

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

**INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED
31 MARCH 2019 (UNAUDITED)**

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

INTERIM FINANCIAL STATEMENTS

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



		<u>31 March 2018</u>	<u>31 December 2018</u>
	<u>Note</u>		
ASSET			
Fixed assets			
Intangible Assets	9	2.418.586.287	2.301.804.939
Tangible Assets	7	501.966.413	513.263.137
Financial assets	10	45.600.828	45.600.828
Trade receivables and other receivables	12	<u>635.470.681</u>	<u>629.754.861</u>
		3.601.624.209	3.490.423.765
Current assets			
Inventories	11	352.292.056	255.241.340
Commercial receivables and other receivables	12	392.575.006	541.390.038
Cash and cash equivalent	13	<u>843.924.586</u>	<u>708.752.317</u>
		1.588.791.648	1.505.383.695
Total asset		5.190.415.857	4.995.807.460
EQUITY AND DEBTS			
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	<u>1.831.686.006</u>	<u>1.640.298.503</u>
		3.904.118.568	3.712.731.065
Long-term debts			
Long-term loans	16	238.140.000	233.195.000
Provision for employee benefits	21	107.072.136	107.072.136
Deferred revenue	17	513.751.172	519.718.816
Deferred tax payment	18	<u>1.648.175</u>	<u>4.302.215</u>
		860.611.483	864.288.167

Notes 1 to 33 are part of these financial statements.

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



	<u>Note</u>	<u>31 March 2019</u>	<u>31 December 2018</u> (retreated)
Current debts			
Commercial debts and other debts	19	391.046.903	397.200.648
Provision for risks and charges	20	22.468.968	18.647.787
Current tax payment	18	9.230.142	-
Provision for employee benefits	21	<u>2.939.793</u>	<u>2.939.793</u>
		<u>425.685.806</u>	<u>418.788.228</u>
Total debts		<u>1.286.297.289</u>	<u>1.283.076.395</u>
Total equity and debts		5.190.415.857	4.995.807.460

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

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



		The three months ended as at 31 March 2019 (unaudited)	The three months ended as at 31 March 2018 (unaudited) (retreated)
	Note		
Revenue from the domestic transmission activity		378.768.801	438.662.944
Revenue from the international transmission activity		86.265.849	80.315.900
Other revenue	22	<u>7.945.608</u>	<u>8.966.974</u>
Operational revenue before the balancing and construction activity according to IFRIC12		472.980.258	527.945.818
Depreciation	7,9	(47.308.068)	(46.525.930)
Employees costs	24	(79.994.422)	(78.844.059)
Technological consumption, materials and consumables used		(30.306.101)	(28.620.433)
Expenses with royalties		(46.503.466)	(51.897.885)
Maintenance and transmission		(4.867.133)	(6.334.559)
Taxes and other amounts owed to the state		(14.702.585)	(18.165.119)
Revenue/ (Expenses) with provisions for risks and expenses		(3.821.181)	(3.586.654)
Other operating expenses	23	<u>(28.233.907)</u>	<u>(16.570.530)</u>
Operational profit before the balancing and construction activity according to IFRIC12		217.243.395	277.400.649
Revenue from the balancing activity		103.961.449	72.327.765
Expenses with balancing gas		(103.961.449)	(72.327.765)
Revenue from the construction activity according to IFRIC12	32	150.175.759	16.353.774
Cost of assets constructed according to IFRIC12	32	<u>(150.175.759)</u>	<u>(16.353.774)</u>
Operational profit		217.243.395	277.400.649
Financial revenue	25	22.687.277	8.129.090
Financial expenses	25	<u>(10.909.490)</u>	<u>(2.874.931)</u>
Financial revenue, net		<u>11.777.787</u>	<u>5.254.159</u>
Profit before tax		229.021.182	282.654.808
Profit tax expense	18	<u>(37.633.679)</u>	<u>(46.050.019)</u>
Net profit for the period		<u>191.387.503</u>	<u>236.604.789</u>
Earnings per share, basic and diluted (expressed in RON per share)	28	16,26	20,10
Total comprehensive income for the period		<u>191.387.503</u>	<u>236.604.789</u>

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

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



	<u>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance on 1 January 2018, reported		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.695.280.597</u>	<u>3.767.713.159</u>
Retreated	32	-	-	-	-	1.554.761	1.554.761
Balance on 1 January 2018, retreated		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.696.835.358</u>	<u>3.769.267.920</u>
Net profit for the period, reported						236.604.789	236.604.789
<i>Transactions with shareholders:</i>							
Divident related to 2017	15	-	-	-	-	-	-
Balance on 31 March 2018, (unaudited)		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.933.440.147</u>	<u>4.005.872.709</u>
Net profit for the period		-	-	-	-	259.070.319	259.070.319
Actuarial gain/loss for the period						(4.442.437)	(4.442.437)
<i>Transactions with shareholders:</i>							
Dividends for 2017		-	-	-	-	(547.769.526)	(547.769.526)
Balance on 31 December 2018		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.640.298.503</u>	<u>3.712.731.065</u>
Net profit for the period, reported						191.387.503	191.387.503
<i>Transactions with shareholders:</i>							
Divident related to 2017	15	-	-	-	-	-	-
Balance on 31 March 2019 (unaudited)		<u>117.738.440</u>	<u>441.418.396</u>	<u>247.478.865</u>	<u>1.265.796.861</u>	<u>1.831.686.006</u>	<u>3.904.118.568</u>

