

No. 3145/12 January 2024

Submitted for the approval of the OGMS dated 21/22 February 2024

## REPORT

### on the approval of the revenue and expense budget for 2024 and of the estimations for 2025 - 2026

#### SUMMARY:

The draft Revenue and Expense Budget for 2024 and the estimations for 2025 and 2026 were approved within the meeting of Transgaz's Board of Administration of 17 January 2024.

The substantiation of the draft Revenue and Expense Budget was based on the programmes for the modernisation and development, design, maintenance and rehabilitation of the NTS, the supply of materials and spare parts; the programmes for the provision of certain services; the provisions of the collective labour contract; the regulations in force; the quantities of natural gas expected to be transmitted and the forecast capacity bookings.

*\* thousand Lei \**

No.	ITEM	2023 REB	Estimated 2023	2024 REB
0	1	2	3	4
1.1.	Operating revenue before the balancing and the construction activity according to IFRIC 12	1.669.099	1.725.927	2.057.551
	<i>2023 REB comparison</i>		3,40%	23,27%
	<i>Estimated 2023 comparison</i>			19,21%
1.2.	Revenue from the balancing activity	1.280.455	454.284	454.595
1.3.	Revenue from the construction activity according to IFRIC 12	954.064	348.131	2.117.715
1.4.	Financial revenue	267.074	259.791	215.152

No.	ITEM	2023 REB	Estimated 2023	2024 REB
0	1	2	3	4
2.1.	<b>Operating costs before the balancing and the construction activity according to IFRIC 12</b>	<b>1.709.598</b>	<b>1.606.774</b>	<b>1.916.205</b>
	<b>2023 REB comparison</b>		<b>-6,01%</b>	<b>12,09%</b>
	<b>Estimated 2023 comparison</b>			<b>19,26%</b>
2.2.	Costs before the balancing activity	1.280.455	454.284	454.595
2.3.	Cost of constructed assets according to IFRIC 12	954.064	348.131	2.117.715
2.4.	Financial costs	146.270	175.271	144.890
<b>3.</b>	<b>GROSS PROFIT</b>	<b>80.305</b>	<b>203.673</b>	<b>211.608</b>
	<b>2023 REB comparison</b>		<b>153,62%</b>	<b>163,50%</b>
	<b>Estimated 2023 comparison</b>			<b>3,90%</b>
<b>4.</b>	<b>Tax on profit</b>	<b>16.380</b>	<b>55.497</b>	<b>38.690</b>
<b>5.</b>	<b>NET PROFIT</b>	<b>63.925</b>	<b>148.175</b>	<b>172.918</b>
	<b>2023 REB comparison</b>		<b>131,80%</b>	<b>170,50%</b>
	<b>Estimated 2023 comparison</b>			<b>16,70%</b>

## PROPOSAL:

***The approval of the draft revenue and expense budget for 2024 and of the estimations for 2025-2026, according to GO 26/21 August 2013, Art.4 (1) (d) and to the effective Transgaz's Articles of Incorporation, Chapter IV, Art.15 (3)(c).***

## General considerations regarding REB preparation

Considering GO 26/21 August 2013, as amended, *on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest*, which regulates:

- Art. 6 (1<sup>^</sup>1) *The economic operators under Art. 4 (1)(d), whose shares are accepted to be traded on a regulated market, as well as their subsidiaries, shall submit to the General Meeting of the Shareholders, according to the law the revenue and expense budget and the substantiation annexes, prepared according to the applicable laws, for approval, following the prior consultation of the trade unions, and shall publish the revenue and expense budget including the amount for the current year **within 60 days from the entering into force of the annual law on the state budget** or from the date of approval of the village, town, Bucharest district, County, Bucharest local budgets, as appropriate.*

- **Art. 7 (1) Annually, the state budget law establishes salary policy objectives on which economic operators substantiate the revenue and expense budget indicators.**
- Art. 9 (1) *Economic operators shall consider, without limitation, the following when establishing the revenue and expense budget:*
  - a) *compliance with the Government's and administrative-territorial units' policy on improving the economic and financial performance of the operators;*
  - b) compliance with the salary policy objectives set by the annual state budget law;**
  - c) the specific performance criteria and the quantified objectives for the reduction of payments and outstanding debts, the reduction of loss, the increase in profit and turnover and the labour productivity growth provided in the mandate contracts, established in relation to the management strategy of the Board of Administration/Supervisory Board and the management plan of the economic operators' directors/members of the directorate;**

when substantiating the Revenue and Expense Budget of SNTGN Transgaz SA it is required to comply with the Government's policy on enhancing the economic and financial performance and of the salary policy objectives, which are approved under the State Budget Law.

The Revenue and Expense Budget for 2024 is substantiated in compliance with the provisions of:

- GO 26/21 August 2013, as amended, *on strengthening the financial discipline at the level of the economic operators where the state or the territorial-administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest;*
- Order 3818/30 December 2019 of the Ministry of Public Finance *on the form and structure of the economic operators' revenue and expense budget and of the annexes for the substantiation of the budget;*
- Law 421/28 December 2023 on the State Budget for 2023;
- ANRE Order 41/15 March 2019 *on the approval of the Gas Transmission Regulated Tariff Setting Methodology;*
- ANRE Order 34/19 July 2016 *on the approval of the Methodology for transmission capacity booking and tariff setting for natural gas transmission services through the Isaccea – Negru Vodă gas transmission pipelines;*
- Regulation EU 312/2014 *establishing a Network Code on Gas Balancing of Transmission Networks;*
- Order 16/2013 of ANRE President - *the Network Code for the National Gas Transmission System;*
- Electricity and Gas Law 123/10.07.2012 as amended;

- ANRE Order 85/2017 on the approval of the Methodology for the calculation of the balancing neutrality tariffs , including their distribution to the network users of the gas transmission network;
- Trading Companies` Law 31/1990, republished, as amended;

**The draft Revenue and Expense Budget for 2024 was submitted for consultation to the financial management control according to Government Decision 1.151/2012 on the approval of the Methodological rules for the organization and exercise of financial management control, and consultation of the trade unions.**

**The substantiation of costs** was based on the following:

- estimated inflation ratios and/or exchange rates projected according to the „**1. Projection of the main macroeconomic indicators 2023-2027 - Autumn 2023 forecast (9 November 2023) of the National Forecast Commission** for the costs which by their nature have a relatively linear evolution;
- technical regulations in force;
- programme for NTS modernization and development (Investments), design, maintenance and rehabilitation, supply of materials and spare parts;
- programs for the provision of various services (security and safety, training, consulting, etc.);
- normative acts that are in force regarding legislated costs (contribution to social insurance, health insurance, unemployment benefit, transmission licence fee, royalty for the concession of the transmission system, etc.);
- costs related to the social actions, according to the provisions of the Collective Labour Contract (CLC). On the basis of Article 1 of GEO 8/2009 on the granting of holiday vouchers approved as amended by Law 94/2014, which stipulates that *‘Starting from the date of entry into force of this Emergency Ordinance, for the recovery and maintenance of the working capacity of the salaried personnel, employers who employ personnel by concluding an individual employment contract may grant, under the law, vouchers, hereinafter referred to as holiday vouchers`*, in conjunction with the provisions of the CLC in force, at the substantiation of the REB 2024 and estimates for 2025-2026, no expenditure on holiday vouchers was substantiated, taking into account the rights of employees under Art.189 of the CLC in force concerning the partial settlement of holiday and health care.
- technological consumption costs were established based on:
  - an estimate of the specific consumption of the gas compressor stations, technological loss caused by the discharge as a result of new pipeline couplings and planned repairs, differences due to measurement errors, etc.;
  - price of natural gas under the currently applicable sale/purchase contract (150 lei/Mwh) as well as the price of gas in stock as at the date of REB substantiation, stock consisting of natural gas under the previous contracts and natural gas approved for use to cover technological consumption representing the difference between the minimum stock calculated in

accordance with the provisions of ANRE Order 36/2016 and the actual stock of natural gas held by SNTGN Transgaz (report no. 70267/07.09.2022);

