company level, according to the provisions of the Collective Labour Contract in force, or the applicable law.

There is no Trade Union Committee at the level of company. The collective labour contract was negotiated for the period 2017-02.02.2019, its registration with ITOFM is not compulsory, it becomes enforceable immediately after the signing

In essence, the company's policy in the field of human resources aims to attract specialists from the Republic of Moldova and the European Area in order to ensure a highly skilled, specialised workforce and which, through the contribution made and through training and development to generate added value of the work carried out.

#### 5.2.4. Social and corporate responsibility

Corporate Social Responsibility is an aspect of corporate governance, by which a number of socially responsible actions were initiated at the level of company, which can be quantified in terms of sustainability and sustainable performance.

SNTGN TRANSGAZ SA Mediaș, consistent with the principle of applying responsible management in fulfilling the assumed mission, is aware of the importance of the fact that sometimes financial support for a noble cause or for an important purpose is vital and therefore through the programs and projects of social responsibility initiated, is actively involved in the life of the community, thus demonstrating its status as a `good citizen`.

The essential role of TRANSGAZ in the energy field in Romania and Europe is naturally complemented by the desire to support the real needs of all those who are constantly contributing to the smooth running of its operations.

As part of the TRANSGAZ Sustainable Development Strategy, the *social responsibility policy* aims to permanently increase the company's accountability to employees, shareholders, partners, the community and the environment, as well as streamlining the impact of social responsibility programs initiated for this purpose.

The company's social responsibility policy is based on a set of principles that define this interaction between the company on the one hand and employees, shareholders, partners, community and the environment on the other.

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

#### Sponsorship activity, financial aid according to CCM and partnerships concluded in 2019

##### SPONSORSHIPS

In line with art. **XIV** of **GEO. 2/2015**, amending and supplementing certain normative acts and other actions, it was provided that economic agents referred to in Article 1 of Government Ordinance no. 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are majority or sole shareholders or hold directly or indirectly a majority share, approved by Law no. 47/2014, who provide cash donations or sponsorships, in line with the regulations in force, comply with the following levels when granting such donations or sponsorships:

- a) minimum 40% of the approved amount, in the medical and healthcare field, for equipping, services, actions or other activities connected with this filed including the support for medical treatment or interventions of particular people and for national programs;

- b) minimum 40% of the approved amount, in the field of education, social or sports for equipping, services, actions or other activities connected with this filed including national programs;
- c) maximum 20% of the approved amount, for other actions and activities including for supplementing the ones provided in letter a) and b).

The level of sponsorship expenditures for SNTGN Transgaz SA is regulated in the REB for 2019, in the following structure:

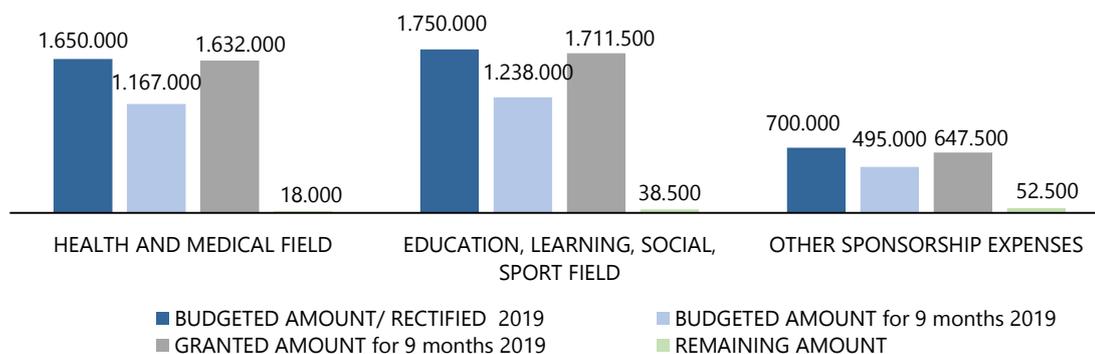
*(Thousand lei)*

SPONSORSHIP CATEGORY	REB 2019 (Low thousand)
Sponsorship expenditures in Health and Medical field	1.650
Sponsorship expenditures in Education, Learning, Social, Sport fields of wich:	1.750
-for sports clubs	800
Other sponsorship expenditures	700
<b>TOTAL</b>	<b>4.100</b>

**Table 33 – Statement of sponsorship budget 2019**

No	SPONSORSHIP CATEGORY	BUDGETED AMOUNT 2019	AMOUNT GRANTED IN 2019	REMAINING AMOUNT
0	1	2	3	4=2-3
1.	HEALTH AND MEDICAL FIELD	1.650.000	1.632.000	18.000
2.	EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which:	1.750.000	1.711.500	38.500
	- for sports clubs	800.000	800.000	-
3.	OTHER SPONSORSHIP EXPENDITURES	700.000	647.500	52.500
<b>TOTAL SPONSORSHIP EXPENDITURES</b>		<b>TOTAL SPONSORSHIP EXPENDITURES</b>	<b>3.991.000</b>	<b>109.000</b>

**Table 34 - Sponsorship budget for 2019 and amounts granted in 2019**



**Chart 30 - Sponsorship budget for 2019 and amounts granted in 2019.**

In 2019, sponsorship aids were granted in the *Health and Medical field* – 1.632.000 lei, in the *Education, Learning, Social, Sport fields* -1.711.500 lei, *Other Sponsorship Expenditures* -647.500 lei.

Considering the need to ensure a responsible and effective management of the sponsorships and financial aid granted at the level of Transgaz:

- the internal document entitled **The company's policy to grant sponsorship and financial aid in 2019**, a document which provides an effective framework for monitoring their progress and implementation in accordance with the legal and tax regulations in force;
- **the process procedure PP-51** of the sponsorship documents was updated in December 2014;
- **the establishment** by Decision No. 1270/26.11.2018 of the Director - General, of the **Commission for the review of the applications for sponsorship**.

The detailed report of the sponsorships granted is available on the company's web site at the address:

<http://www.transgaz.ro/ro/responsabilitate-sociala/informatii-publice-privind-activitatea-de-sponsorizare>

In order to develop this aspect of the corporate governance within VESTMOLDTRANSGAZ as well, at least the following elements should be taken into account:

- **Activities for employees to improve the quality of the workplace:** *e.g. identification and provision of a new space for the company's business until the completion of the administrative complex at Ghidighici; personal and professional development and career development; safety at work; labour market inclusion for people at risk of exclusion; physical & mental well-being in the workplace, payroll and bonus policies that improve employees' living conditions, employee involvement in decisions and self-management; programs to support employees with families / children: work life balance - privacy; programs to support single parent employees; programmes for the reintegration of women into the workplace after the period of maternity and child raising, etc.*
- **Activities for society and local community:** *e.g. corporate civism; programmes to support democracy and respect for human rights; the development of products and services dedicated to insufficiently met community needs; supporting (financial, professional skills) of local programmes for community benefit: education, health, economic and social inclusion, democracy, culture, research; supporting social entrepreneurship at local level (funding, volunteering for consultancy, business partnerships, facilities, etc.); involvement in public-private partnerships for community development, etc.;*
- **Activities for business partners:** *suppliers, distributors, etc.: e.g. supporting the local economy, local markets, trade in goods and services; encouraging local entrepreneurship, in particular social entrepreneurship; encouraging innovation at local level; fairness and honesty in relations with suppliers and distributors; promoting socially and environmentally responsible suppliers and distributors;*

- **Customer activities:** e.g. quality products and services, appropriate to customer needs; correct customer treatment; health and safety of customers; customer support services; protection of customers' private data.

## FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

At the level of SNTGN TRANSGAZ SA Mediaş, the granting of social aid to employees is regulated by the process procedure **PP-52 Preparation of the documents for social aid** and is carried out through the Administrative and Corporate Activities Department, which analyses the social (financial) applications received from the employees (according to the provisions of the resolutions of the Board of Administration and applicable Collective Labour Contract, etc), are presented for approval to the Legal Endorsement Unit and then for approval and analysis to the Board of Administration.

In 2019, 61 applications for social aid were processed, 39 were granted (403.658,09 lei), 14 are discussed, and 8 are closed.

### 5.2.5 Ethics and integrity

Considering Government Resolution 583/2016 on the approval of the 2016 – 2020 National Anticorruption Strategy, SNTGN Transgaz SA adopted on 21 November 2016 the **STATEMENT regarding the adherence to the fundamental values, principles, objectives and monitoring mechanism of the SNA 2016 -2020**, by which it condemns corruption in all forms in which it manifests and assumes the fulfilment of the specific measures related to the competence of the company included in Transgaz 2016 - 2020 **Integrity Plan** approved by Decision 181/23 February 2017.

Preventing and fighting fraud and corruption is a priority for S.N.T.G.N. Transgaz S.A., which has a constant concern for improving the quality of the management by introducing effective measures to diminish the corruption phenomenon.

**Transgaz Integrity Plan** aims to achieve the following objectives

GENERAL OBJECTIVE	SPECIFIC OBJECTIVES
<b>Developing a culture of transparency for good corporate governance</b>	Increasing institutional transparency and the transparency of decision-making processes
	Increasing the transparency of public resource management processes
<b>Increasing institutional integrity by including corruption prevention measures as mandatory elements of managerial plans</b>	Enhancing the ability to manage management failure by correlating tools that impact early identification of institutional risks and vulnerabilities.

<b>and their regular assessment as an integral part of the administrative performance</b>	
<b>Strengthening integrity, reducing vulnerabilities and corruption risks in priority sectors and areas of activity</b>	Increasing integrity, reducing vulnerabilities and corruption risks in the business environment
<b>Increasing the level of knowledge and understanding of integrity standards by employees and beneficiaries of public services</b>	Increasing the degree of anti-corruption education of the company's staff Raising public awareness of the impact of corruption
<b>Strengthening the combat ability against corruption by criminal law and administrative means</b>	Strengthening administrative control mechanisms
<b>Increasing the degree of implementation of anti-corruption measures by approving the integrity plan and regular self-assessment at the company level</b>	Strengthening institutional integrity through developed plans based on risk analysis and internal managerial control standards.

The implementation of the Integrity Plan is based on a set of principles that guides the behaviour, attitudes, rights, and the fulfilment of work duties by those responsible for implementation.

These principles are:

- **The principle of transparency** – the implementation of the Plan will be permanently focused on maximizing the ways and means of informing the decision-makers and employees in order to ensure clarity and understanding of ongoing processes;
- **The principle of responsibility** - involves assuming, by those responsible for implementation, of the obligations of carrying out actions to the end by assuming responsibility for consequences; *The Principle of Competence* - in implementing the Plan, the persons with the necessary knowledge and skills, invested with the exercise of these tasks and responsible for their actions will be involved;
- **The principle of cooperation with the civil company and local stakeholders** – in implementing the Plan, public authorities will collaborate in an open, fair and efficient way with the civil company and local stakeholders;

- **The principle of non-discrimination** - the implementation of the Plan will ensure the involvement of all community groups in the process of project design and implementation, including vulnerable groups;
- **The principle of professionalism** - will be manifested by the quality of solving problems based on competencies, qualities and will be characterized by the responsibility and attitude towards own obligations.

Nine main risk areas were identified within the company: human resources, procurement, NTS operation, design, work monitoring, information and communication technology, audit, corporate governance, and the risks in these areas of activity were analysed; measures have been proposed to reduce them by means of **Transgaz 2016 – 2020 Integrity Plan**.

Transgaz conducts regular and ongoing reports on important events concerning the company, including but not limited to financial status, performance, ownership and management, both in the media and on its own website ([www.transgaz.ro](http://www.transgaz.ro)).

The Company prepares and disseminates relevant periodic and ongoing information in accordance with International Financial Reporting Standards (IFRS) and other environmental, social and governance (ESG) reporting standards. The information is disseminated in both Romanian and English.

The company organizes regular meetings with financial analysts, brokers, market specialists and investors to present the financial results (annually, quarterly, half-yearly), which are 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 safety, 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 the substantiation and application of business strategies and business policies.

By subscribing to this goal, SNTGN TRANSGAZ SA Mediaş 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 in relation to shareholders and stakeholders.

Transgaz Administrators appreciate that, acting in the spirit of best corporate governance practices, the proposed objectives can be achieved and the stakeholders' trust in the company's capabilities to maximize the efficiency of the business increases.

## 5.2.6 Compliance policy

**Compliance is to act in accordance with the rules set out in the legal and regulatory framework, policies and procedures as well as standards of professional ethics and conduct**

In order to achieve this objective, SNTGN TRANSGAZ SA is committed to maintaining high legal, ethical and moral standards, adhering to the principles of integrity, objectivity and honesty and declaring against fraud and corruption.

SNTGN TRANSGAZ strongly expresses its commitment to fight this phenomenon by all legal means available to it.

***The anti-fraud and anti-corruption policy strengthens the message of TRANSGAZ: `Zero Tolerance to fraud and corruption of all types and under any circumstances`***

TRANSGAZ developed and adopted the policy set regarding:

- the anti-fraud and anti-corruption policy;
- the Transgaz Integrity Plan;
- the Best Practice Guide adopted on 18.02.2010 by the Organisation for Economic Cooperation and Development

**Preventing corruption at organizational and employee level**

At the **organizational** level, the following measures are taken to prevent corruption:

- computerisation of internal processes;
- identification of vulnerable areas of independent divisions/departments/units /Medias Representative office/Regional offices and corruption risks, simultaneously with the implementation of a corruption risk management system;
- Establishment of a complaints management and evaluation system (customer satisfaction/ feedback) for processes to be improved.

At **employee** level, the following measures are taken to prevent corruption:

- increasing the level of professional and civic education of employees, as well as assuming obligations of conduct and professional ethics;
- informing the employees on how to report the corruption cases and the institutions dealing with the prevention and fight against corruption;
- creating a strong organizational culture to discourage corruption;
- categorical rejection of the temptations offered in return for faulty performance or non-fulfilment of the service duties (amounts of money, goods, services, advantages, etc.);
- Inventory of vulnerable points in an institution and assessment of the risk of corruption;
- Implementing Integrity Management - a form of human resource management with an emphasis on internal communication and performance.

**To this end, in 2019, the following actions were taken:**

- according to Order 1244/2017 DCC/MEC, the Anti-Fraud Department performed three corruption prevention activities involving employees in senior positions within the company;
- the annual assessment of the implementation of the Integrity Plan;
- a campaign was initiated to inform employees about fraud and corruption;
- the declaration of wealth and interests given by all those concerned, in accordance with the applicable laws;

- the professional of training of the execution personnel on topics relating to integrity, corruption and fraud was performed according to the training programme, training courses for execution staff;

## 5.2.7 Internal/Management Control System and Risk Management

### 1. Background data

#### Definition of the internal/management control

According to Government Ordinance no.119 / 1999 on internal/managerial control and preventive financial control, as further supplemented, **internal/management control** is defined as ***all forms of control exercised at the level of the public entity, including internal audit, established by the management in accordance with its objectives and legal regulations, to ensure the management of public funds in an economical, efficient and effective manner; it also includes organizational structures, methods and procedures.***

In **SNTGN Transgaz SA**, internal/managerial control activity is perceived as a means of analysing the activities of company, adopting and applying a new type of management that is often associated with the ***activity of knowledge***, thus allowing the coordinating of activities in an effective manner.

Internal/managerial control is regarded and seen as a ***managerial function*** and not as a verification operation. By exercising the control function, the management observes the deviations from the established objectives, analyses the causes and disposes the necessary corrective or preventive measures.

By developing the Internal / Managerial Control System, SNGGN Transgaz moves to a new type of management, suited to a flexible company that includes strategic management, performance management and risk management.

### 2. Legal framework

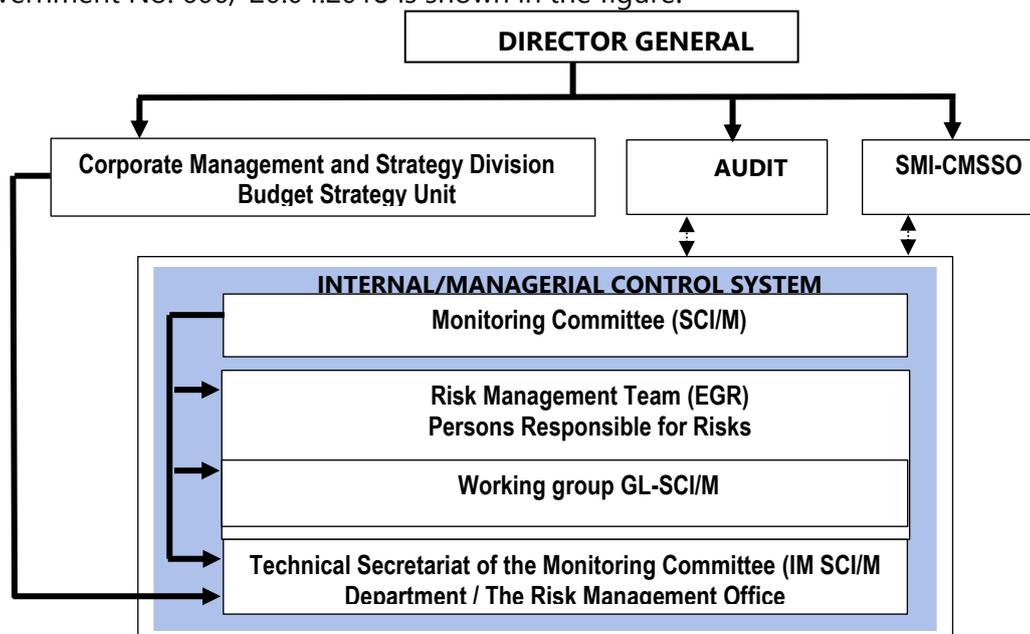
The implementing, development and monitoring process of the Internal/managerial Control System is based on the following legal acts:

- Government Ordinance no. 119/1999 on internal/managerial control and preventive financial control, republished, as further amended and supplemented;
- Order No. 600/20.04.2028 of the General Secretary of the Government on the approval of the Managing Internal Control Code of Public Entities, published in Official Journal No. 387/07.05.2018, Part I;
- Order no. 1054/2019 of the General Secretariat of the Government approving Methodological Norms on coordination and supervision by methodological guidance missions of the state of implementation and development of the managerial internal control system in public entities;
- International regulations issued by:
  - TEADWAY (US) -COSO Public Sponsorship Committee;

- Canadian Authorized Institute (CRITERIA OF CONTROL) -COCO;
- THE EUROPEAN COMMISSION;
- The International Organization of Supreme Audit Institutions (INSOSAI).

### 3. Organizational structure of the Internal Control/Management System

The organizational structure, established according to the Order of the General Secretariat of the Government No. 600/ 20.04.2018 is shown in the figure:



**Figure 19** - Organizational structure of the Internal Control/Management System within Transgaz

**NOTE: GL-SCI/M** – Work group per Division/Unit/ Independent Department / Mediaș Subsidiary / Regional Office, for SCI/M development;

Taking into consideration Order SGG 600/2018, an internal decision document on the establishment of the Committee for Monitoring and Updating the Regulation on the Organization and Functioning of the SCI/M Monitoring Commission was issued and submitted to the approval of the Director General, according to the provisions of the order in force.

Accordingly, the Monitoring Commission was established by **Decision no. 751/23.07.2018 amended by Decision no. 283/15.03.2019** and the **Rules governing the functioning and organization of SCI/M Monitoring Commission**, updated, was registered with no. 37020/23.07.2018.

#### The Monitoring Commission (MC) has the following structure:

- The **chairman** of the Monitoring Committee is the Deputy director general of the company, Mr Gheorghe Hațegan.
- The **members** of the *Monitoring Committee* are directors of divisions/units/departments/Mediaș Subsidiary/regional offices of the company

- The Monitoring Committee Technical **secretariat** is provided by the SCI / M Implementation and Monitoring Service, within the Budget Strategy Division, the Strategy and Corporate Management Department.

The organization and working mode of the Monitoring Committee is under the responsibility of the chairman of the CM, were established on the basis of the **SCI/M Monitoring and Operation Regulation of the SCI/M Monitoring Committee**.

The activity of Monitoring Committee is advised by the Head of the Internal Audit Unit.

By **Decision 282/15.03.2019** the persons responsible of the SCI/M within SNTGN Transgaz SA were appointed.

#### 4. Internal control/management standards

The purpose of the standards is to create a uniform and coherent internal/management control model, which allows comparisons within the same entity, at different times and to make it possible to highlight the results of the company and its evolution.

The internal/management control standards established, according to the **Order of the Secretary General of the Government no. 600/2018** regarding the approval of the Code of internal/management control of public entities, define a minimum of general management requirements, which all public entities must comply with.

The establishment of the internal control/management system is the responsibility of the management of each public entity and must be based on internal/managerial control standards promoted by the GSG.

Internal/managerial control includes 16 standards grouped on **5 components** which are closely interdependent as presented in the table below:

Internal/management control elements	Standards
<b>I. CONTROL ENVIRONMENT</b>	
Comprises issues related to organization, human resources management, ethics, deontology and integrity	Standard <b>1</b> - Ethics and integrity
	Standard <b>2</b> – Responsibilities, positions and tasks
	Standard <b>3</b> – Competence, performance
	Standard <b>4</b> – Organizational structure
<b>II. PERFORMANCE AND RISK MANAGEMENT</b>	
Refers to the target setting management, planning (multiannual planning), scheduling (management plan) performance (monitoring performance) and risk management.	Standard <b>5</b> - Targets
	Standard <b>6</b> - Planning
	Standard <b>7</b> – Monitoring performance
	Standard <b>8</b> –Risk management
<b>III. CONTROL ACTIVITIES</b>	
	Standard <b>9</b> - Procedures

Refers to development of procedures, continuity of processes and activities, separation of responsibilities, monitoring.	Standard <b>10</b> - Surveillance
	Standard <b>11</b> – Continuity of activity
<b>IV. INFORMATION AND COMMUNICATION</b>	
Refers to issues related to the creation of an informational system and of a reporting system regarding the execution of the management plan, budget, resource use and documentation management.	Standard <b>12</b> – Information and communication
	Standard <b>13</b> – Documentation management
	Standard <b>14</b> – Accounting and financial reporting
<b>V. AUDIT AND ASSESSMENT</b>	
Refers to the development of the capacity of assessment of the internal/management control for ensuring continuity of its improvement.	Standard <b>15</b> – Internal/management control assessment
	Standard <b>16</b> – Internal Audit

## 5. Actions taken in 2019

In order to comply with the legal provisions, in 2019 the following actions were undertaken:

- The meeting of the Monitoring Committee was organized in February 2019. The documents endorsed within the meeting of the Monitoring Committee were sent for information purposes to the Director General, as follows:
  - *Information* regarding the implementation phase of SCI/M on 31.12.2018, registered under no. 5734/ 30.01.2019;
  - *Information* regarding the monitoring of the performances at Company level for the year 2018, registered under no. 7137 / 05.02.2019;
  - **The SCI / M development program from SNTGN Transgaz SA for the year 2019**
  - **Risk Registry at the level of SNTGN Transgaz SA – year 2019**, registered under no. 2740/16.01.2019;
  - **The plan of measures for minimizing the major risks identified within SNTGN TRANSGAZ SA - Year 2019**, registered under no. 2877 / 01.16.2019;
  - *Information regarding risk monitoring and management at the level of SNTGN Transgaz SA* for the year 2018, registered under no. 7541 / 06.02.2019;
  - The company's Risk profile as at 31.12.2019, registered under no. 3885/21.01.2019;
  - **Tolerance limit proposed for 2019** registered under no. 3885 / 21.01.2019.
- Request for updating/preparation of the documents of the Internal / Managerial Control System **for the year 2019**, by Letter no 7953/08.02.2019, in accordance with the current organizational structure, with the general / strategic objectives established at the company level and in consideration of:

- Order no. 600/2018 of the Secretary General of the Government on the annual updating of SCI / M documents;
- The development program of the Internal/Managerial Control System, in the period 2018 - 2021, approved by the management of the company.
- Updating of Annex 1 of the Decision establishing the Monitoring Commission no. 751 dated 23.07.2018 was updated by **Decision no. 283 of 15.03.2019**.
- updating and transmitting to the Ministry of Economy of the Transgaz Management/Internal Control System Development Plan – 2018-2021, updated in 2019;
- b) publication of the Management/Internal Control System Development Plan – 2018-2021 in the database, `zonapublica.transgaz.ro/Sistem de Control Intern managerial/Documente de evaluare internă și raportare/Informare privind stadiul implementării SCI/M`, for compliance;
- convening on 19.09.2019 of the Monitoring Commission meeting with the following agenda:
  - establishing measures for organizing and carrying out the 2019 Self-assessment of the internal management control system, at the level of the divisions/independent units/independent departments/regional operations/the Mediaș Subsidiary;
  - analysis of the compliance with the provisions of the System Procedure PS 07 SMI Management SCI/M and PS 05 SMI Risk Management, at the level of the divisions/independent units/independent departments/regional operations/the Mediaș Subsidiary.

At the meeting of the SCI/M Monitoring Commission Report 55169/19.09.2019 was prepared for the planning of the performance by the managers of the divisions/independent units/independent departments/regional operations/the Mediaș Subsidiary of the operation of Self-assessment of the internal management control system for 2019;

- transmission to the organizational structures of Letter 55237/19.09.2019 on the launching of the Self-assessment of the internal management control system for 2019;
- inventory of specific/operational objectives and performance indicators for the 307 organisational structures. At the level of the company, at 31.12.2019 there are: 231 specific objectives of divisions/independent units; 680 operational objectives of the departments/offices and 984 performance indicators associated to operational objectives;
- it was noted the List of Processes within Transgaz and the List of System Procedures and Process Procedures updated by the Quality Management Department in December 2019; it was pointed out that out of a total of 287 declared procedural activities/processes, 132 were documented through 7 system procedures and 125 process procedures, which means that the share of documented procedural activities is 45,99 %;
- the analysis and centralising by the SCI/M Implementation and Monitoring Department, of data from the self-assessment questionnaires submitted by the 307 organisational entities and the preparation of the following documents:

- j1) **Synthesis of self-assessment results on 31 December 2019**, prepared according to Annex 4.2. of Order 600/2018 of the General Secretariat of the Government on the approval of the Code of the management/internal control of public entities;
- j2) **Centralization of progress of implementation and development of the management/internal control system** on 31 December 2019, prepared according to Annex 3 of Order 600/2018 of the General Secretariat of the Government on the approval of the Code of the management/internal control of public entities;
- j3) **Self-Assessment Questionnaire on the progress of the management/internal control standards implementation** for the self-assessment of the progress of the management/internal control standards implementation at SNTGN Transgaz SA on 31.12.2019, prepared according to Annex 4.1. of Order 600/2018 of the General Secretariat of the Government on the approval of the Code of the management/internal control of public entities;
- j4) **Report on the management/internal control standards on 31 December 2019**, according to Annex 4.3. of Order 600/2018 of the General Secretariat of the Government on the approval of the Code of the management/internal control of public entities.

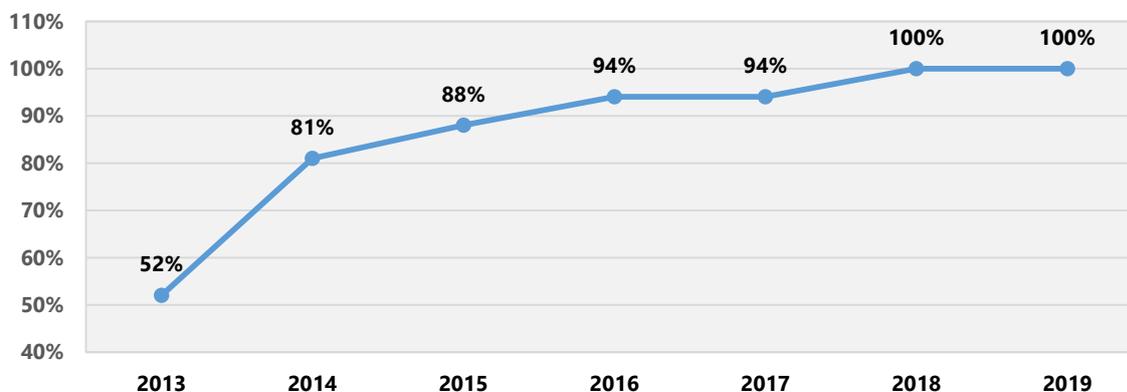
## 6. Analysis of management/internal control implementation progress in SNTGN Transgaz SA on 31.12.2019

In 2019, according to the organisation chart valid on 31 December, **307 organizational entities** filled in the *Self-Assessment Questionnaire on the progress of the SCI/M standards implementation* code F 12 00/PS 07 SMI (according to OSGG no. 600/2018, Annex 4.1).

The analysis of the data reported by the organisational structures shows the following:

- a) **The Management/Internal Control System implemented by SNTGN Transgaz in 2019 is COMPLIANT, being implemented all of the 16 management/internal control standards.**

Evolution of the SCI / M compliance rate over previous years is shown in the figure below



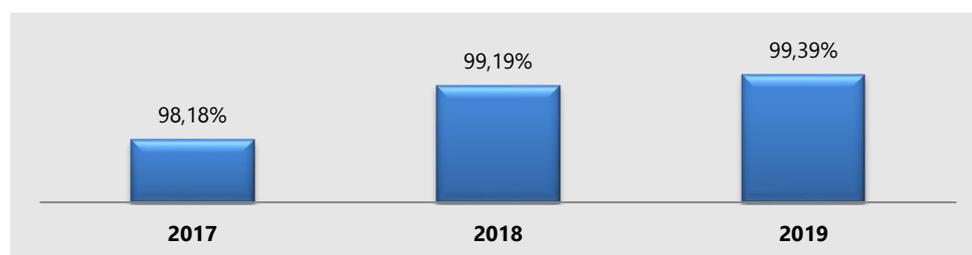
**Figure 20-** Evolution of the degree of conformity of SCI/M at SNTGN Transgaz SA level in 2013-2019

**b) Analysis of the implementation of internal/managerial control standards at the level of independent departments/independent units/regional offices/Mediaș Subsidiary, on 31.12.2019**

The increase of the **average degree of implementation of internal/managerial control standards**, at the level of the 307 organizational structures on 31.12.2019 is 99.39%, up by 0.2% from 2018.

The formula for calculating the average degree of implementation of internal management control standards at company level:

$$\frac{[\Sigma(\text{entities with std.1 implemented}) + \Sigma(\text{entities with std.2 implemented}) + \dots + \Sigma(\text{entities with std.16 implemented})] + (\text{no. of entities with non-applicable standards})}{[\text{no. of entities within the company} \times \text{no. std. (16)}]} \times 100 (\%)$$



*Figure 21 - Evolution of the average degree of implementation of the internal/managerial control standards, at the company level, years 2017, 2018, 2019*

## 7. Actions to be performed in the future period

- Updating whenever necessary the Decision 751 / 23.07.2018 on the appointment of the Monitoring Commission and the Decision 282 / 15.03.2019 on the appointment of the SCI / M Experts within SNTGN Transgaz SA;
- organization and conduct of the Monitoring Commission meeting in order to approve the following documents:
  - Synthetic situation of self-evaluation results as of 31 December 2019,
  - Summary of the state of implementation and development of the internal/managerial control system as of 31 December 2019
  - Self-evaluation questionnaire of the implementation status of internal/managerial control standards for the self-evaluation of the state of implementation of the Internal/Managerial Control System within SNTGN Transgaz SA
  - Report on the Internal/Managerial Control System as of 31 December 2019
  - Development program of SCI/M at the level of SNTGN Transgaz SA for the year 2020;

- Risk Register, at the level of SNTGN Transgaz SA, year 2020;
- Plan of measures to mitigate the major risks identified within SNTGN TRANSGAZ SA, year 2020;
- transmission of documents in point b) to the General Secretariat of the Government;
- *drafting the Information on Performance Monitoring at SNTGN Transgaz level for 2019*; it shall provide an analysis of the degree of achievement of the objectives on the basis of the performance indicators established, *through the System for monitoring the conduct of activities*, as a whole and an assessment of the degree of achievement of the objectives on the basis of performance indicators, established for 2019;
- *drafting the Information on the stage of implementation of the Internal/Managerial Control System at Transgaz level for the year 2019*, following the analysis and centralization of data from the Self-Assessment Questionnaires submitted by organizational entities; it shall represent an assessment of how each standard is implemented by each organizational structure and a general assessment at the level of the company;
- organizing the Monitoring Commission meeting for the approval of the *Information on Performance Monitoring at SNTGN Transgaz level for 2019* and the *Information on the stage of implementation of the Internal/Managerial Control System at Transgaz level for the year 2019*;
- transmission to the Director General of the *Information on Performance Monitoring at SNTGN Transgaz level for 2019* and the *Information on the stage of implementation of the Internal/Managerial Control System at Transgaz level for the year 2019*;
- Chronologically and successively completing the stages related to the SCI / M implementation and development process according to the System Procedure: Management of the Internal / Managerial Control System, code PS 07 SMI.
- Continuation of the training / counseling regarding the provisions of the System Procedure: PS 07 SMI Management of the Internal / Managerial Control System;
- Giving recommendations within the trainings / counseling regarding:
  - Establishing / implementing corrective measures by the organizational structures, to increase the degree of implementation of Standard 3: Competence, Performance, Standard 6: Planning and Standard 9: Procedures (where applicable)
  - Analyzing objectives, performance monitoring indicators and their relevance;
  - Establishing actions within each Department / Independent Directorate / Independent Division / Regional offices / Mediaș Subsidiary, regarding the unachieved performance indicators and the monitoring of their achievement;
  - Establishing some directions of action / measures within the organizational structures, which will lead to the fulfillment of SCIM Development Program 2018-2021;
- Verification of the drafting / updating and posting of SCI / M documents for the year 2020, in compliance with the organizational structure of the company;
- Real-time completion of the analytical files by all the organizational structures, related to the internal / managerial control standards according to the System Procedure: SCIM Management, code PS 07 SMI;
- implementation of the SCIM IT platform within the Internal Management Control and Interinstitutional Relations Unit, at SNTGN Transgaz SA level; the IT platform will

improve the reporting system, including by debureaucratizing document-making and eliminating reporting errors. It will also be possible to post on the website of the SCIM IT platform company questions and answers formulated by the Internal Management Control and Interinstitutional Relations Unit, in order to better disseminate the internal/managerial control system issues;

- Purchase of an electronic platform for the management of the entire Internal / Managerial Control System, implicitly achieving:
  - Real-time reporting of the degree of achievement of the performance indicators;
  - Warning that indicators are not achieved, so that corrective measures can be taken in a timely manner.
- Adaptation to the ever-changing circumstances of the performance monitoring / evaluation system
- Transformation of the monitoring / evaluation system into a self-assessment and learning system within the company, which would lead to the achievement of the framework for reviewing the objectives and defining future strategies.

## 5.2.8 Risk Management

Given the size and complexity of the processes in which TRANSGAZ is involved, the dynamics of external factors, the threats of the cyber environment, the complexity and duration of the investment projects, the changes generated by the environmental factors on the good functioning of the company, the dynamics of the changes that take place in the energy markets and among the contractual partners with volatile financial performance, a very complex picture is created, with potential areas of risks and threats to the company

Therefore, the need for **risk management** to become an integral part of general management is an important objective of the company.

### 1. Legislative framework

The main normative acts underlying the regulation of risk management are the following.

- Government Ordinance no. 119/2015 on internal/managerial control and preventive financial control, republished as further amended and supplemented;
- Order of the General Secretariat of the Government no. 600/2018 regarding the approval of the Code of internal managerial control of public entities; in force since 07.05.2018.
- Methodology-of-risk-management-2018, elaborated by the General Secretariat of the Government.
- SR EN 31000: 2010, Risk Management- Principles and Guidelines
- SR EN 31010: 2010, Risk Management - Risk Assessment Techniques

## 2. The organizational framework of the risk management process

In order to manage the risks at the level of the company, the General Manager of SNTGN Transgaz SA established, by internal Decision no. 750 / 23.07.2018, a structure with attributions in this respect, called the **Risk Management Team (EGR)**, in the following composition:

- **President** of the EGR is the deputy general manager of the company Mr. Târsac Grigore;
- **Members** of the EGR are the Risk Officers assigned by the managers of the divisions/units/ Medias Subsidiary/regional offices and independent departments;
- **The EGR Secretariat** is provided by the Risk Management Office/SCI/ M Implementation and Monitoring department, within the Budget Strategy Division, the Strategy and Corporate Management Department.

Within SNTGN Transgaz, in addition to the Risk Management Team (EGR), teams consisting of Heads of department in the **Risk Management Team (GL-EGR)** are constituted at the level of each department / independent directorate/ Mediaș Subsidiary/Regional offices entities concerned.

The organization and operation of the Risk Management Team is under the responsibility of the President and is established by the **Regulation on the Organization and Operation of the EGR no 37021/23.07.2018**.

## 3. TRANSGAZ policies and objectives on Risk Management

For the optimization of the Risk Management process, the following are established:

- *Statement – Commitment of the Director General on Risk Management*, by which the following objectives were established:
  - Effective treatment of the risks to which the Company is exposed;
  - Integrating Risk Management into the Company's strategy and development programs;
  - Increasing the degree of information on Risk Management, with emphasis on the benefits of implementing Risk Management within the Company;
  - Anticipating and increasing the ability to respond to the requirements of the context in which the Company operates;
  - Increasing the degree of involvement of each employee in actions regarding Risk Management.
- *The Risk Management Strategy* is approved by the Decision of BoA no. 41/2018. The time horizon of this strategy is 4 years, as well as for SNTGN TRANSGAZ *Management Plan*. It establishes both the actions necessary to optimize the risk management process and the framework for identifying, evaluating, monitoring and controlling significant risks, in order to maintain them at acceptable levels depending on the *risk tolerance limit*. Through the risk management strategy it is established the risk tolerance in relation to risk exposure, using a **3-step scale** resulting in a **matrix with 9 values** for risk exposure.

- System procedure PS 05 SMI *Risk Management* was approved on 31.07.2018. PS 05 SMI System procedure establishes a unitary set of rules for risk management and for drafting and updating of the Risk Register.

#### 4. Actions undertaken in 2019

The essence of the risk management process within SNTGN Transgaz SA is represented by a series of five subprocesses:

- Setting the context
- Risk identification
- Risk assessment
- Risk management
- Monitoring, revision and periodical reporting of risks.

Monitoring and ongoing review of risk registers ensures that identification, analysis, assessment and risk management are always updated.

Parallel to the core process, to ensure that proper information is used in the process and to disseminate the findings and information, communication and consultation are carried out using the INTRANET network ZonelInterDep and zonapublica.transgaz.ro.

#### In 2019, the following actions were taken:

- a) *The Counseling Program on Risk Management* was issued, registered under no. 1648/11.01.2019, following identification in 2018 of the need of counselling the organizational structures; The themes established are:
  - Applicable legislation: OSGG 600/2018. Managerial Internal Control Standards;
  - Legal framework;
  - Roles and responsibilities; the Pillars of Risk Management;
  - What is Risk Management?
  - The benefits of Risk Management;
  - Proactive Risk Approach;
  - The tolerance limit. Company's risk profile;
  - The importance of Risk Management in the Company's Development strategy;
  - Risk Management, a systematic process;
  - The stages of Risk Management;
  - Risk's life cycle;
  - Communication and Information;
  - Case study for a risk occurred, particularized for each structure.
- b) Advising, between February ÷ November 2019 of all departments/independent directorates/independent services/regional office / Mediaș Subsidiary; a total of 401 employees attended the advising activity. The advising of structures, was completed with the elaboration of the *Report on Advising the Organizational Structures of SNTGN Transgaz on Standard 8 Risk Management of the Internal/Managerial Control System*,

with the annex *The Action Plan and the schedule for implementing proposals/recommendations.*

- c) By letter no. DSMC 351 / 04.01.2019, the action of evaluating the risk portfolio existing in SNTGN Transgaz started. In this respect, all the Departments / Independent Units / Independent Divisions/ Regional Operating Centres/ Mediaș Subsidiary (according to the organization chart valid as at December 2018) were requested to submit the *Reports regarding the Risk Management Process for 2018.*
- d) analysis and centralization, by the Risk Management Desk, of the data in the Risk Monitoring and Management Reports, from the level of independent departments/directorates/independent services/Territorial Operations/Mediaș Subsidiary and the development of Risk Monitoring and Management Information, at *SNTGN Transgaz SA* level, 2018, Risk Register, for the entire company, revised, 2018 and the risk profile, at company level, on 31.12.2018;
- e) preparation *by the* Secretariat of the Risk Management team of the *Report on the Company's risk management and monitoring – 2018, based on the Risk Management Reports for 2018;*
- f) It was proposed the keeping of the *Tolerance Limits for 2019*, set by the Risk Management Strategy.
- g) The Secretariat of the Risk Management Team prepared the Company's *Risk Profile*, December 2018.
- h) The Secretariat of the Risk Management team issued the *Strategic Risk Analysis*, comprised in the Risk Registry at Company level for the year 2018, finalized by the reformulation and grouping of *strategic risks* (taking into consideration the internal and external context) in the categories defined in the table below:

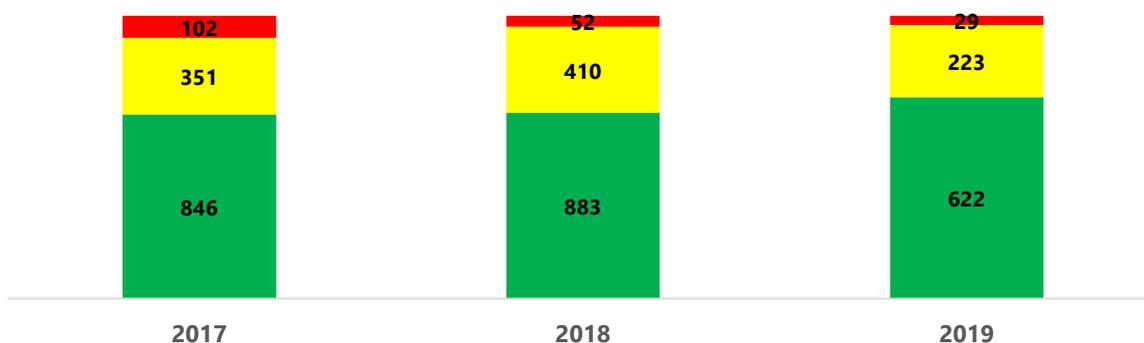
<b>External source</b>
<b>Category: the public domain</b>
Changes in the macroeconomic environment
Geopolitical framework, political factors which may affect the conclusion of international transmission contracts
Government intervention in the sector of activity
<b>Category: regulatory/legislative</b>
Partial implementation/failure to implement European regulations
Changing the regulatory framework specific to the natural gas market
Changes in natural gas prices in Romania.
Legislative restrictions regarding the possibility to diversify the profit generation activity
Remuneration of performed investments and their introduction in the RAB is performed only if accepted by ANRE.
Reduced possibility to obtain a higher profit than the regulated profit during a regulatory period
<b>Category: competitional</b>
Impact of competing projects on gas transmission activity at European level.
<b>Category: commercial</b>
Seasonal fluctuation of the gas consumption.

Changes in gas price purchased by the SNTGN Transgaz
<b>Category: financial</b>
Lending
Currency
Interest rate
Liquidity
Capital market
<b>Category: hazard</b>
The NTS may be affected by natural catastrophes (earthquake, flood, land slide, extreme temperatures, heavy snowfall) , crisis or war.

- i) The *Risk Register at Company level* was prepared for year 2019. It includes the strategic risks, shown in the table above and the major operational risks (score 6 and 9), escalated by the organizational structures, selected by the Secretariat of the Risk Management Team.
- j) preparation of the company Risk Mitigation Action Plan in 2019, based on the analysis of the implementation stage of the control measures to minimize the risks for the year 2018 and of the *Risk Register at company level, for the year 2019*.
- k) The meeting of the Risk Management Team was organized and held and the Minutes no. 6239 / 01.02.2019 were concluded, during which the following documents were endorsed:
  - *Tolerance limits for 2019 no. 3885/ 21.01.2019*;
  - *Transgaz`s Risk Profile, December 2018, no. 3885/21.01. 2019*;
  - The Company`s *Strategic Risk Analysis* included in the Risk Register - 2018 no. 2738/16.01.2019 and the reclassification of strategic risks;
  - *The 2019 Company`s Risk Register* no. 2740/16.01.2019;
  - *The 2019 Risk Mitigation Action Plan* no. 2877/16.01.2019.
- l) Endorsement/approval of the documents from point i) by the SCI/M Monitoring Commission / the Director General.
- m) The action of updating / elaborating the documents was initiated (by Notice no. 7953 / 08.02.2019), in accordance with the System Procedure PS 05 SMI *Risk Management*.
- n) The issuing and posting of the following documents specific for the organizational structures:
  - List of Specific Objectives and Performance Indicators code F 01 00/PS 05 SMI;
  - List of Operational Objectives, Indicators, Activities and Risks, code F 02 00 / PS 05 SMI;
  - Department Risks Register, RegR-RR Office, code F 03 00/PS 05 SMI;
  - Registry of Risks at department level RegR-RD code F 05 00 / PS 05 SMI;
  - Risk minimization plan code F 06 00 / PS 05 SMI;
  - Annex 7 FUR Risk Fact Sheet code F 07 00 / PS 05 SMI.
- o) verification of the documents published by the structures, in accordance with the requirements of PS 05 SMI System Procedure;
- p) Annex 1 of the Decision for establishing the Risk Management Team no. 750 of 23.07.2018 was updated by Decision no. 284 of 15.03.2019;

- q) *The Information on the analysis of the progress on achieving the specific objectives and on the program of implementation of the measures established in the Risk Management Strategy - SNTGN Transgaz* was issued; it was analysed within the Board of Administration meeting of 04.07.2019;
- r) The Strategic Risk Tracking sheets were completed with the stage of implementation of the control measures and with proposed new actions;
- s) start-up by Letter DSMC 70025/26.11.2019 of the strategic and operational risk review action. In this respect, all Departments/Independent Directorates/Independent Services/Regional office/Mediaş Subsidiary (according to the organization chart valid in December 2019), the review of the Risk Registers, 2019.
- t) review of the Risk Register, at company level, the year 2019.
- u) monitoring the implementation stage of internal/managerial control measures set out in the Risk Mitigation Measures Plan at company level, year 2019;
- v) drafting the *Information on risk management at company level for the year 2019*.
- w) Drafting the proposal for the *Tolerance Limit for the year 2020*, set by the Risk Management Strategy.
- x) Drafting by the Secretariat of the Risk Management Team of the Risk Profile of SNTGN, December 2019.

The risk profile of SNTGN Transgaz SA on 31.12.2019 improved from the risk profile set at 31.12.2018, as can be seen in the figure below:



**Figure 22 – Comparative risk profile 2017, 2018, 2019**

**Note:**

- Acceptable risks
- Low tolerance risks
- Intolerable risks

One of the concerns of the company's management is also the development and implementation of the internal/managerial control system within Vestmoldtransgaz SRL.

## 5. Actions to be taken for the upcoming period

- Updating as necessary Decision 750/23.07.2018 on the appointment of the Risk Management Team;
- Chronologically and successively completion of the risk management process stages according to the Risk Management System Procedure, code PS 05 SMI.
- Development of the Risk Register, at company level, for 2020. It includes the strategic risks, in Table No.1 and major operational risks (score 6 and 9), scaled by the organizational structures, selected by the Secretariat of the Risk Management Team.
- Development of the Risk Mitigation Measures Plan at company level, 2020;
- Organization and conduct of the Risk Management Team meeting, for the approval of the following documents:
  - *tolerance limit*, for year 2020;
  - *Risk profile of SNTGN*, December 2019;
  - *Risk Register, at the company level, for year 2020*;
  - *Risk mitigation measures plan, at the company level, year 2020*;
  - *information on risk management at the level of the company, for year 2019*.
- Updating, whenever necessary, the Strategic Risk Tracking Sheets;
- Monitoring the implementation status of the Program for the implementation of the measures set out in the Risk Management Strategy;
- Monitoring the stage of implementation of the actions set out in the Action Plan and the schedule for implementing proposals/recommendations, set out following the advising of the organizational structures;
- Definition of categories of operational risks;
- Internal trainings of newly established organizational structures on the elaboration of documents related to the PS 05 SMI System Risk Management Procedure.
- Purchasing an electronic platform for the management of the entire Internal / Managerial Control System, by implicitly achieving:
  - Real-time reporting of the degree of achievement of the performance indicators and the application of risk management on specific objectives and performance criteria, automatically performing the necessary calculations;
  - Automatic application of calculation matrices in risk management for risk assessment and treatment.

### 5.2.9 Communication

A part of the company's development strategy, communication policy and social responsibility aims at a permanent increase in the company's transparent communication and accountability to employees, shareholders, partners, community and the environment, as well as the efficiency of all the actions carried out in this sense.

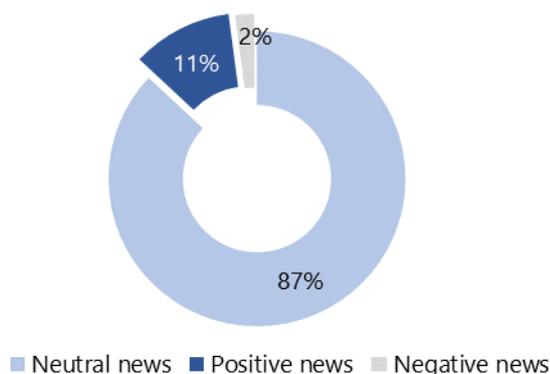
Under the slogan **`A RESPONSIBLE COMPANY IS A FOUNDATION OF THE FUTURE`**, the entire internal and external communication activity of the company is modelled on and is carried out in accordance with the principles of professional deontology, ethics, transparency and good business and collaboration practices, culture and organizational values .

## Infographic monitoring of news on Transgaz activity in 2019

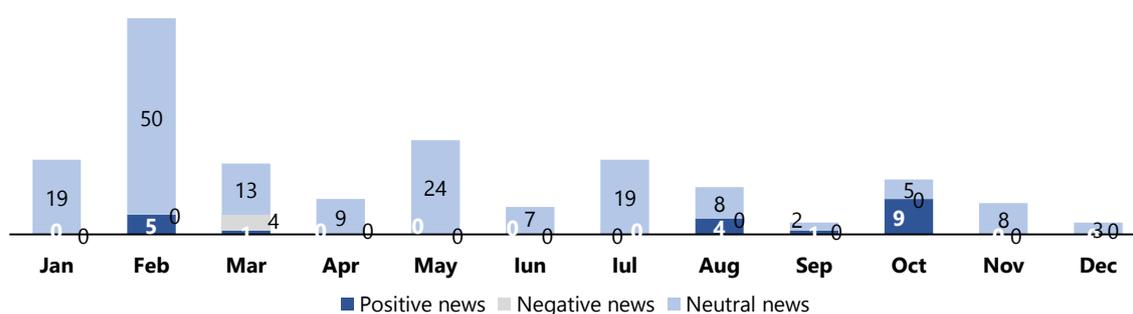
Following the monitoring of news on Transgaz's activity, which appeared on media channels in 2019, we mention that this year there were 191 of which:

No	News category	12 months		%	Percentage	
		2019	2018		2019	2018
1.	Neutral news	167	281	-41%	87%	81%
2.	Positive news	20	40	-50%	11%	12%
3.	Negative news	4	26	-85%	2%	7%
<b>Total news</b>		<b>191</b>	<b>347</b>	<b>-45%</b>	<b>100%</b>	<b>100%</b>

### News percentage on Transgaz activity in 2019



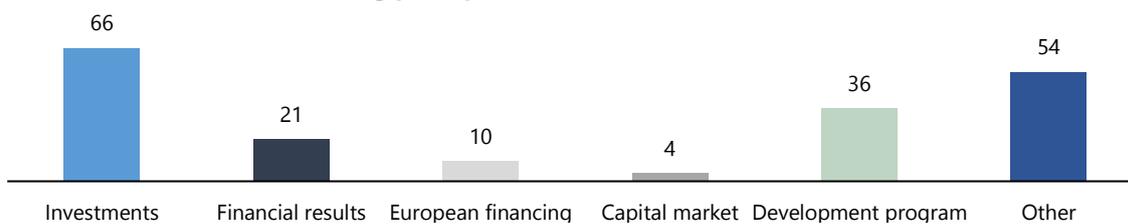
The monthly distribution in 2019 of positive, neutral, negative media references is the following:



**Chart 31** –Positive, negative and neutral news regarding the activity of Transgaz in 2019

**The total distribution in 2019** of the references made by the topic, investments, financial results, European financing, capital market, development program is presented:

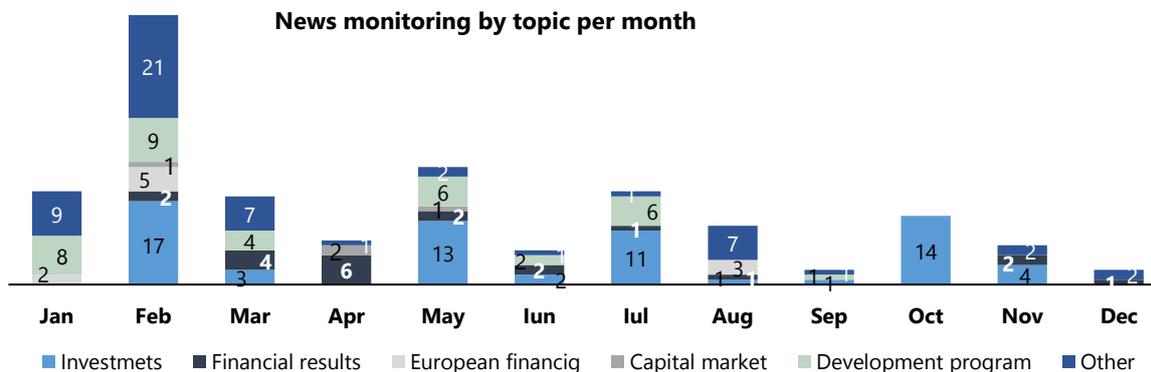
**News monitoring per topic as of 31.12.2019**



**Chart 32** – News monitoring per issue in 2019

Monthly distribution in 2019 of the references made by the topic is presented:

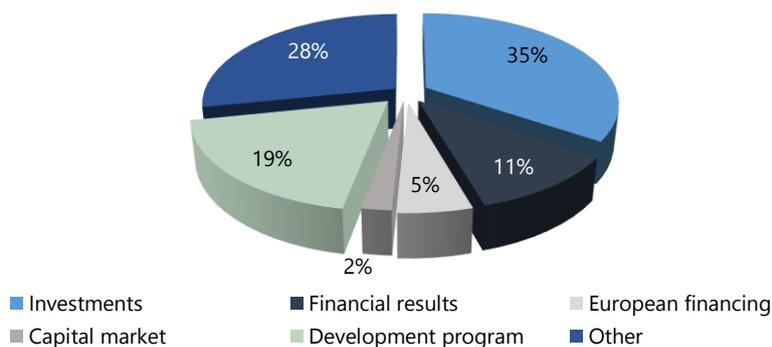
**News monitoring by topic per month**



**Chart 33** -Monthly monitoring of news by topic in 2019

The share of the references which occurred in 2019 depending on the approached theme is as follows:

**News monitoring per topic**



**Chart 34** -News by topic in 2019

## 5.2.10 Key non-financial performance indicators

From the category of the **non-financial operational performance indicators** (presented in Annex 2a of GD 722/2016 for the approval of the Methodological Rules for the application of some provisions of the Governmental Emergency Ordinance no.109/2011 on the corporate governance of public enterprises) within the company the following indicators are monitored:

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

No.	Indicator	Objective	No.	2019		Achievement degree	
				Planned	Achieved		
<b>Operational</b>							
6.	<b>Monitoring the Implementation and Investment Strategy</b>	<i>Achievement of the FID projects from the 10 years Development Plan <math>I=(achieved+initiated\ actions)/proposed\ actions</math></i>					100%
		<i>Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).</i>	6.1	Construction Phase I	In progress –over 300 km of 479 km were welded for BRUA Phase I; -CS Jupa - <b>completed and commissioned on 30.09.2019</b> ; -CS Podișor - <b>completed and commissioned on 31.10.2019</b> , -CS Bibești – under execution; commissioning is expected on 30 June 2020, - <b>Execution completion of Jupa – Recaş pipeline section (part of Lot 3)</b>		
		<i>Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea</i>	6.2	Procurement of design and execution works  Obtaining of comprehensive decision - phase 2	-Completed  -Completed		
		<i>Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;</i>	6.3	Isaccea I – start of construction Negru Vodă 1 – start of execution	- GMS Isaccea 1 execution in progress - FEED under preparation (updated deadline)		
7.	<b>Increasing energy efficiency</b>	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0.49	100%	
<b>Oriented towards public services</b>							
8.	<b>Performance indicators related to the gas transmission service</b>	<i>Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016)</i>					100%
		8.1	$IP_0^1 \geq 90\%$	92,44%			
		8.2	$IP_1^1 \geq 95\%$	100%			
		8.3	$IP_1^2 \geq 95\%$	100%			
		8.4	$IP_1^3 \geq 95\%$	100%			
		8.5	$IP_1^4 \geq 95\%$	100%			
		8.6	$IP_1^5 \geq 95\%$	100%			
		8.7	$IP_2^1 \geq 95\%$	100%			
		8.8	$IP_2^2 \geq 95\%$	-			
8.9	$IP_3^1 \geq 95\%$	100%					

			8.10	$IP_3^2 \geq 95\%$	-	
			8.11	$IP_3^3 \geq 95\%$	-	
			8.12	$IP_3^4 \geq 95\%$	-	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	100%	
			8.15	$IP_5^2 \geq 98\%$	100%	
			8.16	$IP_6^1 \geq 98\%$	100%	
			8.17	$IP_6^2 \geq 98\%$	100%	
			8.18	$IP_7^1 \geq 80\%$	96.77%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
<b>Corporate governance</b>						
9.	<b>Implementing the internal/managerial control system</b>	<p>Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p>I = implemented standards/standards provided by Order 600/2018*100</p>	9.1	94%	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Letter DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government on the Progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020.</li> <li>-Centralized progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019, no. 1387/13.01.2020.</li> <li>-Self-Assessment Questionnaire on the progress of the SCI/M standards implementation on 31.12.2019, no. 1383/13.01.2020.</li> <li>-Synthesis of self-assessment results on 31.12.2019, no. 1385/13.01.2020.</li> <li>-Updating of Decision no. 283/15.03.2019 on the establishing of Monitoring Committee;</li> <li>- Updating of Decision no. 282/15.03.2019 on the appointment of the SCI/M persons responsible;</li> <li>- Updating of the 2019 Transgaz SCI/M Development Plan no. 1330/10.01.2019;</li> <li>- Report on the SCI/M implementation on 31.12.2019, no. 8209/12.02.2020;</li> <li>- Report on 2019 Transgaz performance monitoring, no. DSMC/8211/12.02.2020.</li> </ul>	100%
10.	<b>Clients satisfaction</b>	<p>Achievement of the targets provided for in the administration 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)</p>	10.1	7,9	<p><b>Achieved</b></p> <p>SMC Letter no. 8521/13.02.2020 for year 2019</p>	100%
11.	<b>Setting the risk management policies and risk monitoring</b>	<p>Achievement of the targets provided for in the administration plan related to the implementation of the</p>	11.1	Updating of risk management specific documents	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Decision no. 284/15.03.2019 for the updating of the Risk Management Team;</li> <li>-2019 Tolerance Limit no. 3885/ 21.01.2019;</li> </ul>	100%

		requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial Control Code of public entities			<p>-The risk profile of Transgaz, December 2018, no. 3885/21.01. 2019;</p> <p>- The risk profile of Transgaz, December 2019, no. 1512/13.01. 2020.</p> <p>-Analysis of the strategic risks included in the Register of the Risks at the company level - year 2018 no. 2738/16.01.2019 and the reclassification of strategic risks;</p> <p>-Statement – Commitment of the Director - General regarding Risk management, updated in May 2019</p>	
			11.2	Updating the Register of Risks Updating the Plan of measures to mitigate risks	<p><b>Achieved</b></p> <p>- the Register of the Risks at the company level - year 2019, no. 2740/16.01.2019;</p> <p>-Plan of measures to mitigate risks, at the company level, year 2019, no. 2877/16.01.2019.</p>	
			11.3	Report on risk management and monitoring	<p><b>Achieved</b></p> <p>-Report on risk management and monitoring within the company, for 2019, no. 1518/13.01.2020;</p> <p>-Report on the progress of achievement of specific objectives and the Plan for the implementation of the measures set by the Risk management Strategy, no. DG 37873/27.06.2019;</p> <p>-The Report of the Audit and Rating Committee to the Board of Administration on the risk management and monitoring within SNTGN Transgaz SA for 2018, no. DG 37870/27.06.2019, BoA meeting of 04.07.2019.</p>	
12.	Timely reporting of the key performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	12.1	Financial communication calendar to BSE	<b>Achieved</b>	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	<p><b>Achieved</b></p> <p>Letter DSMC/16016/15.03.2019 Deadline: 15 March 2019</p> <p>Letter DSMC/11471/26.02.2020 Deadline: 1 March 2020</p>	
			12.3	SCIM reporting	<p><b>Achieved</b></p> <p>Letter DSMC/4786/ 25/01.2019 – reporting for 2018.</p> <p>Letter no. DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government, on the Transgaz SCI/M progress of implementation and development on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. (reported annually)</p>	
			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	<p><b>Achieved</b></p> <p>Letter no. 69593/ 22.11.2019 - ANRE report for gas year 2018-2019 (reported annually)</p>	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<p><b>Achieved</b></p> <p>Letter DSMC 38243/28.06.2019 Report for Semester I 2019</p> <p>Letter DSMC 393/07.01.2020 Report for Semester II 2019</p>	
13.	Increasing institutional integrity by including the measures for the prevention	Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline /proposed measures *100	13.1	Publication of the SCIM assessment results	<p><b>Achieved</b></p> <p>Published report on the Internal/Management Control System on 31.12.2019, no. 1427/13.01.2020 at: <a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem</a></p>	100%

of corruption as an element of the managerial plans			<a href="#">%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf</a>
	13.2	Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities	<p><b>Achieved</b></p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 3328/18.01.2019 the 17.01.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the Ministry of Economy (the coordinating ministry);</p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 5573/31.01.2020, 31.12.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the General Secretariat of the Government;</p>
	13.3	Annual publication of the performance indicators monitored within the company's Integrity Plan	<p><b>Achieved</b></p> <p>(by the publication of the Annual Evaluation of the Integrity Plan on intranet): <a href="http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/">http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/</a></p>

**Table 35** - Estimates of the key non-financial performance indicators for the calculation of the variable component of the remuneration in 2019

## 6. CORPORATE GOVERNANCE

Corporate governance is a concept with a very broad connotation, which includes elements such as: managers' responsibility for the accuracy of information in financial reports, the existence of very close deadlines for reporting communication and full transparency on financial results, transparency of internal audit, processes and external auditing.

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, 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 at the company level.

The **Company's Corporate Governance Rules** were endorsed by the Board of Administration by Resolution 3/18.01.2011 and approved by the Ordinary General Meeting of Shareholders on 2 March 2011, by GMS Resolution 1/2011 (art.4).

The document has a structure in line with the requirements in the field and includes **9 chapters**, as follows:

- Chapter 1 - <b>Corporate Governance Structures:</b> Board of Administration, Advisory Committees, Executive Management. The tasks of the executive management are set out in the Transgaz Regulation of Organization and Functioning and the Code of Conduct sets out the ethical rules of mandatory conduct for all employees and applies to all organizational and hierarchical structures of the company.
- Chapter 2 - <b>Shareholder rights:</b> shareholder rights, shareholder treatment.
- Chapter 3 - <b>Board of Administration:</b> the role and obligations of the Board of Administration, the structure of the Board of Administration, the appointment of the members of the Board of Administration, the remuneration of the members of the Board of Administration.
- Chapter 4- <b>Transparency, financial reporting, internal control and risk management:</b> transparency and financial reporting.
- Chapter 5 - <b>Conflict of interests and transactions with persons involved:</b> conflict of interests; transactions with persons involved.
- Chapter 6 - <b>Corporate Information Regime.</b>
- Chapter 7 - <b>Social Responsibility.</b>
- Chapter 8 - <b>Administration system.</b>
- Chapter 9 - <b>Final Provisions.</b>

## 6.1 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 the BSE in the Premium category, voluntarily adopted the CGC provisions of the BSE and reports as of 2010 total or partial compliance with the **Statement on compliance or non-compliance with the provisions of the Corporate Governance Code (the `apply or explain` statement)** contained in the Administrators' Report.

In September 2015, a new BSE Corporate Governance Code was launched for companies listed on the main market, with effect from January 4, 2016. The new Code was designed by the BSE as part of a new corporate governance framework and aims to promote higher standards of governance and transparency for 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 is not yet in compliance were explicitly presented in a current report sent to the BSE in January 2016, which was also published on the company's website at the section: *Investor Information / Current Reports / 2016*.

Later, on 12 October 2016, by a Current Report sent to SNTGN TRANSGAZ SA BSE, SNTGN TRANSGAZ SA reported to the market the compliance with the new Governance Code provision A.2., which was included in the BoA Rules of Procedure and Organization at Art. 17 and approved by OGMS Resolution 4/23.06.2016. 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
<b>Section A-Responsibilities</b>			
<b>A.1</b>	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	
<b>A.2</b>	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	X	

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
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.			
<b>A.3</b> The Board of Administration or the Supervisory Board must be composed of at least 5 members.	X		
<b>A.4</b> 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		
<b>A.4.1.</b> 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		
<b>A.4.2.</b> 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		
<b>A.4.3.</b> 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	X		

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
corresponding to the capacity of non-executive administrator.			
<b>A.4.4.</b> 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		
<b>A.4.5.</b> 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		
<b>A.4.6.</b> 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		
<b>A.4.7.</b> 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		
<b>A.4.8.</b> He/she has not been a non-executive administrator of the company for more than 12 years.	X		
<b>A.4.9.</b> He/she has no family ties with a person in the cases mentioned in A.4.1 and A.4.4.	X		
<b>A.5</b> 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
<b>A.6</b> 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	<p>Information will be requested from Board of Administration members</p> <p>Transgaz will send to the BSE a current report at the time of compliance.</p>
<b>A.7</b> The company must designate a Board Secretary responsible for supporting the work of the Council.	X		
<b>A.8</b> 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	<p>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.</p> <p>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.</p>
<b>A.9</b> The corporate governance statement should contain information on the number of Board and committee meetings over the past year, the participation of administrators (in person and in absentia),	X		

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

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
management and internal control reports submitted to the audit committee of the Board, the promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified following the internal control and the submission of relevant reports to the Board.			
<b>B.5</b> 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>B.6</b> The audit committee should assess the effectiveness of the internal control system and risk management system.	X		
<b>B.7</b> 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>B.8</b> 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>B.9</b> 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>B.10</b> 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		X	This policy will be developed and approved in accordance with the BoA Rules of Procedure and organization and the Articles of Incorporation.

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
category of events subject to reporting requirements.			
<b>B.11</b> Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.	X		
<b>B.12</b> 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, it must report directly to the Director General.	X		
<b>Section C – Fair rewards and motivation</b>			
<p><b>C.1</b> 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</p>		X	Transgaz partially applies this provision by observing the provisions of GEO 109/2011 art.39 and art. 55 (2).

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
<p>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>			
<b>Section D-Building value by the relationship with investors</b>			
<b>D.1</b>	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 information of interest to investors, including:	X	
	<b>D.1.1.</b> Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.	X	
	<b>D.1.2.</b> 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	
	<b>D.1.3.</b> 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	
	<b>D.1.4.</b> Information on the general meetings of the shareholders: agenda and informative materials; the procedure for electing the members of the Board; the		X The Company partially applies this provision, in accordance with art. 29 of GEO 109/2011 on

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
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.			Corporate Governance of Public Enterprises, as subsequently amended and supplemented.
<b>D.1.5.</b> 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		
<b>D.1.6.</b> Names and contact details of a person who will be able to provide relevant information upon request.	X		
<b>D.1.7.</b> Company presentations (e.g., investor presentations, quarterly results presentations, etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.	X		
<b>D.2</b> The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the 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.		X	The distribution of the company's profits is made in accordance with 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.
<b>D.3</b> 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		X	The activity of the company is regulated by ANRE. The management plan of Transgaz includes the

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
<p>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>management strategy during the mandate.</p> <p>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><b>D.4</b> 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>	X		
<p><b>D.5</b> External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.</p>	X		
<p><b>D.6</b> 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>	X		<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>
<p><b>D.7</b> 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.</p>	X		

	The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
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 of Administration and of the Advisory Committees

#### Administration 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 18 November 2019, 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.138<sup>2</sup> of the Companies Law no. 31/1990, republished, as subsequently 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, and if the duties are duly fulfilled, the mandate may be

renewed or they may be revoked by the Ordinary General Meeting in case of failure to meet the main objectives.

Members of the Board of Administration may 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 due diligence and care 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 and approved by the Board of Administration by Decision no. 55/18.11.2019, 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 BSE, the Board of Administration approved the amendment of the *Regulation of Organization and Functioning of the Board of Administration of SNTGN Transgaz SA* in order to comply with its provisions and was approved in Art. 2 of the Decision of the Ordinary General Meeting of the Shareholders no. 8 of December 17, 2018.

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.

Members of the Board of Administration will constantly update their competencies and improve 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**

The compenence of Transgaz' Board of Administration as of 11.07.2017, following the OGMS Resolution 3/19.06.2017:

ION STERIAN	Executive Administrator-Chairman, Director General
PETRU ION VĂDUVA	Non-Executive Administrator
BOGDAN GEORGE ILIESCU	Non-Executive Administrator, Independent
NICOLAE MINEA	Non-Executive Administrator, Independent
REMUS-GABRIEL LĂPUȘAN	Non-Executive Administrator, Independent Chairman of the Board of Administration – since 18.03.2019

The CVs of the members of Transgaz' Board of Administration are available on the company's website at: [www.transgaz.ro/Despre noi/Management/Consiliul de administratie](http://www.transgaz.ro/Despre noi/Management/Consiliul de administratie).

## Role and duties of the Board of Administration

Transgaz' management is provided by a Board of Administration meeting at the company's headquarters or at another decided location 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.

In the organizational structure of the company the Administration Board and General Meeting of the Shareholders Secretariat Service is established, 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 2019 there were 60 meetings of the Board of Administration, 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)
ION STERIAN	60	-
PETRU ION VĂDUVA	55	5 by empowered person
BOGDAN GEORGE ILIESCU	58	2 by empowered person
NICOLAE MINEA	52	8 by empowered person
REMUS GABRIEL LĂPUȘAN	56	3 by empowered person an 1 by absence

The debates shall be recorded in the minutes of the meeting, which shall include the names of the participants, the order of the discussions, the decisions made, the number of votes cast and the separate opinions. Minutes shall be 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 shall draw up the decision, which shall be signed by the Chairman.

The Board of Administration delegated 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 SNTGN Transgaz SA represents the company in its relations with third parties.

The Director shall prepare and submit 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 shall prepare and submit to the Board of Administration the reports provided by law.

The Director-General shall submit to the Board of Administration for approval the transactions concluded 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' 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 (8) of the Articles of Incorporation, updated on 28 November 2019, the Board of Administration informs, at the first general meeting of the shareholders following the conclusion of the legal act, on:

- any transaction with the administrators or with the directors, with the employees, with the shareholders who control the company or with a company controlled by them,
- the transactions concluded with the spouse, relatives or affiliates up to the fourth degree, including the persons mentioned above,
- any transaction concluded between TRANSGAZ SA with another public enterprise or with the public supervisory body, if the transaction has a value, individually or in a series of transactions, of at least the equivalent in lei of euro 100,000.

The Board of Administration is required to make available, at the general meeting of

shareholders and financial auditors, Transgaz S.A. documents and activity reports according to the legal provisions.

### **Liability of administrators**

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

### **Incompatibility**

The persons provided for in the Companies Law no. 31/1990, republished, as subsequently 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 the Companies Law no. 31/1990, republished, as amended and supplemented, may not be the 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 general director of TRANSGAZ S.A. ;
- to supervise the work of the general director;
- 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 general director 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 staff, 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 posts 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 general director and to approve the status of the staff;
- 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 vacant positions within the Board in accordance with GEO 109/2011 on Corporate Governance in Public Enterprises, as subsequently amended and supplemented.

When a vacancy is created in the Board of Administration, the election of a new member is made under the conditions stipulated by the law. The duration for which the new administrator is elected to fill the vacancy shall be 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 27 May 2013 the Board of Administration Decision no. 7 of May 27, 2013 approved the new structure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA, as follows:

- Nomination and Remuneration Committee;
- Audit and Rating Committee;
- NTS Safety and Security Committee;
- Strategy and Development Committee;
- Regulatory and Public Authority Relations Committee.

**The Rules of procedure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA**, updated on 28.02.2018, can be found on its own website in the **About us/Board of Administration** section.

The last update was aimed at amending the Internal Regulation on the Organization and Operation of the Advisory Committees following the Resolution of the Board of Administration no. 10/28.02.2018 the update of the responsibilities of the Advisory Committees for audit and rating.

### Task sheets of the five advisory committees set up at the level of the Board of Administration:

ADVISORY COMMITTEE	REMARKS	DUTIES
<b>NOMINATION AND REMUNERATION COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate</p>	<ul style="list-style-type: none"> <li>▪ coordinates the process of appointing the members of the Board of Administration;</li> <li>▪ elaborates and proposes to the Board of Administration the Procedure for the election of the members of the Board of Administration;</li> <li>▪ addresses recommendations on both the position of administrator and the filling of vacant positions within the Board of Administration;</li> <li>▪ assesses the cumulative professional skills, knowledge and experience at the level of the Board of Administration, directors and other management functions;</li> <li>▪ establishes the requirements for occupying a certain position in the management of the company;</li> <li>▪ elaborates and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and other management positions;</li> <li>▪ recommends to the Board of Administration candidates for the listed positions;</li> <li>▪ apply best practices of corporate governance by improving knowledge of the company's business and constantly updating the professional competencies of board members;</li> <li>▪ develops the remuneration policy for administrators;</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ submits such remuneration policy for approval to the General Meeting of Shareholders;</li> <li>▪ formulates proposals on the remuneration of directors and other management functions;</li> <li>▪ informs about the remuneration policy in the Corporate Governance Statute / Regulations of the company;</li> <li>▪ presents in the Annual Report the total amount of the direct and indirect remuneration of administrators and directors, separately, according to the fixed and variable components of such remuneration;</li> <li>▪ in determining the remuneration of non-executive directors, it will observe the principle of proportionality of this remuneration with the responsibility and time devoted to the exercise of their functions by them;</li> <li>▪ draws up an annual report on the remuneration and other advantages granted to the administrators and directors during the financial year, which shall be presented to the general meeting of the shareholders and includes the information provided in art. 55 paragraph (3) of GEO no. 109/2011 on Corporate Governance of Public Enterprises;</li> <li>▪ may, where appropriate, call on external experts to assist with the tasks they are required to perform.</li> </ul>
<p><b>AUDIT AND RATING COMMITTEE</b></p>	<p>will be composed of at least three members of the Board of Administration and the majority of members must be independent;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>at least one member of the</p>	<ul style="list-style-type: none"> <li>▪ assists and recommends the Board of Administration, proposes the establishment of the accounting and financial control system and approves the financial and budgetary planning;</li> <li>▪ monitors the effectiveness of the entity's internal quality control systems and risk management systems and, where applicable, internal auditing of the financial reporting of the audited entity without prejudice to its independence;</li> <li>▪ monitors the statutory audit of the annual financial statements and the consolidated annual financial statements, in particular the performance of the annual financial statements, taking into account the findings and conclusions of the competent authority in accordance with Article 26 (6) of EU Regulation no.537/2014;</li> <li>▪ performs an annual assessment of the internal control system and presents relevant reports to the Board of Administration;</li> <li>▪ assesses conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties;</li> <li>▪ monitors the application of generally accepted legal standards and internal audit standards;</li> <li>▪ receives and evaluates internal audit team reports;</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>committee must have proven and appropriate audit or accounting experience;</p> <p>the chairman of the committee must be an independent non-executive member;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ submits regular reports to the Board of Administration;</li> <li>▪ elaborates and submits to the Board of Administration for approval an opinion on the policy by which to ensure that any transaction of the company with any of the companies with which it has close relationships, the value of which is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board;</li> <li>▪ meets as often as necessary, but at least twice a year for drafting half-yearly and annual results, when their dissemination to shareholders and the general public is performed;</li> <li>▪ checks the compliance of the audit reports with the approved audit plan at the company level;</li> <li>▪ provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by</li> <li>▪ reviewing the relevance and consistency of accounting standards applied by the Company;</li> <li>▪ 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;</li> <li>▪ is liable for the selection procedure of the financial auditor or audit firm and recommends to the general meeting of the shareholders the financial auditor or audit firm (s) to be designated / designated in accordance with Article 16 of EU Regulation No.537 / 2014, unless Article 16 (8) of EU Regulation No.537 / 2014 applies;</li> <li>▪ evaluates and monitors the independence of financial auditors or audit firms in accordance with Articles 21-25, 28 and 29 of Law no. 162/2017 on statutory audit of annual financial statements and consolidated annual financial statements and amending certain acts normative and Article 6 of EU Regulation No.537 / 2014 and, in particular, the opportunity to provide services that are not audit to the audited entity in accordance with Article 5 of that Regulation;</li> <li>▪ informs the members of the Board of Administration of the audited entity about the results of the statutory audit and explain how the statutory audit contributed to the integrity of the financial reporting and the role of the committee in the process;</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
		<ul style="list-style-type: none"> <li>▪ monitors the financial reporting process and submits recommendations or proposals to ensure the integrity thereof;</li> <li>▪ fulfils the duties provided in art. 47 of GEO no. 90/2008, approved with amendments by Law no. 278/2008, in accordance with art. 34 par. (3) of GEO 109/2011.</li> </ul>
<b>SAFETY AND SECURITY COMMITTEE OF NTS</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ periodically reviews the critical infrastructure criteria list of Transgaz and the established security measures;</li> <li>▪ provides the necessary conditions for the implementation of measures to protect all critical infrastructure objectives of the company or under the authority/coordination of the company;</li> <li>▪ monitors / updates its own programs for preventing and combating terrorism through optimal physical and organizational protection measures, with recommendations to the Board of Administration;</li> <li>▪ monitors the fulfilment of programs for maintenance and modernization of NTS development as well as the observance of the technical norms for operation and maintenance of production capacities.</li> </ul>
<b>STRATEGY AND DEVELOPMENT COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ assists the Board of Administration in fulfilling its responsibilities in the field of elaboration and updating of the general strategy of the development of company;</li> <li>▪ analyses the opportunities identified for business development and issues recommendations to the Board of Administration on these;</li> <li>▪ analyses and assists the Board of Administration on the direction of international development and cooperation of the company;</li> <li>▪ monitors and analyses the implementation of strategic and action plans / programs regarding the obligations of Transgaz as an NTS technical operator and stock exchange issuer;</li> <li>▪ develops proposals for improving and streamlining strategic activity, development and collaboration;</li> <li>▪ addresses recommendations to the Board of Administration on the effective operation of strategic and action plans / programs;</li> <li>▪ monitors and analyses the performance indicators of the transport system and the economic and financial performance of the company's activity.</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
<b>REGULATORY AND PUBLIC AUTHORITY RELATIONS COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ assists the Board of Administration in analysing the regulatory activity and legal obligations of the company in this field;</li> <li>▪ monitors the fulfilment by the company of the obligations stipulated by the regulations that are incident to the performed activity;</li> <li>▪ analyses and submits proposals to the Board of Administration on the regulatory framework;</li> <li>▪ monitors collaborative relationships with public authorities and assists the Board of Administration in establishing and managing the collaboration policy.</li> </ul>

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

Following OGMS Resolution no. 3/19.06.2017 and OGMS Resolution no. 13/28.12.2017 for the appointing new administrators, namely Mr Nicolae Minea and Mr Remus-Gabriel Lăpușan, at the meeting of the Board of Administration of 11 July 2017 it was decided to change the composition of the advisory committees established at the level of the Board of Administration the company. As of this date, the composition of the committees is as follows:

Name of the Advisory Committee	Composition of the Committee	
Nomination and Remuneration Committee	Văduva Petru Ion	- non-executive administrator
	Minea Nicolae	- non-executive, independent administrator
	Iliescu Bogdan George	- non-executive, independent administrator
Audit and Rating Committee	Iliescu Bogdan George	- non-executive, independent administrator, Chairman of the Audit and Rating Committee
	Minea Nicolae	- non-executive, independent administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator
Security and Safety Committee of NTS	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator

Strategy and Development Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Iliescu Bogdan George	- non-executive, independent administrator
	Minea Nicolae	- non-executive, independent administrator
Regulatory and Public Authority Relations Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator

The activity carried out in 2019 by the five advisory committees set up at the level of the Board of Administration on the basis of:

- Law no. 31/1990, as subsequently amended and supplemented, republished, Art. 138<sup>1</sup> (2), Art. 138<sup>2</sup> (2), Art. 140<sup>2</sup> (1) and (2);
- GEO no 109/2011 on corporate governance of public companies, Art. 34 and Art. 55 (2) and (3);
- 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 Corporate Governance Code of the Bucharest Stock Exchange;
- The updated Articles of Incorporation of Transgaz SA, Chapter V, Art.19 (11);
- The Board of Administration resolutions 22/11.07.2017, 15/16.05.2017, 39/17.12.2015, 43/19.11.2014, 21/ 16.06.2014, 2/ 10.02.2014, 13/ 29.07.2013, 7/ 27.05.2013, 16/ 30.10.2009, 13/ 24.09.2009.

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 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;
- 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 way of presenting the activity report of the advisory committees set up at the Board of Administration level in 2019 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.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and June 2019	Nomination and Remuneration Advisory Committee	Văduva Petru Ion Minea Nicolae Iliescu Bogdan George
2.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-June 2019	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Minea Nicolae
3.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-June 2018	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
4.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-June 2019	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
5.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-June 2019	Audit and Rating Advisory Committee	Iliescu Bogdan George Minea Nicolae Lăpușan Remus Gabriel
6.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and December 2019	Nomination and Remuneration Advisory Committee	Văduva Petru Ion Minea Nicolae Iliescu Bogdan George
7.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-December 2019	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Minea Nicolae
8.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-December 2019	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
9.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-December 2019	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
10.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-December 2019	Audit and Rating Advisory Committee	Iliescu Bogdan George Lăpușan Remus Gabriel Minea Nicolae

## 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 Decision no. 7 of May 27, 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 compliance of the audit reports with the approved audit plan at the company level. Within the company the Internal Audit Service is established, which is under the direct subordination of 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, re-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 Decision no. 4 of June 23, 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

The Company set up a Nomination and Remuneration Committee that prepares the remuneration policy for administrators and directors set up by the Board of Administration Decision no. 7 of May 27, 2013.

The Committee will submit to the Board of Administration proposals for the remuneration of administrators and directors, ensuring that these proposals are in line with the remuneration policy adopted by the company.

The remuneration of board members is made up of a fixed monthly allowance and a variable component based on financial and non-financial performance indicators.

Remuneration and other benefits to administrators and directors are recorded in the annual financial statements and in the annual report of the nomination and remuneration committee.

## 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; 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 Meeting of Shareholders (GMS), GMS notices to attend, GMS completions, exercise of rights voting in the GMS, GMS agenda materials, special proxy templates, GMS decisions, current reports, company financial statements, dividend information, 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 Service*, whose activity is dedicated to the relationship with investors and shareholders. The staff of the service 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](http://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 Mediaș 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.

The national gas transmission company TRANSGAZ SA Mediaș, 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 therefore 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' 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' 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.

Complying with the principles of financial prudence and transparency, the communication and CSR actions proposed for 2019 were rigorously quantified both in structure and value and responded to Transgaz' 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-socială>.

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

In 2019 Transgaz concluded the following legal documents with companies directly or indirectly controlled by the Romanian State and which have a cumulated value of at least the lei equivalent of EUR 50.000:

<b>Contract data</b>	<b>Contractual clauses provided in the contract</b>
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 70T/2018</b> for Q 1 2019
Contract scope	quarterly transmission services related to NTS entry points
Contract value	<b>lei 14.781.004,88</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 71T/2018</b> for Q 1 2019
Contract scope	quarterly transmission services related to NTS exit points
Contract value	<b>lei 6.227.865,00</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 257L/ 2018</b> for January 2019
Contract scope	monthly transmission services related to NTS entry points
Contract value	<b>lei 3.156.784,28</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	Contract no. <b>259L/ 2018 for January 2019</b>
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 2.465.609,55</b> - estimated amount of the legal act VAT included (lei)

Contract data	Contractual clauses provided in the contract
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE CONSTANȚA SA</b>
Contract date and type	<b>Contract no. 25T/2018</b> for Q 1 2019.
Contract scope	Quarterly transmission services related to NTS exit points
Contract value	<b>lei 794.661,29</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 76T/2018</b> for Q1 2019
Contract scope	quarterly transmission services related to NTS exit points
Contract value	<b>lei 15.099.339,17</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	Contract no. <b>266L / 2018</b> for January 2019.
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 3.369.880,63</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	Contract no. <b>326L/23.01.2019</b> for February 2019.
Contract scope	monthly transmission services related to NTS entry points
Contract value	<b>lei 2.391.421,38</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 327L/23.01.2019</b> for February 2019
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 2.950.925,82</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 273L/23.01.2019</b> for February 2019.
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 3.358.634,60</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 380L/20.02.2019</b> for March 2019
Contract scope	monthly transmission services related to NTS entry points
Contract value	<b>lei 303.420,25</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 381L/20.02.2019</b> for March 2019
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 2.214.462,43</b> - estimated amount of the legal act VAT included (lei)

Contract data	Contractual clauses provided in the contract
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 360L/20.02.2019</b> for March 2019
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 2.174.262,93</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 430L/20.03.2019</b> for April 2019
Contract scope	monthly transmission services related to NTS entry points
Contract value	<b>lei 852.569,55</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 431L/20.03.2019</b> for April 2019
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>lei 1.052.012,60</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 411L/20.03.2019</b> for April 2019
Contract scope	NTS exit points monthly transmission services
Contract value	<b>lei 2.419.923,73</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE CONSTANȚA SA</b>
Contract date and type	<b>Contract no. 429L/20.03.2019</b> for April 2019
Contract scope	NTS exit points monthly transmission services
Contract value	<b>lei 260.989,85</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 428L/17.04.2019</b> for May 2019
Contract scope	NTS entry points monthly transmission services
Contract value	<b>lei 977.913,32</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 483L/17.04.2019</b> for May 2019
Contract scope	NTS exit points monthly transmission services
Contract value	<b>lei 4.260.595,79</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Beneficiary</b> Vestmoldtransgaz S.R.L.
<b>Contracting parties</b>	<b>Provider</b> SNTGN Transgaz S.A.
Contract date and type	Providing Services Contract no. 223 , concluded on the date of 24.09.2018
Contract scope	Support Services for the creation and continuous operation of the Procurement Commissions of Vestmoldtransgaz S.R.L

Contract data	Contractual clauses provided in the contract
Contract value	<p>The value of the contract was calculated according to Art. 1.1. and Art. 4.4. from the Contract, respectively <b>948,776.58 lei</b></p> <p><i>1.1. In exchange for the provision of the Services, the Beneficiary undertakes to pay to the Provider a price consisting of the costs recorded by the Provider according to art. 4.4 of the Contract as a result of providing the Services, plus a profit margin of 5% of the wage costs thus recorded.</i></p> <p><i>4.4. During the term of this Contract, the Provider will bear the expenses for the remuneration of its employees designated to provide services for VMTG, including the expenses with their delegation (accommodation, transport, daily allowance).</i></p>
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 546L/22.05.2019</b> for June 2019
Contract scope	monthly transmission services related to NTS entry points
Contract value	<b>lei 931.770,00</b> – estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 547L/22.05.2019</b> for June 2019
Contract scope	monthly transmission services related to NTS exit points
Contract value	<b>2.366.910,00 lei</b> – Estimated value of the legal document, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. Transgaz S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 202T/07.06.2019</b> for III <sup>rd</sup> quarter 2019
Object of the Contract	the provision of quarterly transport services for NTS exit points
Value of the Contract	<b>9.174.424,00 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 638L/17.07.2019</b> for the month of August 2019
Object of the Contract	provision of monthly transport services for NTS entry points
Value of the Contract	<b>239.102,54 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 639L/17.07.2019</b> for the month of August 2019
Object of the Contract	the provision of monthly transport services for NTS exit points
Value of the Contract	<b>2.445.807,00 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 674L/21.08.2019</b> for the month of September 2019
Object of the Contract	the provision of monthly transport services for NTS entry points
Value of the Contract	<b>496.944,00 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 675L/21.08.2019</b> for the month of September 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>2.840.292,00 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	Buyer – SNTGN Transgaz SA Mediaș

	Seller – SNGN ROMGAZ SA Mediaş
Date of conclusion and nature of the contract	Date of conclusion 26.09.2019 Concluded following the tender no 10. BRMGY_2019_250 dated 03.09.2019 on the centralized market (BRM) at the trading session on the Medium- and Long-term Competitive Single Ring administered by the Romanian Commodities Exchange.
Object of the Contract	Natural gas purchase to cover the technological consumption of SNTGN Transgaz SA, between 1 October 2019 and 30 September 2020, contract for the sale and purchase of natural gas concluded with SNGN ROMGAZ SA Mediaş
Value of the Contract	<b>91.208.664 lei</b> , without VAT, excise duties and will include the capacity reservation fee
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 13/26.08.2019</b> (period 1 October 2019 – 1 October 2020)
Object of the Contract	provision of annual transport services for NTS entry points
Value of the Contract	<b>110.610.021,50 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 75/26.08.2019</b> (period 1 October 2019 – 1 October 2020)
Object of the Contract	provision of annual transport services for NTS exit points
Value of the Contract	<b>7.469.467,45 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 26T/26.08.2019</b> for IVth quarter 2019
Object of the Contract	provision of quarterly transport services for NTS entry points
Value of the Contract	<b>8.185.337,89 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE BUCUREŞTI S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 37/26.08.2019</b> (period 1 October 2019 – 1 October 2020)
Object of the Contract	provision of annual transport services for NTS exit points
Value of the Contract	<b>22.349.465,07 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE BUCUREŞTI S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 8T/26.08.2019</b> for IVth quarter 2019
Object of the Contract	provision of quarterly transport services for NTS exit points
Value of the Contract	<b>3.853.744,17 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE CONSTANŢA S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 38/26.08.2019</b> (period 1 October 2019 – 1 October 2020)
Object of the Contract	provision of annual transport services for NTS exit points
Value of the Contract	<b>1.312.682,72 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE CONSTANŢA S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 18T/26.08.2019</b> for IV <sup>th</sup> quarter 2019 and I <sup>st</sup> quarter 2020
Object of the Contract	provision of quarterly transport services for NTS exit points
Value of the Contract	<b>2.286.117,19 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>COMPLEXUL ENERGETIC HUNEDOARA SA</b>
Date of conclusion and nature of the contract	<b>Contract no. 51T/26.08.2019</b> for IV quarter 2019

Object of the Contract	provision of quarterly transport services for NTS exit points
Value of the Contract	<b>565.770,74 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 51L/18.09.2019</b> for the month of October 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>2.419.049,66 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	SNTGN TRANSGAZ SA – SNGN ROMGAZ SA MEDIAS
Date of conclusion and nature of the contract	25.10.2019 - Sale – Purchase Contract
Object of the Contract	Purchase of natural gas necessary to ensure the minimum stock established by ANRE Decision no. 1773/16.10.2019
Value of the Contract	8.516.663,19 lei
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 123L/23.10.2019</b> for the month of November 2019
Object of the Contract	provision of monthly transport services for NTS entry points
Value of the Contract	<b>1.547.595,00 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 125L/23.10.2019</b> for the month of November 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>1.642.446,33 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE BUCUREȘTI S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 88L/23.10.2019</b> for the month of November 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>2.953.939,28 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE CONSTANȚA S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 113L/23.10.2019</b> for the month of November 2019
Object of the Contract	provision of annual transport services for NTS exit points
Value of the Contract	<b>757.928,71 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 120T/12.11.2019</b> for I quarter 2020
Object of the Contract	provision of quarterly transport services for NTS entry points
Value of the Contract	<b>17.170.462,40 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 122T/12.11.2019</b> for I quarter 2020
Object of the Contract	provision of quarterly transport services for NTS exit points
Value of the Contract	<b>3.342.002,66 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 218L/20.11.2019</b> for the month of December 2019
Object of the Contract	provision of monthly transport services for NTS entry points
Value of the Contract	<b>4.593.542,80 lei</b> – Estimated value of the contract, VAT included (lei)

<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	<b>Contract no. 219L/20.11.2019</b> for the month of December 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>2.234.921,99 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE BUCUREȘTI S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 98T/12.11.2019</b> for 1 quarter 2020
Object of the Contract	provision of quarterly transport services for NTS exit points
Value of the Contract	<b>14.435.714,98 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE BUCUREȘTI S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 183L/20.11.2019</b> for the month of December 2019
Object of the Contract	provision of monthly transport services for NTS exit points
Value of the Contract	<b>8.997.810,39 lei</b> – Estimated value of the contract, VAT included (lei)
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>ELECTROCENTRALE CONSTANȚA S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	<b>Contract no. 176L/20.11.2019</b> for the month of December 2019
Object of the Contract	provision of annual transport services for NTS exit points
Value of the Contract	<b>654.059,70 lei</b> – Estimated value of the contract, VAT included (lei)

<b>Errata on the legal acts reported on 25.01.2019</b>	
<b>Date of report: 09.07.2019</b>	
<b>Contract information</b>	<b>Contractual terms stipulated in the contract</b>
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 70T/2018</b> read <b>Contract no. 70T/21.12.2018</b>
Object of the Contract	the provision of quarterly transport services for NTS entry points
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 71T/2018</b> read <b>Contract no. 71T/21.12.2018</b>
Object of the Contract	the provision of quarterly transport services for NTS exit points
Payment terms and modalities	Point (6) of ART. 6 of the report is replaced by point (6) below: 6. Where the NU opts for the advance payment, the TSO shall issue and transmit the NU: (i) at least 5 calendar days prior to the start date of each month of service, an advance payment invoice, the value of which is equal to the amount of the reserved capacity, calculated for the period of the month of provision of services, on which the volumetric component value calculated at the contractual capacity level for the same period is added; (ii) within 15 working days from the end of the month of provision of services, an invoice for the adjustment of the payment, drawn up on the basis of the final allocation.
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 257L/2018</b> read <b>Contract no. 257L/27.12.2018</b>
Object of the Contract	the provision of monthly transport services for NTS entry points

Guarantees, penalties stipulated	<p><b>Guarantees:</b> ART. 17 of the report is replaced by ART. 18 below: ART. 18 (1) The NU shall be required to provide the TSO with the financial security payable in the amount referred to in paragraph (2), at least 3 working days prior to the beginning of the period for rendering the transport service. (2) The level of the financial payment guarantee provided by the NU shall be equal to the amount of the estimated monthly invoice for transport services for the next period of use. (3) The financial payment security lodged in accordance with paragraph (2) shall apply from the bank day preceding the start date of the provision of the transport service and shall cease to be valid on the 60th calendar day following the termination of the contract by reaching it in due course. (4) The NU may remove the option of constituting a guarantee for the provision of the transport service by making advance payments. To this end, NU declares the TSO, in writing, no later than two working days after the date of completion of the capacity reservation period, the advance payment option. (5) The amount of advance payment shall be equal to the monthly invoice amount for transport services for the next period of use. (6) Advance payment/Advance invoice shall be offset by the invoice for the adjustment of the month for which the payment was made. (7) Where that advance payment does not cover the amount of the invoice for the adjustment of that month, the difference shall be paid by the NU on the due date of the invoice.</p>
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>S.N.G.N. ROMGAZ S.A.</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 259L/2018</b> read <b>Contract no. 259L/27.12.2018</b>
Object of the Contract	provision of quarterly transport services for NTS exit points
Guarantees, penalties stipulated	<p><b>Guarantees:</b> ART. 17 of the report will be replaced by ART. 18 below: ART. 18 (1) The NU shall provide the TSO with the financial payment guarantee in the amount referred to in paragraph (2), at least 3 working days before the start of the period of provision of the transport service. (2) The level of the financial payment guarantee provided by the NU will be equal to the amount of the estimated monthly invoice for transport services for the next period of use. (3) The financial payment guarantee lodged in accordance with paragraph (2) shall apply from the bank day preceding the start date of the provision of the transport service and shall cease to be valid on the 60th calendar day following the termination of the contract. (4) NU may remove the option of constituting a guarantee for the provision of the transport service by making advance payments. To this end, the NU declares the TSO, in writing, no later than two working days after the date of completion of the capacity reservation period, the advance payment option. (5) The amount of the advance payment shall be equal to the monthly invoice amount for transport services for the next period of use. (6) The Advance payment/Advance invoice is compensated with the adjustment invoice for the month for which the payment was made. (7) If that advance payment does not cover the amount of the invoice for the adjustment of that month, the difference shall be paid by the NU on the due date of the invoice.</p>
Payment terms and modalities	<p>Point (6) of ART. 6 of the report will be replaced by point (6) below: (6) If the NU opts for advance payment, the TSO shall issue and transmit the NU: (i) minimum 5 calendar days prior to the start date of each month of service, an advance payment invoice, the value of which shall be equal to the amount of the</p>

	<p>reserved capacity, calculated for the period of the month of rendering of services, on which the volumetric component value calculated at the contractual capacity level for the same period is added;</p> <p>(ii) within 15 working days from the end of the month of rendering of services, an invoice for the adjustment of the payment, drawn up on the basis of the final allocation.</p>
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>Electrocentrale Constanța S.A.</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 25T/2018</b> read <b>Contract no. 25T/21.12.2018</b>
Object of the Contract	the provision of quarterly transport services for NTS exit points
Payment terms and modalities	<p>Point (6) of ART. 6 of the report will be replaced by point (6) below:</p> <p>(6) If the NU opts for advance payment, the TSO shall issue and transmit the NU:</p> <p>(i) minimum 5 calendar days prior to the start date of each month of service, an advance payment invoice, the value of which shall be equal to the amount of the reserved capacity, calculated for the period of the month of provision of services, on which the volumetric component value calculated at the contractual capacity level for the same period is added;</p> <p>(ii) within 15 working days from the end of the month of provision of services, an invoice for the adjustment of the payment, drawn up on the basis of the final allocation.</p>
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>Electrocentrale București S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 76T/2018</b> read <b>Contract no. 76T/21.12.2018</b>
Object of the Contract	the provision of quarterly transport services for NTS exit points
Payment terms and methods	<p>Point (6) of ART. 6 of the report will be replaced by point (6) below:</p> <p>(6) If the NU opts for advance payment, the TSO shall issue and transmit the NU:</p> <p>(i) minimum 5 calendar days prior to the start date of each month of service, an advance payment invoice, the value of which shall be equal to the amount of the reserved capacity, calculated for the period of the month of provision of services, on which the volumetric component value calculated at the contractual capacity level for the same period is added;</p> <p>(ii) within 15 working days from the end of the month of provision of services, an invoice for the adjustment of the payment, drawn up on the basis of the final allocation.</p>
<b>Contracting Parties</b>	concluded between <b>S.N.T.G.N. TRANSGAZ S.A.</b> and <b>Electrocentrale București S.A. (in insolvency)</b>
Date of conclusion and nature of the contract	Instead of <b>Contract no. 266L/2018</b> read <b>Contract no. 266L/27.12.2018</b>
Object of the Contract	provision of quarterly transport services for NTS exit points
Guarantees, penalties stipulated	<p><b>Guarantees:</b></p> <p>ART. 17 of the report will be replaced by ART. 18 below:</p> <p>ART. 18</p> <p>(1) The NU shall provide the TSO with the financial payment guarantee in the amount referred to in paragraph (2), at least 3 working days before the start of the period of provision of the transport service.</p> <p>(2) The level of the financial payment guarantee provided by the NU will be equal to the amount of the estimated monthly invoice for transport services for the next period of use.</p> <p>(3) The financial payment guarantee lodged in accordance with paragraph (2) shall apply from the bank day preceding the start date of the provision of the transport service and shall cease to be valid on the 60th calendar day following the termination of the contract.</p>

	<p>(4) NU may remove the option of constituting a guarantee for the provision of the transport service by making advance payments. To this end, the NU declares the TSO, in writing, no later than two working days after the date of completion of the capacity reservation period, the advance payment option.</p> <p>(5) The amount of the advance payment shall be equal to the monthly invoice amount for transport services for the next period of use.</p> <p>(6) The Advance payment/Advance invoice is compensated with the adjustment invoice for the month for which the payment was made.</p> <p>(7) If that advance payment does not cover the amount of the invoice for the adjustment of that month, the difference shall be paid by the NU on the due date of the invoice.</p>
Payment terms and modalities	<p>Point (6) of ART. 6 of the report will be replaced by point (6) below:</p> <p>(6) If the NU opts for advance payment, the TSO shall issue and transmit the NU:</p> <p>(i) minimum 5 calendar days prior to the start date of each month of service, an advance payment invoice, the value of which shall be equal to the amount of the reserved capacity, calculated for the period of the month of provision of services, on which the volumetric component value calculated at the contractual capacity level for the same period is added;</p> <p>(ii) within 15 working days from the end of the month of provision of services, an invoice for the adjustment of the payment, drawn up on the basis of the final allocation.</p>

According to the provisions of **Article 234 para. 1 letter i) of ASF Regulation No 5/2018 on issuers of financial instruments and market operations, SNTGN Transgaz SA** reports a legal act exceeding 10 % of the net turnover for the financial year 2018.

The investment objective ***Enhancement of the Romanian transmission system between Onesti-Isaccea and reverse flow at Isaccea – Phase 2 (Interconnection of the National Transmission System with the International System and reverse flow at Isaccea – phase 2): upgrade of the Onești compressor station and upgrade of the Siliștea compressor station***, is included in the 2019 Modernization and Investment Development Program of SNTGN TRANSGAZ S.A. Mediaș, at heading 2.2.6.

Contract Information	Provisions of the contract
<b>Contracting Parties</b>	Association leader: IRIGC IMPEX S.R.L. Associate 1: EURO CONSTRUCT INTERNAȚIONAL S.R.L. Associate 2: INSPET S.A.
<b>Date of conclusion and nature of the contract</b>	Contract Agreement No 669/05.07.2019. on the design and execution of works: Enhancement of the Romanian transmission system between Onesti-Isaccea and reverse flow at Isaccea – Phase 2 (Interconnection of the National Transmission System with the International System and reverse flow at Isaccea – phase 2): upgrade of the Onești compressor station and upgrade of the Siliștea compressor station
<b>Object of the Contract</b>	Enhancement of the Romanian transmission system between Onesti-Isaccea and reverse flow at Isaccea – Phase 2 (Interconnection of the National Transmission System with the International System and reverse flow Isaccea – phase 2): upgrade Onești compressor station and upgrade Siliștea compressor station
<b>Value of the Contract</b>	64.300.000,00 euro VAT not included
<b>Mutual claims</b>	Not applicable

<p>Guarantees, penalties stipulated</p>	<p><b>GUARANTEES</b></p> <ol style="list-style-type: none"> <li>1. Performance bond amounting to 6.430.000 euro (representing 10% of the Contract Price VAT excluded).</li> <li>2. Insurance for damages to third parties (10% of the Value of the Contract for each event and 20% of the Value of the Contract, generally)</li> </ol> <p><b>PENALTIES</b></p> <ol style="list-style-type: none"> <li>1. 4.000 lei/day, amount withheld for the delay in transmitting the Execution Schedule.</li> <li>2. 10% of the total amounts for points (a) and (b) of sub clause 50.1[Works situation], value withheld from the Payment Certificate if the Contractor fails to reach a reference point within the set deadline.</li> <li>3. the amount of late penalties for each day of delay is the price of the contract (or sector) when signing the Contract divided by the duration of the execution at the signing of the contract expressed in days.</li> <li>4. 10.000 lei/day for the replacement of key personnel of the Contractor without respecting the provisions of sub clauses 14.3 and/or 14.4 per event.</li> <li>5. 5.000 lei/day for failure to respect the provisions of sub clause 27.2.</li> <li>6. 20.000 lei/ day for failure to respect the provisions of sub clause 27.3.</li> <li>7. 5.000 lei/ day for failure to respect the provisions of sub clause 30.1.</li> </ol>
<p><b>Payment terms and methods</b></p>	<ol style="list-style-type: none"> <li>1. The possibility of advance payment, in a single instalment up to a maximum of 30% of the Contract price, when submitting the advance invoice, but not earlier than 7 days after the signing of the contract, the amount of percentage deductions from the Payment Certificates will be made by 30% of each certificate.</li> <li>2. The beneficiary will pay the amounts certified by the Supervisor within 30 days of receipt of the Payment Certificate. The supervisor will check the works situations submitted by the Contractor and within 30 days of receipt of the works situation will issue a payment certificate to the Beneficiary.</li> <li>3. The beneficiary will pay the amounts certified by the Supervisor within 30 days of receipt of the Final Payment Certificate.</li> </ol>

## 6.2 Capital Market Activity

Through the efficient use of managerial instruments and the responsible execution of the measures committed towards shareholders, investors, business and community, **SNTGN TRANSGAZ SA Mediaș** managed to perform on the capital market as well, being **throughout 2019**, present in the **Top 10 trading on the Bucharest Stock Exchange**, depending on the value traded.

Also, in December 2019 Transgaz was ranked **7th in the Top 15 listed companies, depending on the stock 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.

In accordance with Resolution 5 of the Ordinary General Meeting of the Shareholders dated 06.06.2019, Transgaz makes the payment of dividends for financial year 2018 through Depozitarului Central SA and BRD Groupe Societe Generale, the designated payment agent,

as of 16 July 2019 (payment date), for the shareholders registered on the date of registration of 25 June 2019, the amount of the **gross dividend/share being 21.66 lei**.

### TGN shares

In 2019, the closing price of TGN share followed a slightly ascending trend, recording in the first four months of the year lower values compared to 2018. Subsequently, the closing price oscillated around 365 lei/share, exceeding the values reached in 2018.

Accordingly, in the last trading day of January 2019, the TGN share closing price was 333.00 lei/share, by 22% less than at the end of January 2018. Afterwards, in February, the closing price of the TGN share had oscillating values, registering the value of 346.00 lei/share on the date of 18.02.2019, based on the publication of the preliminary financial results for the financial year 2018.

Subsequently, in March and April 2019 the TGN share closing price continued to rise, having lower values compared to 2018, registering at the end of March the value of 339.00 lei/share and on the date of 30.04.2019 the value of 355.00 lei/share, by 17% respectively 11% less than the similar period of the previous year. The price of Transgaz's share also followed in May the same upward trend up to the value recorded in Mai 2018, 370,00 lei/share.

In June, based on investor's expectance on the approval by GMS of the dividend's value for the financial year 2018 the TGN share closing price reached values closed to the mximum 2019, 370 lei/share on 3 June 2019.

In the second half of 2019 TGN's share kept the upward trend, with values above those in the same period of 2018, registering a slight decrease in August. Thus, in the last months of the period considered, the closing price of Transgaz's share exceeded mainly the values reached in the similar period of 2018, with increases between 4% and 14%. During December the closing price of TGN's share registered above the annual average, with the maximum of the period, of 373.5 lei/share, reached on 09.12.2019, amid investors' expectations for additional dividends.

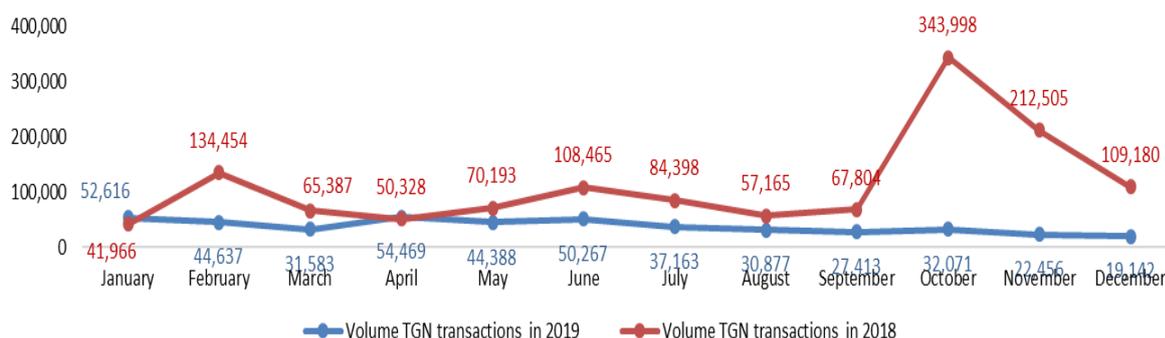


**Chart 35** - The closing price of TGN shares between 01.01.2019 – 31.12.2019 vs. 01.01.2018 – 31.12.2018

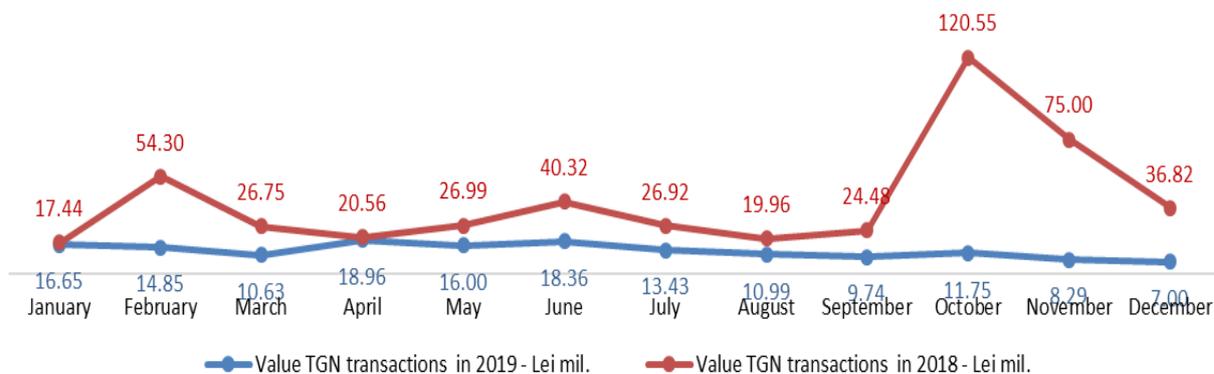
The traded volumes, as well as transaction values had oscillating values in 2019.

As compared to 2018 the traded volumes and the values of the transactions during the year 2019 under review were lower. Amid investors expecting approval of the annual financial statements and of the value of the dividend for financial year 2018, in January and April 2019 traded volumes slightly exceeded the level reached in the similar period of 2018.

The traded volumes decreased in average by approximatively 50%, and the values of the transactions by 55%, in 2019, but they reached the maximum values of the period on the date of 05.02.2019, with a volume of 12,731 traded shares and a value of 4,191 million lei.

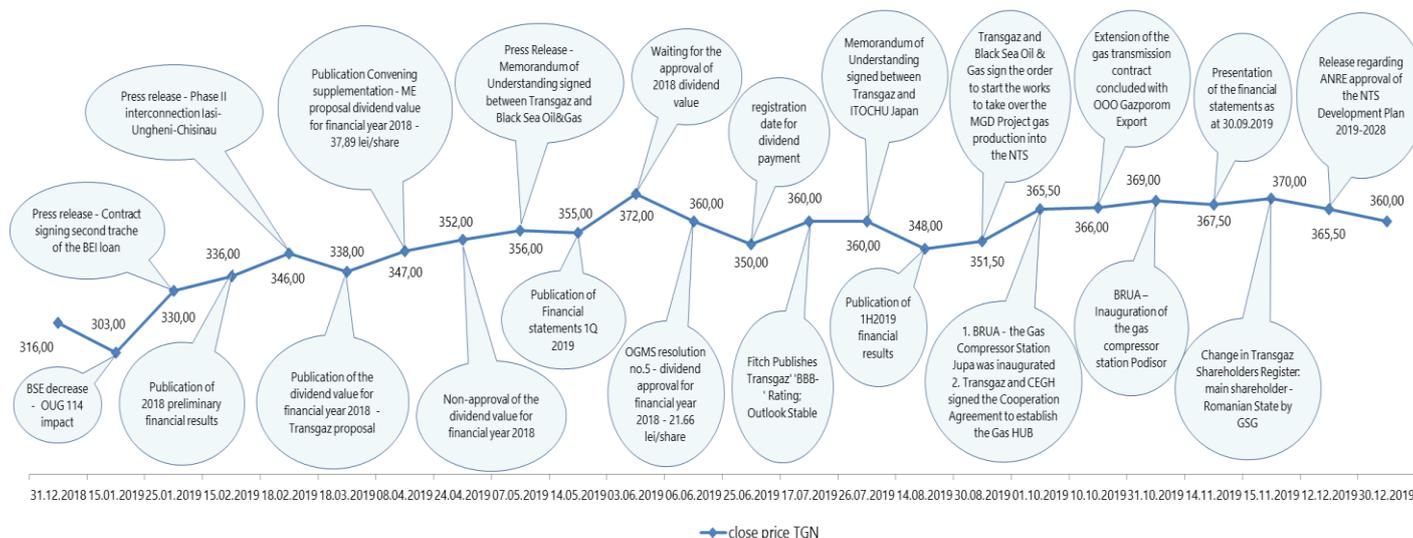


**Chart 36** - TGN transactions volume between 01.01.2019 – 31.12.2019 vs. 01.01.2018 – 31.12.2018



**Chart 37** - TGN transaction value – mil lei between 01.01.2019 – 31.12.2019 vs. 01.01.2018 – 31.12.2018

## Main corporate events with an impact upon the share price in 2019



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

Date	P/BV	PER	DIVY	EPS
31.12.2019	1,14	8,55	6,09	42,10
31.12.2018	1,00	6,39	14,72	49,44

\*values reported on 31 December 2019 and on 31 December 2018

In the period ended 31 December 2019, **P/BV stock index** (report of price per the accounting value of a share) increased as compared to the same period of the year 2018, the value of 1.14 registered indicating the fact that TGN share is a share which is correctly evaluated on the market.

At the same time, the **PER indices** (price of the share/profit per share) registered an increase due to the higher price of the TGN share on 31.12.2019, of 360.00 lei/share, as compared to the price recorded on 31.12.2018, of 316.00 lei/share.

The decrease in **dividend yield (DIVY)**, as compared to the value on 31.12.2018, is due to the lower value of the dividend for the financial year 2018, respectively 21.66 lei / share (according to OGMS dated 06.06.2019) as compared to 46,52 lei/share. (dividends for the financial year 2017, of 45,38 lei/share and dividends approved according to AGOA no. 7 of 03.12.2018, of 1.14 lei/share) gross dividend.

Also, from the presented data it can be observed that the **EPS (profit per share)** registered on 31.12.2019 as compared to the same period of the year 2018 registering the value of 42.10. The value of Transgaz stock indicators compared to similar companies in Europe at the beginning of 2020 is as follows:

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	12,8	2,1	10,7
SNAM SpA	Italy	14,5	2,6	12,9
Fluxys	Belgium	36,2	3,3	12,9
<b>Media</b>		<b>21,2</b>	<b>2,7</b>	<b>12,2</b>
<b>Transgaz</b>	<b>Romania</b>	<b>7,8</b>	<b>1,1</b>	<b>6,4</b>
Premium /Discount		-63%	-61%	-47%

Source: Bloomberg; 22.01.2020

**Table 36** - The value of Transgaz stock exchange indices compared to similar companies in Europe

## Stock market capitalization

The stock market capitalization of the company on 31.12.2019 was lei 4,24 billion (~ EUR 887 million) namely lei 518 million (~ 90 million euro) over the level recorded on 31.12.2018.

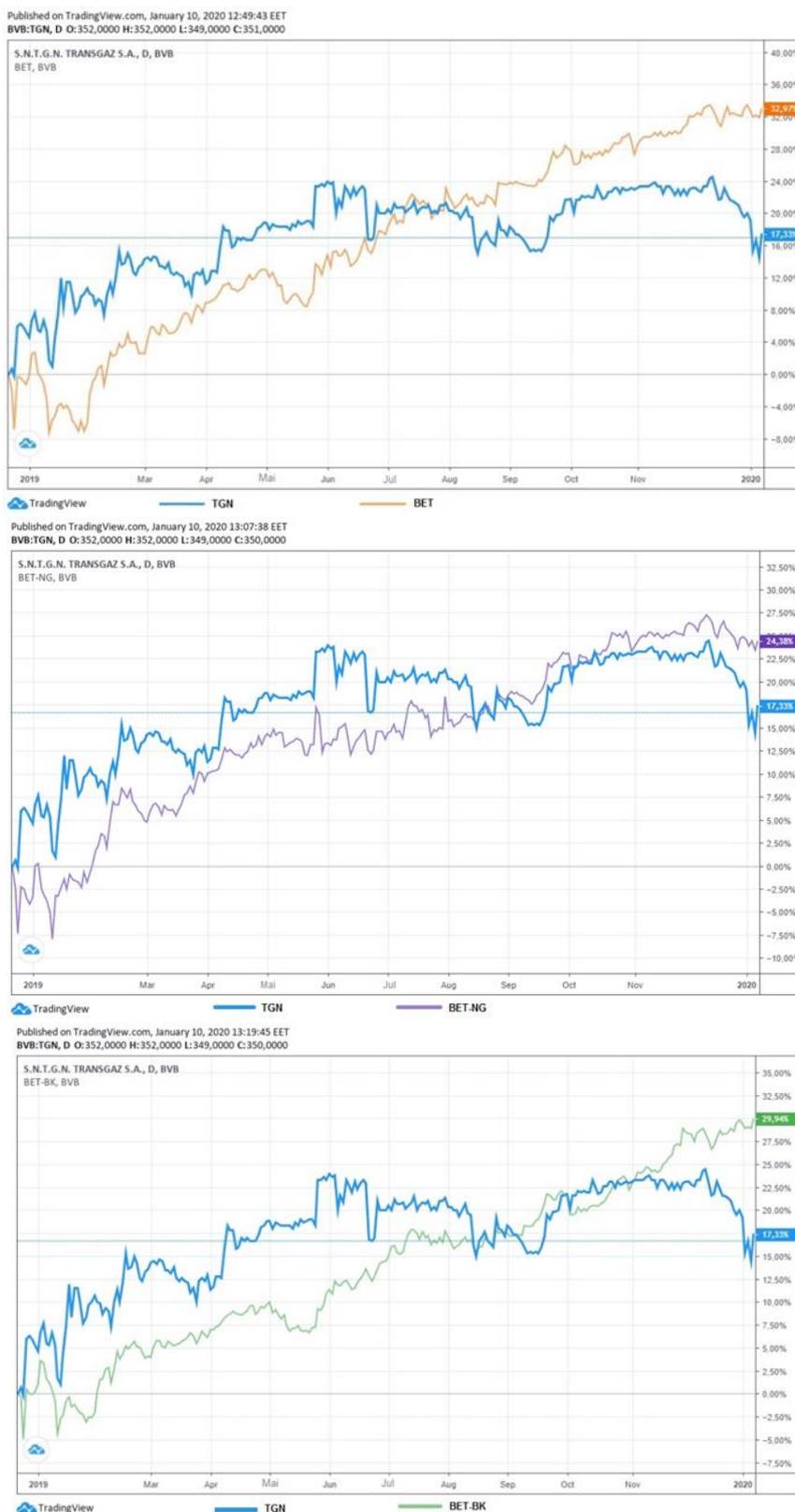
Currency	2019		2018	
	03.01.2019	31.12.2019	03.01.2018	31.12.2018
lei	3.696.987.016	4.238.583.840	4.627.120.692	3.720.534.704
EURO	792.392.622	887.011.372	996.966.451	797.730.377
Euro/BNR exchange rate	4,6656	4,7785	4,6412	4,6639



**Chart 38** - Stock market capitalization of Transgaz on 31.12.2019 vs. 31.12.2018

The value of stock market capitalization recorded at the end of 2019 is close to the historical maximum reached in 2017. Thus, due to the value of the stock market capitalization recorded by the company in December 2019, the Bucharest Stock Exchange ranked Transgaz **7th in the Top 15 companies listed at BVB, depending on the stock market capitalization.**

## Evolution of TGN shares versus BET, BET-NG and BET-BK stock market indices in 2019



**Chart 39** – Evolution of TGN share compared to stock exchange indices BET, BET-NG and BET-BK in 2019

As it can be observed, over the duration of 2019 TGN's share had a similar evolution to that of the main BET, BET-NG and BET-BK stock indexes, but with lower values.

### 6.3 Dividend policy

In 2019, the proposal for the determination of the value of the dividends for financial year 2018 was made by applying the 50.00875% on the net profit after adding to it the costs for the employees participation in the profit, which affected the gross profit before taxation, based on Government Ordinance no. 64 /2001 and the specifications approved by Order 144/2005 of the Ministry of Public Finance.

Thus, in accordance with Ordinary General Meeting of the Shareholders Decision No. 5/06.06.2019, Transgaz SA pays the dividends for the financial year 2018 through Depozitarul Central and BRD Groupe Societe Generale, the appointed paying agent, starting with 16 July 2019 (date of payment) for the shareholders registered at the registration date of 25 June 2019, **the value of the gross dividend/share amounting to 21.66 lei.**

By the end of 2019, the company had paid shareholders net dividends for the financial year 2018 distributed according to DGMOS no.5 dated 06.06.2019 amounting to lei 250.332.016,02 for 11.689.003 shares.

### Transgaz's rating

From 2006 until March 2019, 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.

In this respect, on June 20, 2018, S&P Global Ratings published the last report on the revision of the prospects of the operator of the National Gas Transmission System Transgaz SA from stable to negative, and, at the same time, they affirmed the company's credit rating at BB +. Following the internal analysis and in compliance with all legal provisions regarding the acquisition of rating services, on 28.03.2019, the company concluded with Fitch a contract for the award of a private rating at a given time (PPIT). As a result of the assessment, on 28 June 2019, the agency awarded Transgaz, the private rating granted at a given time 'BBB-' with Stable Outlook

Subsequently, on 10 July 2019, Transgaz concluded with Fitch Rating Agency a contract for the publication and supervision of the rating obtained, so that on 17.07.2019 Fitch International Rating Agency made public, at the request of Transgaz, the rating granted to the company, i.e. 'BBB-' with Stable Outlook. This rating reflects 'the solid profile of Transgaz's activity as a concessionaire and operator of the Romanian natural gas transmission network, as well as the perspective of a progressive contraction of the international gas transit activity deriving from traditional routes. The rating is supported by gas transport regulations in the country and our expectations that a significant current investment in the Bulgaria-Romania-Hungary-Austria (BRUA) corridor will be

added to Transgaz's regulated asset base (RAB) which underpins future gains, according to the Agency's report.

## 6.4 Mergers or significant reorganisations

In 2019 no mergers or reorganisations were made as far as Transgaz is concerned.

### The list of all the entities in which 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, stocking and supplying natural gas, pipeline transport, warehousing as well as business consulting activities; management (establishment of this subsidiary was approved by GEMS resolution No. 10 of 12.12.2017); in 2018, the subsidiary purchased State Enterprise Vestmoldtransgaz operating the Iasi-Ungheni pipeline on the territory of Moldova.

In 2019 Transgaz participated in the increase of share capital of EUROTRANSGAZ with 13.784.238 euro and 83.471.503 Moldovan lei for the functioning and ensuring of the financial resources necessary for the performance of the investment plan of State Enterprise Vestmoldtransgaz.

## 7. THE MANAGEMENT OF THE COMPANY

### 7.1 STRATEGIC OBJECTIVES RELATED TO TRANSGAZ' MANAGEMENT DURING 2017-2021

Aiming to pursue the full achievement of the proposed goals and the achievement of the strategic objectives regarding operational efficiency, optimization of performance and sustainable development of the company, respecting the principles of good corporate

governance, **the Board of Administration of the company wishes to continue with the same responsibility, efficiency, transparency and professionalism towards all stakeholders, the road opened in the 2013-2017 mandate for the construction and development of a solid and performing future of the national gas transmission infrastructure of the Romanian energy sector.**

Thus, the strategic objectives set out in the 2013-2017 mandate in the context of alignment with the requirements of the European energy policy, **ENERGY SAFETY AND SECURITY, COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT** are taken over in the Management Plan of SNTGN Transgaz SA for the period 2017-2021 and completed with objectives and new directions of action specific to the company's activity in the current context.

Structured according to the four perspectives of the Balance Score Card (BSC), **the action directions provided in the Management Component of the Management Plan of SNTGN Transgaz SA in the period 2017-2021 aim at:**

<b>Perspective of the stakeholders</b>
<b>STRATEGIC OBJECTIVE 1: The continuity of the activity and ensuring energy safety and security</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Increasing the level of NTS security and ensuring the security of gas supply</li> <li>▪ Competitive energy markets – by creating the necessary technical conditions for the development of the gas market</li> <li>▪ Upgrading the Corporate Governance System</li> </ul>
<b>Internal perspective/ processes</b>
<b>STRATEGIC OBJECTIVE 2: Increasing the degree of the company's COMPETITIVITY</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Development and upgrading of all of the operational processes</li> <li>▪ Increasing energy efficiency and reducing the negative impact of the technological processes upon the environment</li> </ul>
<b>Development perspective/staff</b>
<b>STRATEGIC OBJECTIVE 3: Increasing the degree of SUSTAINABLE DEVELOPMENT of the company due to the increase of the human, informational, organizational capital of the company, and the alignment to the European regulations related to the activity of the company and ensuring sustainability.</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Optimization of the management processes of human resources</li> <li>▪ Alignment to European regulations related to the activity of the company and ensuring sustainability.</li> </ul>
<b>Financial outlook</b>
<b>STRATEGIC OBJECTIVE 4: Maintaining the financial balance and the operational stability</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Ensuring the sustainable financial, economic and social performance</li> </ul>

The actions of the executive management are directed towards the meeting of the strategic goals of the Company by the implementation of the measures set in the management component.

## 7.2 Executive Management

Members of the executive management have individual labour agreements concluded for indefinite periods. The management and execution staff within Transgaz is appointed, hired or laid off by the Director General.

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

The table below indicates the members of the executive management holding shares in Transgaz as at 31.12.2019:

No	Name and first name	Position	Number of shares as at 31.12.2018	Interest share (%)
1.	Lupean Marius	Director	20	0,000169
2.	Tătaru Ion	Director	25	0,000212
3.	Comaniță Adela	Director	25	0,000212
4.	Șai Alexandru	Director	10	0,000084
5.	Lața Ilie	Director	46	0,000390
6.	Nita Viorel	Director	5	0,000042

**Table 37** - Members of Transgaz's executive management owning shares in the company as at 31.12.2019

### The executive management of the company on 31.12.2019:

No.	Name and surname	Position	Division/Unit
1.	Sterian Ion	Director General	SNTGN Transgaz SA
2.	Gheorghe Hațegan	Deputy Director General	SNTGN Transgaz SA
3.	Târsac Grigore	Deputy Director General	SNTGN Transgaz SA
4.	Marius Vasile Lupean	Chief Financial Officer	Economic Division
5.	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
6.	Tătaru Ion	Director	Development Division
7.	Leahu Mihai Leontin	Director	Engineering and Research Division
8.	Stroia Gheorghe Marius	Director	Operation Division
9.	Cosma Emil Florin	Director	Exploitation and Maintenance Division
10.	Beldiman Ion	Director	Energy Management, Automation and SCADA Division
11.	Luca Bogdan Avram	Director	Sectoral Procurement and Contracting Division

12.	Mateş Angela Aneta	Director	HR Organization Division
13.	Sarbu Ionel	Director	Land Regulation and Acquisition Division
14.	Sasu Elena	Director	Budgeting Finances Unit
15.	Comănița Adela Marinela	Director	Accounting Unit
16.	Niculaie-Faranga Dan	Director	Financing, Representative Offices Support and Special Projects Unit
17.	Niculescu Oana Cristina	Director	Budgeting Strategy Unit
18.	Mihai Cornel	Director	Corporate Activities and Representation Unitentare
19.	Mocanu Daniela Meri	Director - with delegation of powers for division director	EU Funds Unit
20.	Onița Ciprian	Director	Special Projects and Technical Support Unit
21.	Banu Larisa	Director	VTP Operation Unit
22.	Bunea Florin	Director	The National Gas Dispatching Centre
23.	Rău Ioan	Director	Commercial Unit
24.	Șai Ioan Alexandru	Director	Gas Metering, Gas Quality Unit
25.	Dragoman Irina Georgiana	Director	Gas Regulation Unit
26.	Barbu Viorel	Director	NTS Rehabilitation Unit
27.	Petrescu Monica Alexandra	Director	Special Projects Procurement Unit
28.	Grăjdan Vasilica	Director	HR Planning and Organization Unit
29.	Ene Alin	Director	General Inspection Unit
30.	Drăghici Aurelian	Director	Projects Analysis, Checking and Endorsement Unit
31.	Achim Viorel Ciprian	Director	HSQE Unit
32.	Iuga Alexandru	Director	Supply and Transmission Unit
33.	Lupu Emil	Manager	Archaeological Research Unit
34.	Iancu Cristina Daniela	Deputy Director - with delegation of powers of director	Legal Unit
35.	Vlahbei Andra Ioana	Deputy Director	Gas Regulation Unit
36.	Ilie Lața	Subsidiary Director	Mediaș Subsidiary
37.	Velicea Angela	Financial Director	Mediaș Subsidiary
38.	Gurgu Victorel	Regional Office Director / Director with delegation of powers for BRUA PMU Manager	Regional Office Bucharest
39.	Alexandru Ionel	Director	Regional Office Arad
40.	Cristoloveanu Gheorghe	Director	Regional Office Brașov
41.	Schmidt Hăineală Eduard-Cristian	Director	Regional Office Bacău
42.	Dumitru Nicușor	Head of Department with delegations of power for Director of Regional Office	Regional Office Brăila
43.	Niță Viorel	Director	Regional Office Craiova
44.	Calburean Ioan Eugen	Chief Engineer with delegations of power for Director of Regional Office	Regional Office Cluj

45.	Andrei Romeo	Chief Engineer with delegations of power for Director of Regional Office	Regional Office Constanța
46.	Oancea Paul	Chief Engineer with delegations of power for Director of Regional Office	Regional Office Medias

**Table 38 -Transgaz's executive management as at 31.12.2019**

## 8. DISCHARGE OF ADMINISTRATORS

According to Article 55 and Article 56 of GEO 109/2011, further amended and supplemented, the administrators of SNTGN Transgaz SA forward for approval to the General Meeting of Shareholders, the Administrators Report for the year 2019.

Based on the following legal provisions:

- Art. 111 para (2) letter (d); Art. 155 and Art. 186 of Law 31/1990 on companies, republished and further amended and supplemented;
- Art. 15 para 3 letter(h) of SNTGN Transgaz SA updated bylaws;
- Art. 4.1 letter (h) of the Administrators' Mandate Agreement concluded on 28.12.2017

The administrators of the company submit to the approval of the General Meeting of the Shareholders the discharge for the activity carried out in 2019, as presented in the present report.

For optimizing the activity the company's management will act responsibly and will efficiently use modern and adequate management techniques and methods in order to optimize all the processes and activities carried out by the company as presented:



**REMUS GABRIEL LĂPUȘAN– Non-executive Administrator – Chairman of the Board of Administration**

**ION STERIAN – Executive Administrator - Director general**

**PETRU ION VĂDUVA – Non-executive Administrator**

**BOGDAN GEORGE ILIESCU – Non-executive Administrator**

**NICOLAE MINEA – Non-executive Administrator**

**LIST OF TABLES**

TABLE 1- SHAREHOLDING ON 31.12.2019.....	7
TABLE 2–PERFORMANCE STANDARD INDICATORS 2019 VS 2018 .....	9
TABLE 3- THE MAIN ECONOMIC AND FINANCIAL INDICATORS BETWEEN 2017-2019.....	10
TABLE 4- PROFITABILITY, LIQUIDITY, RISK AND MANAGEMENT INDICATORS 2017-2019.....	12
TABLE 5 –KEY FINANCIAL PERFORMANCE INDICATORS FOR THE CALCULATION OF THE VARIABLE COMPONENT OF REMUNERATION .....	13
TABLE 6 -KEY PERFORMANCE INDICATORS FOR THE CALCULATION OF THE VARIABLE COMPONENT OF REMUNERATION IN 2019 .....	17
TABLE 7 - ACHIEVEMENT OF THE TYNDP MAJOR PROJECTS.....	66
TABLE 8 – MAIN COMPONENTS OF THE NTS ON 31.12.2019 .....	82
TABLE 9- THE MAIN COMPONENTS OF THE NTS ON 31.12.2019, FROM THE PERSPECTIVE OF THE SERVICE LIFE ..	83
TABLE 10 - GAS QUANTITIES CIRCULATED AND TRANSMITTED AND THE TECHNOLOGICAL CONSUMPTION BETWEEN 2017-2019 .....	87
TABLE 11- GAS QUANTITIES FOR TECHNOLOGICAL CONSUMPTION ACHIEVED VS PLANNED IN 2017-2019 .....	88
TABLE 12 - THE SITUATION OF THE CONTRACTS CONCLUDED THROUGH PROCUREMENT PROCEDURES (SIMPLIFIED PROCEDURES/OPEN AUCTIONS/NFIPPCO)– BETWEEN 01.01 AND 31.12..2019.....	98
TABLE 13 - SITUATION OF CONTRACTS CONCLUDED THROUGH DIRECT PURCHASES DURING THE PERIOD 01.01-31.12.2019 .....	99
TABLE 14- STATEMENT OF CONSOLIDATED FINANCIAL POSITION ON 31 DECEMBER 2018 VS 31 DECEMBER 2019 .....	101
TABLE 15 – CONSOLIDATED PROFIT AND LOSS ACCOUNT 2019 VS 2018 .....	105
TABLE 16 - REVENUE FROM THE OPERATING ACTIVITY –OBTAINED 2019 VS. 2018.....	105
TABLE 17 - OPERATING COSTS 2019 VS. 2018.....	106
TABLE 18 – STATEMENT OF CONSOLIDATED CASH FLOW –2019 VS. 2018.....	107
TABLE 19– FINANCIAL RESULTS 2019 VS. 2018.....	108
TABLE 20 - FINANCIAL RESULTS 2019 VS. BUDGET 2019.....	112
TABLE 21– OBTAINED 12 MONTHS 2019 VS. OBTAINED 12 MONTHS 2018 AND OBTAINED 12 MONTHS 2019 VS. REB (%) .....	114
TABLE 22 - OBTAINED 2019 VS. MANAGEMENT PLAN 2019 .....	114
TABLE 23 – DEGREE OF ACHIEVEMENT OF THE STANDARD PERFORMANCE INDICATORS ON 31 DECEMBER 2019 .....	120
TABLE 24 – PROFITABILITY, LIQUIDITY, RISK AND MANAGEMENT INDICATORS IN 2019 VS MANAGEMENT PLAN 2017-2021 .....	121
TABLE 25 TRAINING REQUIREMENTS 2020.....	124
TABLE 26 - AVERAGE NUMBER OF PERSONNEL BETWEEN 2016-2018 APPROVED IN THE MANAGEMENT PLAN ..	135
TABLE 27 - NUMBER OF EMPLOYEES BETWEEN 2017-2019 .....	135
TABLE 28 - TECHNICAL WORKS OLANNED/ TECHNICAL WORKS STANDARDIZED IN 2019.....	136
TABLE 29 - PERSONNEL STRUCTURE BY CATEGORIES OF STUDIES BETWEEN 2017-2019.....	136
TABLE 30 - EVOLUTION OF THE NUMBER OF EMPLOYEES WITHIN VESTMOLDTRANSGAZ .....	137
TABLE 31- COURSES ORGANIZED FOR THE COMPANY EMPLOYEES BETWEEN 2017 AND 2019.....	140
TABLE 32-THE SITUATION OF THE PARTICIPANTS IN QUALIFICATION / IMPROVEMENT COURSES BETWEEN 2017 AND 2019 .....	140
TABLE 33 – STATEMENT OF SPONSORSHIP BUDGET 2019 .....	143
TABLE 34 - SPONSORSHIP BUDGET FOR 2019 AND AMOUNTS GRANTED IN 2019 .....	143
TABLE 35 - ESTIMATES OF THE KEY NON-FINANCIAL PERFORMANCE INDICATORS FOR THE CALCULATION OF THE VARIABLE COMPONENT OF THE REMUNERATION IN 2019.....	169
TABLE 36 - THE VALUE OF TRANSGAZ STOCK EXCHANGE INDICES COMPARED TO SIMILAR COMPANIES IN EUROPE .....	211
TABLE 37 - MEMBERS OF TRANSGAZ'S EXECUTIVE MANAGEMENT OWNING SHARES IN THE COMPANY AS AT 31.12.2019 .....	216
TABLE 38 -TRANSGAZ'S EXECUTIVE MANAGEMENT AS AT 31.12.2019 .....	218

**LIST OF CHARTS**

CHART 1- TRANSGAZ'S SHAREHOLDING ON 31.12.2019.....	7
CHART 2- NUMBER OF TRANSGAZ SHAREHOLDERS FROM THE LISTING AND UNTIL 31.12.2019.....	7

CHART 3 - TURNOVER 2017-2019 (THOUSAND LEI).....	11
CHART 4 - NET PROFIT 2017-2019 (THOUSAND LEI).....	10
CHART 5 OPERATING REVENUE, EXPENSE AND OPERATING PROFIT BEFORE THE BALANCING AND CONSTRUCTION ACTIVITY ACCORDING TO IFRIC 12 BETWEEN 2017-2019 .....	11
CHART 6 - MAIN ECONOMIC AND FINANCIAL INDICATORS BETWEEN 2017-2019.....	11
CHART 7-INVESTMENT AND REHABILITATION COSTS 2017-2019 (THOUSAND LEI) .....	11
CHART 8 - PROFITABILITY INDICATORS 2017-2019 .....	12
CHART 9 – LIQUIDITY INDICATIONS 2017-2019.....	13
CHART 10 - MAIN NTS USERS BETWEEN 1 JANUARY AND 31 DECEMBER 2019 .....	86
CHART 11 - GAS QUANTITIES CIRCULATED AND TRANSMITTED AND THE TECHNOLOGICAL CONSUMPTION BETWEEN 2017-2019 .....	87
CHART 12- GAS QUANTITY CIRCULATED AND TECHNOLOGICAL CONSUMPTION 2019 VS. 2018.....	87
CHART 13-TECHNOLOGICAL CONSUMPTION SHARE IN TOTAL CIRCULATED GAS BETWEEN 2017-2019 .....	88
CHART 14 -TOTAL ACTUAL TECHNOLOGICAL CONSUMPTION VS. TOTAL PLANNED IN 2019.....	88
CHART 15 - MDIP- JANUARY 2019.....	89
CHART 16 – MIDP - DECEMBER 2019 .....	90
CHART 17 - PRRASM 2019 - NTS REPAIR AND REHABILITATION - JANUARY 2019.....	93
CHART 18 - PRRASM 2019 - NTS REPAIR AND REHABILITATION - DECEMBER 2019.....	93
CHART 19 - PRRASM 2019 - NTS MAINTENANCE SERVICES – DECEMBER 2019 .....	95
CHART 20- PROCUREMENT PROCEDURES AS AT 30.012.2019.....	97
CHART 21-SITUATION OF DIRECT PROCUREMENTS AS AT 31.12.2019.....	98
CHART 22 - PAAS PROCEDURES FOR MOLDOVA AS AT 31.12.2019 .....	100
CHART 23 - FINANCIAL RESULTS 2019 VS. 2018 (THOUSAND LEI).....	109
CHART 24 – FINANCIAL RESULTS 2019 (%).....	109
CHART 25- OBTAINED 12 MONTHS 2019 VS. OBTAINED 12 MONTHS 2018 AND.....	114
CHART 26 - SHARE OF TECHNOLOGICAL CONSUMPTION IN TOTAL NATURAL GAS TRANSMITTED THROUGH THE NTS BETWEEN 2013- 2019.....	134
CHART 27 - APPROVED VS ACHIEVED AVERAGE NUMBER OF PERSONNEL BETWEEN 2017-2019 .....	135
CHART 28 NUMBER OF EMPLOYEES IN 2019 VS. 2018 (TRANSGAZ)C.....	135
CHART 29- PERSONNEL STRUCTURE BY CATEGORIES OF STUDIES BETWEEN 2017 – 2019.....	136
CHART 30 - SPONSORSHIP BUDGET FOR 2019 AND AMOUNTS GRANTED IN 2019. ....	143
CHART 31 –POSITIVE, NEGATIVE AND NEUTRAL NEWS REGARDING THE ACTIVITY OF TRANSGAZ IN 2019 .....	164
CHART 32 – NEWS MONITORING PER ISSUE IN 2019.....	165
CHART 33 -MONTHLY MONITORING OF NEWS BY TOPIC IN 2019 .....	165
CHART 34 -NEWS BY TOPIC IN 2019.....	165
CHART 35 - THE CLOSING PRICE OF TGN SHARES BETWEEN 01.01.2019 – 31.12.2019 VS. 01.01.2018 – 31.12.2018 .....	208
CHART 36 - TGN TRANSACTIONS VOLUME BETWEEN 01.01.2019 – 31.12.2019 VS. 01.01.2018 – 31.12.2018.....	209
CHART 37 - TGN TRANSACTION VALUE – MIL LEI BETWEEN 01.01.2019 – 31.12.2019 VS. 01.01.2018 – 31.12.2018 .....	209
CHART 38 - STOCK MARKET CAPITALIZATION OF TRANSGAZ ON DE 31.12.2019 VS. 31.12.2018.....	211
CHART 39 – EVOLUTION OF TGN SHARE COMPARED TO STOCK EXCHANGE INDICES BET,BET-NG AND BET-BK IN 2019.....	212

**LIST OF FIGURES**

FIGURE 1-MAP OF THE MAIN NTS PROJECTS .....	19
FIGURE 2 – THE INTERCONNECTION POINTS OF THE ROMANIAN GAS TRANSMISSION SYSTEM WITH THE SIMILAR BULGARIAN AND HUNGARIAN SYSTEMS.....	20
FIGURE 3 -MAP OF THE KEY DEVELOPMENT PROJECT OF THE BULGARIA-ROMANIA-HUNGARY-AUSTRIA CORRIDOR – PHASE 1.....	21
FIGURE 4– MAP OF THE MAIN DEVELOPMENT PROJECT RELATED TO THE CORRIDOR BULGARIA-HUNGARY-AUSTRIA – PHASE 2 .....	31
FIGURE 5-SOUTHERN CORRIDOR BLACK SEA – PODIȘOR.....	34
FIGURE 6 MAP OF THE MAJOR DEVELOPMENT PROJECT FOR NTS INTERCONNECTION WITH THE INTERNATIONAL TRANSMISSION PIPENINE TRANSIT 1 .....	37
FIGURE 7 - NTS DEVELOPMENTS IN THE NORTH-EASTERN AREA OF ROMANIA.....	40

FIGURE 8 - DEVELOPMENT OF BRUA PHASE 3 .....	44
FIGURE 9- NTS DEVELOPMENTS RELATED TO THE BLACK SEA .....	46
FIGURE 10- INTERCONNECTION OF THE NTS WITH SERBIA IN THE RECAS – MOKRIN DIRECTION.....	48
FIGURE 11- UPGRADING GMS ISACCEA 1 AND NEGRU VODĂ 1 .....	52
FIGURE 12- INTERCONNECTION BETWEEN THE NATIONAL GAS TRANSMISSION SYSTEM AND THE UKRAINEAN GAS TRANSMISSION SYSTEM, IN THE DIRECTION GHERAESTI-SIRET .....	55
FIGURE 13- DEVELOPMENT/UPGRADING OF THE GAS TRANSMISSION INFRASTRUCTURE IN THE NORTH-WESTERN PART OF ROMANIA.....	56
FIGURE 14 INCREASE IN THE GAS TRANSMISSION CAPACITY OF THE INTERCONNECTION ROMANIA-BULGARIA, .....	58
FIGURE 15 - EASTRING .....	59
FIGURE 16 - MAP OF THE NATIONAL GAS TRANSMISSION SYSTEM .....	82
FIGURE 17 - CROSS BORDER NTS INTERCONNECTION POINTS .....	85
FIGURE 18 – PERFORMANCE INDICATORS .....	119
FIGURE 19 - ORGANIZATIONAL STRUCTURE OF THE INTERNAL CONTROL/MANAGEMENT SYSTEM WITHIN TRANSGAZ.....	150
FIGURE 20- EVOLUTION OF THE DEGREE OF CONFORMITY OF SCI/M AT SNTGN TRANSGAZ SA LEVEL IN 2013-2019 .....	154
FIGURE 21 - EVOLUTION OF THE AVERAGE DEGREE OF IMPLEMENTATION OF THE INTERNAL/MANAGERIAL CONTROL STANDARDS, AT THE COMPANY LEVEL, YEARS 2017, 2018, 2019.....	155
FIGURE 22 – COMPARATIVE RISK PROFILE 2017, 2018, 2019 .....	162

**THE NATIONAL GAS TRANSMISSION COMPANY  
TRANSGAZ S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2019**

**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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### **Contents**

Independent Auditors' Report

Consolidated Statement of Financial Position 1 - 2

Consolidated Statement of Comprehensive Income 3

Consolidated Statement of Changes in Equity 4

Consolidated Cash Flow Statement 5

Notes to the Consolidated Financial Statements 6-78

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.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**(expressed in lei, unless otherwise stated)**



	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>ASSET</b>			
<b>Fixed assets</b>			
Tangible Assets	7	622.962.093	543.636.934
Rights of use of the leased assets	9	9.359.179	-
Intangible Assets	9	3.058.597.272	2.301.806.250
Financial assets	10	-	-
Goodwill		<u>9.775.599</u>	<u>9.413.102</u>
Trade receivables and other receivables	12	<u>723.921.414</u>	<u>629.754.861</u>
		<b>4.424.615.557</b>	<b>3.484.611.147</b>
<b>Current assets</b>			
Inventories	11	494.614.492	255.307.360
Commercial receivables and other receivables	12	524.500.459	541.785.491
Cash and cash equivalent	13	<u>352.985.119</u>	<u>711.317.624</u>
		<b>1.372.100.070</b>	<b>1.508.410.475</b>
<b>Total asset</b>		<b>5.796.715.627</b>	<b>4.993.021.622</b>
<b>Equity</b>			
Share capital	14	117.738.440	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	1.699.175.132	1.635.006.468
Exchange difference form consolidation		<u>3.668.307</u>	<u>1.824.076</u>
		<b>3.775.276.001</b>	<b>3.709.263.106</b>
<b>Long-term debts</b>			
Long-term loans	16	661.062.420	233.195.000
Provision for employee benefits	21	119.858.608	107.072.136
Deferred revenue	17	647.728.922	519.718.816
Deferred tax payment	18	<u>8.071.065</u>	<u>4.596.976</u>
Commercial debt and other debts	19	<u>53.278.838</u>	-
		<b>1.489.999.853</b>	<b>864.582.928</b>

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 2019</u>	<u>31 December 2018</u>
<b>Current debts</b>			
Commercial debts and other debts	19	454.479.051	397.588.008
Provision for risks and charges	20	72.239.710	18.647.787
Current tax payment	18	-	-
Provision for employee benefits	21	1.853.432	2.939.793
Short-term loans		<u>2.867.580</u>	<u>-</u>
		<u><b>531.439.773</b></u>	<u><b>419.175.588</b></u>
<b>Total debts</b>		<u><b>2.021.439.626</b></u>	<u><b>1.283.758.516</b></u>
<b>Total equity and debts</b>		<u><b>5.796.715.627</b></u>	<u><b>4.993.021.622</b></u>

Endorsed and signed on behalf of the Board of Administration as on 29 April 2020 by:

Chairman of the Board of Administration  
Remus Gabriel Lăpușan

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.

**CONSOLIDATED STATEMENT OF THE  
COMPREHENSIVE INCOME**

**(expressed in lei, unless otherwise stated)**



	<u>Note</u>	<u>The year ended 31 December 2019</u>	<u>The year ended 31 December 2018</u>
Revenue from the domestic transmission activity		1.192.597.737	1.178.419.674
Revenue from the international transmission activity		327.696.392	324.380.804
Other revenue	22	<u>55.630.757</u>	<u>105.597.166</u>
<b>Operational revenue before the balancing and construction activity according to IFRIC12</b>		<b>1.575.924.886</b>	<b>1.608.397.644</b>
Depreciation	7, 9	(195.700.887)	(189.913.379)
Employees costs	24	(415.818.106)	(383.249.813)
Technological consumption, materials and consumables used		(99.266.835)	(96.880.600)
Expenses with royalties		(151.374.380)	(151.026.697)
Maintenance and transmission		(29.899.092)	(35.884.134)
Taxes and other amounts owed to the state		(111.290.048)	(76.449.251)
Revenue/ (Expenses) with provisions for risks and charges		(49.818.887)	(5.946.358)
Other operating cost	23	<u>(181.453.361)</u>	<u>(112.826.743)</u>
<b>Operational profit before the balancing and construction activity according to IFRIC12</b>		<b>341.303.290</b>	<b>556.220.669</b>
Revenue from the balancing activity		324.687.807	235.427.293
Cost of balancing gas		(324.687.807)	(235.427.293)
Revenue from the construction activity according to IFRIC12	32	868.356.796	405.793.585
Cost of assets constructed according to IFRIC12	32	<u>(868.356.796)</u>	(405.793.585)
<b>Operational profit</b>		<b>341.303.290</b>	<b>556.220.669</b>
Financial revenue	25	101.618.158	48.633.898
Financial cost	25	<u>(30.778.655)</u>	<u>(26.972.873)</u>
<b>Financial revenue, net</b>		<b><u>70.839.503</u></b>	<b><u>21.661.025</u></b>
<b>Profit before tax</b>		<b>412.142.793</b>	<b>577.881.694</b>
Profit tax expense	18	<u>(70.748.512)</u>	<u>(87.395.719)</u>
<b>Net profit for the period</b>		<b><u>341.394.281</u></b>	<b><u>490.485.975</u></b>
Exchange differences		3.668.307	1.827.930
Basic and diluted earnings per share (expressed in lei per share)	28	29,00	41,66
Actuarial (gain)/loss for the period		(4.636.774)	(4.442.437)
<b>Total comprehensive income for the period</b>		<b><u>340.425.814</u></b>	<b><u>487.871.468</u></b>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

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>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance on 1 January 2018, reported</b>		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.695.177.698</u>	<u>3.767.610.260</u>
Retreated		-	-	-	-	1.554.761	1.554.761
<b>Balance on 1 January 2018, retreated</b>		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.696.732.459</u>	<u>3.769.165.021</u>
Net profit for the period, reported						490.485.975	490.485.975
Actuarial gain/(loss) for the period		-	-	-	-	(4.442.437)	(4.442.437)
Transactions with shareholders:							
Dividends for 2017	15	-	-	-	-	(547.769.527)	(547.769.527)
Exchange differences from consolidation		-	-	-	-	1.824.074	1,824.074
<b>Balance on 31 December 2018</b>		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.636.830.544</u>	<u>3.709.263.106</u>
Net profit related to the period, reported						341.394.281	341.394.281
Actuarial gain/(loss) for the period		-	-	-	-	(4.636.774)	(4.636.774)
Deferred tax adjustment loss						(19.391.459)	(19.391.459)
Transactions with shareholders:							
Divident related to 2018	15	-	-	-	-	(255.021.461)	(255.021.461)
Exchange difference from consolidation						3.668.307	3.668.307
<b>Balance on 31 December 2019</b>		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.702.843.439</u>	<u>3.775.276.001</u>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

Notes 1 to 33 are part of these financial statements.

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



		<b>The year ended Note 31 December 2019</b>	<b>The year ended 31 December 2018</b>
<b>Cash generated from operations</b>	26	<b>413.207.215</b>	<b>380.337.514</b>
Interest paid		-	-
Interest received		2.066.705	4.760.216
Tax on profit payments		- (69.822.103)	(127.664.538)
<b>Net cash inflow from operation activities</b>		<b>345.451.817</b>	<b>257.433.192</b>
<b>Cash flow from investment activities</b>			
Payments to acquire tangible and intangible assets		(1.026.337.953)	(294.174.746)
Financial investment/shares		(70.432)	(238.479)
Receipts from the disposal of tangible assets		146.396	296.336
Cash flow from connection fees and grants		151.274.740	67.112.639
<b>Net cash used in investment activities</b>		<b>(874.987.249)</b>	<b>(227.004.250)</b>
<b>Cash flow from financing activities</b>			
Long term loans drawings		423.477.000	163.299.500
Dividends paid		-(255.942.380)	(546.773.133)
<b>Net cash used in financing activities</b>		<b>167.534.620</b>	<b>(383.473.633)</b>
Exchange difference loss			(98.968)
Exchange difference		3.668.307	1.923.042
<b>Net change in cash and cash equivalents</b>		<b>(358.332.505)</b>	<b>(351.220.617)</b>
<b>Cash and cash equivalent as at the beginning of the year</b>	13	<b>711.317.624</b>	<b>1.062.538.241</b>
<b>Cash and cash equivalent as at the end of the period</b>	13	<b>352.985.119</b>	<b>711.317.624</b>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

Notes 1 to 33 are part of these financial statements.

## 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 2019, 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 Resolution 10/12 December 2017 on the establishment of this company.

The core business of EUROTRANSGAZ consists in:

1. Gas production; gas transmission; gas distribution; gas storage; gas supply
2. Transmission through pipelines
3. Storage
4. Consultancy for business and management

The share capital is MDL 894.313.653 (the RON equivalent of 221.879.217,31 lei at 31.12.2019) and is wholly owned by SNTGN Transgaz SA Mediaş - the founder of the Company, as a sole shareholder.

By the Resolution of the Board of Administration of March 2018 the conclusion of the Vestmoldtransgaz sale - purchase contract was approved and the payment of the price bid for privatization and all the taxes and charges related to the privatization process.

Under Resolution 39/05.09.2019 the Board of Administration of SNTGN Transgaz S.A In September 2018 the Board of Administration of SNTGN Transgaz SA approved the empowerment of Eurotransgaz’s administrators (ETG) to register the sale - purchase contract and the transfer of ownership of the sole patrimonial complex SE ‘Vestmoldtransgaz’, and the performance of any action necessary for the reorganization of Vestmoldtransgaz (VTMG) as a limited liability company.

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

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**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. Thus the premises of the correct administration of the possible unfavourable developments are created, developments which may appear if the high aversion towards risk occurs again in the international financial markets. 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) The economic forecast for the winter of 2020, published on Thursday, 13 February by the European Commission, estimates that the European economy will continue to follow a path of steady and moderate growth. The euro area has so far enjoyed the longest period of uninterrupted growth since the introduction of the euro in 1999. According to forecasts, the growth of Romania's gross domestic product (GDP) will remain at 3,8% in 2020 and will have the value of 3,5% in 2021, while for the euro area it will remain stable at 1.2% in 2020 and 2021. For the EU as a whole, it is expected to slow slightly to 1,4% in 2020, and 2021, down from 1,5% in 2019.

Economic analysts on the other hand estimate an increase in the Romanian economy between 2,6% and 3,5% and an impairment of Leu in 2020 between 2 and 4 percentage points, due mainly to the increase in the twin deficits – budget deficit and current account deficit. The most pessimistic forecast belongs to the analysts from UniCredit, who see an economic growth of only 2,6% in 2020, from 4,2% in 2019. Transilvania Bank sees a growth of 3,5%, while the analysts from Raiffeisen Bank see a real growth of the GDP of Romania in 2020 of 3%. Economic analysts consulted by Ziarul Financiar said that Romania's economy will continue to grow at a rate above the European average, but risks can appear both internally and externally. Externally, surprises can arise from the European macroeconomic landscape, but also from the sphere of increasing global tensions. The risks at the internal level are constituted by the fiscal-budgetary situation and the election year 2020 cannot come with strong fiscal adjustment measures.

- (ii) In the meeting held on 7 February 2019, the Board of Administration of the National Bank of Romania decided to maintain the interest rate of monetary policy at the level of 2,50% percent per year, to maintain the interest rate for the deposit facility to 1,50% per year and the interest rate for the loan facility to 3,50% percent per annum and to reduce the minimum mandatory reserve ratios applicable to credit and foreign currency liabilities of credit institutions at the level of 6 percent from 8 percent starting with the application period 24 February 2020 - 23 March 2020 and maintaining the minimum reserve rate required for liabilities in lei at the level of 8 percent.
- (iii) The annual inflation rate increased to up to 4% in December 2019 from 3,8% in November, in the conditions in which the food merchandise were increased by 5,08% and non-food products by 3,31% the price of services registered an advance of 4,16%, according to data published on Tuesday by the National Institute of Statistics (INS). The International

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Monetary Fund (IMF) revised the estimates of the consumption rates in Romania this year, to an increase in the annual average of 4,2%, versus an advance of 3,3% expected in the spring, while in 2020 prices would rise by 3,3%, compared to a 3% increase as estimated in spring.

- (iv) For the first time, the international rating agency Fitch granted the `BBB -` rating with a stable outlook to Transgaz Mediaş (TGN), according to the release issued by the Bucharest Stock Exchange (BSE). Thus, Transgaz is evaluated at the rating level of our country and with two levels above the level previously held. The rating given to company by Fitch reflects the solid profile of Transgaz' activity as a concessionaire and operator of the natural gas transmission network in Romania, as well as the anticipation of a progressive contraction of the international activity of gas transit that derives from the traditional routes. The rating is backed by the country's gas transportation regulations and our expectations that a significant current investment in the Bulgaria-Romania-Hungary-Austria (BRUA) corridor will be added to Transgaz' regulated asset base (RAB), which is the basis for future earnings.

At the end of 2018 the leu has depreciated against the EURO (`EUR`) and against the US dollar (`USD`). Thus as compared to the end of 2017 the Leu was depreciated by 0,09% against the EUR (4,6639 as at 31 December 2018, 4,6597 as at 31 December 2017) and was depreciated by 4,68% against the USD (4,0736 as at 31 December 2018; 3.8915 as at 31 December 2017).

In the end of 2019 the leu has depreciated against the EURO (`EUR`) and against the US dollar (`USD`). Thus as compared to the end of 2018 the Leu was depreciated by 2,47 % against the EUR (4,7793 as at 31 December 2019, 4,6639 as at 31 December 2018) and was depreciated by 4,60% against the USD (4,2608 as at 31 December 2019; 4,0736 as at 31 December 2018).

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

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.

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

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**3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

From 2017, the year when EUROTRANSGAZ was founded by SNTGN Transgaz SA, the company has the obligation to prepare the 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.

For year 2018, as a result of the procurement of Vestmoldtransgaz SRL in Moldova by Eurotransgaz SRL, Transgaz, as a parent company, presented consolidated financial statements which include the consolidation of Eurotransgaz SRL with Vestmoldtransgaz SRL in Moldova.

Transgaz's consolidation with ETG was performed step by step, meaning the consolidation of ETG with VTMG in a 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 for the balance sheet the NBR exchange rate issued on 31 December 2019 is used (closing rate) and for the profit and loss account the income and expense was expressed at the annual average rate published by the National Bank of Romania for 2019. The use of these different exchange rates has as a consequence the highlighting of the conversion difference.

According to Accounting Law 82/1991 republished, as further amended and supplemented, and to OMFP 2844/2016, as further amended and supplemented, on the approval of the accounting regulations in line with the 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 the application of the control principle to determine whether an investor controls an investee and therefore needs to consolidate the investee and also sets the accounting provisions for the preparation of the consolidated financial statements.

The parent company must prepare consolidated financial statements using uniform accounting policies for transactions and similar events in similar circumstances. The consolidation of an investee must start at the date the investor has acquired control and must cease when the investor loses control of the investee.

The parent company must disclose the interests that do not control 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 equity interest in a subsidiary that do not result in the parent company's loss of control of the subsidiary are equity transactions (ie transactions with owners in their capacity as owners).

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

If a parent company loses control over a subsidiary, the parent company must: (a) derecognise the assets and liabilities of the former subsidiary from the consolidated financial position; (b) recognize any undistributed investment in the former subsidiary at its fair value when it has lost control and will subsequently account for those investments and the amounts owed by or to the former subsidiary in accordance with the relevant IFRSs. That fair value should be considered as the fair value at the time of the initial recognition of a financial asset in accordance with IFRS 9 or, where applicable, the cost of the initial recognition of an investment in an associate or in a joint venture; (c) recognizes the gain or loss associated with the loss of control attributable to the former majority interest.

The consolidated financial statements include the Company`s financial statements and the financial statement of the affiliated entity, EUROTRANSGAZ, which is controlled by the company, combining similar parent company – affiliated company assets, liabilities, equity, costs and cash flow items, compensating (eliminating) the accounting value of the investment made by the parent company in each subsidiary, and the share of the parent company in the equity of each subsidiary, and eliminating in full all intragroup assets and liabilities, equity and cash flows related to the intragroup transactions performed.

A company controls an entity in which it had invested when it is exposed or has variable income rights on the basis of its participation in the investee and has the ability to influence the relevant income through its authority over the investee. The control principle thus establishes the following three elements of control:

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

IFRS 3 requires the acquirer, after recognizing the identifiable assets, the liabilities and all interests, which do not control, to identify any differences between:

- a) the aggregation of the transferred counter-performance, any interest which does not control in the acquired entity and in a business combination made in stages, the fair value from the acquisition date of the equity interests of the acquired entity previously held by the acquirer, and
- b) the net identifiable net assets acquired;

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

Consolidation procedures according to IFRS 10

The consolidated financial statements:

- combine similar items of assets, liabilities, equity, income, expenses and cash flows of the parent company with those of its subsidiaries;
- compensate (eliminate) the accounting amount of the investment made by the parent company in the subsidiary and the parent`s share of the equity of the subsidiary; accounting is according to IFRS 3;

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- eliminate in full all intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the entities of the group: profit or loss from the intragroup transactions recognised in the assets, such as inventories and the fixed assets are totally eliminated.

**Accounting regulations applicable as of 2016**

Amendments to various standards “Improvements to IFRSs (2014-2016 Cycle)” resulting from the annual 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 Taxes**

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);**

**(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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IFRS 9 Financial Instruments** - adopted by the 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.

- *Depreciation 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.
- *Depreciation:* 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** with further amendments and with the 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;
- 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 fulfills an execution obligation.

**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.

**Standards and interpretations which will enter into force/applicable as of 2019 or at a subsequent date**

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.

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

- 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 .

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.

**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.

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

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**3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

According IAS 21- The Effects of Changes in Foreign Exchange Rates, when a group contains individual entities with different functional currencies, the results and financial position of each entity are denominated in a common currency so as to allow the presentation of the consolidated financial statements.

For the purpose of consolidation, the MDL was converted to the functional currency, the RON, at the NBR exchange rate issued on 31 December 2019 of RON 0,2481/MDL for the balance sheet and the NBR average exchange rate of 0,2413 RON/MLD for revenue and expense.

**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.

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

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**3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 fair value.

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).

Buildings include particularly ancillary buildings of operating assets, a research centre and office buildings.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	<b><u>Number of years</u></b>
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.

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.

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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.

**3.7 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).

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**3.8 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.

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

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**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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;
- 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 the national or local level, related to the non-payment, connected to the portfolio assets
- 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 losses 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 resumption of impairment loss recognized previously recognized in profit or loss.

### 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.

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 National Energy Regulatory Authority President. Decision no. 1773 / 16.10.2019 of ANRE President provided that the company was obliged to have a minimum level of natural gas stock of 939.894,097 MWh on 31 October 2019.

#### 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.

#### 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 must be paid to the state and can be recovered only in the event of debtor prescription, as a result of bankruptcy decision.

#### 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.

#### **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 management periodically evaluates positions on tax returns regarding situations where the applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, based on the estimated amounts due to tax authorities.

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.

**NOTES TO THE CONSOLIDATED 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 repayment 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 CONSOLIDATED 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 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.

*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 (see Note 28).

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.

*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; thus, 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:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	125.419	121.191
USD depreciation by 10%	(125.419)	(38.536)
EUR appreciation by 10%	(32.214.164)	36.267.997
EUR depreciation by 10%	(32.214.164)	(36.267.997)

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 2.989.892, (December 2018: lei 2.940.121).

(iii) **Interest rate risk on cash flow and fair value**

The Company is exposed to interest rate risk by its bank deposits. 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 lower/higher by 497.755 (December 2018: lei 3.051.941 lower/higher) as a result of reducing the interest rate for bank deposits, respectively of the interest rate on the variable interest obligations.

**(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 47 % of the trade receivable balances on 31 December 2019 (31 December 2018: 50%). 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. At the end of 2019 the company has available payment guarantees from its clients amounting to lei de 208.514.053.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Without rating	<u>43.030.956</u>	<u>4.672.134</u>
BB		=
BB+	<u>61.134.709</u>	<u>347.913.691</u>
BBB-	<u>7.691.934</u>	<u>13.569.848</u>
BBB		=
BBB+	<u>240.441.135</u>	<u>344.645.980</u>
A	<u>137.355</u>	<u>137.989</u>
AA		=
AA-	<u>363.482</u>	<u>216.037</u>
	<u>352.799.571</u>	<u>711.155.679</u>

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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 2019 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 2019 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Loans	733.796.269	12.395.649	181.382.883	540.017.737
Commercial payables and other payables	<u>344.728.433</u>	<u>291.449.595</u>	<u>53.278.838</u>	-
	1.078.524.702	303.845.244	234.661.721	540.017.737

Maturity analysis of financial liabilities on 31 December 2018 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	259.278.444	3.121.315	70.206.550	185.950.579
Commercial payables and other payables	<u>258.826.722</u>	<u>258.826.722</u>	-	-
	<u>518.105.166</u>	<u>261.948.037</u>	<u>70.206.550</u>	<u>185.950.579</u>

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
<b>Financial assets</b>		
Cash and cash equivalents	339.753.879	419.910.423
Term bank deposits	13.231.240	291.407.201
Loans and receivables	1.244.132.492	1.108.155.574
Financial assets - stakes	24.887.146	24.816.713
Provisions related to financial assets - stakes	<u>(24.887.146)</u>	<u>(24.816.713)</u>
	<b><u>1.597.117.611</u></b>	<b><u>1.819.473.198</u></b>

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
<b>Financial liabilities</b>		
Debts evaluated to amortised cost		
Loans	663.930.000	233.195.000
Liabilities evaluated at fair value		
Financial securities for contracts	75.006.895	6.311.084
Commercial liabilities and other liabilities	<u>269.721.538</u>	<u>252.515.638</u>
	<b><u>1.008.658.433</u></b>	<b><u>492.021.722</u></b>

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.

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

In 2019 the company's strategy, unchanged since 2018, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 30 September 2019 and on 31 December 2018 is reflected in the table below:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Total borrowings	663.930.000	233.195.000
Except: cash and cash equivalents (Note 13)	<u>(352.985.119)</u>	<u>(711.317.624)</u>
Net cash position	<u>310.944.881</u>	<u>(478.122.624)</u>

**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.

**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).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

The present value of the obligations at 31 December 2019 is of lei 121.712.041 (as at 31 December 2018: lei 110.011.930 (Note 21).

The presentation of the current value for the 2019 and for 2018 depending on the following variables:

	<b><u>31 December 2019</u></b>
Inflation rate +1%	135.709.493
Inflation rate -1%	108.464.535
Investment return +1%	108.763.424
Investment return -1%	135.603.516
	<b><u>31 December 2018</u></b>
Inflation rate +1%	123.608.092
Inflation rate -1%	97.974.861
Investment return +1%	98.512.238
Investment return -1%	123.509.498

Analysis of the maturity of benefits payments:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Up to one year	1.853.432	2.939.973
Between 1 and 2 years	3.391.582	2.897.013
Between 2 and 5 years	8.555.516	7.472.724
Between 5 and 10 years	46.416.350	40.447.448

**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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

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;

According to ANRE Order no.18/ 2019, as the holder of the operating license of the national natural gas transmission system issued by ANRE, the Company has the obligation to pay ANRE an annual contribution equal to 2% of the turnover achieved from the activities which are the subject of the licenses granted.

**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.

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

**5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

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 nr. 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.

**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 30 September 2019 is:

	<b>Domestic gas transmission</b>	<b>International gas transmission</b>	<b>Balancing</b>	<b>Unallocated</b>	<b>Total</b>
Revenue from domestic transmission	1.192.597.737	-	-	-	1.192.597.737
Revenue from international transmission	-	327.696.392	-	-	327.696.392
Other revenue	21.800.936	-	-	33.829.821	55.630.757
<b>Operating revenue before the balancing and the construction activity according to IFRIC12</b>	<b>1.214.398.673</b>	<b>327.696.392</b>	-	<b>33.829.821</b>	<b>1.575.924.886</b>
Depreciation	(155.537.705)	(32.526.688)	-	(7.636.494)	(195.700.887)
Operating expenses other than depreciation	<u>(882.272.506)</u>	<u>(60.509.135)</u>	-	<u>(96.139.068)</u>	<u>(1.038.920.709)</u>
<b>Profit from operation before the balancing and construction activity according to IFRIC12</b>	<b>176.588.462</b>	<b>234.660.569</b>	-	<b>(69.945.741)</b>	<b>341.303.290</b>
Revenue from the balancing activity			324.687.807 (324.687.807)		324.687.807
Cost of balancing gas					(324.687.807)
Revenue from the construction activity according to IFRIC12				868.356.796	868.356.796

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Cost of constructed assets according to IFRIC12				(868.356.796)	(868.356.796)
<b>Operating profit</b>	<b>176.588.462</b>	<b>234.660.569</b>	-	<b>(69.945.741)</b>	<b>341.303.290</b>
Net financial gain					70.839.503
<b>Profit before tax</b>					<b>412.142.793</b>
Profit tax					<u>(70.748.512)</u>
<b>Net profit</b>					<b>341.394.281</b>
Assets on segments	4.658.293.396	322.200.917	193.537.441	622.683.873	5.796.715.627
Liabilities on segments	1.889.794.698	19.136.500	64.937.857	47.570.571	2.021.439.626
Capital expenditure - increases in assets in progress	938.315.311	2.056	-	117.150.665	1.055.468.032
Non-cash expenses other than depreciation	139.384.077	3.811.365	-	7.992.841	144.569.515

In 2019 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz din not perform the transmission activity, the costs registered by them and amounting to lei 5.922.170 being presented at the unallocated segment.

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	179.597.749
The rights of use of the leased assets	9.359.179
Financial assets	
Goodwill from consolidation	9.775.599
Cash	352.985.119
Other assets	<u>70.966.227</u>
	<b>622.683.873</b>

### *Unallocated liabilities include:*

Dividends payable	8.071.065
Deferred tax	4.436.759
Other debts	<u>35.062.747</u>
	<b>47.570.571</b>

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 write-down of inventories, other provisions for risks.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 6. INFORMATION ON SEGMENTS (CONTINUED)

International transmission services are provided for several foreign customers, while the domestic transmission activity is performed for several domestic customers.

In 2019 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz din not perform the transmission activity, the assets registered by them and amounting to lei 27.650.185 and the liabilities amounting to lei 34.314.571 being presented at the unallocated segment.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.135.092.073	57.505.664	1.192.597.737
Revenue from international transmission	335.328	327.361.064	327.696.392
Other revenue	<u>54.451.915</u>	<u>1.178.842</u>	<u>55.630.757</u>
	1.189.879.316	386.045.570	1.575.924.886

**Domestic clients with over 10% of the total revenue include:**

	<u>Percentage of the total revenue</u>
ENGIE ROMANIA S.A.	15%
SNGN ROMGAZ S.A.	12%
OMV PETROM S.A.	11%

All Company's assets are located in Romania. All Company's activities are carried out in Romania.

The Company has external receivables amounting to 22.635.726 (31 December 2018: lei 25.617.027).

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, of which the activity performed through the Isaccea 2 – Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipeline is not regulated, the related tariffs being set on commercial bases by negotiation between the parties, and the activity performed through the Isaccea 1 – Negru Vodă 1 pipeline is regulated starting from 1 October 2016; 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 2018, 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	1.178.419.674	-	-	-	1.178.419.674
Revenue from					
international					
transmission	-	324.380.804	-	-	324.380.804
Other revenue	52.001.744	-	-	53.595.423	105.597.167
<b>Operating revenue before</b>					
<b>the balancing and the</b>					
<b>construction activity</b>					<b>1.608.397.6</b>
<b>according to IFRIC12</b>	<b>1.230.421.418</b>	<b>324.380.804</b>	<b>-</b>	<b>53.595.423</b>	<b>45</b>
Depreciation	(151.199.173)	(31.828.995)	-	(6.885.211)	(189.913.379)
Operating expense				<u>(104.566.59</u>	
other than depreciation	<u>(707.535.091)</u>	<u>(50.161.907)</u>	<u>-</u>	<u>9)</u>	<u>(862.263.597)</u>
<b>Profit from operation</b>					
<b>before the balancing</b>					
<b>activity according to</b>				<b>(57.856.38</b>	
<b>IFRIC12</b>	<b>371.687.154</b>	<b>242.389.902</b>	<b>-</b>	<b>7)</b>	<b>556.220.669</b>
Revenue from the balancing					
activity	-	-	235.427.293	-	235.427.293
			(235.427.293)		(235.427.293)
Cost of balancing gas	-	-		-	
Revenue from the construction					
activity according to IFRIC12	-	-	-	405.793.585	405.793.585
Cost of onstructed assets				(405.793.58	
according to IFRIC12	-	-	-	5)	(405.793.585)
				<b>(57.856.38</b>	
<b>Profit from operation</b>	<b>371.687.154</b>	<b>242.389.902</b>		<b>7)</b>	<b>556.220.669</b>
Net financial gain	-	-	-	-	21.661.025
<b>Profit before tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>577.881.694</b>
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87.395.719)</u>
<b>Net profit</b>	<b>-</b>	<b>-</b>			<b>490.485.975</b>
Assets on segments	3.709.437.875	352.259.381	144.737.737	786.586.629	4.993.021.622
Liabilities on segments	1.132.301.685	18.873.908	119.954.718	12.628.205	1.283.758.516
Capital expenditure - increases					
in assets in progress	421.491.278	-	-	28.416	421.519.694
Non-cash expenses other than					
depreciation	37.218.082	1.872.636	-	1.959.818	41.050.536

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

**6. INFORMATION ON SEGMENTS (CONTINUED)**

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	64.533.186
Financial assets	-
Goodwill from consolidation	9.413.102
Cash	711.317.624
Other assets	<u>1.322.717</u>
	<b>786.586.629</b>

*Unallocated liabilities include:*

Deferred tax	4.596.976
Dividends payable	5.357.678
Other debts	<u>2.673.550</u>
	<b>12.628.204</b>

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 two 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	1.175.180.341	3.239.333	1.178.419.674
Revenue from international transmission	495.728	323.885.076	324.380.804
Other revenue	<u>104.472.988</u>	<u>1.124.179</u>	<u>105.597.167</u>
	<u>1.280.149.057</u>	<u>328.248.588</u>	<u>1.608.397.645</u>

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

**6. INFORMATION ON SEGMENTS (CONTINUED)**

**Domestic clients with over 10% of the total revenue include:**

**Percentage of the total revenue**

ENGIE ROMANIA S.A.	19%
OMV PETROM GAS SRL	12%

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.

**7. TANGIBLE ASSETS**

	<b>Lands and buildings</b>	<b>Transmission system assets</b>	<b>Other fixed assets</b>	<b>Assets in progress</b>	<b>Total</b>
<b>On 31 December 2018</b>					
Cost on 1 January 2018	279.746.273	957.225.955	262.677.605	18.486.701	1.518.136.534
Depreciation accumulated	<u>(147.718.908)</u>	<u>(605.699.488)</u>	<u>(206.162.698)</u>	-	<u>(959.581.094)</u>
<b>Initial net book value</b>	<u>132.027.365</u>	<u>351.526.467</u>	<u>56.514.907</u>	<u>18.486.701</u>	<u>558.555.440</u>
Inflows	399.663	(3.717)	37.477.213	14.582.836	14.582.836
Inflows/Reclassifications	609.772	(152.608)	27.498.788	165.059	38.038.218
Transfers	(8.305)	-	(104.033)	(27.955.952)	-
Outflow (net book value)	(6.495.143)	(30.866.343)	(28.409.553)	-	(112.338)
Expense with depreciation	-	-	-	-	(65.771.039)
Adjustments for impairment	-	-	-	<u>(1.656.183)</u>	<u>(1.656.183)</u>
<b>Final net book value</b>	<u>126.533.352</u>	<u>320.503.799</u>	<u>92.977.322</u>	<u>3.622.461</u>	<u>543.636.934</u>
Cost	280.587.744	957.069.630	315.757.267	5.278.644	1.558.693.285
Accumulated depreciation	(154.054.392)	(636.565.831)	(222.779.945)	-	(1.013.400.168)
Adjustments for impairment	-	-	-	<u>(1.656.183)</u>	<u>(1.656.183)</u>
<b>Final net book value</b>	<u>126.533.352</u>	<u>320.503.799</u>	<u>92.977.322</u>	<u>3.622.461</u>	<u>543.636.934</u>
<b>On 31 December 2019</b>					
<b>Initial net book value</b>	<u>126.533.352</u>	<u>320.503.799</u>	<u>92.977.322</u>	<u>3.622.461</u>	<u>543.636.934</u>
Inflow	-	-	-	139.909.884	139.909.884
Reclassification	1.193.893	-	1.513.773	-	2.707.666
Transfers	796.177	-	18.226.792	(19.022.969)	-
Outflow (net book value)	(5.334)	(302)	(40.446)	-	(46.082)
Expense with depreciation	<u>(6.708.249)</u>	<u>(30.809.468)</u>	<u>(25.728.592)</u>	-	<u>(63.246.309)</u>
<b>Final net book value</b>	<u>121.809.839</u>	<u>289.694.029</u>	<u>86.948.849</u>	<u>124.509.376</u>	<u>622.962.093</u>
Cost	282.547.989	957.068.832	327.794.571	126.165.558	1.693.576.950
Accumulated depreciation	(160.738.150)	(667.374.803)	(240.845.722)	-	(1.068.958.675)
Adjustment for impairment	-	-	-	<u>(1.656.182)</u>	<u>(1.656.182)</u>
<b>Final net book value</b>	<u>121.809.839</u>	<u>289.694.029</u>	<u>86.948.849</u>	<u>124.509.376</u>	<u>622.962.093</u>

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

### 7. TANGIBLE ASSETS (CONTINUED)

The gross book value of the fully depreciated assets, still used, is lei 292.791.713 lei (31 December 2018: 273.561.000 lei).

On 31 December 2019 the advances granted for the procurement of tangible assets in the amount of lei 366.000 are presented in the ongoing assets.

In 2019, the company capitalised depreciation costs of Lei 3.695.598 lei related to the fixed assets in progress.

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 assets used for the provision of the international transmission services through the Isaccea 2 - Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipelines do not fall within the scope of IFRIC 12.

The intangible assets in progress registered by Eurotransgaz-VTMG on 31 December 2019 and amounting to lei 117.103.534, are works for the construction of the Ungheni – Chişinău pipeline.

The Company does not depreciate the tangible assets approved for discarding.

### 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.

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

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**8. SERVICE CONCESSION AGREEMENT (CONTINUED)**

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	Goodwill from consolidation	Information programmes	Intangible assets in progress	Total
<b>On 31 December 2018</b>					
Cost	6.076.105.751	-	50.568.382	200.167.387	6.326.841.520
Accumulated depreciation	(3.783.080.684)	-	(48.342.995)	-	(3.831.423.679)
Concession Agreement receivables	(529.761.578)	-	-	-	(529.761.578)
Concession Agreement receivable depreciation	90.827.909	-	-	-	90.827.909
Adjustments for impairment	-	-	-	(4.856.743)	(4.856.743)
Initial net book value	<b><u>1.854.091.398</u></b>	<u>-</u>	<b><u>2.225.387</u></b>	<b><u>195.310.644</u></b>	<b><u>2.051.627.429</u></b>
Inflow	-	-	-	406.936.858	406.936.858
Reclassifications	3.717	-	5.196	(164.817)	(155.904)
Transfers	81.885.811	-	3.492.712	(85.378.523)	-
Outflow	(2.051)	-	-	-	(2.051)
Depreciation reclassification amortizare	(161.251.590)	-	(1.580.009)	-	(162.831.599)
Depreciation	-	-	-	(2.157.507)	(2.157.507)
Adjustment for impairment	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(21.979.685)	-	-	-	(21.979.685)
Concession Agreement receivable depreciation	<u>30.368.709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30.368.709</u>
<b>Final net book value</b>	<b><u>1.783.116.309</u></b>	<b><u>9.413.102</u></b>	<b><u>4.143.286</u></b>	<b><u>514.546.655</u></b>	<b><u>2.311.219.352</u></b>
Cost	6.157.978.033	-	54.066.289	521.560.905	6.733.605.227
Accumulated depreciation	(3.944.317.080)	-	(49.923.003)	-	(3.994.240.083)
Goodwill from consolidation	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(551.741.263)	-	-	-	(551.741.263)
Concession Agreement receivable depreciation	121.196.619	-	-	-	121.196.619
Adjustments for impairment	-	-	-	(7.014.250)	(7.014.250)
Final net book value	<b><u>1.783.116.309</u></b>	<b><u>9.413.102</u></b>	<b><u>4.143.286</u></b>	<b><u>514.546.655</u></b>	<b><u>2.311.219.352</u></b>
<b>On 31 December 2019</b>					
<b>Initial net book value</b>	<b><u>1.783.116.309</u></b>	<b><u>9.413.102</u></b>	<b><u>4.143.286</u></b>	<b><u>514.546.655</u></b>	<b><u>2.311.219.352</u></b>
Inflow	-	-	-	915.558.148	915.558.148
Reclassifications	(1.206.388)	-	43.626	(590)	(1.163.352)
Transfers	36.264.864	-	2.111.363	(38.376.227)	-
Depreciation	(164.137.743)	-	(2.572.825)	-	(166.710.568)
Adjustment for impairment	-	-	-	(2.128.527)	(2.128.527)
Concession Agreement receivables	(21.872.728)	-	-	-	(21.872.728)
Concession Agreement receivable depreciation	33.108.049	-	-	-	33.108.049
Exchange difference	-	362.497	-	-	362.497
<b>Final net book value</b>	<b><u>1.665.272.363</u></b>	<b><u>9.775.599</u></b>	<b><u>3.725.450</u></b>	<b><u>1.389.599.459</u></b>	<b><u>3.068.372.871</u></b>
Cost	6.193.036.508	-	56.221.278	1.398.742.236	7.648.000.022
Accumulated depreciation	(4.108.454.822)	-	(52.495.828)	-	(4.160.950.650)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Goodwill from consolidation	-	9.775.599	-	-	9.775.599
Concession Agreement receivables	(573.613.990)	-	-	-	(573.613.990)
Concession Agreement receivable depreciation	<u>154.304.667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154.304.667</u>
<b>Final net book value</b>	<b><u>1.665.272.363</u></b>	<b><u>9.775.599</u></b>	<b><u>3.725.450</u></b>	<b><u>1.389.599.459</u></b>	<b><u>3.068.372.871</u></b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 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. As at 31 December 2019 the NTS linepack is 398.504 MWh and amounts to Lei 28.997.944.

On 31 December 2019 the advances granted for the procurement of national gas transmission system development works in the amount of lei 45.259.826 are presented in the intangible assets in progress. The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

Following the procurement of Vestmoldtransgaz SRL (VMTG) by Eurotransgaz SRL (ETG), the goodwill, calculated as the difference between the value of the holding and the equity value of VMTG weighted by the 100% stake, was recorded in the consolidated financial statements as an intangible asset. The goodwill was calculated at the date of procurement, March 2018, being presented in the consolidated financial statements at the closing exchange 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:

#### Assets acquired in leasing according to IFRS16

<b>Cost on 1 January 2019</b>	-
Accumulated depreciation	-
<b>Initial net book value</b>	-
Inflows	12.254.498
Depreciation	(2.895.319)
<b>Final net book value</b>	<b><u>9.359.179</u></b>

### 10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	%			
		<u>owned</u>	<u>owned</u>	<u>31 December</u>	<u>31 December</u>
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
Mebis SA	Gas production distribution and supply	17,47	17,47	6.461.736	6.461.736
Phaedra's SHA	Gas transmission	33,33	33,33	308.909	238.477
Eurotransgaz	Gas transmission	100	100		
Minus adjustments for impairment of investments in: Resial SA, Mebis SA and Phaedra's SHA				<u>(24.887.146)</u>	<u>(24.816.714)</u>
				<u>=</u>	<u>=</u>

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

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**10. FINANCIAL ASSETS (CONTINUED)**

*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.

In 2019 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 13.784.238 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. The participation was eliminated.

*Participation in Phaedra's SHA*

The consortium consisting in Reganosa, Transgaz and EBRD submitted a tender for the participation in the second round of the privatization of a 66% stake of the company DESFA, the Greek operator of the gas transmission network. Since the consortium is under liquidation and was not declared successful in the tender for the procurement of DESFA, the company recorded an adjustment for the impairment of 100% of the cost.

In case of the financial assets held by Transgaz, i.e. Mebis SA, Phaedra S.A 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.

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

**10. FINANCIAL ASSETS (CONTINUED)**

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 the fair value by other elements of the comprehensive income. The standard is not applied to the interests in subsidiaries, associated entities and joint ventures accounted for pursuant to IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements or IAS 28 Investments in Associates and Joint Ventures, and Transgaz, as sole shareholder of Eurotransgaz SRL, applies these standards at the consolidation of the financial statements.

**Goodwill**

On 28 March 2018 the Moldovan company Eurotransgaz SRL, owned by SNTGN Tansgaz SA Romania, concluded as a buyer the sale purchase contract for the of the unique heritage complex - Vestmoldtransgaz State Enterprise with the Public Property Agency of the Republic of Moldova.

Net assets	140.798.149
Fair value pf paid consideration	180.200.000
Goodwill MDL	39.401.851
Goodwill – the lei equivalent on 31.12.2019	9.775.599

At the date of purchase, the net assets of Vestmoldtransgaz SRL amounted to 140,798,149 MDL, , and the registered share capital and unregistered share capital to 177,408,819 MDL. The fair value of the consideration paid at the date of purchase was 180,200,000 MDL. The difference between the fair value of the consideration paid and the share capital, including the unregistered capital, is found in the goodwill and amounts to 2,791,181 MDL.

The goodwill is found in the financial statement of Eurotransgaz SRL (parent entity) as a result of the consolidation of the financial statements, obtained through the difference between the sale value of the subsidiary - Vestmoldtransgaz SRL and the value of the net assets recorded in the accounting books of the subsidiary at the date of the purchase.

By EGMS Resolution 10/12.12.2017 it was approved the establishment of Eurotransgaz SRL on the territory of the Republic of Moldova for participation in the privatization of State Enterprise Vestmoldtrasgaz.

The investment made for the purpose of the purchase was compensated with the share capital of the purchased entity Vestmoldtransgaz SRL, thus the sum of 3,721,910 MDL being contribution related to the subsequent transactions the regarding increase of the share capital of the subsidiary. In 2019 Eurotransgaz SRL made contributions related to the increase of the share capital of Vestmoldtransgaz in the amount of 491,665,568 MDL, the total investment of Eurotransgaz SRL on 31 December 2019 amounting to 675,587,478 MDL.

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

**11. INVENTORIES**

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Gas inventories	83.752.821	30.865.253
Spare parts and materials	117.176.515	79.016.618
Materials in custody at third parties	323.094.475	174.188.219
Adjustments for write-down of inventories	<u>(29.409.319)</u>	<u>(28.762.730)</u>
	<u>494.614.492</u>	<u>255.307.360</u>

ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

Within the materials in custody to third parties inventories are included in the amount of lei 306.506.874 purchased by the company for the achievement of the BRUA Phase I project and lei 6.569.011 purchased by the company for the achievement of the VTMG project.

Movements in the adjustments account are analysed below:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Adjustment on 1 January	28.762.730	20.593.987
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	<u>646.589</u>	<u>8.016.743</u>
Adjustment at the end of the period	<u>29.409.319</u>	<u>28.762.730</u>

In 2019 adjustments for write-down of inventories were constituted according to Note 3.10.

**12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES**

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Trade receivables	698.644.947	704.984.971
Advance payments to suppliers	102.931.731	258.200
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	723.921.414	629.754.861
Non-refundable loans as subsidies	3.127.035	3.905.908
Other receivables	157.936.652	190.515.944
Adjustment of impairment of trade receivables	(407.023.748)	(312.732.990)
Adjustment of impairment of other receivables	<u>(32.886.504)</u>	<u>(46.916.888)</u>
	<u>1.248.421.873</u>	<u>1.171.540.352</u>

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**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 RON 25,409,833 issued 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.

The advance payments granted to the company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee. The amount of lei 13.769.933 (55.501.544 MDL) is the advance payments to the developer partners and third parties to execute the Ungheni - Chişinău pipeline construction works.

On 31 December 2019, the amount of Lei 25.442.815 (31 December 2018: Lei 86.731.826) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 5% in USD (31 December 2018: 2%) and 95% in EUR (31 December 2018: 98%).

With a view to consolidation, internal transactions were eliminated, meaning trade payables and trade receivables, amounting to lei 102.853 and revenue and expenses amounting to lei 1.051.630.

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 49.677.210 according to IFRS 9.

The intragroup transactions eliminated amount to lei 102.853.

Commercial receivables analysis according to IFRS9 is as follows:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
<b>Current and unamortized</b>		
Transit receivables	21.230.996	23.696.096
Doubtful or insolvency receivables	183.501.584	128.164.433
Affiliated party receivables	224.348.642	254.599.893
Various receivables	<u>269.563.725</u>	<u>311.872.742</u>
	<b>698.644.947</b>	<b>718.333.164</b>
<b>Amortization</b>		
Transit receivables	-	-
Doubtful or insolvency receivables	182.858.709	137.231.704
Affiliated party receivables	172.569.149	137.935.354
Various receivables	<u>51.595.890</u>	<u>50.627.434</u>
<b>Total amortization</b>	<b>407.023.748</b>	<b>325.794.492</b>
<b>Total trade receivables and other receivables net of provision</b>	<b>291.621.199</b>	<b>392.538.672</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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 on-time collection ;
- 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 provisioned 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. A provision 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 - 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.

Movements in the provision account are analysed below:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Adjustment on 1 January	359.649.878	333.150.569
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	<u>80.260.375</u>	<u>26.499.309</u>
Adjustment at the end of the period	<u>439.910.253</u>	<u>359.649.878</u>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In 2019 adjustments for receivables from insolvent companies or from companies in significant financial difficulties were established.

The company adjusts transmission revenue if it is unlikely to collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

### 13. CASH AND CASH EQUIVALENT

	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash at bank in RON	104.237.988	157.860.638
Cash at bank in foreign currency	248.561.584	553.295.041
Other cash equivalents	<u>185.547</u>	<u>161.945</u>
	<u>352.985.119</u>	<u>711.317.624</u>

Cash at bank in foreign currency is mostly denominated in EUR.

On 31 December, 2019 the Company has established security and trust for third parties as two letters of bank guarantee in the total amount of 11,000,000 lei issued by Banca Comerciala Romana, valid until the date of 31.03.2020.

Letters are guaranteed by collateral deposit of the same value, amounts related the related amounts being unavailable until the expiration of a period.

The weighted average of the effective interest related to short-term bank deposits was of 0,98% on 31 December 2019 (0,71% on 31 December 2018) and these deposits have a maximum maturity of 30 days.

### 14. SHARE CAPITAL AND SHARE PREMIUM

<b>IFRS</b>	<u>Number of ordinary shares</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
On 31 December 2018	11.773.844	117.738.440	247.478.865	365.217.305
On 31 December 2019	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 2018, 31 December 2019	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>

The authorized number of ordinary shares is 11,773,844 (31 December 2018: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 December 2019 is the following:

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

**14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)**

	<b>Number of ordinary shares</b>	<b>Statutory value (lei)</b>	<b>Percentage (%)</b>
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 2018 is the following:

	<b>Number of ordinary shares</b>	<b>Statutory value (lei)</b>	<b>Percentage (%)</b>
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.

***Other reserves***

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.7 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.

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

### 14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

#### *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 2019, amounts to Lei 23,547,688 (31 December 2018: Lei 23,547,688). The legal reserve is included in the `Retained earnings` in these financial statements.

#### *Dividend allocation*

In 2019, the Company declared and allocated a dividend of lei 21,66 /share, related to the profit of the previous year (2018: Lei 45.38 per share). The total dividends declared from the profit of 2018 are lei 255.021.461,04 (dividends declared from the profit of 2017: RON 534.297.041).

In December 2018 the Company approved and allocated a dividend in the amount of lei 1.14 lei/share of the existing amounts in the account Other reserves on 31 december 2017. The amount of the declared dividends is of lei 13.472.486.

### 15. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 31 December 2019:

#### **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 CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 15. 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 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:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Within 1 year	2.867.580	-
Between 1 and 5 years	73.601.220	58.765.140
Over 5 years	<u>162.496.200</u>	<u>174.429.860</u>
	<u>238.965.000</u>	<u>233.195.000</u>

In 2019 the Company received under Loan Agreement no. 88825RO two tranches totaling EUR 50 million.

The maturity of the loan 88825RO from the EIB is presented below:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Within 1 year	-	-
Between 1 and 5 years	55.333.340	-
Over 5 years	<u>183.631.660</u>	<u>-</u>
	<u>238.965.000</u>	<u>-</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.

On 31 December 2019 no amount of the loan was drawn.

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

**15. 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).

On 31 December 2019 the two installments of the loan totaling 185 million lei was drawn.

The maturity of the loan from the BCR is presented below:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Within 1 year	-	-
Between 1 and 5 years	29.760.000	-
Over 5 years	<u>156.240.000</u>	<u>-</u>
	<u>186.000.000</u>	<u>-</u>

The exposure of the company's loans to the changes of the interest rate is as follows:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Variable interest rate	<u>424.965.000</u>	<u>-</u>

In January 2019 by Board of Administration Resolution 2/22 January 2019 it was approved the conclusion of an open financing contract between Eurotransgaz and the European Investment Bank for the financing of the construction by Vestmoldtransgaz S.R.L. of the Ungheni – Chişinău gas transmission pipeline, for the amount of EUR 38 million, having a loan duration of 15 years. On 31 December 2019 the loan was not taken from the European Investment Bank.

**16. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 16. DEFERRED REVENUE (CONTINUED)

	<u>31 December 2019</u>	<u>31 December 2018</u>
Initial balance	<u>541.987.503</u>	497.755.179
Increases	151.274.740	67.112.639
Amounts recorded in the revenue (Note 22)	<u>(23.346.534)</u>	(22.880.315)
Final balance	<u>669.915.709</u>	<u>541.987.503</u>

The amount of lei 22.268.687 representing the current share of the deferred revenue is presented in the commercial debts and other debts.

The balance of the deferred revenue consists of:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Connections and assets received free of charge	249.756.541	242.766.378
Grants	<u>420.159.168</u>	<u>276.952.438</u>
	<u>669.915.709</u>	<u>519.718.816</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 179.320.400 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.

The company takes the necessary measures to extend the duration of the Grant Agreement following the extension of BRUA Phase I completion deadlines.

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 neighboring 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 9,124,204.86 lei eligible expenses was collected as reimbursement.

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

17. **PROFIT TAX**

**Profit tax expense**

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Expense with the profit tax - current	86.675.856	98.131.983
Deferred tax - impact of temporary differences	<u>(15.927.344)</u>	<u>(10.736.264)</u>
Profit tax expense	<u>70.748.512</u>	<u>87.395.719</u>

In 2019 and in 2018, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Profit before tax	412.142.793	577.881.694
Profit/loss (ETG – VTMG)	(6.958.788)	(4.998.534)
Theoretical expense with the tax the statutory rate of 16% (2018: 16%)	67.056.253	93.260.836
Non-taxable expenses, net	<u>3.692.259</u>	<u>(5.865.118)</u>
Profit tax expense	<u>70.748.512</u>	<u>87.395.719</u>
Profit tax related liability, current	_____ -	_____ -

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, e.g. protocol expenses, is limited to a certain percentage of profit, specified in the tax legislation. In 2019 the standard rate of income tax was set at 12% (2018:12%).

**Deferred tax**

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 31 December 2019 (31 December 2018: 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)

**17. PROFIT TAX (CONTINUED)**

	<u>31 December 2019</u>	<u>Movement</u>	<u>31 December 2018</u>	<u>Movement</u>	<u>1 January 2018</u> <u>(restated)</u>
<b>Deferred tax payment</b>					
Tangible and intangible assets	93.809.366	19.273.965	74.535.401	(4.830.977)	79.366.378
<b>Recoverable deferred tax</b>					
Provision for employee benefits	(19.482.674)	(1.880.765)	(17.601.909)	(1.687.882)	(15.914.026)
Risks and charges	(4.326.124)	<u>(1.389.893)</u>	(2.936.231)	(590.391)	(2.345.840)
Receivables and other assets	<u>(61.929.503)</u>	<u>(12.530.444)</u>	<u>(49.399.059)</u>	<u>(3.627.013)</u>	<u>(45.772.046)</u>
	<u>8.071.065</u>	<u>3.472.863</u>	<u>4.598.202</u>	<u>(10.736.264)</u>	<u>15.229.078</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.

In 2019, the company recorded a loss out of the adjustment of the deferred tax related to the previous years amounting to Lei 19.391.459. The data related to the previous periods were not restated as the error was not considerable.

The consolidated statements of ETG with VTMG recognised a deferred tax liability amounting to lei 210.683 lei, calculated for the period 2016-2018 regarding employee obligations for unpaid leave, representing a recoverable tax amounting to lei 8.133, and the payment balance for tangible assets is of lei 218.816.

The amounts presented in the statement of the financial position include the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Deferred tax liabilities to be paid in more than 12 months as reported	<u>8.071.065</u>	<u>4.598.202</u>

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

**18. TRADE PAYABLES AND OTHER PAYABLES**

**Short term payables**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade payables	154.103.081	174.808.778
Suppliers of fixed assets	68.607.676	51.234.117
Dividends payable	4.436.759	5.357.678
Debts related to royalties	47.331.297	44.328.459
Other taxes	25.811.320	19.128.134
Amounts payable to employees	16.325.024	17.607.009
Payable VAT	-	-
VAT not applicable	13.654.334	17.229.300
Deferred income	22.186.787	22.268.687
Transmission service guarrantees	24.299.678	10.377.593
Transmission services advance payments	37.720.694	18.199.697
Other debts	<u>40.002.401</u>	<u>17.048.556</u>
	<u>454.479.051</u>	<u>397.588.008</u>

**Long term payables**

	<u>31 December 2019</u>	<u>31 December 2018</u>
Transmission service guarrantees	46.167.789	-
Other debtds	<u>7.111.049</u>	<u>-</u>
	<u>53.278.838</u>	<u>-</u>

On 31 December 2019, of the total trade payables and other debts the amount of lei 57.444.558 (31 December 2018: lei : 42.129.468) is expressed in foreign currency, especially in EUR.

**19. PROVISIONS FOR RISKS AND CHARGES**

	<u>31 December 2019</u>	<u>31 December 2018</u>
<i>Current provision</i>		
Provision for litigation	47.211.887	1.841.652
Provision term contract	2.575.281	2.527.562
Provision for employee participation in profits	15.833.774	14.278.573
Provision for outstanding leaves	<u>6.618.768</u>	<u>-</u>
	<u>72.239.710</u>	<u>18.647.787</u>

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

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### **19. PROVISIONS FOR RISKS AND CHARGES (CONTINUED)**

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.

In 2017, one of the administrators of the Company from 2013-2017 opened court proceedings to recover some amounts of money representing an unpaid difference, amounts considered to be due as a result of the mandate contract he carried out in 2014- 2016. For this case, the Company established a provision for litigation amounting to lei 876.882.

The company is 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. The Competition Council investigation is a risk factor for the company, because in this investigation the company could be applied a fine applied to the turnover. Because of the uncertainties caused by the investigations carried out by the Competition Council, the company established a provision for litigation amounting to lei 41.758.087.

### **20. 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 2019**

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 assumptions used are as follows:

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

**20. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)**

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement.
- age as a whole number, assessed from the date of birth communicated by the company for each beneficiary. The maximum possible age range was considered as 100 years, this being the maximum value defined in the available mortality tables.
- each person receives the full annual benefit he/she is entitled to, depending on the probability of annualized survival.
- The probability of individual survival was assessed depending on the age of each person on 31 December 2018, and it is the probability that a person of a certain age on 31 December 2018 will survive up to a certain time in the future.
- the employee redundancy used in the calculation was established using a conservative approach, lower than those calculated on the basis of the company's past experience, this being a hypothesis that we considered reasonable on the basis of the information provided by the company.
- employee departure rates are important in the context when employees leave the company and no longer receive the benefit. The amount of the provision for the two benefits granted by the company covers the benefits that the company will pay to its current employees, who survive until the payment of each benefit and have been continuously employed by the company;
- The calculation parameters and assumptions used about the evolution of the consumer price index, the average annual return on investment and the annual percentage change of the salary were estimated from 2023 to take into account the target inflation level for the Euro area; for the period 2019-2022 the values were set to ensure natural progression up to the level of 2023, taking into account the values predicted by the National Bank of Romania.
- The calculation parameters and assumptions used for mortality rates are taken from the mortality tables published by the National Institute of Statistics and the values for departure rates were estimated based on the data provided by the company and also on previous experience in making similar assessments.

**Movement in the provision for employee benefits**

1 January 2018	<u>99.462.665</u>
of which:	
Short-term	3.608.726
Long-term	95.853.939
Interest cost	3.850.418
Current service cost	5.582.701
Payments from provisions during the year	(3.326.292)
Actuarial gain/loss related to the period	4.442.437
31 december 2018	<u>110.011.929</u>
of which:	

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Short-term	2.939.793
Long-term	107.072.136
Interest cost	4.217.605
Current service cost	6.119.488
Payments from provisions during the year	(3.273.756)
Actuarial gain/loss related to the period	4.636.774
<b>31 December 2019</b>	<b><u>121.712.040</u></b>
of which:	
Short-term	1.853.432
Long-term	119.858.608

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

**21. OTHER REVENUE**

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Revenue from penalties applied to clients for delay payments	10.048.295	74.131.839
Revenue from connection fees, grants and goods taken free of charge	23.346.534	22.880.315
Revenue from the sale of residual materials	961.572	1.730.329
Revenue from leases	1.561.698	1.567.017
Revenue from recovered materials	8.758.767	1.388.356
Revenue from operating subsidies for other operating expenses	-	5.354
Other revenue from operation	<u>10.953.891</u>	<u>3.893.956</u>
	<u>55.630.757</u>	<u>105.597.166</u>

The intragrup tranzactions eliminated amount to lei 1.051.629,51.

**22. OTHER OPERATING EXPENSES**

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Loss/gain on impairment of receivables	87.687.475	19.032.851
Sponsorship expenses	3.991.000	3.929.821
Utilities	8.641.824	6.758.029
Insurance premia	863.356	1.051.548
Maintenance expenses	1.111.940	1.089.545
Security and protection expenses	23.169.098	19.110.236
Professional training	1.409.607	1.049.212
Telecommunications	2.681.899	5.717.725
Net loss on disposal of fixed assets	(102.155)	(181.945)
Bank charges and other fees	2.729.473	2.374.964
Rents	1.014.592	5.116.997
Loss from receivables	13.044	3.947
Loss/gain from inventory impairment	646.589	8.168.744
Research and studies expenses	328.515	286.324
Marketing and protocol expenses	368.677	1.023.538
Penalties and fines	1.679.690	486.609
Gas storage capacity booking	11.875.976	5.394.847
Loss from depreciation of tangible and intangible assets	2.128.527	3.813.689
Other	<u>31.214.234</u>	<u>28.600.062</u>
	<u>181.453.361</u>	<u>112.826.743</u>

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

**23. EMPLOYEE COSTS**

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Salaries and benefits	380.732.309	351.469.122
Cost of insurance and social security	24.192.135	21.538.002
Other employee costs	<u>10.893.662</u>	<u>10.242.689</u>
	<u>415.818.106</u>	<u>383.249.813</u>

Average number of employees in financial year:

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Blue collars	2.604	2.613
White collars	<u>1.642</u>	<u>1.671</u>
	<u>4.246</u>	<u>4.284</u>
Eurotransgaz S.R.L.	2	2
Vestmoldtransgaz S.R.L.	<u>24</u>	<u>23</u>
	<u>26</u>	<u>25</u>

**24. NET FINANCIAL REVENUE/(EXPENSES)**

	<b>Year ended</b> <b><u>31 December 2019</u></b>	<b>Year ended</b> <b><u>31 December 2018</u></b>
Foreign exchange gains	27.210.706	23.402.033
Interest revenue	24.682.897	25.231.865
Other financial revenue	<u>49.724.555</u>	-
Financial revenue	101.618.158	48.633.898
Foreign exchange loss	(26.490.617)	(22.884.684)
The effects of updating the provision for employee benefits	(4.217.605)	(3.850.418)
Adjustments for the loss of value of financial assets	(70.433)	(238.477)
Other financial expenses	-	706
Financial expenses	<u>(30.778.655)</u>	<u>(26.972.873)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. NET FINANCIAL REVENUE/(EXPENSES) (CONTINUED)**

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 49.677.210 according to IFRS 9.

**25. CASH FROM OPERATION**

	<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
<b>Profit before tax</b>	<b>412.142.793</b>	<b>577.881.694</b>
<i>Adjustments for:</i>		
Depreciation	195.700.887	189.913.379
Adjustments for impairment of intangible assets	2.128.527	3.813.689
Gain/(loss) on disposal of fixed assets	(102.155)	(181.945)
Provisions for risks and charges	53.591.923	3.689.949
Adjustments for write-down of inventory	646.589	8.168.744
Revenue from connection fees, grants and goods taken free of charge	(23.346.534)	(22.885.669)
Provisions for guarantees	(968.881)	697.594
Provisions for employee benefits	2.845.732	2.256.409
The effect of updating the provision for employee benefits	4.217.605	3.850.418
Bad debts written off	13.044	3.947
Adjustments of impairment of receivables	81.229.256	18.335.257
Adjustments of impairment of financial assets	70.432	238.477
Interest revenue	(24.682.897)	(25.231.865)
Concession Agreement receivable depreciation	(49.677.210)	-
Effect of exchange rate fluctuation on other items than from operation	6.817.482	137.247
Other expenses and revenue	(305.653)	(152.512)
<b>Operating profit before the changes in working capital</b>	<b><u>660.320.940</u></b>	<b><u>760.534.813</u></b>
(Increase)/decrease in trade and other receivables	<u>(99.793.362)</u>	(184.018.055)
(Increase)/decrease in inventories	(239.953.721)	(181.382.691)
Increase/(decrease) in trade payables and other debts	92.633.358	<u>(14.796.553)</u>
<b>Cash generated from operations</b>	<b><u>413.207.215</u></b>	<b><u>380.337.514</u></b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26. 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.

In the periods ended 31 December 2019 and 31 December 2018 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**

	<b>Year ended</b> <b>31 December 2019</b>	<b>Year ended</b> <b>31 December 2018</b>
Salary paid to the members of the Board of Administration and management	17.727.886	16.511.166
Social contribution of the Company	391.965	<u>342.040</u>
	<b><u>18.119.851</u></b>	<b><u>16.853.206</u></b>

In the periods ended 31 December 2019 and 31 December 2018, 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 provision for the mandate contract is presented in Note 20.

The Company has no contractual obligations regarding pensions to former directors and administrators of the Company.

**ii) Loan to a related party**

	<b>31 December 2019</b>	<b>31 December 2018</b>
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>
	<u>                  -</u>	<u>                  -</u>

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.7.

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

**26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**iii) Revenue from related parties – services supplied (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December 2019</u>	<u>Year ended ended</u> <u>31 December 2018</u>
SNGN Romgaz	Entity under common control	172.591.525	130.897.213
Electrocentrale Deva SA	Entity under common control	2.244.386	3.150.801
Electrocentrale București SA	Entity under common control	51.361.684	84.035.586
Electrocentrale Constanța	Entity under common control	4.398.855	8.996.924
Termo Calor Pitesti	Entity under common control	585.545	-
E.ON Energie Romania	Entity under common control	<u>76.864.207</u>	<u>107.014.795</u>
		<u>308.046.202</u>	<u>334.095.319</u>

**iv) Sales of goods and services (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December</u> <u>2019</u>	<u>Year ended</u> <u>31 December</u> <u>2018</u>
SNGN Romgaz	Entity under common control	3.786	682.742
Energoterm Tulcea SA	Entity under common control	-	1.922
Electrocentrale Deva SA	Entity under common control	74.985	46.194
Electrocentrale București	Entity under common control	-	46.435
Electrocentrale Galati SA	Entity under common control	428.983	392.647
Electrocentrale Constanta	Entity under common control	271.700	115.001
E.ON Energie Romania	Entity under common control	<u>35.373</u>	<u>-</u>
		<u>814.827</u>	<u>1.284.671</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**v) Gas sales – the balancing activity (without the VAT)**

		<b>Year ended 31 December 2019</b>	<b>Year ended 31 December 2018</b>
<b><u>Relationship</u></b>			
SNGN Romgaz	Entity under common control	9.790.667	4.189.282
Electrocentrale Deva SA	Entity under common control	7.317.040	1.439.593
Electrocentrale București	Entity under common control	4.136.921	3.130.618
Termo Calor Pitesti	Entity under common control	237.432	-
Electrocentrale Constanta	Entity under common control	17.716.283	4.203.175
E.ON Energie Romania	Entity under common control	<u>29.777.924</u>	<u>19.220.495</u>
		<u>68.976.267</u>	<u>32.183.163</u>

**vi) Receivables from related parties (without the adjustment)**

		<b>31 December 2019</b>	<b>31 December 2018</b>
<b><u>Relationship</u></b>			
SNGN Romgaz	Entity under common control	20.178.007	26.080.064
Electrocentrale Deva SA	Entity under common control	235.032	638.383
Electrocentrale București	Entity under common control	19.089.977	25.924.390
Electrocentrale Constanța	Entity under common control	1.577.907	2.487.375
Termo Calor Pitesti	Entity under common control	(19.181)	-
E.ON Energie Romania	Entity under common control	19.821.687	25.457.928
		<u>60.883.429</u>	<u>80.588.140</u>

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

**26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**vii) Client receivables – the balancing activity (without the adjustment)**

	<u>Relationship</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
SNGN Romgaz	Entity under common control	925.753	4.573.651
Electrocentrale Deva SA	Entity under common control	4.144.671	125.887
Electrocentrale Bucuresti	Entity under common control	1.973.340	1.471.193
Electrocentrale Constanța	Entity under common control	1.238.865	5.394.574
Termo Calor Pitesti	Entity under common control	122.677	-
E.ON Energie Romania	Entity under common control	3.596.095	3.071.021
		<u>12.001.401</u>	<u>14.636.326</u>

**viii) Procurement of gas from related parties (VAT excluded)**

	<u>Relationship</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
SNGN Romgaz	Entity under common control	108.165.746	16.598.349
E.ON Energie Romania	Entity under common control	-	54.342.140
		<u>108.165.746</u>	<u>70.940.489</u>

**ix) Procurement of services from related parties (other services – VAT excluded)**

	<u>Relationship</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
SNGN Romgaz	Entity under common control	14.151.079	6.072.954
Electrocentrale București SA	Entity under common control	6.080	6.187
Termo Calor Pitești	Entity under common control	-	3.133
E.ON Energie Romania	Entity under common control	<u>995.261</u>	<u>5.700.583</u>
		<u>15.152.420</u>	<u>11.782.857</u>

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

**26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**x) Procurement of gas – the balancing activity (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December 2019</u>	<u>Year ended</u> <u>31 December 2018</u>
SNGN Romgaz	Entity under common control	22.760.033	23.577.085
Electrocentrale Deva SA	Entity under common control	974.902	442.249
Electrocentrale București	Entity under common control	12.352.849	5.887.127
Termo Calor Pitești	Entity under common control	718.181	
Electrocentrale Constanța	Entity under common control	4.088.509	-
E.ON Energie Romania	Entity under common control	<u>38.787.443</u>	<u>14.633.352</u>
		<u>79.681.917</u>	<u>44.539.813</u>

**xi) Debts to affiliated parties from gas supplies (VAT included)**

	<u>Relationship</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
SNGN Romgaz	Entity under common control	<u>18.117.465</u>	<u>13.269.220</u>
		<u>18.117.465</u>	<u>13.269.220</u>

**xii) Debts to affiliated parties from services (other services - VAT included)**

	<u>Relationship</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
SNGN Romgaz	Entity under common control	1.722.034	500.136
Electrocentrale București	Entity under common control	454	487
E.ON Energie Romania	Entity under common control	<u>817.722</u>	<u>1.131.853</u>
		<u>2.540.210</u>	<u>1.632.476</u>

**xiii) Debts to suppliers – balancing activity (VAT included)**

	<u>Relationship</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
SNGN Romgaz	Entity under common control	1.371.051	2.715.878
Electrocentrale Deva SA	Entity under common control	61.253	38.697
Electrocentrale București	Entity under common control	563.026	3.155.294
Electrocentrale Constanța	Entity under common control	1.745.405	-
Termo Calor Pitești	Entity under common control	525.679	
E.ON Energie Romania	Entity under common control	<u>8.367.448</u>	<u>10.601.236</u>
		<u>12.633.862</u>	<u>16.511.105</u>

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

**26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**xiv) Guarantees from affiliates (bank guarantee letter)**

		<u>31 December 2019</u>	<u>31 December 2018</u>
	<b><u>Relationship</u></b>		
SNGN Romgaz	Entity under common control	33.849.251	24.335.239
Termo Calor Pitesti	Entity under common control	1.000	164.899
Electrocentrale Deva SA	Entity under common control	1.000	169.053
E.ON Energie Romania	Entity under common control	<u>22.882.012</u>	<u>8.059.011</u>
		<u>56.733.263</u>	<u>32.728.202</u>

**27. 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.

	<b><u>Year ended</u></b> <b><u>31 December 2019</u></b>	<b><u>Year ended</u></b> <b><u>31 December 2018</u></b>
Profit attributable to the Company's equity holders	341.394.281	490.485.975
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	29,00	41,66

**28. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH**

*Compensations*

Approximately 0.58 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2019 (31 December 2018: 0.23%). 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.

*Barter transactions*

No barter transactions were made in 2019 and 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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### 29. 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 2019 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 1.164.449.462 412.

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 under the following conditions: payment of the sale price and making investments in the next two years for the construction of a gas transmission pipeline between Ungheni and Chisinau, as well as the necessary equipment for the operation of this pipeline.

On 11 December 2019 the European Bank for Reconstruction and Development approved Project 50410, which is capital investments as a capital increase in exchange for the participation in the sharecapital of Vestmoldtransgaz SRL, the daughter company of Eurotrasngaz SRL, owned and controlled by SNTGN Transgaz SA. The investment of the bank will partly finance the construction of the Ungheni-Chișinău gas transmission pipeline in Moldova, approximately 120 km long and having 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.

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

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**29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)**

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 54 managers (49 managers in 2018).

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 31 September 2019 and 31 December 2018 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.

In 2012, the Company received a request for data and information within the investigation of the Competition Council opened under Order 759 of 29 September 2011 and extended by Order 836 of 1 November 2011. In 2015 additional requests for data and information within the investigation of the Competition Council was received. The Company provided the requested data and information.

As of 6 June 2016, the Company is 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. 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.

In 2019 four administrators initiated court proceedings to recover some amounts of money representing unpaid difference, amounts they consider to be due as a result of the mandate contracts they carried out in 2015-2017. Based on its own estimates, the Company considers that there are no circumstances that could lead to potential significant obligations in this respect.

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

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**29 . CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)**

The company is in arbitration proceedings with Bulgargaz EAD, who requests the return or payment of the quantity of natural gas from the Isaccea 1- Negru Vodă 1 gas transmission pipeline. The company does not recognize the claims and based on its own estimates, it considers that there are no circumstances to give rise to significant potential obligations in this regard.

The company has the capacity of intervener in a procedure by which a network user requests the annulment of ANRE decision of 2017 regarding the interpretation and application of the provisions of Art. 99 of the Network Code. There are seven judgments issued by the Bucharest Court of Appeal which confirm the legality of ANRE commission decisions rendered in cases of similar nature. Based on its own estimates, the Company's management considers that there are no circumstances that would give rise to significant potential obligations in this regard.

The company is in dispute with two network users who dispute the calculation method of the price of the transactions related to the imbalance on the ground that there are inconsistencies between the legal acts in the matter, from the implementation of the provisions of GEO 114/2018 and until the entry into force of the Order 170/2019 of the ANRE President. The company has collected the invoices in dispute and based on its own estimates, it considers that there are no circumstances that would give rise to significant potential obligations in this regard.

**Control Y Montajes Industriales SA**

In the statement as of 31 December 2019, the Vestmoldtransgaz is involved in a dispute with the entity Control Y Montajes Industriales SA. The litigation appeared during the procurement procedure related to the disagreement of the participant Control Y Montajes Industriales SA regarding the tender procedure. In the court, the applicant requests the annulment of the results of the procurement procedure, mentioning some clauses in the regulation of the National Agency for Regulation in Energy. The Vestmoldtransgaz`s winning probability is considered high.

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.

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

**29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)**

The Company's management believes that its obligations to ANRE are properly presented in these financial statements.

vii) The political and economic situation in Ukraine

The Company has contracts for gas transmission from Russia to Bulgaria, Turkey, Greece and other countries. Also, Romania annually imports part of the necessary transported gas through the Company's pipelines. It's likely that Gazprom Export stops the supplies of gas transported domestically or internationally through Romania or that Ukraine prevents the transit of gas supplied by Gazprom Export on its territory.

viii) Eurotransgaz Loan guarantee

The company is the guarantor in Loan Contract 90703 concluded on 24 January 2019 between the European Investment Bank and Eurotransgaz for EUR 38 million to finance the construction by Vestmoldtransgaz SRL of the Ungheni Chisinau natural gas transmission pipeline.

**30. FEES OF THE STATUTORY AUDITOR**

The fees for the financial year ended 31 December 2019 charged by BDO Audit SRL to the parent company, invoiced in 2019, are: 79.682 lei (without VAT) for limited revision 2410 as at 30 June 2019 and 116.882 lei (without VAT) for other services than the statutory audit, and the fees charged by the statutory auditor for ETG and VTMG amount to lei 79.146.

The fees for the financial year ended December 31, 2018 collected by BDO Audit SRL, invoiced in 2019, are: 174,989 lei (without VAT) for statutory audit and 29,760 lei (without VAT) for other services than the statutory audit.

**31. 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.

	<b>Year ended</b> <b>31 December 2019</b>	<b>Year ended</b> <b>31 December 2018</b>
Revenue from the construction activity according to IFRIC12	868.356.796	405.793.585
Cost of assets constructed according to IFRIC12	(868.356.796)	(405.793.585)

The related costs were equal to the revenue, the Company did not obtain any profit from the construction of the intangible asset.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

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### **32. EVENTS SUBSEQUENT TO THE BALANCE DATE**

By EGMS Resolution no.5 /16.03. 2020 it is approved the establishment, together with the Central European Gas Hub, of the company ROMANIAN GAS HUB SERVICES SA for the operation of the Virtual Trading Point in Romania (PVT).

The European Commission announced on 6 March 2020 the issue of the Decision approving the commitments proposed by the company in the investigation of AT 40335, to resolve concerns regarding a possible breach of Article 102 of the Treaty on the Functioning of the European Union, which prohibits the abuse of a dominant position.

Through the commitments approved by the European Commission, Transgaz undertakes the following:

- Transgaz will ensure the maximum capacity available to the users of the natural gas export network from Romania to Hungary and Bulgaria, considering the efficient and safe operation of the system and its integrity;
- to ensure that the tariffs proposed to the Romanian Energy Regulatory Authority (ANRE) will not differentiate between the export market and the domestic one;
- Transgaz will not prevent the export of natural gas;

By Ordinance 1/2020 the provisions of ANRE Order No.18/2019 are repealed, establishing that the Company, as the holder of the operating license of the national gas transmission system issued by ANRE, is obliged to pay annually to ANRE a money contribution equal to 2% of the turnover achieved from the activities covered by the licenses granted.

In 2020 Transgaz participated in the increase of the share capital of EUROTRANSGAZ by the amount of EUR 8.547.652 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In April 2020 the subsidiary Vestmoldtransgaz sent a notification for the termination of the contract for the Ungheni –Chisinau pipeline project Lot 5 works, and the letters of guarantee and advance payment were executed.

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.

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

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**32. EVENTS SUBSEQUENT TO THE BALANCE DATE (CONTINUED)**

The company aims to achieve the indicators provided for in the Income and Expenditure Budget for 2020 and to provide the necessary financing sources for the development of the investment program whose execution rate could be influenced by the ability of the contracting companies to provide the equipment and personnel necessary to carry out the works in the context of the isolation or quarantine situations generated by COVID-19.

The latest legislative changes adopted as an emergency offer the possibility of small and medium-sized enterprises to delay the payment of utilities, which could have an indirect impact on the Company's activity. Although there are still many uncertainties, at this moment we consider that the short-term impact of such legislative changes on the activity and recoverability of the assets of the Company will not be significant.

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director – General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of **S.N.T.G.N. Transgaz S.A.**

### *Opinion*

1. We have audited the consolidated financial statements of S.N.T.G.N. Transgaz S.A. (the Company), with registered office in Medias, Piata Constantin I. Motas, no. 1, identified by the unique tax registration code RO13068733, which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and 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 consolidated financial statements as at December 31, 2019 are identified as follows:
  - Net assets/Equity: Ron 3.775.276.001
  - Net profit for the financial year: Ron 341.394.281
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, 2019, 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.

### *Key Audit Matters*

5. 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.

Key Audit Matter	How our audit addressed the key audit matter
<b>Application of IFRIC 12 "Service Concession Agreements"</b> IFRIC 12, although not an accounting standard, is an interpretation that implies a great deal of professional reasoning, especially in the Romanian legislative context.	Our specific procedures focused primarily on the analysis of the service concession agreement concluded in 2002, as well as the specific legislation supplementing the

Key Audit Matter	How our audit addressed the key audit matter
<p>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).</p> <p>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.</p> <p>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.</p> <p>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”.</p>	<p>contractual provisions (especially Law 127/2014).</p> <p>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.</p> <p>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.</p> <p>We’ve also examined how the information required by IFRIC 12 was disclosed in the financial statements.</p> <p>Consultations have taken place with the management of the Company and the Audit Committee.</p>
<p><b>Recoverability of the accounting value of return assets and tangible assets</b></p> <p>According to IFRS, tangible and intangible assets should be tested for impairment, when the facts and circumstances suggest that the carrying amount of such an asset could exceed its recoverable amount.</p> <p>Management needs to apply professional judgement and make significant estimates when analyzing the book value, to determine if there is an indication of any depreciation at the end of the year and make an estimation of such a depreciation.</p> <p>As described in Note 9 “Intangible assets”, at December 31, 2019 the value of the return assets recorded as intangible assets under IFRIC 12 was significant, Ron 1.665.272.363</p> <p>Since much of the value of these assets will be recovered through use during the duration of the concession agreement, which expires in 2032, the Company regularly performs a depreciation test.</p> <p>This depreciation is significant to our audit because the valuation process is complex, involves significant management professional judgment and is based on assumptions that are affected by applicable law.</p>	<p>Our audit activity included, among others, the following specific procedures:</p> <ul style="list-style-type: none"> <li>• Discussions with management members about the status of the largest investment projects;</li> <li>• Analysis of actual versus budget achievements for the last financial years ended, as well as the ability of Transgaz to finance the planned investments.</li> <li>• Evaluation of the key assumptions and methodologies applied by the Company, as well as the sensitivity of the result to their possible variations;</li> <li>• Verifying the adequacy of the information contained in the financial statements.</li> <li>• Non-SNTG assets have been tested separately, based on specific cash flows.</li> </ul>

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Litigations</b></p> <p>The company is involved in various litigations, some of them with major potential impact in the context in which they will materialize, such as those outlined in Note 30 “Contingencies, Commitments and Operational Risks”. These issues are important in the context of our audit due to inherent uncertainties about their outcome, the complexity of the cases and the significant reasoning applied by management in estimating the outcome and the exposure. Depending on these estimates (especially the probability of realization), the Company may decide to record liabilities, provisions or contingent liabilities in the financial statements.</p> <p>Due to the importance and complexity of these disputes, their possible unfavorable results could have a major impact on the Company’s financial performance and balance sheet position.</p>	<p>Our audit activity included, among others, the following specific procedures:</p> <ul style="list-style-type: none"> <li>• Obtaining confirmations from external lawyers of the Company who provide assistance regarding these disputes.</li> <li>• Examine the minutes of the Board of Directors and participate in meetings with the management to discuss and understand the evolution and stage of the legal procedures initiated for each significant case.</li> <li>• We also evaluated the accounting policies and estimates of the management to ensure that they are correlated with the opinions of the internal and external lawyers, as well as the representations included in the financial statements regarding contingent liabilities, provisions and liabilities.</li> </ul>

**Other information - Administrator’s Report**

6. Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator’ report, which includes the non-financial information declaration, but does not include the consolidated financial statements and our audit auditor.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements for the year ended December 31, 2019, 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 Administrator’s report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of 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, article no. 20.

On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

- a) the information included in the administrators’ report for the financial year for which the consolidated financial statements have been prepared are consistent, in all material respects, with these consolidated financial statements;
- b) the administrators’ report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2019, we

are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements***

7. 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.

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.

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***

8. 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, consolidatedly 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a) 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.
- b) 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.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) 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.

- e) 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.

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.

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.

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**

9. 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 2 year, covering the financial years ended December 31, 2018 and December 31, 2019.

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.

On behalf of:

#### **BDO Audit SRL**

Registered at Authority for Public Supervision of  
Statutory Audit Activity (ASPAAS) under no. 18

Dan Apostol, Engagement partner  
Registered at Authority for Public Supervision of  
Statutory Audit Activity (ASPAAS) under no. 1671

Bucharest, Romania  
April 30, 2020

**For stamp and signature please refer to the original Romanian version**

**No. 24608 / 30.04.2020**

## **STATEMENT**

### **of Transgaz' responsible persons in accordance with Art. 223, letter A, para.(1), point c of Regulation no. 5/2018 of the Financial Surveillance Authority**

According to Art 223, letter A para (1), point c of Regulation no. 5/2018 of the Financial Surveillance Authority on the issuers of financial instruments and market operations we declare the following:

- To the best of our knowledge, the annual consolidated financial statement as at 31 December 2019 was prepared in compliance with the International Financing Reporting Standards adopted by the European Union and offers a true and correct image of the assets, liabilities, financial standing, profit and loss account of the Company;
- The Consolidated Report Issued by the Board of Administration includes a correct analysis of the company's development and performances as well as a description of the main activity-specific risks and uncertainties.

**Lăpușan Remus Gabriel – Chairman of the Board of Administration**

**Sterian Ion – Director General, Executive Administrator**

**Văduva Petru Ion – Non-executive Administrator**

**Iliescu Bogdan George – Non-executive Administrator**

**Minea Nicolae – Non-executive Administrator**