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

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



		The three months ended as at 31 March 2019 (unaudited)	The three months ended as at 31 March 2018 (unaudited)
	Note		
Cash generated from operations	26	283.270.008	126.990.389
Interest received		<u>531.970</u>	<u>1.034.138</u>
Net cash inflow from operation activities		283.801.978	128.024.527
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(149.669.364)	(39.030.609)
Financial investment/shares		-	(42.418.546)
Cash flows from connection fees and grants		<u>1.665.090</u>	<u>427.156</u>
Net cash used in investment activities		(148.004.274)	(81.021.999)
Cash flow from financing activities			
Drawings long term loans		-	69.832.500
Dividends paid		<u>(625.435)</u>	<u>(823.889)</u>
Net cash used in financing activities		(625.435)	69.008.611
Net change in cash and cash equivalents		<u>135.172.269</u>	<u>116.011.139</u>
Cash and cash equivalent as at the beginning of the year	13	<u>708.752.317</u>	<u>1.062.351.834</u>
Cash and cash equivalent as at the end of the period	13	<u>843.924.586</u>	<u>1.178.362.973</u>

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

1. GENERAL INFORMATION

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

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 at 1 C.I. Motaş Square, Mediaş, Romania.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

The Romanian authorities continued the economic reforms as this follow –up is necessary for the consolidation of the internal macro-financial framework. Thus the premises of the correct administration of the possible unfavourable evolutions are created, evolutions that may appear if the high aversion towards risk occurs again in the financial markets. The positive performances the Romanian economy registered must be consolidated by the application of a coherent mix of policies.

- (i) In February, NSI published the first provisional data related to the last year's 4.1% advance of the Romanian economy and it has recently confirmed such information. In the last quarter of last year, compared to the quarter III of 2018, the Gross Domestic Product was, in real terms, higher by 0.9%. Compared to the same quarter of 2017, the GDP increased by 4.1% on the gross series and 4% on seasonally adjusted series.

The gross domestic product estimated for 2018 was 944.22 million lei, current prices, increasing - in real terms - by 4.1% compared to 2017. The Gross Domestic Product estimated for the fourth quarter of 2018 was lei 285.596 million, current prices, increasing - in real terms - by 4.1 against quarter IV of 2017, according to NSI.

On January 30, the National Commission for Strategy and Forecasting (CNSP) has kept in the published forecast the estimate of a 5.5% GDP growth advance for this year to 1022.5 billion lei, but also the 4.5% economic growth of 2018.

- (ii) In the meeting held on 2 April 2019, the Board of Administration of the National Bank of Romania decided to maintain the interest rate of monetary policy at the level of 2,50% percent per year, to maintain the interest rate for the deposit facility to 1.50% per year and the interest rate for the loan facility to 3.50% percent per annum and to maintain the current levels of minimum mandatory reserve ratios applicable to credit and foreign currency liabilities of credit institutions.

- (iii) According to the Inflation Report of the National Bank of Romania of February 2019: "In line with the anticipated trajectory, the annual CPI inflation rate has sharpened its downward trend in the last quarter of 2018. The indicator has fallen to 3.4% in November and then decelerated to 3.3% in December, thus strengthening within the range associated with the stationary target of 2.5% \pm 1 percentage point. In both months, annual inflation rates were below those of the benchmark forecast in the NBR's November Inflation Report, reflecting in particular supply-side shocks associated with the drop in international oil quotations, as well as the lower prices of citrus because of the abundant production at European level. The downward trend in annual inflation rate in quarter IV was the result of developments in all basket components, including the adjusted CORE2 index, whose dynamics reached 2.5% in December 2018, down from 2.8% in September. At the same time, however, the annual CPI inflation rate

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continued to increase, from 4.5% in September to 4.6% in December. The average annual inflation rate had a similar trend, calculated using the Harmonized Index (HICP), which climbed by 0.3 percentage points from 3.8% in September to 4.1% in December. The spread of the indicator to the European average has remained high, to over 2 percentage points.”

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

- (iv) On June 20, 2018, S&P Global Ratings published the report on the revision of the prospects of the National Gas Transmission System Operator SNTGN Transgaz SA, from stable to negative. At the same time, S&P Global Ratings stated its credit rating at BB+.

The decision of the financial assessment agency to revise Transgaz' negative outlook is motivated by the following: the possibility of the reduction in the financial performance of the company over the next two years with a substantial decrease in the ratio of funds from operating activities/debts below 30% due to the increase in the CAPEX related to BRUA Phase 1 and EBITDA decrease, BRUA project execution risks, possible liquidity pressures and long-term uncertainties related to the position of Transgaz' gas transmission business, taking into account potential changes to the main gas transmission routes in Central and Eastern Europe if the physical flow of Russian gas through Ukraine is replaced by new routes.

In the end of quarter I 2018 as compared to the end of 2017 the leu has appreciated against the EURO („EUR”) by 0,05% (1 EUR= 4,6576 lei as at 31 March 2018, 1 EUR = 4,6597 lei as at 31 December 2017) and by 2,92% against the US dollar („USD”) (1 USD = 3,7779 lei as at 31 March 2018, 1 USD = 3,8915 lei as at 31 December 2017).

In the end of quarter I 2019 as compared to the end of 2018 the leu has depreciated against the EURO („EUR”) by 2,12% (1 EUR= 4,7628 lei as at 31 March 2019, 1 EUR = 4,6639 lei as at 31 December 2018) and by 4,17% against the US dollar („USD”) (1 USD = 4,2434 lei as at 31 March 2019, 1 USD = 4.0736 lei as at 31 December 2018).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of these financial statements are set out below. These policies were consistently applied to all the financial years presented, 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 standards “Improvements to IFRSs (2014-2016 Cycle)” resulting from the annual project to improve IFRSs (IFRS 1, IFRS 12, IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (Amendments to IFRS 12 are applicable for the annual periods beginning on or after 1 January 2017 and the Amendments to IFRS 1 and IAS 28 are applicable for the annual periods beginning on or after 1 January 2018).

(a) