

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

**INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2023 (UNAUDITED)**

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

This version of the interim 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.

INTERIM FINANCIAL STATEMENTS

Contents

Interim Statement of Financial Position	1 - 2
Interim Statement of Comprehensive Income	3
Interim Statement of Changes in Equity	4
Interim Cash Flow Statement	5
Notes to the Interim Financial Statements	6-83

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



	<u>Note</u>	<u>30 September 2023</u> (unaudited)	<u>31 December 2022</u>
ASSET			
Fixed assets			
Tangible Assets	7	383.031.474	418.131.904
Rights of use of the leased assets	9	15.756.007	16.934.813
Intangible Assets	9	3.627.859.809	3.909.577.432
Financial assets	10	177.619.145	191.122.702
Trade receivables and other receivables	12	2.370.053.455	2.141.205.427
Deferred tax	18	<u>3.320.840</u>	<u>-</u>
		6.577.640.730	6.676.972.278
Current assets			
Inventories	11	571.665.448	609.876.837
Commercial receivables and other receivables	12	200.390.925	335.331.267
Cash and cash equivalent	13	<u>628.116.873</u>	<u>384.237.135</u>
		1.400.173.246	1.329.445.239
Total asset		7.977.813.976	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>156.228.815</u>	<u>244.236.598</u>
		3.994.737.977	4.082.745.760
Long-term debts			
Long-term loans	16	1.898.460.077	1.871.382.547
Provision for employee benefits	21	116.578.945	110.895.341
Deferred revenue	17	880.222.180	969.150.112
Deferred tax	18	-	1.206.204
Commercial debt and other debts	19	<u>13.037.759</u>	<u>14.178.481</u>
		2.908.298.961	2.966.812.685

Notes 1 to 33 are part of these financial statements.

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.

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



	<u>Note</u>	<u>30 September 2023</u> (unaudited)	<u>31 December 2022</u>
Current debts			
Commercial debts and other debts	19	469.770.275	631.538.978
Deferred revenue	17	111.782.463	107.439.092
Current payable tax	18	-	-
Provision for risks and charges	20	54.869.475	81.197.994
Short-term loans	16	432.316.032	132.098.774
Provision for employee benefits	21	6.038.793	4.584.234
		<u>1.074.777.038</u>	<u>956.859.072</u>
Total debts		<u>3.983.075.999</u>	<u>3.923.671.757</u>
Total equity and debts		7.977.813.976	8.006.417.517

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

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.

INTERIM STATEMENT OF COMPREHENSIVE INCOME

(expressed in lei, unless otherwise stated)



	<u>Note</u>	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022
Revenue from the domestic transmission activity		886.787.498	955.679.683
Revenue from the international transmission activity and similar		88.739.207	50.684.097
Other revenue	22	<u>103.801.409</u>	<u>102.347.392</u>
Operational revenue before the balancing and construction activity according to IFRIC12		1.079.328.114	1.108.711.172
Depreciation	7, 9	(340.664.075)	(316.058.537)
Employees costs	24	(418.663.222)	(362.471.185)
NTS gas consumption, materials and consumables used		(114.209.125)	(136.190.412)
Expenses with royalties		(3.902.107)	(4.025.455)
Maintenance and transmission		(28.773.925)	(26.128.217)
Taxes and other amounts owed to the state		(66.849.138)	(64.404.509)
Revenue/ (Expenses) with provisions for risks and charges		15.546.700	6.993.858
Other operating cost	23	<u>(157.748.378)</u>	<u>(96.567.854)</u>
Operational profit before the balancing and construction activity according to IFRIC12		(35.935.156)	109.858.861
Revenue from the balancing activity		321.672.099	765.028.672
Cost of balancing gas		(321.672.099)	(765.028.672)
Revenue from the construction activity according to IFRIC12	32	56.413.599	166.666.964
Cost of assets constructed according to IFRIC12	32	<u>(56.413.599)</u>	<u>(166.666.964)</u>
Operational profit		(35.935.156)	109.858.861
Financial revenue	25	194.507.832	339.861.223
Financial cost	25	<u>(106.079.174)</u>	<u>(118.015.572)</u>
Financial revenue, net		88.428.658	221.845.651
Profit before tax		52.493.502	331.704.512
Profit tax expense	18	<u>(15.029.276)</u>	<u>(58.145.892)</u>
Net profit for the period		37.464.226	273.558.620
Shares number		188.381.504	11.773.844
Basic and diluted earnings per share (expressed in lei per share)	28	0,20	23,23
Other elements of the comprehensive income		6.395.044	
Total comprehensive income for the period		43.859.270	273.558.620

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

INTERIM 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		-	-	-	-	273.558.620	273.558.620
<i>Transactions with shareholders:</i>							
Dividends related to 2021	15	-	-	-	-	(174.488.370)	(174.488.370)
Balance on 30 September 2022 (unaudited)		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.915.664.725</u>	<u>3.988.097.287</u>
<i>Elements of the comprehensive income</i>							
Net profit for the period		-	-	-	-	92.196.251	92.196.251
Actuarial gain / loss for the period		-	-	-	-	2.452.222	2.452.222
		-	-	-	-	94.648.473	94.648.473
Establishing profit reserves		-	-	-	-	(21.873.676)	(21.873.676)
Legal reserve increase		-	-	-	-	21.873.676	21.873.676
Increase of share capital by incorporation of reserves		<u>1.766.076.600</u>	-	-	-	(1.766.076.600)	-
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		-	-	-	-	37.464.226	37.464.226
Actuarial gain / loss for the period		-	-	-	-	6.395.044	6.395.044
						43.859.279	43.859.279
<i>Transactions with shareholders:</i>							
Dividends related to 2022	15	-	-	-	-	(131.867.053)	(131.867.053)
Balance on 30 September 2023 (unaudited)		<u>1.883.815.040</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>156.228.815</u>	<u>3.994.737.977</u>

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

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

	<u>Note</u>	<u>The nine months ended 30 September 2023 (unaudited)</u>	<u>The nine months ended 30 September 2022 (unaudited)</u>
Cash generated from operations	26	471.359.735	300.623.052
Interest received		1.987.622	853.985
Interest paid		(77.373.755)	(33.277.631)
Paid profit tax		<u>(56.047.181)</u>	<u>(66.090.808)</u>
Net cash inflow from operation activities		339.926.421	202.108.598
Cash flow from investment activities			
Payments to acquire intangible assets		(282.646.908)	(260.263.061)
Payments to acquire tangible assets		(10.509.368)	(9.434.827)
Financial investment/shares		13.503.557	62.903.472
Receipts from the disposal of tangible assets		263.919	20.164
Cash flow from connection fees and grants		<u>3.600.471</u>	<u>129.258.487</u>
Net cash used in investment activities		(275.788.329)	(77.515.765)
Cash flow from financing activities			
Long term loans withdrawals		246.610.000	-
Long term loans repayments		(103.072.931)	(105.005.847)
Credit withdrawals/repayments for working capital		173.013.112	174.565.406
Leasing payments (IFRS 16)		(4.568.863)	(4.237.785)
Dividends paid		<u>(132.239.672)</u>	<u>(174.805.999)</u>
Net cash used in financing activities		179.741.646	(109.484.225)
Net change in cash and cash equivalents		<u>243.879.738</u>	<u>15.108.608</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>628.116.873</u>	<u>336.293.869</u>

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean

NOTES TO THE INTERIM 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 30 September 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.

