THE NATIONAL GAS TRANSMISSION COMPANY
TRANSGAZ S.A.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

FINANCIAL STATEMENTS

Contents

Independent Auditors' Report	
Consolidated Statement of Financial Position	1 - 2
Consolidated Statement of Comprehensive Income	3
Consolidated Statement of Changes in Equity	4
Consolidated Cash Flow Statement	5
Notes to the Consolidated Financial Statements	6-78

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.

	Note	31 December 2019	31 December 2018
ASSET			
Fixed assets			
Tangible Assets	7	622.962.093	543.636.934
Rights of use of the leased assets	9	9.359.179	-
Intangible Assets	9	3.058.597.272	2.301.806.250
Financial assets	10	-	-
Goodwill		9.775.599	9.413.102
Trade receivables and other receivables		723.921.414	629.754.861
		4.424.615.557	**3.484.611.147**
Current assets			
Inventories		494.614.492	255.307.360
Commercial receivables and other receivables		524.500.459	541.785.491
Cash and cash equivalent	13	352.985.119	711.317.624
		1.372.100.070	**1.508.410.475**
Total asset		**5.796.715.627**	**4.993.021.622**
Equity			
Share capital	14	117.738.440	117.738.440
Hyperinflation adjustment of share capital	14	441.418.396	441.418.396
Share premium	14	247.478.865	247.478.865
Other reserves		1.265.796.861	1.265.796.861
Retained earnings		1.699.175.132	1.635.006.468
Exchange difference form consolidation		3.668.307	1.824.076
		3.775.276.001	**3.709.263.106**

Notes 1 to 33 are part of these financial statements.

Long-term debts			
Long-term loans	16	661.062.420	233.195.000
Provision for employee benefits	21	119.858.608	107.072.136
Deferred revenue	17	647.728.922	519.718.816
Deferred tax payment	18	8.071.065	4.596.976
Commercial debt and other debts	19	53.278.838	-
		1.489.999.853	**864.582.928**
	Note	**31 December 2019**	**31 December 2018**
Current debts			
Commercial debts and other debts	18	454.479.051	397.588.008
Provision for risks and charges	19	72.239.710	18.647.787
Current tax payment	0	-	-
Provision for employee benefits	19	1.853.432	2.939.793
Short-term loans		2.867.580	-
		531.439.773	**419.175.588**
Total debts		**2.021.439.626**	**1.283.758.516**
Total equity and debts		**5.796.715.627**	**4.993.021.622**

Endorsed and signed on behalf of the Board of Administration as on 29 April 2020 by:

Chairman of the Board of Administration
Remus Gabriel Lăpușan

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.

	Note	The year ended 31 December 2019	The year ended 31 December 2018
Revenue from the domestic transmission activity		1.192.597.737	1.178.419.674
Revenue from the international transmission activity		327.696.392	324.380.804
Other revenue		55.630.757	105.597.166
Operational revenue before the balancing and construction activity according to IFRIC12		**1.575.924.886**	**1.608.397.644**
Depreciation	7, 9	(195.700.887)	(189.913.379)
Employees costs	24	(415.818.106)	(383.249.813)
Technological consumption, materials and consumables used		(99.266.835)	(96.880.600)
Expenses with royalties		(151.374.380)	(151.026.697)
Maintenance and transmission		(29.899.092)	(35.884.134)
Taxes and other amounts owed to the state		(111.290.048)	(76.449.251)
Revenue/ (Expenses) with provisions for risks and charges		(49.818.887)	(5.946.358)
Other operating cost	23	(181.453.361)	(112.826.743)
Operational profit before the balancing and construction activity according to IFRIC12		**341.303.290**	**556.220.669**
Revenue from the balancing activity		324.687.807	235.427.293
Cost of balancing gas		(324.687.807)	(235.427.293)
Revenue from the construction activity according to IFRIC12	32	868.356.796	405.793.585
Cost of assets constructed according to IFRIC12	32	(868.356.796)	(405.793.585)
Operational profit		**341.303.290**	**556.220.669**
Financial revenue	25	101.618.158	48.633.898
Financial cost	25	(30.778.655)	(26.972.873)
Financial revenue, net		**70.839.503**	**21.661.025**

Notes 1 to 33 are part of these financial statements.

Profit before tax		**412.142.793**	**577.881.694**
Profit tax expense	0	(70.748.512)	(87.395.719)
Net profit for the period		**341.394.281**	**490.485.975**
Exchange differences		3.668.307	1.827.930
Basic and diluted earnings per share (expressed in lei per share)	28	29,00	41,66
Actuarial (gain)/loss for the period		(4.636.774)	(4.442.437)
Total comprehensive income for the period		**340.425.814**	**487.871.468**

Chairman of the Board of Administration
Lăpușan Remus Gabriel

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

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

	Note	Share Capital	Share capital adjustments	Share premium	Other reserves	Retained earnings	Total equity
Balance on 1 January 2018, reported		117.738.440	441.418.396	247.478.865	1.265.796.861	1.695.177.698	3.767.610.260
Retreated		-	-	-	-	1.554.761	1.554.761
Balance on 1 January 2018, retreated		117.738.440	441.418.396	247.478.865	1.265.796.861	1.696.732.459	3.769.165.021
Net profit for the period, reported						490.485.975	490.485.975
Actuarial gain/(loss) for the period		-	-	-	-	(4.442.437)	(4.442.437)
Transactions with shareholders:							
Dividends for 2017	15	-	-	-	-	(547.769.527)	(547.769.527)
Exchange differences from consolidation		-	-	-	-	1.824.074	1.824.074
Balance on 31 December 2018		117.738.440	441.418.396	247.478.865	1.265.796.861	1.636.830.544	3.709.263.106
		-	-	-	-		
Net profit related to the period, reported						341.394.281	341.394.281
Actuarial gain/(loss) for the period		-	-	-	-	(4.636.774)	(4.636.774)
Deferred tax adjustment loss						(19.391.459)	(19.391.459)
Transactions with shareholders:							
Divident related to 2018	15	-	-	-	-	(255.021.461)	**(255.021.461)**
Exchange difference from consolidation						3.668.307	**3.668.307**
Balance on 31 December 2019		117.738.440	441.418.396	247.478.865	1.265.796.861	1.702.843.439	3.775.276.001

Chairman of the Board of Administration
Lăpușan Remus Gabriel

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

CONSOLIDATED CASH FLOWS STATEMENT
(expressed in lei, unless otherwise stated)

	Note	The year ended 31 December 2019	The year ended 31 December 2018
Cash generated from operations	26	**413.207.215**	**380.337.514**
Interest paid		-	-
Interest received		2.066.705	4.760.216
Tax on profit payments		- (69.822.103)	(127.664.538)
Net cash inflow from operation activities		**345.451.817**	**257.433.192**
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(1.026.337.953)	(294.174.746)
Financial investment/shares		(70.432)	(238.479)
Receipts from the disposal of tangible assets		146.396	296.336
Cash flow from connection fees and grants		151.274.740	67.112.639
Net cash used in investment activities		**(874.987.249)**	**(227.004.250)**
Cash flow from financing activities			
Long term loans drawings		423.477.000	163.299.500
Dividends paid		-(255.942.380)	(546.773.133)
Net cash used in financing activities		**167.534.620**	**(383.473.633)**
Exchange difference loss			**(98.968)**
Exchange difference		**3.668.307**	**1.923.042**
Net change in cash and cash equivalents		**(358.332.505)**	**(351.220.617)**
Cash and cash equivalent as at the beginning of the year	13	**711.317.624**	**1.062.538.241**
Cash and cash equivalent as at the end of the period	13	**352.985.119**	**711.317.624**

Chairman of the Board of Administration
Lăpușan Remus Gabriel

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

Notes 1 to 33 are part of these financial statements.

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (`Company`) has as main activity the transmission of natural gas. Also, the Company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 December 2019, the majority shareholder of the Company is the Romanian state, through the General Secretariat of the Government.

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

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

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

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

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

On 18 December 2017 the Limited Liability Company EUROTRANSGAZ SRL Chisinau (EUROTRANSGAZ S.R.L.) was established in the Republic of Moldova. SNTGN Transgaz SA Mediaş is the sole shareholder of EUROTRANSGAZ S.R.L., under Resolution 10/12 December 2017 on the establishment of this company.

The core business of EUROTRANSGAZ consists in:

1. Gas production; gas transmission; gas distribution; gas storage; gas supply
2. Transmission through pipelines
3. Storage
4. Consultancy for business and management

The share capital is MDL 894.313.653 (the RON equivalent of 221.879.217,31 lei at 31.12.2019) and is wholly owned by SNTGN Transgaz SA Medias - the founder of the Company, as a sole shareholder.

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

Under Resolution 39/05.09.2019 the Board of Administration of SNTGN Transgaz S.A In September 2018 the Board of Administration of SNTGN Transgaz SA approved the empowerment of Eurotransgaz's administrators (ETG) to register the sale - purchase contract and the transfer of ownership of the sole patrimonial complex SE `Vestmoldtransgaz`, and the performance of any action necessary for the reorganization of Vestmoldtransgaz (VTMG) as a limited liability company.

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

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

(i) The economic forecast for the winter of 2020, published on Thursday, 13 February by the European Commission, estimates that the European economy will continue to follow a path of steady and moderate growth. The euro area has so far enjoyed the longest period of uninterrupted growth since the introduction of the euro in 1999. According to forecasts, the growth of Romania's gross domestic product (GDP) will remain at 3,8% in 2020 and will have the value of 3,5% in 2021, while for the euro area it will remain stable at 1.2% in 2020 and 2021. For the EU as a whole, it is expected to slow slightly to 1,4% in 2020, and 2021, down from 1,5% in 2019.

Economic analysts on the other hand estimate an increase in the Romanian economy between 2,6% and 3,5% and an impairment of Leu in 2020 between 2 and 4 percentage points, due mainly to the increase in the twin deficits – budget deficit and current account deficit. The most pessimistic forecast belongs to the analysts from UniCredit, who see an economic growth of only 2,6% in 2020, from 4,2% in 2019. Transilvania Bank sees a growth of 3,5%, while the analysts from Raiffeisen Bank see a real growth of the GDP of Romania in 2020 of 3%. Economic analysts consulted by Ziarul Financiar said that Romania's economy will continue to grow at a rate above the European average, but risks can appear both internally and externally. Externally, surprises can arise from the European macroeconomic landscape, but also from the sphere of increasing global tensions. The risks at the internal level are constituted by the fiscal-budgetary situation and the election year 2020 cannot come with strong fiscal adjustment measures.

(ii) In the meeting held on 7 February 2019, the Board of Administration of the National Bank of Romania decided to maintain the interest rate of monetary policy at the level of 2,50% percent per year, to maintain the interest rate for the deposit facility to 1,50% per year and the interest rate for the loan facility to 3,50% percent per annum and to reduce the minimum mandatory reserve ratios applicable to credit and foreign currency liabilities of credit institutions at the level of 6 percent from 8 percent starting with the application period 24 February 2020 - 23 March 2020 and maintaining the minimum reserve rate required for liabilities in lei at the level of 8 percent.

(iii) The annual inflation rate increased to up to 4% in December 2019 from 3,8% in November, in the conditions in which the food merchandise were increased by 5,08% and non-food products by 3,31% the price of services registered an advance of 4,16%, according to data published on Tuesday by the National Institute of Statistics (INS). The International

Monetary Fund (IMF) revised the estimates of the consumption rates in Romania this year, to an increase in the annual average of 4,2%, versus an advance of 3,3% expected in the spring, while in 2020 prices would rise by 3,3%, compared to a 3% increase as estimated in spring.

(iv) For the first time, the international rating agency Fitch granted the `BBB -` rating with a stable outlook to Transgaz Mediaş (TGN), according to the release issued by the Bucharest Stock Exchange (BSE). Thus, Transgaz is evaluated at the rating level of our country and with two levels above the level previously held. The rating given to company by Fitch reflects the solid profile of Transgaz' activity as a concessionaire and operator of the natural gas transmission network in Romania, as well as the anticipation of a progressive contraction of the international activity of gas transit that derives from the traditional routes. The rating is backed by the country's gas transportation regulations and our expectations that a significant current investment in the Bulgaria-Romania-Hungary-Austria (BRUA) corridor will be added to Transgaz' regulated asset base (RAB), which is the basis for future earnings.

At the end of 2018 the leu has depreciated against the EURO (`EUR`) and against the US dollar (`USD`). Thus as compared to the end of 2017 the Leu was depreciated by 0,09% against the EUR (4,6639 as at 31 December 2018, 4,6597 as at 31 December 2017) and was depreciated by 4,68% against the USD (4,0736 as at 31 December 2018; 3.8915 as at 31 December 2017).

In the end of 2019 he leu has depreciated against the EURO (`EUR`) and against the US dollar (`USD`). Thus as compared to the end of 2018 the Leu was depreciated by 2,47 % against the EUR (4,7793 as at 31 December 2019, 4,6639 as at 31 December 2018) and was depreciated by 4,60% against the USD (4,2608 as at 31 December 2019; 4,0736 as at 31 December 2018).

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

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

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.

3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The annual Financial Statements of non-resident companies are converted using the closing rate method, which means that for the balance sheet the NBR exchange rate issued on 31 December 2019 is used (closing rate) and for the profit and loss account the income and expense was expressed at the annual average rate published by the National Bank of Romania for 2019. The use of these different exchange rates has as a consequence the highlighting of the conversion difference.

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

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

Consolidation procedures according to IFRS 10
The consolidated financial statements:
-combine similar items of assets, liabilities, equity, income, expenses and cash flows of the parent company with those of its subsidiaries;
- compensate (eliminate) the accounting amount of the investment made by the parent company in the subsidiary and the parent`s share of the equity of the subsidiary; accounting is according to IFRS 3;

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- eliminate in full all intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the entities of the group: profit or loss from the intragroup transactions recognised in the assets, such as inventories and the fixed assets are totally eliminated.

Accounting regulations applicable as of 2016

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

(a) Standards and interpretations applicable as of 2017

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

Amendments to IAS 12 Income Taxes
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;
- 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 (appplicable 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:

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IFRS 9 Financial Instruments -** adopted by the the UE on 22 November 2016 (appplicable 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, clasification, evaluation, depreciation loss, derecognition and hedge accounting against risks:

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

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

- *Depreciation loss:* IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected loss from impairment of receivables. The standard requires entities to recognize the anticipated impairment loss on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment loss over their lifetime. The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.

- *Depreciation:* applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows;

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fulfills an execution obligation.

Amendments to IAS 40 Investment Property –property related to Investment transactions (appplicable 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.

Standards and interpretations which will enter into force/applicable as of 2019 or at a subsequent date

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Amendments to IFRS 2 `Share-based Payment` – Classification and measurement of share-based payment transactions (appplicable 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 (appplicable 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 ot 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 treatmentcompany. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty .

  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.

3.2 Reporting on segments

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

3.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 are presented rounded by units.

c) *Transactions and balances*

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

According IAS 21- The Effects of Changes in Foreign Exchange Rates, when a group contains individual entities with different functional currencies, the results and financial position of each entity are denominated in a common currency so as to allow the presentation of the consolidated financial statements.

For the purpose of consolidation, the MDL was converted to the functional currency, the RON, at the NBR exchange rate issued on 31 December 2019 of RON 0,2481/MDL for the balance sheet and the NBR average exchange rate of 0,2413 RON/MLD for revenue and expense.

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.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Intangible Assets

Computer Software

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

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

Service Concession Agreement

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

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

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

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

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).

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

3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Impairmenr of non-financial assets

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

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

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

3.7 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).

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3.8 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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(c) Impairment of financial assets

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 the national or local level, related to the non-payment, connected to the portfolio assets
- 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 losse which was not incurred), discounted at the asset's original rate; the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the Company may measure impairment based on the fair value of an instrument using an observable market price.

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

3.10.Inventories

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

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 National Energy Regulatory Authority President. Decision no. 1773 / 16.10.2019 of ANRE President provided that the company was obliged to have a minimum level of natural gas stock of 939.894,097 MWhon on 31 October 2019.

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.

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 must be paid to the state and can be recovered only in the event of debtor prescription, as a result of bankruptcy decision.

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

3.15 Borrowings

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

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

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 management periodically evaluates positions on tax returns regarding situations where the applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, based on the estimated amounts due to tax authorities.

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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Commercial payables and other payables

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

3.18 Deferred revenue

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

The grants collected are assimilated to the governmental subsidies.

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

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

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

3.19 Employee benefits

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Benefits granted on retirement

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

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

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

Social insurance

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

Profit sharing and bonuses

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

3.20 Provisions for risks and charges

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

The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the Company expects the repayment 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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition

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

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

a) *Revenue from services*

Revenue from the domestic and international gas transmission results from the booking 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.

b) *Revenue from the sale of goods*

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

c) *Interest revenue*

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

d) *Revenue from dividends*

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

e) *Mutual compensation and barter transactions*

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

f) Revenue from penalties

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

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; thus, the Company does not apply hedge accounting. The management believes, however, that the Company is covered in terms of the currency risk, given that the foreign currency incoming payments (mainly revenue from international transmission) are used to settle liabilities denominated in foreign currency.

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

	31 December 2019	31 December 2018
Impact on profit and loss and on equity of:		
USD appreciation by 10%	125.419	121.191
USD depreciation by 10%	(125.419)	(38.536)
EUR appreciation by 10%	(32.214.164)	36.267.997
EUR depreciation by 10%	(32.214.164)	(36.267.997)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 2.989.892, (December 2018: lei 2.940.121).

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

The Company is exposed to interest rate risk by its bank deposits. The Company did not conclude any commitment to diminish the risk. For the average exposure of the period , if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been lower/higher by 497.755 (December 2018: lei 3.051.941 lower/higher) as a result of reducing the interest rate for bank deposits, respectively of the interest rate on the variable interest obligations.

(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 47 % of the trade receivable balances on 31 December 2019 (31 December 2018: 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. At the end of 2019 the company has available payment guarantees from its clients amounting to lei de 208.514.053.

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

	31 December 2019	31 December 2018
Without rating	43.030.956	4.672.134
BB		-
BB+	61.134.709	347.913.691
BBB-	7.691.934	13.569.848
BBB		-
BBB+	240.441.135	344.645.980
A	137.355	137.989
AA		-
AA-	363.482	216,037
	352.799.571	711.155.679

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(c) *Liquidity risk*

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

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

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

The table below shows obligations on 31 December 2019 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 31 December 2019 is as follows:

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	733.796.269	12.395.649	181.382.883	540.017.737
Commercial payables and other payables	344.728.433	291.449.595	53.278.838	-
	1.078.524.702	303.845.244	234.661.721	540.017.737

Maturity analysis of financial liabilities on 31 December 2018 is as follows:

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	259.278.444	3.121.315	70.206.550	185.950.579
Commercial payables and other payables	258.826.722	258.826.722	-	-
	518.105.166	261.948.037	70.206.550	185.950.579

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	31 December 2019	31 December 2018
Financial assets		
Cash and cash equivalents	339.753.879	419.910.423
Term bank deposits	13.231.240	291.407.201
Loans and receivables	1.244.132.492	1.108.155.574
Financial assets - stakes	24.887.146	24.816.713
Provisions related to financial assets - stakes	(24.887.146)	(24.816.713)
	1.597.117.611	**1.819.473.198**

	31 December 2019	31 December 2018
Financia liabilitiesl		
Debts evaluated to amortised cost		
Loans	663.930.000	233.195.000
Liabilities evaluated at fair value		
Financial securities for contracts	75.006.895	6.311.084
Commercial liabilities and other liabilities	269.721.538	252.515.638
	1.008.658.433	**492.021.722**

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

In 2019 the company's strategy, unchanged since 2018, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 30 September 2019 and on 31 December 2018 is reflected in the table below:

	31 December 2019	31 December 2018
Total borrowings	663.930.000	233.195.000
Except: cash and cash equivalents (Note 13)	(352.985.119)	(711.317.624)
Net cash position	310.944.881	(478.122.624)

Fair value estimate

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

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

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

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

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

5.1 Assumptions for the determination of the provision for retirement benefits

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

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

The present value of the obligations at 31 December 2019 is of lei 121.712.041 (as at 31 December 2018: lei 110.011.930 (Note 21).

The presentation of the current value for the 2019 and for 2018 depending on the following variables:

	31 December 2019
Inflation rate +1%	135.709.493
Inflation rate -1%	108.464.535
Investment return +1%	108.763.424
Investment return -1%	135.603.516

	31 December 2018
Inflation rate +1%	123.608.092
Inflation rate -1%	97.974.861
Investment return +1%	98.512.238
Investment return -1%	123.509.498

Analysis of the maturity of benefits payments:

	31 December 2019	31 December 2018
Up to one year	1.853.432	2.939.973
Between 1 and 2 years	3.391.582	2.897.013
Between 2 and 5 years	8.555.516	7.472.724
Between 5 and 10 years	46.416.350	40.447.448

5.2 The accounting treatment of the concession agreement

As indicated in Note 8, in May 2002 the Company concluded a Concession Agreement with the National Agency for Mineral Resources (`ANRM`), which entitles the Company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the Company according to Public Domain Law No. 213/1998, Government Decision (`GD`) No. 491/1998 and GD No. 334 of 2000 by which the Company was established. According to the provisions of this agreement, the Company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the Company recognized these assets in the statement of the financial position, with an appropriate reserve in equity. Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the Company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the Company's management considered that it is, in substance, an equity component, defined as the residual interest in the Company's assets after the deduction of all debts. In addition, because the Company and its predecessor, SNGN Romgaz SA, were controlled by the

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

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;

According to ANRE Order no.18/ 2019, as the holder of the operating license of the national natural gas transmission system issued by ANRE, the Company has the obligation to pay ANRE an annual contribution equal to 2% of the turnover achieved from the activities which are the subject of the licenses granted.

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.

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.

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

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 nr. 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.

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 2019 is:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.192.597.737	-	-	-	1.192.597.737
Revenue from international transmission	-	327.696.392	-	-	327.696.392
Other revenue	21.800.936	-	-	33.829.821	55.630.757
Operating revenue before the balancing and the construction activity according to IFRIC12	**1.214.398.673**	**327.696.392**	**-**	**33.829.821**	**1.575.924.886**
Depreciation	(155.537.705)	(32.526.688)	-	(7.636.494)	(195.700.887)
Operating expenses other than depreciation	(882.272.506)	(60.509.135)	-	(96.139.068)	(1.038.920.709)
Profit from operation before the balancing and construction activity according to IFRIC12	**176.588.462**	**234.660.569**	**-**	**(69.945.741)**	**341.303.290**
Revenue from the balancing activity			324.687.807		324.687.807
Cost of balancing gas			(324.687.807)		(324.687.807)
Revenue from the construction activity according to IFRIC12				868.356.796	868.356.796

Cost of constructed assets according to IFRIC12				(868.356.796)	(868.356.796)
Operating profit	**176.588.462**	**234.660.569**	**-**	**(69.945.741)**	**341.303.290**
Net financial gain					70.839.503
Profit before tax					**412.142.793**
Profit tax					(70.748.512)
Net profit					**341.394.281**
Assets on segments	4.658.293.396	322.200.917	193.537.441	622.683.873	5.796.715.627
Liabilities on segments	1.889.794.698	19.136.500	64.937.857	47.570.571	2.021.439.626
Capital expenditure - increases in assets in progress	938.315.311	2.056	-	117.150.665	1.055.468.032
Non-cash expenses other than depreciation	139.384.077	3.811.365	-	7.992.841	144.569.515

In 2019 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz din not perform the transmission activity, the costs registered by them and amounting to lei 5.922.170 being presented at the unallocated segment.

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

Unallocated assets include:

Tangible and intangible assets	179.597.749
The rights of use of the leased assets	9.359.179
Financial assets	
Goodwill from consolidation	9.775.599
Cash	352.985.119
Other assets	70.966.227
	622.683.873

Unallocated liabilities include:

Dividends payable	8.071.065
Deferred tax	4.436.759
Other debts	35.062.747
	47.570.571

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

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

6. INFORMATION ON SEGMENTS (CONTINUED)

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

In 2019 the subsidiaries Eurotransgaz SRL and Vestmoldtransgaz din not perform the transmission activity, the assets registered by them and amounting to lei 27.650.185 and the liabilities amounting to lei 34.314.571 being presented at the unallocated segment.

	Domestic Clients	Foreign Clients	Total
Revenue from the domestic transmission	1.135.092.073	57.505.664	1.192.597.737
Revenue from international transmission	335.328	327.361.064	327.696.392
Other revenue	54.451.915	1.178.842	55.630.757
	1.189.879.316	386.045.570	1.575.924.886

Domestic clients with over 10% of the total revenue include:	**Percentage of the total revenue**
ENGIE ROMANIA S.A.	15%
SNGN ROMGAZ S.A.	12%
OMV PETROM S.A.	11%

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

The Company has external receivables amounting to 22.635.726 (31 December 2018: lei 25.617.027).

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 transhipment of the Romanian territory, of which the activity performed through the Isaccea 2 – Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipeline is not regulated, the related tariffs being set on commercial bases by negotiation between the parties, and the activity performed through the Isaccea 1 – Negru Vodă 1 pipeline is regulated starting from 1 October 2016; *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.

6. INFORMATION ON SEGMENTS (CONTINUED)

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2018, is as follows:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.178.419.674	-	-	-	1.178.419.674
Revenue from international transmission	-	324.380.804	-	-	324.380.804
Other revenue	52.001.744	-	-	53.595.423	105.597.167
Operating revenue before the balancing and the construction activity according to IFRIC12	**1.230.421.418**	**324.380.804**	**-**	**53.595.423**	**1.608.397.645**
Depreciation	(151.199.173)	(31.828.995)	-	(6.885.211)	(189.913.379)
Operating expense other than depreciation	(707.535.091)	(50.161.907)	-	(104.566.599)	(862.263.597)
Profit from operation before the balancing activity according to IFRIC12	**371.687.154**	**242.389.902**	**-**	**(57.856.387)**	**556.220.669**
Revenue from the balancing activity	-	-	235.427.293	-	235.427.293
Cost of balancing gas	-	-	(235.427.293)	-	(235.427.293)
Revenue from the construction activity according to IFRIC12	-	-	-	405.793.585	405.793.585
Cost of onstructed assets according to IFRIC12	-	-	-	(405.793.585)	(405.793.585)
Profit from operation	**371.687.154**	**242.389.902**	**-**	**(57.856.387)**	**556.220.669**
Net financial gain	-	-	-	-	21.661.025
Profit before tax	**-**	**-**	**-**	**-**	**577.881.694**
Profit tax	-	-	-	-	(87.395.719)
Net profit	**-**	**-**	**-**	**-**	**490.485.975**
Assets on segments	3.709.437.875	352.259.381	144.737.737	786.586.629	4.993.021.622
Liabilities on segments	1.132.301.685	18.873.908	119.954.718	12.628.205	1.283.758.516
Capital expenditure - increases in assets in progress	421.491.278	-	-	28.416	421.519.694
Non-cash expenses other than depreciation	37.218.082	1.872.636	-	1.959.818	41.050.536

6. INFORMATION ON SEGMENTS (CONTINUED)

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

Unallocated assets include:	
Tangible and intangible assets	64.533.186
Financial assets	-
Goodwill from consolidation	9.413.102
Cash	711.317.624
Other assets	1.322.717
	786.586.629
Unallocated liabilities include:	
Deferred tax	4.596.976
Dividends payable	5.357.678
Other debts	2.673.550
	12.628.204

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 two foreign customers, while the domestic transmission activity is performed for several domestic customers.

	Domestic Clients	**Foreign Clients**	**Total**
Revenue from domestic transmission	1.175.180.341	3.239.333	1.178.419.674
Revenue from international transmission	495.728	323.885.076	324.380.804
Other revenue	104.472.988	1.124.179	105.597.167
	1.280.149.057	328.248.588	1.608.397.645

6. INFORMATION ON SEGMENTS (CONTINUED)

Domestic clients with over 10% of the total revenue include:	**Percentage of the total revenue**
ENGIE ROMANIA S.A.	19%
OMV PETROM GAS SRL	12%

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

7. TANGIBLE ASSETS

	Lands and buildings	Transmission system assets	Other fixed assets	Assets in progress	Total
On 31 December 2018					
Cost on 1 January 2018	279.746.273	957.225.955	262.677.605	18.486.701	1.518.136.534
Depreciation accumulated	(147.718.908)	(605.699.488)	(206.162.698)	-	(959.581.094)
Initial net book value	132.027.365	351.526.467	56.514.907	18.486.701	558.555.440
		-	-	14.582.836	14.582.836
Inflows	399.663	(3.717)	37.477.213	165.059	38.038.218
Inflows/Reclassifications	609.772	(152.608)	27.498.788	(27.955.952)	-
Transfers	(8.305)	-	(104.033)	-	(112.338)
Outflow (net book value)	(6.495.143)	(30.866.343)	(28.409.553)	-	(65.771.039)
Expense with depreciation	-	-	-	(1.656.183)	(1.656.183)
Adjustments for impairment	126.533.352	320.503.799	92.977.322	3.622.461	543.636.934
Final net book value					
Cost	280.587.744	957.069.630	315.757.267	5.278.644	1.558.693.285
Accumulated depreciation	(154.054.392)	(636.565.831)	(222.779.945)	-	(1.013.400.168)
Adjustments for impariment	-	-	-	(1.656.183)	(1.656.183)
Final net book value	126.533.352	320.503.799	92.977.322	3.622.461	543.636.934
On 31 December 2019					
Initial net book value	126.533.352	320.503.799	92.977.322	3.622.461	543.636.934
Inflow	-	-	-	139.909.884	139.909.884
Reclassification	1.193.893	-	1.513.773	-	2.707.666
Transfers	796.177	-	18.226.792	(19.022.969)	-
Outflow (net book value)	(5.334)	(302)	(40.446)	-	(46.082)
Expense with depreciation	(6.708.249)	(30.809.468)	(25.728.592)	-	(63.246.309
Final net book value	121.809.839	289.694.029	86.948.849	124.509.376	622.962.093
Cost	282.547.989	957.068.832	327.794.571	126.165.558	1.693.576.950
Accumulated depreciation	(160.738.150)	(667.374.803)	(240.845.722)	-	(1.068.958.675)
Adjustmenst for impariment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	121.809.839	289.694.029	86.948.849	124.509.376	622.962.093

7. TANGIBLE ASSETS (CONTINUED)

The gross book value of the fully depreciated assets, still used, is lei 292.791.713 lei (31 December 2018: 273.561.000 lei).

On 31 December 2019 the advances granted for the procurement of tangible assets in the amount of lei 366.000 are presented in the ongoing assets.

In 2019, the company capitalised depreciation costs of Lei 3.695.598 lei related to the fixed assets in progress.

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

The intangible assets in progress registered by Eurotransgaz-VTMG on 31 December 2019 and amounting to lei 117.103.534, are works for the construction of the Ungheni – Chișinău pipeline.

The Company does not depreciate the tangible assets approved for discarding.

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.

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

The main terms of the Concession Agreement are the following:

- The company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the company and then approved by the ANRE;
- The company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The company must annually publish by 30 October the available capacity of the system for the following year;
- The company must annually respond to the clients' orders by 30 November and the ANRM must be informed on all rejected orders decided by the Company's management;
- The company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, as of October 2007: 10%) of the gross revenue from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the Company;
- The company may cancel the agreement by notifying the ANRM 12 months in advance;
- The ANRM may cancel the agreement by a 6-month prior notice, if the company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for `national interest` reasons; in this case, the Company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The Concession Agreement does not include an automatic renewal clause.

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

9. INTANGIBLE ASSETS

	Assets related to the ACS	Goodwill from consolidation	Information programmes	Intangible assets in progress	Total
On 31 December 2018					
Cost	6.076.105.751	-	50.568.382	200.167.387	6.326.841.520
Accumulated depreciation	(3.783.080.684)	-	(48.342.995)	-	(3.831.423.679)
Concession Agreement receivables	(529.761.578)	-	-	-	(529.761.578)
Concession Agreement receivable depreciation	90.827.909	-	-	-	90.827.909
Adjustments for impairment	-	-	-	(4.856.743)	(4.856.743)
Initial net book value	1.854.091.398	-	2.225.387	195.310.644	2.051.627.429
Inflow	-	-	-	406.936.858	406.936.858
Reclassifications	3.717	-	5.196	(164.817)	(155.904)
Transfers	81.885.811	-	3.492.712	(85.378.523)	-
Outflow	(2.051)	-	-	-	(2.051)
Depreciation reclassification amortizare	(161.251.590)	-	(1.580.009)	-	(162.831.599)
Depreciation	-	-	-	(2.157.507)	(2.157.507)
Adjustment for impairment	-	9.413.102	-	-	9.413.102
Concession Agreement receivables	(21.979.685)	-	-	-	(21.979.685)
Concession Agreement receivable depreciation	30.368.709	-	-	-	30.368.709
Final net book value	**1.783.116.309**	**9.413.102**	**4.143.286**	**514.546.655**	**2.311.219.352**
Cost	6.157.978.033	-	54.066.289	521.560.905	6.733.605.227
Accumulated depreciation	(3.944.317.080)	-	(49.923.003)	-	(3.994.240.083)
Goodwill from consolidation	-	9.413.102			9.413.102
Concession Agreement receivables	(551.741.263)	-	-	-	(551.741.263)
Concession Agreement receivable depreciation	121.196.619	-	-	-	121.196.619
Adjustments for impairment	-	-	-	(7.014.250)	(7.014.250)
Final net book value	1.783.116.309	9.413.102	4.143.286	514.546.655	2.311.219.352
On 31 December 2019					
Initial net book value	1.783.116.309	9.413.102	4.143.286	514.546.655	2.311.219.352
Inflow	-		-	915.558.148	915.558.148
Reclassifications	(1.206.388)	-	43.626	(590)	(1.163.352)
Transfers	36.264.864	-	2.111.363	(38.376.227)	-
Depreciation	(164.137.743)	-	(2.572.825)	-	(166.710.568)
Adjustment for impairment	-	-	-	(2.128.527)	(2.128.527)
Concession Agreement receivables	(21.872.728)		-	-	(21.872.728)
Concession Agreement receivable depreciation	33.108.049		-	-	33.108.049
Exchange difference	-	362.497	-	-	362.497
Final net book value	**1.665.272.363**	**9.775.599**	**3.725.450**	**1.389.599.459**	**3.068.372.871**
Cost	6.193.036.508	-	56.221.278	1.398.742.236	7.648.000.022
Accumulated depreciation	(4.108.454.822)	-	(52.495.828)	-	(4.160.950.650)
Adjustments for impairment	-	-	-	(9.142.777)	(9.142.777)
Goodwill from consolidation	-	9.775.599	-	-	9.775.599
Concession Agreement receivables	(573.613.990)		-	-	(573.613.990)
Concession Agreement receivable depreciation	154.304.667	-	-	-	154.304.667
Final net book value	1.665.272.363	9.775.599	3.725.450	1.389.599.459	3.068.372.871

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. As at 31 December 2019 the NTS linepack is 398.504 MWh and amounts to Lei 28.997.944.

On 31 December 2019 the advances granted for the procurement of national gas transmission system development works in the amount of lei 45.259.826 are presented in the intangible assets in progress. The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

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

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

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

	Assets acquired in leasing according to IFRS16
Cost on 1 January 2019	**-**
Accumulated depreciation	-
Initial net book value	**-**
Inflows	12.254.498
Depreciation	(2.895.319)
Final net book value	**9.359.179**

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

Company	Activity	% Percentage owned 2019	% Percentage owned 2018	31 December 2019	31 December 2018
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
Mebis SA	Gas production distribution and supply	17,47	17,47	6.461.736	6.461.736
Phaedra's SHA	Gas transmission	33.33	33,33	308.909	238.477
Eurotransgaz	Gas transmission	100	100		
Minus adjustments for impairment of investments in: Resial SA, Mebis SA and Phaedra's SHA				(24.887.146)	(24.816.714)
				-	-

10. FINANCIAL ASSETS (CONTINUED)

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.

In 2019 Transgaz participated in the increase in the share capital of EUROTRANSGAZ with the amount of 13.784.238 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. The participation was eliminated.

Participation in Phaedra's SHA

The consortium consisting in Reganosa, Transgaz and EBRD submitted a tender for the participation in the second round of the privatization of a 66% stake of the company DESFA, the Greek operator of the gas transmission network. Since the consortium is under liquidation and was not declared successful in the tender for the procurement of DESFA, , the company recorded an adjustment for the impairment of 100% of the cost.

In case of the financial assets held by Transgaz, i.e. Mebis SA, Phaedra S.A 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.

10. FINANCIAL ASSETS (CONTINUED)

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 the fair value by other elements of the comprehensive income. The standard is not applied to the interests in subsidiaries, associated entities and joint ventures accounted for pursuant to IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements or IAS 28 Investments in Associates and Joint Ventures, and Transgaz, as sole shareholder of Eurotransgaz SRL, applies these standards at the consolidation of the financial statements.

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

Net assets	140.798.149
Fair value pf paid consideration	180.200.000
Goodwill MDL	39.401.851
Goodwill – the lei equivalent on 31.12.2019	9.775.599

At the date of purchase, the net assets of Vestmoldtransgaz SRL amounted to 140,798,149 MDL, , and the registered share capital and unregistered share capital to 177,408,819 MDL. The fair value of the consideration paid at the date of purchase was 180,200,000 MDL. The difference between the fair value of the consideration paid and the share capital, including the unregistered capital, is found in the goodwill and amounts to 2,791,181 MDL.

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

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

The investment made for the purpose of the purchase was compensated with the share capital of the purchased entity Vestmoldtransgaz SRL, thus the sum of 3,721,910 MDL being contribution related to the subsequent transactions the regarding increase of the share capital of the subsidiary. In 2019 Eurotransgaz SRL made contributions related to the increase of the share capital of Vestmoldtransgaz in the amount of 491,665,568 MDL, the total investment of Eurotransgaz SRL on 31 December 2019 amounting to 675,587,478 MDL.

11. INVENTORIES

	31 December 2019	31 December 2018
Gas inventories	83.752.821	30.865.253
Spare parts and materials	117.176.515	79.016.618
Materials in custody at third parties	323.094.475	174.188.219
Adjustments for write-down of inventories	(29.409.319)	(28.762.730)
	494.614.492	255.307.360

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

Within the materials in custody to third parties inventoriess are included in the amount of lei 306.506.874 purchased by the company for the achievement of the BRUA Phase I project and lei 6.569.011 purchased by the company for the achievement of the VTMG prject.

Movements in the adjustments account are analysed below:

	31 December 2019	31 December 2018
Adjustment on 1 January	28.762.730	20.593.987
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	646.589	8.016.743
Adjustment at the end of the period	29.409.319	28.762.730

In 2019 adjustments for write-down of inventories were constituted according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables	698.644.947	704.984.971
Advance payments to suppliers	102.931.731	258.200
Loan to Resial SA (Note 10)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	723.921.414	629.754.861
Non-refundable loans as subsidies	3.127.035	3.905.908
Other receivables	157.936.652	190.515.944
Adjustment of impairment of trade receivables	(407.023.748)	(312.732.990)
Adjustment of impairment of other receivables	(32.886.504)	(46.916.888)
	1.248.421.873	1.171.540.352

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

The company challenged administratively the tax decision on additional tax payment obligations in the amount of RON 25,409,833 issued 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.

The advance payments granted to the company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee. The amount of lei 13.769.933 (55.501.544 MDL) is the advance payments to the developer partners and third parties to execute the Ungheni - Chişinău pipeline construction works.

On 31 December 2019, the amount of Lei 25.442.815 (31 December 2018: Lei 86.731.826) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 5% in USD (31 December 2018: 2%) and 95% in EUR (31 December 2018: 98%).

With a view to consolidation, internal transactions were eliminated, meaing trade payables and trade receivables, amounting to lei 102.853 and revenue and expenses amounting to lei 1.051.630.

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 49.677.210 according to IFRS 9.

The intragroup tranzactions eliminated amount to lei 102.853.

Commercial receivables analysis according to IFRS9 is as follows:

	31 December 2019	31 December 2018
Current and unamortized		
Transit receivables	21.230.996	23.696.096
Doubtful or insolvency receivables	183.501.584	128.164.433
Affiliated party receivables	224.348.642	254.599.893
Various receivables	269.563.725	311.872.742
	698.644.947	**718.333.164**
Amortization		
Transit receivables	-	-
Doubtful or insolvency receivables	182.858.709	137.231.704
Affiliated party receivables	172.569.149	137.935.354
Various receivables	51.595.890	50.627.434
Total amortization	**407.023.748**	**325.794.492**
Total trade receivables and other receivables net of provision	**291.621.199**	**392.538.672**

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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

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

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

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

Movements in the provision account are analysed below:

	31 December 2019	31 December 2018
Adjustment on 1 January	359.649.878	333.150.569
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	80.260.375	26.499.309
Adjustment at the end of the period	439.910.253	359.649.878

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

In 2019 adjustments for receivables from insolvent companies or from companies in significant financial difficulties were established.

The company adjusts transmission revenue if it is unlikely to collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

13. CASH AND CASH EQUIVALENT

	31 December 2019	31 December 2018
Cash at bank in RON	104.237.988	157.860.638
Cash at bank in foreign currency	248.561.584	553.295.041
Other cash equivalents	185.547	161.945
	352.985.119	711.317.624

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

On 31 December, 2019 the Company has established security and trust for third parties as two letters of bank guarantee in the total amount of 11,000,000 lei issued by Banca Comerciala Romana, valid until the date of 31.03.2020.

Letters are guaranteed by collateral deposit of the same value, amounts related the related amounts being unavailable until the expiration of a period.

The weighted average of the effective interest related to short-term bank deposits was of 0,98% on 31 December 2019 (0,71% on 31 December 2018) and these deposits have a maximum maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	Number of ordinary shares	Share capital	Share premium	Total
On 31 December 2018	11.773.844	117.738.440	247.478.865	365.217.305
On 31 December 2019	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	441.418.396	-	441.418.396
On 31 December 2018, 31 December 2019	11.773.844	559.156.836	247.478.865	806.635.701

The authorized number of ordinary shares is 11,773,844 (31 December 2018: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 December 2019 is the following:

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

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

The ownership structure on 31 December 2018 is the following:

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

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.

Other reserves

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.7 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.

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

Legal reserve

In accordance with the Romanian law and the Company's Articles of Incorporation, the Transgaz must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 December 2019, amounts to Lei 23,547,688 (31 December 2018: Lei 23,547,688). The legal reserve is included in the `Retained earnings` in these financial statements.

Dividend allocation

In 2019, the Company declared and allocated a dividend of lei 21,66 /share, related to the profit of the previous year (2018: Lei 45.38 per share). The total dividends declared from the profit of 2018 are lei 255.021.461,04 (dividends declared from the profit of 2017: RON 534.297.041).

In December 2018 the Company approved and allocated a dividednd in the amount of lei 1.14 lei/share of the existing amounts in the account Other reserves on 31 december 2017. The amount of the declared dividends is of lei 13.472.486.

15. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 31 December 2019:

The European Investment Bank (EIB)

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

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

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

15. LONG-TERM BORROWINGS (CONTINUED)

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

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 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:

	31 December 2019	31 December 2018
Within 1 year	2.867.580	-
Between 1 and 5 years	73.601.220	58.765.140
Over 5 years	162.496.200	174.429.860
	238.965.000	233.195.000

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

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

	31 December 2019	31 December 2018
Within 1 year	-	-
Between 1 and 5 years	55.333.340	-
Over 5 years	183.631.660	-
	238.965.000	-

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.

On 31 December 2019 no amount of the loan was drawn.

15. LONG-TERM BORROWINGS (CONTINUED)

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).

On 31 December 2019 the two installments of the loan totaling 185 million lei was drawn.

The maturity of the loan from the BCR is presented below:

	31 December 2019	31 December 2018
Within 1 year	-	-
Between 1 and 5 years	29.760.000	-
Over 5 years	156.240.000	-
	186.000.000	-

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

	31 December 2019	31 December 2018
Variable interest rate	424,965,000	-

In January 2019 by Board of Administration Resolution 2/22 January 2019 it was approved the conclusion of an open financing contract between Eurotransgaz and the European Investment Bank for the financing of the construction by Vestmoldtransgaz S.R.L. of the Ungheni – Chişinău gas transmission pipeline, for the amount of EUR 38 million, having a loan duration of 15 years. On 31 December 2019 the loan was not taken from the European Investment Bank.

16. 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.

16. DEFERRED REVENUE (CONTINUED)

	31 December 2019	31 December 2018
Initial balance	541.987.503	497.755.179
Increases	151.274.740	67.112.639
Amounts recorded in the revenue (Note 22)	(23.346.534)	(22.880.315)
Final balance	669.915.709	541.987.503

The amount of lei 22.268.687 representing the current share of the deferred revenue is presented in the commercial debts and other debts.

The balance of the deferred revenue consists of:

	31 December 2019	31 December 2018
Connections and assets received free of charge	249.756.541	242.766.378
Grants	420.159.168	276.952.438
	669.915.709	519.718.816

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 (Podişor, Bibeşti and Jupa) and a grant of 179.320.400 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.

The company takes the neccesry measures to extend the duration of the Grant Agreement following the extension of BRUA Phase I completion deadlines.

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 neighboring 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 9,124,204.86 lei eligible expenses was collected as reimbursement.

17. PROFIT TAX

Profit tax expense

	Year ended 31 December 2019	Year ended 31 December 2018
Expense with the profit tax - current	86.675.856	98.131.983
Deferred tax - impact of temporary differences	(15.927.344)	(10.736.264)
Profit tax expense	70.748.512	87.395.719

In 2019 and in 2018, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax	412.142.793	577.881.694
Profit/loss (ETG – VTMG)	(6.958.788)	(4.998.534)
Theoretical expense with the tax the statutory rate of 16% (2018: 16%)	67.056.253	93.260.836
Non-taxable expenses, net	3.692.259	(5.865.118)
Profit tax expense	70.748.512	87.395.719
Profit tax related liability, current	-	-

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

At Eurotransgaz the current expenses regarding income tax is calculated based on the the taxable income in the statitory financial statements, for tax purposes, the deductibility of certain expenses, e.g. protocol expenses, is limited to a certain percentage of profit, specified in the tax legislation. In 2019 the standard rate of income tax was set at 12% (2018:12%).

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 31 December 2019 (31 December 2018: 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:

17. PROFIT TAX (CONTINUED)

	31 December 2019	Movement	31 December 2018	Movement	1 January 2018 (restated)
Deferred tax payment					
Tangible and intangible assets	93.809.366	19.273.965	74.535.401	(4.830.977)	79.366.378
Recoverable deferred tax					
Provision for employee benefits	(19.482.674)	(1.880.765)	(17.601.909)	(1.687.882)	(15.914.026)
Risks and charges	(4.326.124)	(1.389.893)	(2.936.231)	(590.391)	(2.345.840)
Receivables and other assets	(61.929.503)	(12.530.444)	(49.399.059)	(3.627.013)	(45.772.046)
	8.071.065	3.472.863	4.598.202	(10.736.264)	15.229.078

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.

In 2019, the company recorded a loss out of the adjustment of the deferred tax related to the previous years amounting to Lei 19.391.459. The data related to the previous periods were not restated as the error was not considerable.

The consolidated statements of ETG with VTMG recognised a deferred tax iability amounting to lei 210.683 lei , calculated for the period 2016-2018 regarding employee obligations for unpaid leave, representing a recoverable tax amounting to lei 8.133, and the payment balance for tangible assets is of lei 218.816.

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

	31 December 2019	31 December 2018
Deferred tax liabilities to be paid in more than 12 months as reported	8.071.065	4.598.202

18. TRADE PAYABLES AND OTHER PAYABLES

Short term payables

	31 December 2019	31 December 2018
Trade payables	154.103.081	174.808.778
Suppliers of fixed assets	68.607.676	51.234.117
Dividends payable	4.436.759	5.357.678
Debts related to royalties	47.331.297	44.328.459
Other taxes	25.811.320	19.128.134
Amounts payable to employees	16.325.024	17.607.009
Payable VAT	-	-
VAT not applicable	13.654.334	17.229.300
Deferred income	22.186.787	22.268.687
Transmission service guarrantees	24.299.678	10.377.593
Transmission services advance payments	37.720.694	18.199.697
Other debts	40.002.401	17.048.556
	454.479.051	397.588.008

Long term payables

	31 December 2019	31 December 2018
Transmission service guarrantees	46.167.789	-
Other debtds	7.111.049	-
	53.278.838	-

On 31 December 2019, of the total trade payables and other debts the amount of lei 57.444.558 (31 December 2018: lei : 42.129.468) is expressed in foreign currency, especially in EUR.

19. PROVISIONS FOR RISKS AND CHARGES

	31 December 2019	31 December 2018
Current provision		
Provision for litigation	47.211.887	1.841.652
Provision term contract	2.575.281	2.527.562
Provision for employee participation in profits	15.833.774	14.278.573
Provision for outstanding leaves	6.618.768	-
	72.239.710	18.647.787

19. PROVISIONS FOR RISKS AND CHARGES (CONTINUED)

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.

In 2017, one of the administrators of the Company from 2013-2017 opened court proceedings to recover some amounts of money representing an unpaid difference, amounts considered to be due as a result of the mandate contract he carried out in 2014- 2016. For this case, the Company etablished a provision for litigation amounting to lei 876.882.

The company is the subject of an investigation of the Competition Council regarding the way in which procedures for the awaringd 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. The Competition Council investigation is a risk factor for the company, because in this investigation the company could be applied a fine applied to the turnover. Because of the uncertainties caused by the investigations carried out by the Competition Council, the company established a provision for litigation amounting to lei 41.758.087.

20. 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 2019

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 assumptions used are as follows:

20. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement.
- age as a whole number, assessed from the date of birth communicated by the company for each beneficiary. The maximum possible age range was considered as 100 years, this being the maximum value defined in the available mortality tables.
- each person receives the full annual benefit he/she is entitled to, depending on the probability of annualized survival.
- The probability of individual survival was assessed depending on the age of each person on 31 December 2018, and it is the probability that a person of a certain age on 31 December 2018 will survive up to a certain time in the future.
- the employee redundancy used in the calculation was established using a conservative approach, lower than those calculated on the basis of the company's past experience, this being a hypothesis that we considered reasonable on the basis of the information provided by the company.
- employee departure rates are important in the context when employees leave the company and no longer receive the benefit. The amount of the provision for the two benefits granted by the company covers the benefits that the company will pay to its current employees, who survive until the payment of each benefit and have been continuously employed by the company;
- The calculation parameters and assumptions used about the evolution of the consumer price index, the average annual return on investment and the annual percentage change of the salary were estimated from 2023 to take into account the target inflation level for the Euro area; for the period 2019-2022 the values were set to ensure natural progression up to the level of 2023, taking into account the values predicted by the National Bank of Romania.
- The calculation parameters and assumptions used for mortality rates are taken from the mortality tables published by the National Institute of Statistics and the values for departure rates were estimated based on the data provided by the company and also on previous experience in making similar assessments.

Movement in the provision for employee benefits

1 January 2018	99.462.665
of which:	
Short-term	3.608.726
Long-term	95.853.939
Interest cost	3.850.418
Current service cost	5.582.701
Payments from provisions during the year	(3.326.292)
Actuarial gain/loss related to the period	4.442.437
31 december 2018	110.011.929
of which:	

Short-term	2.939.793
Long-term	107.072.136
Interest cost	4.217.605
Current service cost	6.119.488
Payments from provisions during the year	(3.273.756)
Actuarial gain/loss related to the period	4.636.774
31 December 2019	121.712.040
of which:	
Short-term	1.853.432
Long-term	119.858.608

21. OTHER REVENUE

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from penalties applied to clients for delay payments	10.048.295	74.131.839
Revenue from connection fees, grants and goods taken free of charge	23.346.534	22.880.315
Revenue from the sale of residual materials	961.572	1.730.329
Revenue from leases	1.561.698	1.567.017
Revenue from recovered materials	8.758.767	1.388.356
Revenue from operating subsidies for other operating expenses	-	5.354
Other revenue from operation	10.953.891	3.893.956
	55.630.757	105.597.166

The intragrup tranzactions eliminated amount to lei 1.051.629,51.

22. OTHER OPERATING EXPENSES

	Year ended 31 December 2019	Year ended 31 December 2018
Loss/gain on impairment of receivables	87.687.475	19.032.851
Sponsorship expenses	3.991.000	3.929.821
Utilities	8.641.824	6.758.029
Insurance premia	863.356	1.051.548
Maintenance expenses	1.111.940	1.089.545
Security and protection expenses	23.169.098	19.110.236
Professional training	1.409.607	1.049.212
Telecommunications	2.681.899	5.717.725
Net loss on disposal of fixed assets	(102.155)	(181.945)
Bank charges and other fees	2.729.473	2.374.964
Rents	1.014.592	5.116.997
Loss from receivables	13.044	3.947
Loss/gain from inventory impairment	646.589	8.168.744
Research and studies expenses	328.515	286.324
Marketing and protocol expenses	368.677	1.023.538
Penalties and fines	1.679.690	486.609
Gas storage capacity booking	11.875.976	5.394.847
Loss from depreciation of tangible and intangible assets	2.128.527	3.813.689
Other	31.214.234	28.600.062
	181.453.361	112.826.743

23. EMPLOYEE COSTS

	Year ended 31 December 2019	Year ended 31 December 2018
Salaries and benefits	380.732.309	351.469.122
Cost of insurance and social security	24.192.135	21.538.002
Other employee costs	10.893.662	10.242.689
	415.818.106	383.249.813

Average number of employees in financial year:

	Year ended 31 December 2019	Year ended 31 December 2018
Blue collars	2.604	2.613
White collars	1.642	1.671
	4.246	4.284
Eurotransgaz S.R.L.	2	2
Vestmoldtransgaz S.R.L.	24	23
	26	25

24. NET FINANCIAL REVENUE/(EXPENSES)

	Year ended 31 December 2019	Year ended 31 December 2018
Foreign exchange gains	27.210.706	23.402.033
Interest revenue	24.682.897	25.231.865
Other financial revenue	49.724.555	-
Financial revenue	101.618.158	48.633.898
Foreign exchange loss	(26.490.617)	(22.884.684)
The effects of updating the provision for employee benefits	(4.217.605)	(3.850.418)
Adjustments for the loss of value of financial assets	(70.433)	(238.477)
Other financial expenses	-	706
Financial expenses	(30.778.655)	(26.972.873)

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

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 49.677.210 according to IFRS 9.

25. CASH FROM OPERATION

	Year ended 31 December 2019	Year ended 31 December 2018
Profit before tax	**412.142.793**	**577.881.694**
Adjustments for:		
Depreciation	195.700.887	189.913.379
Adjustments for impairment of intangible assets	2.128.527	3.813.689
Gain/(loss) on disposal of fixed assets	(102.155)	(181.945)
Provisions for risks and charges	53.591.923	3.689.949
Adjustments for write-down of inventory	646.589	8.168.744
Revenue from connection fees, grants and goods taken free of charge	(23.346.534)	(22.885.669)
Provizions for guarrantees	(968.881)	697.594
Provizions for employee benefits	2.845.732	2.256.409
The effect of updating the provision for employee benefits	4.217.605	3.850.418
Bad debts written off	13.044	3.947
Adjustments of impairment of receivables	81.229.256	18.335.257
Adjustments of impairment of financial assets	70.432	238.477
Interest revenue	(24.682.897)	(25.231.865)
Concession Agreement receivable depreciation	(49.677.210)	-
Effect of exchange rate fluctuation on other items than from operation	6.817.482	137.247
Other expenses and revenue	(305.653)	(152.512)
Operating profit before the changes in working capital	**660.320.940**	**760.534.813**
(Increase)/decrease in trade and other receivables	(99.793.362)	(184.018.055)
(Increase)/decrease in inventories	(239.953.721)	(181.382.691)
Increase/(decrease) in trade payables and other debts	92.633.358	(14.796.553)
Cash generated from operations	**413.207.215**	**380.337.514**

26. 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.

In the periods ended 31 December 2019 and 31 December 2018 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

	Year ended 31 December 2019	**Year ended 31 December 2018**
Sallary paid to the members of the Board of Administration and management	17.727.886	16.511.166
Social contribution of the Company	391.965	342.040
	18.119.851	16.853.206

In the periods ended 31 December 2019 and 31 December 2018, 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 provision for the mandate contract is presented in Note 20.

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

ii) Loan to a related party

	31 December 2019	**31 December 2018**
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment for loan impairment	(1.770.346)	(1.770.346)
	-	-

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.7.

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Relationship	Year ended 31 December 2019	Year ended ended 31 December 2018
SNGN Romgaz	Entity under common control	172.591.525	130.897.213
Electrocentrale Deva SA	Entity under common control	2.244.386	3.150.801
Electrocentrale Bucureşti SA	Entity under common control	51.361.684	84.035.586
Electrocentrale Constanţa	Entity under common control	4.398.855	8.996.924
Termo Calor Pitesti	Entity under common control	585.545	-
E.ON Energie Romania	Entity under common control	76.864.207	107.014.795
		308.046.202	334.095.319

iv) Sales of goods and services (VAT excluded)

	Relationship	Year ended 31 December 2019	Year ended 31 December 2018
SNGN Romgaz	Entity under common control	3.786	682.742
Energoterm Tulcea SA	Entity under common control	-	1.922
Electrocentrale Deva SA	Entity under common control	74.985	46.194
Electrocentrale București	Entity under common control	-	46.435
Electrocentrale Galati SA	Entity under common control	428.983	392.647
Electrocentrale Constanta	Entity under common control	271.700	115.001
E.ON Energie Romania	Entity under common control	35.373	-
		814.827	1.284.671

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

v) Gas sales – the balancing activity (without the VAT)

	Relationship	Year ended 31 December 2019	Year ended 31 December 2018
SNGN Romgaz	Entity under common control	9.790.667	4.189.282
Electrocentrale Deva SA	Entity under common control	7.317.040	1.439.593
Electrocentrale București	Entity under common control	4.136.921	3.130.618
Termo Calor Pitesti	Entity under common control	237.432	-
Electrocentrale Constanta	Entity under common control	17.716.283	4.203.175
E.ON Energie Romania	Entity under common control	29.777.924	19.220.495
		68.976.267	32.183.163

vi) Receivables from related parties (without the adjustment)

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	20.178.007	26.080.064
Electrocentrale Deva SA	Entity under common control	235.032	638.383
Electrocentrale București	Entity under common control	19.089.977	25.924.390
Electrocentrale Constanţa	Entity under common control	1.577.907	2.487.375
Termo Calor Pitesti	Entity under common control	(19.181)	-
E.ON Energie Romania	Entity under common control	19.821.687	25.457.928
		60.883.429	**80.588.140**

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	925.753	4.573.651
Electrocentrale Deva SA	Entity under common control	4.144.671	125.887
Electrocentrale Bucuresti	Entity under common control	1.973.340	1.471.193
Electrocentrale Constanţa	Entity under common control	1.238.865	5.394.574
Termo Calor Pitesti	Entity under common control	122.677	-
E.ON Energie Romania	Entity under common control	3.596.095	3.071.021
		12.001.401	14.636.326

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

	Relationship	Year ended 31 December 2019	Year ended 31 December 2018
SNGN Romgaz	Entity under common control	108.165.746	16.598.349
E.ON Energie Romania	Entity under common control	-	54.342.140
		108.165.746	**70.940.489**

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

	Relationship	Year ended 31 December 2019	Year ended 31 December 2018
SNGN Romgaz	Entity under common control	14.151.079	6.072.954
Electrocentrale Bucureşti SA	Entity under common control	6.080	6.187
Termo Calor Piteşti	Entity under common control	-	3.133
E.ON Energie Romania	Entity under common control	995.261	5.700.583
		15.152.420	11.782.857

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Relationship	Year ended 31 December 2019	Year ended 31 December 2018
SNGN Romgaz	Entity under common control	22.760.033	23.577.085
Electrocentrale Deva SA	Entity under common control	974.902	442.249
Electrocentrale București	Entity under common control	12.352.849	5.887.127
Termo Calor Pitești	Entity under common control	718.181	
Electrocentrale Constanța	Entity under common control	4.088.509	-
E.ON Energie Romania	Entity under common control	38.787.443	14.633.352
		79.681.917	44.539.813

xi) Debts to affiliated parties from gas supplies (VAT included)

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	18.117.465	13.269.220
		18.117.465	13.269.220

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

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	1.722.034	500.136
Electrocentrale București	Entity under common control	454	487
E.ON Energie Romania	Entity under common control	817.722	1.131.853
		2.540.210	1.632.476

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

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	1.371.051	2.715.878
Electrocentrale Deva SA	Entity under common control	61.253	38.697
Electrocentrale București	Entity under common control	563.026	3.155.294
Electrocentrale Constanța	Entity under common control	1.745.405	-
Termo Calor Pitești	Entity under common control	525.679	
E.ON Energie Romania	Entity under common control	8.367.448	10.601.236
		12.633.862	16.511.105

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

xiv) Guarrantees from affiliates (bank guarantee letter)

	Relationship	31 December 2019	31 December 2018
SNGN Romgaz	Entity under common control	33.849.251	24.335.239
Termo Calor Piteşti	Entity under common control	1.000	164.899
Electrocentrale Deva SA	Entity under common control	1.000	169.053
E.ON Energie Romania	Entity under common control	22.882.012	8.059.011
		56.733.263	32.728.202

27. 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.

	Year ended 31 December 2019	Year ended 31 December 2018
Profit attributable to the Company's equity holders	341.394.281	490.485.975
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	29,00	41,66

28. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations
Approximately 0.58 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 31 December 2019 (31 December 2018: 0.23%). Transactions mainly represent sales of products and services in exchange for raw materials and services or offsets with clients and suppliers within the operating cycle.

Barter transactions
No barter transactions were made in 2019 and 2018.

29. 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 national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 December 2019 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 1.164.449.462 412.

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

On 11 December 2019 the European Bank for Reconstruction and Development approved Project 50410, which is capital investments as a capital increase in exchange for the participation in the sharecapital of Vestmoldtransgaz SRL, the daughter company of Eurotrasngaz SRL, owned and controlled by SNTGN Transgaz SA. The investment of the bank will partly finance the construction of the Ungheni-Chişinău gas transmision pipeline in Moldova, approximately 120 l<m long and having a planned capacity of 1,5 bcm.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The Company's management believes that fiscal obligations included in these financial statements are properly presented and that it is not necessary for any additional provisions to be established to cover the uncertainties related to tax treatment.

29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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 54 managers (49 managers in 2018).

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 31 September 2019 and 31 December 2018 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, there were complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives, commercial and labour disputes. Based on its own estimates and internal and external consulting, the Company's management believes there will be no material loss exceeding the provisions established in these financial statements and is not aware of circumstances that give rise to potentially significant obligations in this regard.

In 2012, the Company received a request for data and information within the investigation of the Competition Council opened under Order 759 of 29 September 2011 and extended by Order 836 of 1 November 2011. In 2015 additional requests for data and information within the investigation of the Competition Council was received. The Company provided the requested data and information.
As of 6 June 2016, the Company is 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. Based on their own estimates, the Company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

In 2019 four administrators initiated court proceedings to recover some amounts of money representing unpaid difference, amounts they consider to be due as a result of the mandate contracts they carried out in 2015-2017. Based on its own estimates, the Company considers that there are no circumstances that could lead to potential significant obligations in this respect.

29 . CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

The company is in arbitration proceedings with Bulgargaz EAD, who requests the return or payment of the quantity of natural gas from the Isaccea 1- Negru Vodă 1 gas transmission pipeline. The company does not recognize the claims and based on its own estimates, it considers that there are no circumstances to give rise to significant potential obligations in this regard.

The company has the capacity of intervener in a procedure by which a network user requests the annulment of ANRE decision of 2017 regarding the interpretation and application of the provisions of Art. 99 of the Network Code. There are seven judgments issued by the Bucharest Court of Appeal which confirm the legality of ANRE commission decisions rendered in cases of similar nature. Based on its own estimates, the Company's management considers that there are no circumstances that would give rise to significant potential obligations in this regard.

The company is in dispute with two network users who dispute the calculation method of the price of the transactions related to the imbalance on the ground that there are inconsistencies between the legal acts in the matter, from the implementation of the provisions of GEO 114/2018 and until the entry into force of the Order 170/2019 of the ANRE President. The company has collected the invoices in dispute and based on its own estimates, it considers that there are no circumstances that would give rise to significant potential obligations in this regard.

Control Y Montajes Industriales SA
In the statement as of 31 December 2019, the Vestmoldtransgazy is involved in a dispute with the entity Control Y Montajes Industriales SA. The litigation appeared during the procurement procedure related to the disagreement of the participant Control Y Montajes Industriales SA regarding the tender procedure. In the court, the applicant requests the annulment of the results of the procurement procedure, mentioning some clauses in the regulation of the National Agency for Regulation in Energy. The Vestmoldtransgaz`s winning probability is considered high.

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.

29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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

vii) The political and economic situation in Ukraine

The Company has contracts for gas transmission from Russia to Bulgaria, Turkey, Greece and other countries. Also, Romania annually imports part of the necessary transported gas through the Company's pipelines. It's likely that Gazprom Export stops the supplies of gas transported domestically or internationally through Romania or that Ukraine prevents the transit of gas supplied by Gazprom Export on its territory.

viii) Eurotransgaz Loan guarantee
The company is the guarantor in Loan Contract 90703 concluded on 24 January 2019 between the European Investment Bank and Eurotransgaz for EUR 38 million to finance the construction by Vestmoldtransgaz SRL of the Ungheni Chisinau natural gas transmission pipeline.

30. FEES OF THE STATUTORY AUDITOR

The fees for the financial year ended 31 December 2019 charged by BDO Audit SRL to the parent company, invoiced in 2019, are: 79.682 lei (without VAT) for limited revision 2410 as at 30 June 2019 and 116.882 lei (without VAT) for other services than the statutory audit, and the fees charged by the statutory auditor for ETG and VTMG amount to lei 79.146.

The fees for the financial year ended December 31, 2018 collected by BDO Audit SRL, invoiced in 2019, are: 174,989 lei (without VAT) for statutory audit and 29,760 lei (without VAT) for other services than the statutory audit.

31. 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.

	Year ended 31 December 2019	**Year ended 31 December 2018**
Revenue from the construction activity according to IFRIC12	868.356.796	405.793.585
Cost of assets constructed according to IFRIC12	(868.356.796)	(405.793.585)

The related costs were equal to the revenue, the Company did not obtain any profit from the construction of the intangible asset.

32. EVENTS SUBSEQUENT TO THE BALANCE DATE

By EGMS Resolution no.5 /16.03. 2020 it is approved the establishment, together with the Central European Gas Hub, of the company ROMANIAN GAS HUB SERVICES SA for the operation of the Virtual Trading Point in Romania (PVT).

The European Commission announced on 6 March 2020 the issue of the Decision approving the commitments proposed by the company in the investigation of AT 40335, to resolve concerns regarding a possible breach of Article 102 of the Treaty on the Functioning of the European Union, which prohibits the abuse of a dominant position.

Through the commitments approved by the European Commission, Transgaz undertakes the following:

- Transgaz will ensure the maximum capacity available to the users of the natural gas export network from Romania to Hungary and Bulgaria, considering the efficient and safe operation of the system and its integrity;
- to ensure that the tariffs proposed to the Romanian Energy Regulatory Authority (ANRE) will not differentiate between the export market and the domestic one;
- Transgaz will not prevent the export of natural gas;

By Ordinance 1/2020 the provisions of ANRE Order No.18/2019 are repealed, establishing that the Company, as the holder of the operating license of the national gas transmission system issued by ANRE, is obliged to pay annually to ANRE a money contribution equal to 2% of the turnover achieved from the activities covered by the licenses granted.

In 2020 Transgaz participated in the increase of the share capital of EUROTRANSGAZ by the amount of EUR 8.547.652 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

In April 2020 the subsidiary Vestmoldtransgaz sent a notification for the termination of the contract for the Ungheni –Chisinau pipeline project Lot 5 works, and the letters of guarantee and advance payment were executed.

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

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

32. EVENTS SUBSEQUENT TO THE BALANCE DATE (CONTINUED)

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

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

Chairman of the Board of Administration
Lăpușan Remus Gabriel

Director – General
Ion Sterian

Chief Financial Officer
Marius Lupean