THE NATIONAL GAS TRANSMISSION COMPANY
TRANSGAZ S.A.

INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020 (UNAUDITED)

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

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INTERIM FINANCIAL STATEMENTS

Contents

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	Note	30 September 2020 (unaudited)	31 December 2019
ASSET			
Fixed assets			
Tangible Assets	7	453.557.296	476.405.816
Rights of use of the leased assets	9	9.462.567	9.359.179
Intangible Assets	9	3.872.151.543	3.058.556.071
Financial assets	10	282.280.178	215.886.809
Trade receivables and other receivables	12	967.925.415	723.921.414
		5.585.376.999	**4.484.129.289**
Current assets			
Inventories	11	344.464.206	488.033.645
Commercial receivables and other receivables	12	295.650.922	485.867.200
Cash and cash equivalent	13	335.249.821	311.138.161
		975.364.949	**1.285.039.006**
Total asset		**6.560.741.948**	**5.769.168.295**
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	15	1.265.796.861	1.265.796.861
Retained earnings	15	1.732.162.850	1.709.507.825
		3.804.595.412	**3.781.940.387**
Long-term debts			
Long-term loans	16	1.185.175.479	661.062.420
Provision for employee benefits	21	119.858.608	119.858.608
Deferred revenue	17	840.478.673	647.728.922
Deferred tax payment	18	8.849.493	7.860.382
Commercial debt and other debts	19	7.331.156	53.278.838
		2.161.693.409	**1.489.789.170**

Notes 1 to 33 are part of these financial statements.

	Note	30 September 2020 (unaudited)	31 December 2019
Current debts			
Commercial debts and other debts	0	477.162.734	420.478.016
Provision for risks and charges	20	62.738.561	72.239.710
Current tax payment	18	-	-
Short-term loans	16	52.698.400	2.867.580
Provision for employee benefits	21	1.853.432	1.853.432
		594.453.127	**497.438.738**
Total debts		**2.756.146.536**	**1.987.227.908**
Total equity and debts		**6.560.741.948**	**5.769.168.295**

Endorsed and signed on behalf of the Board of Administration on November 10, 2020 by:

Chairman of the Board of Administration
Remus Gabriel Lăpușan

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

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

	Note	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Revenue from the domestic transmission activity		878.326.912	791.477.564
Revenue from the international transmission activity		87.077.386	255.503.605
Other revenue	22	40.946.321	38.531.465
Operational revenue before the balancing and construction activity according to IFRIC12		**1.006.350.619**	**1.085.512.634**
Depreciation	7, 9	(168.593.438)	(145.169.327)
Employees costs	24	(318.713.069)	(296.603.771)
NTS gas consumption, materials and consumables used		(74.193.388)	(80.734.698)
Expenses with royalties		(96.540.565)	(103.951.471)
Maintenance and transmission		(17.030.948)	(19.206.465)
Taxes and other amounts owed to the state		(53.906.808)	(79.700.009)
Revenue/ (Expenses) with provisions for risks and charges		3.865.221	4.288.653
Other operating cost	23	(70.701.044)	(119.919.649)
Operational profit before the balancing and construction activity according to IFRIC12		**210.536.580**	**244.515.897**
Revenue from the balancing activity		148.025.924	250.929.758
Cost of balancing gas		(148.025.924)	(250.929.758)
Revenue from the construction activity according to IFRIC12	32	1.018.105.706	521.459.417
Cost of assets constructed according to IFRIC12	32	(1.018.105.706)	(521.459.417)
Operational profit		**210.536.580**	**244.515.897**
Financial revenue	25	50.147.965	41.522.259
Financial cost	25	(12.457.688)	(20.741.548)
Financial revenue, net		**37.690.277**	**20.780.711**
Profit before tax		**248.226.857**	**265.296.608**
Profit tax expense	0	(43.430.466)	(40.608.088)
Net profit for the period		**204.796.391**	**224.688.520**
Basic and diluted earnings per share (expressed in lei per share)	28	17,39	19,08
Total comprehensive income for the period		**204.796.391**	**224.688.520**

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	Note	Share Capital	Share capital adjustments	Share premium	Other reserves	Retained earnings	Total equity
Balance on 1 January 2019		**117.738.440**	**441.418.396**	**247.478.865**	**1.265.796.861**	**1.640.298.503**	**3.712.731.065**
Net profit for the period, reported		-	-	-	-	224.688.520	224.688.520
Transactions with shareholders:							
Dividends for 2018	15	-	-	-	-	(255.021.461)	(255.021.461)
Balance on 30 September 2019 (unaudited)		**117.738.440**	**441.418.396**	**247.478.865**	**1.265.796.861**	**1.609.965.562**	**3.682.398.124**
Net profit related to the period		-	-	-	-	123.570.496	123.570.496
Actuarial gain/loss for the period		-	-	-	-	(4.636.774)	(4.636.774)
Deferred tax adjustment loss		-	-	-	-	(19.391.459)	(19.391.459)
Balance on 31 December 2019		**117.738.440**	**441.418.396**	**247.478.865**	**1.265.796.861**	**1.709.507.825**	**3.781.940.387**
Net profit for the period		-	-	-	-	204.796.391	204.796.391
Transactions with shareholders:							
Dividends for 2019	15	-	-	-	-	**(182.141.366)**	**(182.141.366)**
Balance on 30 September 2020 (unaudited)		**117.738.440**	**441.418.396**	**247.478.865**	**1.265.796.861**	**1.732.162.850**	**3.804.595.412**

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	Note	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Cash generated from operations	26	**308.476.046**	**332.827.034**
Interest paid		(2.151.316)	-
Interest received		1.677.695	1.677.235
Paid profit tax		(42.319.410)	(19.382.263)
Net cash inflow from operation activities		**265.683.015**	**315.122.006**
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(798.130.441)	(673.347.839)
Financial investment/shares		(66.393.369)	(86.007.405)
Receipts from the disposal of tangible assets		214.049	146.396
Cash flow from connection fees and grants		240.004.763	141.722.028
Net cash used in investment activities		**(624.304.998)**	**(617.486.820)**
Cash flow from financing activities			
Long term loans drawings		277.938.000	234.915.000
Loans for working capital		286.955.879	-
Dividends paid		(182.160.236)	(255.522.002)
Net cash used in financing activities		**382.733.643**	**(20.607.002)**
Net change in cash and cash equivalents		**24.111.660**	**(322.971.816)**
Cash and cash equivalent as at the beginning of the year	13	**311.138.161**	**708.752.317**
Cash and cash equivalent as at the end of the period	13	**335.249.821**	**385.780.501**

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1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (`company`) has as main activity the transmission of natural gas. Also, the company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 30 September 2020, 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.

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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 gross domestic product (GDP) registered in the second quarter of this year, considered by analysts the worst for the economy, a decrease of 10.5% on both the gross series and the seasonally adjusted series, compared to the similar period of 2019.

Compared to Q1/2020, the gross domestic product was in real terms lower by 12.3%, shows the "signal" data related to the evolution of the economy in the second quarter of this year transmitted on Friday by the National Institute of Statistics (NIS). In H1/2020, the economy contracted by 4.7%, on the gross series and by 3.9% on the seasonally adjusted series, compared to the same period last year. The "signal" as well as the provisional estimates of the quarterly gross domestic product are affected by the difficulties created by the pandemic crisis and by the establishment of the state of emergency and the state of alert. These difficulties have been related to the collection of basic data and they resulted in an increase in the non-response rate. Alternative sources were used to supplement the information in order to reduce, as much as possible, the effects of these causes on the quality of the indicators produced", say the NIS representatives.

It is mentioned that the published data will be subject to revisions, according to the calendar of press releases and the policy of revision of national accounts published on the NIS website, as new data sources become available. "Under current conditions, revisions could be higher than usual." (Source ZF)

(ii) On 5 August 2020, the Board of the National Bank of Romania decided:

- to lower the monetary policy rate from 1,50% per year to 1,75% per year from 6 August;
- to lower the interest rate for the deposit facility from 1,25% per year to 1,00% per year and the interest rate for the (Lombard) credit facility from 2,25% per year to 2,00% per year;
- to maintain the current levels of the mandatory minimum reserves for the lei and currency liabilities of the credit institutions;
- to continue performing repo operations and buying government securities on the secondary market (sourse BNR).

(iii) The annual CPI inflation rate followed in Q2 2020 the downward trend visible since early this year and neared in June the mid-point of the variation band of the flat target, standing at 2,58%, compared to 3,05% in March. The disinflationary trend owed mainly owed

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mainly to the large fall in fuel prices given the plummeting international oil prices induced by the strong contraction of aggregate demand amid the health crisis and the uncertainties about the trajectory of the global economic recovery. At the same time, however, the simultaneous occurrence of demand- and supply-side shocks, arising from the measures taken to flatten the epidemic curve, put the annual adjusted CORE2 inflation rate on a relatively stable course, coming in at 3,7 percent at quarter-end. Under the impact of these developments, in June, the annual CPI dynamics stood 0,1 percentage points below the latest macroeconomic projection (in the May 2020 *Inflation Report*). Moreover, in the course of Q2, the average annual HICP inflation rate continued to count among the highest across the EU Member States, closing, however, part of the gap with the EU average (sourse, BNR Inflation Report - August 2020).

(iv) On 8 July 2020 Fitch Ratings affirmed Transgaz`s rating at `BBB-` with a Stable Outlook, according to the release sent to the Bucharest Stock Exchange. The report of the agency shows that the 'BBB-' rating of Transgaz with a Stable Outlook `reflects its solid business profile as a concessionaire and operator of the gas transmission network in Romania as well as our expectation of a progressive contraction of its international gas transit business derived from traditional routes. The rating is supported by the country's regulation for gas transmission and our expectation that a significant current investment related to the Bulgaria-Romania-Hungary-Austria corridor (BRUA) will be added to Transgaz's regulated asset base (RAB), supporting future earnings`.

(v) According to a release published on 30 October 2020, the financial rating agency Fitch Ratings confirmed Romania's sovereign rating at "BBB minus" with a negative outlook, this being the last note in the "investment-grade" category, recommended for investments. According to Fitch, Romania's rating is supported by the moderate level of government debt, as well as by a GDP per capita and indicators on governance and human development, which are above those of other countries that benefit from a "BBB" rating. But these strengths are offset by a large budget deficit and current account deficit compared to other countries.

"The negative outlook reflects deteriorating public finances due to pro-cyclical policies in recent years, as well as the impact of the coronavirus pandemic on economic and fiscal performance. Although Fitch expects the economy to recover from 2021

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

the uncertainty about political developments, combined with a new explosion in the number of cases of infection, both domestically and globally, continues to affect the economic and fiscal outlook. The weak track record in fiscal consolidation despite strong economic growth in recent years, as well as high levels of budgetary rigidities, will continue to be a significant challenge to public finances in the medium term, "said Fitch Ratings. (Source Digi24).

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At the end of Quarter III 2020 as compared to the end of 2019 the leu depreciated against the EURO (`EUR`) by 1,89% (1 EUR= 4,8698 lei on 30 September 2020, 1 EUR = 4,7793 lei on 31 December 2019) and appreciated by 2,33% against the US dollar (`USD`) (1 USD = 4,1617 lei on 30 September 2020, 1 USD = 4,2608 lei on 31 December 2019).

At the end of Quarter III 2019 as compared to the end of 2018 the leu depreciated against the EURO (`EUR`) by 1,87% (1 EUR= 4,7511 lei on 30 September 2019, 1 EUR = 4,6639 on 31 December 2018) and by 6,76% against the US dollar (`USD`) (1 USD =4,3488 lei on 30 September 2019, 1 USD = 4,0736 on 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.

Accounting regulations applicable as of 2016

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

3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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:

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Amendments to IAS 12 Income Taxes
Recognition of Deferred Tax Assets for Unrealised Losses (applicable for the annual periods beginning on or after 1 January 2017);

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

- Unrealized loss on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;
- The accounting value of an asset does not limit the estimation of the future taxable profits
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;
- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax loss, an entity will estimate deferred tax in combination with other deferred tax of the same type.

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

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

(b) Standards and interpretations applicable as of 2018

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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.

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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);

IFRS 15 establishes a single model for the entities for revenue accounting resulting from customer contracts, replacing the following standards and interpretations from the date of entry into force:
- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programmes;
- IFRIC 15 - Agreements for the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 – Income - Barter Transactions Involving Advertising Services

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 40 Investment Property –property related to Investment transactions

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(applicable for the annual periods beginning on or after 1 January 2018);

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

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.

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IFRS 2 `Share-based Payment` – Classification and measurement of share-based payment transactions (applicable for the annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 `Insurance Contracts` - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`;
- Amendments to IFRS 10 `Consolidated Financial Statements` and IAS 28 `Investments in Associates and Joint Ventures`- Sale or contribution of assets between an investor and its

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associate or joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);

- IFRIC 23- `Uncertainty over Income Tax Treatment` was prepared as an interpretation regarding IAS 12 Income Taxes, to specify the way of the uncertainty over the income tax accounting is presented.

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

  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.

3.3 Transactions in foreign currency

a) *Functional currency*

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

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

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

c) *Transactions and balances*

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

3.4 Accounting for the effects of hyperinflation

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 `Financial Reporting in Hyperinflationary Economies`. This standard required

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financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the company no longer applies IAS 29.

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

3.5 Intangible Assets

Computer Software

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

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

Service Concession Agreement

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

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

3.6 Tangible Assets

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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.

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.

3.SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

3.7. Impairment of non-financial assets

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

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474,952,575 (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).

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

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

3.9 Financial assets

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

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

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.

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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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

– economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The company assesses first whether objective evidence of impairment exists.

(i) Assets registered at amortized cost

Impairment testing of trade receivables is described above.

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

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

(ii) Assets measured at cost

The share held at Eurotrangaz SRL is recognized at its fair value as of the date of trading, being evaluated, after the initial recognition, at cost according to Art.4.1.2 of IFRS 9 and Art.10.a-IAS 27-Separate Financial Statements:
`When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 or using the equity method.`

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10.Inventories

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

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

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

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

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The minimum gas stock that the company, as holder of the national natural gas transmission system operating license is required to have in underground storage facilities, is established by decision of the President of the National Energy Regulatory Authority. Decision no. 1773/16.10.2019 of the ANRE President provided that the company was obliged to have a minimum level of natural gas stock of 939.894,097 MWh on 31 October 2019, and Decision no. 588/08.04.2020 of the ANRE President established the obligation for the company to have a minimum level of natural gas stock of 560.724,517 MWh until 31 October 2020.