➤ costs of gas for NTS balancing according to ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by Order 16/2013 of ANRE President and ANRE Order 1/18.01.2016;

➤ The following were considered while substantiating personnel costs:

I. Application of the provisions of the State Budget Law for 2024, art 73 (1) (a) and (e), (5), (11) and (14) namely:

*(1) For 2024, the economic operators to which the provisions of Art. 9 (1) (b) and (3) of Government Ordinance 26/2013 on strengthening financial discipline at the level of economic operators where the state or the administrative-territorial units are sole or majority shareholders or directly or indirectly hold a controlling interest, approved as amended by Law 47/2014, as amended, may provide for the increase of salary expenses in the revenue and expense budget compared to the estimations under the last revenue and expense budget approved according to the legal provisions, as follows:*

*a) by the amounts representing increases in salary expenses related to the average price growth index forecast for 2024;*

*....*

*e) by the amounts representing increases in costs by salaries relating to their replenishment for the entire year 2024, due to salary increases in 2023;*

*(5) The expenditure referred to in paragraph (1) and (2) shall be shown separately in the annexes to the revenue and expense budget.*

*(11) Economic operators may increase the average gross monthly earnings per employee within the limit of the amounts provided for in paragraph (1) and (2), provided that the rate of increase does not exceed the labour productivity growth index calculated in value or physical units, as appropriate.*

*(14) The average gross monthly earnings growth index per employee recalculated in accordance with the provisions of paragraph (12) and the labour productivity growth index recalculated in accordance with the provisions of paragraph (13) shall be determined by relating the 2024 planned level to the 2023 achieved level.*

Upon the application of the aforementioned legal provisions, the expenses related to the personnel salaries were substantiated at the level of base salaries, increases and bonuses of employees existing at the end of 2023, granted based on the applicable Collective Labour Contract of the company and established in the ongoing individual labour contracts.

The salary related costs for year 2024 are **Lei 662.645 thousand**, which is Lei 65.215 thousand higher than the one foreseen in the 2023 budget (10,92 %), in compliance with the provisions of Article 73 ( 1) (a) and (e) of the State Budget Law for 2024, the average price growth index forecast for year 2024 according to the Forecast of the main macroeconomic indicators 2023-2027 - Autumn 2023 forecast (9 November

2023) of the National Forecast Commission being 6%, and the amounts representing increases in salary-related expenses for the entire year 2024, determined as a result of salary increases in 2023, amount to **Lei 29.749 thousand**.

The provisions of Ordinance 26/2013 and Art. 63 (3) and (4) (b) of the Law on the state budget for 2023 are complied with, the increase of the average monthly earnings per employee, determined on the basis of salary expenses recalculated according to the annual Law on the state budget, is 115,3 % lower than the increase of labour productivity in value units on average total personnel, in percentage of 115,51%. We present below their inclusion in the legal provisions:

*\*thousand lei\**

No.	Indicators	REB 2023	Estimated 2023	REB 2024	%	%
0	1	2	3	4	5 = 4/3	5 = 4/2
1	Salary expenses	597.430	582.942	662.645	113,67%	110,92%
2	Salary expenditure determined according to Art. 3 (f) of GEO 26/2013.	552.599	540.092	621.229	115,02%	112,42%
3	Expenditure of a salary nature determined in accordance with the provisions of the annual Law on the state budget <b>row 2-row6</b>	597.430	559.958	591.480	99,00%	99,00%
4	Average number of personnel	4.093	4.090	4.080	99,76%	99,67%
5	by the amounts representing increase in salary-related expenditure related to the average price increase index forecast for 2024;	38.697	41.765	31.827		82,24%
6	by the amounts representing increases in salary-related expenditure relating to their reinstatement for the entire year 2024, due to salary increases and bonuses in 2023	42.043	22.984	29.749		70,76%
7	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses. <b>Row 2/Row 4/12/*1000</b>	11.300	11.004	12.688	115,30%	112,29%
8	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses recalculated according to the annual Law of the state budget <b>Row2/Row4/12*1000</b>	10.444	11.004	12.688	115,30%	121,49%
9	Labour productivity in value units per average total personnel (thousand lei / person)	721	533	616	115,51%	85,45%

## II. The average number of personnel:

By Law 346/2007 on measures to ensure security of natural gas supply, S.N.T.G.N. TRANSGAZ S.A. is responsible for making investments in infrastructure to expand transmission capacity and replace pipelines with expired lifespan in order to ensure security of natural gas supply and reduce natural gas losses.

The management plan of TRANSGAZ S.A. Mediaş for 2021 - 2025, among the action directions established in the chapter `Competitiveness and modernization`, also includes the optimal dimensioning of the human resources requirements in relation to the real needs of the company's activity and development.

In general, the strategic vision of the administrators in terms of human resources is to reduce the number of personnel in line with the retirements and voluntary departures that will take place in the coming years and to maintain a level of growth in salary expenditure that covers at least the rate of inflation.

Considering the above, for year 2024 the following is required:

- Maintaining the current number of 5.265 positions approved to date by the company's organisation chart, with a resizing of the organisation chart to be carried out after approval of other projects and finalisation of the normalisation of all activities carried out on the NTS. At the same time, the modernisation and upgrading to be carried out in the NTS and its related installations will be considered, with a view to implementing the Network Code and maintaining and developing a SCADA-type monitoring, control and data acquisition system.
- Natural reduction of the number of personnel employed without affecting current activity by redeployment of tasks and responsibilities for some posts whose incumbents are due to retire in 2024. A total of 32 retirements for age limit are foreseen for 2024. Early retirement has also been considered for 20 employees;
- Continue the organisational redesign of some activities within the company and the roles and responsibilities of the personnel carrying out these activities. In this respect, it is also necessary to continue the voluntary departure programme, which will reduce the number of employees approaching retirement age or in poor health, factors which lead to a reduction in the ability to perform their duties. 80 employees were estimated to apply for inclusion on these lists in 2024; At the same time, tasks and responsibilities will be redistributed to the remaining staff in order to carry out the current work programmes with existing employees.
- continuing the process of recruiting specialised personnel for the implementation of projects of major importance for the company's development, for design activities in the field of gas transmission and for the development of existing information and communication systems with a view to the digitalisation of operations;
- Therefore, an average number of employees of 4.080 is estimated to be used in 2024 lower than the one approved by REB in 2023 amounting to 4.093 employees.

### III. Cost of personnel

To substantiate the cost of personnel, the main macroeconomic indicators forecast in the National Forecast Commission's Medium-Term Forecast 2023 - 2027, Autumn 2023, were taken into account, namely:

<b>Indicator</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Increase of consumption price – annual average	10,5	6,0	4,0	2,9
Exchange rate (lei/euro) – annual average	4,95	5,00	5,06	5,12

The following were taken into account when substantiating the salary fund, as well as the other personnel expenses necessary for S.N.T.G.N. TRANSGAZ S.A. Mediaș:

- 1) setting the basis of calculation at the current level of the employees' salaries, bonuses and additional payments granted on the basis of the Collective Labour Contract in force at company level and established in the individual labour contracts currently in force;
- 2) the indexation of the salaries of all personnel by 6.0% in 2024, in accordance with Article 147 of the C.L.C. in force at company level to cover the forecast average inflation of 6.0%;
- 3) the provision of a fund amounting to Lei 7.698,8 thousand (representing a reduction by half of the amount approved by REB 2023) for granting compensations for the continuation of the voluntary departures as foreseen at Art. 47 of the Collective Labour Contract. The provision of these funds represents an increase in the cost of personnel over the short term, but over the long term it triggers benefits from the reduction of the cost with the relevant employees, employed under individual labour contracts for an indefinite period;
- 4) granting the salary bonuses for Easter, Christmas and the Gas Worker's Day according to Art. 181 of the Collective Labour Contract in force;
- 5) the granting of birth, marriage, retirement and death benefits in accordance with the provisions of applicable Collective Labour Contract;
- 6) the amounts necessary for granting food vouchers in nominal value of LEI 40 in 2024;
- 7) expenses incurred on behalf of an employee related to voluntary pension schemes, up to an amount representing the LEI equivalent of EUR 400 during a financial year, for each participant. The C.L.C. in force at company level, Art. 62 (4) establishes a limit of 400 euro/employee in a fiscal year;
- 8) cost of voluntary health insurance premia up to an amount representing the Lei equivalent of EUR 400 in a financial year, for each participant. The C.L.C.



in force at company level, Art. 62 (5), establishes a limit of 400 euro/employee in a fiscal year;

- 9) the provision of expenses with gifts offered to employees for Easter and Christmas in the amount of 300 lei gross/employee/event according to the provisions of the C.L.C.
- 10) the provision of expenses with gifts offered to minor children of employees, and gifts granted to female employees in the amount of 300 lei/gross/beneficiary/event. The company's applicable Collective Labour Contract stipulates in Art. 183 (2) the granting of such gifts for Women's Day, 1 June and Christmas;
- 11) the provision of the sums necessary to bear part of the cost of the treatment and rest benefits, including transport for the Company employees and their family members according to Art. 189 of the C.L.C. in force;
- 12) expenses representing the employees' share in the Company's profit under G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous regies, as amended, corroborated with Art. 141 of the company's applicable Collective Labour Contract;
- 13) the provision of a fund of Lei 750,5 thousand for various social actions, amounts requested by the Gas Transport Union by the Letter no. 35/15.11.2023;
- 14) further, for year 2025 an indexation of the salaries of employees by 4,0% and for 2026 an indexation of the salaries of employees by 2,9% was taken into account, according to the provisions of Art. 147 of the company's applicable Collective Labour Contract.

In aggregate the salary expenses foreseen for the year 2024 exceed the level of the salary expenses approved in the revenue and expense budget of S.N.T.G.N. TRANSGAZ S.A. for 2023 by **Lei 65 million**, mainly due to the following influences:

- the amounts necessary for indexing of basic salaries by 6% to compensate for inflation, according to the applicable Collective Labour Contract, namely an increase in the funds estimated at Lei 31.827 thousand;
- amounts representing increases in salary-related expenses, related to their reinstatement, for the entire year 2024, determined as a result of the granting of salary increases in 2023, namely an increase in the funds estimated at lei 29.749 thousand;
- the amounts necessary to grant meal vouchers at a nominal value of 40 lei for the entire year 2024, in accordance with the provisions of the C.L.C and the legislation in force, i.e. an increase in funds estimated at lei 7.471 thousand;
- provision of the amounts necessary to settle part of the cost of the employees' rest and treatment tickets in 2024 in accordance with the

provisions of the C.L.C in force, calculated for a higher number of employees requesting them, i.e. an increase of lei 1.000 thousand compared to the REB 2023.

#### **IV. Expenses related to the civil liability insurance of administrators and executive management**

The expenses with the insurance premiums for the professional risk insurance of the members of the Board of Administration and the executive management of the company, in the amount of Euro 75.000 /year according to Art. 4 of Resolution 1 of 20.01.2022 of the Ordinary General Meeting of the Shareholders of S.N.T.G.N TRANSGAZ S.A. and Art. 2 of Resolution 2 / 21.01.2022 of the Board of Administration of S.N.T.G.N TRANSGAZ S.A.

#### **V. Expenses related to the civil liability insurance of the operating personnel**

The expenses related to the insurance premiums for the insurance of professional risks of the operating personnel, which are borne by the employer according to Art. 62 (7) of the company's applicable Collective Labour Contract. Such expenses were estimated at lei 126.000/year.

In line with the provisions of ANRE Order 41/15 March 2019 on the approval of the Gas Transmission Regulated Tariff Setting Methodology, personnel expenses are recovered through the regulated revenue from the gas transmission activity up to the forecasted amount approved by ANRE upon the substantiation of the regulated revenue for the first nine months of 2024 (part of the gas year 01.10.2023 - 30.09.2024) and on the basis of the provisions of ANRE Order 102 of 22 November 2023 amending and supplementing the Methodology for setting regulated tariffs for natural gas transmission services, approved by Order of the President of the National Energy Regulatory Authority No 41/2019 for the last quarter of 2024 (part of the gas year 01.10.2024 - 30.09.2025).

For the gas year 01.10.2024 - 30.09.2025, the amount of personnel costs shall be substantiated taking into account the amount achieved in the regulatory year from 1 October 2022 to 30 September 2023, not exceeding the amount of costs approved for the regulatory year from 1 October 2023 to 30 September 2024, adjusted by the estimated inflation rate for the period from 1 October 2024 to 30 September 2025.

Sales/purchases of natural gas within the balancing activity are carried out according to needs to balance gas flow fluctuations and to maintain the level of pressures at values allowing the safe and efficient operation of the NTS, the obtaining of revenue from the balancing activity is not under the control of the company;

**Revenue substantiation** was determined considering:

- the gas quantities estimated to be transmitted (including the quantities transmitted for storage) and the capacity booking estimated for 2024 – 2026;
- the gas quantities estimated to be procured both for the physical balancing of the National Transmission System and for the commercial balancing;

- the regulated transmission tariffs approved by ANRE under Order no. 68 of 30 May 2023 on the approval of the regulated revenue, corrected regulated revenue and transmission tariffs for the transmission of gas through the National Transmission System and the tariffs estimated for 1 October 2024 - 31 December 2026 based on the methodology approved by ANRE Order 41/2019;
- no revenues from international natural gas transmission services have been estimated:
  - the agreement concluded with Gazprom Export Ltd expired on 31.12.2023;
  - **ANRE Order 69/30.05.2023 extended until 30 September 2024 the deadline for application of ANRE Order no. 149/29.07.2020 approving a regulated revenue of Lei 169.820.239 for the provision of regulated transmission service on T2 and T3 pipelines for the 2020-2021 gas year; a booked capacity of 84 million MWh was estimated for setting transmission tariffs; no booked transmission capacity for international transmission activity was estimated in the draft 2024 REB.**

The assumptions underlying the substantiation of the economic-financial indicators for 2024-2026 are presented in the table below:

No.	Item	MU	2023	2024	2025
1.	Inflation index at the end of the year	%	4,60	3,40	2,60
2.	Exchange rate	lei/EURO	5,00	5,06	5,12
3.	Exchange rate	lei/USD	5,08	5,06	4,95
4.	Transmitted gas quantity (including injection in underground storage)	MWh	176.520.174	176.989.921	166.994.869
5.	The average transmission tariff	lei/MWh	10,71	13,30	15,38
6.	Technological consumption procurement price	lei/MWh	187,08	189,33	189,33

Based on these assumptions the following economic and financial indicators resulted:

*\*thousand lei\**

No.	Indicators	2024 REB	Estimated for 2025	Estimated for 2026
<b>1</b>	<b>TOTAL REVENUE, of which:</b>	<b>4.845.013</b>	<b>4.550.871</b>	<b>3.994.182</b>
1.1.	Operating revenue before the construction activity according to IFRIC 12	2.512.146	2.990.270	3.204.761
1.2.	Financial revenue	215.152	218.144	275.749
1.3.	Revenue from the construction activity according to IFRIC 12	2.117.715	1.342.457	513.672
<b>2.</b>	<b>TOTAL COST, of which:</b>	<b>4.633.405</b>	<b>4.049.497</b>	<b>3.326.843</b>

2.1.	Operating costs before the construction activity according to IFRIC 12	2.370.800	2.592.713	2.540.229
2.2.	Financial costs	144.890	114.327	272.942
2.3.	Cost of assets built according to IFRIC 12	2.117.715	1.342.457	513.672
<b>3.</b>	<b>GROSS PROFIT</b>	<b>211.608</b>	<b>501.374</b>	<b>667.339</b>
<b>4.</b>	<b>TAX ON PROFIT</b>	<b>38.690</b>	<b>78.759</b>	<b>104.977</b>
<b>5.</b>	<b>NET PROFIT</b>	<b>172.918</b>	<b>422.615</b>	<b>562.362</b>

The evolution of the economic and financial indicators during the estimated period is mainly influenced by:

- The estimated commissioning of investment objectives;
- the progress of the National Transmission System rehabilitation and maintenance works;
- the evolution of the costs regarding the procurement of gas for technological consumption;
- approval of the regulated revenue for the gas year 2023-2024 at the level of **lei 1.647.347 thousand**, given that the transmission tariff remained unchanged for the period 1.10.2021 - 30.09.2023 substantiated based on a regulated revenue of **lei 1.041.465 thousand**
- adjustment of the regulated revenue for the gas year 2023-2024 mainly with:
  - the efficiency gain registered by the company in the last year of the third regulatory period (**Lei -123.748,71 thousand**);
  - the value of the additional registered revenue in 2021-2022 (**Lei -302.302,04 thousand**);
  - the correction components related to 2022 - 2023 (**Lei 176.764,74 thousand**);
- amendments to the Tariff Methodology, by Order 102/22 November 2023, published in Official Journal 1092 of 05.12.2023, by which ANRE amends the Methodology for setting regulated tariffs for natural gas transmission services approved by Order of the President of the National Energy Regulatory Authority no. 41/2019 and sets the gas year 01.10.2024 - 30.09.2025 as the transition year from the fourth to the fifth regulatory period;
- Main changes made by ANRE Order no.102/22 November 2023:
  1. The gas year 1 October 2024-30 September 2025 is the transition year from the fourth to the fifth regulatory period and not the first year of the fifth regulatory period.
  2. The regulated rate of return on invested capital is the one approved for the fourth regulatory period, i.e. 6,39%.
  3. The value of operational costs and personnel costs shall be substantiated taking into account the value achieved in the regulatory year from 1 October

2022 to 30 September 2023, not exceeding the value of costs approved for the regulatory year from 1 October 2023 to 30 September 2024, adjusted by the estimated inflation rate for the period from 1 October 2024 to 30 September 2025.

4. The quantity of natural gas used in the calculation of the costs of estimated technological consumption is equal to that recognised by ANRE for the year 2023.
- the legislative amendments provided for by Law No 296/26.10.2023 and GEO No 91/27.10.2023, i.e. from 30 October 2023, the percentage rate for determining the oil royalty payable by the company increases from 0,4% to 11,5% of the value of the gross revenue from natural gas transmission and transit operations through the national transmission system.

The oil royalty is an expense recognised in the regulated revenue related to the natural gas transmission activity and recoverable through the transmission tariff. The regulated revenue and the natural gas transmission tariffs approved by ANRE Order no. 68 of 30 May 2023 and applicable for the period from 1 October 2023 to 30 September 2024 shall recognise the royalty determined as 0,4% of the value of the gross revenue from natural gas transmission and transit operations through the national transmission system.

The difference between 0,4% and 11,5% will be recovered through the regulated revenue of 2024-2025.

- the evolution of financial expenses representing interest and exchange rate differences on loans taken out by the company to finance investment works not covered by its own resources.

**Profit distribution** was determined taking into account the provisions of G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous companies, as amended and the specifications approved by MPF Order 144/2005 approving the Specifications for the determination of the amounts subject to profit distribution according to G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous companies, approved as amended by Law 769/2001, as amended, as follows:

- considering the approval of the increase of Transgaz's share capital by incorporating the reserves constituted from the profit of previous financial years in the amount of Lei 1.766.076.600 (EGMS Meeting 8/09.12.2022), amounts were allocated to **legal reserves** in the amount of 5% of the accounting profit, in accordance with the provisions of Art. 183 (1) and (2) of Law 31/1990, as amended, and Art. 1 (1) of GO 64/2011;
- considering the level of net profit remaining after deduction of legal reserves, estimated by the revenue and expense budget for the year 2024, the substantiation of expenses representing the **employees' participation in profit** was made within the limit of 10% provided for by GO 64/2001, `employees' participation in profit; national companies and companies fully or majority-owned

by the State, as well as autonomous companies that have undertaken and established through their revenue and expense budgets the obligation of participation in profits, as a result of the services of their employees in relation to them, may grant these rights within the limit of 10% of the net profit, but not more than the level of an average monthly basic salary achieved at the level of the economic agent, in the reference financial year`;

- **dividends to shareholders** were determined according to MPF Order 144/2005, by applying 50% to remaining net profit after its recompletion with the amount of the cost representing the share in to profit, with which the gross profit before tax was affected;
- the amount of the **retained earnings** for setting up own financing sources was determined as the difference between the net profit to be distributed and the profit proposed to be allocated according to GO 64/2001.

\* lei\*

<i>Indicators</i>	<i>Amount</i>
	<i>Estimated 2023</i>
0	1
<b>A. Gross result of the financial year</b>	<b>203.672.784</b>
<b>B. Current income tax</b>	55.497.407
<b>C. deferred income tax</b>	
<b>D. Net result of the financial year (A-B+C), of which distributed as follows:</b>	148.175.378
a) legal reserves	10.183.639
- share capital	1.883.815.040
- share of 20%	376.763.008
- existing reserve fund	45.421364
- reserve fund to be established (5%*A.)	10.183.639
b) other reserves representing tax relief provided by law	
c) covering accounting losses from previous years	-
c <sup>1</sup> ) establishing own financing sources for projects co-financed form external loans	-
d) other distributions foreseen by special laws	-
<b>E. Remaining net profit (D+c)</b>	<b>137.991.738</b>
e) employees participation in profit sharing	13.799.174
f) dividends to shareholders	77.236.417
g) profit for establishing own financing sources	60.755.322
<b>TOTAL distributions</b>	<b>137.991.738</b>

**The analysis of the 2024 REB economic and financial indicators as compared to the 2023 estimations**

**The synthesis of the 2024 REB indicators** compared to the 2023 estimations is presented below:

*\*thousand lei \**

No.	Item	Estimated in 2023	2024 REB	Variation
0	1	2	3	4=3/2-1
<b>1.</b>	<b>TOTAL REVENUE, of which:</b>	<b>2.788.133</b>	<b>4.845.013</b>	74%
1.1.	Operating cost before balancing and construction activity according to IFRIC 12	1.725.927	2.057.551	19%
1.2.	Balancing revenue	454.284	454.595	0%
1.3.	Financial revenue	259.791	215.152	-17%
1.4.	Revenue from the construction activity according to IFRIC 12	348.131	2.117.715	508%
<b>2.</b>	<b>TOTAL COST</b>	<b>2.584.460</b>	<b>4.633.405</b>	79%
2.1.	Operating cost before balancing and the construction activity according to IFRIC 12	1.606.774	1.916.205	19,26%
2.2.	Balancing costs	454.284	454.595	0%
2.3.	Financial cost	175.271	144.890	-17%
2.4.	Cost of constructed assets according to IFRIC 12	348.131	2.117.715	508%
<b>3.</b>	<b>GROSS PROFIT</b>	<b>203.673</b>	<b>211.608</b>	3,90%
<b>4.</b>	<b>Corporate tax</b>	<b>55.497</b>	<b>38.690</b>	-30%
<b>5.</b>	<b>PROFIT NET</b>	<b>148.175</b>	<b>172.918</b>	17%

- I. **The revenue from the operation activity before balancing and the construction activity according to IFRIC 12** amounting to **Lei 2.057.551 thousand**, increased by **Lei 331.624 thousand** as compared to the 2023 estimated revenue, which is higher by **19,21 %**, mainly due to:
- increase in the capacity booking component by **Lei 307.931 thousand** mainly due to:
    - capacity booking tariff higher by **lei 1,111/Mwh/h** with a positive influence of **Lei 379.185 thousand** mainly due to the regulated revenue approved for the 2023-2024 gas year and estimated by Transgaz for gas year 2024-2025 higher than in 2021-2022;

- booked capacity lower by **20.949.660 MWh**, with a negative influence of **Lei 71.254 thousand**;
- The increase of the commodity component by **Lei 122.227 thousand** mainly due to:
  - quantities transmitted higher by **30.520.552 Mwh**, with a positive influence of **Lei 38.257 thousand**;
  - the commodity component of the transmission tariff higher by **Lei 0,474 Mwh/h** with a positive influence of **Lei 83.969 thousand**, mainly due to the regulated revenue approved for 2023-2024 and estimated by Transgaz for gas year 2024-2025 in accordance with the provisions of ANRE Order 41/2019, higher than in 2021-2022;

Regarding the annual evolution of gas transmission revenue gas transmission is regulated by the National Energy Regulatory Authority (ANRE). According to the methodology for setting the regulating revenue, the costs savings of the transmission operator in a gas year and the additional revenue obtained in a gas year diminish the regulated revenue approved in the following gas years. In other words, the more effective the company is in reducing costs, the more the revenue from gas transmission will be reduced in the coming gas years.

According to *ANRE Order 41/15 March 2019 on the approval of the Gas Transmission Regulated Tariff Setting Methodology* the following are also considered for the determination of the annual regulated revenue:

- the total revenue correction component for the previous years;
- the technological consumption correction component for the previous years;
- the capital cost adjustment component for previous years;
- the efficiency increase factor redistribution component obtained by the transmission operator during a regulatory period (the savings obtained by the transmission operator regarding cost items as compared to the levels approved by ANRE) are kept by the transmission operator and aggregated at the end of such period and then entirely transferred to the transmission system users by linearity throughout the following regulatory period by reducing the regulated revenue by such savings.

In accordance with the legal provisions in force during the third regulatory period (2012-2019), the efficiency increase factor was fully maintained by the operator for a period of 5 years and starting with year 1 (2019-2020) of the fourth regulatory period (2019-2024) the full transfer to the users of the transmission system started through linearization by decreasing the regulated revenue by such savings.

- The efficiency increase factor achieved by the TSO beginning with the fourth regulatory period (2019-2024) will be 60% transferred to gas consumers and 40% will be retained by the TSO starting with year (2024-2025), a transition year



between the fourth and the fifth regulatory period, according to ANRE Order 102/22 November 2023.

On 3 March 2023 Transgaz submitted to ANRE the Note for the substantiation of the corrected regulated revenue for years `4` (1 October 2022 – 30 September 2023) and `5` (1 October 2023 – 30 September 2024) of the fourth regulatory period (1 October 2019 - 30 September 2024) and related tariffs, according to the provisions of the methodology approved by ANRE.

By Order 68/30 May 2023 it was approved the regulated revenue, the corrected regulated revenue and the transmission tariffs for the transmission of gas through the National Transmission System for 1 October 2023- 30 September 2024.

Transgaz intends to apply to ANRE for an advance recognition in the regulated revenue 2024-2025, within the CAPEX component, of the investment expenses for the Black Sea connection project (estimated value of the investment lei 1.951,83 million) being met the following conditions:

- It is a project included in the categories listed at point 2 of Annex II of Regulation (EU) No. 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, included in the investment and development plan of the transmission system, approved by ANRE;
- It is a PCI:
  - PCI Project (second list): 6.24.8;
  - PCI Project (third list): 6.24.4-5
  - PCI Project (fourth list): 6.24.4-2 : *Black Sea shore — Podișor (RO) pipeline for taking over the Black Sea gas within Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as ROHUAT/BRUA) to enable 1,75 bcm/y in the 1<sup>st</sup> phase, 4,4 bcm/y in the 2<sup>nd</sup> phase, and including new resources from the Black Sea in the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> phase;*
  - Included in the list of conditional priority projects prepared within the CESEC group.
  - Included in the ENTSOG TYNDP 2020: TRA-N-362.
  - The project is included in the TYNDP 2022-2031 approved ANRE.

In this regard, the proposed revenue and expense budget for 2024 and estimates for 2025 and 2026 includes:

1. the use as correction component in gas year 2024-2025 of the fourth regulatory period of the correction component of the regulated revenue for year 44 (2022-2023) in the amount of **Lei - 62.517,91 thousand** and the correction component of the regulated revenue for year 5 (2023-2024) in the amount of **Lei - 152.344,21 thousand**;
2. the use as a correction component in 2024-2025, of the correction component of the pass-through costs related to year 5 (2023-2024) in the amount of **Lei 191.356,36 thousand**, mainly due to the increase in the percentage rate for determining the oil royalty due by the company from 0,4% to 11,5% of the gross

revenue from natural gas transmission and transit operations through the national transmission system as of 30 October 2023.

3. the advance recognition, within the CAPEX component, of the return on investment expenditure related to the Black Sea connection project (**Lei 97.281,49 thousand**), in the regulatory revenue determined for 2024-2025.

Regarding the category of natural gas referred to at Art. 11 (r) of ANRE Order 41/2019, which, according to ANRE, is not natural gas intended to cover the NTS technological consumption and, therefore, the additional costs with their purchase cannot be capitalized, according to the provisions of Order 3900/19 October 2022 of the Ministry of Finance and Order 128/12 October 2022 of the ANRE President, as of 1 October 2023 with the approval of ANRE Order 85/20 September 2023 amending certain orders of the President of the National Energy Regulatory Authority and approving the methodology for calculating technological consumption in the natural gas transmission system, these categories of gas are recognised as gas intended to cover technological consumption.

The estimated revenue from the gas transmission activity for 2024, with the tariffs approved by ANRE for 1 October 2023 - 30 September 2024 and the tariffs estimated based on the existing regulations for Q IV 2024 is **Lei 1.890.888 thousand**, which is higher **by Lei 457.350 thousand** compared to the 2023 estimates.

**Considering the above, we believe that the provisions of the Instructions for preparing the REB approved by Order 3818/30.12.2019 of the Ministry of Public Finance, Annex 6 (II) (6), according to which 'the total revenue and expenses are estimated so that the index related to the increase in total expenses usually does not exceed the total revenue increase index` cannot be applied to Transgaz which carries over activity regulated at a rate of approximately 98%, the transmission tariffs not being updated between 1 October 2023 – 30 September by taking into account the increase in oil royalty expenses as of 30 October 2023 (Lei 213.787 thousand estimated value for 2024).**

Revenue from NTS balancing is slightly equal in 2024 compared to the estimates for 2023. In estimating the quantity of natural gas for NTS balancing the basis was the consumption history recorded in the winter months/temperature dependent, the quantities purchased by Transgaz from the Exchange for the purpose of the physical balancing of the NTS as well as the quantities purchased in the commercial balancing process representing surplus. When estimating the purchase price of the quantities of natural gas for balancing in 2024, the average price of balancing transactions was taken into account, determined by dividing the preliminary balancing revenue for 2023 by the quantity of natural gas traded as part of the balancing activity in 2023.

EU Regulation 312/2014 establishing a network code on gas balancing of transmission networks sets uniform balancing rules at European level, reflecting the specific needs of the transmission systems and taking into account the drivers available to the operators for balancing the transmission systems. According to the Regulation above the role of the system operator is to perform balancing activities based on non-discriminatory market principles through the purchase/sale of natural gas quantities

required for balancing. The system operator does not record gains or losses as a result of conducting the balancing activity.

The provisions of the Regulation above are taken over in ANRE Order 16/2013 on the approval of the Network Code for the National Gas Transmission System amended by ANRE Order 160 /2015, which states in Article 83 (2) that *to ensure the safe operation of the NTS, the TSO should have enough gas for system balancing as natural gas stored in pipelines and/or as balancing gas stored in underground storages, and to take NTS balancing actions including by conducting sales and/or purchasing transactions for the natural gas quantities required to balance the system in a transparent, non-discriminatory manner, by using market mechanisms.*

In estimating the quantity of natural gas to be used for balancing the NTS, the basis was the consumption history recorded in the winter months/temperature dependent, as well as the quantities purchased by Transgaz from the Exchange for the purpose of the physical balancing of the NTS. This gas will be purchased in 2024 as needed in order to balance fluctuations in gas flow and maintain pressure levels at levels that allow the NTS to operate safely and efficiently.

**II. Operating expenses before the balancing and the construction activity according to IFRIC12 amounting to **Lei 1.916.205 thousand** increased by **Lei 309.431 thousand** compared to the 2023, estimates, which is higher by 19,26%, mainly due to:**

- a) overruns regarding the following cost elements:
  1. cost of third party services higher by **Lei 30.489 thousand**;
  2. personnel salary costs higher by **Lei 83.580 thousand**;
  3. depreciation cost higher by **Lei 17.101 thousand** due to the fixed assets commissioned in 2023 and estimated to be commissioned in 2024;
  4. Cost of auxiliary materials and other material costs higher by **Lei 26.935 thousand**;
  5. Cost of oil royalty higher by **Lei 168.513 thousand** compared to the estimates for 2023 due to the increase in the percentage rate from 0,04 % to 11,5% as of 30 October 2023;

**III. The gross result estimated for 2024 is of **Lei 211.608 thousand**, by **Lei 7.935 thousand** (3,9%) higher than the 2023 estimates.**

**IV. The corporate tax was calculated considering:**

- 👉 The influence of the provisions for risks and expenses and of the provisions for the depreciation of current assets;
- 👉 The influence of the employees' share in to profit expense related to 2023 and of the rights related to the mandate contract to be paid in the next year;

- ☞ Expenses related to sponsorship granted to a legal extent (Law 227/2015 – Fiscal Code Art. 25 (4) (i) of 0,15% of the turnover, but not more than 20% of the corporate tax.

## **Planning the investment financial effort for 2024-2026**

*The total expenses for investment* include funds for NTS development and modernization works, for the procurement of shares in the relevant European operators the amounts necessary for the repayment of the instalments related to the loans contracted by the company to finance the investments which were not covered by equity and the amounts required for the payment of guarantees related to the temporary removal of land from agricultural use.

*The sources for financing investment expenses* are:

- own sources including the depreciation and the amounts distributed from the net profit to finance investments according to *GO 64/2001 on the allocation of profits in national companies and trading companies owned by the state or where the state is a majority shareholder and the autonomous administrations*, as amended;
- Amounts resulting from the absorption of European funds;  
To finance the projects: *Gas transmission pipeline to supply Mintia Plant, Development on the Romanian territory of the Southern Corridor for taking over Black Sea gas, gas transmission pipeline Ghercești – Jitaru*, Transgaz applies for non-reimbursable funds from the Modernisation Fund.
- Unused own resources from previous years and other sources.

The investment expenses were determined based on:

- The modernization and development investment program for 2024 and estimates for 2025-2026;
- The design programme for investment works for 2024;
- The TYNDP.

The TYNDP includes large-scale projects aimed at reconfiguring the natural gas transmission network.

The current development plan for the Romanian natural gas transmission system includes large-scale projects aimed at reconfiguring the natural gas transmission network which, although extensive and complex, was conceived at a time when the focus was on supplying natural gas to large industrial consumers and creating their access to resources concentrated mostly in the centre of the country and in Oltenia, as well as to the sole source of imports.

In order to determine the necessary projects to be developed in the National Gas Transmission System the prerequisites that it has to meet in the current dynamics of the regional gas market were identified first. Having in mind the latest developments and trends as far as the European gas transmission routes are concerned, the fact that

two new sources of gas supply came up is obvious: the Caspian Sea gas and the Black Sea gas.

Thus, the projects planned by the company envisage:

- ensuring a proper interconnectivity with the neighbouring countries;
- creating regional gas transmission routes to ensure gas transmission from new supply sources;
- creating the necessary infrastructure to take over and transmit Black Sea gas to the Romanian market and other markets in the region;
- extending the gas transmission infrastructure to improve gas supply to deficient areas;
- creating a single integrated EU market.

In this context, it is very important for Transgaz to implement the projects described below in a short period of time enabling the connection of the Central European markets to the Caspian and Black Sea resources.

The progress in the implementation of Transgaz's major investment projects obliges the company at the same time to take steps to secure the funding of the TYNDP. In 2024-2026 the company aims at obtaining bank funds to complete the necessary financing.

The synthesis of the capital expenditure for the period 2024- 2026 as well as its financing is indicated below:

*\* thousand lei \**

No.	Item	2024	2025	2026	Total
					2024-2026
0	1	2	3	4	5=2+3+4
<b>I.</b>	<b>Investment expenses, of which:</b>	<b>2.249.551</b>	<b>1.391.122</b>	<b>562.578</b>	<b>4.203.251</b>
1.1.	Investments	2.044.623	1.135.798	348.611	<b>3.529.032</b>
1.2.	Capitalized interest	72.410	122.326	0	<b>194.735</b>
1.3.	Loan repayment	132.519	132.998	213.967	<b>479.484</b>
<b>II.</b>	<b>Financing sources, of which:</b>	<b>2.249.551</b>	<b>1.391.122</b>	<b>562.578</b>	<b>4.203.251</b>
2.1.	Own sources, of which:	289.573	456.248	381.779	<b>1.127.600</b>
	- amounts from the net profit	71.914	188.443	253.958	<b>514.315</b>
	- legal reserves	10.580	25.069	33.367	<b>69.016</b>
	- depreciation and other non-monetary expenses / revenue	207.078	242.736	94.454	<b>544.268</b>
2.2.	European funds	302.215	161.557	0	<b>463.773</b>

No.	Item	2024	2025	2026	Total
					2024-2026
2.3.	Bank loans	1.329.165	773.317	180.799	<b>2.283.282</b>
2.4	Other sources from previous years	328.597			<b>328.597</b>
<b>III.</b>	<b>SURPLUS/DEFICIT(II-I)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

In 2024 the leverage indicator determined based on the assumptions used for the substantiation of the Revenue and Expense Budget is within the limits approved by financing contracts concluded by the company.

**According to the provisions of GO 26 of 21 August 2013 on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest, if the approved investment financing sources are unfulfilled the related commitments will be reconsidered and all the legal steps for the reception of services, works and goods will be taken according to the recalculated funding sources.**

#### Other additional information

##### 1. The substantiation of the remunerations related to the Director General, the members of the Board of Administration and the Chief Financial Officer

According to the relevant applicable mandate contracts, the remuneration of the Director - General, of the non-executive definitive members of the Board of Administration (BoA) and of the Chief Financial Officer consists of a monthly fixed allowance and a variable component.

Over the period when GEO 109/2011 as amended is applicable in the form which is effective as at the date of the approval of the mandate contracts, the gross monthly fixed allowance due to the non-executive members of the Board of Administration may not exceed twice the means of the gross monthly average salary over the last twelve months relevant for the activity carried out in accordance with the main object of activity of the company at class level according to the classification of activities in the national economy, reported by the National Statistics Institute before the appointment of such mandators and, as for the Member of the BoA also acting as Director - General, executive administrator, the monthly gross fixed allowance may not exceed six times the means of the gross monthly average salary over the last 12 months relevant for the activity carried out in accordance with the main object of activity of the company at class level according to the classification of activities in the national economy, reported by the National Statistics Institute before the appointment of such mandators.

By OGMS Resolution 2/2021 the value of the monthly fixed allowance of the definitive members of the Board of Administration was approved representing twice the mean over the last 12 months of the gross monthly average salary for the activity performed according to the main activity of the company registered at class level according to the

classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment.

Additionally, to the gross monthly fixed allowance, the members of the BoA, the Director - General and the Chief Financial Officer are entitled to an annual variable remuneration component.

The level of the variable benefit is set as follows:

- for the non-executive definitive members of the Board of Administration the variable annual component of the remuneration was substantiated within the limit of 12 monthly fixed allowances according to GEO 109/2011 (Art. 37 (2)) on corporate governance, as amended by Law 111/2016 on the approval of GEO 109/2011

- for the Director - General and the Chief Financial Officer, the variable component is based on the financial and non-financial performance indicators, negotiated and approved by the General Meeting of Shareholders, by OGMS Resolution 8/2021, determined in accordance with the Methodological Rules for determining the financial and non-financial performance indicators and the variable component of the remuneration of the members of the Board of Administration.

According to the provisions of GEO 109/2011 (Art. 37 (2)) on corporate governance, amended by Law 111/2016 on the approval of GEO 109/2011, the value of the variable component due to the non-executive members of the BoA may not exceed maximum 12 monthly fixed allowances; therefore, as far as the non-executive definitive members of the BoA are concerned, the annual variable remuneration component was substantiated within the limit of 12 monthly fixed allowances.

The maximum lawful amount of the variable allowance over the term of the mandate contract may be amended pursuant to Decision 722/2016 of the Romanian Government on the approval of Methodological rules for the approval of GEO 109/2011 on the corporate governance of public enterprises, Annex 2, Chapter II, section 5 – *The Methodology for revising the variable component of the non-executive and executive administrators' remuneration.*

The annual variable remuneration = the value of the variable remuneration established based on the amendment to the Mandate Contract x total achievement of key performance indicators.

The total key performance indicator achievement ( $TD_{KPI}$ ) degree is the weighted average by the weighing factor related to each KPI of each KPI achievement degree.

$$GT_{ICP} = \sum(GI_{ICP} * \text{weighing factor})$$

The degree of each KPI ( $GI_{ICP}$ ) achievement may be higher than 100% and lower than 0% but the calculation of the total degree of the KPI ( $GT_{ICP}$ ) achievement will be considered as follows:

- $GI_{ICP} > 100\%$  meaning  $GI_{ICP} = 100\%$ ;
- $GI_{ICP} < 0\%$  meaning  $GI_{ICP} = 0\%$ .

KPIs are annually assessed based on the annual audited financial statements and other verification tools.

## 2. The substantiation of the economic-financial indicators which change significantly from the previous year

- Increase in energy and water expenses by Lei 8.408 thousand (44,1%) due to the estimates of the end of the utility price cap in 2024;
- The increase in the expenses related to the maintenance and repair by Lei 30.489 thousand (99,16%) due to the increase in the maintenance program for 2024.

The program for the scheduled repairs to pipelines for 2024 includes mainly: the works started and unfinished under the relevant program of 2023, works initiated in previous years' programmes which, for reasons, could not be contracted or completed during 2023 and will continue in 2024, works which are in the procurement procedure, with construction and assembly works to be started in 2024.

The National Natural Gas Transmission System Maintenance Service Programme (PASM) for the year 2024 is generated as an obligation assumed by S.N.T.G.N. Transgaz S.A. in accordance with the Concession Agreement concluded with the National Agency for Mineral Resources (ANRM) and with the provisions of Electricity and Gas Law 123/2012 to maintain the transmission capacities of the National Natural Gas Transmission System in conditions of efficiency and safety, in accordance with the NTS Maintenance Technical Standards.

The planning of the NTS Maintenance Services Program for the year 2024 includes a budget projection of the needs for services provided by third parties to ensure planned preventive maintenance (maintenance, repairs, servicing, logistic facilities, etc.) and corrective maintenance of the NTS (interventions and accidental repairs). The budget allocations for the planned preventive repair and service component can be assessed with a high degree of accuracy, while the corrective component is based only on a presumptive nature, with the provision of a budget corresponding to accidental situations, necessary to be purchased in the event of situations that could not be foreseen.

- Increase of expenditure for consumable materials by Lei 19.370 thousand (36,07%) due to the increase in the program for the supply of materials representing pipes, bends, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of the maintenance activity at the technological installations related to the metering regulating stations of the NTS by replacing similar worn out equipment.
- The increase in expenses with the commissions and fees by 319,23%. Such expenses consist mainly of expenses for legal advice (Lei 3.213 thousand), representing consultancy, assistance and the legal representation of a law firm with international expertise in the Community competition law, and consultancy, assistance and the legal representation needed to implement the applicable European regulations pertaining to the company's business, the implementation of rules relating to the financing of energy infrastructure by CEF mechanism and providing legal expertise in international and European regulations;



- Increase in borrowing costs (Annex 4) by Lei 65.071 thousand (918%). These expenses are composed of interest on loans contracted to finance projects included in Transgaz' investment programme and the loan fees for loans expected to be contracted in 2024 for the same project.

### 3. Substantiation of economic-financial indicators that are significantly changing as opposed to the management plan

Art. 9 (1) (c) of GO 26/2013 as amended stipulates as follows:

*‘ Economic operators shall consider, without limitation, the following when substantiating the revenue and expense budget: ...*

*c) the specific performance criteria and the quantified objectives for the reduction of payments and outstanding debts, the reduction of loss, the increase in profit and turnover and the labour productivity growth provided in the mandate contracts, established in relation to the management strategy of the Board of Administration/Supervisory Board and the management plan of the economic operators' directors/members of the directorate;*

The level of the EBITDA indicator foreseen in the Management Plan for 2024 approved by OGMS Resolution 2/2023 will not be achieved due to the following factors:

- decreased revenue from transmission services by **Lei 180.890 thousand** mainly due to:
  - the transmission tariff approved by ANRE for the year 2023-2024 lower than the tariff estimated in the management plan, with a negative influence of Lei 177.123 thousand related to the capacity booking component and with a negative influence of Lei 113.345 thousand related to the commodity component of the transmission tariff;
- exceeding the operating expenses foreseen in the Management Plan for 2024 approved by OGMS Resolution 2/2023, mainly due to:
  - the increase of oil royalty expenses by 209,165 thousand lei due to the increase of the percentage rate for determining the oil royalty due by the company from 0,4% to 11,5% of the value of gross revenue from natural gas transmission and transit operations through the national transmission system starting from 30 October 2023;
  - the increase in monopoly tax expenses by Lei 21.419 thousand due to the quantities of natural gas expected to be transported in 2024 being higher than the estimates used to substantiate the management plan;

The level of the indicator `Operating Expenses` provided for in the Management Plan for 2024 approved by OGMS Resolution 2/2023 will not be achieved mainly due to the following factors:

- the increase of oil royalty expenses by lei 209.165 thousand due to the increase of the percentage rate for determining the oil royalty due by the

company from 0,4% to 11,5% of the value of gross revenue from natural gas transmission and transit operations through the national transmission system starting from 30 October 2023.

➤ the increase in monopoly tax expenses by Lei 21.419 thousand due to the quantities of natural gas expected to be transmitted in 2024 being higher than the estimates used to substantiate the management plan.

The level of the indicator `Net debt ratio` foreseen in the Management Plan for 2023 approved by OGMS Resolution 6/2021 will not be achieved mainly due to the non-achievement of the level of the `EBITDA` indicator provided for in the Management Plan for 2024 approved by OGMS Resolution 3/2022, the factors being presented above.

**The new values of the amended key performance indicators are presented in the table below:**

Indicator		2024	2025
<b>EBITDA</b>	Draft REB 2024-2026	579.907	947.532
	Management Plan	801.888	951.217
	Differences	-221.981	-3.686
<b>Operating expenses</b>	Draft REB 2024-2026	1.486.728	1.614.088
	Management Plan	1.434.821	1.424.745
	Differences	51 907	189 343
<b>Net debt ratio</b>	Draft REB 2024-2026	5,5	5
	Management Plan	5	5
	Differences	0,5	0

Before the approval of the draft REB 2024 and of the estimates for 2025 – 2026 by GMS, the revision of the performance indicators approved by OGMS Resolution 2/2023 in order to comply with the provisions of GO 26/2013 will be required.

#### **4. Debt cost capitalization according to IAS 23**

Transgaz contracts bank loans during the period 2024 - 2026 to fund projects under the Development plan, which is why, according to IAS 23 `Borrowing Costs`, the company capitalized the expense related to interest associated to the loans until the date the facilities financed by such loans have been commissioned.

According to the provisions of Transgaz's applicable Articles of Incorporation, Chapter IV, Art. 15 (3) (c), **the revenue and expense budget for 2024 and the estimates for 2025-2026 are submitted to the General Meeting of the Shareholders for approval**, according to the provisions of GO 26/21 August 2013, Art. 4 (1) (d).

Enclosures:

- The revenue and expense budget for 2024 and the estimates for 2025-2026: Annex no.1\*;
- The detailing of the economic-financial indicators provided in the revenue and expense budget and their split by quarters: Annex no 2\*,
- The degree of achievement of the total revenue: Annex no.3\*;
- The investment program and sourcing of investment funding: Annex no.4\*;
- Means to improve the gross result and the reduction of outstanding payments: Annex no. 5\*;
- The revenue and expense budget for 2024: Annex no. 6

***\* Note: Annexes 1 – 5 will not be made public***

**Chairman of the Board of Administration  
Petru Ion Văduva**

Economic operator: S.N.T.G.N. Transgaz S.A. Medias  
 Headquarters: 1 C.I. Motas Sq., Medias  
 VAT number: RO 13068733

**REVENUE AND EXPENSE BUDGET**  
**for 2024**

thousand lei

		INDICATORS	No. row	REB 2024
0	1	2	3	5
I.		<b>TOTAL REVENUE (row1=row2+row5a+row6)</b>	1	4.845.013
	1	<b>Total operating revenue before the construction activity according to IFRIC 12</b>	2	2.512.146
	a)	subsidies according to the applicable laws	3	
	b)	transfers according to the applicable laws	4	
	2	<b>Revenue from the construction activity according to IFRIC12</b>	5a	2.117.715
	3	<b>Financial revenue</b>	5	215.152
II		<b>TOTAL EXPENSE (row7=row8+row20+row20a+row21)</b>	6	4.633.405
	1	<b>Operating expense before the construction activity according to IFRIC12, of which:</b>	7	2.370.800
	A.	<b>Expense with goods and services</b>	8	866.288
	B.	<b>Expenses with taxes, charges and similar</b>	9	327.344
	C.	<b>Expense with personnel, of which:</b>	10	711.386
	C0	Salary-related costs (row13+row14)	11	662.645
	C1	Salary costs	12	581.978
	C2	Bonuses	13	80.668
	C3	Other personnel expense, of which:	14	1.062
		Compensation expense related to employees layoffs	15	962
	C4	Expense on mandate contract and other governing and control bodies, commissions and committees	16	5.927
	C5	Expense on employer contributions	17	41.752
	D.	<b>Other operating costs</b>	18	465.782
	2	<b>Cost of assets built according to IFRIC12</b>	19a	2.117.715
	3	<b>Financial costs</b>	19	144.890
III		<b>GROSS RESULT (profit/loss)</b>	20	211.608
IV	1	<b>TAX ON CURRENT PROFIT</b>	21	43.971
	2	<b>TAX ON PROFIT</b>	22	
	3	<b>REVENUE FROM TAX ON DEFERRED PROFIT</b>	23	5.281
	4	<b>TAX SPECIFIC TO SOME ACTIVITIES</b>	24	
	5	<b>OTHER TAX NON REPRESENTED IN THE ELEMENTS</b>	25	
V		<b>NET PROFIT/LOSS OF THE REPORTING PERIOD (ROW 26=ROW 20-ROW 21-ROW 22+ ROW 23-ROW 24-ROW 25) OF WHICH:</b>	26	172.918

		INDICATORS	No. row	REB 2024
0	1	2	3	5
	1	Legal reserves	27	10.580
	2	Other reserves representing tax incentives provided according to the law	28	
	3	Covering accounting losses in the previous years	29	
	4	Establishment of own financial sources for the projects cofinanced by foreign loans as well as establishment of the sources necessary for the capital repayments, interest payment and other costs related to these foreign loans	30	
	5	Other assignments provided by law	31	
	6	Accounting profit left after the deduction of the amounts in row 27, 28, 29, 30, 31 (row 32=row26-(row 27 to row 31)>=0).	32	162.338
	7	Employees' participation in profit up to 10% of net profit, but not more than the level of an average monthly basic salary achieved at the level of the economic operator in the reference financial year	33	16.234
	8	Minimum 50% payments to the state or local budget in the case of autonomous utilities, or dividends due to shareholders, in the case of national companies and majority or entirely state owned companies, of which:	34	90.423
	a)	- dividends owed to the state budget	35	52.906
	b)	- dividends owed to the local budget	36	
	c)	- dividends owed to other shareholders	37	37.517
	9	Profit not assigned for the destinations provided at row 33 - row 34 is assigned to other reserves and it is an own financing source	38	71.914
VI		INCOME FROM EUROPEAN FUNDS	39	
VII		ELIGIBLE COSTS FROM EUROPEAN FUNDS, of which:	40	
	a)	material costs	41	
	b)	salary costs	42	
	c)	service supply costs	43	
	d)	publicity costs	44	
	e)	other costs	45	
VIII		INVESTMENT FUNDING SOURCES, of which:	46	2.249.551
	1	Budget allocations	47	
		Budget allocations regarding payment of commitments from the previous years	48	
IX		INVESTMENT COSTS	49	2.249.551
X		SUBSTANTIATION DATA		
	1	No. of personnel estimated at the end of the year	50	4.063
	2	Total average no. of employees	51	4.080

		INDICATORS	No. row	REB 2024
0	1	2	3	5
	3	Average monthly income per employee (RON/person) determined based on the salary*) costs*)	52	12.688
	4	Average monthly income per employee (RON/person) determined based on the salary**) costs, re-calculated acc. to annual State Budget Law**	53	12.688
	5	Labour productivity in units of value per total average personnel (thousand RON/person) (row 2/row 51)	54	616
	6	Labour productivity in units of value per total average personnel re-calculated acc. to the annual State Budget	55	616
	7	Labour productivity in physical units per total average personnel (qty of finite products/person)	56	0
	8	Total costs at lei 1000 total income (row 6/row 1)x1000	57	956
	9	Outstanding payments	58	0
	10	Outstanding receivables	59	582.965

\*) row 52 = row 151 in Substantiation Annex no. 2

\*\*) row 53 = row 152 in Substantiation Annex no. 2

**DIRECTOR GENERAL,**  
Sterian Ion

**CHIEF FINANCIAL OFFICER**  
Lupean Marius