

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

**INDIVIDUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2023**

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

This version of the financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDIVIDUAL FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION
(expressed in lei, unless otherwise stated)



	<u>Note</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
ASSET			
Fixed assets			
Tangible Assets	7	377.639.699	418.131.904
Rights of use of the leased assets	7.1	14.500.703	16.934.813
Intangible Assets	9	3.643.263.343	3.909.577.432
Financial assets	10	177.619.145	191.122.702
Trade receivables and other receivables	12	2.423.669.228	2.141.205.427
Deferred tax	18	<u>1.734.239</u>	<u>-</u>
Restricted cash	13	<u>1.956.015</u>	<u>1.562.607</u>
		6.640.382.372	6.678.534.885
Current assets			
Inventories	11	577.080.618	609.876.837
Commercial receivables and other receivables	12	400.845.055	335.331.267
Cash and cash equivalent	13	<u>675.600.636</u>	<u>382.674.528</u>
		1.653.526.309	1.327.882.632
Total asset		8.293.908.681	8.006.417.517
EQUITY AND DEBTS			
Equity			
Share capital	14	1.883.815.040	1.883.815.040
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	<u>285.144.115</u>	<u>244.236.598</u>
		4.123.653.277	4.082.745.760
Long-term debts			
Long-term loans	16	1.865.388.334	1.871.382.547
Deferred revenue	17	849.905.753	969.150.112
Deferred tax	18	-	1.206.204
Debts related to rights of use of leased assets	0.2	<u>12.208.966</u>	<u>14.178.481</u>
Provision for employee benefits	21	114.807.183	110.895.341
		2.842.310.236	2.966.812.685

Notes 1 to 33 are part of these financial statements.

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STATEMENT OF FINANCIAL POSITION
(expressed in lei, unless otherwise stated)



	<u>Note</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
Current debts			
Short-term loans	16	432.316.032	132.098.774
Deferred revenue	17	113.993.591	107.439.092
Commercial debts and other debts	0.1	678.283.577	627.787.631
Debts related to rights of use of leased assets	0.2	3.333.037	3.751.347
Provision for risks and charges	20	83.883.714	81.197.994
Provision for employee benefits	0	<u>16.135.217</u>	<u>4.584.234</u>
		<u>1.327.945.168</u>	<u>956.859.072</u>
Total debts		<u>4.170.255.404</u>	<u>3.923.671.757</u>
Total equity and debts		8.293.908.681	8.006.417.517

Endorsed and signed on behalf of the Board of Administration on 20 March 2024 by:

Chairman of the Board of Administration
Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

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INTERIM STATEMENT OF COMPREHENSIVE INCOME

(expressed in lei, unless otherwise stated)



	<u>Note</u>	The year ended 31 December 2023	The year ended 31 December 2022
Revenue from the domestic transmission activity		1.451.982.194	1.351.930.670
Revenue from the international transmission activity and similar		116.305.612	73.926.517
Other revenue	22	<u>144.258.378</u>	<u>149.328.948</u>
Operational revenue before the balancing and construction activity according to IFRIC12		1.712.546.184	1.575.186.135
Depreciation	7, 9	(457.211.345)	(423.649.671)
Employees costs	24	(570.794.261)	(491.588.137)
NTS gas consumption, materials and consumables used		(148.201.016)	(180.267.951)
Expenses with royalties		(55.285.137)	(5.703.430)
Maintenance and transmission		(41.562.783)	(36.913.734)
Taxes and other amounts owed to the state		(87.506.609)	(86.781.521)
Revenue/ (Expenses) with provisions for risks and charges		(10.598.790)	(18.088.348)
Other operating cost	23	<u>(238.492.442)</u>	<u>(172.561.046)</u>
Operational profit before the balancing and construction activity according to IFRIC12		102.893.801	159.632.297
Revenue from the balancing activity		458.810.505	1.005.543.977
Cost of balancing gas		(458.810.505)	(1.005.543.977)
Revenue from the construction activity according to IFRIC12	32	182.449.856	299.868.442
Cost of assets constructed according to IFRIC12	32	<u>(182.449.856)</u>	<u>(299.868.442)</u>
Operational profit		102.893.801	159.632.297
Financial revenue	25	233.093.910	461.287.140
Financial cost	25	<u>(129.106.401)</u>	<u>(183.445.916)</u>
Financial revenue, net		103.987.509	277.841.224
Profit before tax		206.881.310	437.473.521
Profit tax expense	18	<u>(38.440.790)</u>	<u>(71.718.653)</u>
Net profit for the period		168.440.520	365.754.868
Shares number		188.381.504	188.381.504
Basic and diluted earnings per share (expressed in lei per share)	28	0,89	1,94
Other elements of the comprehensive income		4.334.050	2.452.222
Total comprehensive income for the period		172.774.570	368.207.090

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



	<u>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance on 1 January 2022		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.816.594.475</u>	<u>3.889.027.037</u>
<i>Elements of the comprehensive income</i>							
Net profit for the period		-	-	-	-	365.754.868	365.754.868
Actuarial gain / loss for the period		-	-	-	-	2.452.222	2.452.222
		-	-	-	-	368.207.090	368.207.090
Establishing profit reserves		-	-	-	-	(21.873.676)	(21.873.676)
Legal reserve increase		-	-	-	-	21.873.676	21.873.676
<i>Transactions with shareholders:</i>							
Increase of share capital by incorporation of reserves		1.766.076.600	-	-	-	(1.766.076.600)	-
Dividends related to 2021	15	-	-	-	-	(174.488.367)	(174.488.367)
		1.766.076.600	-	-	-	(1.940.564.967)	(174.488.367)
Balance on 31 December 2022		<u>1.883.815.040</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>244.236.598</u>	<u>4.082.745.760</u>
<i>Elements of the comprehensive income</i>							
Net profit for the period		-	-	-	-	168.440.520	168.440.520
Actuarial gain / loss for the period		-	-	-	-	4.334.050	4.334.050
		-	-	-	-	172.774.570	172.774.570
Establishing profit reserves		-	-	-	-	(10.344.066)	(10.344.066)
Legal reserve increase		-	-	-	-	10.344.066	10.344.066
<i>Transactions with shareholders:</i>							
Dividends related to 2022	15	-	-	-	-	(131.867.053)	(131.867.053)
Balance on 31 December 2023		<u>1.883.815.040</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>285.144.115</u>	<u>4.123.653.277</u>

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CASH FLOW STATEMENT
(expressed in lei, unless otherwise stated)

	<u>Note</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
Cash generated from operations	26	575.827.697	614.373.376
Interest received		4.317.150	1.277.835
Interest paid		(119.820.194)	(66.822.526)
Paid profit tax		<u>(80.998.142)</u>	<u>(77.532.781)</u>
Net cash inflow from operation activities		379.326.511	471.295.904
Cash flow from investment activities			
Payments to acquire intangible assets		(236.044.692)	(596.593.415)
Payments to acquire tangible assets		(20.149.402)	(18.801.250)
Financial investment/shares		13.503.557	105.453.468
Receipts from the disposal of tangible assets		263.918	479.363
Cash flow from connection fees and grants		<u>4.477.340</u>	<u>133.208.997</u>
Net cash used in investment activities		<u>(237.949.279)</u>	<u>(376.252.837)</u>
Cash flow from financing activities			
Long term loans withdrawals		246.610.000	-
Long term loans repayments		(132.098.774)	(143.485.273)
Credit withdrawals/repayments for working capital		175.431.456	291.740.052
Leasing payments (IFRS 16)		(5.601.390)	(5.157.454)
Dividends paid		<u>(132.399.008)</u>	<u>(175.088.518)</u>
Net cash used in financing activities		151.942.284	(31.991.193)
Net change in cash and cash equivalents		<u>293.319.516</u>	<u>63.051.874</u>
Cash and cash equivalent as at the beginning of the year	13	<u>384.237.135</u>	<u>321.185.261</u>
Cash and cash equivalent as at the end of the period	13	<u>677.556.651</u>	<u>384.237.135</u>

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NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (‘company’) has as main activity the transmission of natural gas. Also, the company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 December 2023, 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.

The Ordinary General Meeting of Shareholders approves the annual financial statements of the Company based on the reports of the Board of Administration and of the financial auditors.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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. 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) According to forecasts published by the European Commission, the downward trend in inflation will continue in Romania but inflation will remain significant. In 2024, the forecast shows an improvement in the inflation rate, moderate economic growth and an increase in public debt. According to forecasts published by the European Commission, the downward trend in inflation will continue in Romania. However, inflation in Romania will remain high, more than 2% above the EU average. On the other hand, Romania's economic growth will, according to the EC forecast, exceed the EU average. While the EU will see economic growth of around 1,3%, Romania is expected to see Gross Domestic Product growth of 3,1%. The European Commission is also forecasting a fall in unemployment by 2024. Unemployment in Romania is expected to be lower than the EU average. Romania's public debt is set to increase, but will be significantly lower than the EU average. Romania's debt is expected to reach 49% of GDP in 2024, compared to the EU average of 85% of GDP. On the budget deficit side, the European Commission expects Romania's budget deficit to be higher than the EU average. Commission expects Romania's budget deficit to be 3.1% of GDP, while the European average will be around 2.8% of GDP.
- (ii) In the meeting of 12 January 2024, the Board of the National Bank of Romania decided:
 - to maintain the monetary policy rate to 7,00 % per year;
 - to maintain the interest rate on the lending facility (Lombard) to 8,00 per cent per year and the interest rate on the deposit facility to 6,00 per cent per year;
 - to maintain the current levels of the mandatory minimum reserves for the lei and currency liabilities of the credit institutions.
- (iii) According to the February 2024 NBR Inflation Report, the annual inflation rate accelerated its downward trajectory in the last quarter of 2023, reaching 6.61 percent in December (-2.22 percentage points compared to the end of the previous quarter and -9.76 percentage points compared to December 2022). At the same time, the indicator was significantly (by 0.9 percentage points) below the projection in the previous Inflation Report, with favourable influences mainly associated with fuel and food prices. In fact, the decisive contribution to disinflation in the fourth quarter was made by the latter, as a result of a combination of factors: the maintenance of a downward trend in commodity prices, the abundant domestic and international harvests, the extension and expansion of the list of essential food products covered by the capping of the trade surplus. In turn, energy commodity prices continued to

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

decline in annual terms in the fourth quarter, mainly as a result of favourable base effects in electricity. In contrast, the annual pace of fuel prices accelerated slightly, also driven by statistical effects.

- (iv) Fitch International Rating Agency confirmed on 02.06.2023 the rating of the National Natural Gas Transmission Company Transgaz at "BBB-" with stable outlook. "The confirmation of the Transgaz' rating is based on its strong business profile as title holder and operator of the gas transmission network in Romania, as well as on our expectations regarding the continuity of the regulatory framework in the new regulatory period as of October 2024," the agency's report said.
- (v) The financial rating agency Fitch Ratings confirmed on 01.03.2024 Romania's long-term foreign currency debt rating at "BBB minus" with a stable outlook, informs a press release. "The 'BBB minus' rating assigned to Romania is underpinned by its EU membership and associated capital inflows supporting income convergence, external finances and macroeconomic stability. GDP per capita and human development indicators are above those of other 'BBB' countries. But these are offset by higher budget and current account deficits than other countries in the same category, a modest track record of fiscal consolidation, increased fiscal rigidities and a high external debtor position," Fitch Ratings says. Fitch analysts estimate Romania's budget deficit in 2023 was virtually unchanged compared to 2022 at 6,1% of GDP, well above the government's original target of 4.4% of GDP. Fitch forecasts that Romania will have a government deficit of 6% of GDP in 2024 and 6,4% in 2025.

At the end of 2022, as compared to the end of 2021, the LEU increased against the EURO (`EUR`) and decreased against the US dollar (`USD`). Thus, as compared to the end of 2021, the LEU increased against EUR (4,9481 as at 31 December 2021; 4,9474 as at 31 December 2022) and decreased by 6,04% against USD (4,3707 as at 31 December 2021; 4,6346 as at 31 December 2022).

At the end of 2023, the LEU decreased against the EURO (`EUR`) and increased against the US dollar (`USD`). Thus, as compared to the end of 2022, the LEU decreased against EUR by 0,55% (4,9474 as at 31 December 2022; 4,9746 as at 31 December 2023) and increased by 2,99% against USD (4,6346 as at 31 December 2022; 4,4958 as at 31 December 2023).

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared based on a going concern principle.

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

3.1 Basis of preparation

The financial statements of the company were prepared in accordance with the Ministry of Public Finance Order 2844/2016 for the approval of Accounting Regulations in line with International Financial Reporting Standards. 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.

The following changes are valid as of 1 January 2022:

- Onerous contracts - The cost of performing a contract (Amendments to IAS 37); IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment - Onerous Contracts - Cost of Fulfilling a Contract) - In May 2020, the IASB issued amendments to IAS 37 that specify the costs that a company includes when assessing whether a contract will result in a loss and is therefore recognised as an onerous contract. These amendments are expected to result in more contracts being accounted for as onerous contracts as they increase the scope of costs that are included in the assessment of the onerous contract.
- Annual Improvements to IFRSs: 2018-2020 Cycle - In May 2020, the IASB issued minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples accompanying IFRS 16 Leasing.
- The Conceptual Framework for Financial Reporting (Amendments to IFRS 3) - In May 2020, the IASB issued amendments to IFRS 3, which update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.
- IAS 16 Property, Plant and Equipment (Amendment - Proceeds before Intended Use) - In May 2020, the IASB issued amendments to IAS 16 that prohibit a company from deducting amounts received from the sale of items produced while the company is preparing the asset for its intended use from the cost of property, plant and equipment. Instead, a company will recognise such sales revenue and any related costs in profit or loss.

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and amendments effective as of 1 January 2023:

The following changes are in effect for the period as of 1 January 2023:

- IFRS 17 Insurance contracts
- Disclosure of accounting policies – (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors);
- Deferred tax on assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes); and
- International Tax Reform –Model Rules for Pillar Two (Amendment to IAS 12 Income Taxes) (effective immediately after the amendments are issued and with retrospective effect).

These amendments to various IFRSs are mandatory effective for reporting periods beginning on or after 1 January 2023.

IFRS 17 Insurance Contracts

IFRS 17 was issued by the IASB in 2017 and replaces IFRS 4 for annual reporting periods beginning on or after 1 January 2023.

IFRS 17 introduces an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there was significant global diversity in insurance contract accounting and disclosure, with IFRS 4 allowing many previous accounting approaches to be followed.

As IFRS 17 applies to all insurance contracts issued by an entity (with limited scope exclusions), its adoption may have an effect on non-insurers. The company should perform an assessment of its contracts and operations and conclude whether the adoption of IFRS 17 has had an effect on its annual consolidated financial statements.

Disclosure of accounting policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Judgements about Materiality)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'information about material accounting policies'. The amendments also provide guidance on the circumstances in which information about accounting policies is likely to be considered material and therefore requires disclosure.

Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)

The amendments to IAS 8, which added the definition of accounting estimates, clarify that the effects of a change in an input or measurement technique are changes in accounting estimates, unless they result from the correction of prior period errors. These amendments clarify how entities distinguish between changes in accounting estimates, changes in accounting policies and prior period errors.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12 Income Taxes)

In May 2021, the IASB issued amendments to IAS 12 clarifying whether the initial recognition exception applies to certain transactions that result in the simultaneous recognition of an asset and a liability (e.g. a lease within the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exception, whereby the exception does not apply to the initial recognition of an asset or liability that, at the time of the transaction, gives rise to equal deductible and taxable temporary differences.

International Tax Reform - Model Rules for Pillar Two (Amendment to IAS 12 Income Taxes)

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a proposed legislative framework for a global minimum tax that is expected to be used by individual jurisdictions. The aim of the framework is to reduce the shifting of profits from one jurisdiction to another in order to reduce global tax liabilities in corporate structures. In March 2022, the OECD published detailed technical guidance on Pillar Two of the rules.

Stakeholders have expressed concerns to the IASB about the potential implications for income tax accounting, in particular deferred tax accounting, resulting from the Pillar Two model rules. The IASB issued Final Amendments (the Amendments) International Tax Reform - Pillar Two Model Rules in response to stakeholder concerns on 23 May 2023.

The Amendments introduce a mandatory exception for entities from the recognition and disclosure of deferred tax assets and liabilities related to the Pillar Two model rules. The exception is effective immediately and retrospectively. The amendments also provide for additional disclosure requirements regarding an entity's exposure to Pillar Two income taxes.

There are a number of standards, amendments to standards and interpretations that have been issued by the IASB and are effective in future accounting periods:

The following changes are effective for the period beginning January 1, 2024:

- Liability in a sale and leaseback (Amendments to IFRS 16 Leases);
- Classification of liabilities as current or non-current (Amendments to IAS 1 Presentation of financial statements);
- Non-convention liabilities (Amendments to IAS 1 Presentation of Financial Statements); and
- **Supplier financing arrangements (Amendments to IAS 7 Statement of cash flows and to IFRS 7 Financial instruments: Disclosures)**

The following changes are effective for the period beginning January 1, 2025:

- Lack of exchangeability (Amendments to IAS 21 The effects of changes in exchange rates)

NOTES TO THE 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 is 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.

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.

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of 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.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at their cost less any accumulated depreciation and any impairment accumulated losses.

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:

	<u>Number of years</u>
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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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).

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 entry into force of the provisions of art. 103 para. 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, and as of 30 October 2023 the royalty has been set at 11.5% of the value of gross revenues from natural gas transmission services, in accordance with GEO No 91 of 27 October 2023.

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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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).

(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.

(c) *Impairment of financial assets*

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

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

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- 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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The company assesses first whether objective evidence of impairment exists.

The testing for impairment of trade receivables is described above, by applying the simplified age-based model.

For loans, 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.

(i) *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:

In 2023 and 2022 the company evaluated the stake held in Eurotrangaz SRL in order to identify any possible impairment losses. No impairments were found.

3.10. Inventories

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

The components recovered from disassembling 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 company holds a minimum safety stock of spare parts and materials.

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. 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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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 collection in 2021 and with risk of non-collection on-time as of 2022. As at 31 December 2023, depreciation adjustments are calculated at 100% of the amount of the receivable;
- 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 adjusted 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 provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, an adjustment of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up;
- Various clients - the risk-free receivables are provisioned by seniority instalments, 10% for the range 31-60, 20% for the 61-90, 30% for the range 91-120, 35% for the range 121-150, 60% for the range 151-180, and 100% for the receivables over 181. Doubtful receivables subject to court actions are provided with up to 100% of the amount. For receivables that are not subject to court actions and have a risk of non-collection, a provision of 100% for the receivables exceeding 30 days and 5% for the current receivables is made up.

3.12. 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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. 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.

Reserves

Reserves are accounted for by categories of reserves: legal reserves, statutory or contractual reserves, reserves from reinvested earnings and other reserves.

Legal reserves are established annually from the company's profits, in the proportions and within the limits laid down by law, and from other sources laid down by law. Legal reserves may be used only under the conditions provided for by law.

Retained earnings

Comprise the result carried forward from the takeover at the beginning of the current financial year of the profit and loss account result of the previous financial year and the result carried forward from the correction of accounting errors.

The company did not distribute partial dividends during the financial year.

3.14. Borrowings

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

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

3.15. 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.

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.16. 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.

3.17. 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.

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. The Company considers that the reasonable assurance that the grant will be received can be confirmed by the fulfilment of the eligibility conditions in the funding applications, prior to the approval of the funding application.

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

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18. 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.

3.19. 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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3.21. Related parties

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

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.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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; the company does not apply hedge accounting.

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:

	<u>31 December</u> <u>2023</u>	<u>31 December</u> <u>2022</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	684.054	717.466
USD depreciation by 10%	(684.054)	(717.466)
EUR appreciation by 10%	(26.662.039)	(32.592.226)
EUR depreciation by 10%	26.662.039	32.592.226

(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 4.888.012 (on December 2022: lei 6.204.117).

(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 higher/lower by 7.805.365 (December 2022: lei 7.916.887 higher / lower) 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 43% of the trade receivable balances on 31 December 2023 (31 December 2022: 50%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

adjustments already made. As at 31 December 2023 the company has available off-balance sheet payment guarantees from its clients amounting to lei 497.073.837.

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Without rating	269.860	336.387
BB+	251.805.038	146.038.192
BBB-	276.682.320	147.205.763
BBB	614.290	-
BBB+	147.783.067	90.012.913
A+	134.911	135.448
AA	<u>156.187</u>	<u>319.570</u>
	677.445.673	384.048.273

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

(c) *Liquidity risk*

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

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

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

The table below shows obligations on 31 December 2023 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis of financial liabilities on 31 December 2023 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Loans	2.842.179.180	556.350.271	1.298.599.124	987.229.785
Commercial payables and other payables	498.127.534	498.127.534	-	-
Debts related to rights of use of leased assets	<u>15.542.003</u>	<u>3.333.037</u>	<u>12.208.966</u>	<u>-</u>
	<u>3.355.848.717</u>	<u>1.057.810.842</u>	<u>1.310.808.090</u>	<u>987.229.785</u>

Maturity analysis of financial liabilities on 31 December 2022 is as follows:

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
Loans	2.634.794.054	263.429.208	1.446.470.332	924.894.514
Commercial payables and other payables	542.664.842	542.664.842	-	-
Debts related to rights of use of leased assets	<u>17.929.828</u>	<u>3.751.347</u>	<u>14.178.481</u>	<u>-</u>
	<u>3.195.388.724</u>	<u>809.845.397</u>	<u>1.460.648.813</u>	<u>924.894.514</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.

Financial instruments categories:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Financial assets		
Cash and cash equivalents	96.204.966	199.548.510
Term bank deposits	581.351.685	184.688.625
Loans and receivables	2.741.685.641	2.420.601.205
Financial assets - stakes	202.197.382	215.700.939
Provisions related to financial assets - stakes	<u>(24.578.237)</u>	<u>(24.578.237)</u>
	<u>3.596.861.437</u>	<u>2.995.961.042</u>

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>31 December 2023</u>	<u>31 December 2022</u>
Financial liabilities		
Debts evaluated to amortised cost		
Loans	2.297.704.366	2.003.481.321
Liabilities evaluated at fair value		
Financial securities for contracts	50.446.894	44.668.511
Commercial liabilities and other liabilities	<u>451.013.677</u>	<u>501.747.678</u>
	<u>2.799.164.937</u>	<u>2.549.897.510</u>

On 31 December 2023, the amount of lei 152.476.340 (31 December 2022: lei 30.908.640) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 4% in USD (31 December 2022: 23%) and 96% in EUR (31 December 2022: 77%).

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.

The net indebtedness degree on 31 December 2023 and on 31 December 2022 is reflected in the table below:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Total borrowings	2.297.704.366	2.003.481.321
Except: cash and cash equivalents (Note 13)	<u>(677.556.651)</u>	<u>(384.237.135)</u>
Net cash position	<u>1.620.147.715</u>	<u>1.619.244.186</u>
Equity capital	4.123.653.277	4.082.745.760
Leverage ratio	0,39	0,40

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value estimate

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

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

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

5.1 Assumptions for the determination of the provision for retirement benefits

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

The present value of the obligations at 31 December 2023 is of lei 130.942.400 (on 31 December 2022: lei 115.479.575) (Note 21).

The presentation of the current value for the 2023 depending on the following variables:

	31 December 2023	31 December 2022
Inflation rate +1%	139.815.630	126.823.240
Inflation rate -1%	121.986.797	105.427.034
Investment return +10%	125.899.775	107.561.146
Investment return -10%	135.764.481	124.374.482

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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

Analysis of the maturity of benefits payments:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Up to one year	16.135.217	5.282.194
Between 1 and 2 years	6.323.131	3.249.417
Between 2 and 5 years	22.807.715	12.661.427
Between 5 and 10 years	112.046.635	104.323.736

5.2 The accounting treatment of the concession agreement

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

Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the company's management considered that it is, in substance, an equity component, defined as the residual interest in the company's assets after the deduction of all debts. In addition, because the company and its predecessor, SNGN Romgaz SA, were controlled by the 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).

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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

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

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

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

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

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

6. INFORMATION ON SEGMENTS

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

The segment information provided to the Board of Administration, which makes strategic decisions for reportable segments, for the period ended 31 December 2023 is:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.451.982.194	-	-	-	1.451.982.194
Revenue from international transmission and similar	-	116.305.612	-	-	116.305.612
Other revenue	<u>80.226.530</u>	<u>3.955.052</u>	-	<u>60.076.796</u>	<u>144.258.378</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.532.208.724</u>	<u>120.260.664</u>	-	<u>60.076.796</u>	<u>1.712.546.184</u>
Depreciation	(426.027.028)	(29.453.466)	-	(1.730.851)	(457.211.345)
Operating expenses other than depreciation	<u>(964.305.025)</u>	<u>(131.664.520)</u>	-	<u>(56.471.493)</u>	<u>(1.152.441.038)</u>
Profit from operation before the balancing and construction activity according to IFRIC12	<u>141.876.671</u>	<u>(40.857.322)</u>	-	<u>1.874.452</u>	<u>102.893.801</u>
Revenue from the balancing activity	-	-	458.810.505	-	458.810.505
Cost of balancing activity	-	-	(458.810.505)	-	(458.810.505)
Revenue from the construction activity according to IFRIC12	-	-	-	182.449.856	182.449.856
Cost of constructed assets according to IFRIC12	-	-	-	(182.449.856)	(182.449.856)
Operating profit	<u>141.876.671</u>	<u>(40.857.322)</u>	-	<u>1.874.452</u>	<u>102.893.801</u>
Net financial gain	-	-	-	-	103.987.509
Profit before tax	-	-	-	-	206.881.310
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38.440.790)</u>
Net profit	-	-	-	-	168.440.520
Assets on segments	6.910.056.361	142.715.202	338.174.615	902.962.503	8.293.908.681
Liabilities on segments	3.566.535.816	2.745.850	598.371.213	2.602.525	4.170.255.404
Capital expenditure - increases in assets in progress	215.529.212	68.441	-	1.621.554	217.219.207
Non-monetary expenses other than depreciation	(17.590.419)	(126.843.750)	(8.026.801)	(68.514)	(152.529.484)

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

6. INFORMATION ON SEGMENTS (CONTINUED)

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

Unallocated assets include:

Tangible and intangible assets	31.182.555
The right of use of the leased assets	14.500.703
Financial assets	177.619.145
Cash	677.556.651
Deferred tax	1.734.239
Other assets	<u>369.210</u>
	902.962.503

Unallocated liabilities include:

Dividends payable	1.095.532
Other debts	<u>1.506.993</u>
	2.602.525

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 and the borrowings contracted to finance the balancing activity.

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

Transmission services are performed for several domestic and foreign clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.237.088.453	214.893.741	1.451.982.194
Revenue from international transmission and similar	-	116.305.612	116.305.612
Other revenue	<u>136.719.297</u>	<u>7.539.081</u>	<u>144.258.378</u>
	1.373.807.750	338.738.434	1.712.546.184

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

6. INFORMATION ON SEGMENTS (CONTINUED)

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

	<u>Percentage of the total revenue</u>
OMV PETROM SA	16%
ENGIE ROMANIA S.A.	12%
SNGN ROMGAZ SA	10%

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

The company has external trade receivables amounting to lei 169.254.185 (31 December 2022: lei 30.908.640).

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 similar; *the balancing* segment includes expenses and revenue related to the national transmission system balancing activity developed starting with 1 December 2015, neutral in financial terms, any profit or loss from this activity will be distributed to clients for whom domestic transmission services are provided; the *unallocated* segment includes activities with a low share in the company's revenue such as sales of assets, rents, royalties.

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

6. INFORMATION ON SEGMENTS (CONTINUED)

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2022, is as follows:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.351.930.670	-	-	-	1.351.930.670
Revenue from international transmission and assimilated	-	73.926.517	-	-	73.926.517
Other revenue	<u>64.311.465</u>	<u>-</u>	<u>-</u>	<u>85.017.483</u>	<u>149.328.948</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.416.242.135</u>	<u>73.926.517</u>	=	<u>85.017.483</u>	<u>1.575.186.135</u>
Depreciation	(392.636.059)	(29.334.202)	-	(1.679.410)	(423.649.671)
Operating expense other than depreciation	<u>(892.220.675)</u>	<u>(24.216.023)</u>	<u>-</u>	<u>(75.467.469)</u>	<u>(991.904.167)</u>
Profit from operation before the balancing activity according to IFRIC12	<u>131.385.401</u>	<u>20.376.292</u>	<u>-</u>	<u>7.870.604</u>	<u>159.632.297</u>
Revenue from the balancing activity	-	-	1.005.543.977	-	1.005.543.977
Cost of balancing activity	-	-	(1.005.543.977)	-	(1.005.543.977)
Revenue from the construction activity according to IFRIC12	-	-	-	299.868.442	299.868.442
Cost of constructed assets according to IFRIC12	-	-	-	(299.868.442)	(299.868.442)
Profit from operation	<u>131.385.401</u>	<u>20.376.292</u>	<u>-</u>	<u>7.870.604</u>	<u>159.632.297</u>
Net financial gain	-	-	-	-	277.841.224
Profit before tax	-	-	-	-	437.473.521
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(71.718.653)</u>
Net profit	-	-	-	-	365.754.868
Assets on segments	6.560.071.640	175.201.017	646.355.866	624.788.994	8.006.417.517
Liabilities on segments	3.426.729.582	558.370	492.686.382	3.697.423	3.923.671.757
Capital expenditure - increases in assets in progress	335.905.595	812.328	-	82.421	336.800.344
Non-cash costs other than depreciation	48.601.989	22.035.187	9.544.329	497.538	80.679.043

NOTES TO THE FINANCIAL STATEMENTS

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6. INFORMATION ON SEGMENTS (CONTINUED)

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

Unallocated assets include:

Tangible and intangible assets	32.149.041
Right of use of leased assets	16.934.813
Financial assets	191.122.702
Cash	384.237.135
Other assets	<u>345.303</u>
	624.788.994

Unallocated liabilities include:

Dividends payable	1.627.487
Deferred tax	1.206.204
Other debts	<u>863.732</u>
	3.697.423

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	1.146.821.286	205.109.384	1.351.930.670
Revenue from international transmission and assimilated	-	73.926.517	73.926.517
Other revenue	<u>149.327.077</u>	<u>1.871</u>	<u>149.328.948</u>
	1.296.148.363	279.037.772	1.575.186.135

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

OMV PETROM S.A.	12%
ENGIE ROMANIA S.A.	11%
SNGN ROMGAZ S.A.	10%

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

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

7. TANGIBLE ASSETS

	Lands and buildings	Transmission system assets	Other fixed assets	Assets in progress	Total
On 31 December 2022					
Cost on 1 January 2022	292.759.786	972.044.444	336.535.669	15.597.395	1.616.937.294
Depreciation accumulated	(174.172.882)	(728.037.951)	(259.011.659)	-	(1.161.222.492)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Initial net book value	<u>118.586.904</u>	<u>244.006.493</u>	<u>77.524.010</u>	<u>13.941.213</u>	<u>454.058.620</u>
Inflows	-	-	-	29.246.843	29.246.843
Reclassification	(4.155.654)	4.092.161	(37.456)	-	(100.949)
Transfers	7.269.245	8.843.457	16.286.606	(32.399.308)	-
Outflow (net value)	(6.170)	-	(21.443)	-	(27.613)
Expense with depreciation	(5.781.472)	(32.625.704)	(26.637.821)	-	(65.044.997)
Final net book value	<u>115.912.853</u>	<u>224.316.407</u>	<u>67.113.896</u>	<u>10.788.748</u>	<u>418.131.904</u>
On 31 December 2023					
Cost	295.234.035	984.844.069	347.853.482	12.444.930	1.640.376.516
Accumulated depreciation	(179.321.182)	(760.527.662)	(280.739.586)	-	(1.220.588.430)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	<u>115.912.853</u>	<u>224.316.407</u>	<u>67.113.896</u>	<u>10.788.748</u>	<u>418.131.904</u>
Initial net book value	<u>115.912.853</u>	<u>224.316.407</u>	<u>67.113.896</u>	<u>10.788.748</u>	<u>418.131.904</u>
Inflows	-	-	-	23.052.824	23.052.824
Reclassification	613.703	-	(624.501)	-	(10.798)
Transfers	834.672	1.657.952	20.470.237	(22.962.861)	-
Outflow (net value)	(67.855)	(378)	(72.547)	-	(140.780)
Expense with depreciation	(7.834.363)	(31.940.939)	(23.618.149)	-	(63.393.451)
Final net book value	<u>109.459.010</u>	<u>194.033.042</u>	<u>63.268.936</u>	<u>10.878.711</u>	<u>377.639.699</u>
Cost	296.158.004	986.500.401	360.605.141	12.534.893	1.655.798.439
Accumulated depreciation	(186.698.994)	(792.467.359)	(297.336.205)	-	(1.276.502.558)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	<u>109.459.010</u>	<u>194.033.042</u>	<u>63.268.936</u>	<u>10.878.711</u>	<u>377.639.699</u>

NOTES TO THE FINANCIAL STATEMENTS

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7. TANGIBLE ASSETS (CONTINUED)

The gross book value of the fully depreciated assets, still used, is lei 384.773.206 (31 December 2022: lei 362.285.428). On 31 December 2023 no advances granted for the procurement of tangible assets are registered.

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.

Impairment adjustments were made for work in progress for which completion and commissioning is uncertain.

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

7.1. 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:

	<u>Leases according to IFRS16</u>
Cost on 1 January 2023	31.618.029
Accumulated depreciation	(14.683.216)
Net book value	<u>16.934.813</u>
Inflow	1.799.914
Outflow	(514.064)
Depreciation	(3.719.960)
Final net book value on 31 December 2023	<u>14.500.703</u>

Detailed information on IFRS 16 as at 31 December 2023:

	31 December 2023	Of which related to the class of low value assets-Forestry conventions
Value as use (DU)	32.903.879	16.299.859
Depreciation related to DU	18.403.176	5.352.675
DU interest	705.207	459.195
Debt regarding DU	15.542.002	11.766.703
From which:		
Short term	3.333.037	1.255.584
Long term	12.208.965	10.511.119

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

7. TANGIBLE ASSETS (CONTINUED)

	<u>Leases according to IFRS16</u>
Cost on 1 January 2022	30.660.861
Accumulated depreciation	(11.043.725)
<u>Net book value</u>	<u>19.617.136</u>
Inflow	1.517.869
Outflow	(560.701)
Depreciation	(3.639.491)
Final net book value on 31 December 2022	<u>16.934.813</u>

Detailed information on IFRS 16 as at 31 December 2022:

	31 December 2022	Of which related to the class - Forestry conventions
Value as use (DU)	31.618.029	15.944.147
Depreciation related to DU	14.683.216	4.055.249
DU interest	732.980	474.687
Debt regarding DU	17.929.828	12.577.841
From which:		
Short term	3.751.347	1.152.956
Long term	14.178.481	11.424.885

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.

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. All modernizations and improvements made by the company to the system are considered part of the system and become property of the ANRM at the end of their useful life. The company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the state.

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

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

The main terms of the Concession Agreement are the following:

- The company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the company and then approved by the ANRE;
- The company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The company must annually publish by 30 October the available capacity of the system for the following year;
- The company must annually respond to the clients' orders by 30 November and the ANRM must be informed on all rejected orders decided by the company's management;
- The company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, between October 2007 and 11 November 2020: 10%, between 12 November 2020 – 29 October 2023: 0,4%, as of 30 October 2023: 11,5%) 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.

By GD 906/28 September 2023, the amendment of Annex No 22 to Government Decision No 1 was approved. 705/2006 for the approval of the centralized inventory of goods in the public domain of the State, as subsequently amended and supplemented, by including the goods resulting from the completion of the investment objective "Interconnection pipeline of the National Gas Transmission System of Romania with the National Gas Transmission System of the Republic of Moldova on the direction Iasi (Romania)-Ungheni (Republic of Moldova), electricity supply, automation, data procurement, burglary and fire surveillance" and the transfer of these goods to the administration of the National Agency for Mineral Resources and to the concession of the National Gas Transmission Company "TRANSGAZ" - S.A.

NOTES TO THE FINANCIAL STATEMENTS
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9. INTANGIBLE ASSETS

	Assets related to the ACS	Information programmes	Intangible assets under construction	Total
On 31 December 2022				
Cost on 1 January 2022	9.470.896.188	74.238.546	398.214.919	9.943.349.653
Accumulated depreciation	(4.712.530.466)	(56.413.594)	-	(4.768.944.060)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.457.965.151)	-	-	(1.457.965.151)
Concession Agreement receivable depreciation	<u>289.730.829</u>	<u>-</u>	<u>-</u>	<u>289.730.829</u>
Net book value	3.590.131.400	17.824.952	389.072.142	3.997.028.494
Inflow	-	3.345.386	280.342.343	283.687.729
Reclassifications	100.948	-	-	100.948
Transfers	138.653.823	3.907.201	(142.561.024)	-
Outflow	-	-	-	-
Depreciation	(459.406.384)	(5.342.719)	-	(464.749.103)
Concession Agreement receivables	(16.426.221)	-	-	(16.426.221)
Concession Agreement receivable depreciation	<u>109.935.585</u>	<u>-</u>	<u>-</u>	<u>109.935.585</u>
Final net book value	3.362.989.151	19.734.820	526.853.461	3.909.577.432
Cost	9.609.650.958	81.484.939	535.996.238	10.227.132.135
Accumulated depreciation	(5.171.936.850)	(61.750.119)	-	(5.233.686.969)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.474.391.371)	-	-	(1.474.391.371)
Concession Agreement receivable depreciation	<u>399.666.414</u>	<u>-</u>	<u>-</u>	<u>399.666.414</u>
Final Net book value	3.362.989.151	19.734.820	526.853.461	3.909.577.432
On 31 December 2023				
Initial net book value	3.362.989.151	19.734.820	526.853.461	3.909.577.432
Inflow	-	10.113.180	194.166.383	204.279.563
Reclassifications	(462.550)	473.348	-	10.798
Transfers	356.275.053	361.910	(356.636.963)	-
Outflow	-	-	-	-
Depreciation	(497.687.112)	(7.357.123)	-	(505.044.235)
Concession Agreement receivables	(80.776.665)	-	-	(80.776.665)
Concession Agreement receivable depreciation	<u>115.216.450</u>	<u>-</u>	<u>-</u>	<u>115.216.450</u>
Final net book value	3.255.554.327	23.326.135	364.382.881	3.643.263.343
Cost	9.965.463.461	87.773.099	373.525.658	10.426.762.218
Accumulated depreciation	(5.669.623.961)	(64.446.964)	-	(5.734.070.925)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.555.168.037)	-	-	(1.555.168.037)
Concession Agreement receivable depreciation	<u>514.882.864</u>	<u>-</u>	<u>-</u>	<u>514.882.864</u>
Final Net book value	3.255.554.327	23.326.135	364.382.881	3.643.263.343

NOTES TO THE FINANCIAL STATEMENTS
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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 2023 the linepack is of 809.539 MWh and amounts to lei 72.687.849, of which NTS linepack is of 693.282 MWh and amounts lei 55.712.232. On 31 December 2022 the linepack is of 837.142 MWh and amounts to lei 84.633.624, of which NTS linepack is 692.629 MWh and amounts to lei 55.557.837.

As at 31 December 2023, the company capitalized interest expense amounting to lei 4.273.861 (in 2022, the company capitalized interest expense amounting to lei 20.128.777), for NTS assets.

As at 31 December 2023 there are no advances granted for the procurement of national gas transmission system development works are presented in the intangible assets in progress (lei 6.689.361 on 31 December 2022).

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

As at 31 December 2023, the Company capitalized the amount of 10.113.181 lei, representing additional costs for the procurement of natural gas, incurred between 1 January 2023 and 31 December 2023 (lei 3.345.386 on 31 December 2022), in order to cover its own technological consumption compared to the costs included in the regulated tariffs, in accordance with the provisions of the Order of the Ministry of Finance no. 3900/19 October 2022, the Order of the President of ANRE no.128 /12 October 2022 and ANRE's clarifications according to which the natural gas referred to in Article 11 letter r of ANRE's Order No 41/2019 does not represent natural gas intended to cover the technological consumption of the NTS and therefore the additional costs with their purchase cannot be capitalised.

Impairment adjustments were made for work in progress for which completion and commissioning is uncertain.

NOTES TO THE FINANCIAL STATEMENTS
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10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	Percentage	Percentage	31 December	31 December
		owned	owned	2023	2022
		<u>2023</u>	<u>2022</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				
Eurotransgaz	Gas transmission	100	100	177.619.145	191.122.702
Minus adjustments for impairment of investments in: Resial SA, Mebis SA				(24.578.237)	(24.578.237)
				<u>177.619.145</u>	<u>191.122.702</u>

Shares in Resial SA

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

Shares in Mebis SA

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

Participation in the Limited liability company Eurotransgaz Ltd.

By EGMS Resolution 10/12.12.2017 the establishment of the company EUROTRANSGAZ Ltd. on the territory of the Republic of Moldova was approved for the successful participation in the privatization of the State Enterprise Vestmoldtransgaz. In 2018, Transgaz participated in the increase of Eurotransgaz's share capital to ensure the financial sources necessary for the procurement of the State Enterprise Vestmoldtransgaz.

In 2018 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 9.735.000 euro for the operation and ensuring the financial sources necessary for the procurement of the State Enterprise Vestmoldtransgaz.

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

10. FINANCIAL ASSETS (CONTINUED)

In 2019 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 31.467.089 euro and 83.471.503 Moldavian lei for the operation and ensuring the financial sources necessary for the performance of the investment program of the State Enterprise Vestmoldtransgaz.

In 2020 Transgaz participated in the increase of the share capital of EUROTRANSGAZ by the amount of EUR 14.236.983 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In 2021 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of EUR 2.503.871 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In 2022 Transgaz participated in the share capital increase of EUROTRANSGAZ with the amount of EUR 649,460 in order to operate and secure the financial sources necessary to carry out the investment programme of the State Enterprise Vestmoldtransgaz.

By the BoA Resolution 39/2021 Transgaz approved the decrease of Eurotransgaz share capital in the amount of LEI 66.117.064 (EUR 13,15 million), registered in March 2022.

By the BoA Resolution 19/2022 Transgaz approved the decrease of Eurotransgaz share capital in the amount of MDL 172.024.718 (equivalent to Euro 8.5 million).

By BA Resolution no. 38/2022 Transgaz approved the reduction of Eurotransgaz share capital by MDL 44.652.300 (equivalent to EUR 2,310,000). The amount was received in August 2023.

The equity securities held at Eurotransgaz S.R.L represent a capital investment recognized according to IFRS 9, at the date of the transaction being measured at its fair value at the date of the transaction, and assessed, after the initial recognition, at the cost.

The company has carried out the valuation of the shareholding in Eurotransgaz S.R.L. and Vestmoldtransgaz SRL, for the estimation of the fair value of the shareholders' equity of the two companies the Adjusted Net Assets method was applied and did not identify any elements that would lead to goodwill impairment.

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.

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

11. INVENTORIES

	<u>31 December 2023</u>	<u>31 December 2022</u>
Gas inventories	307.310.908	358.874.907
Gas for technological consumption	180.679.213	177.148.436
Spare parts and materials	139.759.510	115.259.616
Materials in custody at third parties	466.345	1.229.524
Adjustments for write-down of inventories	<u>(51.135.358)</u>	<u>(42.635.646)</u>
	<u>577.080.618</u>	<u>609.876.837</u>

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 11.946.702 as at 31 December 2023 (Lei 9.718.830 as at 31 December 2022).

Movements in the adjustments account are analysed below:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Adjustment on 1 January	42.635.646	29.386.522
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	<u>8.499.712</u>	<u>13.249.124</u>
Adjustment at the end of the period	<u>51.135.358</u>	<u>42.635.646</u>

In 2023 adjustments for write-down of inventories were established according to Note 3.10.

The company recorded in 2022 a provision for the negative difference between the quantities of natural gas invoiced as initial imbalance and the final monthly imbalances, which will be requested to ANRE for recovery through the neutrality tariff

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 December 2023</u>	<u>31 December 2022</u>
Trade receivables	952.484.611	790.439.416
Advance payments to suppliers for goods and services	75.783	103.307
Loan to Resial SA (Note 27)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	2.423.669.228	2.141.205.427
Non-refundable loans as subsidies	14.140.364	17.564.563
State budget receivables	73.690.795	48.901.899
Receivables from various debtors	56.349.031	52.164.192
Receivables	46.315.542	40.490.161
Other receivables	3.853.274	23.556.870
Adjustment of impairment of trade receivables	(657.959.020)	(554.671.720)
Adjustment of impairment of other receivables	<u>(89.875.671)</u>	<u>(84.987.767)</u>
	<u>2.824.514.283</u>	<u>2.476.536.694</u>
Financial assets/ Loans and receivables (Note 4)	<u>2.741.685.641</u>	<u>2.423.462.073</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

The company challenged administratively the tax decision on additional tax payment obligations in the amount of 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. In 2022 the amount of the tax decision was reduced to 7.023.213 lei and the amount of the adjustment was also reduced by the Company.

As at 31 December 2022 the Company records VAT refundable in the amount of Lei 16.424.377 which is stated as Other receivables.

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022.

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

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 147.131.305 according to IFRS 9 (31 December 2022: LEI 286.877.258).

	<u>31 December 2023</u>	<u>31 December 2022</u>
Initial balance	2.141.205.427	1.788.570.507
Inflow	80.776.665	16.426.221
Interest	54.622.298	49.353.233
Inflation update	147.131.305	286.877.258
Outflow	<u>(66.467)</u>	<u>(21.792)</u>
	<u>2.423.669.228</u>	<u>2.141.205.427</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

Commercial receivables analysis according to IFRS9 is as follows:

	<u>31 December 2023</u> (unaudited)	<u>31 December 2022</u>
Current and unamortized		
Transit receivables	144.214.000	23.303.149
Doubtful or insolvency receivables	166.447.834	168.036.776
Affiliated party receivables	269.076.418	261.704.717
Other trade receivables	372.746.359	337.394.775
Receivables from various debtors	<u>56.349.031</u>	<u>52.980.353</u>
	1.008.833.642	843.419.770
Amortization		
Transit receivables	144.214.000	23.303.149
Doubtful or insolvency receivables	166.447.834	168.036.776
Affiliated party receivables	142.240.990	161.978.362
Other trade receivables	205.056.196	201.353.434
Receivables from various debtors	<u>50.453.357</u>	<u>45.565.452</u>
Transit receivables	708.412.377	600.237.173
Total trade receivables net of provision	300.421.265	243.182.597

IFRS 9 applies 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 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.

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

Category	10%	20%	30%	35%	60%	100%	IFRS 9	TOTAL
	31-60	61-90	91-120	121-150	151-180	over 181 and doubtful		
Transit receivables	1.136.673	2.076.207	3.054.461	3.464.871	6.283.239	63.678.297	64.520.252	144.214.000
Doubtful and insolvent receivables	-	-	-	-	-	166.447.834	-	166.447.834
Affiliated parties' receivables	4.141	95.573	148.356	211.427	309.492	140.059.599	1.412.402	142.240.990
Various receivables	59.926	144.934	92.262	195.642	583.189	201.729.697	2.250.546	205.056.196
Receivables from various debtors	16.582	-	-	-	-	50.033.462	403.313	50.453.357
Total impairment	1.217.322	2.316.714	3.295.079	3.871.940	7.175.920	621.948.889	68.586.513	708.412.377

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

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

The company constantly analyses 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:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Adjustment on 1 January	639.659.487	597.533.335
Expense with the adjustment for doubtful clients (Note 23)	175.061.631	134.888.274
(Revenue with the adjustment for doubtful clients (Note 23))	<u>66.886.427</u>	<u>92.762.122</u>
Adjustment at the end of the period	<u>747.834.691</u>	<u>639.659.487</u>

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

As at 31 December 2023, the company recorded adjusting expenses for the clients recording an increased non-collection risk, mainly for the receivables of Gazprom Export LLC (lei 120.908.955) and decreased the adjustment to outstanding receivables due to their collection for Electrocentrale Constanța (lei 20.544.672) and for Mehedinți Gaz SA (lei 3.214.363).

In July 2022 the Company paid the amount of 29.277.726 lei, to which it was bound by Arbitral Award no. 39/06.06.2022, rendered by the Arbitral Tribunal in case no. 107/2018, following the conclusion of the arbitration proceedings concerning the non-fulfilment of obligations under the supply contract for "Software Licences for Additional I/Os/Bandwidth Upgrade for SCADA System", a contract concluded by Transgaz with the Association consisting of RMG REGEL UND MESSTECHNIK GmbH Germany, IDS GmbH Germany and General Fluid S.A. Bucharest. The company has appealed the arbitral tribunal's decision in court and has recorded an impairment allowance of 29.277.726 lei as at 31 December 2022, adjustment maintained as at 31 December 2023 as well.

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13. CASH AND CASH EQUIVALENT

	<u>31 December 2023</u>	<u>31 December 2022</u>
Cash at bank in LEI	351.170.368	255.822.046
Cash at bank in foreign currency	326.274.497	128.226.227
Other cash equivalents	<u>111.786</u>	<u>188.862</u>
	<u>677.556.651</u>	<u>384.237.135</u>

	<u>31 December 2023</u>	<u>31 December 2022</u>
Restricted cash (employees guarantee)	1.956.015	1.562.607

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 3,32% on 31 December 2023 (3,13% on 31 December 2022) and these deposits have a maximum maturity of 30 days.

	Long-term loans	Working capital	Leasing debt	Total
Balance on 01.01.2022	1.569.435.386	279.435.121	20.470.837	1.869.341.344
Net cash flows	(143.485.273)	291.740.052	(5.157.454)	143.097.325
Exchange rate differences	11.325.488	-	-	11.325.488
New leasing contracts	-	-	2.246.983	2.246.983
Leasing adjustments	-	-	-	-
Interest expense	40.807.173	11.106.623	369.462	52.283.258
Capitalised interest	20.128.777	4.987.520	-	25.116.297
Paid interest	(52.648.258)	(14.174.266)	-	(66.822.524)
Balance on 31 December 2022	<u>1.445.563.293</u>	<u>573.095.050</u>	<u>17.929.828</u>	<u>2.036.588.171</u>
Balance on 01.01.2023	1.445.563.293	573.095.050	17.929.828	2.036.588.171
Net cash flows	114.511.226	175.431.456	(5.601.390)	284.341.292
Exchange rate differences	4.284.807	-	-	4.284.807
New leasing contracts	-	-	2.496.437	2.496.437
Leasing adjustments	-	-	-	-
Interest expense	84.465.633	6.236.151	717.128	91.418.912
Capitalised interest	4.273.861	25.232.795	-	29.506.656
Paid interest	(88.882.544)	(30.937.649)	-	(119.820.193)
Balance on 31 December 2023	<u>1.564.216.276</u>	<u>749.057.803</u>	<u>15.542.003</u>	<u>2.328.816.082</u>

NOTES TO THE FINANCIAL STATEMENTS
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14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	Number of ordinary shares	Share capital	Share premium	Total
On 31 December 2022	188.381.504	1.883.815.040	247.478.865	2.131.293.905
On 31 December 2023	188.381.504	1.883.815.040	247.478.865	2.131.293.905
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	<u>441.418.396</u>	-	<u>441.418.396</u>
On 31 December 2022, On 31 December 2023	<u>188.381.504</u>	<u>2.325.233.436</u>	<u>247.478.865</u>	<u>2.572.712.301</u>

The Extraordinary General Meeting of Shareholders approved on 7 December 2022 the increase of the share capital of the Company by incorporating the reserves constituted from the net profit of the previous financial years in the amount of 1.766.076.600 lei, through the issuance of 176.607.660 new shares with a par value of 10 lei/share.

The authorized number of ordinary shares registered at the National Trade Registry Office is 188.381.504 (31 December 2022: 188.381.504) with a nominal value of LEI 10 each. Each share represents one vote.

The ownership structure registered with the Central Depository on 31 December 2023 is the following:

	Number of ordinary shares	Statutory value (lei)	Percentage (%)
The Romanian state, represented by the General Secretariat of the Government	110.221.440	1.102.214.400	58,5097
Other shareholders	<u>78.160.064</u>	<u>781.600.640</u>	<u>41,4903</u>
	<u>188.381.504</u>	<u>1.883.815.040</u>	<u>100,0000</u>

The ownership structure registered with the Central Depository on 31 December 2022 is the following:

	Number of ordinary shares	Statutory value (lei)	Percentage (%)
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>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

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.

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 2023, amounts to lei 55.765.430 (31 December 2022: lei 45.421.364).

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.

Reserve relating to reinvested profit

The balance of the invested profit reserve as at 31 December 2023 is 17.275.596 lei.

The company will submit for OGMS approval the constitution from the 2023 profit a reserve in the amount of 40.845.861 lei representing tax incentives provided for by Law 227/2015 on the Tax Code on the profit invested in technological equipment-machinery, machinery and work installations, electronic computers and peripheral equipment, cash register, control and invoicing machines and appliances, as well as in software, produced and/or purchased and put into operation, used for the purpose of carrying out the economic activity, amended in 2023 by GO 16/2022 which extended the exemption from payment of reinvested profits also for some categories of assets related to the refurbishment. The reserve for reinvested profits is carried out after the approval of the profit distribution by the general meeting of shareholders, in accordance with the law.

Dividend allocation

In 2023, the company declared a dividend of lei 0,7 /share, related to the profit of the previous year (2022: lei 14,82 /share). The total dividends declared from the profit of 2022 are lei 131.867.053 (dividends declared from the profit of 2021: lei 174.488.368).

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

16. LONG-TERM BORROWINGS

The value of the long-term loans recorded by the company on 31 December 2023:

	<u>31 December 2023</u>	<u>31 December 2022</u>
BEI 83644RO	186.050.040	<u>204.822.360</u>
BEI 88825RO	209.058.151	<u>227.642.534</u>
BEI 89417RO	124.365.000	-
BEI 90512RO	124.365.000	-
BCR 20190409029	141.360.000	<u>156.240.000</u>
BCR 20201028056	288.000.000	<u>316.800.000</u>
BCR 20210817030	83.333.332	<u>91.666.666</u>
BCR 20211124044	183.333.333	<u>201.666.666</u>
BERD	211.232.880	<u>233.467.920</u>
BT	247.806.630	<u>271.175.175</u>
Raiffeisen Bank	300.000.000	<u>300.000.000</u>
BRD GSG	<u>198.800.000</u>	-
	<u><u>2.297.704.366</u></u>	<u><u>2.003.481.321</u></u>

Loans breakdown by maturity range:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	432.316.032	132.098.774
Over 1 year	<u>1.865.388.334</u>	<u>1.871.382.547</u>
	<u><u>2.297.704.366</u></u>	<u><u>2.003.481.321</u></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 the following loans 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):

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

- the Loan Agreement no.89417RO dated 17.12.2018 for the amount of EUR 50 million, maturity of 15 years, grace period of 3 years at principal repayment.
- the Loan Agreement no. 90512RO dated 24 January 2019 for the amount of EUR 100 million, maturity of 15 years, grace period of 3 years at principal repayment.

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

In 2017 the company received the first tranche of Loan 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:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	19.898.400	19.789.600
Between 1 and 5 years	79.593.600	79.158.400
Over 5 years	<u>86.558.040</u>	<u>105.874.360</u>
	<u>186.050.040</u>	<u>204.822.360</u>

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:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	19.835.925	19.727.466
Between 1 and 5 years	79.343.698	78.909.865
Over 5 years	<u>109.878.528</u>	<u>129.005.203</u>
	<u>209.058.151</u>	<u>227.642.534</u>

In July 2023 the company received under Loan Agreement no. 89417RO the first tranche of EUR 25 million.

The maturity of the loan 89417RO from the EIB is presented below:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	-	-
Between 1 and 5 years	25.380.612	-
Over 5 years	<u>98.984.388</u>	-
	<u>124.365.000</u>	-

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

In July 2023 the company received under Loan Agreement no. 90512 RO the first tranche of EUR 25 million.

The maturity of the loan 90512 RO from the EIB is presented below:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	-	-
Between 1 and 5 years	25.380.612	-
Over 5 years	<u>98.984.388</u>	<u>-</u>
	<u>124.365.000</u>	<u>-</u>

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

The European Bank for Reconstruction and Development (EBRD)

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	22.235.040	22.235.040
Between 1 and 5 years	88.940.160	88.940.160
Over 5 years	<u>100.057.680</u>	<u>122.292.720</u>
	<u>211.232.880</u>	<u>233.467.920</u>

The Romanian Commercial Bank (BCR)

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

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	14.880.000	14.880.000
Between 1 and 5 years	59.520.000	59.520.000
Over 5 years	<u>66.960.000</u>	<u>81.840.000</u>
	<u>141.360.000</u>	<u>156.240.000</u>

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

16. LONG-TERM BORROWINGS (CONTINUED)

On 29.10.2020, the Company signed contract no.20201028056 with Banca Comercială Română contemplating the Company's benefiting from a lei 360 million loan for a period of 13 years, destined to refinance two major projects carried out by Transgaz: "National Transmission System Developments in the North Eastern part of Romania (Onești - Gherăești - Lețcani)" and "The interconnection of the National Transmission System with the international gas transmission pipeline T1 and reverse flow at Isaccea Phase II (Onești - Siliștea)".

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	28.800.000	28.800.000
Between 1 and 5 years	115.200.000	115.200.000
Over 5 years	<u>144.000.000</u>	<u>172.800.000</u>
	<u>288.000.000</u>	<u>316.800.000</u>

On 17.08.2021, the Company signed contract no. 20210817030 with Banca Comercială Română contemplating the Company's benefiting from a lei 100 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. 20210817030 is fully collected and its maturity is presented below:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Within 1 year	8.333.334	8.333.334
Between 1 and 5 years	33.333.336	33.333.336
Over 5 years	<u>41.666.662</u>	<u>49.999.996</u>
	<u>83.333.332</u>	<u>91.666.666</u>

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 2023</u>	<u>31 December 2022</u>
Within 1 year	18.333.333	18.333.334
Between 1 and 5 years	73.333.333	73.333.333
Over 5 years	<u>91.666.667</u>	<u>109.999.999</u>
	<u>183.333.333</u>	<u>201.666.666</u>

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

Transilvania Bank (BT)

On 15 July 2020, as a result of a competitive negotiation procedure, the company signed a contract with Transilvania 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.

On 15.07.2022, the Addendum No.2 to the contract for the credit facilities and the issuance of letters of guarantee was signed with Banca Transilvania, which increased the initial amount of the facility (300 million lei) by a maximum of 153.000.000 lei, in order to issue a letter of guarantee in favour of ANAF to guarantee the payment obligation imposed by the mandatory order no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, during the period of the procedures for challenging the administrative act.

By the Addendum No.4/22.03.2023 the parties agreed to extend the final maturity date of the credit agreement by 24 months as of the Addendum date.

As at 31 December 2023, out of the total of credit line the amount of Lei 247.806.630 was used to cover working capital requirements and the amount of Lei 200.381.510 from the threshold for the issuing of letters of guarantee was used to cover four bank letters of guarantee issued in favour of third parties, the amount of lei 4.776.754 remaining at the disposal of the Company for the financing of the current activity. The Company believes that the conditions for presenting the credit line under the long-term loan category are met.

RAIFFEISEN BANK

The company signed on 14 July 2022, following a competitive negotiation procedure, an agreement with Raiffeisen Bank under which it benefits from a credit facility of 300 million lei for a period of 2 years, intended to finance working capital for the commercial balancing activity.

As at 31 December 2023 the credit facility is drawn down to the maximum level of 300.000.000 lei. The obligation is presented under short-term loans.

BRD GROUPE SOCIETE GENERALE

The company signed on 2 August 2023, following a competitive negotiation procedure, an agreement with BRD Groupe Societe Generale, whereby it benefits from a credit facility of 200 million lei for a period of 2 years, intended to finance working capital for the commercial balancing activity.

As at 31 December 2023 the credit facility is drawn down to the maximum level of 198.800.000 lei. The obligation is presented under long-term loans.

As at 31 December 2023, the balance of interest due for the loans of the company is lei 13.118.540 broken down by loans as follows:

NOTES TO THE FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

	<u>31 December 2023</u>	<u>31 December 2022</u>
BEI 83644RO	484.596	533.008
BEI 88825RO	1.985.777	906.961
BEI 89417RO	1.141.311	-
BEI 90512RO	1.141.311	-
BCR 20190409029	854.326	1.272.555
BCR 20201028056	3.217.394	4.512.968
BCR 20210817030	1.826.050	2.500.943
BCR 20211124044	886.932	1.325.088
BERD	<u>1.580.843</u>	<u>2.205.623</u>
	<u>13.118.540</u>	<u>13.257.146</u>

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
Variable interest rate loans	2.111.654.326	1.798.658.961
Fixed interest rate loans	<u>186.050.040</u>	<u>204.822.360</u>
	<u>2.297.704.366</u>	<u>2.003.481.321</u>

17. DEFERRED REVENUE

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.

	<u>31 December 2023</u>	<u>31 December 2022</u>
Initial balance	1.076.589.204	1.161.485.526
Increases	425.575	21.447.219
Revenue from connection fees (Note 22)	(13.926.724)	(13.267.714)
Income from non-reimbursable funds and goods taken over free of charge (Note 22)	<u>(99.188.711)</u>	<u>(93.075.827)</u>
Final balance	<u>963.899.344</u>	<u>1.076.589.204</u>

The balance of the deferred revenue consists of:

	<u>31 December 2023</u>	<u>31 December 2022</u>
Connections and assets received free of charge	222.516.712	238.213.439
Grants	<u>741.382.632</u>	<u>838.375.765</u>
	<u>963.899.344</u>	<u>1.076.589.204</u>

NOTES TO THE FINANCIAL STATEMENTS**(expressed in lei, unless otherwise stated)****17. DEFERRED REVENUE (CONTINUED)**

For the BRUA project the company obtained from the European Union through the National Agency for Innovation and Networks (INEA) a grant of 1.519.342 Euros, representing 50% of the estimated eligible costs for financing the FEED for the three compressor stations (Podișor, Bibești and Jupa) and a grant of 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) and EUR 29.192.463,92 (in 2019), EUR 37.740.347 (in 2020) and EUR 20.953.114,91 in 2021. On 19 July 2022 the amount of EUR 21.129.634,05 was received from INEA.

On 22.11.2018 the company signed with the Ministry of European Funds AM POIM Financing Contract 226 for non-reimbursable financing for the implementation of the draft project code MYSMIS 2014-122972 NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova within the Specific objective 8.2 – Increasing the interconnectivity of the National Transmission System with 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 203.657.168 was collected as eligible expenses grant funding.

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.

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

18. PROFIT TAX

Profit tax expense

	The year ended 31 December 2023	The year ended 31 December 2022
Expense with the profit tax - current	41.381.233	69.069.489
Deferred tax - impact of temporary differences	<u>(2.940.443)</u>	<u>2.649.164</u>
Profit tax expense	<u>38.440.790</u>	<u>71.718.653</u>

In the year ended on 31 December 2023 and 2022 the company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	The year ended 31 December 2023	The year ended 31 December 2022
Profit before tax	206.881.310	437.473.521
Theoretical expense with the tax the statutory rate of 16% (2022: 16%)	33.101.010	69.995.763
Non-taxable expenses, net	<u>5.339.780</u>	<u>1.722.890</u>
Profit tax expense	<u>38.440.790</u>	<u>71.718.653</u>
Profit tax liability/receivable, current	<u>(40.985.211)</u>	<u>(8.463.294)</u>

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

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 30 September 2023 (31 December 2022: 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 FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

	<u>31 December 2023</u>	<u>Movement</u>	<u>31 December 2022</u>	<u>Movement</u>	<u>1 January 2022</u>
Deferred tax payment					
Tangible and intangible assets	136.740.253	14.967.219	121.773.034	13.781.585	107.991.449
Recoverable deferred tax					
Provision for					
Employee benefits	(20.950.784)	(2.474.053)	(18.476.731)	(868.986)	(17.607.745)
Risks and charges	(14.862.249)	(1.870.570)	(12.991.679)	(2.200.261)	(10.791.418)
Receivables and other assets	<u>(102.661.459)</u>	<u>(13.563.039)</u>	<u>(89.098.420)</u>	<u>(8.063.174)</u>	<u>(81.035.246)</u>
	<u>(1.734.239)</u>	<u>(2.940.443)</u>	<u>1.206.204</u>	<u>2.649.164</u>	<u>(1.442.960)</u>

Deferred revenue tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts. Temporary differences for receivables and other assets arise from impairment adjustments for bad debts.

NOTES TO THE 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 2023</u>	<u>31 December 2022</u>
Deferred tax liabilities/receivables in more than 12 months as reported	<u>(1.734.239)</u>	<u>1.206.204</u>

19. TRADE PAYABLES AND OTHER PAYABLES

19.1 Short term payables

	<u>31 December 2023</u>	<u>31 December 2022</u>
Trade payables	227.003.229	281.427.273
Suppliers of fixed assets	15.796.373	52.284.961
Dividends payable	1.095.532	1.627.487
Debts related to royalties	51.383.030	1.677.975
Other taxes	28.404.156	26.440.372
Amounts payable to employees	20.828.438	17.028.447
VAT payable	21.323.976	-
Non-exemptible VAT	6.348.468	-
Transmission service guarantees	42.971.012	35.679.099
Transmission services advance payments	51.867.976	39.975.995
Tender guarantees	163.808.920	126.591.894
Other debts	<u>47.452.467</u>	<u>45.054.128</u>
	<u>678.283.577</u>	<u>627.787.631</u>
Financial debts (Note 4)	<u>501.460.571</u>	<u>546.416.189</u>

On 31 December 2023, of the total trade payables and other debts the amount of lei 75.062.912 (31 December 2022: lei 44.065.419) is expressed in foreign currency, especially in EUR.

19.2 Debts related to rights of use of leased assets

	<u>31 December 2023</u>	<u>31 December 2022</u>
	Land and buildings	Land and buildings
Initial balance	17.929.828	20.470.837
Inflows	2.508.558	1.883.465
Interest expense	705.207	732.980
Leasing payments	<u>5.601.590</u>	<u>5.157.454</u>
Final balance, of which:	<u>15.542.003</u>	<u>17.929.828</u>
Long-term debts	12.208.966	14.178.481
Short-term debts	3.333.037	3.751.347

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

20. PROVISIONS FOR RISKS AND CHARGES

	<u>31 December 2023</u>	<u>31 December 2022</u>
<i>Current provision</i>		
Provision for litigation	52.908.971	38.870.414
Provision term contract	3.284.571	3.268.931
Provision for employee participation in profits	11.725.070	18.026.397
Provision for voluntary leaving employment	7.698.800	14.840.000
Other provision	<u>8.266.302</u>	<u>6.192.252</u>
	<u>83.883.714</u>	<u>81.197.994</u>

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 Romsilva for the land non-use amounting to LEI 14.038.558, 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, and with PF Bălăsoiu Marian for claims for compensation for lack of use of land in the amount of lei 397.813.

For the strategic redefinition and efficiency of the activity, the Company drafted the Program of voluntary departures for 2023 in the amount of 7.699 thousand lei, the annual value being provided by the budget of revenues and expenses approved by the GMS.

As at 31 December 2023 the amount of the provision for voluntary departures is Lei 7.698.800 (lei 14.840.000 as at 31 December 2022).

The Company records provisions for untaken leave at the end of the financial year.

The Company has recorded provisions for untaken leave in the amount of lei 8.266.303 relating to the period ended 31 December 2023.

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

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

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 2023

The amount of the provision has been calculated individually for each distinct employee/beneficiary of the company using the actuarial calculation method and taking into account International Accounting Standards, in particular the IAS 19. The provision is calculated taking into account the long-term liabilities undertaken by the company under the collective labour contract. The calculation assumptions and specifications for the calculation model were established based on the company's previous experience and a set of assumptions about the company's future experience. The most important 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;
- Employee rotation considers seniority and staff rotation within the company;
- the mortality of the entity's employees is calculated according to the data provided by the National Institute of Statistics for 2019 to which a percentage of 40% was applied;
- Employee rotation is constant over time.
- the method used is the projected credit factor method;
- Retirement age at retirement considered: 63 for men and 61 for women, but the share of early retirements at certain ages was also considered;
- Long-term wage growth rate is considered equal to the forecast inflation rate for the euro area, and is 2% and in the short term was considered equal to the forecast inflation rate for RON and is 6,7% in the first year, 4,3% in the second year and 3,9% for the next 3 years and 2,5% for the next 5 years, for both women and men;
- the discount rate is the interest curve in lei without adjustments provided by EIOPA for December 2023.
- 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 Trangaz employees, in the first year after retirement, mortality at the age of 66 men and 64 years women was used.

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

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

Financial assumptions

The discount rate is the interest rate curve in lei without adjustments of variations provided by EIOPA for December 2023.

For the calculation for 2023, according to the National Institute of Statistics, the annual inflation rate in December 2023 compared to December 2022 was 6,6%. Given the correlation between the inflation and discount rate values, the following values for inflation were taken into account: 6% in 2024, 5,8% in 2025 and 5,6% in the rest.

Movement in the provision for employee benefits:

1 January 2022	<u>110.048.408</u>
of which:	
Short-term	4.007.231
Long-term	106.041.177
Interest cost	5.541.410
Current service cost	5.917.932
Payments from provisions during the year	(3.575.953)
Actuarial gain/loss related to the period	(2.452.222)
31 December 2022	<u>115.479.575</u>
of which:	
Short-term	4.584.234
Long-term	110.895.341
Interest cost	7.229.379
Current service cost	17.488.663
Payments from provisions during the year	(4.921.167)
Actuarial gain/loss related to the period	(4.334.050)
31 December 2023	<u>130.942.400</u>
of which:	
Short-term	16.135.217
Long-term	114.807.183

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

22. OTHER REVENUE

	The year ended 31 December 2023	The year ended 31 December 2022
Revenue from penalties applied to clients for delay payments	20.385.312	19.186.967
Revenue from connection fees	13.926.724	13.209.882
Revenue from grants and goods taken free of charge	99.188.711	93.126.080
Revenue from grants for operating expenses	841.646	730.934
Revenue from the sale of residual materials	998.514	3.127.906
Revenue from leases	1.673.538	1.951.375
Revenue from recovered materials	3.742.099	4.721.562
Other revenue from operation	<u>3.501.834</u>	<u>13.274.242</u>
	<u>144.258.378</u>	<u>149.328.948</u>

23. OTHER OPERATING EXPENSES

	The year ended 31 December 2023	The year ended 31 December 2022
Loss/gain on impairment of receivables	108.175.204	42.126.152
Utilities	19.650.851	20.518.959
Insurance premium	1.419.636	1.043.192
Other expenses with the maintenance services	19.780	447.039
Security and protection expenses	35.033.317	28.369.936
Professional training	1.717.455	3.362.399
Telecommunications	2.927.856	3.295.434
Loss/(gain) on impairment of inventories	8.499.713	13.249.124
Bank charges and other fees	2.309.562	2.252.392
Rents	2.885.135	1.813.535
Loss on amounts receivable	126.282	1.695.530
Marketing and protocol expenses	412.193	521.269
Penalties and fines	446.838	725.153
Gas storage capacity booking	8.900.825	14.754.361
Sponsorship costs	4.329.995	3.012.538
Computer service	10.606.841	7.167.727
Other	<u>31.030.959</u>	<u>28.206.306</u>
	<u>238.492.442</u>	<u>172.561.046</u>

Neutrality activity expenses

In the year 2023, expenses for the procurement of natural gas in the amount of lei 427.324.156, expenses for the booking of gas storage capacity in the amount of lei 6.311.441, net expenses for bank interest in the amount of lei 25.167.497, expenses for bank commissions in the amount of lei 7.411 were included in the calculation of the neutrality activity.

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

24. EMPLOYEE COSTS

	The year ended 31 December 2023	The year ended 31 December 2022
Salaries and benefits	526.757.309	450.644.776
Cost of insurance and social security	31.646.657	29.340.429
Other employee costs	<u>12.390.295</u>	<u>11.602.932</u>
	<u>570.794.261</u>	<u>491.588.137</u>

Average number of employees in financial year:

	The year ended 31 December 2023	The year ended 31 December 2022
Blue collars	2.210	2.273
White collars	<u>1.785</u>	<u>1.740</u>
	<u>3.995</u>	<u>4.013</u>

25. NET FINANCIAL REVENUE/(LOSS)

	The year ended 31 December 2023	The year ended 31 December 2022
Foreign exchange revenue	14.882.077	16.768.639
Interest revenue	59.679.235	50.732.498
Revenue from the adjustment of the Concession Agreement receivable	147.131.305	286.877.258
Revenue from shares	11.396.154	106.907.802
Other financial revenue	<u>5.139</u>	<u>943</u>
	233.093.910	461.287.140
Foreign exchange loss	(17.008.938)	(16.688.966)
The effects of the update of the provision for employee benefits	(7.229.379)	(5.541.410)
Interest loss related to IFRS16	(662.742)	(634.684)
Interest loss	(90.701.784)	(51.913.796)
Loss on transferred financial fixed assets	<u>(13.503.558)</u>	<u>(108.667.060)</u>
	(129.106.401)	(183.445.916)

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 147.131.305 according to IFRS 9 (31 December 2022: Lei 286.877.258).

The amount of the inflation adjustment of the claim decreased between January – December 2023 as compared to the same period of 2022, due to the decrease of the inflation rate to 6,61 % between January – December 2023 (13,37% between January - December 2022). Fixed assets recognised in the regulated asset base within a gas year are discounted by the inflation rate as of the following gas year.

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

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

The income from the adjustment of the receivable related to the Concession Agreement is a non-monetary item (Note 26).

By the resolution of the BA no. 39/2021 Transgaz approved the reduction of Eurotransgaz share capital by EUR 13,15 million, amount received by Transgaz in Q1 2022.

By BoA Decision no. 19/2022 Transgaz approved the reduction of Eurotransgaz share capital by the amount of 172.024.718 MDL (equivalent to 8,52 million Euro).

By BoA Decision no. 38/2022 Transgaz approved the reduction of Eurotransgaz share capital by the amount of 44.652.300 MDL (equivalent to 2,31 million Euro). The amount was received in August 2023.

26. CASH FROM OPERATION

	The year ended 31 December 2023	The year ended 31 December 2022
Profit before tax	206.881.310	437.473.521
<i>Adjustments for:</i>		
Depreciation	457.211.345	423.649.671
Gain/(loss) on transfer of fixed assets	(123.138)	(451.748)
Provisions for risks and charges	2.685.721	13.751.630
Adjustments for impairment of inventories	8.499.713	13.249.122
Revenue from connection fees, grants and goods taken free of charge	(113.957.081)	(107.066.896)
Provisions for employee benefits	12.567.496	2.341.979
The effects of the update of the provision for employee benefits	7.229.380	5.541.410
Sundry debtors and receivable loss	126.282	1.695.530
Adjustments for the receivable's impairment	108.175.204	42.126.151
Interest revenue	(59.679.235)	(50.732.498)
Interest expenses	90.701.784	51.913.796
Adjustment of the Claim regarding the Concession Agreement	(147.131.305)	(286.877.258)
Effect of exchange rate fluctuation on other items than from operation	5.297.914	(124.977)
Other expenses and revenue	(330.243)	(834.770)
Operating profit before the changes in working capital	578.155.147	545.654.663
(Increase)/decrease in trade and other receivables	(98.810.903)	45.563.916
(Increase)/decrease in inventories	23.533.328	(320.447.461)
Increase/(decrease) in trade payables and other debts	72.950.125	343.602.258
Cash generated from operations	575.827.697	614.373.376

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

27. TRANSACTIONS WITH RELATED PARTIES

The prices / tariffs related to the transport 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. Transactions with Vestmoldtransgaz were concluded at the market value established by the cost-plus method and represent services provided by specialized personnel for the conduct of the procurement and equipment rental procedures.

In the periods ended 31 December 2023 and 31 December 2022 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

	The year ended <u>31 December 2023</u>	The year ended <u>31 December 2022</u>
Salary paid to the members of the Board of Administration and management	21.508.631	19.695.102
Social contribution of the company	<u>483.944</u>	<u>443.141</u>
	<u>21.992.575</u>	<u>20.138.243</u>

In the periods ended 31 December 2023 and 31 December 2022, 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 related to pensions towards the former administrators and directors.

ii) Loan to a related party

	<u>31 December 2023</u>	<u>31 December 2022</u>
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 allocated are presented in Note 15. Royalties paid are presented in Note 3.8.

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	170.953.715	150.473.064
Electrocentrale București SA	Entity under common control	63.789.140	53.386.931
Electrocentrale Constanța	Entity under common control	2.283.874	4.113.599
Complex Energetic Oltenia	Entity under common control	1.308.667	-
Termo Calor Confort	Entity under common control	2.220.936	651.227
E.ON Energie Romania	Entity under common control	<u>157.213.651</u>	<u>123.227.823</u>
		<u>397.769.983</u>	<u>331.852.644</u>

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

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	38.920	1.531
Complex Energetic Oltenia	Entity under common control	2.079	-
Electrocentrale Deva SA	Entity under common control	816.474	546.670
Electrocentrale Bucuresti	Entity under common control	1.372	1.200
Electrocentrale Constanța	Entity under common control	5.673.901	353.119
E.ON Energie Romania	Entity under common control	2.490	421
Vestmoldtransgaz SRL	Entity owned by the Company's subsidiary	-	68.027
		<u>6.535.236</u>	<u>970.968</u>

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

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	7.762.411	5.582.732
Electrocentrale București SA	Entity under common control	8.805.402	695.314
Electrocentrale Deva SA	Entity under common control	-	422.437
Electrocentrale Constanța	Entity under common control	249.245	101.062.657
Termo Calor Pitești	Entity under common control	1.148.399	346.816
E.ON Energie Romania	Entity under common control	53.373.852	89.004.356
Complex Energetic Oltenia	Entity under common control	<u>2.552.879</u>	-
		<u>73.892.188</u>	<u>197.114.312</u>

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

vi) Receivables from related parties (without the adjustment)

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	28.329.053	13.337.958
Electrocentrale Deva SA	Entity under common control	9.174	-
Electrocentrale București	Entity under common control	18.693.819	26.006.049
Electrocentrale Constanța	Entity under common control	9.922	-
Termo Calor Pitesti	Entity under common control	(12.753)	2.939
E.ON Energie Romania	Entity under common control	66.052.151	35.969.746
Complex Energetic Oltenia	Entity under common control	317.799	-
Eurotransgaz SRL	Company branch	<u>14.911</u>	<u>-</u>
		<u>113.414.076</u>	<u>75.316.692</u>

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

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	48.536	9.971
Electrocentrale Bucuresti	Entity under common control	696.232	792.941
Electrocentrale Constanța	Entity under common control	887.141	-
Complex Energetic Oltenia	Entity under common control	730.887	-
Termo Calor Pitesti	Entity under common control	183.036	314.570
E.ON Energie Romania	Entity under common control	<u>10.987.869</u>	<u>23.292.181</u>
		<u>13.533.701</u>	<u>24.409.663</u>

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

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	18.705.347	33.957.915
E.ON Energie Romania	Entity under common control	-	180.445.384
Termo Calor Pitesti	Entity under common control	-	1.165.222
Complex Energetic Oltenia	Entity under common control	4.316	-
Electrocentrale București	Entity under common control	<u>10.125</u>	<u>78.933.647</u>
		<u>18.719.788</u>	<u>294.502.168</u>

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ix) Procurement of gas – the balancing activity (VAT excluded)

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	6.242.411	2.520.556
Electrocentrale București	Entity under common control	5.155.359	40.841.743
Electrocentrale Constanța	Entity under common control	9.617.383	326.798
Termo Calor Pitesti	Entity under common control	2.512.544	-
Complex Energetic Oltenia	Entity under common control	235.397	-
E.ON Energie Romania	Entity under common control	<u>71.149.834</u>	<u>101.131.739</u>
		<u>94.912.928</u>	<u>144.820.836</u>

x) Procurement of natural gas (VAT excluded)

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
SNGN Romgaz	Entity under common control	<u>77.626.231</u>	-
		<u>77.626.231</u>	-

xi) Debts to gas suppliers – balancing activity (VAT included)

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	<u>26.158.660</u>	-
		<u>26.158.660</u>	-

xii) Debts to affiliated parties from services (other services - VAT included)

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	1.758.019	2.452.358
Complex Energetic Oltenia	Entity under common control	514	-
Electrocentrale București	Entity under common control	<u>1.008</u>	<u>1.194</u>
		<u>1.759.541</u>	<u>2.453.552</u>

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

xiii) Debts to suppliers – balancing activity (VAT included)

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	3.034.455	3.229.577
Electrocentrale București	Entity under common control	2.272.291	2.018.612
Electrocentrale Constanța	Entity under common control	-	2.095.909
Termo Calor Pitesti	Entity under common control	217.766	1.951.308
E.ON Energie Romania	Entity under common control	11.359.387	16.848.247
Complex Energetic Oltenia	Entity under common control	<u>256.844</u>	<u>-</u>
		<u>17.140.743</u>	<u>26.143.653</u>

xiv) Guarantees from affiliates (bank guarantee letter)

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
SNGN Romgaz	Entity under common control	28.811.298	15.015.388
E.ON Energie Romania	Entity under common control	52.201.315	-
Electrocentrale București	Entity under common control	<u>8.275.580</u>	<u>-</u>
		<u>89.288.193</u>	<u>15.015.388</u>

xv) Loans and interest to be reimbursed

	<u>Relationship</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>212.813.723</u>	<u>235.673.543</u>
		<u>212.813.723</u>	<u>235.673.543</u>

xvi) Transactions during the period

	<u>Relationship</u>	<u>The year ended 31 December 2023</u>	<u>The year ended 31 December 2022</u>
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>17.497.371</u>	<u>16.439.443</u>
		<u>17.497.371</u>	<u>16.439.443</u>

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

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.

	The year ended 31 December 2023	The year ended 31 December 2022
Profit attributable to the company's equity holders	168.440.520	365.754.868
Weighted average of the number of shares	188.381.504	188.381.504
Basic and diluted earnings per share (lei per share)	0,89	1,94

By Decision no. 11/7 December 2022, the Extraordinary General Meeting of Shareholders of Transgaz approved the increase of the share capital of the Company by incorporating the reserves constituted from the net profit of previous years in the amount of 1.766.076.600 lei, from the amount of 117.738.440 lei to the amount of 1.883.815.040 lei, through the issue of 176.607.660 new shares with a value of 10 lei/share. The share capital increase was registered with the National Trade Register Office on 19 December 2022.

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 5,36 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2023 (31 December 2022: 12,25%). Transactions mainly represent offsets with clients and suppliers within the operating cycle and offsets between tax debts and receivables registered with the state budget.

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, the ANRM is entitled to receive back, all goods of public property existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The company also has other obligations related to the concession agreement, which are described in Note 8.

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (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 owner of the national transmission system or to another grantor in exchange for compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 December 2023 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 89.176.273.

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.

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 million, for the funding of the construction by Vestmoldtransgaz of the Ungheni-Chisinau gas transmission pipeline.

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 royalty rate for the use of gas transmission pipelines is set by the government. Since October 2007, the royalty has been set at 10% of revenue. After the entry into force of Art. 103 para. 2 of the Law no. 123/2012, starting from 12 November 2020 the fee was set at 0,4% of the domestic and international gas transmission services value performed by the company. ANRM requests Transgaz to calculate and pay the royalty by applying the percentage of 10% according to Law 238/2004, for the period between November 2020 – December 2021. The company considers that it is obliged to calculate and pay a single royalty at the rate of 0,4% established by the special law, namely Law 123/2012. Law 248/July 2022 approving GEO 143/2021 amending and supplementing the Electricity and gas Law 123/2012 sets the royalty percentage at 0.4% of the gross revenue from natural gas transmission and the specialist report drawn up by the specialist committees of the Chamber of Deputies clarifies that the Electricity and gas Law 123/2012 is a special regulation in the field of natural gas, in relation to Oil Law 238/2004. Administrative and judicial dispute settlement is detailed in the chapter "Court and other actions".

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 2023 (58 managers in 2022).

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

iv) Environmental aspects

Environmental regulations are under development in Romania and the company did not record any obligation on 31 December 2023 and 31 December 2022 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

v) Lawsuits and other actions

During the normal activity of the company, the various disputes in which the company is a defendant or plaintiff has been registered in the courts. The company has pending disputes for the lack of use of some 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 corporate 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 dispute concerns an action for annulment of the decision. At first instance, Transgaz' application was dismissed as unfounded. The company lodged an appeal.

As of 6 June 2016, the company was subject to an inspection carried out by the European Commission - Directorate General for Competition under Art. 20 (4) of Council Regulation (EC) No 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, which became Articles 101 and 102 of the Treaty on the Functioning of the European Union. In 2020, the European Commission approved the Company's commitments to address concerns related to a possible breach of Article 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 FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

The company meets its commitments and, based on its own estimates, the company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

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 cm and, if restitution in kind is not possible, the reimbursement of the monetary equivalent of the linepack, and statutory interest (Note 20). The decision of the arbitral tribunal has been appealed and the action for annulment has been registered with the Bucharest Court of Appeal. The action for annulment was dismissed as unfounded. Transgaz lodged an appeal. The Court of Cassation of the Court of Justice has admitted Transgaz' appeal, the case being sent to the Bucharest Court of Appeal for retrial.

The dispute between ANRM and Transgaz was the subject of a tax inspection of the royalty which ended with the issuance of a mandatory order to pay two royalty rates, namely 10% and 0,4% of the value of domestic and international natural gas transmission services performed by the company. The company lodged a preliminary complaint against the mandatory provision no. 6006/250938/IEF/14.04.2022 issued by the Ministry of Finance, by which Transgaz S.A. was charged with the payment of the amount of 152,964,894 lei, representing the royalty due to the state budget and ancillaries. The preliminary complaint was upheld and the Ministry of Finance, by decision 82/P/2022, ordered the annulment in its entirety of binding order No 6006/250938/IEF/14.04.2022 and the issue of a new order taking into account the considerations put forward by the Ministry of Finance in the decision. Following decision no 85/P/2022 issued by the Ministry of Finance, binding order No 6009/253087/IEF of 14.12.2022 was issued, which only supplements the recitals of the first decision, maintaining the same amount payable by Transgaz. The company lodged a preliminary complaint against this new provision, which was rejected by the settlement body. An appeal was also lodged with the court, within the legal time-limit, against the administrative act consisting of mandatory order 6009/253087/IEF., seeking its full annulment. The case is currently before the Bucharest Court of Appeal for a decision on the merits. At the same time, the Company has lodged a bank guarantee letter in order to suspend the execution of this mandatory provision, in accordance with the provisions of the Tax Procedure Code (Note 16).

The Directorate-General for European Large-Scale Infrastructure Programmes has sanctioned Transgaz, applying a series of financial corrections as it considered the requests in the call for tenders for sectoral procurement procedures concerning the provision of a tender guarantee and a performance guarantee, by means of a guarantee instrument (bank letter of guarantee of participation/insurance policy) issued by a credit institution/insurance company in Romania or in another EU state, were restrictive, limiting the possibility for potential bidders to present such a document issued in a non-EU state. Transgaz has objected to the findings of the Directorate-General for European Large-Scale Infrastructure Programmes concerning the irregularities relating to the restrictive or discriminatory nature of the requirement for a performance/participation guarantee. Since the defendant unlawfully rejected Transgaz' objection, an action was brought for annulment of the decisions rejecting Transgaz' objections. Transgaz' action was dismissed as unfounded, and an appeal was lodged against that decision.

The Company considers that no additional adjustments to those disclosed in the financial statements are necessary.

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

vi) Government policies in the gas sector in Romania

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

Currently, the effects cannot be determined, if they exist, of the future government policies in the gas sector in Romania on the company's asset and liability.

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties. The company's management believes that its obligations to ANRE are properly presented in these financial statements.

ANRE Order no.126/12.2021 approved the modification of the contractual clauses for the balancing activity and access to the PVT which allows the Company to terminate access to the virtual trading point (VTP) and to terminate balancing contracts, for network users who register cumulative imbalances of the Deficit type during the month higher than the guarantees established.

GEO 27/2022 provides that in order to cover the additional costs related to own technological consumption and technological consumption, respectively, generated by the increase in prices on the wholesale market above the value taken into account by the regulator when calculating the natural gas transmission tariffs for 2021, the Energy Regulatory Authority (ANRE) modifies the regulated tariffs, with effect from 1 April 2022, and the resulting tariffs shall remain unchanged for the period from 1 April 2022 to 31 March 2023. ANRE did not modify the transmission tariffs with the price increase substantiated by the company.

By Order no. 95/18.05.2022, ANRE extends the deadlines laid down in ANRE Order no. 32/2021 on the approval of the adjusted regulated revenue and transmission tariffs for the transmission of natural gas through the National Transmission System until 30 September 2023 and provides that the differences resulting from the recalculation of the regulated revenue and the adjusted regulated revenue for the fourth regulatory year, 1 October 2022 – 31 December 2023, of the fourth regulatory period, shall be determined and adjusted with the adjustment of the regulated revenue and the approval of the revenue for the last year of the fourth regulatory period, i.e. 1 October 2023 – 31 December 2024.

From 1 October 2023, the natural gas transmission tariffs approved by the Order of the President of ANRE no.68 of 30.05.2023 are applicable. The approved regulated revenue related to natural gas transmission for the period from 1 October 2023 to 30 September 2024 is lei 1.647.347.820.

According to GEO no. 119/1 September 2022 amending and supplementing Government Emergency Ordinance no. 27/2022 on measures applicable to end customers in the electricity and natural gas market for the period from 1 April 2022 to 31 March 2023, the natural gas transmission service provider is required to capitalise on a quarterly basis the additional costs for the procurement of natural gas incurred during the period from 1 January 2022 to 31 August 2023 to cover technological consumption, compared to the costs included in the regulated tariffs, and the assets resulting from the capitalisation

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

shall be recognised in the accounting records and financial statements in accordance with the instructions issued by the Ministry of Finance.

By Order 111/24 August 2022, ANRE stipulates, as of 1 October 2022, that the mechanism ensuring cost and revenue neutrality of the TSOs take into account the following categories of costs and revenues:

- a) costs and revenues of the TSO as a result of the payment or collection of imbalance charges under the provisions of the Network Code in relation to individual NUs;
- b) costs and revenues arising from the purchase/sale of gas by the TSO for the physical balancing of the NTS, in compliance with the procedure on the operating limits of the NTS, approved by the TSO and endorsed by ANRE;
- c) costs and revenues resulting from the activity of natural gas storage intended to ensure the physical balance of the transmission system in accordance with the provisions of Article 130(1) of the Law no. 123/2012 on electricity and natural gas, as amended;
- d) costs arising from the taking out of a credit line to finance physical and commercial balancing activity;
- e) costs and revenues arising from the contracting of balancing services, in accordance with the provisions of Article 832 of the Network Code and Article 6(3) b of Regulation (EU) No 312/2014.

vii) The military conflict in Ukraine

As of 24 February 2022, a military conflict is taking place on the territory of Ukraine. Gas flows can be redirected through the Negru Voda entry point and other interconnection points with transmission operators in Bulgaria and Hungary. The Company considers that no additional adjustments to those disclosed in the financial statements are necessary.

31. FEES OF THE STATUTORY AUDITOR

The fees for the financial year ended 31 December 2022 charged by BDO Audit SRL, invoiced in 2023 are: lei 174.989 (VAT excluded) for statutory audit services and lei 87.040 (VAT excluded) for other services than the statutory audit.

The fees for the financial year ended 31 December 2022 charged by BDO Audit SRL, are: lei 79.682 (VAT excluded) for the limited review as at 30 June 2022 and 29.760 lei (excluding VAT) for other services than statutory audit services.

The fees for the financial year ended 31 December 2021 charged by BDO Audit SRL, invoiced in 2022, are: lei 174.989 (VAT excluded) for statutory audit services and lei 15.000 (VAT excluded) for services other than statutory audit services.

The fees for the financial year ended 31 December 2023 charged by BDO Audit SRL (leader) - BDO Audit & Consulting SRL (Associate) SRL are amounting to Lei 463.000 (VAT excluded).

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

32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

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

	The year ended 31 December 2023	The year ended 31 December 2022
Revenue from the construction activity according to IFRIC12	182.449.856	299.868.442
Cost of assets constructed according to IFRIC12	(182.449.856)	(299.868.442)

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

33. EVENTS SUBSEQUENT TO THE BALANCE DATE

With the support of the European Investment Bank (EIB), Transgaz has developed the Climate and Decarbonisation Strategy for a step-by-step transition to climate neutrality and to strengthen resilience to climate change, taking into account best practices and national and international climate change policies and regulations.

The decarbonisation strategy includes:

- comprehensive assessment of the carbon footprint of the current operating process;
- ambitious quantitative emission reduction targets in the short and medium term and proposed high-level actions and measures to achieve these targets;
- long-term decarbonisation options;
- explanation of the role of compensation and its impact on stakeholders;
- stakeholder engagement strategy, including Transgaz' possibilities to cooperate with stakeholders (downstream and upstream of the gas transmission system) in projects contributing to decarbonisation;
- actions needed from Transgaz to meet national and international (climate-related) requirements and regulations, such as the National Integrated Energy and Climate Change Plan.

In 2024, the company concluded two grant contracts for projects: Black Sea-Podişor natural gas transmission pipeline, for which it received in February pre-financing in the amount of lei 127.682.749 and Gherceşti-Jitaru natural gas transmission pipeline (including cathode energy supply and fibre optics).

The contracts were concluded on the basis of EC Decision No C(2023) 3643 of 30.05.2023 granting non-reimbursable funding from the Modernisation Fund totalling EUR 93.582.770 for the following projects:

- Black Sea - Podişor natural gas transmission pipeline: euro 85.544.422;
- Gherceşti-Jitaru natural gas transmission pipeline (including electricity supply, cathodic protection and optical fibre): euro 8.038.348.

Chairman of the Board of Administration
Văduva Petru Ion

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean