

No. 1774 / 10 January 2023

Submitted for the approval of the OGMS dated 16/17 February 2023

REPORT
on the endorsement of the revenue and expense budget for 2023
and of the estimations for 2023 - 2025

SUMMARY:

The draft Revenue and Expense Budget for 2023 and the estimations for 2024-2025 were approved within the meeting of Transgaz's Board of Administration of 12 January 2023.

The substantiation of the draft Revenue and Expense Budget was based on the programmes for the modernisation and development, design, maintenance and rehabilitation of the NTS, the supply of materials and spare parts; the programmes for the provision of certain services; the provisions of the collective labour contract; the regulations in force; the quantities of natural gas expected to be transmitted and the forecast capacity bookings.

* thousand Lei *

No.	ITEM	2022 REB	Estimated 2022	2023 REB
0	1	2	3	4
1.1.	Operating revenue before the balancing and the construction activity according to IFRIC 12	1.355.620	1.566.128	1.669.099
	<i>2022 REB comparison</i>		15,53%	23,12%
	<i>Estimated 2022 comparison</i>			6,57%
1.2.	Revenue from the balancing activity	553.023	1.016.115	1.280.455
1.3.	Revenue from the construction activity according to IFRIC 12	532.410	362.444	954.064
1.4.	Financial revenue	150.115	393.226	267.074
2.1.	Operating costs before the balancing and the construction activity according to IFRIC 12	1.392.445	1.464.879	1.709.598
	<i>2022 REB comparison</i>		5,20%	22,78%
	<i>Estimated 2022 comparison</i>			16,71%

No.	ITEM	2022 REB	Estimated 2022	2023 REB
0	1	2	3	4
2.2.	Costs before the balancing activity	553.023	1.016.115	1.280.455
2.3.	Cost of constructed assets according to IFRIC 12	532.410	362.444	954.064
2.4.	Financial costs	62.002	163.864	146.270
3.	GROSS PROFIT	51.288	330.611	80.305
	<i>2022 REB comparison</i>		544,61%	56,58%
	<i>Estimated in 2022 comparison</i>			-75,71%
4.	Tax on profit	9.789	75.452	16.380
5.	NET PROFIT	41.499	255.159	63.925
	<i>2022 REB comparison</i>		514,85%	54,04%
	<i>Estimated 2022 comparison</i>			-74,95%

PROPOSAL:

The approval of the draft revenue and expense budget for 2023 and of the estimations for 2024-2025, according to GO 26/21 August 2013, Art.4 (1) (d) and to the effective Transgaz's Articles of Incorporation, Chapter IV, Art.15 (3)(c).

General considerations regarding REB preparation

Considering GO 26/21 August 2013, as amended, *on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest*, which regulates:

- Art. 6 (1[^]1) *The economic operators under Art. 4 (1)(d), whose shares are accepted to be traded on a regulated market, as well as their subsidiaries, shall submit to the General Meeting of the Shareholders, according to the law the revenue and expense budget and the substantiation annexes, prepared according to the applicable laws, for approval, following the prior consultation of the trade unions, and shall publish the revenue and expense budget including the amount for the current year **within 60 days from the entering into force of the annual law on the state budget** or from the date of approval of the village, town, Bucharest district, County, Bucharest local budgets, as appropriate.*
- **Art. 7 (1) Annually, the state budget law establishes salary policy objectives on which economic operators substantiate the revenue and expense budget indicators.**
- Art. 9 (1) *Economic operators shall consider, without limitation, the following when establishing the revenue and expense budget:*

a) compliance with the Government's and administrative-territorial units' policy on improving the economic and financial performance of the operators;

b) compliance with the salary policy objectives set by the annual state budget law;

c) the specific performance criteria and the quantified objectives for the reduction of payments and outstanding debts, the reduction of loss, the increase in profit and turnover and the labour productivity growth provided in the mandate contracts, established in relation to the management strategy of the Board of Administration/Supervisory Board and the management plan of the economic operators' directors/members of the directorate;

when substantiating the Revenue and Expense Budget of SNTGN Transgaz SA it is required to comply with the Government's policy on enhancing the economic and financial performance and of the salary policy objectives, which are approved under the State Budget Law.

The Revenue and Expense Budget for 2023 is substantiated in compliance with the provisions of:

- *GO 26/21 August 2013, as amended, on strengthening the financial discipline at the level of the economic operators where the state or the territorial-administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest;*
- *Order 3818/30 December 2019 of the Ministry of Public Finance on the form and structure of the economic operators' revenue and expense budget and of the annexes for the substantiation of the budget;*
- *Law 368/19 December 2022 on the State Budget for 2023;*
- *ANRE Order 41/15 March 2019 on the approval of the Gas Transmission Regulated Tariff Setting Methodology;*
- *ANRE Order 34/19 July 2016 on the approval of the Methodology for transmission capacity booking and tariff setting for natural gas transmission services through the Isaccea – Negru Vodă gas transmission pipelines;*
- *Regulation EU 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks;*
- *ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by Order 16/2013 of the ANRE President;*
- *Electricity and Gas Law 123/10.07.2012 as amended;*
- *ANRE Order 85/2017 on the approval of the Methodology for the calculation of the balancing neutrality tariffs , including their distribution to the network users of the gas transmission network;*
- *Trading Companies` Law 31/1990, republished, as amended;*

Estimated values for 2022 are determined on the basis of individual eleven-month results and estimates for December.

The draft Revenue and Expense Budget for 2023 was submitted for consultation to the financial management control according to Government Decision 1.151/2012 on the approval of the Methodological rules for the organization and exercise of financial management control, and consultation of the trade unions.

The substantiation of costs was based on the following:

- estimated inflation ratios and/or exchange rates projected according to the „**1. Projection of the main macroeconomic indicators 2022-2026 - Autumn 2022 forecast (October 2022) of the National Forecast Commission** for the costs which by their nature have a relatively linear evolution;
- technical regulations in force;
- programme for NTS modernization and development (Investments), design, maintenance and rehabilitation, supply of materials and spare parts;
- programs for the provision of various services (security and safety, training, consulting, etc.);
- normative acts that are in force regarding legislated costs (contribution to social insurance, health insurance, unemployment benefit, transmission licence fee, royalty for the concession of the transmission system, etc.);
- costs related to the social actions, according to the provisions of the Collective Labour Contract (CLC). On the basis of Article 1 of GEO 8/2009 on the granting of holiday vouchers approved as amended by Law 94/2014, which stipulates that *‘Starting from the date of entry into force of this Emergency Ordinance, for the recovery and maintenance of the working capacity of the salaried personnel, employers who employ personnel by concluding an individual employment contract may grant, under the law, vouchers, hereinafter referred to as holiday vouchers’*, in conjunction with the provisions of the CLC in force, at the substantiation of the REB 2023 and estimates for 2024-2025, no expenditure on holiday vouchers was substantiated, taking into account the rights of employees under Art.189 of the CLC in force concerning the partial settlement of holiday and health care.
- technological consumption costs were established based on:
 - an estimate of the specific consumption of the gas compressor stations, technological loss caused by the discharge as a result of new pipeline couplings and planned repairs, differences due to measurement errors, etc.;
 - price of gas in stock as at the date of REB substantiation, stock consisting of natural gas from the contract currently in force until the end of February 2023 and natural gas approved for use to cover technological consumption representing the difference between the minimum stock calculated in accordance with the provisions of ANRE Order 36/2016 and the actual stock of natural gas held by SNTGN Transgaz;

- costs of gas for NTS balancing according to ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by Order 16/2013 of ANRE President and ANRE Order 1/18.01.2016;
 - The following were considered while substantiating personnel costs:
- I. Application of the provisions of the State Budget Law for 2023, art 63 (1) (a) and (c), (3) and (4) (b) namely:

(1) For 2023, the economic operators to which the provisions of Art. 9 (1) (b) and (3) of Government Ordinance 26/2013 on strengthening financial discipline at the level of economic operators where the state or the administrative-territorial units are sole or majority shareholders or directly or indirectly hold a controlling interest, approved as amended by Law 47/2014, as amended, may provide for the increase of salary expenses in the revenue and expense budget compared to the estimations under the last revenue and expense budget approved according to the legal provisions, as follows:

a) by the amounts representing increases in salary expenses related to the average price growth index forecast for 2023;

....

c) by the amounts representing increases in salary-related costs relating to their replenishment for the entire year 2023, due to salary increases and bonuses in 2022 and/or the increase in personnel numbers in 2022;

.....

(2) The expenditure referred to in paragraph (1) shall be shown separately in the annexes to the revenue and expense budget.

(3) Economic operators may increase the average gross monthly earnings per employee within the limit of the amounts laid down in paragraph (1), provided that the rate of increase does not exceed the labour productivity growth index calculated in value or physical units, as appropriate.

(4) To determine the gross monthly average earnings per employee, provided for at paragraph (3), in order to establish its increase index, the following expenses shall not be considered:

.....

b) the amounts representing increases in salary-related costs relating to their reinstatement for the entire year 2023, due to salary increases and bonuses in 2022 and/or the increase in the number of personnel in 2022 .

(6) The average gross monthly earnings growth index per employee recalculated in accordance with the provisions of paragraph (4) and the labour productivity growth index recalculated in accordance with the provisions of paragraph (5) shall be determined by comparing the 2023 planned level with the 2022 achieved level.

Upon the application of the aforementioned legal provisions, the expenses related to the personnel salaries were substantiated at the level of base salaries, increases and bonuses of employees existing at the end of 2022, granted based on the applicable

Collective Labour Contract of the company and established in the ongoing individual labour contracts.

The salary related costs for year 2023 are **Lei 597.430 thousand**, which is Lei 90.257 thousand higher than the one foreseen in the 2022 budget (17,8%), following the provisions of Article 63 (1) (a) and (c) of the State Budget Law for 2023, the average price growth index forecast for year 2023 according to 1. Projection of the main macroeconomic indicators 2022-2026 - Autumn 2022 forecast (October 2022) of the National Forecast Commission being 9,6%, and the amounts representing increases in salary-related expenses for the entire year 2023, determined as a result of salary increases and bonuses in 2022 and/or increases in the number of personnel in 2022, amount to **Lei 42.043 thousand**.

The provisions of Ordinance 26/2013 and Art. 63 (3) and (4) (b) of the Law on the state budget for 2023 are observed, the increase of the average monthly earnings per employee, determined on the basis of salary expenses recalculated according to the annual Law on the state budget, is 109,25% lower than the increase of labour productivity in value units on average total personnel, in percentage of 114,41%. We present below their inclusion in the legal provisions:

thousand lei

No.	Indicators	REB 2022	Estimated 2022	REB 2023	%	%
0	1	2	3	4	5 = 4/3	5 = 4/2
1	Salary expenses	507.173	506.545	597.430	117,94%	117,80%
2	Salary expenditure determined according to Art. 3 (f) of GEO 26/2013.	470.320	470.320	555.059	118,02%	118,02%
3	Expenditure of a salary nature determined in accordance with the provisions of the annual Law on the state budget row 2-row6	507.173	506.545	513.016	101,15%	101,15%
4	Average number of personnel	4.151	4.100	4.093	99,84%	98,61%
5	Increase of salary expense with the amounts representing increase in salary-related expenditure related to the average price increase index forecast for 2023;	30.967		38.697		124,96%
6	Increase of salary expense with the amounts representing increases in salary-related expenditure relating to their reinstatement for the entire year 2023, due to salary increases and bonuses in 2022 and/or the increase in personnel numbers in 2022	0		42.043		
7	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses. Row 2/Row 4/12/*1000	9.442	9.559	11.300	118,21%	119,68%
8	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses recalculated according to the annual Law of the state budget ((Row2-Row6)/Row4/12)*1000	8.820	9.559	10.444	109,25%	118,41%

9	Labour productivity in physical units per average total personnel (quantity of finished products / person)	460	630	721	114,41%	156,71%
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II. The average number of personnel:

By Law 346/2007 on measures to ensure security of natural gas supply, S.N.T.G.N. TRANSGAZ S.A. is responsible for making investments in infrastructure to expand transmission capacity and replace pipelines with expired lifespan in order to ensure security of natural gas supply and reduce natural gas losses.

To comply with national legal provisions and European Union regulations, Transgaz, as the operator of the National Transmission System, has the obligation to interconnect with similar natural gas transmission systems in neighbouring countries to create the technical and technological conditions for ensuring security of natural gas supply.

For the transmission of the Black Sea gas, it is necessary to build a pipeline from the Black Sea shore to the Podișor Technological Node (TN), which ensures the supply of natural gas for consumption in the south and south-west of Romania.

For this purpose, S.N.T.G.N. TRANSGAZ S.A. started the implementation of an important project - `Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas (Black Sea-Podisor)` which will link the natural gas resources available on the Black Sea shore to the BRUA corridor, thus ensuring the possibility of transmitting natural gas to Bulgaria and Hungary through the existing interconnections Giurgiu - Ruse (with Bulgaria) and Nădlac - Szeged (with Hungary). This pipeline will also interconnect with the existing international natural gas transmission pipeline T1, which is part of the national transmission system.

The project creates the conditions for the emergence of a new market for future natural gas resources from the Black Sea offshore developments, will ensure the development of the common energy market in Europe and the interconnection of gas networks. The project will also contribute to the development and optimisation of national gas transmission networks by adapting flow requirements to ensure bidirectional gas flow with neighbouring countries.

With the acquisition of the transmission operator Vestmoldtransgaz SRL in the Republic of Moldova, the conditions for the construction of the Ungheni-Chisinau gas pipeline were met. This 120 km long pipeline, with four gas pressure regulating - metering stations and a bi-directional gas metering technological node, contributes to the expansion of the company's activity in one of the priority directions.

Another important project `NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova` was also carried out in this context.

Within the project two transmission pipelines with the diameter of DN700 mm and the pressure of 55 bar are built:

- Onești - Gherăești with a total length of 104,1 km

- Gherăești - Lețcani with a total length of 61,05 km.

and two natural gas compressor stations Onești and Gherăești.

Also according to the development programme, S.N.T.G.N. TRANSGAZ S.A. Mediaș will modernise a number of production capacities in the transmission and dispatching activity of the main pipelines and related facilities constituting the National Transmission System (NTS), with the need to train the personnel in parallel with the updating of service tasks and the redeployment of personnel to activities with a shortage of personnel.

The management plan of TRANSGAZ S.A. Mediaș for 2021 - 2025, among the action directions established in the chapter `Competitiveness and modernization`, includes the optimal dimensioning of the human resources requirements in relation to the real needs of the company's activity and development.

In general, the strategic vision of the administrators in terms of human resources is to reduce the number of personnel in line with the retirements and voluntary departures that will take place in the coming years and to maintain a level of growth in salary expenditure that covers at least the rate of inflation.

