

**THE NATIONAL GAS TRANSMISSION COMPANY  
TRANSGAZ S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021**

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

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## CONSOLIDATED FINANCIAL STATEMENTS

### **Contents**

Consolidated Statement of Financial Position	1 - 2
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Notes to the Consolidated Financial Statements	6-85

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**



**(expressed in lei, unless otherwise stated)**

	<u>Note</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
<b>ASSET</b>			
<b>Fixed assets</b>			
Tangible Assets	7	852.178.630	731.437.847
Rights of use of the leased assets	9	19.617.136	19.192.069
Intangible Assets	9	3.997.052.066	3.931.692.560
Goodwill	10	9.704.675	9.082.127
Trade receivables and other receivables	12	1.788.570.507	1.364.268.828
Deferred tax	18	<u>352.591</u>	<u>4.985.106</u>
		<b>6.667.475.605</b>	<b>6.060.658.537</b>
<b>Current assets</b>			
Inventories	11	311.708.204	194.141.876
Commercial receivables and other receivables	12	612.007.279	677.396.485
Cash and cash equivalent	13	<u>414.955.056</u>	<u>289.452.040</u>
		<b>1.338.670.539</b>	<b>1.160.990.401</b>
<b>Total asset</b>		<b>8.006.146.144</b>	<b>7.221.648.938</b>
<b>EQUITY AND DEBTS</b>			
<b>Equity</b>			
Share capital	14	117.738.440	117.738.440
Hyperinflation adjustment of share capital	14	441.418.396	441.418.396
Share premium	14	247.478.865	247.478.865
Other reserves	15	1.265.796.861	1.265.796.861
Retained earnings	15	1.785.866.415	1.693.268.334
Consolidation exchange rate difference		<u>16.520.600</u>	<u>(19.432.339)</u>
		<b>3.874.819.577</b>	<b>3.746.268.557</b>
<b>Equity attributable to shareholders</b>			
Non-controlling interest		<u>93.548.755</u>	-
		<b>3.968.368.332</b>	<b>3.746.268.557</b>
<b>Long-term debts</b>			
Long-term loans	16	1.899.193.227	1.593.385.489
Provision for employee benefits	21	106.041.177	118.611.004
Deferred revenue	17	1.069.813.639	1.043.635.227
Commercial debt and other debts	19	<u>16.699.325</u>	<u>16.482.440</u>
		<b>3.091.747.368</b>	<b>2.772.114.160</b>

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**CONSOLIDATED STATEMENT OF FINANCIAL  
POSITION**

**(expressed in lei, unless otherwise stated)**



	<u>Note</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
<b>Current debts</b>			
Commercial debts and other debts	19	650.466.973	434.132.013
Deferred revenue	17	91.671.887	69.030.913
Provision for risks and charges	20	67.779.988	75.794.781
Short-term loans	16	132.104.365	121.410.422
Provision for employee benefits	21	<u>4.007.231</u>	<u>2.898.092</u>
		<b><u>946.030.444</u></b>	<b><u>703.266.221</u></b>
<b>Total debts</b>		<b><u>4.037.777.812</u></b>	<b><u>3.475.380.381</u></b>
<b>Total equity and debts</b>		<b>8.006.146.144</b>	<b>7.221.648.938</b>

Endorsed and signed on behalf of the Board of Administration on 22 March 2022 by:

Chairman of the Board of Administration  
Văduva Petru Ion

Director – General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

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



	<b>Note</b>	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Revenue from the domestic transmission activity		1.164.418.613	1.150.464.877
Revenue from the international transmission activity and assimilated		72.037.147	114.222.513
Other revenue	22	<u>128.493.903</u>	<u>73.327.808</u>
<b>Operational revenue before the balancing and construction activity according to IFRIC12</b>		<b>1.364.949.663</b>	<b>1.338.015.198</b>
Depreciation	7, 9	(359.741.684)	(248.718.205)
Employees costs	24	(467.705.112)	(434.561.188)
NTS gas consumption, materials and consumables used		(112.818.316)	(115.609.386)
Expenses with royalties		(4.945.824)	(107.760.493)
Maintenance and transmission		(32.925.423)	(30.406.540)
Taxes and other amounts owed to the state		(86.200.783)	(71.869.930)
Revenue/ (Expenses) with provisions for risks and charges		7.226.509	(6.121.086)
Other operating cost	23	<u>(187.128.338)</u>	<u>(158.473.942)</u>
<b>Operational profit before the balancing and construction activity according to IFRIC12</b>		<b>120.710.692</b>	<b>164.494.428</b>
Revenue from the balancing activity		442.199.967	199.239.242
Cost of balancing gas		(442.199.967)	(199.239.242)
Revenue from the construction activity according to IFRIC12	32	704.026.548	1.587.548.396
Cost of assets constructed according to IFRIC12	32	<u>(704.026.548)</u>	<u>(1.587.548.396)</u>
<b>Operational profit</b>		<b>120.710.692</b>	<b>164.494.428</b>
Financial revenue	25	152.208.435	68.929.384
Financial cost	25	(42.669.235)	(33.871.638)
<b>Financial revenue, net</b>		<b>109.539.200</b>	<b>35.057.746</b>
<b>Profit before tax</b>		<b>230.249.892</b>	<b>199.552.174</b>
Profit tax expense	0	<u>(53.445.225)</u>	<u>(34.327.858)</u>
<b>Net profit for the period</b>		<b>176.804.667</b>	<b>165.224.316</b>
Attributable to the parent company		178.145.746	165.224.316
Attributable to the non-controlling interests		(1.341.079)	-
<b>Other items of comprehensive income</b>			
Basic and diluted earnings per share (expressed in lei per share)	28	15,03	14,03
Actuarial gain / loss for the period		15.782.924	7.341.946
Exchange rate difference		31.649.572	(19.432.338)
<b>Total comprehensive income for the period</b>		<b>224.237.163</b>	<b>153.133.924</b>
Attributable to the parent company		224.390.110	153.133.924
Attributable to the non-controlling interests		(152.947)	-

Chairman of the Board of Administration

Văduva Petru Ion

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



	<u>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Consolidation exchange rate difference</u>	<u>Non-controlling interests</u>	<u>Total equity</u>
<b>Balance on 1 January 2020</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.697.351.939</u></b>	<b><u>5.491.500</u></b>	<b><u>-</u></b>	<b><u>3.775.276.001</u></b>
<i>Comprehensive income elements</i>									
Net profit for the period		-	-	-	-	165.224.316	-	-	165.224.316
Actuarial gain / loss for the period		-	-	-	-	7.341.946	-	-	7.341.946
						172.566.262	-	-	172.566.262
<i>Transactions with shareholders:</i>									
Dividends related to 2019	15	-	-	-	-	(182.141.367)	-	-	(182.141.367)
Consolidation exchange rate difference		-	-	-	-	-	(19.432.339)	-	(19.432.339)
<b>Balance on 31 December 2020</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.687.776.834</u></b>	<b><u>(13.940.839)</u></b>	<b><u>-</u></b>	<b><u>3.746.268.557</u></b>
<i>Comprehensive income elements</i>									
Net profit for the period		-	-	-	-	178.145.746	-	(1.341.079)	176.804.667
Actuarial gain / loss for the period		-	-	-	-	15.782.924	-	-	15.782.924
		-	-	-	-	193.928.670	-	(1.341.079)	192.587.591
<i>Transactions with shareholders:</i>									
Dividends related to 2020	15	-	-	-	-	(95.839.089)	-	-	(95.839.089)
Consolidation exchange rate difference		-	-	-	-	-	30.461.439	1.188.132	31.649.571
Non-controlling interests		-	-	-	-	-	-	93.701.702	93.701.702
<b>Balance on 31 December 2021</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.785.866.415</u></b>	<b><u>16.520.600</u></b>	<b><u>93.548.755</u></b>	<b><u>3.968.368.332</u></b>

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

Chairman of the Board of Administration  
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**CONSOLIDATED CASH FLOW STATEMENT**

(expressed in lei, unless otherwise stated)

	<u>Note</u>	<u>The year ended 31 December 2021</u>	<u>The year ended 31 December 2020</u>
<b>Cash generated from operations</b>	26	<b>622.542.890</b>	<b>387.454.357</b>
Interest paid		(7.369.936)	(3.667.607)
Interest received		972.988	2.104.548
Paid profit tax		(24.095.578)	(61.436.932)
<b>Net cash inflow from operation activities</b>		<b><u>592.050.364</u></b>	<b><u>324.454.366</u></b>
<b>Cash flow from investment activities</b>			
Payments to acquire intangible assets		(941.370.046)	(1.459.152.956)
Payments to acquire tangible assets		(47.304.652)	(34.440.854)
Receipts from the disposal of tangible assets		861.814	214.050
Cash flow from connection fees and grants		<u>206.422.259</u>	<u>252.243.711</u>
<b>Net cash used in investment activities</b>		<b><u>(781.390.625)</u></b>	<b><u>(1.241.136.049)</u></b>
<b>Cash flow from financing activities</b>			
Long term loans drawings		403.248.362	745.338.331
Contributions of associates		103.086.442	-
Long term loans repayments		(70.179.940)	(2.785.320)
Credit withdrawals for working capital		(20.285.208)	299.720.329
Payments IFRS16		(4.704.239)	(5.525.684)
Dividends paid		<u>(96.322.140)</u>	<u>(183.867.440)</u>
<b>Net cash used in financing activities</b>		<b><u>314.843.277</u></b>	<b><u>852.880.216</u></b>
Exchange rate difference		-	268.388
<b>Net change in cash and cash equivalents</b>		<b><u>125.503.016</u></b>	<b><u>(63.801.467)</u></b>
<b>Cash and cash equivalent as at the beginning of the year</b>	13	<b><u>289.452.040</u></b>	<b><u>352.985.119</u></b>
<b>Cash and cash equivalent as at the end of the period</b>	13	<b><u>414.955.056</u></b>	<b><u>289.452.040</u></b>

 Chairman of the Board of Administration  
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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. GENERAL INFORMATION**

The National Gas Transmission Company - SNTGN Transgaz SA (‘company’) has as main activity the transmission of natural gas. Also, the company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 December 2021, the majority shareholder of the company is the Romanian state, through the General Secretariat of the Government.

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

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

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

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

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

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

The core business of EUROTRANSGAZ is:

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

The share capital of EUROTRANSGAZ S.R.L. as of 31 December 2021, amounts to 1.198.753.397 Moldovan lei (RON equivalent of lei 269.914.960), and is wholly owned by SNTGN Transgaz SA Mediaş - the founder of the company, as sole shareholder.



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

### 1. GENERAL INFORMATION (CONTINUED)

By the Resolution of the Board of Administration of March 2018 the conclusion of the Vestmoldtransgaz sale - purchase contract and the payment of the price offered for privatization and all the taxes and charges related to the privatization process were approved.

Under Resolution Resolutionno.39 / 05.09.2019, the Board of Administration of SNTGN Transgaz SA approved the empowerment of the administrators of Eurotransgaz (ETG) to register the sale-purchase contract and the transfer of ownership of the sole patrimonial complex SE Vestmoldtransgaz, and the performance of any action necessary for the reorganization of Vestmoldtransgaz (VTMG) as a limited liability company.

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

For the purpose of consolidating this set of financial statements, the non-controlling interest in the Group's share capital in amount of MDL 380.437.279 represents EBRD's share in the total net assets of the Company.

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

### 2. OPERATIONAL FRAMEWORK OF THE COMPANY

#### Romania

The continuation of the economic reforms by the Romanian authorities is necessary for the consolidation of the internal macro-financial framework. Thus the premises of the correct administration of the possible unfavourable developments are created, developments, which may appear if the high aversion towards risk occurs again in the international financial markets. The positive performances the Romanian economy registered must be consolidated by the application of a coherent mix of policies. In this context it can be noticed that:

- (i) Accelerating the pace of structural reforms and effective investment of EU funds in parallel with efficient fiscal management will help strengthen the recovery and future growth, which will create better opportunities for progress for Romanians, according to the latest OECD report. Romania made remarkable progress in raising living standards before the COVID-19 crisis, and economic resilience during the pandemic was impressive. Romania lags behind most OECD countries when it comes to providing access to high quality education, health, housing and transport, the document says. To sustain recovery in the medium and long term, Romania needs

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

to focus on effective implementation of the EU-funded National Recovery and Resilience Plan, by improving administrative capacity and carrying out necessary reforms in areas such as pensions. Reforms must also focus on restoring productivity growth, job creation and skills development, strengthening the rule of law and public finances. The study forecasts 4,5% GDP growth for Romania in 2022 and 2023, after a 6,3% increase in 2021. In view of the strong rise in inflation, which has exceeded the target set by the NBR, monetary policy needs to be tightened as needed. A credible medium-term plan needs to be developed to allow a gradual reduction of the budget deficit. This plan should include reforms aimed at accelerating the absorption of EU NextGeneration funds, improving the efficiency of public spending and improving the financial sustainability of the pension system in an ageing population. Accelerating the modernisation of the tax administration, as well as reforms aimed at removing inefficient tax provisions (in particular those targeting micro-enterprises and certain sectors such as construction) and increasing less distortionary taxes (such as property taxes) could contribute to raising revenue and creating a fairer and more efficient tax system. Improving skills and job opportunities would also help reduce the flow of Romanian migrants, which has already affected economic development through labour and skills crises, the OECD paper shows.

(ii) On 10 January 2022, the Board of the National Bank of Romania decided:

- to increase the monetary policy rate to 2,00 % per year, from 1,75% per year from 11 January 2022;
- extending the symmetric corridor of standing facility interest rates around the monetary policy interest rate to  $\pm 1,00$  percentage point from  $\pm 0,75$  percentage points; thus, as of 11 January 2022, the interest rate on the lending facility (Lombard) is increased to 3,00 per cent per annum from 2,50 per cent per annum and the interest rate on the deposit facility is maintained at 1,00 per cent per annum;
- maintaining firm control over money market liquidity;
- maintaining the current levels of the mandatory minimum reserves for the lei and currency liabilities of the credit institutions;

(iii) In view of the November 2021 NBR Inflation Report, the annual CPI inflation rate accelerated significantly in the third quarter of 2021 to 6,29 percent in September, with the deviation from the upper bound of the range associated with the steady-state target increasing in each month of the quarter. In September, the annual inflation rate advanced by 2,35 percentage points from June's value, while registering a level 1 percentage point higher than projected in the August Report. The primary source of the increase remained, similar to the first two quarters of the year, the notable rise in energy commodity prices, at a time when at the end of September the wholesale price of electricity and natural gas was up to two to three times higher than at the end

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**2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)**

of the previous year. During the same period, a substantial advance in the CORE2-adjusted annual inflation rate was also visible, from 2,9 percent in June to 3,6 percent in September. The average annual CPI inflation rate continued its upward trajectory during the third quarter, reaching 3,6 percent in September. The average annual rate of HICP inflation increased by 0,5 percentage point from June to 2,9 percent in September. As price increases in the EU were more marked, Romania narrowed marginally its gap with the European average.

- (iv) Fitch Ratings confirmed on 22 October 2021 Romania's sovereign rating at `BBB minus` with a negative outlook, the last notch of the `investment-grade` category, according to a statement issued by the financial rating agency. The negative outlook reflects continued uncertainty over the implementation of policies to address structural fiscal imbalances on the medium term and the impact on Romania's public finances from persistent pandemic-related risks and rising energy costs, Fitch said. The investment-grade rating is supported by government debt and debt service levels, which are below those of similarly rated countries, and GDP per capita, governance and human development indicators, which are above those of similarly rated countries and are supported by EU membership. The rating agency affirms that these are offset by high budget and current account deficits, a low level of fiscal consolidation and high budget rigidities.

At the end of 2020, the leu depreciated against the EURO (`EUR`) and appreciated against the US dollar (`USD`). Thus, compared to the end of 2019, the leu depreciated by 1,89% against the EUR (4,8694 at 31 December 2020; 4,7793 at 31 December 2019) and appreciated by 6,92% against the USD (3,9660 on 31 December 2020; 4,2608 on 31 December 2019).

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES**

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Basis of preparation

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

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

From 2017, the year when EUROTRANSGAZ was founded by SNTGN Transgaz SA, the company has the obligation to prepare the consolidated financial statements in accordance with IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 21 - The Effects of Changes in Foreign Exchange Rates.

From 2018, as a result of the procurement of Vestmoldtransgaz SRL in Moldova by Eurotransgaz SRL, Transgaz, as a parent company, presented consolidated financial statements which include the consolidation of Eurotransgaz SRL with Vestmoldtransgaz SRL in Moldova.

Transgaz's consolidation with ETG was performed step by step, meaning the consolidation of ETG with VTMG in a first phase, followed by their consolidation in the financial statements of the parent company, Transgaz.

The annual Financial Statements of non-resident companies are converted using the closing rate method, which means that for the balance sheet the NBR exchange rate issued on 31 December 2021 is used (closing rate) and for the profit and loss account the income and expense was expressed at the annual average rate published by the National Bank of Romania for 2021. The use of these different exchange rates has as a consequence the highlighting of the conversion difference.

According to Accounting Law 82/1991 republished, as further amended and supplemented, and to OMFP 2844/2016, as further amended and supplemented, on the approval of the accounting regulations in line with the International Financial Reporting Standards, the parent company must prepare both its own individual financial statements and consolidated financial statements of the group.

IFRS 10 sets out the application of the control principle to determine whether an investor controls an investee and therefore needs to consolidate the investee and also sets the accounting provisions for the preparation of the consolidated financial statements.

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The parent company must prepare consolidated financial statements using uniform accounting policies for transactions and similar events in similar circumstances. The consolidation of an investee must start at the date the investor has acquired control and must cease when the investor loses control of the investee.

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

If a parent company loses control over a subsidiary, the parent company must: (a) derecognise the assets and liabilities of the former subsidiary from the consolidated financial position; (b) recognize any undistributed investment in the former subsidiary at its fair value when it has lost control and will subsequently account for those investments and the amounts owed by or to the former subsidiary in accordance with the relevant IFRSs. That fair value should be considered as the fair value at the time of the initial recognition of a financial asset in accordance with IFRS 9 or, where applicable, the cost of the initial recognition of an investment in an associate or in a joint venture; (c) recognizes the gain or loss associated with the loss of control attributable to the former majority interest.

The consolidated financial statements include the Company`s financial statements and the financial statement of the affiliated entity, EUROTRANSGAZ, which is controlled by the company, combining similar parent company – affiliated company assets, liabilities, equity, costs and cash flow items, compensating (eliminating) the accounting value of the investment made by the parent company in each subsidiary, and the share of the parent company in the equity of each subsidiary, and eliminating in full all intragroup assets and liabilities, equity and cash flows related to the intragroup transactions performed.

A company controls an entity in which it had invested when it is exposed or has variable income rights on the basis of its participation in the investee and has the ability to influence the relevant income through its authority over the investee. The control principle thus establishes the following three elements of control:

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

The company presents the investments in the the affiliated entity in the individual financial statements as Financial Assets.

IFRS 3 requires the acquirer, after recognizing the identifiable assets, the liabilities and all interests, which do not control, to identify any differences between:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- a) the aggregation of the transferred counter-performance, any interest which does not control in the acquired entity and in a business combination made in stages, the fair value from the acquisition date of the equity interests of the acquired entity previously held by the acquirer, and
- b) the net identifiable net assets acquired.

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

Consolidation procedures according to IFRS 10

The consolidated financial statements:

- combine similar items of assets, liabilities, equity, income, expenses and cash flows of the parent company with those of its subsidiaries;
- compensate (eliminate) the accounting amount of the investment made by the parent company in the subsidiary and the parent`s share of the equity of the subsidiary; accounting is according to IFRS 3;
- eliminate in full all intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the entities of the group: profit or loss from the intragroup transactions recognised in the assets, such as inventories and the fixed assets are totally eliminated.

#### Accounting regulations applicable as of 2016

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

#### (a) Standards and interpretations applicable as of 2017

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

##### Amendments to IAS 12 `Income Taxes`

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

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

- Unrealized loss on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The accounting value of an asset does not limit the estimation of the future taxable profits
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;
- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax loss, an entity will estimate deferred tax in combination with other deferred tax of the same type.

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

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

#### **(b) Standards and interpretations applicable as of 2018**

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

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

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

- Classification and evaluation: IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income elements, at fair value through profit or loss. The IFRS 9 classification is determined by the cash flow and business model in which an asset is held. This unitary approach based on principles eliminates the financial asset classification categories in IAS 39: held-to-maturity, loans and advances and available-for-sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.
- According to IFRS 9, derivatives incorporated into contracts, where the host instrument is a financial instrument for the purpose of this standard, are not separate, but the entire hybrid instrument is considered for classification.
- Depreciation loss: IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected loss from impairment of receivables. The standard requires entities to recognize the anticipated impairment loss on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment loss over their lifetime.
- The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.

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

- Depreciation: applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows;
- *Hedge accounting*: IFRS 9 introduces a significantly improved hedge accounting model which includes additional disclosure requirements for risk management activity. The new model is a significant revision of the hedge accounting principles, which allows the alignment of the accounting treatment with the risk management activities.

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

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

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

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

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

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

The revenue from services provision is recognized as follows:

- based on the tariffs regulated by ANRE for firm/ interruptible natural gas transmission services through the National Transmission System;
- based on the transmission tariffs approved by ANRE for the transmission capacity booking at the entry/ exit points in/out of the Isaccea 2-Negru Vodă 2 natural gas transmission pipeline;

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

IFRS 16 provides a model of control for lease identification by establishing principles for the recognition, measurement and presentation of lease contracts, that is the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of the identified asset exists if the client has the right to obtain substantially all the economic benefits and also the right to determine the manner and purpose in which the asset is used.

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

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

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

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

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

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

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

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

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

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **New standards, interpretations and amendments with subsequent applicability.**

The company has chosen not to apply in advance these standards, interpretations and amendments to be subsequently applicable

The following changes are valid for the period beginning on 1 January 2022:

• Onerous contracts - Cost of Fulfilling a Contract (Amendments to IAS 37); • Tangible assets: proceeds before intended use (amendments to IAS 16); • Annual improvements to IFRS 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and • Reference to the Conceptual Framework (Amendments to IFRS 3).

The following changes are valid for the period beginning on 1 January 2023

The International Accounting Standards Board (IASB) issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) providing a more general approach to the classification of liabilities in accordance with IAS 1 based on existing contractual arrangements in the Data Reporting.

The changes were initially valid for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was postponed to annual reporting periods **beginning on or after 1 January 2023:**

Changes in the Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position - not the amount or timing of the recognition of any assets, income or expenses or the information that entities disclose about these items.

The following is clarified:

The classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period and the wording shall be aligned in all relevant paragraphs to refer to the `right` to defer settlement by at least twelve months and clarify that only the rights in force `at the end of the reporting period` should affect the classification of a debt;

The classification is not affected by expectations that an entity will exercise its right to defer the settlement of a debt;

Settlement refers to the transfer to the counterparty of the cash, equity instruments, other assets or services.

An entity applies this interpretation for annual reporting periods beginning on at or after 1 January 2019. Application prior to this date is permitted.

An `uncertain tax treatment` is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under the tax law.

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

**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Reporting on segments**

Reporting on business segments is made consistently with the internal reporting by the main operating decision-maker. The main operating decision-maker, which is in charge with resource allocation and assessment of business segments' performance, was identified as being the Board of Administration, which makes the strategic decisions.

**3.3 Transactions in foreign currency**

*a) Functional currency*

The items included in the financial statements of the company are valued using the currency of the economic environment where the entity operates ('functional currency'). The financial statements are presented in Romanian leu ('lei'), which is the functional currency and the currency of company presentation.

*b) The rounding level used in the presentation of the financial statements*

In the financial statements the value are presented rounded by units.

*c) Transactions and balances*

Transactions in foreign currency are converted into functional currency using the exchange rate valid on the date of transactions or valuation at the balance sheet date. Profit and loss resulting from exchange rate differences following the conclusion of such transactions and from the conversion at the exchange rate at the end of the reporting period of monetary assets and liabilities denominated in foreign currency are reflected in the statement of the comprehensive income.

**3.4 Accounting for the effects of hyperinflation**

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 'Financial Reporting in Hyperinflationary Economies'. This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the company no longer applies IAS 29.

Therefore, values reported in terms of purchasing power on 31 December 2003 are treated as basis for the accounting values of these financial statements.

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

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.5 Intangible Assets

##### *Computer Software*

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years).

Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

##### *Service Concession Agreement*

From 2010, the company started to apply IFRIC 12 **Service Concession Arrangements**, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, the modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

As presented in Note 8, the company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement (‘SCA’) had no commercial substance (i.e. nothing substantial changed in the way the company operated assets; cash flows changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of the derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12). Consequently, the company continued to recognize the asset, but reclassified it as intangible asset. The company tested the intangible assets recognized at the time without identifying depreciation.

As they occur, costs of replacements are recorded as expense, while the improvements of assets used within SCA are recognized at cost.

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

#### 3.6 Tangible Assets

Tangible assets include buildings, land, assets used for the non-regulated international transmission activity (e.g. pipelines, compressors, filtering installations, devices).

The company’s policy is to reflect intangible assets at their cost less any accumulated depreciation and any impairment accumulated losses.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Buildings include particularly ancillary buildings of operating assets, a research centre and office buildings.

Further expenses are included in the book value of the asset or recognized as separate asset, as the case may be, only when the entry of future economic benefits for the company associated to the item is likely and the cost of the respective item can be valued in a reliable manner. The book value of the replaced asset is taken off the books. All the other expenses with repairs and maintenance are recognized in the statement of comprehensive income in the financial period when they occur.

Land is not depreciated. Depreciation on other items of tangible assets is calculated based on the straight-line method in order to allocate their cost minus the residual value, during their useful life, as follows:

#### Number of years

Buildings	50
Assets of the gas transmission system	20
Other fixed assets	4 - 20

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of a long lead asset are those costs of indebtedness that would have been avoided if expenses with the asset hadn't been made. To the extent that funds are borrowed specifically for obtaining a long-lead asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the revenue from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for obtaining the long-lead asset.

The costs of the funds borrowed for obtaining a long lead asset (achievement of the investment) are capitalized by the company on the asset as a difference between the current leverage costs related to such loan during the period and any revenue from the investments obtained from the temporary investment of these loans.

Borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred, unless the operator has the contractual right to receive an intangible asset, in which case the borrowing costs attributable to an arrangement are capitalized during the engagement stage.

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

The residual values of the assets and their useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

The book value of the asset is written down immediately to its recoverable amount if the book value of the respective asset is greater than its estimated recoverable amount (Note 3.7).

Gain and loss on disposal are determined by comparing amounts to be received with the book value and are recognized in the statement of comprehensive income in the period in which the sale took place.

**3.7. Impairment of non-financial assets**

Depreciated assets are reviewed for impairment loss whenever events or changes in circumstances indicate that the book value may not be recoverable.

The impairment loss is the difference between the book value and the recoverable amount of the asset. The recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. An impairment loss recognized for an asset in prior periods is reversed if there are changes in the estimates used to determine the recoverable amount of the asset at the date the last impairment loss was recognized. For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent cash flows (cash generating units).

Depreciated non-financial assets are reviewed for possible reversal of the impairment at each reporting date.

**3.8 Assets of public domain**

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474.952.575 (31 December 2017: RON 474.952.575), representing gas pipelines, are managed by the company. Therefore, the company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8). The company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the company is directly influenced by the state of the network. Therefore, before 1 January 2010, the company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.). Accounting policies applied to these assets were the same as those applied to the company's tangible assets (Notes 3.7 and 3.6).

The company adopted IFRIC 12 as of 1 January 2010 and reclassified these assets and the subsequent improvements as intangible assets (except for international transmission pipelines).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Starting with 01.01.2018, IFRS 15 `Revenues from the contracts with the clients` became applicable in Romania. This standard replaces a set of older standards (such as IAS 11, IAS 18) and changes IFRIC 12 giving a new interpretation to the contract notion. Therefore, our company registered the discounted receivables related to the regulated value remained undepreciated at the end of the concession agreement as a counterperformance and an intangible asset at a value diminished with the amount of the discounted receivables.

In accordance with Public Concession Law No. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the government. As of October 2007, the royalty was set at 10% of the revenue. The duration of the concession agreement is 30 years, until 2032.

Subsequent to the entry into force of the provisions of Art. 103 (2) of Law no. 123/2012 as of 12 November 2020, the royalty was set at 0,4%, from the domestic and international gas transmission services provided by the company.

#### 3.9 Financial assets

The company classifies its financial assets into the following categories: measured at fair value through profit or loss, measured at depreciated cost and measured at fair value by other elements of the comprehensive income. Classification is made depending on the purpose for which the financial assets were acquired. The management sets the classification of these fixed assets upon initial recognition.

##### (a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in the current assets, except for those which have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the company include `trade receivables and other receivables` and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13). Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.

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

In 2019, ANRE Order no. 41/2019 on the adjustment of asset regulated value to the inflation rate. The company records the present value of the contractual cash flows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

*(b) Financial assets measured at fair value through the profit or loss account or measured at fair value by other elements of the comprehensive income*

IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income, at fair value through profit or loss. The classification on IFRS 9 is determined by the cash flow characteristics and the business model in which an asset is held. This unitary approach based on principles eliminates the classification of financial assets in IAS 39: held-to-maturity investments, loans and receivables, and available for sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

Upon initial recognition, an entity may make an irrevocable choice to present to other comprehensive income elements the subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is it a recognized contingent consideration by an acquirer in a business combination to which IFRS 3 applies. In this case it will recognize the dividends from that investment in the income statement.

*(c) Impairment of financial assets*

At each reporting date, the company assesses whether there is objective evidence that a financial asset or group of financial assets suffered impairment. A financial asset or group of financial assets is impaired and impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss generating event') and if such event (or events) which generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for individual financial assets in the portfolio, including:
  - adverse changes in the payment status of debtors in the portfolio; and
  - economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The company assesses first whether objective evidence of impairment exists.

(i) *Assets registered at amortized cost*

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the book value of the asset and the updated value of estimated future cash flows (excluding future credit loss which was not incurred), discounted at the asset's original rate; the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), the reconsidered of impairment loss recognized previously in profit or loss.

(ii) *Assets measured at cost*

The share held at Eurotrangaz SRL is recognized at its fair value as of the date of trading, being evaluated, after the initial recognition, at cost according to Art.4.1.2 of IFRS 9 and Art.10.a-IAS 27-Separate Financial Statements:

‘When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 or using the equity method.’

In 2020 the company evaluated the stake held in Eurotrangaz SRL in order to identify any possible impairment losses. No impairments were found.

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

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.10. Inventories

Inventories are stated at the lower of cost and net achievable value.

The components recovered from disassemblings and repairs of pipelines built by the company are recorded as stocks at a value determined by a technical committee. The amount so determined does not exceed the net achievable value.

The cost is determined based on the first in, first out method. Where necessary, adjustment is made for obsolete and slow moving inventories. Individually identified obsolete inventories are adjusted for the full value or written off. For slow moving inventory, an estimate is made of the age of each main category on inventory rotation.

The calculation of the general adjustment for the depreciation of stocks is made monthly depending on the age of the existing items in stock, applying the following percentages according to age: 0 - 12 months 0%; 1 - 2 years 10%; 2 - 3 years 30% - 40%; over 3 years 75% - 80%.

The cost of natural gas used for the balancing activity related to the transmission system is determined based on the average weighted cost method.

The minimum gas stock that the company, as holder of the national natural gas transmission system operating license is required to have in underground storage facilities, is established by decision of the President of the National Energy Regulatory Authority (ANRE President). The Decision no. 588/08.04.2020 of the ANRE President established the obligation for the company to have a minimum level of natural gas stock of 560.724,517 MWh as at 31 October 2020, and the Decision no. 748/14.04.2021 of the ANRE President established the obligation for the company to have a level of natural gas stock of 597.115,143 MWh as at 31 October 2021.

The debt adjustment policy according to IFRS9 is presented in note 12.

#### 3.11. Trade receivables

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If the collection period is one year or less (or in the normal operating cycle of the business), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, minus the adjustments for impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.12. Value Added Tax

The value added tax must be paid to tax authorities based on the monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If the deductible VAT is higher than the output VAT, the difference is refundable at the request of the company. That VAT can be refunded after a tax audit, or, even in its absence, if certain conditions are met. VAT on sales and purchases which are not settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability. In cases where adjustments were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT has to be paid to the State and can be recovered, as from the date of the judgment or, as the case may be, the date of the closure of the bankruptcy, according to the insolvency law.

#### 3.13. Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, cash in current accounts with banks, other short-term investments with high liquidity and with maturity terms of up to three months and overdrafts from banks. In the statement of financial position, overdraft facilities are registered at loans, under current liabilities.

#### 3.14 Equity

##### *Share capital*

Ordinary shares are classified as equity.

Additional costs directly attributable to the issue of new shares or options are registered at equity as a deduction, net of tax, from the receipts.

##### *Dividends*

Dividends are recognized as liabilities and deducted from equity at the end of the reporting period if they are declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

#### 3.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs recorded. Subsequently, borrowings are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss during the borrowings, based on the effective interest method.

Borrowings are classified as current liabilities, unless the company has an unconditional right to defer payment of debt for no less than 12 months after the end of the reporting period.

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

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**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.16 Current and deferred profit tax**

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The company periodically evaluates situations where the applicable tax regulations are subject to interpretation and establishes provisions/ adjustments for impairment, where appropriate, for the amounts with accounting/fiscal impact.

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which

are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

Deferred revenue tax assets are recognized to the extent that it is probable that future taxable profit be derived from temporary differences.

**3.17 Commercial payables and other payables**

Suppliers and other payables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. Commercial payable accounts and other payables are closed as a result of the payment of debts, offsetting with receivables or their write-off through the profit and loss account.

**3.18 Deferred revenue**

Deferred revenue is recorded for connection fees applied to customers upon their connection to the gas transmission network, for the objectives received free of charge and for grants collected.

The grants collected are assimilated to the governmental subsidies.

The governmental subsidies are acknowledged to their market value when there is a reasonable assurance that they will be received and that the relevant conditions will be met.

For the connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge, for the grants the company chose to record the total asset value and a deferred revenue.

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

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the remaining unamortised value at the end of the concession agreement at a counterperformance and an intangible asset at a value less the updated receivable.

#### 3.19 Employee benefits

In the normal course of business, the company makes payments to the Romanian state on behalf of its employees, for health funds, pensions and unemployment benefits. All the company employees are members of the pension plan of the Romanian state, which is a fixed contribution plan. These costs are recognized in the profit and loss account with the recognition of salary expenses.

##### *Benefits granted on retirement*

Under the collective agreement, the company must pay the employees on retirement a compensatory amount equal to a certain number of gross salaries, depending on the time worked in the gas industry, working conditions etc. The company recorded a provision for such payments (see Note 21). The obligation recognized in the balance sheet represents the present value of the obligation at the balance sheet date. The obligation is calculated annually by independent experts using the Projected Unit Credit Method. The present value is determined by discounting future cash flows with the interest rate of the long-term government bonds.

The current service cost is recognized in the profit and loss account in the employee costs. Interest expense is included in the profit and loss account in the financial costs.

Actuarial gain or loss due to changes in actuarial assumptions is recognized in the statement of comprehensive income in the period for which the actuarial calculation is made.

##### *Social insurance*

The company records expenses related to its employees, as a result of granting social insurance benefits. These amounts mainly include the implicit costs of employing workers and, therefore, are included in the salary expenses.

##### *Profit sharing and bonuses*

The company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the company's shareholders, after certain adjustments. The company recognizes an obligation where it is required under contract or where there is a past practice which created an implicit obligation.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.20 Provisions for risks and charges

The provisions for risks and charges are recognized when the company has a legal or implicit obligation as a result of past events, when for the settlement of the obligation an outflow of resources is required, which incorporates economic benefits and for which a credible estimate can be made in terms of the obligation value. Where there are similar obligations, the probability for an outflow of resources to be necessary for settlement is set after the assessment of the obligation class as a whole.

The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the company expects the writing back to revenue of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is theoretically certain.

Provisions are measured at the discounted value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### 3.21 Revenue recognition

Revenue covers the fair value of amounts received or receivable from the sale of services and/or goods in the normal course of business of the company. Revenue is recorded net of value added tax, returns, rebates and discounts.

The company recognizes the revenue when their amount can be estimated with certainty, when it is probable that the entity collects future economic benefits and when certain criteria are met for each of the company's activities as described below. The amount of revenue is not considered reliably estimated until all contingencies relating to the sale are settled. The company bases its estimates on historical results, taking into account the type of customer, type of transaction and the specifics of each commitment.

##### a) *Revenue from services*

Revenue from the domestic and international gas transmission results from the booking of transmission capacity and from the transmission through the NTS of the determined quantities of natural gas, expressed in units of energy, during the validity of a gas transmission contract, and are recognized at the moment of their delivery. During the administration of the transmission contracts, the TSO issues and submits to the NU, by day 15 of the month following the month for which the transmission service was provided: an invoice for the transmission services provided for the previous month, based on the final allocations; an invoice related to the final daily imbalances registered in the previous month; and an invoice exceeding of the capacity booked.

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

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**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Revenue from international transmission and similar activities are represented by the transmission capacity booking on the Isaccea 2.3 - Negru Voda 2.3 international transmission pipelines and by the amounts receivable for the reporting period under the Termination Agreement of the legacy contract between SNTGN Transgaz SA and GPE concluded for the transmission of natural gas through the T3 transit pipeline on Romanian territory to third countries. According to the Agreement for the termination of the legacy Contract between SNTGN Transgaz SA and GPE, the payment of the remaining amounts to be paid will be made in instalments over a maximum period of three years and the revenues received from transmission are regulated according to ANRE Order 41/2019 and ANRE Order 34/2014 respectively depending on the points where capacity is booked, the monthly difference being classified as assimilated revenues.

According to the Network Code, the gas delivery day is defined as the time period beginning at 7:00 a.m. Romanian local time on any day and ending at 7:00 a.m. Romanian local time on the following day. The gas day shall be reduced to 23 hours at the changeover to daylight saving time and increased to 25 hours at the changeover to winter time, so that all related rights and obligations under the gas transmission contracts shall be increased or reduced accordingly on those gas days

*b) Revenue from the sale of goods*

Revenue from the sale of goods is registered when the goods are delivered.

*c) Interest revenue*

Interest revenue is recognized proportionally, based on the effective interest method.

*d) Revenue from dividends*

Dividends are recognized when the right to receive payment is recognized.

*e) Mutual compensation and barter transactions*

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies (see Note 28).

Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on the available market information.

Non-cash transactions were excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

No barter transactions were performed in 2020 and in 2019.

*f) Revenue from penalties*

Revenue from penalties for late payment is recognized when future economic benefits are expected for the company.



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

**4. FINANCIAL RISK MANAGEMENT**

**Financial risk factors**

By the nature of the activities performed, the company is exposed to various risks, which include: market risk (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), credit risk and liquidity risk. company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company. The company does not use derivative financial instruments to protect itself from certain risk exposures.

**(a) Market risk**

**(i) Currency risk**

The company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets (Note 12) and recognized liabilities.

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

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

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	130.464	123.351
USD depreciation by 10%	(130.464)	(123.351)
EUR appreciation by 10%	(45.921.358)	(35.954.181)
EUR depreciation by 10%	45.921.358	35.954.181

**(ii) Price risk**

The company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 3.040.424 (December 2020: lei 3.325.834).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

(iii) Interest rate risk on cash flow and fair value

The company is exposed to interest rate risk by its bank deposits and variable interest loans. The company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been lower/higher by 7.912.653 (December 2020: lower/higher by lei 7.705.629) as a result of reducing the interest rate for variable interest loans and the interest rate on the bank deposits.

**(b) Credit risk**

Credit risk is especially related to cash and cash equivalents and trade receivables. The company drew up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of adjustments for doubtful debts, represents the maximum value exposed to credit risk. The company's credit risk is concentrated on the 5 main customers, which together account for 45% of the trade receivable balances on 31 December 2021 (31 December 2020: 47%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. On 31 December 2021 the company has available payment guarantees from its clients amounting to lei 222.103.520.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

	<u>31 December 2021</u>	<u>31 December 2020</u>
Whithout rating	331.743	1.565.253
BB+	168.203.478	129.228.022
BBB-	1.250.380	71.152.016
BBB	9.243	119.791
BBB+	244.753.841	86.472.555
A	-	136.721
A+	136.085	-
AA	<u>112.021</u>	<u>643.159</u>
	<b><u>414.796.791</u></b>	<b><u>289.317.517</u></b>

All the financial institutions are presented in the Fitch rating or equivalent.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk**

Preventive liquidity risk management involves keeping enough cash and funds available by a proper value of committed credit facilities.

The company projects cash flows. The financial function of the company continually monitors the company's liquidity requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities (Note 16) at any time, so the company does not violate the limits or loan agreements (where applicable) for any of its borrowing facilities. These projections take into account the company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions.

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

The table below shows obligations on 31 December 2021 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 31 December 2021 is as follows:

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

Maturity analysis of financial liabilities on 31 December 2020 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	1.903.768.715	104.075.855	829.686.798	970.006.062
Commercial payables and other payables	<u>450.599.080</u>	<u>434.116.640</u>	<u>16.482.440</u>	-
	<u>2.354.367.795</u>	<u>538.192.495</u>	<u>846.169.238</u>	<u>970.006.062</u>

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables and other payables (see Note 19) and are not included: payables generated as a result of the legal provisions imposed by the authorities, payables to the employees and advance registered revenue.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Financial instruments categories:

	<u><b>31 December 2021</b></u>	<u><b>31 December 2020</b></u>
<b>Financial assets</b>		
Cash and cash equivalents	249.195.225	108.672.451
Term bank deposits	165.759.831	180.779.589
Loans and receivables	2.344.915.484	1.978.290.105
Financial assets - stakes	24.578.237	24.578.237
Provisions related to financial assets - stakes	<u>(24.578.237)</u>	<u>(24.578.237)</u>
	<u><b>2.759.870.540</b></u>	<u><b>2.267.742.145</b></u>
<b>Financial liabilities</b>		
Debts evaluated to amortised cost		
Loans	2.031.297.592	1.714.795.911
Liabilities evaluated at fair value		
Financial securities for contracts	50.028.771	19.125.114
Commercial liabilities and other liabilities	<u>522.356.500</u>	<u>308.676.443</u>
	<u><b>2.603.682.863</b></u>	<u><b>2.042.597.468</b></u>

In the category including loans and liabilities, the liabilities related to employees and payables registered in advance are not included.

**Capital risk management**

The company's objectives related to capital management refer to keeping the company's capacity to continue its activity to provide compensation to shareholders and benefits to the other stakeholders and to maintain an optimal structure of the capital, as to reduce capital expenditure. There are no capital requirements imposed from outside.

As for the other companies in this sector, the company monitors the capital based on the indebtedness degree. This coefficient is calculated as net debt divided by total capital. The net debt is calculated as total borrowings (including `current and long-term borrowings`, according to the statement of financial position), except for cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of the financial position, plus the net debt.

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

In 2021 the company's strategy, unchanged since 2020, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 31 December 2021 and on 31 December 2020 is reflected in the table below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Total borrowings	2.031.297.592	1.714.795.911
Except: cash and cash equivalents (Note 13)	<u>(414.955.056)</u>	<u>(289.452.040)</u>
Net cash position	<u>1.616.342.536</u>	<u>1.425.343.871</u>

**Fair value estimate**

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

It is considered that the book value less the impairment adjustment of trade receivables and payables approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the company for similar financial instruments.

**5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES**

**Critical accounting estimates and assumptions**

The company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events considered reasonable under certain circumstances.

The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions that have a significant risk of causing an important material adjustment to the book value of assets and liabilities within the next financial year are presented below.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

#### 5.1 Assumptions for the determination of the provision for retirement benefits

This provision was calculated based on estimates of the average wage, the average number of employees and the average number of wage payment at retirement, as well as based on the benefits payment scheme. The provision was brought to the present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

The present value of the obligations at 31 December 2021 is of lei 110.048.408 (on 31 December 2020 121.509.097) (Note 21).

	<u>31 December 2021</u>	<u>31 December 2020</u>
Inflation rate +1%	123.853.864	137.780.682
Inflation rate -1%	98.056.517	107.470.989
Investment return +10%	104.052.637	117.004.460
Investment return -10%	116.610.244	126.343.862

Analysis of the maturity of benefits payments:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Up to one year	4.592.018	3.198.877
Between 1 and 2 years	2.785.733	2.376.495
Between 2 and 5 years	10.993.273	9.156.180
Between 5 and 10 years	72.309.686	63.538.232

#### 5.2 The accounting treatment of the concession agreement

As indicated in Note 8, in May 2002 the company concluded a Concession Agreement with the National Agency for Mineral Resources (`ANRM`), which entitles the company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, Government Decision (`GD`) No. 491/1998 and GD No. 334 of 2000 by which the company was established. According to the provisions of this agreement, the company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the company recognized these assets in the statement of the financial position, with an appropriate reserve in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the company's management considered that it is, in substance, an equity component, defined as the residual interest in the company's assets after the deduction of all debts. In addition, because the company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the company applied IFRIC 12 (Note 3.5).

#### 5.3 The accounting treatment of royalties payable for using the national gas transmission system

As indicated in Note 8, the company pays royalties, calculated as percentage of the gross revenue achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from revenue, because they are not of the nature of taxes collected from customers and sent to the state, given the nature of activity and the regulatory framework:

- the company's revenue is based on tariffs approved by another regulator than the one setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;

As of 1 January 2020, according to ANRE Order no. 1/2020, the company has the obligation to pay annually to ANRE a tariff amounting to 0,062 lei MWh applied to the quantity of natural gas transmitted for carrying out activities in the natural gas sector based on a license.

#### 5.4 Long-term receivables

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor in exchange for the payment of a compensation equal to the unamortized regulated value set by ANRE.

The company believes that the legislative change represents a compensation for the value of the investments made, which the company will not recover through the tariff, implicitly the value of the intangible asset not recovered through the tariff, recognized for the right to charge users.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

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### **5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

From 01.01.2018, IFRS 15 Revenue from Contracts with Customers became applicable in Romania. This standard replaces some older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to the notion of a contract. As a result, the company applies the bifurcated model registering the updated receivable related to the regulated amount remaining unamortized at the end of the concession agreement as a financial asset the intangible asset will be presented in the financial statements by the residual method resulted less the value of the construction works, achieved at fair value with the amount of the updated long term receivable (compensation) upon the commissioning of the investment.

The present value was determined for the remaining period of the concession contract (the year 2032), because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)).

In 2019 ANRE Order no. 41/2019 on the adjustment of the regulated value of the assets at the inflation rate entered into force. The company records the present value of the contractual cashflows recalculated as a result of the adjustment of the regulated asset value to the inflation rate and recognizes a gain or loss from the change in the profit or loss account.

From 2021 onwards, the company has changed the way of estimating the discount rate for the present value calculation, using instead of the Bloomberg rate the NBR reference rate for government securities (fixing), considering that this rate reflects with increased fidelity the internal context in which the transactions take place; by using a rate fixed for a period of 10 years, there is no need for a sensitivity analysis associated with this calculation.

Reporting segments are set according to the nature of the activities conducted by the company: the regulated activity, the unregulated activity and other activities. As transmission system operator, the company reported annually to the National Regulatory Authority on the activity performed on the four reporting segments.



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

**6. INFORMATION ON SEGMENTS**

The segment information provided to the Board of Administration, which makes strategic decisions for reportable segments, for the period ended 31 December 2021 is:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.164.418.613	-	-	-	1.164.418.613
Revenue from international transmission and assimilated	-	72.037.147	-	-	72.037.147
Other revenue	<u>68.525.222</u>	<u>929.966</u>	-	<u>59.038.715</u>	<u>128.493.903</u>
<b>Operating revenue before the balancing and the construction activity according to IFRIC12</b>	<b>1.232.943.835</b>	<b>72.967.113</b>	-	<b>59.038.715</b>	<b>1.364.949.663</b>
Depreciation	(317.241.420)	(32.197.050)	-	(10.303.214)	(359.741.684)
Operating expenses other than depreciation	<u>(803.300.547)</u>	<u>(14.099.924)</u>	-	<u>(67.096.816)</u>	<u>(884.497.287)</u>
<b>Profit from operation before the balancing and construction activity according to IFRIC12</b>	<b>112.401.868</b>	<b>26.670.139</b>	-	<b>(18.361.315)</b>	<b>120.710.692</b>
Revenue from the balancing activity	-	-	442.199.967	-	442.199.967
Cost of balancing gas	-	-	(442.199.967)	-	(442.199.967)
Revenue from the construction activity according to IFRIC12	-	-	-	704.026.548	704.026.548
Cost of constructed assets according to IFRIC12	-	-	-	(704.026.548)	(704.026.548)
<b>Operating profit</b>	<b>112.401.868</b>	<b>26.670.139</b>	-	<b>(18.361.315)</b>	<b>120.710.692</b>
Net financial gain					109.539.200
<b>Profit before tax</b>					<b>230.249.892</b>
Profit tax					(53.445.225)
<b>Net profit</b>					<b>176.804.667</b>
Assets on segments	6.355.911.803	201.129.595	494.208.099	954.896.647	8.006.146.144
Liabilities on segments	3.523.771.217	566.587	306.561.727	206.878.281	4.037.777.812
Capital expenditure - increases in assets in progress	794.706.329	318.145	-	117.891	795.142.365
Non-cash expenses other than depreciation	28.228.266	1.896	56.173.700	11.802.053	96.205.915

In 2021, the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz did not carry out transmission activity, the assets registered by them in amount of lei 283.055.655 and respectively the debts in amount of lei 203.714.360 being presented in the unallocated segment.

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. Assets shown for the balancing segment comprise mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

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

**6. INFORMATION ON SEGMENTS (CONTINUED)**

*Unallocated assets include:*

Tangible and intangible assets	430.746.174
The right of use of the leased assets	19.617.136
Goodwill	9.704.675
Deferred tax	352.591
Cash	414.955.056
Other assets	<u>79.521.015</u>
	<b>954.896.647</b>

*Unallocated liabilities include:*

Dividends payable	2.227.637
Loans	187.390.771
Other debts	<u>17.259.873</u>
	<b>206.878.281</b>

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the write-down of inventories, other provisions for risks.

International transmission services are performed for several foreign clients, while the domestic transmission activity is performed for several domestic clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.092.860.930	71.557.683	1.164.418.613
Revenue from international transmission and assimilated	-	72.037.147	72.037.147
Other revenue	<u>126.615.605</u>	<u>1.878.298</u>	<u>128.493.903</u>
	1.219.476.535	145.473.128	1.364.949.663

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(expressed in lei, unless otherwise stated)

**6. INFORMATION ON SEGMENTS (CONTINUED)**

<b><i>Domestic clients with over 10% of the total revenue include:</i></b>	<b><u>Percentage of the total revenue</u></b>
ENGIE ROMANIA S.A.	16%
OMV PETROM S.A.	12%
SNGN ROMGAZ S.A.	12%
E.ON ENERGIE ROMANIA S.A.	10%

All parent company's assets are located in Romania. All parent company's activities are carried out in Romania.

The company has trade external receivables amounting to lei 20.783.737 (31 December 2020: lei 12.203.130).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which is regulated by the National Regulatory Authority as well as the operating and financial revenue related to the claims for the regulated value of the regulated asset base remained undepreciated at the end of the Concession Agreement; the *international gas transmission* segment includes information related to the activity of pipeline gas transmission without the transshipment of the Romanian territory, and assimilated; the *balancing* segment includes expenses and revenue related to the national transmission system balancing activity developed starting with 1 December 2015, neutral in financial terms, any profit or loss from this activity will be distributed to clients for whom domestic transmission services are provided; the *unallocated* segment includes activities with a low share in the company's revenue such as sales of assets, rents, royalties.

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2020, is as follows:

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

**6. INFORMATION ON SEGMENTS (CONTINUED)**

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.150.464.877				1.150.464.877
Revenue from international transmission		114.222.513			114.222.513
Other revenue	<u>35.482.494</u>	<u>-</u>	<u>-</u>	<u>37.845.314</u>	<u>73.327.808</u>
<b>Operating revenue before the balancing and the construction activity according to IFRIC12</b>	<b>1.185.947.371</b>	<b>114.222.513</b>	<b>-</b>	<b>37.845.314</b>	<b>1.338.015.198</b>
Depreciation	(210.753.927)	(32.832.755)		<u>(5.131.523)</u>	(248.718.205)
Operating expense other than depreciation	<u>(873.080.040)</u>	<u>(30.433.535)</u>	<u>-</u>	<u>(21.288.989)</u>	<u>(924.802.565)</u>
<b>Profit from operation before the balancing activity according to IFRIC12</b>	<b>102.113.404</b>	<b>50.956.223</b>	<b>-</b>	<b>11.424.801</b>	<b>164.494.428</b>
Revenue from the balancing activity			199.239.242		199.239.242
Cost of balancing gas			(199.239.242)		(199.239.242)
Revenue from the construction activity according to IFRIC12				1.587.548.396	1.587.548.396
Cost of constructed assets according to IFRIC12				<u>(1.587.548.396)</u>	<u>(1.587.548.396)</u>
<b>Profit from operation</b>	<b>102.113.404</b>	<b>50.956.223</b>	<b>-</b>	<b>11.424.801</b>	<b>164.494.428</b>
Net financial gain					35.057.746
<b>Profit before tax</b>					<b>199.552.174</b>
Profit tax					(34.327.858)
<b>Net profit</b>					<b>165.224.316</b>
Assets on segments	6.055.456.830	279.152.072	195.837.081	691.202.955	<b>7.221.648.938</b>
Liabilities on segments	3.328.503.170	4.163.151	28.904.878	113.809.182	<b>3.475.380.381</b>
Cheltuieli de capital – creșteri ale activelor în curs de execuție	1.685.352.244	165.633	<u>-</u>	<u>-</u>	<b>1.685.517.877</b>
Cheltuieli nemonetare altele decât amortizarea	69.618.015	2.630.286	<u>-</u>	520.504	72.768.805

Assets indicated for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. The presented assets for the balancing segment are mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

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

**6. INFORMATION ON SEGMENTS (CONTINUED)**

*Unallocated assets include:*

Tangible and intangible assets	314.037.923
Right of use of leased assets	19.192.069
Financial assets	
Goodwill	9.082.127
Deferred tax	4.995.106
Cash	289.452.041
Other assets	<u>54.453.690</u>
	<b>691.202.955</b>

*Unallocated liabilities include:*

Dividends payable	2.710.686
Other debts	<u>111.098.496</u>
	<b>113.809.182</b>

The liabilities presented for the two main operating segments consist of payables and borrowings contracted by the company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the write-down of inventories, other provisions for risks.

International transmission services are provided for several foreign customers, while the domestic transmission activity is performed for several domestic customers.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from domestic transmission	1.133.243.470	17.221.407	1.150.464.877
Revenue from international transmission		114.222.513	114.222.513
Other revenue	<u>72.401.793</u>	<u>926.015</u>	<u>73.327.808</u>
	1.205.645.263	132.369.935	1.338.015.198

***Domestic clients with over 10% of the total revenue include:***

	<u>Percentage of the total revenue</u>
OMV PETROM S.A.	16%
ENGIE ROMANIA S.A.	15%
SNGN ROMGAZ S.A.	11%

All the parent company's assets are located in Romania. All the parent company's activities are carried out in Romania.

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

**7. TANGIBLE ASSETS**

	<b>Lands and buildings</b>	<b>Transmission system assets</b>	<b>Other fixed assets</b>	<b>Assets in progress</b>	<b>Total</b>
<b>On 31 December 2020</b>					
Cost on 1 January 2020	282.547.989	957.068.832	327.794.571	126.165.558	1.693.576.950
Accumulated depreciation	(160.738.150)	(667.374.803)	(240.845.722)	-	(1.068.958.675)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
<b>Initial net book value</b>	<b><u>121.809.839</u></b>	<b><u>289.694.029</u></b>	<b><u>86.948.849</u></b>	<b><u>124.509.376</u></b>	<b><u>622.962.093</u></b>
Inflows	-	-	1.395.120	187.454.782	188.849.902
Inflows/Reclassification	(7.179.646)	-	-	-	(7.179.646)
Transfers	40.913.681	4.673.800	248.815.630	(294.403.111)	-
Outflow (net book value)	(52.065)	-	(17.338)	-	(69.403)
Expense with depreciation	(6.369.306)	(30.762.377)	(25.671.795)	-	(62.803.478)
Exchange rate difference	(9.787)	-	(2.004.610)	(8.307.224)	(10.321.621)
<b>Final net book value</b>	<b><u>149.112.716</u></b>	<b><u>263.605.452</u></b>	<b><u>309.465.856</u></b>	<b><u>9.253.823</u></b>	<b><u>731.437.847</u></b>
Cost	315.990.135	961.742.372	566.670.110	10.910.005	1.855.312.622
Accumulated depreciation	(166.899.579)	(698.136.920)	(257.867.504)	-	(1.122.904.003)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Exchange rate difference	22.160	-	663.250	-	685.410
<b>Final net book value</b>	<b><u>149.112.716</u></b>	<b><u>263.605.452</u></b>	<b><u>309.465.856</u></b>	<b><u>9.253.823</u></b>	<b><u>731.437.847</u></b>
<b>On 31 December 2021</b>					
<b>Initial net book value</b>	<b><u>149.112.716</u></b>	<b><u>263.605.452</u></b>	<b><u>309.465.856</u></b>	<b><u>9.253.823</u></b>	<b><u>731.437.847</u></b>
Inflows	-	-	862.705	164.538.819	165.401.524
Reclassifications	671.248	-	12.270	5.309.799	5.993.317
Transfers	7.048.509	11.899.327	42.646.100	(61.593.936)	-
Outflow (net book value)	(212.159)	(19.490)	(93.453)	-	(325.102)
Expense with depreciation	(7.583.150)	(31.478.796)	(30.538.937)	-	(69.600.883)
Exchange rate difference	2.152.120	-	16.742.836	376.971	19.271.927
<b>Final net book value</b>	<b><u>151.189.284</u></b>	<b><u>244.006.493</u></b>	<b><u>339.097.377</u></b>	<b><u>117.885.476</u></b>	<b><u>852.178.630</u></b>
Cost	327.070.830	972.044.444	616.986.657	119.541.658	2.035.643.589
Accumulated depreciation	(175.826.406)	(728.037.951)	(277.025.016)	-	(1.180.889.373)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Exchange rate difference	(55.140)	-	(864.264)	-	(919.404)
<b>Final net book value</b>	<b><u>151.189.284</u></b>	<b><u>244.006.493</u></b>	<b><u>339.097.377</u></b>	<b><u>117.885.476</u></b>	<b><u>852.178.630</u></b>

The gross book value of the fully depreciated assets, still used, is lei 327.452.026 (31 December 2020: lei 309.479.594).

As at 31 December 2021 the cost of property, plant and equipment for which grant amounts are recorded (Note 17) is Lei 115.354.447 and the net book value is Lei 68.312.707. During 2021, income from the depreciation of the subsidised part was recorded in the amount of Lei 3.259.310 and the amount remaining to be distributed as at 31 December 2021, over the remaining life of the assets, is Lei 64.097.308.

As at 31 December 2021 no advances granted for the procurement of tangible assets are registered.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 7. TANGIBLE ASSETS (CONTINUED)

Regarding the assets developed by the company, which are complementary to the provision of services according to the concession agreement, the State has the option to acquire these assets at the end of the concession agreement. The company does not have the obligation to keep these assets until the end of the concession agreement and it is allowed to sell them. These assets do not fall within the scope of IFRIC 12. All the other assets related to the domestic transmission activity and which are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to the ANRM at the end of the concession agreement fall within the scope of IFRIC 12.

In 2021 the assets used for the provision of the international transmission services through the Isaccea 2 - Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipelines do not fall within the scope of IFRIC 12.

The company does not depreciate the tangible assets approved for discarding and does not own pledged fixed assets.

### 8. SERVICE CONCESSION AGREEMENT

In May 2002, the company concluded a Service Concession Agreement (‘SCA’) with the ANRM, which entitles the company to operate the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, GD No. 491/1998 and GD No. 334/2000 by which the company was established. All modernizations and improvements made by the company to the system are considered part of the system and become property of the ANRM at the end of their useful life. The company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the state.

At the expiration of the agreement, the assets belonging to the public domain, existing upon signing the agreement and all investments made in the system will be returned to the State. The company owns and will develop other assets that are not directly part of the national gas transmission system, but are complementary assets for gas transmission operations. The ANRM has the option to buy these assets at the end of the concession agreement, at the fair value.

The main terms of the Concession Agreement are the following:

- The company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(expressed in lei, unless otherwise stated)

**8. SERVICE CONCESSION AGREEMENT (CONTINUED)**

- Any change of tariffs must be proposed by the company and then approved by the ANRE;
- The company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The company must annually publish by 30 October the available capacity of the system for the following year;
- The company must annually respond to the clients' orders by 30 November and the ANRM must be informed on all rejected orders decided by the company's management;
- The company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, as of October 2007: 10%) of the gross revenue from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the company;
- The company may cancel the agreement by notifying the ANRM 12 months in advance;
- The ANRM may cancel the agreement by a 6-month prior notice, if the company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for `national interest` reasons; in this case, the company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The Concession Agreement does not include an automatic renewal clause.

The terms of the Concession Agreement were not amended after June 2003, except for the approval of the minimum investment plans.



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

**9. INTANGIBLE ASSETS**

	<b>Assets related to the ACS</b>	<b>Consolidation goodwill</b>	<b>Information programmes</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>La 31 December 2020</b>					
Cost on 1 January 2020	6.193.036.508	-	56.221.278	1.398.742.236	7.648.000.022
Accumulated depreciation	(4.108.454.822)	-	(52.495.828)	-	(4.160.950.650)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(573.613.990)	-	-	-	(573.613.990)
Concession Agreement receivable depreciation	154.304.667	-	-	-	154.304.667
Exchange rate conversion differences	-	362.497	-	-	362.497
<b>Net book value</b>	<b><u>1.665.272.363</u></b>	<b><u>9.775.599</u></b>	<b><u>3.725.450</u></b>	<b><u>1.389.599.459</u></b>	<b><u>3.068.372.871</u></b>
<b>Net book value</b>	<b>1.665.272.363</b>	<b>9.775.599</b>	<b>3.725.450</b>	<b>1.389.599.459</b>	<b>3.068.372.871</b>
Inflow	-	-	-	1.637.034.903	1.637.034.903
Reclassifications	7.179.646	-	-	-	7.179.646
Transfers	1.971.010.381	-	2.316.198	(1.973.326.579)	-
Outflow	(2.245)	-	-	-	(2.245)
Depreciation	(228.783.590)	-	(2.612.428)	-	(231.396.018)
Concession Agreement receivables	(585.582.081)	-	-	-	(585.582.081)
Concession Agreement receivable depreciation	45.863.492	-	-	-	45.863.492
Exchange rate conversion differences	-	(693.473)	(2.408)	-	(695.881)
<b>Final net book value</b>	<b><u>2.874.957.966</u></b>	<b><u>9.082.126</u></b>	<b><u>3.426.812</u></b>	<b><u>1.053.307.783</u></b>	<b><u>3.940.774.687</u></b>
<b>Final net book value</b>	<b>2.874.957.966</b>	<b>9.082.126</b>	<b>3.426.812</b>	<b>1.053.307.783</b>	<b>3.940.774.687</b>
Cost	8.171.222.202	-	58.534.013	1.062.450.560	9.292.206.775
Accumulated depreciation	(4.337.236.324)	-	(55.108.164)	-	(4.392.344.488)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(1.159.196.071)	-	-	-	(1.159.196.071)
Concession Agreement receivable depreciation	200.168.159	-	-	-	200.168.159
Exchange rate conversion differences	-	(330.976)	963	-	(330.013)
<b>Net book value</b>	<b><u>2.874.957.966</u></b>	<b><u>9.082.126</u></b>	<b><u>3.426.812</u></b>	<b><u>1.053.307.783</u></b>	<b><u>3.940.774.687</u></b>
<b>Net book value</b>	<b>2.874.957.966</b>	<b>9.082.126</b>	<b>3.426.812</b>	<b>1.053.307.783</b>	<b>3.940.774.687</b>
<b>La 31 December 2021</b>					
<b>Initial Net book value</b>	<b>2.874.957.966</b>	<b>9.082.126</b>	<b>3.426.812</b>	<b>1.053.307.783</b>	<b>3.940.774.687</b>
Inflow	-	-	-	652.514.874	652.514.874
Reclassifications	(683.518)	-	-	-	(683.518)
Transfers	1.300.435.881	-	16.314.633	(1.316.750.514)	-
Outflow	(13.356)	-	-	-	(13.356)
Depreciation	(375.359.164)	-	(1.894.603)	-	(377.253.767)
Concession Agreement receivables	(298.769.079)	-	-	-	(298.769.079)
Concession Agreement receivable depreciation	89.562.670	-	-	-	89.562.670
Exchange rate conversion differences	-	622.549	1.681	-	624.230
<b>Final net book value</b>	<b>3.590.131.400</b>	<b>9.704.675</b>	<b>17.848.523</b>	<b>389.072.143</b>	<b>4.006.756.741</b>
<b>Final net book value</b>	<b>3.590.131.400</b>	<b>9.704.675</b>	<b>17.848.523</b>	<b>389.072.143</b>	<b>4.006.756.741</b>
Cost	9.470.896.188	-	74.283.903	398.214.920	9.943.395.011
Accumulated depreciation	(4.712.530.466)	-	(56.429.757)	-	(4.768.960.223)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Consolidation goodwill	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(1.457.965.151)	-	-	-	(1.457.965.151)
Concession Agreement receivable depreciation	289.730.829	-	-	-	289.730.829
Exchange rate conversion differences	-	291.573	(5.623)	-	285.950
<b>Initial Net book value</b>	<b>3.590.131.400</b>	<b>9.704.675</b>	<b>17.848.523</b>	<b>389.072.143</b>	<b>4.006.756.741</b>

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

**9. INTANGIBLE ASSETS (CONTINUED)**

The minimum NTS gas quantity required to ensure the pressures and flow rates for the end consumers under the contractual conditions (NTS linepack) is recognized in the value of the right to use, as an intangible asset. On 31 December 2021 the line pack is of 696.964 MWh and amounts to lei 57.240.411, of which NTS linepack is of 574.965 MWh and amounts lei 45.012.893. On 31 December 2020 the linepack is of 689.357 MWh and amounts to lei 56.389.212, of which NTS linepack is 559.581 MWh and amounts to lei 43.669.184.

As at 31 December 2021 the cost of intangible assets for which grant amounts are recorded (Note 17) is Lei 3.339.511.591 and the net book value is Lei 2.762.231.431. During 2021, income from the depreciation of the subsidised portion of Lei 79.036.446 has been recorded and the amount remaining to be allocated as at 31 December 2021 over the remaining life of the assets is Lei 1.097.388.219.

As at 31 December 2021, the company capitalized depreciation expenses of lei 1.426.001 and interest expense amounting to lei 15.529.046 (in 2020, the company capitalized depreciation expenses of 2.646.453 and interest expense amounting to lei 16.332.693).

On 31 December 2021 the advances granted for the procurement of national gas transmission system development works in the amount of lei 27.533.952 are presented in the intangible assets in progress (lei 99.594.303 on 31 December 2020).

The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

Following the procurement of Vestmoldtransgaz SRL (VTMG) by Eurotransgaz SRL (ETG), the goodwill, calculated as the difference between the value of the holding and the equity value of VTMG weighted by the 100% stake, was recorded in the consolidated financial statements as an intangible asset. The goodwill was calculated at the date of procurement, March 2018, being presented in the consolidated financial statements at the closing exchange rate.

**The rights of use of the leased assets (IFRS 16)**

As of 1 January 2019 the company applies IFRS 16 for the leasing contracts complying with the recognition criteria and recognized the intangible asset as a right of use related to the leasing contract:

	<b><u>Leases according to IFRS16</u></b>
<b>Cost on 1 January 2021</b>	<b>26.397.047</b>
Accumulated depreciation	(7.204.978)
Net book value	<u>19.192.069</u>
Inflow	4.439.371
Outflow	(175.556)
Depreciation	(3.838.748)
<b>Final net book value on 31 December 2021</b>	<b><u>19.617.136</u></b>

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

**9. INTANGIBLE ASSETS (CONTINUED)**

Detailed information on IFRS 16 as at 31 December 2021:

	31 December 2021	Of which related to the group-Forestry conventions
Value as use (DU)	30.660.861	14.997.449
Depreciation related to DU	11.043.725	2.804.014
DU interest	777.546	453.814
Debt regarding DU	20.470.837	12.722.651
From which		
Short term	3.771.512	1.037.891
Long term	16.699.325	11.684.760
		<b><u>Leases according to IFRS16</u></b>
<b>Cost on 1 January 2021</b>		<b>12.254.498</b>
Accumulated depreciation		(2.895.319)
<u>Net book value</u>		<u>9.359.179</u>
Inflow		14.596.522
Outflow		(453.974)
Depreciation		(4.309.658)
<b>Final net book value on 31 December 2021</b>		<b><u>19.192.069</u></b>

Detailed information on IFRS 16 as at 31 December 2020:

	31 December 2020	Of which related to the class of low value assets- Forestry conventions
Value as use (DU)	26.397.047	11.824.197
Depreciation related to DU	7.204.978	1.746.588
DU interest	1.213.101	861.679
Debt regarding DU	19.834.454	10.440.891
From which		
Short term	3.352.014	735.198
Long term	16.482.440	9.705.693

Debt according to IFRS 16 is presented in the balance sheet at long-term and short-term trade payables.

The company recognizes a class of support assets with a cumulative value of more than USD 5000 - forestry conventions.

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

**10. FINANCIAL ASSETS**

Financial assets consist of unlisted stakes in the following companies:

<u>company</u>	<u>Activity</u>	%	%		
		<u>Percentage owned 2021</u>	<u>Percentage owned 2020</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
	Gas production	17,47	17,47	6.461.736	6.461.736
Mebis SA	distribution and supply				
Minus adjustments for impairment of investments in:				<u>(24.578.237)</u>	<u>(24.578.237)</u>
Resial SA, Mebis SA				=	=

*Shares in Resial SA*

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a client. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the company, which is why the stake is not consolidated and is recorded at cost less the adjustment for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully adjusted. The management does not expect the company to recover any amount of this stake and the company does not guarantee any type of residual obligations for Resial SA.

*Shares in Mebis SA*

Shares owned in Mebis SA were obtained in February 2004, as a result of a procedure for the recovery of claims due from a client. Mebis SA is in the liquidation procedure, which is why the stake in Mebis SA was fully adjusted. The company has no obligations to Mebis SA.

In case of the financial assets held by Transgaz, i.e. Mebis SA and Resial SA, the application of IFRS 9 has no impact whatsoever, as such assets are measured at the fair value by the profit and loss account and 100% impairment adjustments were established.

**Goodwill**

On 28 March 2018 the Moldovan company Eurotransgaz SRL, owned by SNTGN Transgaz SA Romania, concluded as a buyer the sale purchase contract for the of the unique heritage complex - Vestmoldtransgaz State Enterprise with the Public Property Agency of the Republic of Moldova.

Name	Fair value MDL
Net assets	140.798.149
Fair value of paid consideration	180.200.000
Goodwill MDL	39.401.851
Goodwill – the lei equivalent on 31.12.2021	9.704.675

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 10. FINANCIAL ASSETS (CONTINUED)

At the date of purchase, the net assets of Vestmoldtransgaz SRL amounted to 140.798.149 MDL, and the registered share capital and unregistered share capital to 177.408.819 MDL. The fair value of the consideration paid at the date of purchase was 180.200.000 MDL. The difference between the fair value of the consideration paid and the share capital, including the unregistered capital, is found in the goodwill and amounts to 2.791.181 MDL.

The goodwill is found in the financial statement of Eurotransgaz SRL (parent entity) as a result of the consolidation of the financial statements, obtained through the difference between the sale value of the subsidiary - Vestmoldtransgaz SRL and the value of the net assets recorded in the accounting books of the subsidiary at the date of the purchase.

By EGMS Resolution 10/12.12.2017 it was approved the establishment of Eurotransgaz SRL on the territory of the Republic of Moldova for participation in the privatization of State Enterprise Vestmoldtrasgaz SRL.

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

For the purpose of consolidating this set of financial statements, the non-controlling interest in the share capital of the Group in the amount of MDL 380.437.279 represents EBRD's share in the total net assets of Vestmoldtransgaz S.R.L. (0,2463 lei)

Non-controlling interests	<u>31 December 2021</u>	<u>31 December 2020</u>
Deposits of associates (EBRD)	93.701.702	-
Net profit for the period	-1.341.079	-
Conversion differences from consolidation	<u>1.188.132</u>	-
	93.548.755	-

### 11. INVENTORIES

	<u>31 December 2021</u>	<u>31 December 2020</u>
Gas inventories	227.379.198	68.130.252
Gas for NTS gas consumption	13.257.485	21.728.153
Spare parts and materials	93.479.391	72.009.330
Materials in custody at third parties	7.092.278	60.851.179
Adjustments for write-down of inventories	<u>(29.500.148)</u>	<u>(28.577.038)</u>
	<b><u>311.708.204</u></b>	<b><u>194.141.876</u></b>

ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

The company does not hold any restricted stocks and has established safety stocks amounting to Lei 9,143,403 as at 31 December 2021.

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

**12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES**

Movements in the adjustments account are analysed below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Adjustment on 1 January	28.577.038	29.409.319
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	<u>923.110</u>	<u>(832.281)</u>
Adjustment at the end of the period	<b><u>29.500.148</u></b>	<b><u>28.577.038</u></b>

In 2021 adjustments for write-down of inventories were established according to Note 3.10.

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Trade receivables	931.533.538	718.257.047
Advance payments to suppliers for goods and services	317.599	279.444
Loan to Resial SA (Note 10)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	1.788.570.507	1.364.268.828
Non-refundable loans as subsidies	143.149.971	234.652.532
State budget receivables	54.639.636	135.297.082
Other receivables	78.129.524	94.080.981
Adjustment of impairment of trade receivables	(542.126.364)	(453.599.959)
Adjustment of impairment of other receivables	<u>(55.406.971)</u>	<u>(53.340.988)</u>
	<b><u>2.400.577.786</u></b>	<b><u>2.041.665.313</u></b>
Financial assets/ Loans and receivables (Note 4)	<b><u>2.344.915.484</u></b>	<b><u>1.978.290.105</u></b>

The company challenged administratively the tax decision on additional tax payment obligations in the amount of lei 25.409.833 issued in 2016 by ANAF consisting of revenue tax, VAT, penalties and late payments, and set up an adjustment. The company paid the amounts mentioned in the tax decision in order to be able to carry out the activities in the directions set by the management and to facilitate the financing of future projects.

In 2020, the Company administratively challenged the tax decision regarding additional fiscal payment obligations amounting to lei 7.642.671 issued by ANAF in 2020 consisting of profit tax and VAT and constituted an adjustment.

The advance payments granted to the company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee.

On 31 December 2021, the amount of lei 110.805.049 (31 December 2020: lei 195.182.480) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 1% in USD (31 December 2020: 1%) and 99% in EUR (31 December 2020: 99%).

With a view to consolidation as at 31 December 2021, eliminated internal transactions are amounting to lei 461.131, trade payables amounting to lei 635,925 and trade receivables amounting to lei 140.566 (31 December 2020: trade payables amounting to lei 1.341.155 and trade receivables amounting to lei 1.356.528).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

On 31 December 2021, the parent company registers the VAT to be reimbursed in the amount of 21.546.877 lei which is presented in Other receivables (31 December 2020: 109.814.918 lei). The VAT claims of the Eurotransgaz subsidiary in the amount of 75.819.108 lei are debts to the budget consisting in deductible VAT through service provision and raw material supply within the gas distribution network construction process managed by Vestmoldtransgaz S.R.L. The advance payments granted in the country are advance payments to the developer partners and third parties to execute the Ungheni – Chişinău pipeline construction works. In 2020 and in 2021 provisions were established for receivables from companies in insolvency or companies that have experienced significant financial difficulties.

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized gains amounting to lei 87.969.821 according to IFRS 9 (31 December 2020: lei 29.334.109).

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
<b>Initial balance</b>	1.364.268.828	723.921.414
Inflow	298.769.079	585.582.081
Interest	37.810.509	25.920.869
Inflation update	87.969.821	29.334.109
Outflow	<u>(247.730)</u>	<u>(489.645)</u>
	<b><u>1.788.570.507</u></b>	<b><u>1.364.268.828</u></b>

Commercial receivables analysis according to IFRS9 is as follows:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
<b>Current and unamortized</b>		
Transit receivables	4.792.478	8.498.496
Doubtful or insolvency receivables	169.099.079	164.471.856
Affiliated party receivables	312.057.251	297.317.672
Other trade receivables	369.494.488	198.371.653
Receivables from various debtors	<u>15.636.334</u>	<u>-</u>
	<b><u>871.079.630</u></b>	<b><u>668.659.677</u></b>
<b>Amortization</b>		
Transit receivables	-	-
Doubtful or insolvency receivables	169.091.680	164.468.159
Affiliated party receivables	226.218.824	196.531.429
Other trade receivables	146.815.860	92.600.371
Receivables from various debtors	<u>15.365.200</u>	<u>-</u>
Total amortization	<b><u>557.491.564</u></b>	<b><u>453.599.959</u></b>
Total trade receivables net of provision	<b><u>313.588.066</u></b>	<b><u>215.059.718</u></b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

IFRS 9 introduces a new model for forecasting impairment loss based on the estimated loss. This model entails the anticipated recognition of the loss from receivables impairment. The standard provides for the fact that the entities register the anticipated loss by receivables impairment from the moment of the financial instrument initial recognition and recognize the anticipated loss from the impairment over their entire life. The value of the anticipated loss will be discounted for each reporting period so that it reflects the credit risk changes as opposed to the initial recognition.

For the application of IFRS 9 on the held receivables, based on a loss estimation model, the clients categories were reconsidered starting from the IFRS 9 principle for the anticipation of a non-cashing in risk related to the current receivables.

To estimate the trade receivables non-collection risk, a non-collection rate based on risk categories was applied as follows:

- international transmission receivables - receivables with no risk of on-time collection ;
- doubtful or contested other than affiliated parties receivables - receivables with high risk of non-collection that are subject to certain court actions. Impairment adjustments of 100% of the receivables amount are calculated;
- affiliated parties receivables - risk-free receivables are provisioned by seniority instalments, i.e. within the range 31-60 a 10% percentage, 61-90 a 20% percentage, 91-120 a 30% percentage, 121-150 a 35%, 151-180 a 60%, and over 181 with a 100% percentage. Doubtful receivables subject to court actions are provisioned with up to 100% of the amount. A provision of 100% for receivables exceeding 30 days and of 5% for current receivables is made up for the receivables that are not subject to court actions and have a non-collection risk.
- Various clients (other trade receivables and various clients receivables) - the risk-free receivables are provisioned by seniority instalments, 10% for the range 31-60 , 20% for the 61-90 , 30% for the range 91-120, 35% for the range 121-150, 60% for the range 151-180, and 100% for the receivables over 181. Doubtful receivables subject to court actions are provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, a provision of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up.

Category	10.00%	20.00%	30.00%	35.00%	60.00%	100.00%		TOTAL
	31-60	61-90	91-120	121-150	151-180	over 181 and doubtful	IFRS 9	
Transit receivables	-	-	-	-	-	-	-	-
Doubtful and insolvent receivables	-	-	-	-	-	169.091.680	-	169.091.680
Affiliated parties receivables	8.218	16.043	612.240	2.904.183	5.233.959	206.306.756	11.137.425	226.218.824
Various receivables	693.988	1.414.088	2.018.574	1.790.352	3.794.054	135.221.557	1.883.247	146.815.860
Receivables from various debtors	<u>40</u>	<u>-</u>	<u>12.581</u>	<u>31.418</u>	<u>1.045</u>	<u>15.320.116</u>	<u>-</u>	<u>15.365.200</u>
Total impairment	702.246	1.430.131	2.643.395	4.725.953	9.029.058	525.940.109	13.020.672	557.491.564

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In the context of the pandemic, the company considers that maintaining the adjustment rates of trade receivables used in the previous year covers the risks of non-collection, the Company providing a public service of national interest, included in the regulated segment of the internal gas market. The natural gas transmission activity is regulated by the National Energy Regulatory Authority. The company constantly analyzes the customers' situation and records adjustments whenever there are indications of an increase in the non-collection risk.

The payment of the equivalent value of the invoices for the natural gas transmission services, issued according to the provisions of the Network Code, is made within 15 calendar days from the date of issuing the invoice. If the due date is a non-working day, the deadline is considered fulfilled on the next working day.

Movements in the provision account are analysed below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Adjustment on 1 January	506.940.947	439.910.253
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	<u>90.592.388</u>	<u>67.030.695</u>
Adjustment at the end of the period	<b><u>597.533.335</u></b>	<b><u>506.940.947</u></b>

The company makes adjustments for receivables from insolvent companies or companies that encountered significant financial difficulties.

On 31 December 2021, the company recorded adjusting expenses for the clients recording an increased non-collection risk, mainly for receivables of Electrocentrale Constanța (39.827.303 lei), North Chemical Complex SRL (lei 26.219.950) and AIK Group (9.835.019 lei) and decreased the adjustment to Electrocentrale Galați by lei 6.527.250.

### 13. CASH AND CASH EQUIVALENT

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Cash at bank in RON	334.277.624	248.540.934
Cash at bank in foreign currency	80.519.167	29.833.747
Other cash equivalents	<u>158.265</u>	<u>11.077.359</u>
	<b><u>414.955.056</u></b>	<b><u>289.452.040</u></b>
	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Restricted cash ( guarantee management)	1.020.791	969.450

Cash at bank in foreign currency is mostly denominated in EUR.

The weighted average of the effective interest related to short-term bank deposits was of 1,50% on 31 December 2021 (2,38% on 31 December 2020) and these deposits have a maximum maturity of 30 days.

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

**14. SHARE CAPITAL AND SHARE PREMIUM**

<b>IFRS</b>	<b>Number of ordinary shares</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Total</b>
On 31 December 2020	11.773.844	117.738.440	247.478.865	365.217.305
On 31 December 2021	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	<u>441.418.396</u>	-	<u>441.418.396</u>
On 31 December 2020, 31 December 2021	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>

The authorized number of ordinary shares is 11.773.844 (31 December 2020: 11.773.844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 December 2021 is the following:

	<b>Number of ordinary shares</b>	<b>Statutory value (lei)</b>	<b>Percentage (%)</b>
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

The shareholding structure on 31 December 2020 is the following:

	<b>Number of ordinary shares</b>	<b>Statutory value (lei)</b>	<b>Percentage (%)</b>
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

In the statutory accounting, before 1 January 2012, the company included in the share capital certain reserves from revaluation for revaluations made before 31 December 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by 31 December 2003. Therefore, in these financial statements, the company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on 31 December 2003 and the increase in the share capital that took place after 1 January 2004 was recognized in nominal terms.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

#### *Other reserves*

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as `Reserve of the public domain` at the value of the respective assets restated depending on inflation until 1 January 2004. It was renamed `Other reserves` at the adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of the related assets. The Company does not intend to change the allocation of deferred income arising from the first-time adoption of IAS 29.

#### *Legal reserve*

In accordance with the Romanian law and the company's Articles of Incorporation, the Transgaz must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 December 2021, amounts to lei 23.547.688 (31 December 2020: lei 23.547.688). The legal reserve is included in the `Retained earnings` in these financial statements. The company does not intend to change the allocation of the legal reserve.

#### *Dividend allocation*

In 2021, the parent company declared and allocated a dividend of lei 15,41/share, related to the profit of the previous year (2020: lei 15,47/share). The total dividends declared from the profit of 2020 are lei 95.839.090,16 (dividends declared from the profit of 2019: lei 182.141.366,68).

### 16. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 31 December 2021:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
BEI 83644RO	224.643.740	240.548.360
BEI 88825RO	247.405.000	243.470.000
BEI ETG 90703	187.390.771	107.119.222
BCR 20190409029	171.120.000	186.000.000
BCR 20201028056	345.600.000	360.000.000
BCR 20210817030	100.000.000	-
BCR 20211124044	220.000.000	-
BERD	255.702.960	277.938.000
BT	<u>279.435.121</u>	<u>299.720.329</u>
<b>Total</b>	<b><u>2.031.297.592</u></b>	<b><u>1.714.795.911</u></b>

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

**16. LONG-TERM BORROWINGS (CONTINUED)**

Loans breakdown by maturity range:

	<u><b>31 December 2021</b></u>	<u><b>31 December 2020</b></u>
Within 1 year	132.104.365	121.410.422
Over 1 year	<u>1.899.193.227</u>	<u>1.593.385.489</u>
	<u><b>2.031.297.592</b></u>	<u><b>1.714.795.911</b></u>

**The European Investment Bank (EIB)**

The company signed with the European Investment Bank the following loans for the financing of the project `Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1):

- Loan Agreement no. 83644RO concluded on 27.10.2017 for the amount of EUR 50 million, fixed interest rate, maturity of 15 years, grace period of 3 years at principal repayment.
- Loan Agreement no.88825RO concluded on 14.12.2017 for the amount of EUR 50 million, with disbursements in lei or EUR (at the choice of the company), with fixed or variable interest (at the choice of the company), maturity of 15 years, the grace period of 3 years of repayment of the principal.

The company signed with the EIB Loan Agreement no.89417RO on 17.12.2018 for the financing of the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas` (Black Sea - Podișor) for the amount of EUR 50 million, maturity of 15 years, grace period of 3 years at principal repayment. The open-ended contract allows the use of the loan in lei or in EUR (at the option of the company) with fixed or variable interest (at the option of the company)

On 24 January 2019, the company signed a loan agreement with the European Investment Bank for the amount of EUR 100 million, maturity 15 years, grace period of 3 years at the repayment of the principal, in order to finance the project `Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas`.

On 24 January 2019, the Company signed a loan agreement with the European Investment Bank for the amount of EUR 38 million, maturity 15 years, grace period of 3 years at the repayment of the principal, in order to finance the project Construction of the interconnection pipeline between the national gas transmission system of the Republic of Moldova and the gas transmission system in the European Union in the Ungheni – Chișinău direction

The financial commitments undertaken by the loan agreements requires the company to comply with the negotiated limits of the following financial indicators: the ratio of the total net debts to the Borrower's RAB, the net leverage ratio and the Interest coverage rate.

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

**16. LONG-TERM BORROWINGS (CONTINUED)**

In 2017 the company received the first tranche of Loan Agreement number 83644RO of EUR 15 million issued by EIB on 30 November 2017, in 28 February 2018 the second tranche of the loan amounting to EUR 15 million and on 30 April 2018, the third tranche of the loan amounting to EUR 20 million was received.

The maturity of the loan 83644RO from the EIB is presented below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Within 1 year	19.792.400	15.582.080
Between 1 and 5 years	79.169.600	77.910.400
Over 5 years	<u>125.681.740</u>	<u>147.055.880</u>
	<b><u>224.643.740</u></b>	<b><u>240.548.360</u></b>

In 2019 the company received under Loan Agreement no. 88825RO two tranches totalling EUR 50 million.

The maturity of the loan 88825RO from the EIB is presented below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Within 1 year	19.730.257	-
Between 1 and 5 years	78.921.030	77.665.783
Over 5 years	<u>148.753.713</u>	<u>165.804.217</u>
	<b><u>247.405.000</u></b>	<b><u>243.470.000</u></b>

The book value of the short term loans approximates their fair values.

Under the EIB loan no. 90703 RO, on 24 April 2020 the Company received the first tranche of EUR 22 million, and on 22 January 2021 the Company received the second tranche of EUR 16 million.

The maturity of the 90703EN EIB loan is presented below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Within 1 year	-	370.940
Between 1 and 5 years	51.563.644	22.183.602
Over 5 years	<u>135.827.127</u>	<u>84.564.680</u>
	<b><u>187.390.771</u></b>	<b><u>107.119.222</u></b>

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

**16. LONG-TERM BORROWINGS (CONTINUED)**

**The European Bank for Reconstruction and Development (EBRD)**

On 23 February 2018 Transgaz signed with EBRD a contract amounting to lei 278 million, the equivalent of EUR 60 million, for the financing of the BRUA Project.

The loan was fully disbursed by two equal disbursements: on 29 April 2020 and on 29 May 2020.

The EBRD loan maturity is presented below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
	22.235.040	22.235.040
Within 1 year	88.940.160	88.940.160
Between 1 and 5 years	<u>144.527.760</u>	<u>166.762.800</u>
Over 5 years	<b><u>255.702.960</u></b>	<b><u>277.938.000</u></b>

**The Romanian Commercial Bank (BCR)**

The company signed on 24.04.2019 Contract no. 20190409029 with the Romanian Commercial Bank for committing the financing in the amount of 186 million lei, the equivalent of 40 million EUR, with drawing and repayment in lei, maturity 15 years, grace period for principal repayment of 3 years, variable interest for the financing of the project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor` (BRUA Phase 1).

The BCR loan no. 20190409029 is fully disbursed and its maturity is presented below:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Within 1 year	14.880.000	14.880.000
Between 1 and 5 years	59.520.000	59.520.000
Over 5 years	<u>96.720.000</u>	<u>111.600.000</u>
	<u>171.120.000</u>	<u>186.000.000</u>

On 29.10.2020, the Company signed Contract no.20201028056 with the Romanian Commercial Bank for a lei 360 million loan for a period of 13 years to refinance two major Transgaz projects : NTS developments in North-East Romania (Onești - Gherăești - Lețcani) and the Interconnection of the National Gas Transmission System with the international gas transmission pipeline T1 and reverse flow Isaccea Phase II (Onești - Siliștea)`.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 16. LONG-TERM BORROWINGS (CONTINUED)

BCR loan no. 20201028056 is fully collected and its maturity is presented below:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Within 1 year	28.800.000	14.400.000
Between 1 and 5 years	115.200.000	115.200.000
Over 5 years	<u>201.600.000</u>	<u>230.400.000</u>
<b>Total</b>	<b><u>345.600.000</u></b>	<b><u>360.000.000</u></b>

On 17.08.2021 the Company signed Contract no. 20210817030 with the Romanian Commercial Bank for a lei 100 million loan for a period of 12 years to refinance the project NTS developments in North-East Romania (Onești - Gherăești - Lețcani).

The BCR loan no. 20210817030 is fully disbursed and its maturity is presented below:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Within 1 year	8.333.334	-
Between 1 and 5 years	33.333.336	-
Over 5 years	<u>58.333.330</u>	-
<b>Total</b>	<b><u>100.000.000</u></b>	<b><u>-</u></b>

On 24.11.2021, the Company signed contract no. 20211124044 with Banca Comercială Română contemplating the Company's benefiting from a lei 220 million loan for a period of 12 years, destined to refinance the project: "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)".

BCR loan no. 20211124044 is fully collected and its maturity is presented below:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Within 1 year	18.333.334	-
Between 1 and 5 years	73.333.333	-
Over 5 years	<u>128.333.333</u>	-
<b>Total</b>	<b><u>220.000.000</u></b>	<b><u>-</u></b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16. LONG-TERM BORROWINGS (CONTINUED)**

**Transylvania Bank (BT)**

On 15 July 2020, as a result of a competitive negotiation procedure, the company signed a contract with Transylvania Bank allowing the company to benefit from a credit facility amounting to lei 300 million, for 2 years, to cover the necessary working capital and partly to issuing letters of guarantee. The repayment of the credit line has been extended until 19.12.2023, based on the conclusion of the Addendum No. 1/20.12.2021.

As at 31 December 2021, out of the total of Lei 300.000.000, the amount of Lei 279.435.121 was used to cover working capital requirements and the amount of Lei 20.500.000 was used to cover two bank letters of guarantee issued in favour of third parties, valid until 31.03.2022. The obligation is shown under long-term loans.

During 2021, the Company intended to cover the credit line for short periods of time by the amount of lei 50 million, for the payment of current debts, in order to streamline financing costs.

As of 31 December 2021, the balance of interest due for the loans of the company is lei de 5.622.370 broken down by loans as follows:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
BEI 83644RO	584.153	625.124
BEI 88825RO	-	13.748
BEI ETG 90703	658.684	-
BCR 20190409029	502.614	419.738
BCR 20201028056	1.605.478	1.575.794
BCR 20210817030	644.959	-
BCR 20211124044	641.315	-
BERD	<u>985.167</u>	<u>903.607</u>
<b>Total</b>	<b><u>5.622.370</u></b>	<b><u>3.538.011</u></b>

The exposure of the company's loans to the changes of the interest rate is as follows:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Variable interest rate loans	1.806.653.852	1.474.247.551
Fixed interest rate loans	<u>224.643.740</u>	<u>240.548.360</u>
<b>Total loans</b>	<b><u>2.031.297.592</u></b>	<b><u>1.714.795.911</u></b>

The exposure of the company's loans to the changes of the interest rate is as follows:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Variable interest rate	1.806.653.853	1.474.508.986

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**17. DEFERRED REVENUE**

Deferred revenue consists of connection fees charged to clients for their connection to the national gas transmission system, assets taken over for free for connection to the network, grants and the right to recover the unamortized regulated value of the assets related to the investments made as a licensee. The company uses the connection fee to achieve the connection of the client's facilities to the national transmission system. Deferred revenue (presented as `revenue from the connection fees`) is registered as revenue for the period when the related assets are depreciated and estimating the duration of the relationship with the client (Note 22).

Based on the connection contracts, the necessary infrastructure is built to ensure the estimated transmission capacity to be used over the duration of the concession agreement.

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Initial balance	1.112.663.468	669.915.709
Increases	131.117.814	486.886.462
Revenue from connection fees (Note 22)	(12.908.125)	(12.848.165)
Income from non-reimbursable funds and goods taken over free of charge (Note 22)	<u>(69.387.631)</u>	<u>(31.290.538)</u>
Final balance	<b><u>1.161.485.526</u></b>	<b><u>1.112.663.468</u></b>

The balance of the deferred revenue consists of:

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Connections and assets received free of charge	237.981.685	237.010.965
Grants	<u>923.503.841</u>	<u>875.652.503</u>
	<b><u>1.161.485.526</u></b>	<b><u>1.112.663.468</u></b>

For the BRUA project the company obtained from the European Union through the National Agency for Innovation and Networks (INEA) a grant of Euro 1.519.342, representing 50% of the estimated eligible costs for financing the FEED for the three compressor stations (Podișor, Bibești and Jupa) and a grant of 159.449.379 Euro, representing 40% of the estimated eligible costs, for financing the BRUA Phase I project implementation.

The following amounts were received as pre-financing to finance the implementation of the BRUA Phase I project: EUR 25.834.489,60 (in 2016) and EUR 13.839.087,37 (in 2018), EUR 29.192.463,92 in 2019, EUR 37.740.347 in 2020 and EUR 20.953.114,91 in 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 17. DEFERRED REVENUE (CONTINUED)

On 22.11.2018 the company signed with the Ministry of European Funds LIOP MA Financing Contract 226 on the grants for the implementation of the draft project code MYSMIS 2014-122972 NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova within the Specific objective 8.2 – Increasing the interconnectivity of the National Transmission System with neighbouring states. The amount of the grant is lei 214.496.026,71, namely 32,53% of the value of the eligible expenses. For the financing of the works for the implementation of the project NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova, the amount of lei 179.040.565,37 was collected as reimbursement of eligible expenses.

On 18.06.2020 the company signed Grant Agreement no. HCOP/685/3/8/132556 on the implementation of the project „TransGasFormation` Code 132556 for the amount of Lei 701.259,60 with the Ministry of European Funds, as Management Authority for the Human Capital Operational Programme.

The company recognizes a right to collect the grant when there is reasonable assurance that it will comply with the conditions attached to its award and that the grant will be received. Prior to 2020, for prudential reasons, the company recognized the grant on the basis of approved reimbursement claims. Starting with 2020, the Company considers that the reasonable assurance that the grant will be received can be confirmed by the fulfillment of the eligibility conditions in the funding applications, prior to the approval of the funding application.

Therefore, on 31 December 2020, the company registered the right to receive non-reimbursable financing in the amount of lei 195.892.346 for eligible investment expenses made until the end of 2020 that meet the conditions of the financing contracts and for which no reimbursement requests were approved in 2020, of which the amount of lei 82.286.574 remained to be received on 31 December 2021.

At the end of 2021 the grant receivable was updated to Lei 104.567.843, corresponding to the amounts expected to be received from INEA, plus Lei 28.188.869,85 corresponding to the amounts expected to be received from AM POIM. The latter includes the amount of a reimbursement request of Lei 10.628.059,64 submitted to the AM POIM before 31 December 2021.

According to the grant agreement concluded with INEA, the expenses incurred with the project implementation until 31 August 2021 are eligible.

The income from the grant is recognized proportionally from the depreciation of the financed assets, applying the percentage of financing of the eligible expenses on the monthly depreciation.

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

**18. PROFIT TAX**

**Profit tax expense**

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Expense with the profit tax - current	48.812.710	47.384.029
Deferred tax - impact of temporary differences	<u>4.632.515</u>	<u>(13.056.171)</u>
Profit tax expense	<u>53.445.225</u>	<u>34.327.858</u>

In 2021 and in 2020 the company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Profit before tax	239.268.327	209.178.079
Profit / loss (ETG – VTMG)	(9.018.435)	(9.625.905)
Theoretical expense with the tax the statutory rate of 16% (2019: 16%)	39.401.302	33.619.035
Non- deductible expenses, net	<u>14.043.923</u>	<u>708.823</u>
Profit tax expense	<u>53.445.225</u>	<u>34.327.858</u>
Profit tax related liability, current	-	-

Depreciation of tangible assets hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

At Eurotransgaz the current expenses regarding income tax is calculated based on the the taxable income in the statutory financial statements. For tax purposes, the deductibility of certain expenses, such as protocol expenses, is limited to a certain percentage of the profit specified in the tax legislation. On 31 December 2021, the standard rate of income tax was set at 12% (31 December 2020: 12%).

**Deferred tax**

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% as at 31 December 2021 (31 December 2020: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(revenue from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

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

**18. PROFIT TAX (CONTINUED)**

	<u>31 December 2021</u>	<u>Movement</u>	<u>31 December 2020</u>	<u>Movement</u>	<u>1 January 2020</u>
<b>Deferred tax payment</b>					
Tangible and intangible assets	109.061.759	13.559.317	95.502.442	1.693.076	93.809.366
<b>Recoverable deferred tax</b>					
Provision for employee benefits	(17.587.686)	3.990.395	(21.578.081)	(2.095.407)	(19.482.674)
Risks and charges	(10.791.418)	(4.707.289)	(6.084.129)	(1.758.005)	(4.326.124)
Receivables and other assets	<u>(81.035.246)</u>	<u>(8.209.908)</u>	<u>(72.825.338)</u>	<u>(10.895.835)</u>	<u>(61.929.503)</u>
	<u>(352.591)</u>	<u>4.632.515</u>	<u>(4.985.106)</u>	<u>(13.056.171)</u>	<u>8.071.065</u>

Deferred profit tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts.

Temporary differences for receivables and other assets arise from impairment adjustments for bad debts. The consolidated statements of ETG with VTMG recognised a deferred tax liability amounting to lei lei 1.090.369 calculated for the period 2016-2018 regarding employee obligations for unpaid leave, representing a recoverable tax amounting to lei 20.058, and the payment balance for tangible fixed assets of lei 1.070.310.

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

**18. PROFIT TAX (CONTINUED)**

The amounts presented in the statement of the financial position include the following:

	<u>31 December 2021</u>	<u>31 December 2020</u>
Deferred tax liabilities/receivables in more than 12 months as reported	(352.591)	(4.985.106)

**19. TRADE PAYABLES AND OTHER PAYABLES**

**Short term payables**

	<u>31 December 2021</u>	<u>31 December 2020</u>
Trade payables	394.318.166	103.709.812
Suppliers of fixed assets	38.764.763	157.660.975
Dividends payable	2.227.637	2.710.686
Debts related to royalties	1.442.920	11.081.799
Other taxes	24.102.671	42.924.687
Amounts payable to employees	16.164.863	15.176.051
VAT not applicable	-	8.582.016
Transmission service guarantees	42.772.922	13.907.055
Transmission services advance payments	36.806.228	30.029.743
Tender guarantees	55.360.467	22.458.079
Other debts	<u>38.506.336</u>	<u>25.891.110</u>
	<b><u>650.466.973</u></b>	<b><u>434.132.013</u></b>
Financial debts (Note 14)	<u>556.254.739</u>	<u>293.884.807</u>

**Long term payables**

	<u>31 December 2021</u>	<u>31 December 2020</u>
Other debts	<u>16.699.325</u>	<u>16.482.440</u>
	<b><u>16.699.325</u></b>	<b><u>16.482.440</u></b>

On 31 December 2021, of the total trade payables and other debts the amount of lei 10.065.779 (31 December 2020: lei 1.810.054) is expressed in foreign currency, especially in EUR.

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

**20. PROVISIONS FOR RISKS AND CHARGES**

	<u>31 December 2021</u>	<u>31 December 2020</u>
<i>Current provision</i>		
Provision for litigation	38.870.414	39.068.876
Provision term contract	3.206.340	2.612.537
Provision for employee participation in profits	2.584.036	16.711.493
Provision for voluntary turnover	17.370.468	12.011.100
Other provision	<u>5.748.730</u>	<u>5.500.742</u>
	67.779.988	75.904.748

Employees` participation in the profit is calculated within the limit of 10% of the net profit, but not more than a monthly average salary achieved in the relevant financial year according to the provisions of GO 64/2001 and the Collective Labour Agreement. The company was the subject of an investigation of the Competition Council regarding the way in which procedures for the awarding of the contracts for the procurement of works carried out by Transgaz in 2009 -2011, before the implementation of the private management, according to the provisions of GEO 109/2011 on corporate governance of public enterprises. In 2020, the Competition Council communicated Decision no. 43/11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616.

Following the conclusion of the arbitration proceedings which had as dispute the restitution of the quantity of natural gas from the Tranzit 1 pipeline, the arbitral tribunal admitted Bulgargaz EAD's action, and a provision for litigation in the amount of Lei 1.673.984, the equivalent in Lei for legal interest and incidental expenses was established. The arbitral tribunal's decision was appealed, and the action for annulment was registered with the Bucharest Court of Appeal.

The company also made provisions for the following disputes: with Blue Star SRL for the MRS Timisoara I - Timisoara pipeline in the amount of Lei 2.300.000, with PF Galaction Laurentiu for the dismantling of the construction/removal of the MRS Vaslui connection pipeline in the amount of Lei 332.000. lei, with PF Bălăsoiu Marian for claims for compensation for lack of use of land in the amount of lei 296.341, with Ippon Med S.R.L. for contesting public procurement in the amount of lei 17.325 and with employees for contesting suspended employment contracts in the amount of lei 84.147.

For the strategic redefinition and efficiency of the activity, the Company drafted the Program of voluntary turnovers for the period 2019-2021 in the amount of lei 26.948 thousand, the annual value being adjusted by the budget of revenues and expenses approved by the GMS.

The company provided through the budget of revenues and expenses for 2021, a fund for granting compensation for voluntary turnover and in 2021 established a provision for voluntary turnover calculated for a number of 30 employees. As of 31 December 2021, the value of the provision for voluntary turnover is Lei 2.584.036.

The dispute at ANRE with two network users who challenged the way of calculating the price of imbalance transactions on the grounds that there are inconsistencies between the relevant regulatory acts, since the implementation of the provisions of GEO114/2018 and until the entry into force of ANRE President's Order no. 170/2019, has ended in favour of Transgaz.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**21. PROVISION FOR EMPLOYEE BENEFITS**

**Employee benefits**

According to the collective labour contract, the company must pay to employees upon retirement a compensatory amount equal to a certain number of salaries, calculated as the average of the monthly salary average achieved over the last 12 months, depending on the period of activity in the gas industry, working conditions etc. The present value of the provision was determined based on the Projected Unit Credit Method. Retirement benefits received by an employee were first raised by the contributions of the employer and then every benefit was updated taking into account the rotation of employees, layoffs and the probability of survival until retirement. The number of years until retirement was calculated as the difference between retirement age and age at time of reporting. The expected average of the remaining work period was calculated based on the number of years until retirement, also taking into account the rate of layoffs, employee rotation rate and the probability of survival.

**Assumptions 2021**

The amount of the provision was calculated individually for each distinct employee/beneficiary of the company using the actuarial calculation method and taking into account International Accounting Standards, in particular the IAS 19. The provision is calculated taking into account the long-term liabilities undertaken by the company under the collective labour contract. The calculation assumptions and specifications for the calculation model were established based on the company's previous experience and a set of assumptions about the company's future experience. The most important actuarial assumptions used are as follows:

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement;
- the dismissal rate is zero because there is no program for collective or individual dismissals;
- the mortality of the entity's employees is calculated according to the data provided by the National Institute of Statistics for the years 2011 – 2020;
- the employee turnover rate is constant over time;
- the method used is the projected credit factor method;
- Retirement age at retirement considered: 65 for men and 63 for women.
- Long-term wage growth rate considered equal to the forecast inflation rate for the euro area, and is 1,7%, and in the short term considered equal to the forecast inflation rate for RON and is 7,2% in the first year, 3,9% in the second year and 2,5% for the next 8 years for both women and men.
- the plan is not financed by the entity and employees.
- It has been estimated that people approaching retirement age are likely to retire early
- For the death benefit, for retired former employees, in the case of death in the first year after retirement, mortality at the age of 66 men and 64 years women was used by simplification, analyzing the data for the periods 2018-2021.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)**

**Financial assumptions**

The discount rate is the interest rate curve in lei without adjustments provided by EIOPA for December 2021.

The long-term salary growth rate was considered equal to the forecasted inflation rate for the euro area, being 1,7% and in the short term was considered equal to the forecasted inflation rate for RON being 2,5% within 5 years for both feminine as well as masculine genders.

**Movement in the provision for employee benefits**

1 January 2020	<u>121.712.040</u>
of which:	
Short-term	1.853.432
Long-term	119.858.608
Interest cost	5.352.542
Current service cost	6.321.939
Payments from provisions during the year	(4.535.479)
Actuarial gain/loss related to the period	(7.341.946)
31 December 2020	<u>121.509.096</u>
of which:	
Short-term	2.898.092
Long-term	118.611.004
Interest cost	3.165.348
Current service cost	5.692.366
Payments from provisions during the year	(4.535.478)
Actuarial gain/loss related to the period	(15.782.924)
31 December 2021	<u>110.048.408</u>
of which:	
Short-term	4.007.231
Long-term	106.041.177

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. OTHER REVENUE**

	<b><u>The year ended</u></b> <b><u>31 December 2021</u></b>	<b><u>The year ended</u></b> <b><u>31 December 2020</u></b>
Revenue from penalties applied to clients for delay payments	11.431.114	8.414.707
Revenue from connection fees	12.908.124	12.848.165
Revenue from grants and goods taken free of charge	70.133.469	31.290.538
Revenue from the sale of residual materials	4.132.698	2.785.433
Revenue from leases	1.748.145	5.534.398
Revenue from recovered materials	5.362.282	1.835.333
Revenue from successful litigation	-	9.588.662
Revenue from operating subsidies for other operating expenses	232.251	-
Other revenue from operation	<u>22.545.820</u>	<u>1.030.572</u>
	<b><u>128.493.903</u></b>	<b><u>73.327.808</u></b>

On 31 December 2021, within the operating revenues, the amount of lei 780.705 (MDL 3.169.732) which represents the value of fixed assets to be received by Vestmoldtransgaz S.R.L. free of charge from ACI CLUJ SA, and on 31 December 2020 the amount of lei 9.005.740 (39.121.373 MDL) representing the income from the execution of the letters of the guarantee due to the contractor's failure to comply with the conditions of the construction contract.

As at 31 December 2021 the eliminated intragroup revenue is in the amount of lei 461.131, and as at 31 December 2020 the eliminated intragroup revenue is in the amount of lei 5.325.172.

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

**23. OTHER OPERATING EXPENSES**

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Loss/gain on impairment of receivables	90.592.388	67.030.695
Sponsorship expenses	5.046.705	4.432.207
Utilities	8.965.544	8.617.178
Insurance premium	1.097.924	989.349
Maintenance expenses	1.873.740	2.347.344
Security and protection expenses	24.346.057	23.729.513
Professional training	1.688.280	1.237.810
Telecommunications	3.349.966	4.315.084
Bank charges and other fees	2.328.108	2.416.899
Rents	1.055.493	906.253
Loss on amounts receivable	247.729	489.645
Loss/gain on impairment of inventories	848.843	(832.281)
Marketing and protocol expenses	296.875	115.911
Studies and research expenses	222.071	204.497
Penalties and fines	163.022	744.872
Gas storage capacity booking	9.772.999	11.966.614
Computer service	8.765.557	6.167.726
Other	<u>26.467.037</u>	<u>23.594.626</u>
	<b><u>187.128.338</u></b>	<b><u>158.473.942</u></b>

**24. EMPLOYEE COSTS**

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Salaries and benefits	430.192.862	402.805.841
Cost of insurance and social security	27.489.784	26.744.433
Other employee costs	<u>10.022.466</u>	<u>5.010.915</u>
	<b><u>467.705.112</u></b>	<b><u>434.561.189</u></b>

Average number of employees in financial year:

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Blue collars	2.370	2.464
White collars	<u>1.727</u>	<u>1.689</u>
	<b><u>4.097</u></b>	<b><u>4.153</u></b>
Eurotransgaz S.R.L.	3	3
Vestmoldtransgaz S.R.L.	<u>39</u>	<u>33</u>
	<b><u>42</u></b>	<b><u>36</u></b>

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

**25. NET FINANCIAL REVENUE/(EXPENSES)**

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Foreign exchange gains	25.256.233	11.181.504
Interest revenue	38.979.410	28.044.718
Other financial revenue	<u>87.972.792</u>	<u>29.703.162</u>
Financial revenue	<b>152.208.435</b>	<b>68.929.384</b>
Foreign exchange loss	(25.212.533)	(24.889.666)
The effects of the update of the provision for employee benefits	(3.165.348)	(5.352.542)
Interest loss IFRS16	(728.139)	(453.890)
Interest loss	(13.563.215)	(2.866.631)
Financial loss	<u>-</u>	<u>(308.909)</u>
	<b>(42.669.235)</b>	<b>(33.871.638)</b>

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized on 31 December 2021 gains amounting to lei 87.969.821 according to IFRS 9 (lei 29.334.109 in 2020).

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

**26. CASH FROM OPERATION**

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
<b>Profit before tax</b>	<b>230.249.892</b>	<b>199.552.174</b>
<i>Adjustments for:</i>		
Depreciation	359.741.684	248.733.551
Gain/(loss) on transfer of fixed assets	(743.351)	(144.553)
Provisions for risks and charges	(8.348.417)	3.555.070
Revenue from connection fees, grants and goods taken free of charge	(82.528.005)	(44.138.703)
Provisions for guarantees	-	(487.404)
Provisions for employee benefits	1.238.790	1.834.717
The effect of updating the provision for employee benefits	3.165.348	5.352.542
Concession Agreement receivable adjustment	(87.969.821)	(29.334.109)
Sundry debtors and receivable loss	247.729	489.645
Gain/(loss) on impairment of inventories	848.843	(832.281)
Adjustments for impairment of receivable:	90.592.388	67.518.099
Adjustments for impairment of financial assets	-	(308.909)
Interest revenue	(38.979.408)	(28.044.891)
Interest expenses	13.563.216	2.866.632
Effect of exchange rate fluctuation on other items than from operation	(761.003)	16.121.142
Other revenue/loss	-	(704.624)
<b>Operating profit before the changes in working capital</b>	<b><u>480.317.885</u></b>	<b><u>442.028.098</u></b>
(Increase)/decrease in trade and other receivables	(75.164.629)	41.008.776
(Increase)/decrease in inventories	(171.968.274)	45.309.337
Increase/(decrease) in trade payables and other debts	<u>389.357.908</u>	<u>(140.891.854)</u>
<b>Cash generated from operations</b>	<b><u>622.542.890</u></b>	<b><u>387.454.357</u></b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. TRANSACTIONS WITH RELATED PARTIES**

The Parties are considered related if one of the parties has the ability to control the other party, to exercise a significant influence over the other party in financial or operational decision making, if they are under the common control with another party, if there is a joint venture in which the entity is an associate or a member of the management as described in the IAS 24 `Related Party Disclosures`. In evaluating each possible related party relationship, the focus is on the essence of this relationship and not necessarily on its legal form. Related parties may enter into transactions which unrelated parties cannot conclude, and in the case of transactions between related parties the same terms, conditions and values will not be applied as in the case of unrelated parties.

The prices/tariffs related to the transmission and balancing contracts are approved by the National Energy Regulatory Authority (ANRE), are regulated and are not established under market conditions.

Procurement is carried out in compliance with the legal regulations on public procurement.

In the periods ended 31 December 2021 and 31 December 2020 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

**i) Benefits granted to the members of the Board of Administration and of the management**

	<b><u>The year ended</u></b> <b><u>31 December 2021</u></b>	<b><u>The year ended</u></b> <b><u>31 December 2020</u></b>
Salary paid to the members of the Board of Administration and management	21.222.651	17.952.709
Social contribution of the Company	<u>1.224.066</u>	<u>392.147</u>
	<u>22.446.717</u>	<u>18.344.856</u>
 Net compensation paid to non-executive administrators, Director general and Chief Financial Officer:		
	<b><u>The year ended</u></b> <b><u>31 December 2021</u></b>	<b><u>The year ended</u></b> <b><u>31 December 2020</u></b>
Net amounts	<u>2.735.047</u>	<u>2.309.884</u>

During the periods ended 31 December 2021 and 31 December 2020, no advance payments and loans were granted to the company's administrators and management, except for advance payments from salaries and those for business trips, and they don't owe any amount from such advance payments to the company at the end of the period .

The company has no contractual obligations related to pensions towards the current administrators and directors.

The provision for the mandate contract is presented in Note 20.

The company has no contractual obligations regarding pensions to former directors and administrators of the company.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**ii) Loan to a related party**

	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment for loan impairment	<u>(1.770.346)</u>	<u>(1.770.346)</u>

Dividends paid out are presented in Note 15. Royalties paid are presented in Note 3.8.

**iii) Revenue from related parties – services supplied (VAT excluded)**

	<b><u>Relationship</u></b>	<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
SNGN Romgaz	Entity under common control	161.781.503	147.295.880
Electrocentrale Deva SA	Entity under common control	-	1.294.875
Electrocentrale București SA	Entity under common control	48.680.300	42.235.642
Electrocentrale Constanța	Entity under common control	4.193.177	3.621.008
Termo Calor Pitesti	Entity under common control	-	873.940
E.ON Energie Romania	Entity under common control	<u>138.850.367</u>	<u>82.516.763</u>
		<u>353.505.347</u>	<u>277.838.108</u>

**iv) Sales of goods and services (VAT excluded)**

	<b><u>Relationship</u></b>	<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
SNGN Romgaz	Entity under common control	3.696	36.286
Electrocentrale Deva SA	Entity under common control	725.547	-
Electrocentrale Bucuresti	Entity under common control	588	3.244
Electrocentrale Galați SA	Entity under common control	-	339.660
Electrocentrale Constanța	Entity under common control	770.893	-
E.ON Energie Romania	Entity under common control	<u>199.025</u>	<u>1.800</u>
		<u>1.699.749</u>	<u>380.991</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**v) Gas sales – the balancing activity (VAT excluded)**

	<b>Relationship</b>	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
SNGN Romgaz	Entity under common control	14.742.212	3.898.973
Electrocentrale Deva SA	Entity under common control	-	9.950.723
Electrocentrale București	Entity under common control	1.089.733	6.042.853
Termo Calor Pitesti	Entity under common control	-	1.666.338
Electrocentrale Constanta	Entity under common control	47.304.442	12.523.830
E.ON Energie Romania	Entity under common control	<u>45.492.894</u>	<u>14.529.556</u>
		<u>108.629.281</u>	<u>48.612.273</u>

**vi) Receivables from related parties (without adjustment)**

	<b>Relationship</b>	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
SNGN Romgaz	Entity under common control	19.078.343	20.063.741
Electrocentrale Deva SA	Entity under common control	20.116	217.789
Electrocentrale București	Entity under common control	19.020.413	14.272.524
Electrocentrale Constanța	Entity under common control	29.276	1.377.538
Termo Calor Pitesti	Entity under common control	-	16.748
E.ON Energie Romania	Entity under common control	<u>38.151.354</u>	<u>41.266.500</u>
		<u>76.299.502</u>	<u>77.214.840</u>

**vii) Client receivables – the balancing activity (without adjustment)**

	<b>Relationship</b>	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
SNGN Romgaz	Entity under common control	319	905
Electrocentrale Deva SA	Entity under common control	65.954	307.252
Electrocentrale Bucuresti	Entity under common control	848.134	263.825
Electrocentrale Constanța	Entity under common control	15.614.007	18.517.877
E.ON Energie Romania	Entity under common control	<u>(6.848.924)</u>	<u>1.922.192</u>
		<u>9.679.490</u>	<u>21.012.051</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**viii) Procurement of gas from related parties (VAT excluded)**

<b><u>Relationship</u></b>		<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
SNGN Romgaz	Entity under common control	-	77.109.716
		<u>-</u>	<u>77.109.716</u>

**ix) Procurement of services from related parties (other services – VAT excluded)**

<b><u>Relationship</u></b>		<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
SNGN Romgaz	Entity under common control	8.455.693	13.448.302
E.ON Energie Romania	Entity under common control	2.355	5.676
Electrocentrale București	Entity under common control	<u>6.169</u>	<u>(179.911)</u>
		<u>8.464.217</u>	<u>13.274.067</u>

**x) Procurement of gas – the balancing activity (VAT excluded)**

<b><u>Relationship</u></b>		<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
SNGN Romgaz	Entity under common control	24.338.825	3.878.665
Electrocentrale Deva SA	Entity under common control	-	405.133
Electrocentrale București	Entity under common control	17.389.447	2.398.484
Electrocentrale Constanța	Entity under common control	3.592.194	4.398.672
E.ON Energie Romania	Entity under common control	<u>59.101.928</u>	<u>17.605.929</u>
		<u>104.422.394</u>	<u>28.686.884</u>

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

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**xi) Debts to affiliated parties from servicers (other services - VAT included)**

	<u>Relationship</u>	<u>The year ended 31 December 2021</u>	<u>The year ended 31 December 2020</u>
SNGN Romgaz	Entity under common control	317.594	1.426
Electrocentrale București	Entity under common control	889	511
E.ON Energie Romania	Entity under common control	-	851
		<u>318.483</u>	<u>2.788</u>

**xii) Debts to suppliers – balancing activity (VAT included)**

	<u>Relationship</u>	<u>The year ended 31 December 2021</u>	<u>The year ended 31 December 2020</u>
SNGN Romgaz	Entity under common control	19.873.114	2.597.055
Electrocentrale București	Entity under common control	17.474.941	1.331.820
Electrocentrale Constanța	Entity under common control	2.486.589	91.539
E.ON Energie Romania	Entity under common control	<u>43.791.122</u>	<u>3.721.798</u>
		<u>83.625.766</u>	<u>7.742.212</u>

**xiii) Guarantees from affiliates (bank guarantee letters)**

	<u>Relationship</u>	<u>The year ended 31 December 2021</u>	<u>The year ended 31 December 2020</u>
SNGN Romgaz	Entity under common control	22.593.205	25.429.588
Termo Calor Pitești	Entity under common control	210	210
Electrocentrale Deva SA	Entity under common control	-	4.501.000
Electrocentrale Constanța	Entity under common control	1.000	-
E.ON Energie Romania	Entity under common control	<u>21.828.961</u>	<u>28.216.606</u>
		<u>44.423.376</u>	<u>58.147.404</u>

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

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

**xiv) Loans and interest to be reimbursed**

		<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
		<b><u>Relationship</u></b>	
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	Common control of entities	<u>256.688.127</u>	<u>278.841.607</u>
		<u>256.688.127</u>	<u>278.841.607</u>

**xv) Transactions during the period**

		<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
		<b><u>Relationship</u></b>	
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	Common control of entities	<u>8.567.690</u>	<u>283.708.429</u>
		<u>8.567.690</u>	<u>283.708.429</u>

**28. EARNINGS PER SHARE**

The company shares are listed on the first category of the Bucharest Stock Exchange.

Basic earnings per share are calculated by dividing the profit attributable to the company's equity holders to the average number of ordinary shares existing during the year.

	<b><u>The year ended 31 December 2021</u></b>	<b><u>The year ended 31 December 2020</u></b>
Profit attributable to the company's equity holders	176.804.667	165.224.316
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	15,03	14,03

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

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**29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH**

*Compensations*

Approximately 5,13 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2021 (31 December 2020: 0,82%). Transactions mainly represent sales of products and services in exchange for raw materials and services or offsets with clients and suppliers within the operating cycle.

*Barter transactions*

No barter transactions were made in 2021 and in 2020.

**30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS**

i) Commitments

The Service Concession Agreement (S.C.A. - Note 8) provides that, at the end of the agreement, ANRM is entitled to receive back, all public property goods existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The company also has other obligations related to the concession agreement, which are described in Note 8.

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 December 2021 the value of the parent company contractual firm obligations for the purchase of tangible and intangible assets is of lei 292.500.005, and the subsidiary Eurotransgaz SRL has no capital commitments.

Eurotransgaz SRL, the company established and owned by Transgaz in Moldova, was appointed the winner of the privatization investment contest for the single patrimonial complex State Enterprise Vestmoldtransgaz operating the Iasi-Ungheni gas transmission pipeline on the territory of Moldova under the following conditions: payment of the sale price and making investments in the next two years for the construction of a gas transmission pipeline between Ungheni and Chisinau, as well as of the necessary equipment for the operation of this pipeline.

The company is a guarantor of the loan agreement concluded on 24 January 2019 between the European Investment Bank and Eurotransgaz, in total amount of Euro 38 milion, for the funding of the construction by Vestmoldtransgaz of the Ungheni-Chisinau gas transmission pipeline.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)****30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)**

On 11 December 2019 the European Bank for Reconstruction and Development approved Project 50410, which is capital investments as a capital increase in exchange for the participation in the share capital of Vestmoldtransgaz SRL, a subsidiary of Eurotrasngaz SRL, owned and controlled by the Romanian gas transmission operator SNTGN Transgaz SA. The investment of the bank will finance the construction of the Ungheni-Chisinau gas pipeline in Moldova, approximately 120 km and a planned capacity of 1,5 bcm.

**ii) Taxation**

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The company's management believes that fiscal obligations included in these financial statements are properly presented and that it is not necessary for any additional provisions to be established to cover the uncertainties related to tax treatment. The rate of the royalty for the use of gas transmission pipelines in Romania is set by the government. As of October 2007, the royalty has been set at 10% of revenue. Subsequent to the entry into force of the provisions of Art. 103 (2) of Law no. 123/2012, starting with 12 November 2020 the royalty was set at 0.4% of the domestic and international gas transmission services provided by the company. ANRM requests Transgaz to calculate and pay the royalty by applying the percentage of 10% according to Law 238/2004 and the percentage of 0.4% according to Law 123/2012. The company considers that it has the obligation to calculate and pay a single royalty in the percentage of 0.4% established by the special law, that is Law 123/2012. The company is subject to a tax inspection of the royalty

**iii) Insurance policies**

The company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 57 managers in 2021 (54 managers in 2020).

**iv) Environmental aspects**

Environmental regulations are under development in Romania and the company did not record any obligation on 31 December 2021 and 31 December 2020 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

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

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### 30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

#### v) Lawsuits and other actions

During the company's business as usual, there were complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives, commercial and labour disputes. Based on its own estimates and internal and external consulting, the company's management believes there will be no material loss exceeding the provisions established in these financial statements and is not aware of circumstances that give rise to potentially significant obligations in this regard.

The company was the subject of an investigation by the Competition Council regarding the manner in which procedures were awarded for works contracts carried out by Transgaz during 2009-2011, before the implementation of private management according to the provisions of GEO 109/2011 on corporate governance of public enterprises.

In 2020, the Competition Council communicated Decision no. 43 / 11.08.2020 sanctioning the Company with a fine in the amount of lei 34.166.616. The company challenged in court the decision of the Competition Council (Note 20). The court ordered the suspension of the contested administrative act, until the final settlement of the case.

#### Control Y Montajes Industriales SA

Within the statements of 31 December 2019, Vestmoldtransgaz is involved in a dispute with Control Y Montajes Industriales S.A. The dispute arose within the procurement procedure in connection with the disagreement of the participant Control Y Montajes Industriales S.A. regarding the manner in which the tender was conducted. In court, the plaintiff requests the annulment of the results of the procurement procedure invoking clauses of the regulation of the National Energy Regulatory Agency. The Vestmoldtransgaz' winning likelihood is qualified as high.

As of 6 June 2016, the company has been subject to an investigation carried out by the European Commission - Directorate General for Competition under Art. 20 (4) of Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which became Articles 101 and 102 of the Treaty on the Functioning of the European Union, namely:

- to provide a minimum export capacity of 1.75 billion cubic meters per year at the interconnection point between Romania and Hungary (Csanádpalota);
- to make available minimum export capacities of 3.7 billion cubic meters per year in total at two interconnection points between Romania and Bulgaria (Giurgiu / Ruse and Negru Vodă I / Kardam);
- to make sure that the tariffs to be proposed to the Romanian Energy Regulatory Authority (ANRE) will not make any difference between the export and the domestic markets, thus avoiding interconnection tariffs that render exports commercially non-feasible;
- refrain from using any other means of obstructing exports.

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

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### 30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

Based on their own estimates, the company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

In 2020 an administrator initiated court proceedings to recover amounts of money representing unpaid difference, amounts they consider to be due as a result of the mandate contract carried out in 2015-2017. Based on its own estimates, the company considers that there are no circumstances that could lead to potential significant obligations in this respect.

Following the conclusion of the arbitration proceedings with Bulgargaz EAD, the arbitral tribunal upheld Bulgargaz EAD's claim and ordered the restitution of the quantity of natural gas of 6,733,433 m<sup>3</sup> and, if restitution in kind is not possible, the reimbursement of the monetary equivalent of the linepack, and statutory interest. The decision of the arbitral tribunal has been appealed and the action for annulment has been registered with the Bucharest Court of Appeal.

The company had the quality of intervener in a dispute with the subject of the annulment of the ANRE decision of 2017 regarding the interpretation and application of the provisions of Art. 99 of the Network Code, respectively regarding the calculation of the invoices related to the exceeding of the capacity booked by the network users, in this case ENGIE Romania SA. By Civil Decision no. 3829/2021, the High Court of Cassation and Justice rejected as unfounded the request for annulment of Decision no. 2 of 31 May 2017 of the Commission for the settlement of disputes on the wholesale and retail market established within ANRE, formulated by the plaintiff Engie Romania in contradiction with ANRE and the forced intervener Transgaz. The decision is final. Moreover, the revenue being regulated, the diminished amount would have been the object of the recovery from the regulated revenue of the following gas year. In 2020, respectively in 2021, the network user filed several lawsuits in court, having as subject the recalculation of the tariff for the excess capacity booked for the time span November 2016 - February 2017, respectively March 2017-December 2017 and January-April 2018 and the payment of the amount of lei 57.444.164, 5.112.291,07 and respectively 17.789.789. Based on its own estimates, the Company's management considers that there are no circumstances that would give rise to obligations in this regard.

#### vi) Government policies in the gas sector of Romania

ANRE is an autonomous public institution and sets tariffs for the natural gas transmission activity charged by the company. It is likely that the Agency decides upon the implementation of changes of the government strategies in the gas sector, determining changes in the tariffs approved for the company and, thus, having a significant impact on the company's revenue. At the same time, the Romanian government could decide to change the royalty applied to the company for using the assets part of the public domain according to SCA.

Currently, the effects of the future government policies related to the Romanian gas sector on the company's asset and liability, if any, cannot be determined.

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

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### 30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties.

The company's management believes that its obligations to ANRE are properly presented in these financial statements.

vii) Commitments under the sale-purchase agreement between Vestmoldtransgaz and the European Investment Bank

The deadline for completion of the Investment Plan according to the SE Vestmoldtransgaz sale-purchase agreement is 23 months from the date when all the necessary conditions for starting the construction of the Investment Plan (Ungheni - Chisinau gas pipeline) have been met, that is November 2021.

The deadline for the execution of the Ungheni Chisinau gas pipeline project agreed by Eurotransgaz with the European Investment Bank is Q IV2021.

viii) The impact of COVID-19

In the context of the COVID-19 pandemic, the company cooperates with the authorities and takes the necessary measures to ensure the provision of the gas transmission service in a safe manner and to ensure the safety of the personnel. The company prepared and published a plan of measures approved by the Board of Administration, which aims to minimize the effects of the epidemic on the health and safety of the employees and to ensure the continuity of the natural gas transmission service and the safety of the National Transmission System.

The company provides a public service of national interest being included in the regulated segment of the internal gas market. The gas transmission activity is regulated by the National Energy Regulatory Authority.

The company aims to achieve the indicators provided for in the Revenue and Expenditure Budget for 2020 and to provide the necessary financing sources for the development of the investment program whose execution rate could be influenced by the ability of the contracting companies to provide the equipment and personnel necessary to carry out the works in the context of the isolation or quarantine situations generated by COVID-19.

The legislative changes adopted offer the possibility of small and medium-sized enterprises to delay the payment of utilities, which could have an indirect impact on the company's activity. Although there are still many uncertainties, at this moment we consider that the short-term impact of such legislative changes on the activity and recoverability of the assets of the company will not be significant.

During the alert state, the transmission and distribution operators of electricity and natural gas ensure the continuity of service provision, and in the event that there is an incident of disconnection, they postpone the performance of such operation until the alert state ends.

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

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**31. FEES OF THE STATUTORY AUDITOR**

The fees for the financial year ended 30 September 2021 charged by BDO Audit SRL are: lei 79.682 (VAT excluded) for the statutory audit and lei 22.320 (VAT excluded) for other services than the statutory audit.

The fees for the financial year ended 31 December 2020 charged by BDO Audit SRL, invoiced in first half of 2021, are: lei 174.989 (VAT excluded) for the statutory audit and lei 22.320 (VAT excluded) for other services than the statutory audit.

The fees for the financial year ended 31 December 2020 charged by BDO Audit SRL, invoiced in 2020, are: lei 79.682 (VAT excluded) for limited revision as at 30 June 2020 and lei 22.320 (VAT excluded) for other services than the statutory audit.

The fees invoiced in 2021 by BDO Audit & Consulting SRL Chisinau, are lei 52.727 for the statutory audit.

**32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS**

In accordance with IFRIC 12 the revenue and costs related to the network construction should be recognized in accordance with IFRS 15 Revenue from Contracts with Customers.

	<b>The year ended 31 December 2021</b>	<b>The year ended 31 December 2020</b>
Revenue from the construction activity according to IFRIC12	704.026.548	1.587.548.396
Cost of assets constructed according to IFRIC12	(704.026.548)	(1.587.548.396)

The related costs were equal to the revenue, the company did not obtain any profit from the construction activity.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**33. EVENTS SUBSEQUENT TO THE BALANCE DATE**

On 10.02.2022, the amount of Lei 116.337.651,87 was received from Electrocentrale București, representing the debt registered in the creditor's list fully provided for on 31 December 2021.

As of 24 February 2022 a military conflict is taking place on the territory of Ukraine. In case gas imports from Ukraine are stopped, gas flows can be redirected through the Negru Voda entry point and other interconnection points with transmission operators in Bulgaria and Hungary

Chairman of the Board of Administration  
Văduva Petru Ion

Director – General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

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