

No. 18978/12.03.2021

Submitted for the approval of the OGMS dated 27/28 April 2021

REPORT

on the approval of the revenue and expense budget for 2021 and of the estimations for 2022 - 2023

SUMMARY

The draft Revenue and Expense Budget for 2021 and the estimations for 2022-2023 were approved within the meeting of Transgaz' Board of Administration of 22 March 2021.

The substantiation of the draft was based on the programmes for NTS design, maintenance, rehabilitation, supply of materials and spare parts; programmes for the provision of services; the provisions of the Collective Labour Contract; the laws in force; based on the gas quantities estimated to be transmitted and the expected capacity bookings.

Lei thousand

No.	ITEM	2020 REB	Estimated 2020	2021 REB
0	1	2	3	4
1.	Operating revenue before the balancing and the construction activity according to IFRIC 12	1.400.382	1.399.694	1.336.272
	2020 REB comparison		-0,05%	-4,58%
	Estimated 2020 comparison			-4,53%
1.1	Revenue from the balancing activity	120.150	199.239	304.727
1.2	Revenue from the construction activity according to IFRIC 12	2.083.209	1.575.005	1.083.672
1.3	Financial revenue	49.458	60.465	95.114

0	1	2	3	4
2.	Operating costs before the balancing and the construction activity according to IFRIC 12	1.297.494	1.166.040	1.282.587
	2020 REB comparison		-10,13%	-1,15%
	Estimated 2020 comparison			10,00%
2.1.	Costs before the balancing activity	120.150	199.239	304.727
2.2.	Cost of assets constructed according to IFRIC 12	2.083.209	1.575.005	1.083.672
2.3.	Financial costs	22.736	19.574	32.778
3.	GROSS PROFIT	129.609	274.545	116.020
	2020 REB comparison		111,83%	-10,48%
	Estimated in 2020 comparison			-57,74%
4.	Tax on profit	21.151	44.756	18.739
5.	NET PROFIT	108.458	229.790	97.281
	2020 REB comparison		111,87%	-10,30%
	Estimated 2020 comparison			-57,67%

PROPOSAL:

The approval of the draft revenue and expense budget for 2021 and of the estimations for 2022-2023, according to GO 26/21 August 2013, Art.4 (1) (d) and to the effective Transgaz' 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, paragraph (1[^]1) *The economic operators under Art. 4, paragraph (1), letter 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, paragraph (1) annually, the state budget law establishes salary policy objectives on which economic operators substantiate revenue and expense budget indicators.**
- Art. 9, paragraph (1) Economic operators shall consider, without limitation, the following when substantiating 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 Directors//Supervisory Board and the management plan of the economic operators' directors / members of the directorate.**

the substantiation of the Revenue and Expense Budget of SNTGN Transgaz SA shall be compliant with the Government's policy on enhancing the economic and financial performance and of the salary policy objectives approved under the State Budget Law.

The Revenue and Expense Budget for 2021 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 no. 15/2021 on the State Budget for 2021;
- 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 gas transmission pipelines Isaccea – Negru Vodă;
- Regulation EU 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks;

- *ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by ANRE President Order 16/2013;*
- *Power and Gas Law no. 123/10.07.2012 as amended;*
- *ANRE Order 85/2017 on the approval of the Methodology for the calculation of the neutrality tariffs for balancing, including their allocation to the network users of the gas transmission network;*
- *Trading Companies` Law 31/1990, republished, as further amended and supplemented;*
- *GEO no. 114 of December 28, 2018 on the establishment of measures in the field of public investments and fiscal-budgetary measures, amendment and supplementation of certain normative acts and extension of deadlines;*
- *GO 80/20.08.2001 on setting expenditure laws for the authorities of the public administration and public institutions;*

The preliminary values for 2020 are the ones related to the preliminary individual results published according to the financial calendar as at 22 February 2021.

The draft Revenue and Expense Budget for 2021 was submitted for consultation to the financial management control according to Government Decision no. 1151/2012 approving the Methodological rules for the organization and exercise of financial management control, and to the trade unions.

The substantiation of costs was based on the following:

- *estimated inflation ratios and/or exchange rates projected according to the „Forecast of the main macro economic indicators 2020-2024 – for the draft Budget 2021, the winter forecast 2021, 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*
- *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 pipe couplings and planned repairs, differences due to measurement errors, etc.;
 - price of gas in stock as at the date of REB substantiation and estimation regarding the gas price for the period which is not covered by the existing stocks;
- 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 ANRE President Order 16/2013 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 2021, art 48, para (1) letter (b) para (3) and para (4) letter b) namely:
- (1) *For the year 2021, the economic operators to which the provisions of art. 9 paragraph (1) letter b) and paragraph (3) of Government Ordinance no. 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 no. 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:*
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- (b) *by the amounts representing increases in salary expenses related to their recompletion, for the entire year 2021, determined by granting salary increases and / or by the increase in the number of employees during 2020;*
- (4) *Economic operators having made profits in 2020 and not recording outstanding payments as at 31 December 2020 may increase the gross monthly average earnings per employee, provided that the increase index does not exceed the calculated labour productivity increase index in value or physical units, as appropriate, and provided that no losses and / or outstanding payments are scheduled.*
- (5) *To determine the gross monthly average earnings per employee, provided for at paragraph (4), in order to establish its increase index, the following expenses shall not taken into account:*
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- b) *the amounts representing increases in salary expenses related to their re-completion, for the whole of 2021, determined by the increase in the number of personnel during 2020."*

Upon the application of the aforementioned legal provisions, the expenses related to the personnel salaries were substantiated at the level of the at the level of base salaries, increases and bonuses of employees existing at the end of 2020, granted based on the applicable company's Collective Labor Contract and provided for in the ongoing individual employment contracts.

Amounts were provided in amount of lei 24,770 thousand representing increases in salary expenses related to the recompletion of salaries for the entire year 2021, determined as a result of salary increases granted in October 2020, as well as the application of the Collective Labour Contract provisions related to the personnel wage category.

The salary expenditure related to 2021 decreased by the amounts representing increases in salary expenses related to the reinstatement of salaries for the entire year 2021, determined as a result of granting salary increases in October 2020, amounts to **LEI 451,435 thousand**, 153 thousand lei lower than provided for in the 2020 budget.

The provisions of Ordinance 26/2013 and art. 48, paragraph (1) letter b), paragraph (3) and paragraph (4) letter b) of the Law on the state budget for 2021 are observed, 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 100.61% lower than the increase of labor productivity in value units on average total staff, in percentage of 102.16%. We present below their inclusion in the legal provisions:

thousand lei

No.	Indicators	REB 2020	Preliminary 2020	REB 2021	%
0	1	2	3	4	5 = 4/3
1	Salary expenses	451.588	440.286	476.206	108,16
2	Salary expenditure determined according to the provisions of art. 3 letter f of GEO 26/2013.	422.135	414.809	444.018	107,04
3	Average number of staff	4.196	4.153	4.172	100,46
4	Amounts representing increases in salary expenses related to their reinstatement, for the entire year 2021, determined as a result of the granting of salary increases and/or the increase of the number of staff in 2020			24.770	
5	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses. Line 2 / line 3 /12/1000	8.384	8.323	8.869	106,55
6	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses recalculated according to the annual Law of the state budget (Line 2 – line 4)/line 3/12/1000	8.384	8.323	8.374	100,61
7	Labor productivity in physical units per average total staff (quantity of finished products / person)	369	385	393	102,16

II. The following were also taken into account when substantiating the salary fund, as well as the other personnel expenses :

- the provision of a fund amounting to LEI 12,011.1 thousand for granting compensations for the continuation of the voluntary turnover of approximately 150 employees. This fund was calculated for that number of employees, 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;
- payment of the personnel employed for the positions created over fixed-term for the implementation of projects highly important for the company's development, the salary fund of which will be settled in part from the funds received from the European Union. Such positions will be terminated after the completion of the projects. The funds provided for this purpose in the amount of LEI 15,111.25 thousand were assigned to personnel salary costs, representing the kind of costs incurred for business expansion. Out of this amount the personnel salary costs allocations will be settled from the funds attracted for the implementation of such projects.
- granting the salary bonuses for Easter, Christmas and the Gas worker's Day according to the provisions of art. 181 of the Collective Labour Contract;
- the granting of birth, marriage, retirement and death benefits in accordance with the provisions of applicable Collective Labour Contract;
- the amounts necessary for granting food vouchers in nominal value of LEI 20 during 2021;
- expenses incurred on behalf of an employee related to voluntary pension schemes, up to an amount representing the LEI equivalent of 400 EUR during a financial year, for each participant.
- 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 provision of expenses with gifts in cash or in kind offered to minor children and employees, gifts in cash or in kind granted to female employees. The company's applicable Collective Labour Contract provides for in art. 183 paragraph (2) for granting of such gifts for Women's Day, June 1 and Christmas, within the limits of at least 10% of the level of category 27F from the company salary range;

- 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 Collective Labour Contract in force;
 - 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;
 - the provision of a fund of LEI 500 thousand for various social actions, amounts requested by the Gas Transport Union by the letter no. 35/15.10.2020.
 - For the year 2022, an indexation of the base salaries of the staff by 5% starting with January 2021 was taken into account and for the year 2023 an indexation of the salaries of the staff by 5% starting with January 2023 was taken into account, according to the provisions of art. 146 of the company's applicable Collective Labor Contract.
 - In aggregate the salary expenses foreseen for the year 2021 exceed the level of the salary expenses approved in the revenue and expense budget of S.N.T.G.N. 'TRANSGAZ' S.A. for 2020 by **LEI 24,617** thousand due to the following influences:
 - The provision of amounts of LEI 24,770.4 thousand representing increases in the salary expenses related to their re-completion for the entire 2021, determined as a result of granting salary increases in October 2020, as well as applying the provisions of the Collective Labour Contract related to the personnel wage category;
- III.** Regarding the average number of employees for 2021, the following are necessary:
- Maintain the current number of 5,305 positions approved at this date by the company's organizational chart, a resizing of the organizational chart will be performed after the approval of other projects and the completion of the standardization of all activities carried out in the NTS. At the same time, the upgrading and retrofitting that will be carried out to the NTS and the related equipment in order to apply the Network Code as well as to maintain and develop a monitoring, control and data acquisition SCADA type system, will be taken into account;
 - The natural reduction of the employed staff without affecting the current activity by redistributing the tasks and responsibilities for some positions whose holders are to retire in 2021. For the year 2021, a number of 34 retirements for seniority are foreseen;
 - Continue to redesign the organization of some activities within the company as well as the tasks and responsibilities of the staff performing such activities. In this regard, it is also necessary to continue the program of voluntary departures,

which will achieve a reduction in the number of employees approaching retirement age or who have a poorer health, factors that lead to a reduction in the capacity to fulfil the job-related tasks. The number of employees who will request to be included in such lists in 2021 was estimated at 150;

- Continue the recruitment process of specialized personnel necessary for the implementation of projects of major importance in the development of the company, as well as for the activities of design, accessing European funds and development/ maintenance of existing information and communication systems to digitize operations. In this regard, both employees within the company and external specialists will be selected. In order to comply with the strategic vision of the administrators regarding the reduction of the staff, the number of external employees will be limited to 200 in 2021;
- By redistributing the tasks and responsibilities to the remaining staff, the activity programs will be achieved with the existing employees. Therefore, it is estimated the use of an average number of 4,172 employees in 2021, compared to 4,196 approved by REB in 2020.

IV. Expenses with training and the professional development of the employees

Employee training and professional development expenses, amounting to LEI 1,907.9 thousand, based on the Annual Program for Training and Professional Development of employees for 2021, to which LEI 2,344.5 thousand are added for training expenses related to projects for which European funds will be accessed in an estimated amount of LEI 1,422.85 thousand.

V. Expenses related to the civil liability insurance of administrators and executive management

The expenses with the insurance premiums for the professional risks insurance of the members of the Board of Administration and the executive management of the company, in the amount of 75,000 Euro/year according to art. 4 of Resolution no. 2 of 6.03.2018 of the Ordinary General Meeting of Shareholders of S.N.T.G.N TRANSGAZ S.A..

VI. Expenses related to the civil liability insurance of the operating staff

The expenses related to the insurance premiums for the insurance of professional risks of the operating staff, which are borne by the employer according to art. 62 paragraph (7) of the company's applicable Collective Labour Contract. Such expenses were estimated at 87,300 lei/year.

In line with the provisions of ANRE Order no. 41 of 15 March 2019 *on the approval of the Methodology for setting regulated tariffs for the gas transmission services*, 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.

Within the regulated income for the 2021, ANRE has approved lower personnel expenses by about LEI 22 million compared to the amounts substantiated in the Revenue and Expense Budget for 2021.

Revenue substantiation was determined considering:

- the gas quantities estimated to be transmitted (including the quantities transmitted for storage) and the capacity booking estimated for 2021 – 2023;
- 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 the ANRE under Order 83/27 May 2020 on the approval of the regulated revenue, total revenue and transmission tariffs for the transmission of gas through the National Transmission System for the period 1 January 2021 - 30 September 2021 substantiated based on the methodology approved by Order ANRE no. 41/2019 and submitted for approval to ANRE, respectively the tariffs estimated for the period 1 October 2022 - 31 December 2023 based on the methodology approved by ANRE Order 41/2019;
- the value of the international gas transmission service was estimated
 - according to the agreement for the termination of the legacy contract concluded with Gazprom Export Ltd. The Agreement for the termination of the legacy contract between SNTGN Transgaz SA and Gazprom Export LLC establishes the necessary framework for the conclusion of the interconnection agreements for the Isaccea 2,3 and Negru Vodă/Kardam 2,3 interconnection points, the ensuring of the free access for third parties to the booking of transmission capacity on the T2 and T3 transit pipelines, ensures the collection of the amounts payable under the legacy contract and creates the grounds for increasing the degree of use of the Romanian gas transmission infrastructure. Revenue obtained from the transmission activity are regulated according to ANRE Order 41/2019 and to ANRE Order 34/2014 depending on the point where capacity is booked.

By ANRE Order no. 149/29.07.2020, a regulated revenue of LEI 169,820,239 for the provision of regulated transmission services in respect of transmission pipelines T2 and T3; for the establishment of the transmission tariffs a booked capacity amount of 84 mil. MWh was estimated; the draft REB 2021 did not contemplate an estimation of the booking of the transmission capacity related to the pipeline Isaccea 2 – Negru Voda 2. The booking of the capacity related to this pipeline is possible as soon as the interconnection agreements with the Ukrainian and the Bulgarian TSOs have been concluded.

The assumptions underlying the substantiation of the economic-financial indicators for the period 2021-2023 are illustrated in the table below:

Tag no	Item	MU	2021	2022	2023
1.	Average annual inflation index	%	2,50	2,40	2,30
2.	Exchange rate	lei/EURO	4,89	4,93	4,97
3.	Exchange rate	lei/USD	4,18	4,21	4,25
4.	Transmitted gas quantity (including injection in underground storage)	MWh	139.960.997	141.213.446	141.226.944
5.	The average transmission tariff	lei/MWh	7,72	8,49	8,37
6.	Technological consumption procurement average price	lei/MWh	94,02	87,34	87,34

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

*** Lei Thousand ***

N o.	Indicators	2021 REB	Estimated for 2022	Estimated for 2023
1.	TOTAL REVENUE, of which:	2.819.785	3.919.604	2.600.424
1.1	Operating revenue before the construction activity according to IFRIC 12	1.640.999	1.782.017	1.765.515
1.2	Financial revenue	95.114	147.495	205.005
1.3	Revenue from the construction activity according to IFRIC 12	1.083.672	1.990.092	629.904
2.	TOTAL COST, of which:	2.703.765	3.534.260	2.262.454
2.1	Operating costs before the construction activity according to IFRIC 12	1.587.314	1.506.786	1.574.470
2.2	Financial costs	32.778	37.382	58.080
2.3	Cost of assets built according to IFRIC 12	1.083.672	1.990.092	629.904
3.	GROSS PROFIT	116.020	385.345	337.970
4.	TAX ON PROFIT	18.739	57.858	49.813
5.	NET PROFIT	97.281	327.487	288.157

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;
- reduction of the royalty percentage from 10% to 0.4% according to Law 244/2020 on the approval of Government Emergency Ordinance 103/2020, and the non-recognition in the regulated revenue of the royalty related to the period (30 July 2020 - 11 November 2020) between the date of entry into force of Law 155/2020 amending and supplementing Electricity and Gas Law 123/2012 and the date of entry into force of Law 244/2020 on the approval of Government Emergency Ordinance 103/2020.
- elimination of the monopoly tax starting with 1 January 2022;
- non-recognition in the regulated revenue of the monopoly tax cost, the estimated value of which is LEI 62,172 thousand in 2021;
- adjustment of the regulated revenue with the efficiency gain registered by the company in the third regulatory period and with the value of the additional registered revenue;

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:

- no amounts were distributed to legal reserves as they are currently constituted under the quota of 20% of the share capital, according to Art.183, paragraphs (1) and (2) of Law 31/1990, as amended, and the company's share capital is not expected to change;
- employees share in to profit was determined within the limit of the monthly average base salary estimated per employee in the year for which the share in is granted, per average number of employees, obtained in the closed 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.

The analysis of the 2021 REB economic and financial indicators as compared to the 2020 estimations

The synthesis of the 2021 REB indicators compared to the 2020 estimations is illustrated below:

**Lei thousand **

No.	Item	Estimated in 2020	2021 REB	Variation
0	1	2	3	4=3/2-1
1.	TOTAL REVENUE, of which:	3.234.403	2.819.785	-13%
1.1.	Operating revenue before the construction activity according to IFRIC 12	1.598.933	1.640.999	3%
1.2.	Financial revenue	60.465	95.114	57%
1.3.	Revenue from the construction activity according to IFRIC 12	1.575.005	1.083.672	-31%
2.	TOTAL COST:	2.959.858	2.703.765	-9%
2.1.	Operating cost before the construction activity according to IFRIC 12	1.365.279	1.587.314	16%
2.2.	Financial cost	19.574	32.778	67%
2.3.	Cost of constructed assets according to IFRIC 12	1.575.005	1.083.672	-31%
3.	GROSS PROFIT	274.545	116.020	-58%
4.	TAX ON PROFIT	44.756	18.739	-58%
5.	NET PROFIT	229.790	97.281	-58%

I. **The revenue from the operation activity before the construction activity according to IFRIC 12** amounting to **LEI 1,640,999 thousand** is higher by **LEI 42,065.85 thousand** as compared to the 2020 estimated revenue, which is an increase by **2.63%**, mainly due to:

- The increase of other operating revenues by **LEI 25,944 thousand** mainly based on the increase in the revenues from subsidies as a result of the commissioning of the investments for which grants were received;

- The increase in the revenues from the NTS balancing by **LEI 105,488 thousand** mainly on account of the estimation of a procurement price related to the gas meant for the NTS balancing higher than the one estimated for 2020. Upon the estimation of the gas amount meant for balancing was based on the consumption history recorded in the winter months / subject to temperature, the quantities purchased by Transgaz on the Stock Exchange for the purpose of physically balancing the NTS as well as the quantities purchased in the process of commercial balancing when the system is long
- the decreasing of the revenue from the transmission activity by **LEI 70.364 thousand** mainly due to the registration in 2020 of additional revenue to the approved regulated revenue representing auction premia at the Csanadpalota interconnection point, the value of the premia related to the auctions held for the gas year 2020-2021 being much lower;

Regarding the annual evolution of revenue from gas transmission it is worth highlighting the following aspects:

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 revenues 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 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) shall be 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 income by such savings.

- The efficiency increase factor achieved by the TSO during the fourth regulatory period (2019-2024) will be 60% transferred to gas consumers and 40% will be retained by the TSO starting with year 1 (2024-2025) of the fifth regulatory period (2024-2029).

On 5 March 2020, SNTGN "Transgaz" SA submitted to ANRE the Note for the substantiation of the corrected regulated income for year "2" (October 1, 2020 - September 30, 2021) within the fourth regulatory period (October 1, 2019 - September 30, 2024) and related tariffs, according to the provisions of the methodology approved by ANRE.

The corrected regulated revenue approved for the period 1 October 2020 - 30 September 2021 was determined starting from the substantiated regulated revenue and was adjusted with the redistribution component of the economic efficiency gain during the period July 2014 - September 2019 in the amount of **LEI 92,789 thousand** and of the regulated revenue correction component in amount of **LEI 211,689 thousand**.

On 5 March 2021, Transgaz submitted to ANRE the substantiation note of the adjusted regulated revenue of the year "3" (1 October 2021 - 30 September 2022) within the fourth regulatory period (1 October 2019 - 30 September 2024) and the related tariffs, in line with the provisions of the methodology approved by ANRE.

With the entry into force of Law 244/2020, the royalty percentage decreases from 10% to 0.4% from the revenues from the transmission and transit operations.

The royalty expense included in the regulated revenue for the gas year 2020-2021 determined as 10% of the regulated revenue is **LEI 125,256 thousand**.

In accordance with the provisions of ANRE Order no. 2/20.01.2021 for the amendment of the Order of the President of the National Energy Regulatory Authority no. 41/2019 on the approval of the Methodology for setting regulated tariffs for gas transmission services, royalties for the concession of state-owned goods and royalties provided in the concession contracts for the natural gas transmission service and/or related goods in the public property of the state or of an administrative-territorial unit, are recognized by ANRE in the category of costs taken over directly, except for those for the period (30 July 2020 - 11 November 2020) between the date of entry into force of Law no. 155/2020 for the amendment and supplementing of the Electricity and Gas Law no. 123/2012 and on the amendment and supplementing of other legal acts and the date of entry into force of Law no. 244/2020 on the approval of the Government Emergency Ordinance no. 103/2020 for the extension of the term of application of the measures provided by the Government Emergency Ordinance no. 26/2018 on the adoption of measures for the security of electricity supply. The value of the royalty related to this period is LEI 22,858,23 thousand and it is not recognized within the regulated revenue.

In view of the high investment effort for 2021-2023, the following were requested under the Note for the substantiation of the regulated revenue:

1. The scheduling for the last two years, i.e. 2022-2023 and 2023-2024 of the current regulatory period of the total revenue correction component;
2. Advance recognition of the regulated revenue for 2021-2022 within the CAPEX component of the investment expenses related to the Black Sea Connection project according with the provisions of art. 15, paragraph (3) of the methodology amounting to **LEI 90,046 thousand** (estimated investment value: Lei 1,409.18 million) the following conditions being fulfilled:
 - It is a project included in the categories provided for 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 the guidelines for trans-European energy infrastructures, 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: „Black Sea shore – Podișor pipeline (RO) for taking over Black Sea gas” within "The groups of project implying the staged development of the capacity on the bidirectional transmission corridor Bulgaria–Romania–Hungary–Austria (also currently known as ROHUAT/BRUA) which enables 1.75 bcm/y at the first stage and 4.4 bcm/y at the second stage with the possibility of also taking over the new Black Sea resources at the second and third stage”;
 - Included in the list of conditional priority projects prepared within the CESEC group.
 - Included in the TYNDP ENTSOG 2018: TRA-N-362.
 - The project is included in the investment and Plan for the Development of the National Gas Transmission System 2020-2029 approved by ANRE.

The estimated revenue from the gas transmission activity for 2021, according to the tariffs approved by ANRE for the period 1 October 2020 - 30 September 2022 the substantiated tariffs based on the existing regulations and submitted to ANRE for approval for the fourth quarter of 2021 is **LEI 1,080,101 thousand**, by **LEI 70,364 thousand** lower as compared to 2020.

The major expense categories beyond the company’s control and not recognized in the regulated revenue:

- Monopoly tax amounting to **LEI 61 mil.**
- the royalty for the concession of state-owned assets related to the period (July 30, 2020 - November 11, 2020) between the date of entry into force of Law no.155 / 2020 for the amendment of the Power and Gas Law no.123 / 2012 and the date of entry into force of Law no. 244/2020 on the approval of the Government Emergency Ordinance no. 103/2020 in the amount of **LEI 22 mil.**

Considering the aspects mentioned above, we believe that the provisions of the Instructions for preparing the REB approved by Order no. 3818/30.12.2019, of the Ministry of Public Finance, Annex 6 par.II.6 according to which *'the total revenue and expenses are estimated, so the index related to the increase in total expenses usually does not exceed the total income increase index'* cannot be applied to Transgaz which carries over activity regulated at a rate of approx. 90%.

EU Regulation 312/2014 establishing a network code on the gas transmission networks balancing provides uniform balancing rules at European level, reflecting the specific needs of the transmission system and take into account the drivers available to the operators for balancing the transmission systems. According to the Regulation mentioned 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 mentioned above are taken over in the ANRE Order no.16/2013 on the approval of the Network Code for the National Gas Transmission System modified by ANRE Order no.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"*.

The estimation of the gas quantity for NTS balancing was based on the historical consumption data recorded in winter months/depending on temperature, as well as the quantities purchased by Transgaz on the Stock Exchange for physical balancing of the NTS. Such gas will be procured in 2021 as needed to balance fluctuations in gas flow and to keep pressure levels at levels that allow safe and efficient operation of the NTS.

The revenues related to the fixed production were estimated for the previous year due to the fact that major investment projects are in progress within the company.

II. Operating expenses before the construction activity according to IFRIC12 amounting to **LEI 1,587,314 thousand are by **LEI 222,035 thousand** higher than the**

preliminary ones related to 2020, which represents an increase by 16%, determined mainly by:

- a) Overruns especially in respect of the following expense elements:
1. Expenses related to services executed by third parties higher by **LEI 25,719 thousand**;
 2. expenses related to taxes and other amounts due to the state higher by **LEI 8,418 thousand** mainly due to the fee for the amendment of the operating license, determined based on the gas quantities estimated to be transported through the facilities estimated to be put into operation in 2020 and to the monopoly tax;
 3. Personnel salary expenses higher by **LEI 34.251 thousand**;
 4. Other material costs and ancillary material costs higher by **LEI 43,155 thousand**;
 5. Depreciation expense higher by **LEI 86,788 thousand** on account of the fixed assets commissioned in 2020 and of the ones estimated to be commissioned in 2021;
 6. expenses from the balancing activity higher by **Lei 105.488 thousand** mainly on account of the estimation of a procurement price of the gas meant for NTS balancing higher than the preliminary one for 2020. The estimation of the gas quantity meant for NTS balancing was based on the consumption history registered in the winter months/depending on temperature, the quantities procured by Transgaz on the Stock Exchange for the purpose of the physical balancing of the NTS as well as the quantities procured within the trading balancing process when the system is long;
- b) savings mainly due to the royalty expenses for the NTS concession lower by **LEI 102,921 thousand** on account of the decrease of the percentage share of the royalty applied to the revenues from the domestic and international gas transmission activity (10% until November 2020 and 0.4% as of November 2020);

III. The gross result estimated for 2021 is of **LEI 116,020 thousand**, by **LEI 158,525 thousand** (-58%) lower than the preliminary one for 2020.

IV. The tax on profit was calculated taking into account:

- 👉 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 2020 and of the rights related to the mandate contract to be paid for during the next year;

- 👉 Expenses related to sponsorship granted to a legal extent (Law 227/2015 – Fiscal Code Art. 25 (4) let. i) of 0.75% of the turnover, but not more than 20% of the tax on profit.

Planning the investment financial effort related to 2021-2023

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:

- Equity including the depreciation and the amounts distributed from the net profit to finance investments according to G.O. no. 64/2001 regarding profit distribution to national companies and companies where the state has a full or partial interest, as well as the autonomous administrations, as amended;
- Amounts resulting from the absorption of European funds;
- Unused own resources from previous years and other sources.

The investment expenses were determined based on:

- The modernization and development investment program for 2021 and estimates for the period 2022-2023;
- The design software for investment works for 2021;
- The 10 year National Transmission System development program.

The 10-year National Transmission System Development Plan includes large-scale projects aimed at reconfiguring the natural gas transmission network, namely:

- Development on the territory of Romania of the National Gas Transmission System on the Corridor Bulgaria - Romania - Hungary – Austria (Phase I and II)
- Development on the Romanian territory of the Southern Corridor for taking-over gas from the Black Sea shore;
- NTS developments in the North - Eastern area of Romania in order to improve gas supply to the area and to ensure the transmission capacities to/from the Republic of Moldova;
- Extension of Bulgaria - Romania - Hungary - Austria two-way natural gas corridor (BRUA Phase 3);
- Project on new NTS developments for taking-over gas from the Black Sea shore;

- Romania-Serbia Interconnection - interconnection between the national gas transmission systems of Romania and Serbia;
- Upgrading GMS Isaccea 1 and GMS Negru Voda 1;
- Interconnection between the national gas transmission systems of Romania and Ukraine, in the Gherăești – Siret direction.

The current plan for the development of the Romanian gas transmission system includes large-scale projects aimed at reconfiguring the natural gas transmission network, which, in spite of its being extensive and complex, was conceived at a time when the focus was on the gas supply to large consumers and their access to concentrated resources mostly in the centre of the country and in Oltenia region as well as to the only 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 recently discovered Black Sea gas.

Thus, the projects planned by the company envisage:

- ensuring an adequate degree of interconnectivity with neighbouring countries;
- creating gas transmission routes at regional level to ensure gas transmission from different new sources of supply;
- creating the necessary infrastructure to take over and transport gas from the Black Sea offshore blocks in order for it to be tapped into on the Romanian market and other regional markets;
- extension of the gas transmission infrastructure to improve gas supply to areas with scarce resources;
- creating a single EU integrated market.

In this context, it is very important for Transgaz to implement the projects in a very short period of time so to connect the Central European markets to such resources and thus to redefine itself as an important gas transmission operator.

By enabling the connection between different gas supply sources and the European market, these investment projects have a say in the achievement of the European Union's goals. The main benefits of the above-mentioned projects can be summarized as follows:

- Integration of the gas market and interoperability of the gas transmission systems in the region;

- Price convergence in the region;
- Removing gas transmission bottlenecks in the Bulgaria-Romania-Hungary direction;
- Increasing the flexibility of the European gas transmission system by the construction of bi-directional flow interconnections;
- Through the interconnection of the Bulgaria - Romania - Hungary - Austria corridor with the Black Sea, the access of Romania and the European Union to a new gas source will be ensured;
- Boosting competition on the European gas market by diversifying sources, transmission routes and active companies in the region;
- Increasing the security of gas supply;
- Reducing dependence on Russian gas imports;
- Urging the development of the renewable energy at regional level (especially wind and solar energy) considering the possibility to use gas as a back-up renewable energy option which leads to the significant increase in the sustainability of the proposed projects.

The progress in the implementation of Transgaz' major investment projects obliges the company to take parallel steps to secure the funding of the 10-year National Transmission System Development Plan. During 2021-2023 the company aims at attracting bank funds to complement the necessary financing.

The synthesis of the capital expenditure for the period 2021-2023 as well as its financing is indicated below:

*** thousand LEI ***

No.	Item	2021	2022	2023	Total
					2021-2023
0	1	2	3	4	5=2+3+4
I.	Investment expenses, of which:	1.171.216	2.024.130	637.959	3.833.305
1.1.	Investments	1.089.408	1.893.726	530.909	3.514.043
1.2.	Capitalized interest	10.292	23.753	0	34.045
1.3.	Loan repayment	71.515	106.651	107.050	285.216
II.	Financing sources, of which:	1.171.216	2.024.130	637.959	3.833.305
2.1.	Own sources, of which:	225.564	286.247	307.021	818.833
	- amounts from the net profit	40.055	154.753	135.088	329.896
	- depreciation and other non-monetary expenses / revenues	185.509	131.495	171.933	488.937
2.2.	European funds	372.064	3.549	0	375.613
2.3.	Bank loans	369.957	1.734.333	330.938	2.435.228
2.4.	Other sources	47.040			47.040

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No.	Item	2021	2022	2023	Total
					2021-2023
2.5.	Surplus/deficit from previous years	156.591	0	0	156.591
III.	SURPLUS/DEFICIT(II-I)	0	0	0	0

In 2021, the leverage indicator determined based on the assumptions used for the substantiation of the revenue and expense budget is below 4.

According to the provisions of the GO no. 26 of 21 August 2013 regarding the strengthening of the financial discipline at the level of economic operators in which the state or the administrative-territorial units are sole or majority shareholders or hold directly or indirectly a majority stake, 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

For the period January – April 2021 the allowances to be paid based on the mandate contracts were taken into account.

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

Over the period when GEO 109/2011 as amended is applicable in the form which is effective as at the date of the mandate contracts' approval, 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 mandator's branch of activity 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 company's branch of activity, reported by the National Statistics Institute before the appointment of the mandatory.

The resolution of OGMS no. 2/2018 approved:

- a. the value of the monthly fixed allowance of the non-executive members of the Board of Administration 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, recalculated so as to be in line with the new mandatory social contributions according to Law 227/2017;

- b. the maximum value of the monthly fixed allowance granted to the Director General in the amount of LEI 35,740;
- c. the maximum value of the monthly fixed allowance granted to the Chief Financial Officer in the amount of LEI 29.783;

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 benefit.

The level of the variable benefit is set as follows:

- for the non-executive 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, paragraph (2)) on corporate governance, as amended by Law 111/2016 for the approval of GEO 109/2011, in gross amount of LEI 149.760;
- for the Director General and for the Chief Financial Officer the variable benefit was substantiated on the Resolution of OGMS no. 3/2018 approving the thresholds of the variable components of the Director General' remuneration in the gross amount of EURO 377,5 thousand /year and of the Chief Financial Officer in the gross amount of EURO 36 thousand /year.

According to the provisions of GEO 109/2011 (art. 37 alin. (2)) on corporate governance, amended by Law no. 111/2016 for the approval of GEO no.109/2011, the value of the variable benefit due to the non-executive members of the BoA may not exceed maximum 12 monthly fixed allowances; therefore, as far as the non-executive members of the BoA are concerned, the annual variable allowance component was substantiated within the limit of 12 monthly fixed allowances.

The maximum lawful amount of the variable benefit over the term of the mandate contract may be amended pursuant to Decision no 22/2016 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"*.

Starting with May 2021, adjusted allowances were substantiated, calculated in relation with the gross monthly average salary estimated to be reached within Transgaz during 2020.

The annual variable remuneration = the value of the variable remuneration established based on the study x the indicator total achievement degree.

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 taken into account 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 are facing material changes as compared to the previous year

- The increase in the expenses related to inventory object type material by LEI 12,128 thousand (339.3%) because of reduced procurements in 2020, the difference being reported in 2021;
- The increase in the expenses related to the maintenance and repair by LEI 25,719 thousand (147,47 %) due to the increase in the maintenance program for 2021.

The program for the scheduled repairs to pipelines for 2021 includes mainly: the works started and unfinished under the relevant program of 2020, as well as a guaranteeing amount for the situations caused by unforeseen events as extreme weather conditions, land slides, floods and impact on the NTS facilities, the works under the program for 2020 but which were not promoted to be implemented (mainly due to the lack of the construction documentation or permits). All the works were initiated as a necessity by the pre-feasibility studies underlying the construction based on the FEED or reports for the assessment of the pipelines by means of inspection methods (external or by intelligent pig). Out of the works proposed under the program, most of them are substantiated by projects endorsed by the T.E.C of Transgaz;

- Increase in the expenses related to the company's collaborators. Such expenses are related to the land assessment committees. According to GD no. 834/1991 on the establishment and assessment of lands owned by state-owned companies, as amended, Transgaz is undergoing the process for the certification of the title on the lands part of the company's assets.

Pursuant to art. 2 of Criteria no. 2665/28.02.1992 issued by the Ministry of Finance and published in the Official Journal no. 54/31.03.1992 on the establishment and assessment of lands owned by state-owned companies, as

amended, the committee for the assessment and establishment of the lands part of Transgaz' assets was appointed by order of the relevant minister.

Pursuant to art. 29(2) of the Criteria, as amended By Amendments no. 21541/8392/NN/15.10.1998 issued by the Ministry of Finance and published in the Romanian Official Journal, Part I no. 437/1998 *"the members of the committee for the establishment and assessment of lands owned by state-owned companies, appointed under GD no. 834/1991 as amended, will receive as at the date when the certificate certifying the land title has been issued an allowance of up to the half gross salary as approved by the Board of Administration."* The company's BoA, by Decision no. 35/10.11.2015, art. 7, approved the monthly gross allowance due to the assessment committee members.

- The increase in expenses with the commissions and fees by 1,420.3 %. Such expenses consist mainly of expenses for legal advice (LEI 7,500 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 vocational training expenses by 227.35% mainly due to the budgeting of the amounts needed for training services and related activities included in projects co-financed by European funds (TransgasFormation project).
- The increase in expenses related to banking and associated services by 213.9% mainly due to the fees and taxes related to the EBRD loan for the funding of the project "Black Sea shore – Podisor (RO) Pipeline to take over Black Sea gas"

We would like to mention that the programs for NTS upgrading and development (Investments), design, maintenance and NTS rehabilitation, materials and spare parts supply and the program related to other services performed by third parties, which substantiated the abovementioned expenses were approved at the Board of Administration Meeting on 17 December 2020.

3. Substantiation of the economic-financial indicators which are facing changes as opposed to the plan of administration

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

"Upon the substantiation of the Revenue and Expense Budget, the economic agents envisage, without being limited to, the following:

c) quantified specific performance criteria and objectives for the reduction of payments and outstanding receivables, reduction of loss, increase in profit, turnover and labour output as provided for in the mandate contracts established

in relation with the administration strategy of the Board of Administration/Supervisory Board and the management plan of the economic agents' directors/members of the board of directors."

The level of the EBITDA indicator provided for in the Administration Plan for 2021 approved by OGMS Resolution no. 12/2017 and revised by OGMS Resolution no 2/2018. OGMS Resolution no 3/2019 and OGMS Resolution no. 2/2020 will not be achieved because of the following factors:

- Decrease in the revenues related to the transmission services mainly because of:
 - non-approval in the regulated revenue for the year 2020-2021 of the proposal regarding the recognition in advance, within the CAPEX component, of the investment expenses with the project Black Sea Connection with an impact of **LEI 118 million;**
 - non-approval in the regulated revenue for the year 2020-2021 of Transgaz's proposal regarding the recovery of the correction component of the regulated revenue for a period of four years with an impact of **LEI 94 million;**
 - introduction by Law no. 155/24 July 2020 for the amendment of Power and Gas Law no. 123/2012 and regarding the amendment of other normative acts until the publication of Law no. 244 of 9 November 2020 on the approval of the Government Emergency Ordinance no. 103/2020 for the extension of the term of application of the measures provided by the Government Emergency Ordinance no. 26/2018 on the adoption of measures for the security of electricity supply, **of the restraint on recovering the royalty expenses through the approved regulated revenue with an impact of LEI 22.8 million.**

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

Indicator		2021
EBITDA	Draft REB 2021	399.780
	Updated Administration Plan 2020	552.922
	Diferences	- 153.142
Quick liquidity rate	Draft REB 2021	0,91
	Updated Administration Plan 2020	>1

Before the approval of the draft REB 2021 and of the estimations for 2022-2023 by GMS, the revision of the performance indicators approved by OGMS Resolution no 12/2017, in order to comply with with the provisions of GO no 26/2013 will be required.

4. Debt cost capitalization according to IAS 23

Transgaz contracts bank loans during the period 2021 - 2023 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' applicable Articles of Incorporation, Chapter V, art. 15, para. 3, letter c), **the revenue and expense budget for 2021 and the estimates for 2022-2023 are submitted to the General Meeting of the Shareholders for approval**, according to the provisions of GO no. 26 on 21 August 2013, art. 4, para. 1, letter d).

Enclosures:

- The revenue and expense budget for 2021 and the estimates for 2022-2023: 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 execution rate of the total revenues: 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 2021: Annex no. 6.

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

CHAIRMAN OF THE BOARD OF ADMINISTRATION

REMUS GABRIEL LĂPUȘAN

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 2021

RON thousand

		INDICATORS	Row no.	REB 2021
0	1	2	3	5
I.		TOTAL REVENUE (row1=row2+row5a+row5+row6)	1	1.736.113
	1	Total operating revenue before the construction activity according to IFRIC 12	2	1.640.999
	a)	subsidies according to the applicable laws	3	
	b)	transfers according to the applicable laws	4	
	2	Revenue from the construction activity according to	5a	0
	3	Financial revenue	5	95.114
	4	Extraordinary revenue	6	
II		TOTAL EXPENSE (row7=row8+row20+row20a+row21)	7	1.620.092
	1	Operating expense before the construction activity according to IFRIC12, of which:	8	1.587.313
	A.	Expense with goods and services	9	661.571
	B.	Expenses with taxes, charges and similar	10	81.513
	C.	Expense with personnel, of which:	11	515.745
	C0	Salary-related costs (row13+row14)	12	476.206
	C1	Salary costs	13	422.679
	C2	Bonuses	14	53.526
	C3	Other personnel expense, of which:	15	228
		Compensation expense related to employees layoffs	16	0
	C4	Expense on mandate contract and other governing and control bodies, commissions and	17	4.444
	C5	Expense on employer contributions	18	34.867
	D.	Other operating costs	19	328.484
	2	Cost of assets built according to IFRIC12	20a	0
	3	Financial costs	20	32.778
	4	Extraordinary costs	21	
III		GROSS RESULT (profit/loss)	22	116.021
IV		TAX ON PROFIT	23	18.739

		INDICATORS	Row no.	REB 2021
0	1	2	3	5
V		ACCOUNTING PROFIT REMAINING AFTER THE DEDUCTION OF PROFIT TAX, of which:	24	97.282
	1	Legal reserves	25	
	2	Other reserves representing tax incentives provided according to the law	26	
	3	Covering accounting losses in the previous years	27	
	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	28	
	5	Other assignments provided by law	29	
	6	Accounting profit left after the deduction of the amounts in row 25, 26, 27, 28 , 29.	30	97.282
	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	31	0
	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	32	48.641
	a)	- dividends owed to the state budget	33	28.460
	b)	- dividends owed to the local budget	33a	
	c)	- dividends owned to other shareholders	34	20.181
	9	Profit not assigned for the destinations provided at row 31 - row 32 is assigned to other reserves and it is an own financing source	35	48.641
VI		INCOME FROM EUROPEAN FUNDS	36	
VII		ELIGIBLE COSTS FROM EUROPEAN FUNDS, of which:	37	
	a)	material costs	38	
	b)	salary costs	39	
	c)	service supply costs	40	
	d)	publicity costs	41	
	e)	other costs	42	
VIII		INVESTMENT FUNDING SOURCES, of which:	43	0
	1	Budget allocations	44	

		INDICATORS	Row no.	REB 2021
0	1	2	3	5
		Budget allocations regarding payment of commitments from the previous years	45	
IX		INVESTMENT COSTS	46	0
X		SUBSTANTIATION DATA	47	
	1	No. of personnel estimated at the end of the year	48	0
	2	Total average no. of employees	49	0
	3	Average monthly income per employee (RON/person) determined based on the salary costs*)	50	8.869
	4	Average monthly income per employee (RON/person) determined based on the salary costs, re-calculated acc. to annual State Budget Law**	51	8.374
	5	Labour productivity in units of value per total average personnel (thousand RON/person) (row 2/row 49)	52	#DIV/0!
	6	Labour productivity in units of value per total average personnel re-calculated acc. to the annual	53	393
	7	Labour productivity in physical units per total average personnel (qty of finite products/person)	54	0,0000
	8	Total costs at RON 1000 total income (row 7/row 1)x1000	55	933
	9	Outstanding payments	56	0
	10	Outstanding receivables	57	0

*) row50 = row154 of Substantiation Annex 2

***) row51 = row155 of Substantiation Annex 2

DIRECTOR GENERAL,
Sterian Ion

CHIEF FINANCIAL OFFICER
Lupean Marius