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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Cash and cash equivalent

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

3.14 Equity

Share capital

Ordinary shares are classified as equity.

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

Dividends

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

3.15 Borrowings

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

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

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 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

3.19 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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Employee benefits

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

Benefits granted on retirement

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

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

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

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

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

3.21 Provisions for risks and charges

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

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

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

3.22 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,

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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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Mutual compensation and barter transactions*

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

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

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

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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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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:

	30 September 2020 (unaudited)	31 December 2019
Impact on profit and loss and on equity of:		
USD appreciation by 10%	123.268	125.419
USD depreciation by 10%	(123.268)	(125.419)
EUR appreciation by 10%	(27.423.473)	(36.331.510)
EUR depreciation by 10%	27.423.473	36.331.510

(ii) Price risk

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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 2.096.352 on September 2020 (September 2019: lei 2.210.025).

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

The company is exposed to interest rate risk by its bank deposits and variable interest loans. The company did not conclude any commitment to diminish the risk. For the average exposure of the period , if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been higher / lower by 5.316.370 (December 2019: lei 497.755 lower/higher) as a result of reducing the interest rate for variable interest loans and the interest rate on the bank deposits.

(b) ***Credit risk***

Credit risk is especially related to cash and cash equivalents and trade receivables. The company drew up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of adjustments for doubtful debts, represents the maximum value exposed to credit risk. The company's credit risk is concentrated on the 5 main customers, which together account for 49% of the trade receivable balances in 30 September 2020 (31 December 2019: 47%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. On 30 September 2020 the company has available payment guarantees from its clients amounting to lei 171.162.634.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	30 September 2020 (unaudited)	31 December 2019
Without rating	497.191	1.183.999
BB+	206.677.616	61.134.709
BBB-	1.967.789	7.691.934
BBB+	125.404.851	240.441.135
A	136.852	137.355
AA-	286.004	363.482
	334.970.303	**310.952.614**

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

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(c) ***Liquidity risk***

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

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

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

The table below shows obligations on 30 September 2020 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 30 September 2020 is as follows:

	Total amount	Less than 1 year	1-5 years	Over 5 years
Loans	1.382.680.260	76.347.364	661.647.853	644.685.043
Commercial payables and other payables	351.926.037	344.594.881	7.331.156	-
	1.734.606.297	420.942.245	668.979.009	644.685.043

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	311.146.989	257.868.151	53.278.838	-
	1.044.943.258	270.263.800	234.661.721	540.017.737

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:

	30 September 2020 (unaudited)	31 December 2019
Financial assets		
Cash and cash equivalents	315.271.406	297.906.921
Term bank deposits	19.978.415	13.231.240
Loans and receivables	1.372.487.400	1.205.939.118
Financial assets - stakes	307.167.324	240.773.955
Provisions related to financial assets - stakes	(24.887.146)	(24.887.146)
	1.990.017.399	**1.732.964.088**

	30 September 2020 (unaudited)	31 December 2019
Financial liabilities		
Debts evaluated to amortised cost		
Loans	1.237.873.879	663.930.000
Liabilities evaluated at fair value		
Financial securities for contracts	26.052.999	75.006.895
Commercial liabilities and other liabilities	325.873.038	182.861.256
	1.589.799.916	**921.798.151**

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

In 2020 the company's strategy, unchanged since 2019, is to keep the indebtedness degree as low

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as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 30 September 2020 and on 31 December 2019 is reflected in the table below:

	30 September 2020 (unaudited)	31 December 2019
Total borrowings	1.237.873.879	663.930.000
Except: cash and cash equivalents (Note 13)	(335.249.821)	(311.138.161)
Net cash position	902.624.058	352.791.839

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

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payment scheme. The provision was brought to the present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

The present value of the obligations at 31 December 2020 is of lei 121.712.041 (Note 21).

The presentation of the current value for the 2019 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

Analysis of the maturity of benefits payments:

	31 December 2019
Up to one year	1.853.432
Between 1 and 2 years	3.391.582
Between 2 and 5 years	8.555.516
Between 5 and 10 years	46.416.350

5.2 The accounting treatment of the concession agreement

As indicated in Note 8, in May 2002 the company concluded a Concession Agreement with the National Agency for Mineral Resources (`ANRM`), which entitles the company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the company according to Public Domain Law No. 213/1998, Government Decision (`GD`) No. 491/1998 and GD No. 334 of 2000 by which the company was established. According to the provisions of this agreement, the company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the company recognized these assets in the statement of the financial position, with an appropriate reserve in equity. Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the company's management considered that it is, in substance, an equity component, defined as the residual interest in the company's assets after the deduction of all debts. In addition, because the company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the company applied IFRIC 12 (Note 3.5).

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

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

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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, in 2019 the company had 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 and as of 1 January 2020, according to ANRE Order no. 1/2020, the company has the obligation to pay annually to ANRE a tariff amounting to 0.062 lei MWh applied to the quantity of natural gas transmitted for carrying out activities in the natural gas sector based on a license.

5.4 Long-term receivables

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

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

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

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

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

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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 2020 is:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	878.326.912	-	-	-	878.326.912
Revenue from international transmission	-	87.077.386	-	-	87.077.386
Other revenue	24.250.908	-	-	16.695.413	40.946.321
Operating revenue before the balancing and the construction activity according to IFRIC12	**902.577.820**	**87.077.386**	**-**	**16.695.413**	**1.006.350.619**
Depreciation	(141.417.804)	(24.621.691)	-	(2.553.943)	(168.593.438)
Operating expenses other than depreciation	(580.072.143)	(22.170.559)	-	(24.977.899)	(627.220.601)
Profit from operation before the balancing and construction activity according to IFRIC12	**181.087.873**	**40.285.136**	**-**	**(10.836.429)**	**210.536.580**
Revenue from the balancing activity	-	-	148.025.924	-	148.025.924
Cost of balancing gas	-	-	(148.025.924)	-	(148.025.924)
Revenue from the construction activity according to IFRIC12	-	-	-	1.018.105.706	1.018.105.706
Cost of constructed assets according to IFRIC12	-	-	-	(1.018.105.706)	(1.018.105.706)
Operating profit	**181.087.873**	**40.285.136**	**-**	**(10.836.429)**	**210.536.580**
Net financial gain					**37.690.277**
Profit before tax					**248.226.857**
Profit tax					**(43.430.466)**
Net profit					**204.796.391**
Assets on segments	5.445.561.378	286.287.201	169.481.564	659.411.805	6.560.741.948
Liabilities on segments	2.706.164.668	4.970.253	31.434.435	13.577.180	2.756.146.536
Capital expenditure - increases in assets in progress	1.157.792.044	165.544	-	197.740	1.158.155.328
Non-cash expenses other than depreciation	3.800.420	528.413	-	104.553	4.433.386

6. INFORMATION ON SEGMENTS (CONTINUED)

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

Unallocated assets include:

Tangible and intangible assets	32.239.006
The right of use of the leased assets	9.462.567
Financial assets	282.280.178
Cash	335.249.821
Other assets	180.233
	659.411.805

Unallocated liabilities include:

Deferred tax	8.849.493
Dividends payable	3.853.373
Other debts	874.314
	13.577.180

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.

6. INFORMATION ON SEGMENTS (CONTINUED)

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

International transmission services are performed for several external customers, while the domestic transmission activity is performed for several internal customers

	Domestic Clients	**Foreign Clients**	**Total**
Revenue from the domestic transmission	865.471.113	12.855.799	878.326.912
Revenue from international transmission	-	87.077.386	87.077.386
Other revenue	40.185.648	760.673	40.946.321
	905.656.761	100.693.858	1.006.350.619

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

	Percentage of the total revenue
ENGIE ROMANIA S.A.	16%
OMV PETROM S.A.	14%
AIK Energy Romania	11%
SNGN ROMGAZ 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 lei 11.637.282 (31 December 2019: lei 22.635.726).

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.

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 30 September 2019, is as follows:

	Domestic gas transmission	**International gas transmission**	**Balancing**	**Unallocated**	**Total**
Revenue from domestic transmission	791.477.564	-	-	-	791.477.564
Revenue from international transmission	-	255.503.605	-	-	255.503.605
Other revenue	23.081.361	-	-	15.450.104	38.531.465
Operating revenue before the balancing and the construction activity according to IFRIC12	**814.558.925**	**255.503.605**	**-**	**15.450.104**	**1.085.512.634**
Depreciation	(116.467.132)	(24.343.585)	-	(4.358.610)	(145.169.327)

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Operating expense other than depreciation	(564.873.727)	(41.358.074)	-	(89.595.609)	(695.827.410)
Profit from operation before the balancing activity according to IFRIC12	**133.218.066**	**189.801.946**	**-**	**(78.504.115)**	**244.515.897**
Revenue from the balancing activity	-	-	250.929.758	-	250.929.758
Cost of balancing gas	-	-	(250.929.758)	-	(250.929.758)
Revenue from the construction activity according to IFRIC12	-	-	-	521.459.417	521.459.417
Cost of constructed assets according to IFRIC12	-	-	-	(521.459.417)	(521.459.417)
Profit from operation					**244.515.897**
Net financial gain	-	-	-	-	20.780.711
Profit before tax					**265.296.608**
Profit tax	-	-	-	-	(40.608.088)
Net profit					**224.688.520**
Assets on segments	4.312.969.601	331.166.978	112.816.279	564.353.126	5.321.305.984
Liabilities on segments	1.561.164.521	29.243.798	39.039.888	9.459.653	1.638.907.860
Capital expenditure - increases in assets in progress	**660.471.856**	**-**	**-**	**22.589**	**660.494.445**
Non-cash expenses other than depreciation	**60.700.023**	**1.803.196**	**-**	**425.603**	**62.928.822**

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.

6. INFORMATION ON SEGMENTS (CONTINUED)

Unallocated assets include:

Tangible and intangible assets	33.341.877
Right of use of leased assets	10.035.872
Financial assets	131.537.801
Cash	385.780.501
Other assets	3.657.075
	564.353.126

Unallocated liabilities include:

Deferred tax	3.540.975
Dividends payable	4.857.137
Other debts	1.061.541
	9.459.653

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

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

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

	Domestic Clients	Foreign Clients	Total
Revenue from domestic transmission	790.911.472	566.092	791.477.564
Revenue from international transmission	335.328	255.168.277	255.503.605
Other revenue	37.641.734	889.731	38.531.465
	828.888.534	256.624.100	1.085.512.634

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 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 30 September 2019 (unaudited)					
Cost on 1 January 2019	280.188.081	957.069.630	278.280.052	5.278.644	1.520.816.407
Depreciation accumulated	(153.962.398)	(636.565.831)	(215.368.858)	-	(1.005.897.087)
Adjustments for impairment	-	-	-	(1.656.183)	(1.656.183)
Initial net book value	126.225.683	320.503.799	62.911.194	3.622.461	513.263.137
Inflows	-	-	-	17.395.417	17.395.417
Reclassifications	1.178.503	-	27.885	-	1.206.388
Transfers	796.177	-	13.229.786	(14.025.963)	-
Outflow (net value	(5.334)	(302)	(37.378)	-	(43.014)
Expense with depreciation	(5.232.757)	(23.117.013)	(17.346.653)	-	(45.696.423)
Final net book value	122.962.272	297.386.484	58.784.834	6.991.915	486.125.505
Cost	282.132.936	957.068.832	285.049.398	8.648.097	1.532.899.263

Accumulated depreciation	(159.170.664)	(659.682.348)	(226.264.564)	-	(1.045.117.576)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	122.962.272	297.386.484	58.784.834	6.991.915	486.125.505
On 31 December 2019					
Initial net book value	122.962.272	297.386.484	58.784.834	6.991.915	486.125.505
Inflow	-	-	-	5.410.934	5.410.934
Transfers	-	-	4.997.008	(4.997.008)	-
Outflow (net value)	-	-	(3.068)	-	(3.068)
Expense with depreciation	(1.448.391)	(7.692.455)	(5.986.709)	-	(15.127.555)
Final net book value	121.513.881	289.694.029	57.792.065	7.405.841	476.405.816
	282.132.936	957.068.832	289.379.956	9.062.024	1.537.643.748
Cost	(160.619.055)	(667.374.803)	(231.587.891)	-	(1.059.581.749)
Accumulated depreciation	-	-	-	(1.656.183)	(1.656.183)
Adjustments for impairment	121.513.881	289.694.029	57.792.065	7.405.841	476.405.816
Final net book value					
On 30 September 2020					
Initial net book value	121.513.881	289.694.029	57.792.065	7.405.841	476.405.816
Inflows	-	-	-	22.933.870	22.933.870
Transfers	1.635.676	4.673.800	16.669.639	(22.979.115)	-
Outflow (net value)	(52.065)	-	(11.686)	-	(63.751)
Expense with depreciation	(4.590.473)	(23.038.562)	(18.089.604)	-	(45.718.639)
Final net book value	118.507.019	271.329.267	56.360.414	7.360.596	453.557.296
Cost	283.509.457	961.742.372	297.476.322	9.016.778	1.551.744.929
Accumulated depreciation	(165.002.438)	(690.413.105)	(241.115.908)	-	(1.096.531.451)
Adjustments for impairment	-	-	-	(1.656.182)	(1.656.182)
Final net book value	118.507.019	271.329.267	56.360.414	7.360.596	453.557.296

The gross book value of the fully depreciated assets, still used, is lei 297.406.476 (31 December 2019: lei 292.791.713).

On 30 September 2020 the advances granted for the procurement of tangible assets in the amount of lei 366.000 are presented in the ongoing assets (lei 366.000 on 31 December 2019).

7. TANGIBLE ASSETS (CONTINUED)

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

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

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

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8. SERVICE CONCESSION AGREEMENT

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

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

The main terms of the Concession Agreement are the following:

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

8. SERVICE CONCESSION AGREEMENT (CONTINUED)

- 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.

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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	Information programmes	Intangible assets in progress	Total
On 30 September 2019 (unaudited)				
Cost on 1 January 2019	6.157.978.033	54.061.094	521.560.905	6.733.600.032
Accumulated depreciation	(3.944.317.080)	(49.919.119)	-	(3.994.236.199)
Adjustments for impairment	-		(7.014.250)	(7.014.250)
Concession Agreement receivables	(551.741.263)	-	-	(551.741.263)
Concession Agreement receivable depreciation	121.196.619	-	-	121.196.619
Initial net book value	1.783.116.309	4.141.975	514.546.655	2.301.804.939
Inflow	-	-	643.099.028	643.099.028
Reclassifications	(1.206.388)	-	(1.578.873)	(2.785.261)
Transfers	29.425.221	1.803.445	(31.228.666)	-
Depreciation	(122.554.568)	(1.814.713)	-	(124.369.281)
Adjustment for imparment	-		(2.128.527)	(2.128.527)
Concession Agreement receivables	(10.317.027)	-	-	(10.317.027)
Concession Agreement receivable depreciation	23.835.793	-	-	23.835.793
Final net book value	1.702.299.340	4.130.707	1.122.709.617	2.829.139.664
Cost	6.186.196.866	55.864.539	1.131.852.394	7.373.913.799
Accumulated depreciation	(4.066.871.647)	(51.733.832)	-	(4.118.605.479)
Adjustments for impairment	-		(9.142.777)	(9.142.777)
Concession Agreement receivables	(562.058.290)	-	-	(562.058.290)
Concession Agreement receivable depreciation	145.032.411	-	-	145.032.411
Final net book value	1.702.299.340	4.130.707	1.122.709.617	2.829.139.664
On 31 December 2019				
Initial net book value	1.702.299.340	4.130.707	1.122.709.617	2.829.139.664
Inflow	-	-	272.459.120	272.459.120
Reclassifications	-	-	1.578.283	1.578.283
Transfers	6.839.643	307.918	(7.147.561)	-
Depreciation	(41.583.176)	(754.376)	-	(42.337.552)
Concession Agreement receivables	(11.555.700)	-	-	(11.555.700)
Concession Agreement receivable depreciation	9.272.256	-	-	9.272.256
Final net book value	1.665.272.363	3.684.249	1.389.599.459	3.058.556.071
Cost	6.193.036.508	56.172.457	1.398.742.236	7.647.951.201
Accumulated depreciation	(4.108.454.822)	(52.488.208)	-	(4.160.943.030)
Adjustments for impairment	-	-	(9.142.777)	(9.142.777)
Concession Agreement receivables	(573.613.990)	-	-	(573.613.990)

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Concession Agreement receivable depreciation	154.304.667	-	-	154.304.667
Final net book value	1.665.272.363	3.684.249	1.389.599.459	3.058.556.071
On 30 September 2020				
Initial net book value	1.665.272.363	3.684.249	1.389.599.459	3.058.556.071
Inflow	-	-	1.135.221.458	1.135.221.458
Transfers	952.022.385	2.228.198	-954.250.583	-
Outflow	-2.245	-	-	-2.245
Depreciation	-151.890.013	-2.032.900	-	-153.922.913
Concession Agreement receivables	-198.574.004	-	-	-198.574.004
Concession Agreement receivable depreciation	30.873.176	-	-	30.873.176
Final net book value	2.297.701.662	3.879.547	1.570.570.334	3.872.151.543
Cost	7.145.054.559	58.400.655	1.579.713.110	8.783.168.324
Accumulated depreciation	-4.260.342.746	-54.521.108		-4.314.863.854
Adjustments for impairment	-	-	-9.142.776	-9.142.776
Concession Agreement receivables	-772.187.994	-	-	-772.187.994
Concession Agreement receivable depreciation	185.177.843	-	-	185.177.843
Net book value	2.297.701.662	3.879.547	1.570.570.334	3.872.151.543

The minimum NTS gas quantity required to ensure the pressures and flow rates for the end consumers under the contractual conditions (NTS linepack) is recognized in the value of the right to use, as an intangible asset. On 30 September 2020 the NTS linepack is of 478.754 MWh and amounts to lei 34.454.939. On 31 December 2019 the NTS linepack was 398.504 MWh and amounted to lei 28.997.944.

During the nine-month period ended 30 September 2020, the company capitalized depreciation expenses of lei 2.198.364 and interest expenses amounting to lei 9.823.397 (in 2019 the company capitalized depreciation expenses of lei 3,695,598).

On 30 September 2020 the advances granted for the procurement of national gas transmission system development works in the amount of lei 160.736.430 are presented in the intangible assets in progress (lei 42.259.826 on 31 December 2019).

9. INTANGIBLE ASSETS (CONTINUED)

On 30 September 2020, the advance payments in the amount of lei 26.794.807, recognized in December 2019 as trade receivables and other receivables 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.

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:

	Leases according to IFRS16
Cost on 1 January 2020	**12.254.498**

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Accumulated depreciation	(2.895.319)
Net book value	9.359.179
Inflow	2.333.755
Outflow	(453.973)
Depreciation	(1.776.394)
Final net book value on 30 September 2020	9.462.567

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

company	Activity	% Percentage owned 2020	% Percentage owned 2019	30 September 2020	31 December 2019
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	308.909
Eurotransgaz	Gas transmission	100	100	282.280.178	215.886.809
Minus adjustments for impairment of investments in: Resial SA, Mebis SA and Phaedra's SHA				(24.887.146)	(24.887.146)
				282.280.178	215.886.809

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 31.467.089 euro and 83.471.503 Moldavian lei for the operation and ensuring the financial sources necessary for the performance of the investment program of the State Enterprise Vestmoldtransgaz.

In the firest three qurters of 2020 Transgaz participated in the increase of the share capital of EUROTRANSGAZ by the amount of EUR 13.827.331 in order to operate and to ensure the financial sources necessary to carry out the investment program of the State Enterprise Vestmoldtransgaz.

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. The consortium did not win the tender for the procurement of DESFA, Phaedra'SHA is under liquidation and company recorded an adjustment for the impairment of 100% of the cost.

10. FINANCIAL ASSETS (CONTINUED)

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.

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

11. INVENTORIES

	30 September 2020 (unaudited)	31 December 2019
Gas inventories	61.206.192	83.752.821
Gas for technological consumption	59.379.273	39.924.352
Spare parts and materials	70.995.482	77.127.360

Materials in custody at third parties	186.669.565	316.599.072
Adjustments for write-down of inventories	(33.786.306)	(29.369.960)
	344.464.206	488.033.645

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 inventories are included in the amount of lei 141.553.969 procured by the company for the achievement of the BRUA Phase I project and 36.334.590 lei for 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.*

Movements in the adjustments account are analysed below:

	30 September 2020 (unaudited)	31 December 2019
Adjustment on 1 January	29.369.960	28.762.730
(Revenue)/expense with adjustment for write-down of inventories (Note 23)	4.416.346	607.230
Adjustment at the end of the period	33.786.306	29.369.960

In 2020 adjustments for write-down of inventories were constituted according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	30 September 2020 (unaudited)	31 December 2019
Trade receivables	555.195.094	698.747.784
Advance payments to suppliers for goods and services	105.456	89.161.237
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	967.925.415	723.921.414
Non-refundable loans as subsidies	10.818.454	3.127.035
Other receivables	176.311.030	132.971.050
Adjustment of impairment of trade receivables	(402.236.207)	(407.023.748)
Adjustment of impairment of other receivables	(46.313.251)	(32.886.504)
	1.263.576.337	1.209.788.614

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.

On 30 September 2020, the amount of lei 11.021.396 (31 December 2019: lei 25.442.815) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 11% in USD (31 December 2019: 5%) and 89% in EUR (31 December 2019: 95%).

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 26.812.574 according to IFRS 9.

Commercial receivables analysis according to IFRS9 is as follows:

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

	30 September 2020 (unaudited)	31 December 2019
Current and unamortized		
Transit receivables	9.390.377	21.230.996
Doubtful or insolvency receivables	145.791.611	183.501.584
Affiliated party receivables	194.948.052	224.451.479
Other trade receivables	205.065.054	269.563.725
Sundry debtors receivables	15.790.625	-
Total Receivalbes	570.985.719	698.747.784
Amortization		
Transit receivables	-	-
Doubtful or insolvency receivables	144.892.286	182.858.709
Affiliated party receivables	166.767.791	172.569.149
Other trade receivables	90.576.130	51.595.890
Sundry debtors receivables	13.426.745	-
Total amortization	415.662.952	407.023.748
Total receivables net of provision	155.322.767	291.724.036

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

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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;

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

- 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:

	30 September 2020 (unaudited)	31 December 2019
Adjustment on 1 January	439.910.253	359.649.877
(Revenue)/expense with the adjustment for doubtful clients (Note 23)	8.639.205	80.260.376
Adjustment at the end of the period	448.549.458	439.910.253

In 2020, adjustments were made for receivables from insolvent companies or companies that encountered significant financial difficulties.

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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

	30 September 2020 (unaudited)	31 December 2019
Cash at bank in RON	125.653.605	103.525.100
Cash at bank in foreign currency	209.316.697	207.427.515
Other cash equivalents	279.519	185.546
	335.249.821	311.138.161

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

On 30 September 2020 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 31.03.2021.

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 2,06% on 30 September 2020 (0,98% on 31 December 2019) and these deposits have a maximum maturity of 30 days, except for the ones mentioned in the previous paragraph.

14. SHARE CAPITAL AND SHARE PREMIUM

IFRS	Number of ordinary shares	Share capital	Share premium	Total
On 31 December 2019	11.773.844	117.738.440	247.478.865	365.217.305
On 30 September 2020 (unaudited)	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 2019, 30 September 2020	11.773.844	559.156.836	247.478.865	806.635.701

The authorized number of ordinary shares is 11,773,844 (31 December 2019: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 30 September 2020 is the following:

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

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The ownership structure on 31 December 2019 is the following:

	Number of ordinary shares	Statutory value (lei)	Percentage (%)
The Romanian state, represented by the General Secretariat of the Government	6.888.840	68.888.400	58,5097
Other shareholders	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.

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS

Other reserves

Before IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as `Reserve of the public domain` at the value of the respective assets restated depending on inflation until 1 January 2004. It was renamed `Other reserves` at the adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of the related assets.

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

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available for allocation on 31 December 2019, amounts to lei 23.547.688 (31 December 2019: lei 23.547.688). The legal reserve is included in the `Retained earnings` in these financial statements.

15. OTHER RESERVES, LEGAL RESERVE AND RETAINED EARNINGS (CONTINUED)

Dividend allocation

In 2020, the company declared and allocated a dividend of lei 15,47/share, related to the profit of the previous year (2019: lei 21,66/share). The total dividends declared from the profit of 2019 are lei 182.141.366,68 (dividends declared from the profit of 2018: lei 255.021.461,04).

16. LONG-TERM BORROWINGS

The value of the long term loans recorded by the company on 30 September 2020:

	30 September 2020 (unaudited)	31 December 2019
EIB 83644RO	243.490.000	238.965.000
EIB 88825RO	243.490.000	238.965.000
BCR	186.000.000	186.000.000
EBRD	277.938.000	-
BT	286.955.879	-
	1.237.873.879	663.930.000

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)

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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`.

16. LONG-TERM BORROWINGS (CONTINUED)

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

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

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

	30 September 2020 (unaudited)	31 December 2019
Within 1 year	15.583.360	2.867.580
Between 1 and 5 years	77.916.800	73.601.220
Over 5 years	149.989.840	162.496.200
	243.490.000	238.965.000

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

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

	30 September 2020 (unaudited)	31 December 2019
Within 1 year	-	-
Between 1 and 5 years	72.817.653	55.333.340
Over 5 years	170.672.347	183.631.660
	243.490.000	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.

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

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16.LONG-TERM BORROWINGS (CONTINUED)

The EBRD loan maturity is presented below:

	30 September 2020 (unaudited)	31 December 2019
	22.235.040	-
Within 1 year	88.940.160	-
Between 1 and 5 years	166.762.800	-
Over 5 years	277.938.000	-

The Romanian Commercial Bank (BCR)

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

The BCR loan is fully disbursed and its maturity is presented below:

	30 September 2020 (unaudited)	31 December 2019
Within 1 year	14.880.000	-
Between 1 and 5 years	59.520.000	29.760.000
Over 5 years	111.600.000	156.240.000
	186.000.000	186.000.000

Banca Transilvania (BT)

On 15 July 2020, as a result of a competitive negotiation procedure, the company signed a contract with Transilvania Bank allowing the company to benefit from a credit faility amounting to lei 300 milion, for 2 years, to cover the necessary working capital.

As of 30 September, 2020, the amount of lei 286.955.879 is used.

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

	30 September 2020 (unaudited)	31 December 2019
Variable interest rate	994.383.879	424.965.000

17. DEFERRED REVENUE

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

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

	30 September 2020 (unaudited)	31 December 2019
Initial balance	669.915.709	541.987.503
Increases	240.310.996	151.274.740
Amounts recorded in the revenue (Note 22)	(26.145.180)	(23.346.534)
Final balance	884.081.525	669.915.709

The amount of lei 43.602.852 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:

	30 September 2020 (unaudited)	31 December 2019
Connections and assets received free of charge	238.537.834	249.756.541
Grants	645.543.691	420.159.168
	884.081.525	669.915.709

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), EUR 29.192.463,92 in 2019 and EUR 37.740.347 in 2020.

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17. DEFERRED REVENUE (CONTINUED)

On 22.11.2018 the company signed with the Ministry of European Funds AM POIM Financing Contract 226 for non-reimbursable financing for the implementation of the draft project code MYSMIS 2014-122972 NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova within the Specific objective 8.2 – Increasing the interconnectivity of the National Transmission System with neighbouring states. The amount of the grant is lei 214.496.026,71, namely 32,53% of the value of the eligible expenses. For the financing of the works for the implementation of the project NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova, the amount of lei 61.899.594,81 eligible expenses was collected as reimbursement.

On 18.06.2020 the company signed Grant Agreement no. HCOP/685/3/8/132556 on the implementation of the project „TransGasFormation" Code 132556 for the amount of Euro 624.326 with the Ministry of European Funds, as Management Authority for the Human Capital Operational Programme.

18. PROFIT TAX

Profit tax expense

	The nine months ended 30 September 2020 (unaudited)	**The nine months ended 30 September 2019 (unaudited)**
Expense with the profit tax - current	42.441.355	53.980.815
Deferred tax - impact of temporary differences	989.111	(13.372.727)
Profit tax expense	43.430.466	40.608.088

In Q III 2020 and in Q III 2019 the company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	The nine months ended 30 September 2020 (unaudited)	**The nine months ended 30 September 2019 (unaudited)**
Profit before tax	248.226.857	265.296.608
Theoretical expense with the tax the statutory rate of 16% (2020: 16%)	39.716.297	42.447.457
Non-taxable expenses, net	3.714.169	(1.839.369)
Profit tax expense	43.430.466	40.608.088

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Profit tax related liability, current	-	3.540.975

18. PROFIT TAX (CONTINUED)

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

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 30 September 2020 (30 September 2019: 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:

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	30 September 2020 (unaudited)	Movement	31 December 2019	Movement	30 September 2019 (unaudited)	Movement	1 January 2019
Deferred tax payment							
Tangible and intangible assets	95.122.310	1.532.375	93.589.935	23.501.404	70.088.531	(4.150.883)	74.239.414
Recoverable deferred tax							
Provision for employee benefits	(19.473.926)	-	(19.473.926)	(1.872.017)	(17.601.909)	-	(17.601.909)
Risks and charges	(2.780.499)	1.545.625	(4.326.124)	(2.545.421)	(1.780.703)	1.155.528	(2.936.231)
Receivables and other assets	(64.018.392)	(2.088.889)	(61.929.503)	(2.153.072)	(59.776.431)	(10.377.372)	(49.399.059)
	8.849.493	989.111	7.860.382	16.930.894	(9.070.512)	(13.372.727)	4.302.215

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.

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18. PROFIT TAX (CONTINUED)

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

	30 September 2020 (unaudited)	31 December 2019
Deferred tax liabilities/receivables in more than 12 months as reported	8. 849.493	7.860.382

19. TRADE PAYABLES AND OTHER PAYABLES

Short term payables

	30 September 2020 (unaudited)	31 December 2019
Trade payables	67.468.732	120.521.636
Suppliers of fixed assets	225.866.916	68.607.676
Dividends payable	3.853.373	4.436.759
Debts related to royalties	22.834.972	47.331.297
Other taxes	23.227.721	25.618.942
Amounts payable to employees	14.673.075	16.097.811
VAT not applicable	6.092.783	13.654.334
Deferred income	43.602.852	22.186.787
Transmission service guarantees	21.067.865	24.299.678
Transmission services advance payments	14.805.294	37.720.694
Other debts	33.669.151	40.002.402
	477.162.734	420.478.016

Long term payables

	30 September 2020 (unaudited)	31 December 2019
Transmission service guarantees	-	46.167.789
Other debts	7.331.156	7.111.049
	7.331.156	53.278.838

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On 30 September 2020, of the total trade payables and other debts the amount of lei 5.350.508 (31 December 2019: lei 57.259.331) is expressed in foreign currency, especially in EUR.

20. PROVISIONS FOR RISKS AND CHARGES

	30 September 2020 (unaudited)	31 December 2019
Current provision		
Provision for litigation	46.660.347	47.211.887
Provision term contract	2.575.281	2.575.281
Provision for employee participation in profits	12.520.093	15.833.774
Provision for outstanding leaves	982.840	6.618.768
	62.738.561	72.239.710

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 established 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 awarding of the contracts for the procurement of works carried out by Transgaz in 2009 -2011, before the implementation of the private management, according to the provisions of GEO 109/2011 on corporate governance of public enterprises. 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 in 2019 a provision for litigation amounting to lei 41.758.087.

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

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

Assumptions 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:

- 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 2019, and it is the probability that a person of a certain age on 31 December 2019 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.

On 30 September, the company maintained the actuarial calculation of 31 December 2019, the actuarial calculation services being contracted for the preparation of the annual financial statements.

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21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

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

22. OTHER REVENUE

	The nine months ended 30 September 2020 (unaudited)	**The nine months ended 30 September 2019 (unaudited)**
Revenue from penalties applied to clients for delay payments	6.189.940	7.554.543
Revenue from connection fees, grants and goods taken free of charge	26.145.180	16.688.586
Revenue from the sale of residual materials	2.572.714	654.713
Revenue from leases	1.122.264	1.175.384
Revenue from recovered materials	1.164.790	7.828.286
Other revenue from operation	3.751.433	4.629.953
	40.946.321	38.531.465

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23. OTHER OPERATING EXPENSES

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Loss/gain on impairment of receivables	8.639.205	65.391.699
Sponsorship expenses	2.177.000	1.542.500
Utilities	5.561.971	5.302.808
Insurance premium	590.705	672.396
Maintenance expenses	1.398.183	747.292
Security and protection expenses	15.904.678	15.392.110
Professional training	860.635	794.566
Telecommunications	3.203.015	2.057.562
Net loss on disposal of fixed assets	-	(105.223)
Bank charges and other fees	1.395.400	2.301.189
Rents	797.178	887.023
Loss on amounts receivable	190.416	11.131
Gain/(loss) on inventory write-down	4.416.346	(373.183)
Survey and research expenses	204.497	328.515
Marketing and protocol expenses	102.662	148.587
Penalties and fines	310.967	1.655.489
Gas storage capacity booking	8.288.648	2.911.596
Intangible asset depreciation cost	-	2.128.527
Other	16.659.538	18.125.065
	70.701.044	119.919.649

24. EMPLOYEE COSTS

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Salaries and benefits	294.471.603	269.817.993
Cost of insurance and social security	19.763.585	17.433.335
Other employee costs	4.477.881	9.352.443
	318.713.069	296.603.771

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Average number of employees in financial year:

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Blue collars	2.471	2.608
White collars	1.683	1.645
	4.154	4.253

25. NET FINANCIAL REVENUE/(EXPENSES)

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Foreign exchange gains	2.771.121	23.539.010
Interest revenue	20.504.130	17.935.904
Other financial revenue	26.872.714	47.345
Financial revenue	50.147.965	41.522.259
Foreign exchange loss	(10.306.373)	(20.671.115)
Interest loss	(2.151.315)	-
Adjustments for impairment of financial assets	-	(70.433)
Financial expenses	(12.457.688)	(20.741.548)

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 26.812.574 according to IFRS 9.

26. CASH FROM OPERATION

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Profit before tax	**248.226.857**	**265.296.608**
Adjustments for:		
Depreciation	168.593.438	145.169.327

Gain/(loss) on transfer of fixed assets	(150.204)	(105.223)
Provisions for risks and charges	(9.501.149)	(4.288.653)
Adjustments for investment	-	2.128.527
Revenue from connection fees, grants and goods taken free of charge	(26.145.180)	(16.688.586)
Concession Agreement Receivable adjustment	(26.812.574)	-
Sundry debtors and receivable loss	190.416	11.131
Adjustments for impairment of receivables	8.639.205	57.925.241
Interest loss	2.151.316	-
Interest revenue	(20.504.130)	(17.935.904)
Inventory impairement loss / (gain)	4.416.346	(373.183)
Impairment adjustments for financial assets	-	70.432
Effect of exchange rate fluctuation on other items than from operation	9.126.272	5.028.575
Other loss and revenue	(564.516)	(317.374)
Operating profit before the changes in working capital	**357.666.097**	**435.920.918**
(Increase)/decrease in trade and other receivables	(32.136.012)	86.905.998
(Increase)/decrease in inventories	139.153.093	(234.626.597)
Increase/(decrease) in trade payables and other debts	(156.207.132)	44.626.715
Cash generated from operations	**308.476.046**	**332.827.034**

27. TRANSACTIONS WITH RELATED PARTIES

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

In the periods ended 30 September 2020 and 30 September 2019 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

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

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Salary paid to the members of the Board of Administration and management	14.399.116	13.686.775
Social contribution of the company	323.977	307.952
	14.723.093	13.994.727

In the periods ended 30 September 2020 and 30 September 2019, 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.

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

ii) Loan to a related party

	30 September 2020 (unaudited)	31 December 2019
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 3.8.

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

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	106.271.491	129.526.453
Electrocentrale Deva SA	Entity under common control	164.095	1.625.678
Electrocentrale Bucureşti SA	Entity under common control	2.390.771	35.729.260
Electrocentrale Constanța	Entity under common control	176.134	(4.352.523)

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Termo Calor Pitesti	Entity under common control	873.940	-
E.ON Energie Romania	Entity under common control	5.959.205	55.781.562
		115.835.636	218.310.430

iv) Sales of goods and services (VAT excluded)

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	121.495	1.440
Electrocentrale Deva SA	Entity under common control	115.361	20.641
Electrocentrale Bucharest	Entity under common control	2.772	-
Electrocentrale Galati SA	Entity under common control	72.868	322.031
Electrocentrale Constanta	Entity under common control	98	271.654
E.ON Energie Romania	Entity under common control	-	226
		312.594	615.992

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	3.629.734	8.276.256
Electrocentrale Deva SA	Entity under common control	1.892.717	3.242.770
Electrocentrale București	Entity under common control	2.259.148	2.860.049
Termo Calor Pitesti	Entity under common control	1.666.338	-
Electrocentrale Constanta	Entity under common control	1.610.225	16.698.657
E.ON Energie Romania	Entity under common control	982.913	18.805.787
		12.041.075	49.883.519

vi) Receivables from related parties (without the adjustment)

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	11.975.442	20.178.007
Electrocentrale Deva SA	Entity under common control	1.329.280	235.032
Electrocentrale Bucureşti	Entity under common control	6.138.267	19.089.977
Electrocentrale Constanţa	Entity under common control	530.538	1.577.907
Termo Calor Pitesti	Entity under common control		(19.181)
E.ON Energie Romania	Entity under common control	7.091.454	19.821.687
Vestmoldtransgaz SRL	Entity under common control	189.280	102.853
		27.254.261	60.986.282

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

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	53.118	925.753
Electrocentrale Deva SA	Entity under common control	9.580.479	4.144.671
Electrocentrale Bucuresti	Entity under common control	236.740	1.973.340
Electrocentrale Constanţa	Entity under common control	2.036.894	1.238.865
Termo Calor Pitesti	Entity under common control		122.677
E.ON Energie Romania	Entity under common control	634.256	3.596.095
		12.541.487	12.001.401

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	69.487.069	85.212.006
		69.487.069	85.212.006

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

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	10.269.135	5.360.964

Electrocentrale București SA	Entity under common control	4.413	4.528
E.ON Energie Romania	Entity under common control	-	616.447
		10.273.548	5.981.939

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

	Relationship	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
SNGN Romgaz	Entity under common control	3.109.273	7.920.114
Electrocentrale Deva SA	Entity under common control	267.829	721.911
Electrocentrale București	Entity under common control	1.908.154	9.492.251
Termo Calor Pitești	Entity under common control	191.508	-
Electrocentrale Constanța	Entity under common control	4.364.045	628.564
E.ON Energie Romania	Entity under common control	13.826.651	23.808.269
		23.667.460	42.571.109

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

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	27.993.346	18.117.465
		27.993.346	18.117.465

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

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	641	1.722.034
Electrocentrale București	Entity under common control	459	454
E.ON Energie Romania	Entity under common control	2.526	817.722
		3.626	2.540.210

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

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	1.596.433	1.371.051
Electrocentrale Deva SA	Entity under common control	150.559	61.253
Electrocentrale București	Entity under common control	10.753	563.026
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	540.186	8.367.448
		2.297.931	12.633.862

xiv) Guarantees from affiliates (bank guarantee letter)

	Relationship	30 September 2020 (unaudited)	31 December 2019
SNGN Romgaz	Entity under common control	21.445.926	33.849.251
Termo Calor Pitești	Entity under common control	210	1.000
Electrocentrale Deva SA	Entity under common control	1.000	1.000
E.ON Energie Romania	Entity under common control	30.723.286	22.882.012
		52.170.422	56.733.263

28. EARNINGS PER SHARE

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

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

	The nine months ended 30 September 2020 (unaudited)	The nine months ended 30 September 2019 (unaudited)
Profit attributable to the company's equity holders	204.796.391	224.688.520
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	17,39	19,08

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

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Compensations
Approximately 0,96 % of the receivables were settled by transactions that haven't involved cash outflows during the period ended 30 September 2020 (30 September 2019: 0,57%). 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 2020 and in 2019.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

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

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the 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 30 September 2020 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 805.213.790.

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

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.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

ii) Taxation

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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.

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 in 2020 (54 managers in 2019).

iv) Environmental aspects

Environmental regulations are under development in Romania and the company did not record any obligation on 30 September 2020 and 31 December 2019 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.

30 . CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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

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. In 2020, the network user initiated court proceedings and requests the recalculation of the tariff related to the exceeding of the capacity booked during Novemebr 2016-February 2017 and the payment of the amount of lei 57.444.164.

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

vi) Government policies in the gas sector in Romania

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

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

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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

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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) The impact of COVID-19

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

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

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

31. FEES OF THE STATUTORY AUDITOR

The fees related to the three quarters of 2020, charged by BDO Audit SRL are: 79,682 lei (excluding VAT) for revision limited to 30 June 2020 and 22,320 lei (excluding VAT) for services other than statutory audit.

The fees for the financial year ended 31 December 2019 charged by BDO Audit SRL, invoiced in 2020, are: lei 174. 989 (VAT excluded) for the statutory audit, and lei 14.880 (VAT excluded) for other services than the statutory audit.

32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

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

	The nine months ended 30 September 2020 (unaudited)	**The nine months ended 30 September 2019 (unaudited)**
Revenue from the construction activity according to IFRIC12	1.018.105.706	521.459.417
Cost of assets constructed according to IFRIC12	(1.018.105.706)	(521.459.417)

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

33. EVENTS SUBSEQUENT TO THE BALANCE DATE

By ANRE Order no. 203 of 28 October 2020 were approved amendments to the Methodology for establishing regulated tariffs for natural gas transmission services, approved by the Order of the President of the National Energy Regulatory Authority no. 41/2019. The main changes are:

- the costs occasioned by the connection to the national transmission system are considered capital invested in tangible and intangible assets, related to the natural gas transmission activity;
- are not recognized as expenses related to the natural gas transmission activity, royalties for the concession of state-owned goods and royalties provided in the contracts for the concession of the gas transmission service and/or related goods in the public property of the state or of an administrative-territorial unit, except for those related to the period until the date of entry into force of the provisions of Law no. 155/2020 for the amendment and completion of the Law on electricity and natural gas no. 123/2012 and regarding the modification and completion of other normative acts.

The company signed on 28 October 2020, following a competitive negotiation procedure, a contract with the Romanian Commercial Bank through which it benefits from a loan of 360 million lei for a period of 13 years, intended to finance two major projects carried out by Transgaz: Developments of the National Transmission System in the North East of Romania (Oneşti - Gherăeşti - Leţcani) ”and“ Interconnection of the National Transmission System with the international natural gas transmission pipeline T1 and reverse flow Isaccea phase II (Oneşti - Siliştea) ”.

In November 2020, Transgaz participated in EUROTRANSGAZ’s share capital increase by Euro 409.652 for the partial funding of EUROTRANSGAZ’s revenue and expense budget.

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In November 2020, the company cashed the amount of lei 8.381.893,78 as eligible expense reimbursement for the funding 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*.

Chairman of the Board of Administration
Remus Gabriel Lăpușan

Director – General	Chief Financial Officer
Ion Sterian	Marius Lupean

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