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REPORT

on the approval of the revenue and expense budget for 2020 and of the estimations for 2021 - 2022

SUMMARY

The draft revenue and expense budget for 2020 and the estimations for 2021-2022 were approved in the Board of Administration meeting of 27 January 2020.

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	2019 REB	Estimated in 2019	2020 REB
0	1	2	3	4
1.	Operating revenue before the balancing and the construction activity according to IFRIC 12	1.397.460	1.621.703	1.400.382
	2019 REB comparison		16,30%	0,42%
	Estimated in 2019 comparison			-13,65%
2.	Revenue from the balancing activity	25.540	334.288	120.150
3.	Revenue from the construction activity according to IFRIC 12	1.619.788	580.845	2.083.209
4.	Financial revenue	34.551	44.492	49.458
5.	Operating costs before the balancing and the	1.268.554	1.263.455	1.297.494

	construction activity according to IFRIC 12			
	2019 REB comparison		-0,01%	2,69%
	Estimated in 2019 comparison			2,69%
6.	Costs before the balancing activity	25.540	334.288	120.150
7.	Cost of assets constructed according to IFRIC 12	1.619.788	580.845	2.083.209
8.	Financial costs	15.000	23.717	22.736
9.	GROSS PROFIT	150.457	379.023	129.609
	2019 REB comparison		151,91%	-13,86%
	Estimated in 2019 comparison			-65,80%
10.	Tax on profit	25.534	72.069	21.151
11.	NET PROFIT	124.923	306.954	108.458
	2019 REB comparison		145,71%	-13,18%
	Estimated in 2019 comparison			-64,67%

PROPOSAL:

The approval of the draft revenue and expense budget for 2020 and of the estimations for –2021 - 2022, according to GO 26/21 August 2013, Art.4 (1) (d) and to the applicable Articles of Incorporation of Transgaz, Chapter IV, Art.15 (3)(c).

General considerations regarding REB preparation

Considering GO 26/21 August 2013, as further amended and supplemented, `on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly`, regulating:

- Art. 6, paragraph (1[^]1) *The economic operators under Art.4, paragraph (1), letter d), whose shares are accepted to trade on a regulated market, as well as their affiliates submit, according to the law the revenue and expense budget and the substantiation annexes, prepared according to the applicable laws, to the General Meeting of the Shareholders, for approval, following the prior consulting of the trade unions, and publishes 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 base revenue and expense budget indicators.***
- Art. 9, paragraph (1) *Economic operators 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 losses, 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 directors / members of the directorate of economic operators.***

for the substantiation of the Revenue and Expense Budget of SNTGN Transgaz SA it is necessary to comply 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 2020 is substantiated compliant with the provisions of:

- Law 5 of 6 January 2020 of the state budget for year 2020, Art.48 (1) letter.d), para.(3) and para.(4) letter b)
- GO 26/21 August 2013, as further amended and supplemented, *`on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly`;*
- Ministry of Public Finance Order 3818/30 December 2019 *`on the form and structure of the revenue and expense budget and of the annexes for the substantiation of the budget`;*
- 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;*
- *ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by ANRE President Order 16/2013;*
- *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;*
- *GO 80/2001 on setting expenditure laws for the authorities of the public administration and public institutions, as subsequently amended and supplemented*
- *GEO 1/6 January 2020 on some fiscal and budgetary measures, and the amendment and completion of some legal acts.*

The draft revenue and expense budget for 2020 was submitted for consultation to the financial management control according to Government Resolution 1151/2012 approving the Methodological rules on the organization and exercise of the financial management control, and to the trade unions.

Expense substantiation was based on the following:

- *estimated inflation ratios and/or exchange rates projected according to the „**Forecast of the main macro economic indicators 2019-2023 - the autumn forecast of the National Commission for Prognosis**, for those costs which by their nature have an approximately linear evolution;*
- *technical regulations in force;*
- *programme for NTS modernization and development (Investments), design, maintenance and rehabilitation, supply of materials and spare parts;*
- *service providing programs (security and safety, training, consulting, etc.);*
- *normative acts that are in force regarding legislated costs (contribution to social insurance, transmission licence fee, royalty for the concession of the transmission system, etc.);*
- *costs of social activities under the Collective Labour Contract. Under Art. 1 of GEO 8/2009 on granting holiday vouchers approved as amended and supplemented by Law 94/2014, stipulating that `As of the entering into force of this emergency*

ordinance, for the recovery and maintenance of the working capacity of the employees, the employers hiring personnel under an individual labour contract may legally grant vouchers, hereinafter referred to as holiday vouchers` correlated with the provisions of the CLC in force, regarding the substantiation of the 2020 REB and of the estimations for 2021-2022, no holiday voucher costs were substantiated, being taken into account the rights of the employees in line with Art.189 of the current Collective Labour Contract in force regarding the partial settlement of tickets for rest and treatment.

- The substantiation of the protocol expenses was achieved in compliance with the provisions of GO no 80/2001 on setting normative acts for the expenses of the public administration authorities and public institutions as subsequently amended and supplemented. Transgaz makes expenses similar to the protocol expenses in line with the expense normative acts and within the maximum thresholds set by GO 80/2001.
- technological consumption costs were established based on:
 - an estimate of the specific consumption in 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.;
 - a purchase price of gas under Gas Selling-Buying Contract 835/2019 (contract price: RON 114/MWh) to which the estimated unitary excise was added.
- costs of purchase 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 at the substantiation of the personnel costs:
 - Application of the provisions of State budget law related to 2020, art 48, para (1) letter (d) para (3) and para (4) letter b) namely:
" art. 48, para.(1) d) the economic operators who in 2019 achieved both the planned gross result and the level of the planned outstanding payments may increase salary expenses provided that they do not plan the increase in the outstanding payments and the reduction in the gross result as compared to the level achieved in 2019.
.....
Upon the determination of the gross result achieved in 2019, based on which the gross result for 2020 will be planned in line with the provisions of par. (1), account will not be taken of the incomes and/or the operating expenses achieved as a result of conjunctural situations or activities that are no longer found in the current year. "

(3)

Following the legislative changes caused by the non-recognition of the monopoly tax in the regulated transmission revenue (as a result of the modification of the Methodology of setting the regulated tariffs for the natural gas transmission services by Order 41/15 March 2019), of the termination of the transmission contract with Gazprom Export Ltd for the pipeline Isaccea 2 - Negru Voda 2 and the connection of the Isaccea 1 - Negru Voda 1 pipeline with the NTS of 1 October 2019 and the revenues related to this pipeline represent regulated income treated in accordance with the methodology approved by ANRE Order no. 41/2019 the gross result for the year 2020 registers a decrease as compared to the preliminary one for the year 2019. A gross result was determined under comparable conditions for 2019, taking into account the situations mentioned above, as follows:

** Lei thousand**

ITEM	Estimated in 2019	Estimated in 2019 comparable	2020 REB
Revenue from the domestic gas transmission activity	1.182.301	1.113.069	1.166.876
Revenue from the international gas transmission activity, from wich:	327.493	114.943	115.892
Other operating revenue	111.909	111.909	117.614
Total operating revenue before the balancing and the construction activity according to IFRIC 12	1.621.703	1.339.920	1.400.382
Total operating costs before the balancing and the construction activity according to IFRIC 12 less depreciation	1.059.861	1.031.683	1.051.065
EBITDA	561.841	308.237	349.317
Depreciation	203.594	203.594	246.429
Financial profit	20.776	20.776	26.721
Gross result	379.023	125.419	129.609

(4) To determine the gross monthly average earnings per employee, provided in par. (1), in order to establish its growth index, the following expenses are not taken into account:

b) the amounts representing increases in salary expenses related to their re-integration, for the whole of 2020, determined as a result of granting salary increases and / or increasing the number of personnel in 2019."

Upon the application of the aforementioned legal provisions, the personnel salaries expenses were maintained, maintaining during the year 2020 the level of December 2019 for the base salaries and bonuses, according to the provisions

of the individual labor contracts in progress. This measure led to the provision of amounts of 27,595.6 thousand lei representing increases of the salary expenses related to the salary consolidation for the whole year 2020, determined as a result of granting the salary increases in July and October 2019, as well as the application of the provisions of the Collective Labor Agreement related to the base salaries of the employees;

- the provision of a fund amounting to RON 8.007,4 thousand for granting compensations for the continuation of the voluntary turnover of approximately 100 employees. This fund was calculated for that number of employees, at the level 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 employed staff for the jobs created for the fixed-term for BRUA and Moldova projects, whose salary fund will be settled in part from the funds received from the European Union, the jobs which will be cancelled after the completion of the projects. The funds provided for this purpose in the amount of RON 20.460,5, thousand were assigned to staff salary costs, being the kind employed for business expansion. Out of this amount the staff salary costs allocations will be reimbursed from the funds attracted for the achievement of these projects.
- granting the salary bonuses of Easter, Christmas and the Gas worker's Day of the Collective Labor Agreement in force, at art. 181, at a level of 500 lei/employee/event;
- the granting of birth, marriage, retirement and death benefits in accordance with the provisions of applicable Collective Labour Contract;
- the amounts necessary for the granting of the food vouchers in nominal value of RON 15 in 2020.
- expenses incurred on behalf of an employee related to voluntary pension schemes, up to an amount representing the RON equivalent of 400 EUR in a financial year, for each participant. The collective labour contract in force under Art. 62(4) foresees the EUR 400/employee ceiling in a financial year;
- cost of voluntary health insurance premia up to an amount representing the RON equivalent of EUR 400 in a financial year, for each participant. The collective labour contract applicable at the level of the Company foresees under Art.62 (5) the EUR 400/employee ceiling in a financial year, starting from 2019;
- the provision of expenses with gifts in money or in kind offered to minor children and employees, gifts in money or in kind granted to female employees. The

- collective labor agreement in force at the company level provides in art.183 paragraph (2) for granting such gifts for Women's Day, June 1 and Christmas, within the limits of at least 10% of the level of class 35F from the salary grid;
- 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 participation of employees in the Company's profit under G.O. 64/2001 on profit distribution in national companies, companies publicly owned or controlled and the autonomous regies, as further amended and supplemented corroborated with Art. 141 of the Collective Labour Contract in force within the company;
 - the provision of a fund of 500 thousand lei for various social actions, amounts requested by the Gas Transport Union by the letter no. 31/10.21.2019.

For the year 2021, an indexation of the base salaries of the staff by 2.9% starting from July 2021 was taken into account and for the year 2022 an indexation of the salaries of the staff with 2.8% starting from the month of July 2022 was taken into account, according to the provisions of art. 146 of the Collective Labor agreement in force at the company level.

In aggregate the salary expenses foreseen for the year 2020 register an exceed of the level of the salry expenses approved in the revenue and expense budget of S.N.T.G.N. 'TRANSGAZ' S.A. for 2019, due to the following influences:

- provision of amounts of 27,595.4 thousand lei representing increases in salary expenses related to their re-integration for the whole of 2020, determined as a result of granting salary increases in July and October 2019, as well as applying the provisions of the Collective labor Agreement related to staff recruitment;
- the provision in 2020 of the funds for the payment of the necessary personnel to be committed to the BRUA and Moldova projects. The funds provided for this purpose, by 7,308.6 thousand lei more than those used in 2019, were included in the expenses with staff salaries. From this sum, the allocations for staff expenses will be settled from the funds attracted for the achievement of the respective projects;
- the provision of a 7,947.7 thousand lei fund, by 1,620.1 thousand lei higher than the fund approved in 2019 for covering the voluntary health bonuses expenses within the limit of a sum representing the lei equivalent of 400 euro in a tax year for each employee.
- As a result of the crisis of skilled workers, felt more and more acute in the last period, starting with the school year 2020 - 2021 SNTGN TRANSGAZ SA aims to be involved in supporting the dual education for the qualification of the students in the works of welding, electricity, mechanical locksmith, etc..

In accordance with the provisions of the Methodology of organizing and functioning of the dual education, approved by the MEN Order no.3554 / 2017,

the economic operator participating in the program undertakes several obligations, among which:

- to recruit the students, to promote the schooling program in the area in which the educational institution operates, as well as to support the expenses related to the promotion (advertising, travel, events);
- to ensure the practice work of students with a high level of knowledge and competence, according to the requirements of each qualification. During the practice work period, the students should also benefit from a theoretical teaching support related to the practical information, achieved and supported by specialists of the company;
- to provide the students with a monthly scholarship of at least 200 ron/student/month, as well as the food allowance of 25 ron/student/ month and, where appropriate, the accommodation.

According to the provisions of the Fiscal Code approved by Law no.227 / 2015, with the subsequent modifications and completions, the expenses incurred for organizing and carrying out professional and technical education are deductible expenses for determining the fiscal result, as follows:"Art. 25 (9) There are deductible expenses for the determination of the fiscal result the expenses incurred for the organization and conduct of the professional and technical education, according to the legal regulations in the field of national education."

Also regarding tax depreciation, the Fiscal Code provides:

"Art. 28 (3) Fixed depreciable assets are also considered:

- h) the fixed assets owned and used for the organization and conduct of the professional and technical education, according to the legal regulations in the field of national education;
- i) the investments made for the organization and conduct of the professional and technical education, according to the legal regulations in the field of national education."

In consideration of the above, expenses were estimated at 1,500 thousand lei per school year.

Within the regulated income for the 2019-2020 gas year, ANRE has approved lower staff expenses by about 20 million lei compared to the amounts substantiated on the Revenue and Expense Budget for 2020, expenses that will be capitalized in the value of the major investment projects.

Revenue substantiation was determined considering:

- the gas quantities estimated to be transmitted (including the quantities transmitted for storage) and the capacity booking estimated for 2020 – 2022;
- the gas quantities estimated to be procured for the physical balancing of the National Transmission System;
- the regulated transmission tariffs approved by the ANRE under Order 64/30 May 2019 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 2020 - 30 September 2020, and for the period 1 October 2020 - 31 December 2022 based on the methodology approved by ANRE Order 41/2019;

- the value of the international gas transmission service was estimated
 - according to the existing contract concluded with Gazprom Export Ltd for line 3;
 - **for the period 2020-2022 no revenue from international transmission was estimated on the Isaccea 2 - Negru Vodă 2 pipeline; In the draft REB 2020, no booking of the transmission capacity on the Isaccea 2 - Negru Vodă 2 pipeline was estimated.**

The assumptions at the basis of the substantiation of the economic and financial indicators for the period 2018-2020 are as follows:

Tag no	Item	MU	2020	2021	2022
1.	Average annual inflation index	%	3,00	2,80	2,60
2.	Exchange rate	lei/EURO	4,75	4,75	4,75
3.	Exchange rate	lei/USD	4,28	4,28	4,28
4.	Transmitted gas quantity (including injection in underground storage)	MWh	146.475.680	162.697.053	207.965.111
5.	The average transmission tariff	lei/MWh	7,97	8,47	7,64
6.	Technological consumption procurement price	lei/MWh	114,05	114,05	114,05

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

*** Lei Thousand ***

N o.	Indicators	2020 REB	Estimated for 2021	Estimated for 2022
1.	TOTAL REVENUE, of which:	3.653.199	3.813.513	3.595.186
1.1	Operating revenue before the construction activity according to IFRIC 12	1.520.532	1.775.405	1.986.630
1.2	Financial revenue	49.458	72.131	111.463
1.3	Revenue from the construction activity according to IFRIC 12	2.083.209	1.965.976	1.497.093
2.	TOTAL COST, of which:	3.523.590	3.523.873	3.089.753

N o.	Indicators	2020 REB	Estimated for 2021	Estimated for 2022
2.1	Operating costs before the construction activity according to IFRIC 12	1.417.644	1.518.649	1.554.386
2.2	Financial costs	22.736	39.248	38.274
2.3	Cost of assets constructed according to IFRIC 12	2.083.209	1.965.976	1.497.093
3.	GROSS PROFIT	129.609	289.639	505.433
4.	TAX ON PROFIT	21.151	42.649	76.896
5.	NET PROFIT	108.458	246.991	428.538

The evolution of the economic and financial indicators during the estimated period is 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;

Profit distribution was determined taking into account the provisions of G.O. 64/2001 on profit distribution in national companies, companies publicly owned or controlled and the autonomous municipal companies, as further amended and supplemented and of 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 in national companies, companies publicly owned or controlled and the autonomous municipal companies, approved as amended by Law 769/2001, as further amended and supplemented 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 the Law 31/1990, as further amended and supplemented, and the share capital is not expected to change;
- employees participation in the profit was determined within the limit of the monthly average base salary estimated per employee in the year for which the participation is granted, per average number of employees, obtained in the ended 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 participation in profit, with which it was affected the gross profit before taxation;

- 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 2020 REB economic and financial indicators as compared to the 2019 estimations

The 2020 REB indicators compared to the 2019 estimations are as follow:

**Lei thousand **

No.	Item	Estimated in 2019	2020 REB	Variation
0	1	2	3	4=3/2-1
1.	TOTAL REVENUE, of which:	2.581.327	3.653.199	42%
1.1.	Operating revenue before the construction activity according to IFRIC 12	1.955.991	1.520.532	-22%
1.2.	Financial revenue	44.492	49.458	11%
1.3.	Revenue from the construction activity according to IFRIC 12	580.845	2.083.209	259%
2.	TOTAL COST:	2.202.304	3.523.590	60%
2.1.	Operating cost before the construction activity according to IFRIC 12	1.597.743	1.417.644	-11%
2.2.	Financial cost	23.717	22.736	-4%
2.3.	Cost of constructed assets according to IFRIC 12	580.845	2.083.209	259%
3.	GROSS PROFIT	379.023	129.609	-66%
4.	TAX ON PROFIT	72.069	21.151	-71%
5.	NET PROFIT	306.954	108.458	-65%

- I. **The revenue from the operation activity before the construction activity according to IFRIC 12** amounting to **RON 1.520.532 thousand** is lower by **RON 435.459 thousand** as compared to the 2019 estimated revenue, which is a decrease by 22%, mainly due to:

- the decrease in the revenues from international transmission services by 211,601 thousand lei due to the termination of the transmission contract with Gazprom Export Ltd for the Isaccea 2 - Negru Voda 2 pipeline and the regulation of the transmission income on the Isaccea 1 - Negru Voda 1 pipeline according to the provisions of the methodology approved by ANRE Order

no.41/ 2019 following the connection of this pipeline to the NTS as of 1 October 2019.

- the decrease of the revenue from gas transmission by **LEI 15.424 thousand**, due to two factors on account of the decrease in the share of the commodity charge in the regulated revenue from 30% to 25%, the decrease in the commodity component of the transmission tariff estimated for 2020 and the estimation of low capacities booked for 2020 as compared to 2019;
- The decrease in the revenues from the NTS balancing by RON **214.138 thousand** on account of the estimation of a gas quantity intended for NTS balancing lower than the one predicted for 2019. When estimating the gas quantity for NTS balancing, the historical consumption data recorded in winter months/depending on temperature, as well as the quantities purchased by Transgaz on the Stock Exchange for NTS Physical Balancing;

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 at the determination of the annual regulated revenue:

- the correction component of the total revenue for the previous years;
- the correction component of the technological consumption for the previous years;
- the efficiency gain redistribution component obtained by the transmission operator during a regulatory period (the savings obtained by the transmission operator regarding some cost items as compared to the levels approved by ANRE) must be kept by the transmission operator and aggregated in 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.
- The efficiency increase achieved by the TSO as of the fourth regulatory period (2019-2024) will be 60% transferred to natural gas consumers, and 40% will be retained by the TSO.

Considering that as of 1 October 2019, a new regulatory period has started SNTGN "Transgaz" SA substantiated the regulated income of the year "1" (October 1, 2019 - September 30, 2020) within the fourth regulatory period (October 1, 2019 - September 30, 2024) and related tariffs, according to the methodology approved by ANRE.

Thus the corrected regulated revenue approved for the period 1 October 2019 - 30 September 2020 was determined starting from the substantiated regulated revenue and subsequently corrected on account of the consideration of the redistribution component of the economic efficiency gain during the period July 2014 - September 2019 in the amount of RON **-94.038** thousand and of the component correction of the total income in the amount of RON **-53.225,75** thousand.

In view of the high investment effort from 2020-2021, Transgaz intends to request the recognition in advance of the regulated revenue of 2020-2021, within the CAPEX component, of the investment expenses with the Black Sea connection project (estimated investment value: 360.4 million Euro - 1.716,47 million lei) the following conditions being fulfilled:

- It is a project included in the categories provided for in 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:
 - o PCI Project (second list): 6.24.8;
 - o 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 will enable 1.75 bcm/y in the first stage and 4.4 bcm/y in the second stage with the possibility of taking also over the new Black Sea resources in the second and third stage”;
 - o Included in the list of conditional priority projects prepared within the CESEC group.
 - o Included in the TYNDP ENTSOG 2018: TRA-N-362.
 - o The project is found in the investment and development plan of the National gas transmission system 2018-2027 approved by ANRE.

In this regard, the proposal of the revenue and expense budget for 2020 and estimates for the years 2021 and 2022 includes the recognition in advance, within the CAPEX component, of the investment expenses with the project on connecting the Black Sea (estimated value of the investment: 360.4 million Euro - 1,716.47 million lei), in the regulated income determined for the years 2020-2021, 2021-2022, 2022-2023.

The estimated revenue from the gas transmission activity for 2020, according to the tariffs approved by ANRE for the period 1 October 2019 - 30 September 2020 the estimated charges based on existing regulations for the fourth quarter of 2020 is RON **1.166.876** thousand, by RON **15.424** thousand less compared with 2019 preliminary.

The main elements with a major impact on the income from transmission for 2020 are:

1. **The non-recognition by ANRE in the regulated revenue of the monopoly tax for the gas year 2019-2020 in the amount of 87 mil lei;**

The non-recognition of the monopoly tax in the regulated transmission revenues, following the modification of the Methodology for setting the regulated tariffs for the natural gas transmission services by the Order 41/15 March 2019, estimated value of 86.9 million lei for the gas year 2019-2020;

2. The staff expenses recognized within the regulated income approved by ANRE for the 2019-2020 gas year lower by **20 million** lei compared to the level established in REB 2020, expenses that will be capitalized in the value of the major investment projects carried out by Transgaz
3. Revenue from the first auction was substantiated, as a result of the capacity booking auctions conducted according to the CAM-NC on the interconnection points.

Considering the aspects mentioned above, we believe that the provisions of the Instructions for completing the REB approved by the Order no. 3818/30.12.2019, of the Ministry of Public Finance, Annex 6 par.II.6 according to which *'the total income and expenses are estimated, so the index related to the increase in total expenses usually does not exceed the total income growth index'* cannot be applied for Transgaz whose activity is 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 levers of 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"*.

When estimating the gas quantity for NTS balancing, 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 2020 as needed to balance fluctuations in gas flow and to keep pressure levels at levels that allow safe and efficient operation of the NTS.

II. Operating expenses before the construction activity according to IFRIC12

amounting to **RON 1.417.644 thousand** are by **RON 180.098 thousand** lower than the preliminary ones related to 2019, which represents their decrease by 11%, determined mainly by:

a) Savings especially in the following expense elements:

1. expenses with the royalty for the concession of the NTS lower by **RON 22.703 thousand** mainly on account of the decrease in the revenue from international gas transmission;
2. the cost of gas procurement for NTS balancing lower by **RON 214.138 thousand** according to ANRE Order no.16/2013 approving the Network Code for the National Gas Transmission System modified by ANRE Order no.160/2015. Because according to the provisions of EU Regulation 312/2014 the system operator does not record gains or losses as a result of conducting balancing activities the revenues and expenses related to such activities were grounded in the draft of the revenue and expenses budget in the same amount.
3. Provision expense for risks and expenses lower by **2,032 thousand lei**;
4. Other operating expenses **Lei thousand 51.531**;
5. Tax expenses and other sums due to the state lower by **30,488 thousand lei** following the elimination of the license tax for the gas transmission activity of 2% of the turnover;

b) Overruns mainly to the following expense elements:

1. Expenses related to services executed by third parties higher by **RON 41.824 thousand**;
2. The cost related to the technological consumption higher by **RON 15.327 thousand**, because of the procurement price of gas higher as compared to 2019 by 9,06% (9,48 lei/MWh) and of the gas quantities representing the technological consumption higher as compared to 2019 by 11% (77.404 MWh);
3. Personnel salary expenses higher by **RON 31.629 thousand** mainly on account of the provision in 2020 of increases in the salary costs due to the

restoration of the salaries for the entire year 2020, determined following the granting of the salary increases in July and October 2019 as well as the application of the provisions of the Collective Labour Agreement related to the base salaries of the staff;

4. Other material costs and ancillary material costs higher by **9,223 thousand lei**;
5. Depreciation expense higher by **42,836 thousand lei** on account of the fixed assets commissioned in 2020 (BRUA).

III. The gross result estimated for 2020 is of **RON 129.609 thousand**, by **RON 249.415 thousand** (66%) lower than the preliminary one for 2019.

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

Non-taxable incomes in the amount of 38.885 thousand lei:

- ☞ Income for the cancellation of the provisions related to the participation of the employees related to 2019 in the amount of **15,897 thousand lei**;
- ☞ Income for the cancellation of the provisions related to the rights related to the mandate contract to be paing in the following year in the amount of **2.575 thousand lei**;
- ☞ The influence of the provisions for risks and expenses and of the provisions for the depreciation of current assets, in amount of Lei 20.413 thousand;

Non-deductible expenses in the amount of 52.236 thousand lei:

- ☞ Expenses regarding the provision for the benefits of the staff in the amount of **8,184 thousand lei**;
- ☞ Expenses regarding the provision of the mandate contract in the amount of **2.563 thousand lei**;
- ☞ Expenses regarding the provision of the participation to profit in the amount of **18,017 thousand lei**;
- ☞ Sponsorship expenses granted within the legal limit (Law 227/2015 - Tax Code Art. 25 (4) let. i) of 0.75% of the turnover, but not more than 20% of the tax on profit in amount of LEI 5.000 thousand.
- ☞ Expenses on the participation of employees to profit and the mandate contract in the amount of **18.472 thousand lei**;

Planning the investment financial effort related to 2020-2022

The total expenses for investment include funds for NTS development and modernization works, for the procurement of shares in the European operators in the

field the amounts necessary for the repayment rates on loans employed by the company to finance the investments which were not covered from own sources and the amounts required for the payment of guarantees related to the removal from the statute of agricultural land.

The sources for financing investment expenses are:

- Own sources including the amortization 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 owned or majority state owned, as well as the autonomous administrations, as amended and supplemented;
- 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 2020 and estimates for the period 2021-2022;
- The design software for investment works for 2020;
- The 10 years national transmission system development program.

By Article 2, point 3 of the Decision of the Extraordinary General Meeting of Shareholders S.N.T.G.N."TRANSGAZ" S.A. no. 10 from 12.12.2017 the Board of Administration of S.N.T.G.N."TRANSGAZ" S.A. ("Transgaz") for the increase in the share capital of the limited liability company established on the territory of the Republic of Moldova, in order to successfully participate in the privatization procedure related to Vestmoldtransgaz.

Within Transgaz' revenue and expenditure budget for 2018 and 2019, approved by the Decision of the Ordinary General Meeting of Shareholders no. 2 from 06.03.2018, respectively the Decision of the Ordinary General Meeting of Shareholders no. 3 from May 16, 2019 the sources were substantiated for the procurement of shares within the Vestmoldtransgaz and for the coverage of the necessary investments for the construction of the gas transmission pipeline Ungheni- Chisinau. Out of the allocated amount, the expenses for the years 2018-2019 were estimated at 189,138 thousand lei and the necessary financing adjusted according to Eurotransgaz' substantiation.

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;
- Interconnection of the national gas transmission system with the T1 international gas transmission pipeline and reverse flow Isaccea;

- NTS developments in the North - Eastern area of Romania in order to improve gas supply of 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 of the national gas transmission system with the similar gas transmission system in Serbia;
- Upgrading GMS Isaccea 1 and GMS Negru Voda 1;
- Interconnection of the national gas transmission system with the gas transmission system of Ukraine, in the Gherăești – Siret direction.

The current development plan for the Romanian 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 emphasis was on the gas supply to large consumers and their access to concentrated resources mostly in the centre of the country and in Oltenia as well as the only import source.

When identifying the necessary projects to be developed in the national gas transmission system the onset was the main requirements that it has to ensure in the current dynamics of the regional gas market. In view of the latest developments and trends in the field of gas transmission routes at European level, the profiling of two new sources of gas supply 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 for taking over and transmitting gas from the Black Sea offshore blocks for the purpose of their capitalization on the Romanian market and other markets in the region;
- extension of the gas transmission infrastructure to improve gas supply to deficit areas;
- creating a single integrated market at EU level.

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

By ensuring the connection between different gas supply sources and the European market, these investment projects contribute to the achievement of the European Union's goals, the main benefits of which 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;
- Eliminating congestion in gas transmission on 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;
- Increasing competition on the European gas market by diversifying sources, transmission routes and by the 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 major investment projects of Transgaz SA, requires the performance of parallel steps to ensure the financing of the 10-year National Transmission System development plan. During 2020-2022 the company aims at attracting funds from the banks to complement the necessary financing.

The synthesis of the capital expenditure for the period 2020-2022 as well as its financing is indicated below:

*** thousand RON ***

No.	Item	2020	2021	2022	Total
					2020-2022
0	1	2	3	4	5=2+3+4
I.	Investment expenses, of which:	2.435.830	1.982.654	1.505.937	5.924.421
1.1.	Investments	2.401.200	1.874.391	1.327.506	5.603.097
1.2.	Capitalized interest	34.630	105.413	151.991	292.035
1.3	Loan repayment	0	2.850	26.440	29.290
II.	Financing sources, of which:	2.435.830	1.982.654	1.505.937	5.924.421
2.1.	Own sources, of which:	199.190	241.363	357.439	797.991
	- amounts from the net profit	45.221	114.312	205.086	364.619
	- depreciation and non-monetary expenses	153.969	127.050	152.353	433.372
2.2.	European funds	348.731	185.726	0	534.457
2.3.	Bank loans	1.321.598	1.555.565	1.148.499	4.025.662

No.	Item	2020	2021	2022	Total
					2020-2022
2.4.	Surplus/deficit from previous years	566.311	0	0	566.311
III.	SURPLUS/DEFICIT(II-I)	0	0	0	0

During the period 2020-2022, the indicator of the degree of indebtedness determined on the basis of the assumptions presented in the substantiation of the revenue and expense budget reaches the level of 5 times EBITDA.

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, in case of non-fulfillment of the approved financing sources of investments it is proceeded to reconsider the related commitments and to making all the legal steps for the reception of services, works and goods to be performed at the level of the recalculated funding sources.

It is envisaged to contract a credit line type facility, for a period of 3 years, in the amount of 300,000 lei thousand for covering some temporary needs, for issuing bank guarantee letters required to guarantee natural gas transmission contracts and contracts for the procurement of natural gas for the technological consumption and physical balancing of the national transmission system and to cover the necessary financing of the current activity.

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 Mandate Contracts in effect, 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.

During 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 monthly fixed allowance due to the non-executive members of the Board of Administration may not exceed twice the means of the monthly gross average salary output 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 6 (six) times the means of monthly gross average salary output 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 average over the last 12 months of the monthly gross 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 35,740 lei;
- c. the maximum value of the monthly fixed allowance granted to the Chief financial Officer in the amount of 29.783 lei;

The leave allowance granted under the mandate contract is included in the amount of the annual fixed allowance.

According to art. 38 (1) of GEO 109/2011 the remuneration of the directors is established by the Board of administration and cannot exceed the level of remuneration established for the executive members of the B.A.

Additionally to the monthly fixed gross 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 component is set as follows:

- for the non-executive members of the Board of Administration the variable annual component of the remuneration was based on 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, the gross amount of 149.760 lei;
- for the Director general and for the Chief financial officer the variable component was substantiated based on the Resolution of OGMS no. 3/2018 approving the limits of the variable components of the Director general in the amount of 377,5 thousand euro gross/year and of the Chief financial officer in the amount of 36 thousand euro gross/year.

According to the provisions of GEO 109/2011(art. 37 alin. (2)) on the 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"*.

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

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

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

The fulfilment degree of each KPI (GI_{ICP}) may be higher than 100% and lower than 0% but the calculation of the total fulfilment degree of the KPI (GT_{ICP}) 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 the maintenance and repair by RON 41.824 thousand (305.49%) due to the increase in the maintenance program for 2020.

The program for the scheduled repairs to pipelines for 2018 includes mainly: the works started and unfinished under the relevant program of 2019, as well as a guaranteeing amount for the situations caused by unforeseen events as extreme weather conditions, land slips, floods and repercussions over the NTS facilities, the works under the program for 2019 but which were not promoted to execution (mainly due to the lack of the execution documentation or permits). All the works were initiated as a necessity by the design themes underlying the execution based on the FEED or reports for the assessment of the pipelines by means of diagnostic 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 being 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 23,31%. Such expenses consist mainly of expenses for legal advice (RON 9.662 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 European regulations in force and future incidence in 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 the security assurance expenses (43.17%). The increase in the security related budget is a result of the requirements determined under the risks evaluations related to the physical security achieved for all the facilities part of Transgaz;
 - Analysis and evolution of the number of thefts from the facilities of the company;
 - the need to take measures aimed at ensuring the safety and security of all the facilities, assets and values of the company, against any illicit

actions that infringe the property right, the material existence, as well as to protect the people against any illicit actions that infringe the property right, material existence, and to protect people against any hostile acts that could endanger their life, physical integrity or health.

- The increase in costs related to maintenance and operation of the calculation techniques (33.21%) is due mainly to:
 - The increase in the prices for the weather forecast data services, metered data and weather warnings supplied by the National Weather Agency, needed for the operation of the IT weather used in Transgaz' National Dispatching Center system;
 - The increase in the prices for the network maintenance services for the operation of the unified communication solution (data/audio/video);
 - The procurement of a service service for the servers ensuring the availability of the servers and implicitly of Transgaz' informatic systems;
- The increase in other expenses with services performed by third parties (37.33%). Such expenses were substantiated based on the program for other services performed by third parties.

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 16 December 2019.

The NTS Upgrading and Development Plan (Investments), will be submitted for approval in the meeting of the BA of 27 ianuarie 2020.

3. Substantiation of the economic-financial indicators which are facing material 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."

According to art. 48 (8) of Law 5/2020 on the State Budget for 2020 it is required that "upon the determination of the salary expenses, the necessity to comply with the level

of the performance indicators resulted from the administration plans prepared pursuant to the applicable laws shall be considered.”

The level of the EBITDA indicator provided for in the management Plan for 2020 approved by the Resolution of OGMS no. 12/2017 and revised by the resolution of OGMS no 2/2018 and resolution OGMS no 3/2019 was mainly affected by the following factors:

- The decrease in the revenues from the international gas transmission activity due to the termination of the transmission contract with Gazprom Export Ltd for the Isaccea 2 - Negru Voda 2 pipeline and the regulation of the income related to the Isaccea 1 - Negru Voda 1 pipeline starting from 1 October 2019 according to the methodology approved by ANRE Order no.41/2019;
- The non-recognition of the monopoly tax in the regulated income from the transmission activity, following the modification of the Methodology for setting the regulated tariffs for the natural gas transmission services by Order 41/15 March 2019.

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

Indicator		2020	2021
EBITDA	Draft REB 2020	349 317	552 922
	Updated management Plan 2019	468 933	850 773
	Differences	- 119 616	- 297 851

The revision of the performance indicators approved by the resolution of OGMS no 12/2017, the resolution of OGMS no 2/2018 and the resolution of OGMS no 3/2019 will be submitted to GMS for approval together with the approval of the revenue and expense Budget for 2020 and the estimates for the years 2021-2022 with a view to the compliance with the provisions of GO no 26/2013.

4. Debt cost capitalization according to IAS 23

Transgaz employs bank loans in the period 2020 - 2022 for financing projects in the development plan, which is why, in accordance with IAS 23 "Borrowing Costs", the company capitalized interest and expense attributable to the loans until the commissioning date of the facilities finances by them.

According to the provisions of Transgaz' Articles of Incorporation, in force, Chapter V, art 20, par 1, letter m), **we would like to kindly ask the General Meeting of the Shareholders to approve the revenue and expense budget for 2020 and the estimates for 2021-2022**, according to the provisions of GO no. 26 on 21 August 2013, art. 4, par. 1, letter d).

Enclosures:

- The revenue and expense budget for 2020 and the estimates for 2021-2022: 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 2020: 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 2020

RON thousand

		INDICATORS	Row no.	REB 2020
0	1	2	3	5
I.		TOTAL REVENUE (row1=row2+row5a+row5+row6)	1	3.653.199
	1	Tota operating revenue before the construction activity according to IFRIC 12	2	1.520.532
		a) subsidies according to the applicable laws	3	
		b) transfers according to the applicable laws	4	
	2	Revenue from the construction activity according to IFRIC12	5a	2.083.209
	3	Financial revenue	5	49.458
II		TOTAL EXPENSE (row7=row8+row20+row20a+row21)	6	3.523.590
	1	Operating expense before the construction activity according to IFRIC12, of which:	7	1.417.644
	A.	Expense with goods and services	8	479.374
	B.	Expenses with taxes, charges and similar	9	204.584
	C.	Expense with personnel, of which:	10	491.065
	C0	Salary-related costs (row13+row14)	11	451.588
	C1	Salary costs	12	402.328
	C2	Bonuses	13	49.260
	C3	Other personnel expense, of which:	14	1.254
		Compensation expense related to employees layoffs	15	0
	C4	Expense on mandate contract and other governing and control bodies, commissions and committees	16	4.067
	C5	Expense on employer contributions	17	34.157
	D.	Other operating costs	18	242.620
	2	Cost of assets built according to IFRIC12	19a	2.083.209
	3	Financial costs	19	22.736
III		GROSS RESULT (profit/loss)	20	129.609
IV	1	CURRENT TAX ON PROFIT	21	26.432
	2	TAX ON PROFIT	22	
	3	INCOME FROM DEFERRED TAX ON PROFIT	23	5.281
	4	TAX ON SPECIFIC ACTIVITIES	24	
	5	OTHER TAXES NOT PRESENTED ABOVE	25	
V		NET PROFIT/LOSS OF REPORTING PERIOD (row26=row20-row21-row22+row23-row24-row25)of which:	26	108.458

		INDICATORS	Row no.	REB 2020
0	1	2	3	5
	1	Legal reserves	27	
	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 (row32= row26-(row27 la row31)>=0).	32	108.458
	7	Employees share to the profit within the limit of 10% of the net profit, but no more than the level of an average monthly salary of the economic operator during the reference financial year	33	18.017
	8	Minim 50 % payments to the State or local budget, for the autonomous companies, or dividends for the national companies or the entirely or partially owned-by the state companies, of which:	34	63.237
	a)	- dividends to the state budget	35	37.000
	b)	- dividends to the local budget	36	
	c)	- dividends to other shareholders	37	26.237
	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	45.221
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	2.435.830
	1	Budget allocations	47	
		Budget allocations regarding payment of commitments from the previous years	48	
IX		INVESTMENT COSTS	49	2.435.830
X		SUBSTANTIATION DATA		
	1	No. of personnel estimated at the end of the year	50	4.198
	2	Total average no. of employees	51	4.196

		INDICATORS	Row no.	REB 2020
0	1	2	3	5
	3	Average monthly income per employee (RON/person) determined based on the salary costs*)	52	8.303
	4	Average monthly income per employee (RON/person) determined based on the salary costs, re-calculated acc. to annual State Budget Law**	53	8.303
	5	Labour productivity in units of value per total average personnel (thousand RON/person) (row 2/row 51)	54	362
	6	Labour productivity in units of value per total average personnel re-calculated acc. to the annual State Budget Law	55	369
	7	Labour productivity in physical units per total average personnel (qty of fir	56	0,0000
	8	Total costs at RON 1000 total income (row57=row 6/row 1)x1000	57	965
	9	Outstanding payments	58	0
	10	Outstanding debt	59	387.842

*) row52 = row151 of Substantiation Annex 2

**) row53 = row152 of Substantiation Annex 2

DIRECTOR GENERAL,
Sterian Ion

CHIEF FINANCIAL OFFIC
Lupean Marius