Considering the above, for year 2023 the following is required:

- Maintaining the current number of 5.278 positions approved to date by the company's organisation chart, with a resizing of the organisation chart to be carried out after approval of other projects and finalisation of the normalisation of all activities carried out on the NTS. At the same time, the modernisation and upgrading to be carried out in the NTS and its related installations will be considered, with a view to implementing the Network Code and maintaining and developing a SCADA-type monitoring, control and data acquisition system.
- Natural reduction of the number of personnel employed without affecting current activity by redeployment of tasks and responsibilities for some posts whose incumbents are due to retire in 2023. A total of 32 retirements for age limit are foreseen for 2023. Early retirement has also been considered for 30 employees;
- Continue the organisational redesign of some activities within the company and the roles and responsibilities of the personnel carrying out these activities. In this respect, it is also necessary to continue the voluntary departure programme, which will reduce the number of employees approaching retirement age or in poor health, factors which lead to a reduction in the ability to perform their duties. It has been estimated that 160 employees will apply for inclusion on these lists in 2023;
- Continue the recruitment process of specialised personnel needed for the implementation of projects of major importance for the development of the company, as well as for the design, access to European funds and development/maintenance of existing information and communication systems in order to digitise operations. For this purpose, both in-house employees and external specialists will be selected. In line with the management's strategic

vision of personnel reduction, the number of external employees will be limited to 200 in 2023;

- By redistributing tasks and responsibilities to the remaining personnel, work programmes will be carried out with existing employees. In this way it is estimated that an average of 4.093 employees will be used in 2023, compared to 4.151 approved by the REB in 2022.

III. Cost of personnel

To substantiate the cost of personnel, the main macroeconomic indicators forecast in the National Forecast Commission's Medium Term Forecast 2022 - 2026, Autumn 2022, were taken into account, namely:

Indicator	2022	2023	2024	2025
Increase of consumption price – annual average	13,5	9,6	5,7	3,2
Exchange rate (lei/euro) – annual average	4,94	4,98	5,04	5,10

The following were taken into account when substantiating the salary fund, as well as the other personnel expenses necessary for S.N.T.G.N. TRANSGAZ S.A.:

- setting the basis of calculation at the current level of the employees' salaries, bonuses and additional payments granted on the basis of the Collective Labour Contract in force at company level and established in the individual labour contracts currently in force;
- the indexation of the salaries of all personnel by 9,6% starting from January 2023, in accordance with Article 147 of the C.L.C. in force at company level to cover the forecast average inflation of 9,6%;
- the provision of a fund amounting to Lei 14.840 thousand for granting compensations for the continuation of the voluntary departure of approximately 160 employees. This fund was calculated for that number of employees, as foreseen at Art. 47 of the Collective Labour Contract. The provision of these funds represents an increase in the cost of personnel over the short term, but over the long term it triggers benefits from the reduction of the cost with the relevant employees, employed under individual labour contracts for an indefinite period;
- granting the salary bonuses for Easter, Christmas and the Gas Worker's Day according to Art. 181 of the Collective Labour Contract, at a level of 1.300 lei/employee/event;
- the granting of birth, marriage, retirement and death benefits in accordance with the provisions of applicable Collective Labour Contract;
- the amounts necessary for granting food vouchers in nominal value of LEI 30 in 2023;

- expenses incurred on behalf of an employee related to voluntary pension schemes, up to an amount representing the LEI equivalent of EUR 400 during a financial year, for each participant. The C.L.C. in force at company level, Art. 62 (4) establishes a limit of 400 euro/employee in a fiscal year;
- cost of voluntary health insurance premia up to an amount representing the Lei equivalent of EUR 400 in a financial year, for each participant. The C.L.C. in force at company level, Art. 62 (5), establishes a limit of 400 euro/employee in a fiscal year;
- the provision of expenses with gifts in cash or in kind offered to minor children of employees, gifts in cash or in kind granted to female employees. The company's applicable Collective Labour Contract stipulates in Art. 183 (2) the granting of such gifts for Women's Day, 1 June and Christmas, within the limits of at least 10% of the level of category 27F from the company salary grid, respectively 400 lei gross/beneficiary/event;
- the provision of the sums necessary to bear part of the cost of the treatment and rest benefits, including transport for the Company employees and their family members according to Art. 189 of the C.L.C. in force;
- expenses representing the employees' share in the Company's profit under G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous regies, as amended, corroborated with Art. 141 of the company's applicable Collective Labour Contract;
- the provision of a fund of Lei 750 thousand for various social actions, amounts requested by the Gas Transport Union by the Letter no. 24/26.10.2022;
- further, for year 2024 an indexation of the salaries of the personnel by 5,7% starting with January 2024 was taken into account, and for year 2025 an indexation of the salaries of employees by 3,2 % from January 2025 was taken into account, according to the provisions of Art. 147 of the company's applicable Collective Labour Contract.

In aggregate the salary expenses foreseen for the year 2023 exceed the level of the salary expenses approved in the revenue and expense budget of S.N.T.G.N. TRANSGAZ S.A. for 2022 by **Lei 90 million**, mainly due to the following:

- The amounts necessary for indexing of basic salaries by 9,6% starting with January 2023 to compensate for inflation, according to the applicable Collective Labour Contract, funds estimated at Lei 38.697,5 thousand;
- amounts representing increases in salary-related expenses, related to their reinstatement, for the entire year 2023, determined as a result of the granting of salary increases and bonuses in 2022, funds estimated at lei 42.043 thousand;
- the provision of the amounts necessary to grant Easter, Christmas and Gas Worker's Day bonuses at a gross amount of Lei 1.300 lei/employee/event, i.e. an increase of Lei 3.646,8 thousand compared to the 2022 BVC;

- provision of the amounts needed to grant retirement benefits in 2023 in accordance with the provisions of the C.L.C. in force calculated for a higher number of employees, i.e. an increase of Lei 769,9 thousand compared to the 2022 REB;
- provision of the amounts representing employees participation to profit sharing in 2023 in accordance with the provisions of the C.L.C. in force, meaning an increase of Lei 1.148,9 thousand compared to the 2022 REB;
- provision of the amounts representing the employees' profit-sharing in 2023 in accordance with the provisions of the Collective Labour Contract in force, calculated for a higher number of claimant employees, meaning an increase of Lei 1.980,8 thousand compared to the 2022 BVC ;
- inclusion of the amounts needed to settle the home-to-work transport for employees who commute more than 5 km in accordance with the provisions of the C.L.C. in force, calculated for a higher number of employees requesting them, i.e. an increase of Lei 1.919,4 thousand compared to the 2022 REB;

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

Employee training and professional development expenses with foreign trainers, amounting to Lei 1.944,15 thousand, based on the Annual Program for Training and Professional Development of employees for 2023, to which Lei 58,77 thousand are added as expenditure related to training and formation courses with internal trainers.

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

The expenses with the insurance premiums for the professional risk insurance of the members of the Board of Administration and the executive management of the company, in the amount of Euro 75.000 /year according to Art. 4 of Resolution 1 of 20.01.2022 of the Ordinary General Meeting of the Shareholders of S.N.T.G.N TRANSGAZ S.A. and Art. 2 of Resolution 2 / 21.01.2022 of the Board of Administration of S.N.T.G.N TRANSGAZ S.A.

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

The expenses related to the insurance premiums for the insurance of professional risks of the operating personnel, which are borne by the employer according to Art. 62 (7) of the company's applicable Collective Labour Contract. Such expenses were estimated at lei 90.000/year.

In line with the provisions of ANRE Order 41/15 March 2019 on the approval of the Gas Transmission Regulated Tariff Setting Methodology , personnel expenses are recovered through the regulated revenue from the gas transmission activity up to the forecasted amount approved by ANRE upon the substantiation of the regulated revenue.

Within the regulated revenue for year 2022, revenue extended by ANRE also for year 2023, personnel expenses lower by approximately lei 118 million compared to the amounts substantiated in the 2023 REB.

The cost of personnel in the regulated revenue for 2023, as substantiated by Transgaz and submitted for approval to ANRE, adjusted with the estimated inflation for the period 2021-2023, are lower by Lei 16 million compared to the amounts substantiated through the 2023 REB.

Sales/purchases of natural gas within the balancing activity are carried out according to needs to balance gas flow fluctuations and to maintain the level of pressures at values allowing the safe and efficient operation of the NTS, the obtaining of revenue from the balancing activity is not under the control of the company;

Revenue substantiation was determined considering:

- the gas quantities estimated to be transmitted (including the quantities transmitted for storage) and the capacity booking estimated for 2023 – 2025;
- the gas quantities estimated to be procured both for the physical balancing of the National Transmission System and for the commercial balancing;
- the regulated transmission tariffs approved by the ANRE under Order no. 75 of 18 May 2022 on the extension of the deadlines established in Order 32/2021 of the ANRE President on the approval of the regulated revenue, corrected regulated revenue and transmission tariffs for the transmission of gas through the National Transmission System , and the tariffs estimated for 1 October 2023 - 31 December 2025 based on the methodology approved by ANRE Order 41/2019;
- the value of the international gas transmission service was estimated:
 - according to the agreement concluded with Gazprom Export Ltd for 2023;
 - **ANRE Order74/18.05.2022 extended until 30 September 2023 the deadline for application of ANRE Order no. 149/29.07.2020 approving a regulated revenue of Lei 169.820.239 for the provision of regulated transmission service on T2 and T3 pipelines for the 2020-2021 gas year; a booked capacity of 84 million MWh was estimated for setting transmission tariffs; no booked transmission capacity for international transmission activity was estimated in the draft 2023 REB.**

The assumptions underlying the substantiation of the economic-financial indicators for 2023-2025 are presented in the table below:

No.	Item	MU	2023	2024	2025
1.	Average annual inflation index	%	8,00	3,70	2,90
2.	Exchange rate	lei/EURO	4,98	5,04	5,10
3.	Exchange rate	lei/USD	5,08	5,04	4,95

No.	Item	MU	2023	2024	2025
4.	Transmitted gas quantity (including injection in underground storage)	MWh	151.147.768	152.432.263	151.989.743
5.	The average transmission tariff	lei/MWh	9,51	13,59	14,55
6.	Technological consumption procurement price	lei/MWh	274,10	384,15	384,15

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

<i>*thousand lei*</i>				
No.	Indicators	2023 REB	Estimated for 2024	Estimated for 2025
1	TOTAL REVENUE, of which:	4.170.692	6.803.663	5.634.046
1.1.	Operating revenue before the construction activity according to IFRIC 12	2.949.553	3.496.107	3.631.774
1.2.	Financial revenue	267.074	282.398	216.228
1.3.	Revenue from the construction activity according to IFRIC 12	954.064	3.025.158	1.786.044
2.	TOTAL COST, of which:	4.090.387	6.262.341	4.959.762
2.1.	Operating costs before the construction activity according to IFRIC 12	2.990.053	3.119.655	3.088.953
2.2.	Financial costs	146.270	117.527	84.765
2.3.	Cost of assets built according to IFRIC 12	954.064	3.025.158	1.786.044
3.	GROSS PROFIT	80.305	541.323	674.284
4.	TAX ON PROFIT	16.380	84.284	105.289
5.	NET PROFIT	63.925	457.039	568.994

The evolution of the economic and financial indicators during the estimated period is mainly influenced by:

- The estimated commissioning of investment objectives;
- the progress of the National Transmission System rehabilitation and maintenance works;
- the evolution of the costs regarding the procurement of gas for technological consumption;
- capping transmission tariffs for 2022-2023 at the level of those approved for the 2021-2022 gas year (ANRE Order 75/18 May 2022);
- adjustment of the regulated revenue for the gas year 2023-2024 mainly with:
 - the efficiency gain registered by the company in the last year of the third regulatory period (**Lei -120.564 thousand**);
 - the value of the additional registered revenue in 2019-2020, 2020-2021, 2021-2022 (**Lei -454.696 thousand**);

- the amount of revenue not achieved in 2022 - 2023 due to the capping of tariffs by ANRE Order 75/2022 (**Lei 448.904 thousand**);
- the evolution of financial expenses representing interest and exchange rate differences on loans taken out by the company to finance investment works not covered by its own resources.

Profit distribution was determined taking into account the provisions of G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous companies, as amended and the specifications approved by MPF Order 144/2005 approving the Specifications for the determination of the amounts subject to profit distribution according to G.O. 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous companies, approved as amended by Law 769/2001, as amended, as follows:

- considering the approval of the increase of Transgaz's share capital by incorporating the reserves constituted from the profit of previous financial years in the amount of Lei 1.766.076.600 (EGMS Meeting 8/09.12.2022), amounts were allocated to **legal reserves** in the amount of 5% of the accounting profit, in accordance with the provisions of Art. 183 (1) and (2) of Law 31/1990, as amended, and Art. 1 (1) of GO 64/2011;;
- **employees participation in profit sharing** was determined within the limit of the monthly average base salary estimated per employee in the year for which the share in is granted, per average number of employees, obtained in the closed financial year. In the preparation of the revenue and expense budget for 2023 and estimates for 2024-2025, when distributing the profit, the employees' profit-sharing was determined within the limit of the estimated average monthly basic salary per employee in the year for which the profit-sharing is granted, based on the average number of employees as estimated in the financial year ended. Given that the net profit based on the revenue and expense budget is an estimated amount, the provisions of GO 64/2021, meaning the limit of 10% of net profit, will be strictly observed in the execution;
- **dividends to shareholders** were determined according to MPF Order 144/2005, by applying 50% to remaining net profit after its recompletion with the amount of the cost representing the share in to profit, with which the gross profit before tax was affected;
- the amount of the **retained earnings** for setting up own financing sources was determined as the difference between the net profit to be distributed and the profit proposed to be allocated according to GO 64/2001.

* lei*

<i>Indicators</i>	<i>Amount</i>
	<i>Estimated 2022</i>
0	1
A. Gross result of the financial year	330.610.944

Indicators	Amount
	Estimated 2022
B. Current income tax	75.452.246
C. deferred income tax	
D. Net result of the financial year (A-B+C), of which distributed as follows:	255.158.699
a) legal reserves	16.530.547
- share capital	1.883.815.040
- share of 20%	376.763.008
- existing reserve fund	23.547.688
- reserve fund to be established (5%*A.)	16.530.547
b) other reserves representing tax relief provided by law	
c) covering accounting losses from previous years	-
c ¹) establishing own financing sources for projects co-financed form external loans	-
d) other distributions foreseen by special laws	-
E. Remaining net profit (D+c)	238.628.151
e) employees participation in profit sharing	18.364.452
f) dividends to shareholders	129.983.238
g) profit for establishing own financing sources	108.644.914
TOTAL distributions	238.628.151

The analysis of the 2023 REB economic and financial indicators as compared to the 2022 estimations

The synthesis of the 2023 REB indicators compared to the 2022 estimations is presented below:

thousand lei

No.	Item	Estimated in 2022	2023 REB	Variation
0	1	2	3	4=3/2-1
1.	TOTAL REVENUE, of which:	3.337.914	4.170.692	25%
1.1.	Operating revenue before the construction activity according to IFRIC 12	1.566.128	1.669.099	6,57%
1.2.	Balancing revenue	1.016.115	1.280.455	26%
1.3.	Financial revenue	393.226	267.074	-32%
1.4.	Revenue from the construction activity according to IFRIC 12	362.444	954.064	163%
2.	TOTAL COST	3.007.303	4.090.387	36%

2.1.	Operating cost before the balancing and construction activity according to IFRIC 12	1.464.879	1.709.598	17%
2.2.	Balancing costs	1.016.115	1.280.455	26%
2.3.	Financial cost	163.864	146.270	-11%
2.4.	Cost of constructed assets according to IFRIC 12	362.444	954.064	163%
3.	GROSS PROFIT	330.611	80.305	-76%
4.	TAX ON PROFIT	75.452	16.380	-78%
5.	NET PROFIT	255.159	63.925	-75%

- **The revenue from the operation activity before the balancing and the construction activity according to IFRIC 12** amounting to **Lei 1.669.099 thousand**, increased by **Lei 102.970 thousand** as compared to the 2022 estimated revenue, which is higher by **6,57%**, mainly due to increase in the capacity booking component by **Lei 63.740 thousand** mainly due to:
 - capacity booking tariff higher by **lei 0,638/MWh**, with a positive influence of **Lei 224.252 thousand** mainly due to the regulated revenue estimated Transgaz for the 2023-2024 gas year higher than in 2021-2022 and in 2022-2023;
 - booked capacity lower by **21.272.889 MWh**, with a negative influence of **Lei 53.468 thousand**;
 - auction premia revenue lower by **Lei 107.044 thousand**.
- The increase of the commodity component by **Lei 50.867 thousand** mainly due to:
 - quantities transmitted higher by **8.416.759 MWh**, with a positive influence of **Lei 9.343 thousand**;
 - the commodity component of the transmission tariff higher by **Lei 0,275/MWh/h** with a positive influence of **Lei 41.524 thousand**, mainly due to the regulated revenue estimated by Transgaz for gas year 2023-2024 in accordance with the provisions of ANRE Order 41/2019, higher than in years 2021-2022 and 2022-2023;;

Regarding the annual evolution of revenue from gas transmission gas transmission is regulated by the National Energy Regulatory Authority (ANRE). According to the methodology for setting the regulating revenue, the costs savings of the transmission operator in a gas year and the additional revenue obtained in a gas year diminish the regulated revenue approved in the following gas years. In other words, the more effective the company is in reducing costs, the more the revenue from gas transmission will be reduced in the coming gas years.

According to *ANRE Order 41/15 March 2019 on the approval of the Gas Transmission Regulated Tariff Setting Methodology* the following are also considered for the determination of the annual regulated revenue:

- the total revenue correction component for the previous years;
- the technological consumption correction component for the previous years;
- the capital cost adjustment component for previous years;
- the efficiency increase factor redistribution component obtained by the transmission operator during a regulatory period (the savings obtained by the transmission operator regarding cost items as compared to the levels approved by ANRE) shall be kept by the transmission operator and aggregated at the end of such period and then entirely transferred to the transmission system users by linearity throughout the following regulatory period by reducing the regulated revenue by such savings.

In accordance with the legal provisions in force during the third regulatory period (2012-2019), the efficiency increase factor was fully maintained by the operator for a period of 5 years and starting with year 1 (2019-2020) of the fourth regulatory period (2019-2024) the full transfer to the users of the transmission system started through linearization by decreasing the regulated income by such savings.

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

On 4 March 2022, SNTGN Transgaz SA submitted to ANRE the Note for the substantiation of the corrected regulated revenue for year `4` (1 October 2022 - 30 September 2023) within the fourth regulatory period (1 October 2019 - 30 September 2024) and related tariffs, according to the provisions of the methodology approved by ANRE.

By Order 75/18 May 2022 for the extension of the deadlines established in Order 32/2021 of the ANRE President on the approval of the regulated revenue, corrected regulated revenue and transmission tariffs for the transmission of gas through the National Transmission System, **the provisions of ANRE Order 32/2021** on the approval of the corrected regulated revenue and the transmission tariffs for the transmission of gas through the National Transmission System for 2021-2022, **are extended until 30 September 2023.**

Transgaz intends to apply to ANRE for an advance recognition in the regulated revenue of 2022-2023, within the CAPEX component, of the investment expenses for the project Black Sea shore - Podișor (RO) pipeline for taking over the Black Sea gas (estimated value of the investment: lei 1.409,18 million), provided that the following conditions are met:

- It is a project included in the categories listed at point 2 of Annex II of Regulation (EU) No. 347/2013 of the European Parliament and of the Council of 17 April 2013 on the guidelines for trans-European energy infrastructure, repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC)

No. 714/2009 and (EC) No. 715/2009, included in the investment and development plan of the transmission system, approved by ANRE;

- It is a PCI:
 - PCI Project (second list): 6.24.8;
 - PCI Project (third list): 6.24.4-5: *Black Sea shore – Podișor (RO) pipeline for taking over Black Sea gas within Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as ROHUAT/BRUA) to enable 1,75 bcm/y in the 1st phase, 4,4 bcm/y in the 2nd phase, and including new resources from the Black Sea in the 2nd, 3rd and 4th phase and the fourth stage*”;
 - Included in the list of conditional priority projects prepared within the CESEC group.
 - Included in the ENTSGTYNDP 2020 : TRA-N-362.
 - The project is included in the investment and Plan for the Development of the National Gas Transmission System 2022-2031 approved by ANRE.

In this regard, the proposed revenue and expense budget for the year 2023 and estimates for 2024 and 2025 includes:

1. the use as correction component in gas year 2023-2024 of the fourth regulatory period of the remaining difference of the correction component of year 1 (2019-2020) in the amount of Lei -106.501 thousand, the correction component of year 2 (2020-2021) in the amount of lei -62.711 thousand , the correction component of year 3 (2021-2022) in the amount of lei -285.484 thousand and the correction component of year 4 (2022-2023) in the amount of lei 448.904 thousand;
2. the advance recognition, within the CAPEX component, of the return on investment expenditure related to the Black Sea connection project (**Lei 89.373 thousand**), in the regulatory revenue determined for 2023-2024.

According to ANRE's clarifications, the natural gas referred to in Article 11 (r) of ANRE Order 41/2019 is not natural gas intended to cover the NTS technological consumption and, therefore, the additional costs with their purchase cannot be capitalized, according to the provisions of Order 3900/19 October 2022 of the Ministry of Finance and Order 128/12 October 2022 of the ANRE President.

The estimated revenue from the gas transmission activity for 2023, according to the tariffs approved by ANRE for the period 1 October 2022 - 30 September 2023 and the tariffs estimated based on the existing regulations for Q IV 2023 is **Lei 1.437.080 thousand**, which is higher **by Lei 114.606 thousand** compared to the 2022 estimates.

Considering the above, we believe that the provisions of the Instructions for preparing the REB approved by Order 3818/30.12.2019 of the Ministry of Public Finance, Annex 6 par. II.6 according to which 'the total revenue and expenses are estimated so that the index related to the increase in total expenses usually does not exceed the total revenue increase index` cannot be applied to Transgaz which carries over activity regulated at a rate of approximately 98%, the transmission tariffs not being updated between 1 October 2022 and 30 September 2023 and

energy prices and inflation being much higher than those considered when approving the transmission tariffs..

Revenue from balancing the NTS increase by **Lei 264.340 thousand** due to the estimated price of gas in 2023 higher than the price estimated for 2022 and based on the estimation of quantities of gas for balancing lower by **87.992 MWh** compared to the 2022 estimates. In estimating the quantity of natural gas intended for balancing the NTS, the consumption history recorded in the winter months/temperature-dependent, the quantities purchased by Transgaz from the Stock Exchange for the purpose of physical balancing of the NTS as well as quantities purchased as part of the commercial balancing process representing a surplus. When estimating the purchase price of natural gas quantities for balancing in 2023, the average price on 30 November 2022 was taken into account.

EU Regulation 312/2014 establishing a network code on gas balancing of transmission networks sets uniform balancing rules at European level, reflecting the specific needs of the transmission systems and taking into account the drivers available to the operators for balancing the transmission systems. According to the Regulation above the role of the system operator is to perform balancing activities based on non-discriminatory market principles through the purchase/sale of natural gas quantities required for balancing. The system operator does not record gains or losses as a result of conducting the balancing activity.

The guarantees provided at the conclusion of balancing contracts, within the limits approved by ANRE, do not cover the risk of non-collection of receivables from balancing activity.

The provisions of the Regulation above are taken over in ANRE Order 16/2013 on the approval of the Network Code for the National Gas Transmission System modified by ANRE Order 160 /2015, which states in Article 83 (2) that *to ensure the safe operation of the NTS, the TSO should have enough gas for system balancing as natural gas stored in pipelines and/or as balancing gas stored in underground storages, and to take NTS balancing actions including by conducting sales and/or purchasing transactions for the natural gas quantities required to balance the system in a transparent, non-discriminatory manner, by using market mechanisms.*

The estimation of the gas quantity for NTS balancing was based on the historical consumption data recorded in winter months/depending on temperature, as well as the quantities purchased by Transgaz on the Stock Exchange for physical balancing of the NTS. Such gas will be procured in 2023 as needed to balance fluctuations in gas flow and to keep pressure levels at levels that allow safe and efficient operation of the NTS.

II. Operating expenses before the balancing and the construction activity according to IFRIC12 amounting to Lei 1.709.598 thousand increased by **Lei 244.719 thousand** compared to the 2022 estimates, which is higher by 8%, mainly due to:

- a) Overruns especially in respect of the following expense elements:

1. Expenses related to services executed by third parties higher by **Lei 35.706 thousand**;
2. expenses with technological consumption higher by **Lei 45.690 thousand** both due to the quantities of gas representing technological consumption higher in 2023 compared to 2022 but also due to the increase in the price of natural gas from Lei 205,85 /MWh in 2022 to Lei 274,10 /MWh in 2023.
3. personnel salary expenses higher by **Lei 92.766 thousand**;
4. Depreciation expense higher by **Lei 5.675 thousand** on account of the fixed assets commissioned in 2022 and estimated to be commissioned in 2023;
5. Cost of auxiliary materials higher by **Lei 65.769 thousand**.

III. The gross result estimated for 2023 is of **Lei 80.305 thousand**, by **Lei 250.306 thousand** (-76%) lower than the 2022 estimates.

IV. The tax on profit was calculated considering:

- 👉 The influence of the provisions for risks and expenses and of the provisions for the depreciation of current assets;
- 👉 The influence of the employees' share in to profit expense related to 2022 and of the rights related to the mandate contract to be paid for during the next year;
- 👉 Expenses related to sponsorship granted to a legal extent (Law 227/2015 – Fiscal Code Art. 25 (4)(i) of 0,75% of the turnover, but not more than 20% of the tax on profit.

Planning the investment financial effort related to 2023-2025

The total expenses for investment include funds for NTS development and modernization works, for the procurement of shares in the relevant European operators the amounts necessary for the repayment of the instalments related to the loans contracted by the company to finance the investments which were not covered by equity and the amounts required for the payment of guarantees related to the temporary removal of land from agricultural use.

The sources for financing investment expenses are:

- own sources including the depreciation and the amounts distributed from the net profit to finance investments according to *GO 64/2001 on profit distribution within national companies, companies publicly owned or controlled and autonomous regies*, as amended;
- Amounts resulting from the absorption of European funds;

To finance the investment projects included in the modernisation and investment development programme, the company applied for non-reimbursable funds from the Modernisation Fund.

In the draft budget for 2023, non-reimbursable funds were estimated at the level of **EUR 47,5 million** .

- Unused own resources from previous years and other sources.

The investment expenses were determined based on:

- The modernization and development investment program for 2023 and estimates for 2024-2025;
- The design programme for investment works for 2023;
- The TYNDP.

The TYNDP includes large-scale projects aimed at reconfiguring the natural gas transmission network.

In order to determine the necessary projects to be developed in the National Gas Transmission System the prerequisites that it has to meet in the current dynamics of the regional gas market were identified first. Having in mind the latest developments and trends as far as the European gas transmission routes are concerned, the fact that two new sources of gas supply came up is obvious: the Caspian Sea gas and the Black Sea gas .

Thus, the projects planned by the company envisage:

- ensuring a proper interconnectivity with the neighbouring countries;
- creating regional gas transmission routes to ensure gas transmission from new supply sources;
- creating the necessary infrastructure to take over and transmit Black Sea gas to the Romanian market and other markets in the region;
- extending the gas transmission infrastructure to improve gas supply to deficient areas;
- creating a single integrated EU market.

In this context, it is very important for Transgaz to implement the projects described below in a short period of time enabling the connection of the Central European markets to the Caspian and Black Sea resources.

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

- Integration of the gas market and interoperability of the gas transmission systems in the region;
- Price convergence in the region;
- Increasing the flexibility of the European gas transmission system by the construction of bi-directional flow interconnections;
- Opening the access of Romania and the European Union to a new gas source by the interconnection of the Bulgaria-Romania-Hungary-Austria corridor with the Black Sea;

- Enhancing competition on the European gas market by diversifying sources, transmission routes and active companies in the region;
- Increasing the security of gas supply;
- Reducing dependence on Russian gas imports;
- Urging the development of the renewable energy generation at regional level (especially wind and solar energy) considering the possibility to use gas as a back-up renewable energy option which leads to the significant increase in the sustainability of the proposed projects.

The progress in the implementation of Transgaz's major investment projects obliges the company at the same time to take steps to secure the funding of the TYNDP. In 2023-2025 the company aims at obtaining bank funds to complete the necessary financing.

The synthesis of the capital expenditure for the period 2023- 2025 as well as its financing is indicated below:

**thousand lei **

No.	Item	2023	2024	2025	Total
					2023-2025
0	1	2	3	4	5=2+3+4
I.	Investment expenses, of which:	1.042.302	3.178.122	1.809.986	6.030.409
1.1.	Investments	908.940	2.991.668	1.551.464	5.452.072
1.2.	Capitalized interest	1.003	53.616	125.204	179.822
1.3.	Loan repayment	132.359	132.838	133.318	398.515
II.	Financing sources, of which:	1.042.302	3.178.122	1.809.986	6.030.409
2.1.	Own sources, of which:	124.378	299.093	405.968	829.438
	- amounts from the net profit	18.466	203.915	256.476	478.856
	- legal reserves	4.015	27.066	33.714	64.796
	- depreciation and other non-monetary expenses / revenue	101.897	68.111	115.778	285.786
2.2.	European funds	237.909	846.420	888.374	1.972.703
2.3.	Bank loans	640.265	2.032.609	515.644	3.188.518
2.4.	Other sources	0			0
2.5.	Surplus/deficit from previous years	39.750	0	0	39.750
III.	SURPLUS/DEFICIT(II-I)	0	0	0	0

In 2023 the leverage indicator determined based on the assumptions used for the substantiation of the Revenue and Expense Budget are within the limits approved by financing contracts concluded as from 2020.

According to the provisions of GO 26 of 21 August 2013 on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are sole or majority shareholders or directly or indirectly hold a controlling interest, if the approved investment financing sources are unfulfilled the related commitments will be reconsidered and all the legal steps for the reception of services, works and goods will be taken according to the recalculated funding sources.

Other additional information

1. The substantiation of the remunerations related to the Director General, the members of the Board of Administration and the Chief Financial Officer

According to the relevant applicable mandate contracts, the remuneration of the Director - General, of the non-executive members of the Board of Administration (BoA) and of the Chief Financial Officer consists of a monthly fixed allowance and a variable benefit. Over the period when GEO 109/2011 as amended is applicable in the form which is effective as at the date of the approval of the mandate contracts, the gross monthly fixed allowance due to the non-executive members of the Board of Administration may not exceed twice the means of the gross monthly average salary over the last twelve months relevant for the activity carried out in accordance with the main object of activity of the company at class level according to the classification of activities in the national economy, reported by the National Statistics Institute before the appointment of such mandators and, as for the Member of the BoA also acting as Director - General, executive administrator, the monthly gross fixed allowance may not exceed six times the means of the gross monthly average salary over the last 12 months relevant for the activity carried out in accordance with the main object of activity of the company at class level according to the classification of activities in the national economy, reported by the National Statistics Institute before the appointment of such mandators.

By OGMS Resolution 2/2021 it was approved the value of the monthly fixed allowance of the non-executive members of the Board of Administration representing twice the mean over the last 12 months of the gross monthly average salary for the activity performed according to the main activity of the company registered at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment.

Additionally, to the gross monthly fixed allowance, the members of the BoA, the Director - General and the Chief Financial Officer are entitled to an annual variable benefit.

The level of the variable benefit is set as follows:

- for the non-executive members of the Board of Administration the variable annual component of the remuneration was substantiated within the limit of 12 monthly fixed

allowances according to GEO 109/2011 (Art. 37 (2)) on corporate governance, as amended by Law 111/2016 on the approval of GEO 109/2011

- for the Director - General and the Chief Financial Officer, the variable component is based on the financial and non-financial performance indicators, negotiated and approved by the General Meeting of Shareholders, by OGMS Resolution 8/2021, determined in accordance with the Methodological Rules for determining the financial and non-financial performance indicators and the variable component of the remuneration of the members of the Board of Administration.

According to the provisions of GEO 109/2011 (Art. 37 (2)) on corporate governance, amended by Law 111/2016 on the approval of GEO 109/2011, the value of the variable benefit due to the non-executive members of the BoA may not exceed maximum 12 monthly fixed allowances; therefore, as far as the non-executive members of the BoA are concerned, the annual variable allowance component was substantiated within the limit of 12 monthly fixed allowances.

The maximum lawful amount of the variable benefit over the term of the mandate contract may be amended pursuant to Decision 22/2016 of the Romanian Government on the approval of Methodological rules for the approval of GEO 109/2011 on the corporate governance of public enterprises, Annex 2, Chapter II, section 5 – *The Methodology for revising the variable component of the non-executive and executive administrators' remuneration.*

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

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

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

The degree of each KPI (GI_{ICP}) achievement may be higher than 100% and lower than 0% but the calculation of the total degree of the KPI (GT_{ICP}) achievement will be considered as follows:

- $GI_{ICP} > 100\%$ meaning $GI_{ICP} = 100\%$;
- $GI_{ICP} < 0\%$ meaning $GI_{ICP} = 0\%$.

KPIs are annually assessed based on the annual audited financial statements and other verification tools.

2. The substantiation of the economic-financial indicators which change significantly from the previous year

- Increase in raw material expenses by Lei 45.690 thousand (27,07%) mainly due to the increase in the price of natural gas and quantities representing technological consumption in 2023 compared to 2022;
- Increase in energy and water expenses by Lei 8.576 thousand (47,10%) due to the increase in utility prices;

- The increase in the expenses related to the maintenance and repair by Lei 35.706 thousand (143,69%) due to the increase in the maintenance program for 2023.

The program for the scheduled repairs to pipelines for 2023 includes mainly: the works started and unfinished under the relevant program of 2022, as well as a guaranteeing amount for the situations caused by unforeseen events as extreme weather conditions, landslides, floods and impact on the NTS facilities;

The planning of the programme for the year 2023 was carried out taking into account projects for which the design and obtaining of the construction permit are completed in 2022 and 2023 by 30.03.2023.

- Increase of expenditure for consumable materials by Lei 67.225 thousand (170,78%) due to the increase in the program for the supply of materials representing pipes, elbows, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of the maintenance activity at the technological installations related to the metering -regulating stations of the NTS by replacing similar worn out equipment.
- Increase of commodity expenses (natural gas for balancing) by Lei 228.423 thousand (22,48%) due to the increase in the price of natural gas in 2023 compared to 2022.
- The increase in expenses with the commissions and fees by 2.548,96%. Such expenses consist mainly of expenses for legal advice (Lei 2.456 thousand), representing consultancy, assistance and the legal representation of a law firm with international expertise in the Community competition law, and consultancy, assistance and the legal representation needed to implement the applicable European regulations pertaining to the company's business, the implementation of rules relating to the financing of energy infrastructure by CEF mechanism and providing legal expertise in international and European regulations;

3. Substantiation of economic-financial indicators that are significantly changing as opposed to the management plan

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

` Economic operators shall consider, without limitation, the following when establishing the revenue and expense budget : ...

c) the specific performance criteria and the quantified objectives for the reduction of payments and outstanding debts, the reduction of loss, the increase in profit and turnover and the labour productivity growth provided in the mandate contracts, established in relation to the management strategy of the Board of Administration/Supervisory Board and the management plan of the economic operators' directors/members of the directorate;`

The level of the EBITDA indicator foreseen in the Management Plan for 2023 approved by OGMS Resolution 3/2022 will not be achieved due to the following factors:

- decreased revenue from gas transmission services by Lei 135.643 thousand mainly due to:
 - the non-approval of the positive adjustment of the transmission tariffs for year 2022 - 2023, limitation established by Art. 14 (2) of GEO 27/18 March 2022 as amended, and by ANRE Order 75/18 May 2022 for the extension of the deadlines set in Order 32/2021 of the ANRE President, which determines the application of transmission tariffs lower than the tariffs estimated in the management plan with a negative impact of:
 - Lei 134.339 thousand related to the capacity booking component;
 - Lei 26.762 thousand relating to the commodity component of the transmission tariff;
 - lower contracted capacity in the 2022-2023 gas year compared to the estimates used to base the management plan, with a negative impact of Lei 95.173 thousand;
 - the major negative impact of the non-adjustment of transmission tariffs for year 2022 - 2023 is partially offset by additional revenue from the auction premium by interconnection points estimated for 2023 in the amount of Lei 120.757 thousand;
- exceeding the operating expenses foreseen in the Management Plan for 2023 approved by OGMS Resolution 3/2022, by Lei 104.439 thousand mainly due to:
 - an increase of Lei 48.001 thousand in compensation, salary and other salary-related expenses, mainly due to the inflation indexation of the salaries for 2023 and the increase in salary-related expenses for the entire year 2023, determined as a result of salary increases in 2022.

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (autumn 2022 forecast of the National Forecast Commission) - applicable when the 2023 establishing of the 2023 REB	13,5	9,6
Average annual inflation index (autumn 2021 forecast of the National Forecast Commission) - applicable when establishing the 2022 REB	4,70	3,40

- increase in expenditure on auxiliary materials Lei 61.802 thousand due to an increase in the supply programme for materials representing pipes, elbows, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of maintenance activities at the

technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment;

The level of the indicator `Operating Expenses` foreseen in the Management Plan for 2023 approved by OGMS Resolution 3/2022 will not be achieved mainly due to the following factors:

- increase in expenses with compensations, salaries and other salary-related expenses by Lei 48.001 thousand, mainly due to the inflation indexation of the basic salaries for 2023 and the reinstatement of the salary expenses for the entire year 2023, determined by the granting of salary increases in 2022
- .

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (autumn 2022 forecast of the National Forecast Commission) - applicable when the 2023 establishing of the 2023 REB	13,5	9,6
Average annual inflation index (autumn 2021 forecast of the National Forecast Commission) - applicable when establishing the 2022 REB	4,70	3,40

- - increase in expenditure on auxiliary materials Lei 61.802 thousand due to an increase in the supply programme for materials representing pipes, elbows, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of maintenance activities at the technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment.

The level of the indicator `Net debt ratio` foreseen in the Management Plan for 2023 approved by OGMS Resolution 6/2021 will not be achieved mainly due to the non-achievement of the level of the `EBITDA` indicator foreseen in the Management Plan for 2023 approved by OGMS Resolution 3/2022, the factors being presented above.

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

Indicator		2023	2024	2025
EBITDA	Draft REB 2023-2025	377.921	801.888	951.217
	Management Plan	609.808	573.203	1.047.523
	Differences	-231.887	228.685	-96.306
Operating expenses	Draft REB 2023-2025	1.296.063	1.434.821	1.424.745
	Management Plan	1.205.112	1.218.233	1.170.746
	Differences	- 90 950	- 216 588	- 254 000
Net debt ratio	Draft REB 2023-2025	5,50	5	4,5
	Management Plan	5	5	4,5
	Differences	0,5		

Before the approval of the draft REB 2023 and of the estimations for 2024 – 2025 by GMS, the revision of the performance indicators approved by OGMS Resolution 3/2022 in order to comply with the provisions of GO 26/2013 will be required.

4. Debt cost capitalization according to IAS 23

Transgaz contracts bank loans during the period 2023 - 2025 to fund projects under the development plan, which is why, according to IAS 23 `Borrowing Costs`, the company capitalized the expense related to interest associated to the loans until the date the facilities financed by such loans have been commissioned.

According to the provisions of Transgaz's applicable Articles of Incorporation, Chapter IV, Art. 15 (3) (c), **the revenue and expense budget for 2023 and the estimates for 2024-2025 are submitted to the General Meeting of the Shareholders for approval**, according to the provisions of GO 26/21 August 2013, Art. 4 (1) (d).

Enclosures:

- The revenue and expense budget for 2023 and the estimates for 2024-2025: Annex no.1*;
- The detailing of the economic-financial indicators provided in the revenue and expense budget and their split by quarters: Annex no 2*,
- The execution rate of the total revenue: Annex no.3*;
- The investment program and sourcing of investment funding: Annex no.4*;
- Means to improve the gross result and the reduction of outstanding payments: Annex no. 5*;
- The revenue and expense budget for 2023: Annex no. 6

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

Chairman of the Board of Administration
PETRU ION VĂDUVA

Economic operator: S.N.T.G.N. Transgaz S.A. Medias
 Headquarters: 1 C.I. Motas Sq., Medias
 VAT number: RO 13068733

**REVENUE AND EXPENSE BUDGET
 for 2023**

thousand lei

		INDICATORS	No. row	REB 2023
0	1	2	3	5
I.		TOTAL REVENUE (row1=row2+row5a+row6)	1	4.170.692
	1	Total operating revenue before the construction activity according to IFRIC 12	2	2.949.553
		a) subsidies according to the applicable laws	3	
		b) transfers according to the applicable laws	4	
	2	Revenue from the construction activity according to IFRIC12	5a	954.064
	3	Financial revenue	5	267.074
II		TOTAL EXPENSE (row7=row8+row20+row20a+row21)	6	4.090.387
	1	Operating expense before the construction activity according to IFRIC12, of which:	7	2.990.053
		A. Expense with goods and services	8	1.815.709
		B. Expenses with taxes, charges and similar	9	90.757
		C. Expense with personnel, of which:	10	643.019
		C0 Salary-related costs (row13+row14)	11	597.430
		C1 Salary costs	12	523.897
		C2 Bonuses	13	73.533
		C3 Other personnel expense, of which:	14	1.028
		Compensation expense related to employees layoffs	15	928
		C4 Expense on mandate contract and other governing and control bodies, commissions and committees	16	5.493
		C5 Expense on employer contributions	17	39.068
		D. Other operating costs	18	440.568
	2	Cost of assets built according to IFRIC12	19a	954.064
	3	Financial costs	19	146.270
III		GROSS RESULT (profit/loss)	20	80.305
IV	1	TAX ON CURRENT PROFIT	21	21.661
	2	TAX ON PROFIT	22	
	3	REVENUE FROM TAX ON DEFERRED PROFIT	23	5.281
	4	TAX SPECIFIC TO SOME ACTIVITIES	24	
	5	OTHER TAX NON REPRESENTED IN THE ELEMENTS ABOVE	25	

		INDICATORS	No. row	REB 2023
0	1	2	3	5
V		NET PROFIT/LOSS OF THE REPORTING PERIOD (ROW 26=ROW 20-ROW 21-ROW 22+ ROW 23-ROW 24-ROW 25) OF WHICH:	26	63.925
	1	Legal reserves	27	4.015
	2	Other reserves representing tax incentives provided according to the law	28	
	3	Covering accounting losses in the previous years	29	
	4	Establishment of own financial sources for the projects cofinanced by foreign loans as well as establishment of the sources necessary for the capital repayments, interest payment and other costs related to these foreign loans	30	
	5	Other assignments provided by law	31	
	6	Accounting profit left after the deduction of the amounts in row 27, 28, 29, 30, 31 (row 32=row26-(row 27 to row 31)>=0).	32	59.910
	7	Employees' participation in profit up to 10% of net profit, but not more than the level of an average monthly basic salary achieved at the level of the economic operator in the reference financial year	33	20.483
	8	Minimum 50% payments to the state or local budget in the case of autonomous utilities, or dividends due to shareholders, in the case of national companies and majority or entirely state owned companies, of which:	34	41.444
	a)	- dividends owed to the state budget	35	24.249
	b)	- dividends owed to the local budget	36	
	c)	- dividends owned to other shareholders	37	17.195
	9	Profit not assigned for the destinations provided at row 33 - row 34 is assigned to other reserves and it is an own financing source	38	18.466
VI		INCOME FROM EUROPEAN FUNDS	39	
VII		ELIGIBLE COSTS FROM EUROPEAN FUNDS, of which:	40	
	a)	material costs	41	
	b)	salary costs	42	
	c)	service supply costs	43	
	d)	publicity costs	44	
	e)	other costs	45	
VIII		INVESTMENT FUNDING SOURCES, of which:	46	1.042.302
	1	Budget allocations	47	
		Budget allocations regarding payment of commitments from the previous years	48	
IX		INVESTMENT COSTS	49	1.042.302
X		SUBSTANTIATION DATA		

		INDICATORS	No. row	REB 2023
0	1	2	3	5
	1	No. of personnel estimated at the end of the year	50	4.078
	2	Total average no. of employees	51	4.093
	3	Average monthly income per employee (RON/person) determined based on the salary*) costs*)	52	11.300
	4	Average monthly income per employee (RON/person) determined based on the salary**) costs, re-calculated acc. to annual State Budget Law**	53	10.444
	5	Labour productivity in units of value per total average personnel (thousand RON/person) (row 2/row 51)	54	721
	6	Labour productivity in units of value per total average personnel re-calculated acc. to the annual State Budget	55	721
	7	Labour productivity in physical units per total average personnel (qty of finite products/person)	56	0
	8	Total costs at lei 1000 total income (row 6/row 1)x1000	57	981
	9	Outstanding payments	58	0
	10	Outstanding receivables	59	531.265

*) row 52 = row 151 in Substantiation Annex no. 2

**) row 53 = row 152 in Substantiation Annex no. 2

DIRECTOR GENERAL,
Sterian Ion

CHIEF FINANCIAL OFFICE
Lupean Marius