NOTES TO THE INTERIM 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) Romania's economic growth will continue, although at a slower pace than in 2022, due to persistent inflation, tight financing conditions and low growth of trading partners, indicates the European Commission. The Romanian economy is expected to grow by 3,2% in 2023 and 3,5% in 2024, according to the European executive, who warns, however, that delays in implementing the PNNR could reduce investment. In its winter forecast, the European Commission predicted Romania's GDP growth would be 2,5% in 2023 and 3% in 2024. As for inflation, the current estimates put it at 9,7% in 2023 and 4,6% in 2024, after the EC's previous forecast of 9,7% this year and 5,5% next year.
- (ii) In the meeting of 5 October 2023, 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) The annual CPI inflation rate continued its downward path during the second quarter, falling substantially to 10,25 percent in June (-4,28 percentage points from March and -6,12 percentage points from December 2022). In June, the indicator exceeded only marginally (by 0,1 percentage points) the projection in the previous Inflation Report. The decisive contribution to the disinflation in the second quarter came from energy commodity prices, whose dynamics reflected strong base effects, but also a relative stability of the Brent price (the growth spike in the first part of April being overcome relatively quickly). A favourable, but smaller, contribution was also made by adjusted CORE2 inflation, which, after peaking in February (15 per cent), decelerated to 13,5 per cent in June from 14,6 per cent in March.
- (iv) Fitch International Rating Agency confirmed on 17.06.2022 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

- (v) The Fitch rating agency reconfirmed on 24 March 2023 Romania's long-term and short-term foreign currency debt rating at BBB-/F3 and revised the country outlook from negative to stable. This is the first positive rating outlook change for Romania since April 2020. The decision to revise Romania's rating outlook is supported, in the agency's view, by the stabilisation of public debt and the implementation of policies aimed at gradual fiscal consolidation, as well as by political stability in our country and the reduction of risks related to the war in Ukraine and the subsequent energy crisis. According to the agency, Romania's economy will grow by 2,3% in 2023 and 3% in 2024, respectively, as our country will benefit from significant European funds from both the Multiannual Financial Framework 2021-2027 and the Recovery and Resilience Mechanism (RRM). The main factors that could individually or collectively lead to an improvement in the country's rating or outlook are the firm stabilisation of the public debt-to-GDP ratio in the medium term and the reduction of the fiscal deficit, as a result of the effective implementation of the government's fiscal strategy, as well as the reduction of external financing risks through a structural improvement in the current account deficit position leading to a decline in external indebtedness and/or an improvement in external reserves.

At the end of Q3 2022, as compared to the end of 2021, the LEU decreased against the EURO (`EUR`) by 0,02% (1 EUR= 4,9490 lei as at 30 September 2022, 1 EUR = 4,9481 lei as at 31 December 2021) and by 15,47% against the US dollar (`USD`) (1 USD =5,0469 lei as at 30 September 2022, 1 USD = 4,3707 lei as at 31 December 2021).

At the end of Q3 2023, as compared to the end of 2022 the LEU decreased against the EURO (`EUR`) by 0,55% (1 EUR= 4,9746 lei as at 30 September 2023, 1 EUR = 4,9474 lei as at 31 December 2022) and by 1,12% against the US dollar („USD”) (1 USD =4,6864 lei as at 30 September 2023, 1 USD = 4,6346 lei as at 31 December 2022).

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

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

Accounting regulations applicable as of 2016

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

(a) Standards and interpretations applicable as of 2017

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

Amendments to IAS 12 "Income Tax"

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

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

- Unrealized loss on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;
- The accounting value of an asset does not limit the estimation of the future taxable profits
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax loss, an entity will estimate deferred tax in combination with other deferred tax of the same type.

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

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

(b) Standards and interpretations applicable as of 2018

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

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

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

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

According to IFRS 9, derivatives incorporated into contracts, where the host instrument is a financial instrument for the purpose of this standard, are not separate, but the entire hybrid instrument is considered for classification.

- *Impairment loss:* IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected loss from impairment of receivables. The standard requires entities to recognize the anticipated impairment loss on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment loss over their lifetime. The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.
- *Impairment:* applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows;

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Hedge accounting:* IFRS 9 introduces a significantly improved hedge accounting model which includes additional disclosure requirements for risk management activity. The new model is a significant revision of the hedge accounting principles, which allows the alignment of the accounting treatment with the risk management activities.

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

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

- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 – Income - Barter Transactions Involving Advertising Services

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

The revenue from services provision is recognized as follows:

- based on the tariffs regulated by ANRE for firm/ interruptible natural gas transmission services through the National Transmission System;
- based on the transmission tariffs approved by ANRE for the transmission capacity booking on the entry/ exit points in/out of the natural gas transmission pipeline Isaccea 2-Negru Vodă 2;
- based on the tariffs negotiated within the transmission contract for the transmission capacity booking on the Isaccea 3-Negru Vodă 3 gas transmission pipeline;
- by auction, on the Regional Capacity Booking Platform (RBP) for the trading of bundled and unbundled capacity at cross-border interconnection points with transmission systems from European Union member countries,

Standards and interpretations that came into force/became applicable as of 2019 or at a future date

- on the basis of regulated tariffs for activities related to the operation of the gas transmission system;
- prices determined on the basis of ANRE regulations for the balancing and neutrality activity within the provision of the transmission service;
- tariffs determined based on ANRE regulations for the administration of the balancing market.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (applicable for the annual periods beginning on or after 1 January 2018); the interpretation refers to the determination of the transaction date to determine the exchange rate to be used for the initial recognition of an asset, expense or income (or part thereof) in the derecognition of a non-monetary asset or non-monetary debt generated by a payment in advance in foreign currency. IFRIC 22 does not provide for guidance on the definition of the monetary and non-monetary items. A payment or advance payment generally leads to the recognition of a non-monetary asset/liability, but it may also lead to the recognition of a monetary asset/liability.
- **IFRS 16 Leases** (applicable for the annual periods beginning on or after 1 January 2019); at the date of entry into force IFRS 16 will replace the following standards and interpretations:
 - IAS 17 - Leases;
 - IFRIC 4- Determining whether an Arrangement Contains a Lease;
 - SIC 15 – Operating Leases - Incentives;
 - SIC 27- Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 provides a control model for the identification of leases by establishing principles for the recognition, measurement and disclosure of leases, i.e. the right to control the use of an identified asset for a specified period of time in return for consideration. The right to control the use of the identified asset exists if the customer has the right to obtain substantially all the economic benefits and also the right to determine the manner and purpose for which the asset is used.

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

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

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) the reduction in lease payments relates only to payments due on or before 31 December 2021; and (c) there is no substantive change to other terms and conditions of the lease.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

New standards, interpretations and amendments with subsequent applicability.

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

STANDARDS AND AMENDMENTS IN MANDATORY FORCE AS OF 1 JANUARY 2023

- IFRS 17 Insurance Contracts - IFRS 17 introduces an internationally consistent approach to accounting for insurance contracts. Prior to IFRS 17, there was significant diversity worldwide in the accounting and presentation of insurance contracts, with IFRS 4 allowing many previous (non-IFRS) accounting approaches to continue to be followed. IFRS 17 will result in significant changes for many insurers, requiring adjustments to existing systems and processes. In December 2021, the IASB amended IFRS 17 to add a transition option to address potential accounting mismatches between financial assets and insurance contract liabilities in comparative information presented on initial application of IFRS 17 and IFRS 9, thereby improving the usefulness of comparative information for users of financial statements.
- IAS 1 Presentation of Financial Statements (Amendment - Classification of Liabilities as Current or Long-Term) - In January 2020, the IASB issued amendments to IAS 1 that clarify how an entity classifies liabilities as current or long-term. The amendments originally had an effective date of 1 January 2022, however, in July 2020, this was delayed until 1 January 2023 due to the COVID-19 pandemic. These changes are expected to have a significant impact on many entities, with several debts being classified as current, particularly those with loan-related conditionalities. The International Accounting Standards Board (IASB) issued "Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)" providing a more general approach to the classification of liabilities in accordance with IAS 1 based on existing contractual arrangements in the reporting.
- The changes were initially valid for annual reporting periods beginning on or after 1 January 2022. However, in May 2020, the effective date was postponed to annual reporting periods beginning on or after 1 January 2023:

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ✓ The classification of liabilities as current or non-current should be based on rights that exist at the end of the reporting period and the wording shall be aligned in all relevant paragraphs to refer to the "right" to defer settlement by at least twelve months and clarify that only the rights in force "at the end of the reporting period" should affect the classification of a debt;
- ✓ The classification is not affected by expectations that an entity will exercise its right to defer the settlement of a debt;
- ✓ Settlement refers to the transfer to the counterparty of the cash, equity instruments, other assets or services.
- ✓ An entity applies this interpretation for annual reporting periods beginning on at or after 1 January 2019. Application prior to this date is permitted.
- ✓ An 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under the tax law.
- Disclosure of Accounting Policies (Amendment to IAS 1 and IFRS Practice Statement 2) - In February 2021, the IASB issued amendments to IAS 1 that change the disclosure requirements regarding accounting policies from "significant accounting policies" to "disclosures about material accounting policies". The amendments provide guidance on when accounting policy information can be considered material. The amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. As IFRS Practice Statements are non-binding guidance, no mandatory effective date has been specified for amendments to IFRS Practice Statement 2.
- Definition of accounting estimates (amendment to IAS 8) - In February 2021, the IASB issued amendments to IAS 8 that added to the definition of accounting estimates in IAS 8. The amendments also clarified that the effects of a change in an input or measurement technique are changes in accounting estimates, unless they result from correcting prior period errors.
- Deferred tax relating to assets and liabilities arising from a single transaction (amendments to IAS 12) - In May 2021, the IASB issued amendments to IAS 12 clarifying whether the initial recognition exemption applies to certain transactions that result in both an asset and a liability recognised simultaneously (for example, a lease within the scope of IFRS 16). The amendments introduce an additional criterion for the initial recognition exemption under IAS 12.15, whereby the exemption does not apply to the initial recognition of an asset or liability that, at the time of the transaction, gives rise to equal taxable and deductible temporary differences.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

3.6 Tangible Assets

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

The company's policy is to reflect intangible assets at their cost 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:

Number of years

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474,952,575 (31 December 2017: RON 474,952,575), representing gas pipelines, are managed by the company. Therefore, the company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8).

The company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the company is directly influenced by the state of the network. Therefore, before 1 January 2010, the company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.). Accounting policies applied to these assets were the same as those applied to the company's tangible assets (Notes 3.7 and 3.6).

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

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial assets

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

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in the current assets, except for those which have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the company include 'trade receivables and other receivables' and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance

sheet date an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.

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

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

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

(c) *Impairment of financial assets*

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

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

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;
- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for individual financial assets in the portfolio, including:
 - adverse changes in the payment status of debtors in the portfolio; and
 - economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The company assesses first whether objective evidence of impairment exists.

(i) *Assets registered at amortized cost*

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the book value of the asset and the updated value of estimated future cash flows (excluding future credit loss which was not incurred), discounted at the asset's original rate; the discount rate for measuring any

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

impairment loss is the current effective interest rate determined under the contract. In practice, the company may measure impairment based on the fair value of an instrument using an observable market price.

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

(ii) *Assets measured at cost*

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

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

In 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 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 INTERIM 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. If not, they are presented as fixed assets.

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

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

3.12. Value Added Tax

The value added tax must be paid to tax authorities based on the monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If the deductible VAT is higher than the output VAT, the difference is refundable at the request of the company. That VAT can be refunded after a tax audit, or, even in its absence, if certain conditions are met. VAT on sales and purchases which are not settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability.

In cases where adjustments were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT has to be paid to the State and can be recovered, as from the date of the judgment or, as the case may be, the date of the closure of the bankruptcy, according to the insolvency law.

3.13. Cash and cash equivalent

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

3.14 Equity

Share capital

Ordinary shares are classified as equity.

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

Dividends

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Borrowings

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

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

3.16 Current and deferred profit tax

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

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

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the

accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

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

3.14 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 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.

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

3.16 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.17 Provisions for risks and charges

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

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

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

3.18 Revenue recognition

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

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

a) Revenue from services

Revenue from the domestic 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

b) Revenue from the sale of goods

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

c) Interest revenue

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

d) Revenue from dividends

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

e) Mutual compensation and barter transactions

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies. Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on the available market information.

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

No barter transactions were performed in 2023 and in 2022.

f) Revenue from penalties

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

(a) *Market risk*

(i) Currency risk

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

The company does not perform formal actions to minimize the currency risk related to its operations; 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>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	716.629	717.466
USD depreciation by 10%	(716.629)	(717.466)
EUR appreciation by 10%	(28.995.359)	(32.592.226)
EUR depreciation by 10%	28.995.359	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 3.810.003 (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 5.883.957 (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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 53% of the trade receivable balances on 30 September 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 adjustments already made. As at 30 September 2023 the company has available off-balance sheet payment guarantees from its clients amounting to lei 337.468.634.

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

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Without rating	240.908	336.387
BB+	250.516.507	146.038.192
BBB-	183.926.713	147.205.763
BBB	5.239.376	-
BBB+	187.603.076	90.012.913
A+	135.009	135.448
AA	<u>218.021</u>	<u>319.570</u>
	627.879.610	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 30 September 2023 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis of financial liabilities on 30 September 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	2.951.962.319	559.996.101	1.277.175.154	1.114.791.064
Commercial payables and other payables	<u>394.389.665</u>	<u>381.351.906</u>	<u>13.037.759</u>	<u>-</u>
	<u>3.346.351.984</u>	<u>941.348.007</u>	<u>1.290.212.913</u>	<u>1.114.791.064</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	<u>560.594.670</u>	<u>546.416.189</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>30 September 2023</u>	<u>31 December 2022</u>
Financial assets	(unaudited)	
Cash and cash equivalents	113.528.795	199.548.510
Term bank deposits	514.588.078	184.688.625
Loans and receivables	2.490.091.532	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>3.295.827.550</u>	<u>2.995.961.042</u>

	<u>30 September 2023</u>	<u>31 December 2022</u>
Financial liabilities	(unaudited)	
Debts evaluated to amortised cost		
Loans	2.330.776.109	2.003.481.321
Liabilities evaluated at fair value		
Financial securities for contracts	49.858.177	44.668.511
Commercial liabilities and other liabilities	<u>331.493.729</u>	<u>501.747.678</u>
	<u>2.712.128.015</u>	<u>2.549.897.510</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 30 September 2023 and on 31 December 2022 is reflected in the table below:

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Total borrowings	2.330.776.109	2.003.481.321
Except: cash and cash equivalents (Note 13)	<u>(628.116.873)</u>	<u>(384.237.135)</u>
Net cash position	<u>1.702.659.236</u>	<u>1.619.244.186</u>
Equity capital	3.994.737.977	4.082.745.760
Leverage ratio	0,43	0,40

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.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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 30 September 2023 is of lei 122.617.738 (on 31 December 2022: lei 115.479.575) (Note 21).

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

	<u>30 June 2023</u>
Inflation rate +1%	134.909.770
Inflation rate -1%	111.750.279
Investment return +10%	115.771.910
Investment return -10%	130.146.150

Analysis of the maturity of benefits payments:

	<u>30 June 2023</u>
Up to one year	7.295.138
Between 1 and 2 years	4.059.329
Between 2 and 5 years	12.117.841
Between 5 and 10 years	101.257.989

5.2 The accounting treatment of the concession agreement

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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

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

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

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

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

As of 1 January 2020, according to ANRE Order no. 1/2020, the company has the obligation to pay annually to ANRE a tariff amounting to 0.062 lei MWh applied to the quantity of natural gas transmitted for carrying out activities in the natural gas sector based on a license.

5.4 Long-term receivables

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

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

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

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

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

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

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

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

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 30 September 2023 is:

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

6. INFORMATION ON SEGMENTS (CONTINUED)

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	886.787.498	-	-	-	886.787.498
Revenue from international transmission and similar	-	88.739.207	-	-	88.739.207
Other revenue	<u>69.129.202</u>	<u>2.134.875</u>	-	<u>32.537.332</u>	<u>103.801.409</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>955.916.700</u>	<u>90.874.082</u>	-	<u>32.537.332</u>	<u>1.079.328.114</u>
Depreciation	(317.325.478)	(22.050.065)	-	(1.288.532)	(340.664.075)
Operating expenses other than depreciation	<u>(638.640.754)</u>	<u>(99.617.224)</u>	-	<u>(36.341.217)</u>	<u>(774.599.195)</u>
Profit from operation before the balancing and construction activity according to IFRIC12	<u>(49.532)</u>	<u>(30.793.207)</u>	-	<u>(5.092.417)</u>	<u>(35.935.156)</u>
Revenue from the balancing activity	-	-	321.672.099	-	321.672.099
Cost of balancing activity	-	-	(321.672.099)	-	(321.672.099)
Revenue from the construction activity according to IFRIC12	-	-	-	56.413.599	56.413.599
Cost of constructed assets according to IFRIC12	-	-	-	(56.413.599)	(56.413.599)
Operating profit	<u>(49.532)</u>	<u>(30.793.207)</u>	-	<u>(5.092.417)</u>	<u>(35.935.156)</u>
Net financial gain	-	-	-	-	88.428.658
Profit before tax	-	-	-	-	52.493.502
Profit tax	-	-	-	-	<u>(15.029.276)</u>
Net profit	-	-	-	-	37.464.226
Assets on segments	6.641.480.497	153.224.175	326.354.783	856.754.521	7.977.813.976
Liabilities on segments	3.406.627.066	692.277	573.047.255	2.709.401	3.983.075.999
Capital expenditure - increases in assets in progress	82.848.322	-	-	7.755	82.856.077
Non-monetary expenses other than depreciation	(441.637)	(97.682.461)	-	(191.290)	(98.315.388)

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.

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

6. INFORMATION ON SEGMENTS (CONTINUED)

Unallocated assets include:

Tangible and intangible assets	31.569.780
The right of use of the leased assets	15.756.007
Financial assets	177.619.145
Cash	628.116.873
Deferred tax	371.876
Other assets	<u>3.320.840</u>
	856.754.521

Unallocated liabilities include:

Dividends payable	1.254.867
Other debts	<u>1.454.534</u>
	2.709.401

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	674.555.110	212.232.388	886.787.498
Revenue from international transmission and similar	-	88.739.207	88.739.207
Other revenue	<u>97.985.627</u>	<u>5.815.782</u>	<u>103.801.409</u>
	772.540.737	306.787.377	1.079.328.114

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

	<u>Percentage of the total revenue</u>
OMV PETROM SA	15%
ENGIE ROMANIA S.A.	10%
SNGN ROMGAZ SA	10%

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

6. INFORMATION ON SEGMENTS (CONTINUED)

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 140.015.226 (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 INTERIM 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 30 September 2022, is as follows:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from					
domestic transmission	955.679.683	-	-	-	955.679.683
Revenue from international					
transmission	-	50.684.097	-	-	50.684.097
Other revenue	<u>60.823.488</u>	<u>-</u>	<u>-</u>	<u>41.523.904</u>	<u>102.347.392</u>
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.016.503.171</u>	<u>50.684.097</u>	<u>-</u>	<u>41.523.904</u>	<u>1.108.711.172</u>
Depreciation	(292.831.913)	(21.967.045)	-	(1.259.579)	(316.058.537)
Operating expense other than depreciation	<u>(641.504.282)</u>	<u>(1.595.037)</u>	<u>-</u>	<u>(39.694.455)</u>	<u>(682.793.774)</u>
Profit from operation before the balancing activity according to IFRIC12	<u>82.166.976</u>	<u>27.122.015</u>	<u>-</u>	<u>569.870</u>	<u>109.858.861</u>
Revenue from the balancing activity	-	-	765.028.672	-	765.028.672
Cost of balancing gas	-	-	(765.028.672)	-	(765.028.672)
Revenue from the construction activity according to IFRIC12	-	-	-	166.666.964	166.666.964
Cost of constructed assets according to IFRIC12	-	-	-	(166.666.964)	(166.666.964)
Profit from operation	<u>82.166.976</u>	<u>27.122.015</u>	<u>-</u>	<u>569.870</u>	<u>109.858.861</u>
Net financial gain	-	-	-	-	221.845.651
Profit before tax	-	-	-	-	331.704.512
Profit tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58.145.892)</u>
Net profit	-	-	-	-	273.558.620
Assets on segments	6.340.218.363	181.758.616	633.178.096	621.595.327	7.776.750.402
Liabilities on segments	3.211.799.748	545.185	573.458.516	2.849.666	3.788.653.115
Capital expenditure - increases in assets in progress	163.569.791	-	-	2.605	163.572.396
Non-cash costs other than depreciation	(8.605.300)	(16.491)	-	(74.062)	(8.695.853)

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.

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

6. INFORMATION ON SEGMENTS (CONTINUED)

Unallocated assets include:

Tangible and intangible assets	32.468.702
Right of use of leased assets	17.919.346
Financial assets	233.672.698
Cash	336.293.869
Deffered tax	489.740
Other assets	<u>750.972</u>
	621.595.327

Unallocated liabilities include:

Dividends payable	1.910.005
Other debts	<u>939.661</u>
	2.849.666

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	799.553.320	156.126.363	955.679.683
Revenue from international transmission	-	50.684.097	50.684.097
Other revenue	<u>102.083.794</u>	<u>263.598</u>	<u>102.347.392</u>
	901.637.114	207.074.058	1.108.711.172

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

ENGIE ROMANIA S.A.	11%
OMV PETROM S.A.	11%
SNGN ROMGAZ S.A.	11%
E.ON ENERGIE ROMANIA SA	8%

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

7. TANGIBLE ASSETS

	<u>Lands and buildings</u>	<u>Transmission system assets</u>	<u>Other fixed assets</u>	<u>Assets in progress</u>	<u>Total</u>
On 30 September 2022 (unaudited)					
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	-	-	180	11.484.705	11.484.885
Reclassification	446.351	(273.015)	(37.456)	-	135.880
Transfers	3.388.385	1.861.636	10.891.630	(16.141.651)	-
Outflow (net value)	(6.171)	-	(15.330)	-	(21.501)
Expense with depreciation	(5.197.404)	(23.511.536)	(20.160.430)	-	(48.869.370)
Final net book value	<u>117.218.065</u>	<u>222.083.578</u>	<u>68.202.604</u>	<u>9.284.267</u>	<u>416.788.514</u>
Cost	296.588.351	973.451.943	345.064.914	10.940.449	1.626.045.657
Accumulated depreciation	(179.370.286)	(751.368.365)	(276.862.310)	-	(1.207.600.961)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	<u>117.218.065</u>	<u>222.083.578</u>	<u>68.202.604</u>	<u>9.284.267</u>	<u>416.788.514</u>
On 31 December 2022					
Initial net book value	<u>117.218.065</u>	<u>222.083.578</u>	<u>68.202.604</u>	<u>9.284.267</u>	<u>416.788.514</u>
Inflows	-	-	(180)	17.762.139	17.761.959
Reclassification	(4.602.005)	4.365.176	-	-	(236.829)
Transfers	3.880.861	6.981.821	5.394.976	(16.257.658)	-
Outflow (net value)	-	-	(6.113)	-	(6.113)
Expense with depreciation	(584.068)	(9.114.168)	(6.477.391)	-	(16.175.627)
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>
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>
On 30 September 2023 (unaudited)					
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	-	-	-	12.582.174	12.582.174
Reclassification	613.704	-	(624.502)	-	(10.798)
Transfers	607.432	1.657.953	16.878.100	(19.143.485)	-
Outflow (net value)	(776.530)	708.296	(56.419)	-	(124.653)
Expense with depreciation	(5.545.486)	(24.404.845)	(17.596.822)	-	(47.547.153)
Final net book value	<u>110.811.973</u>	<u>202.277.811</u>	<u>65.714.253</u>	<u>4.227.437</u>	<u>383.031.474</u>
Cost	295.380.114	987.209.076	357.167.753	5.883.619	1.645.640.562
Accumulated depreciation	(184.568.141)	(784.931.265)	(291.453.500)	-	(1.260.952.906)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	<u>110.811.973</u>	<u>202.277.811</u>	<u>65.714.253</u>	<u>4.227.437</u>	<u>383.031.474</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

7. TANGIBLE ASSETS (CONTINUED)

The gross book value of the fully depreciated assets, still used, is lei 363.643.827 (31 December 2022: lei 362.285.428).

On 30 September 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.

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

8. SERVICE CONCESSION AGREEMENT

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

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

The main terms of the Concession Agreement are the following:

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

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

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

- 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% as of 12 November 2020: 0,4%) 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 INTERIM FINANCIAL STATEMENTS (expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS

	Assets related to the ACS	Information programmes	Intangible assets under construction	Total
On 30 September 2022 (unaudited)				
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>289.730.829</u>
Net book value	3.590.131.400	17.824.952	389.072.142	3.997.028.494
Inflow	-	1.299.791	152.087.691	153.387.482
Reclassifications	(135.880)	-	-	(135.880)
Transfers	90.760.940	972.296	(91.733.236)	-
Outflow	-	-	-	-
Depreciation	(342.809.177)	(3.807.097)	-	(346.616.274)
Concession Agreement receivables	(9.724.308)	-	-	(9.724.308)
Concession Agreement receivable depreciation	<u>82.305.564</u>	-	-	<u>82.305.564</u>
Final net book value	3.410.528.539	16.289.942	449.426.597	3.876.245.078
Cost	9.561.521.248	76.510.633	458.569.374	10.096.601.255
Accumulated depreciation	(5.055.339.643)	(60.220.691)	-	(5.115.560.334)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.467.689.459)	-	-	(1.467.689.459)
Concession Agreement receivable depreciation	<u>372.036.393</u>	-	-	<u>372.036.393</u>
Final net book value	3.410.528.539	16.289.942	449.426.597	3.876.245.078
On 31 December 2022				
Initial net book value	3.410.528.539	16.289.942	449.426.597	3.876.245.078
Inflow	-	2.045.595	128.254.652	130.300.247
Reclassifications	236.828	-	-	236.828
Transfers	47.892.883	2.934.905	(50.827.787)	-
Outflow	-	-	-	-
Depreciation	(116.597.207)	(1.535.622)	-	(118.132.829)
Concession Agreement receivables	(6.701.913)	-	-	(6.701.913)
Concession Agreement receivable depreciation	<u>27.630.021</u>	-	-	<u>27.630.021</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>399.666.414</u>
Final Net book value	3.362.989.151	19.734.820	526.853.461	3.909.577.432
On 30 September 2023 (unaudited)				
Initial net book value	3.362.989.151	19.734.820	526.853.461	3.909.577.432
Inflow	-	3.681.731	66.490.683	70.172.414
Reclassifications	(462.550)	473.348	-	10.798
Transfers	301.432.795	336.549	(301.769.344)	-
Outflow	-	-	-	-
Depreciation	(370.185.490)	(5.401.479)	-	(375.586.969)
Concession Agreement receivables	(61.808.297)	-	-	(61.808.297)
Concession Agreement receivable depreciation	<u>85.494.431</u>	-	-	<u>85.494.431</u>
Final net book value	3.317.460.040	18.824.969	291.574.800	3.627.859.809
Cost	9.910.621.203	85.976.567	300.717.577	10.297.315.347
Accumulated depreciation	(5.542.122.339)	(67.151.598)	-	(5.609.273.937)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(1.536.199.669)	-	-	(1.536.199.669)
Concession Agreement receivable depreciation	<u>485.160.845</u>	-	-	<u>485.160.845</u>
Final Net book value	3.317.460.040	18.824.969	291.574.800	3.627.859.809

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS (CONTINUED)

The minimum NTS gas quantity required to ensure the pressures and flow rates for the end consumers under the contractual conditions (NTS linepack) is recognized in the value of the right to use, as an intangible asset. On 30 September 2023 the linepack is of 862.990 MWh and amounts to lei 80.194.624, of which NTS linepack is of 693.258 MWh and amounts lei 55.708. 560. 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 30 September 2023, the company capitalized interest expense amounting to lei 3.811.010 (in 2022, the company capitalized interest expense amounting to lei 20.128.777).

On 30 September 2023 the advances granted for the procurement of national gas transmission system development works in the amount of lei 8.957 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 30 September 2023, the Company capitalized the amount of 3.681.731 lei, representing additional costs for the procurement of natural gas, incurred between 1 January 2023 and 30 June 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.

The legislative changes made by ANRE's Presidential Order no.85/20 September 2023, according to which "Technological consumption in the TS calculated during a gas year by the TSO and transmitted to ANRE is composed of: a) measured/determined technological consumption and b) undetermined technological consumption - UFG" do not provide clarity on the additional gas purchase costs that can be capitalised and the company has not capitalised additional gas purchase costs for the period 1 July 2023 - 30 September 2023. The Company has requested clarification of these issues with ANRE and will record the capitalization of the corresponding amount on 31 December 2023.

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	1.996.611
Outflow	(466.071)
Depreciation	(2.709.346)
Final net book value on 30 September 2023	<u>15.756.007</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

9. INTANGIBLE ASSETS (CONTINUED)

Detailed information on IFRS 16 as at 30 September 2023:

	30 September 2023 (unaudited)	Of which related to the class of low value assets-Forestry conventions
Value as use (DU)	33.148.570	16.071.101
Depreciation related to DU	17.392.563	4.907.573
DU interest	539.841	311.412
Debt regarding DU	16.800.467	11.939.793
From which:		
Short term	3.762.708	1.198.439
Long term	13.037.759	10.741.354

	<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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	Percentage owned <u>2023</u>	Percentage owned <u>2022</u>	30 September 2023 (unaudited)	31 December 2022
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 INTERIM 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.

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.

11. INVENTORIES

	<u>30 September 2023</u>	<u>31 December 2022</u>
	<u>(unaudited)</u>	
Gas inventories	312.261.220	358.874.907
Gas for technological consumption	176.580.940	177.148.436
Spare parts and materials	129.307.625	115.259.616
Materials in custody at third parties	1.235.716	1.229.524
Adjustments for write-down of inventories	<u>(47.720.053)</u>	<u>(42.635.646)</u>
	<u>571.665.448</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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

11. INVENTORIES (CONTINUED)

The company does not hold any restricted stocks and has established safety stocks amounting to Lei 12.341.288 as at 30 September 2023 (Lei 9.718.830 as at 31 December 2022).

Movements in the adjustments account are analysed below:

	<u>30 September 2023</u> <u>(unaudited)</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>5.084.407</u>	<u>13.249.124</u>
Adjustment at the end of the period	<u>47.720.053</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>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Trade receivables	722.919.069	790.439.416
Advance payments to suppliers for goods and services	133.623	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	2.370.053.455	2.141.205.427
Non-refundable loans as subsidies	14.201.058	17.564.563
State budget receivables	57.620.790	48.901.899
Other receivables	115.212.365	116.211.223
Adjustment of impairment of trade receivables	(626.672.251)	(554.671.720)
Adjustment of impairment of other receivables	<u>(84.794.075)</u>	<u>(84.987.767)</u>
	<u>2.570.444.380</u>	<u>2.476.536.694</u>
Financial assets/ Loans and receivables (Note 4)	<u>2.490.091.532</u>	<u>2.423.462.073</u>

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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.

On 30 September 2023, the amount of lei 123.355.500 (31 December 2022: lei 30.908.640) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 6% in USD (31 December 2022: 23%) and 94% in EUR (31 December 2022: 77%).

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

	<u>30 September 2023</u>	<u>31 December 2022</u>
	<u>(unaudited)</u>	
Initial balance	2.141.205.427	1.788.570.507
Inflow	61.808.297	16.426.221
Interest	40.104.825	49.353.233
Inflation update	126.961.297	286.877.258
Outflow	<u>(26.391)</u>	<u>(21.792)</u>
	<u>2.370.053.455</u>	<u>2.141.205.427</u>

NOTES TO THE INTERIM 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>30 September 2023</u>	<u>31 December 2022</u>
	<u>(unaudited)</u>	
Current and unamortized		
Transit receivables	114.814.423	23.303.149
Doubtful or insolvency receivables	158.959.997	168.036.776
Affiliated party receivables	174.286.835	261.704.717
Other trade receivables	274.857.814	337.394.775
Receivables from various debtors	<u>53.062.385</u>	<u>52.980.353</u>
	775.981.454	843.419.770
Amortization		
Transit receivables	114.814.423	23.303.149
Doubtful or insolvency receivables	158.959.997	168.036.776
Affiliated party receivables	136.455.844	161.978.362
Other trade receivables	216.441.987	201.353.434
Receivables from various debtors	<u>45.371.761</u>	<u>45.565.452</u>
Transit receivables	672.044.012	600.237.173
Total trade receivables net of provision	103.937.442	243.182.597

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

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

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

- international transmission receivables - receivables with no risk of collection in 2021 and with risk of non-collection on-time as of 2022. As at 30 September 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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.

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	996.776	2.100.913	3.044.375	3.627.871	6.159.056	32.695.301	66.190.131	114.814.423
Doubtful and insolvent receivables	-	-	-	-	-	158.959.997	-	158.959.997
Affiliated parties' receivables	52.314	87.372	152.509	152.599	328.610	135.682.440	-	136.455.844
Various receivables	69.902	207.859	256.157	295.659	482.772	215.129.638	-	216.441.987
Receivables from various debtors	29	-	59.965	-	375.341	44.936.426	-	45.371.761
Total impairment	1.119.021	2.396.144	3.513.006	4.076.129	7.345.779	587.403.802	66.190.131	672.044.012

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:

	30 September 2023 (unaudited)	31 December 2022
Adjustment on 1 January	639.659.487	597.533.335
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	<u>71.806.839</u>	<u>42.126.152</u>
Adjustment at the end of the period	<u>711.466.326</u>	<u>639.659.487</u>

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

As at 30 September 2023, the company recorded adjusting expenses for the clients recording an increased non-collection risk, mainly for the receivables of Gazprom Export LLC (lei 91.509.379) and decreased the adjustment to outstanding receivables due to their collection for Electrocentrale Constanța (lei 15.946.735) and for Mehedinți Gaz SA (lei 3.235.775).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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 30 September 2023 as well.

13. CASH AND CASH EQUIVALENT

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Cash at bank in LEI	296.829.971	255.822.046
Cash at bank in foreign currency	331.049.638	128.226.227
Other cash equivalents	<u>237.264</u>	<u>188.862</u>
	<u>628.116.873</u>	<u>384.237.135</u>

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Restricted cash (employees guarantee)	1.832.273	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 4,03% on 30 September 2023 (3,13% on 31 December 2022) and these deposits have a maximum maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

	<u>Number of ordinary shares</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
IFRS				
On 31 December 2022	188.381.504	1.883.815.040	247.478.865	2.131.293.905
On 30 September 2023 (unaudited)	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>-</u>	<u>441.418.396</u>	<u>-</u>	<u>441.418.396</u>
On 31 December 2022, On 30 September 2023 (unaudited)	<u>188.381.504</u>	<u>2.325.233.436</u>	<u>247.478.865</u>	<u>2.572.712.301</u>

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

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

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 date of 03 May 2023 is the date of registration of the shareholders on whom the effects of the Extraordinary General Meeting of Shareholders' Decision will be reflected. The share capital increase was registered at the National Trade Register Office on 19 December 2022.

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 30 September 2023 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value (lei)</u>	<u>Percentage (%)</u>
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:

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

Other reserves

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

Legal reserve

In accordance with the Romanian law and the company's Articles of Incorporation, the Transgaz must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 30 September 2023, amounts to lei 45.421.364 (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 company constituted from the profit of the year 2022 a reserve in the amount of 17.275.596 lei representing tax incentives provided for by Law 237/2015 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.

The reserve for reinvested profits is entered in the accounts in 2023, 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 131.867.054 (dividends declared from the profit of 2021: lei 174.488.368).

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

16. LONG-TERM BORROWINGS

The value of the long-term loans recorded by the company on 30 September 2023:

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
BEI 83644RO	193.014.480	204.822.360
BEI 88825RO	214.017.132	227.642.534
BEI 89417RO	124.365.000	-
BEI 90512RO	124.365.000	-
BCR 20190409029	141.360.000	156.240.000
BCR 20201028056	302.400.000	316.800.000
BCR 20210817030	83.333.332	91.666.666
BCR 20211124044	192.500.000	201.666.666
BERD	211.232.880	233.467.920
BT	245.488.336	271.175.175
Raiffeisen Bank	300.000.000	300.000.000
BRD GSG	<u>198.699.949</u>	<u>-</u>
	<u>2.330.776.109</u>	<u>2.003.481.321</u>

Loans breakdown by maturity range:

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Within 1 year	432.316.032	132.098.774
Over 1 year	<u>1.898.460.077</u>	<u>1.871.382.547</u>
	<u>2.330.776.109</u>	<u>2.003.481.321</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 INTERIM 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>30 September 2023</u> <u>(unaudited)</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>93.522.480</u>	<u>105.874.360</u>
	<u>193.014.480</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>30 September 2023</u> <u>(unaudited)</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>114.837.509</u>	<u>129.005.203</u>
	<u>214.017.132</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>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Within 1 year	-	-
Between 1 and 5 years	10.152.245	-
Over 5 years	<u>114.212.755</u>	-
	<u>124.365.000</u>	-

NOTES TO THE INTERIM 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>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Within 1 year	-	-
Between 1 and 5 years	10.152.245	-
Over 5 years	<u>114.212.755</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>30 September 2023</u> <u>(unaudited)</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>30 September 2023</u> <u>(unaudited)</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 INTERIM 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>30 September 2023</u> <u>(unaudited)</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>158.400.000</u>	<u>172.800.000</u>
	<u>302.400.000</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>30 September 2023</u> <u>(unaudited)</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>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Within 1 year	18.333.334	18.333.334
Between 1 and 5 years	73.333.333	73.333.333
Over 5 years	<u>100.833.333</u>	<u>109.999.999</u>
	<u>192.500.000</u>	<u>201.666.666</u>

NOTES TO THE INTERIM 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 30 September 2023, out of the total of credit line the amount of Lei 245.488.336 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 7.095.048 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 30 September 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 30 September 2023 the credit facility is drawn down to the maximum level of 198.699.949 lei. The obligation is presented under long-term loans.

As at 30 September 2023, the balance of interest due for the loans of the company is lei 23.818.733 broken down by loans as follows:

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

16. LONG-TERM BORROWINGS (CONTINUED)

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
BEI 83644RO	763.571	533.008
BEI 88825RO	1.871.481	906.961
BEI 89417RO	1.092.001	-
BEI 90512RO	1.092.001	-
BCR 20190409029	6.503.690	1.272.555
BCR 20201028056	6.038.938	4.512.968
BCR 20210817030	437.648	2.500.943
BCR 20211124044	4.360.521	1.325.088
BERD	<u>1.658.882</u>	<u>2.205.623</u>
	<u>23.818.733</u>	<u>13.257.146</u>

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

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Variable interest rate loans	1.889.031.629	1.798.658.961
Fixed interest rate loans	<u>441.744.480</u>	<u>204.822.360</u>
	<u>2.330.776.109</u>	<u>2.003.481.321</u>

17. DEFERRED REVENUE

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

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

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Initial balance	1.076.589.204	1.161.485.526
Increases	45.734	21.447.219
Revenue from connection fees (Note 22)	(10.396.483)	(13.267.714)
Income from non-reimbursable funds and goods taken over free of charge (Note 22)	<u>(74.233.812)</u>	<u>(93.075.827)</u>
Final balance	<u>992.004.643</u>	<u>1.076.589.204</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

17. DEFERRED REVENUE (CONTINUED)

The balance of the deferred revenue consists of:

	<u>30 September 2023</u>	<u>31 December 2022</u>
	<u>(unaudited)</u>	
Connections and assets received free of charge	227.128.560	238.213.439
Grants	<u>764.876.083</u>	<u>838.375.765</u>
	<u>992.004.643</u>	<u>1.076.589.204</u>

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.

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 INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

18. PROFIT TAX

Profit tax expense

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Expense with the profit tax - current	19.556.320	57.192.672
Deferred tax - impact of temporary differences	<u>(4.527.044)</u>	<u>953.220</u>
Profit tax expense	<u>15.029.276</u>	<u>58.145.892</u>

In nine months period ended on 30 September 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 nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Profit before tax	52.493.502	331.704.512
Theoretical expense with the tax the statutory rate of 16% (2022: 16%)	8.398.960	53.072.722
Non-taxable expenses, net	<u>6.630.316</u>	<u>5.073.170</u>
Profit tax expense	<u>15.029.276</u>	<u>58.145.892</u>
Profit tax liability/receivable, current	<u>(24.960.044)</u>	<u>(7.440.991)</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 INTERIM FINANCIAL STATEMENTS
(expressed in lei, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

	<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>Movement</u>	<u>31 December</u> <u>2022</u>	<u>Movement</u>	<u>30 September</u> <u>2022</u> <u>(unaudited)</u>	<u>Movement</u>	<u>1 January</u> <u>2022</u>
Deferred tax payment							
Tangible and intangible assets	131.375.656	9.602.622	121.773.034	7.797.515	113.975.519	5.984.070	107.991.449
Recoverable deferred tax							
Provision for							
Employee benefits	(19.618.837)	(1.142.106)	(18.476.731)	(868.986)	(17.607.745)	-	(17.607.745)
Risks and charges	(8.826.785)	4.164.894	(12.991.679)	815.320	(13.806.999)	(3.015.581)	(10.791.418)
Receivables and other assets	<u>(106.250.874)</u>	<u>(17.152.454)</u>	<u>(89.098.420)</u>	<u>(6.047.905)</u>	<u>(83.050.515)</u>	<u>(2.015.269)</u>	<u>(81.035.246)</u>
	<u>(3.320.840)</u>	<u>(4.527.044)</u>	<u>1.206.204</u>	<u>1.695.944</u>	<u>(489.740)</u>	<u>953.220</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 INTERIM 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>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Deferred tax liabilities/receivables in more than 12 months as reported	<u>(3.320.840)</u>	<u>1.206.204</u>

19. TRADE PAYABLES AND OTHER PAYABLES

Short term payables

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Trade payables	90.961.719	281.427.273
Suppliers of fixed assets	3.795.210	52.284.961
Dividends payable	1.254.868	1.627.487
Debts related to royalties	1.141.940	1.677.975
Other taxes	30.267.469	26.440.372
Amounts payable to employees	18.280.166	17.028.447
VAT payable	6.261.724	-
Non-exemptible VAT	396.276	-
Transmission service guarantees	42.163.857	35.679.099
Transmission services advance payments	32.070.794	39.975.995
Tender guarantees	177.423.334	126.591.894
Other debts	<u>65.752.918</u>	<u>48.805.475</u>
	<u>469.770.275</u>	<u>631.538.978</u>
Financial debts (Note 4)	<u>381.351.906</u>	<u>546.416.189</u>

Long term payables

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
Other debts	<u>13.037.759</u>	<u>14.178.481</u>
	<u>13.037.759</u>	<u>14.178.481</u>

On 30 September 2023, of the total trade payables and other debts the amount of lei 76.744.269 (31 December 2022: lei 44.065.419) is expressed in foreign currency, especially in EUR.

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

20. PROVISIONS FOR RISKS AND CHARGES

	<u>30 September 2023</u> <u>(unaudited)</u>	<u>31 December 2022</u>
<i>Current provision</i>		
Provision for litigation	38.870.414	38.870.414
Provision term contract	-	3.268.931
Provision for employee participation in profits	14.944.336	18.026.397
Provision for voluntary leaving employment	404.800	14.840.000
Other provision	<u>649.925</u>	<u>6.192.252</u>
	<u>54.869.475</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 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 14.840 thousand lei, the annual value being provided by the budget of revenues and expenses approved by the GMS.

As at 30 September 2023 the amount of the provision for voluntary departures is Lei 404.800 (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 649.924 relating to the period ended 31 December 2022.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

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

Assumptions 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 is calculated based on departures from the company and a probability has been assigned for each age and gender group;
- the mortality of the entity's employees is calculated according to the data provided by the National Institute of Statistics for the years 2012 – 2021;
- Employee rotation is constant over time.
- the method used is the projected credit factor method;
- Retirement age at retirement considered: 65 for men and 63 for women, 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 30.06.2023.
- 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 Transgaz employees, in the first year after retirement, mortality at the age of 66 men and 64 years women was used.

NOTES TO THE INTERIM 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 provided by EIOPA for June 2023.

The long-term salary growth rate considered is equal to the forecast inflation rate for the euro area and is 2% and in the short term is considered equal to the forecast inflation rate for RON and is 6,7% in the first year, 4,3% in the second year, 3,9% in the following 3 years and 2,5% in the following 5 years, for both feminine as well as masculine genders.

Movement in the provision for employee benefits:

1 January 2021	<u>121.509.096</u>
of which:	
Short-term	2.898.092
Long-term	118.611.004
Interest cost	3.165.348
Current service cost	5.692.366
Payments from provisions during the year	(4.535.478)
Actuarial gain/loss related to the period	(15.782.924)
31 December 2021	<u>110.048.408</u>
of which:	
Short-term	4.007.231
Long-term	106.041.177
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
30 June 2023	122.617.738
of which:	
Short-term	6.038.793
Long-term	116.578.945

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

22. OTHER REVENUE

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Revenue from penalties applied to clients for delay payments	14.468.070	10.611.744
Revenue from connection fees	10.396.483	9.760.022
Revenue from grants and goods taken free of charge	74.233.812	69.650.448
Revenue from grants for operating expenses	841.646	410.223
Revenue from the sale of residual materials	787.254	3.115.307
Revenue from leases	1.315.612	1.391.416
Revenue from recovered materials	3.048.827	3.364.958
Other revenue from operation	<u>(1.290.295)</u>	<u>4.043.274</u>
	<u>103.801.409</u>	<u>102.347.392</u>

23. OTHER OPERATING EXPENSES

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Loss/gain on impairment of receivables	71.806.839	21.202.820
Utilities	12.296.064	13.047.339
Insurance premium	1.060.235	757.203
Security and protection expenses	22.663.867	19.099.890
Professional training	1.230.617	1.340.001
Telecommunications	1.925.492	2.154.062
Loss/(gain) on impairment of inventories	5.084.408	(832.313)
Bank charges and other fees	1.789.890	1.731.203
Rents	2.358.353	1.472.663
Loss on amounts receivable	86.206	21.004
Marketing and protocol expenses	231.268	205.459
Penalties and fines	152.048	691.019
Gas storage capacity booking	6.658.492	10.070.845
Sponsorship costs	2.744.377	1.655.496
Other	<u>27.660.222</u>	<u>23.951.163</u>
	<u>157.748.378</u>	<u>96.567.854</u>

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

24. EMPLOYEE COSTS

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Salaries and benefits	384.485.670	331.280.073
Cost of insurance and social security	23.586.516	21.384.299
Other employee costs	<u>10.591.036</u>	<u>9.806.813</u>
	<u>418.663.222</u>	<u>362.471.185</u>

Average number of employees in financial year:

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Blue collars	2.210	2.274
White collars	<u>1.776</u>	<u>1.735</u>
	<u>3.986</u>	<u>4.009</u>

25. NET FINANCIAL REVENUE/(LOSS)

	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Foreign exchange revenue	13.316.555	12.467.518
Interest revenue	42.828.689	37.498.246
Revenue from the adjustment of the Concession Agreement receivable	126.961.297	224.836.357
Revenue from shares	11.396.154	65.058.435
Other financial revenue	<u>5.137</u>	<u>667</u>
	194.507.832	339.861.223
Foreign exchange loss	(15.133.311)	(12.203.528)
Interest loss related to IFRS16	(499.074)	(487.736)
Interest loss	(67.342.459)	(39.207.244)
The effects of the update of the provision for employee benefits	(9.600.773)	-
Loss on transferred financial fixed assets	<u>(13.503.557)</u>	<u>(66.117.064)</u>
	(106.079.174)	(118.015.572)

According to ANRE Order no. 41/2019 the value of the assets recognised in the Regulated Asset Base is adjusted to the inflation. The company recalculated the value of the Concession Agreement receivables and recognized on 30 September 2023 gains amounting to lei 126.961.297 according to IFRS 9 (lei 224.836.357 as at 30 September 2022).

The amount of the inflation adjustment of the claim decreased between January – September 2023 as compared to the same period of 2022, due to the decrease of the inflation rate to 5,74 % between January – September 2023 (13,06% between January - September 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 INTERIM 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 nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Profit before tax	52.493.502	331.704.512
<i>Adjustments for:</i>		
Depreciation	340.664.075	316.058.537
Gain/(loss) on transfer of fixed assets	(139.266)	1.339
Provisions for risks and charges	(26.328.520)	(11.674.653)
Provisions for employee benefits	3.932.435	-
Adjustments for impairment of inventories	5.084.408	(832.314)
Revenue from connection fees, grants and goods taken free of charge	(85.471.941)	(79.820.693)
Sundry debtors and receivable loss	86.206	21.004
Adjustments for the receivables impairment	71.806.839	21.202.820
Interest revenue	(42.828.689)	(37.498.246)
Interest expenses	67.342.459	39.207.244
Adjustment of the Claim regarding the Concession Agreement	(126.961.297)	(224.836.357)
The effects of the update of the provision for employee benefits	9.600.773	-
Effect of exchange rate fluctuation on other items than from operation	3.904.359	(594.592)
Other expenses and revenue	<u>(330.241)</u>	<u>(834.770)</u>
Operating profit before the changes in working capital	<u>272.855.102</u>	<u>352.103.831</u>
(Increase)/decrease in trade and other receivables	129.157.160	(31.853.146)
(Increase)/decrease in inventories	33.133.174	(288.365.902)
Increase/(decrease) in trade payables and other debts	<u>36.214.299</u>	<u>268.738.269</u>
Cash generated from operations	<u>471.359.735</u>	<u>300.623.052</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES

The Parties are considered related if one of the parties has the ability to control the other party, to exercise a significant influence over the other party in financial or operational decision making, if they are under the common control with another party, if there is a joint venture in which the entity is an associate or a member of the management as described in the IAS 24 `Related Party Disclosures`. In evaluating each possible related party relationship, the focus is on the essence of this relationship and not necessarily on its legal form. Related parties may enter into transactions which unrelated parties cannot conclude, and transactions between related parties will not apply the same terms, conditions and values as for unrelated 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 30 September 2023 and 30 September 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 nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Salary paid to the members of the Board of Administration and management	16.631.057	15.360.998
Social contribution of the company	<u>374.199</u>	<u>345.624</u>
	<u>17.005.256</u>	<u>15.706.622</u>

In the periods ended 30 September 2023 and 30 September 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.

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ii) Loan to a related party

	<u>30 September 2023</u> <u>(unaudited)</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.

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

		<u>The nine months ended</u> <u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>The nine months ended</u> <u>30 September</u> <u>2022</u> <u>(unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	103.708.782	105.599.210
Electrocentrale București SA	Entity under common control	37.994.082	31.532.062
Electrocentrale Constanța	Entity under common control	2.283.874	2.639.704
Complex Energetic Oltenia	Entity under common control	204.691	-
Termo Calor Confort	Entity under common control	1.074.999	-
E.ON Energie Romania	Entity under common control	<u>86.281.566</u>	<u>78.642.414</u>
		<u>231.547.994</u>	<u>218.413.390</u>

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

		<u>The nine months ended</u> <u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>The nine months ended</u> <u>30 September</u> <u>2022</u> <u>(unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	633.546	2.994
Complex Energetic Oltenia	Entity under common control	283	-
Electrocentrale Deva SA	Entity under common control	718.203	314.250
Electrocentrale Bucuresti	Entity under common control	415	2.034
Electrocentrale Constanța	Entity under common control	2.950.023	285.481
E.ON Energie Romania	Entity under common control	641	2.266
Vestmoldtransgaz SRL	Entity owned by the Company's subsidiary	<u>-</u>	<u>68.027</u>
		<u>4.303.111</u>	<u>675.052</u>

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	<u>Relationship</u>	The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
SNGN Romgaz	Entity under common control	7.020.408	4.432.125
Electrocentrale București SA	Entity under common control	5.820.929	27.877
Electrocentrale Constanța	Entity under common control	249.245	41.098.518
Complex Energetic Oltenia	Entity under common control	296.695	-
Termo Calor Confort	Entity under common control	428.460	-
E.ON Energie Romania	Entity under common control	<u>41.140.353</u>	<u>94.320.801</u>
		<u>54.956.090</u>	<u>139.879.321</u>

vi) Receivables from related parties (without the adjustment)

	<u>Relationship</u>	30 September 2023 (unaudited)	31 December 2022
SNGN Romgaz	Entity under common control	12.656.327	13.337.958
Electrocentrale Deva SA	Entity under common control	18.960	-
Electrocentrale București	Entity under common control	9.100.234	26.006.049
Electrocentrale Constanța	Entity under common control	27.054	-
Termo Calor Pitesti	Entity under common control	(789)	2.939
E.ON Energie Romania	Entity under common control	13.014.232	35.969.746
Complex Energetic Oltenia	Entity under common control	135.224	-
		<u>34.951.242</u>	<u>75.316.692</u>

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

	<u>Relationship</u>	30 September 2023 (unaudited)	31 December 2022
SNGN Romgaz	Entity under common control	15.624	9.971
Electrocentrale Deva SA	Entity under common control	67.714	-
Electrocentrale Bucuresti	Entity under common control	927.373	792.941
Electrocentrale Constanța	Entity under common control	384.324	-
Complex Energetic Oltenia	Entity under common control	353.222	-
Termo Calor Pitesti	Entity under common control	6.301	314.570
E.ON Energie Romania	Entity under common control	<u>18</u>	<u>23.292.181</u>
		<u>1.754.576</u>	<u>24.409.663</u>

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

		The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	47.645.752	11.643.366
E.ON Energie Romania	Entity under common control	2.230.837	4
Termo Calor Pitesti	Entity under common control	41.014	-
Complex Energetic Oltenia	Entity under common control	2.165	-
Electrocentrale Constanța	Entity under common control	70.897	-
Electrocentrale București	Entity under common control	<u>1.375.749</u>	<u>5.659</u>
		<u>51.366.414</u>	<u>11.649.029</u>

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

		The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	4.106.452	66.025.386
Electrocentrale București	Entity under common control	1.708.081	57.920.201
Electrocentrale Constanța	Entity under common control	9.546.486	16.781.559
Termo Calor Pitesti	Entity under common control	1.800.980	-
Complex Energetic Oltenia	Entity under common control	6.910	-
E.ON Energie Romania	Entity under common control	<u>32.636.840</u>	<u>135.850.692</u>
		<u>49.805.749</u>	<u>276.577.838</u>

x) Procurement of natural gas (VAT excluded)

		The nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	<u>46.460.840</u>	-
		<u>46.460.840</u>	-

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

		<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	<u>9.810.222</u>	<u>-</u>
		<u>9.810.222</u>	<u>-</u>

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

		<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	11.041.239	2.452.358
Complex Energetic Oltenia	Entity under common control	8.575	-
Electrocentrale București	Entity under common control	-	1.194
		<u>11.049.814</u>	<u>2.453.552</u>

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

		<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	1.468.557	3.229.577
Electrocentrale București	Entity under common control	34.317	2.018.612
Electrocentrale Constanța	Entity under common control	-	2.095.909
Termo Calor Pitesti	Entity under common control	44.445	1.951.308
E.ON Energie Romania	Entity under common control	<u>13.885.564</u>	<u>16.848.247</u>
		<u>15.432.883</u>	<u>26.143.653</u>

xiv) Guarantees from affiliates (bank guarantee letter)

		<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	1.000	15.015.388
E.ON Energie Romania	Entity under common control	<u>18.000.000</u>	<u>-</u>
		<u>18.001.000</u>	<u>15.015.388</u>

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

xv) Loans and interest to be reimbursed

		<u>30 September</u> <u>2023</u> <u>(unaudited)</u>	<u>31 December</u> <u>2022</u>
	<u>Relationship</u>		
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>212.891.762</u>	<u>235.673.543</u>
		<u>212.891.762</u>	<u>235.673.543</u>

xvi) Transactions during the period

		<u>The nine months</u> <u>ended</u> <u>30 September 2023</u> <u>(unaudited)</u>	<u>The nine months</u> <u>ended</u> <u>30 September 2022</u> <u>(unaudited)</u>
	<u>Relationship</u>		
EUROPEAN BANK FOR RECONSTRUCTION	Jointly controls entities	<u>13.559.168</u>	<u>9.980.446</u>
		<u>13.559.168</u>	<u>9.980.446</u>

28. EARNINGS PER SHARE

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

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

	<u>The nine months</u> <u>ended</u> <u>30 September 2023</u> <u>(unaudited)</u>	<u>The nine months</u> <u>ended</u> <u>30 September 2022</u> <u>(unaudited)</u>
Profit attributable to the company's equity holders	37.464.226	273.558.620
Weighted average of the number of shares	188.381.504	11.773.844
Basic and diluted earnings per share (lei per share)	0,20	23,23

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.

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

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 6,71% of the receivables were settled by transactions that haven't involved cash outflows during the period ended 30 September 2023 (30 September 2022: 8,38%). Transactions mainly represent offsets with clients and suppliers within the operating cycle and offsets between tax debts and receivables registered with the state budget.

Barter transactions

No barter transactions were made in 2023 and 2022.

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.

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 30 September 2023 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 291.603.991.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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. 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 (57 managers in 2022).

iv) Environmental aspects

Environmental regulations are under development in Romania and the company did not record any obligation on 30 September 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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.

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

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 royalties, 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. Transgaz challenged that decision before the

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

court, seeking partial annulment of the decision in respect of its unclear recitals. Basically, the court dismissed this action as devoid of interest, given that Transgaz also challenged the new mandatory statement issued by the tax authority on the basis of this settlement decision. That decision was not communicated. However, 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. The administrative act was also challenged in court within the legal time limit. 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.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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 anglo 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 - 30 September 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 - 30 September 2024.

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 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.

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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.

31. FEES OF THE STATUTORY AUDITOR

The fees for the financial year ended 31 December 2022 charged by BDO Audit SRL, invoiced in the nine months of 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, invoiced in 2022, are: lei 79.682 (VAT excluded) for the limited review as at 30 September 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 22.320 (VAT excluded) for services other than statutory audit services.

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 nine months ended 30 September 2023 (unaudited)	The nine months ended 30 September 2022 (unaudited)
Revenue from the construction activity according to IFRIC12	56.413.599	166.666.964
Cost of assets constructed according to IFRIC12	(56.413.599)	(166.666.964)

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

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

33. EVENTS SUBSEQUENT TO THE BALANCE DATE

As of 1 October 2023, the natural gas transmission tariffs approved by ANRE Order No 68 of 30 May 2023 *approving the regulated revenue, the corrected regulated revenue and the transmission tariffs for the natural gas transmission activity through the National Transmission System* are applicable. The approved regulated revenue for the transmission of natural gas for the period 1 October 2023 - 30 September 2024 is lei 1.647.347.820.

According to the legislative amendments provided for by Law no. 296/26.10.2023 and GEO no. 91/27.10.2023, as of 30 October 2023, the percentage rate for determining the oil royalty due by the Company increases from 0,4% to 11,5% of the value of gross revenues from natural gas transmission and transit operations through the national transmission system.

The oil royalty is an expense recognised in the regulated revenue related to the natural gas transmission activity and recoverable through the transmission tariff. The regulated revenue and the natural gas transmission tariffs approved by ANRE Order no. 68 of 30 May 2023 and applicable for the period from 1 October 2023 to 30 September 2024 shall recognise the royalty determined as 0.4% of the value of the gross revenue from natural gas transmission and transit operations through the national transmission system. The difference between the 0,4% and 11,5% rate will be claimed for recovery in the next natural gas transmission tariff substantiation.

By Resolution No. 9 of the Ordinary General Meeting of Shareholders of the Company held on 11 October 2023, the appointment of Ms. Ilinca VON DERENTHALL and the appointment of Ms. Adina-Lacrimioara HANZA as provisional members of the Board of Administration for a maximum mandate period of 5 months, starting on 17.10.2023, with the possibility of extension, once, for another 2 months, for justified reasons, was approved.

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean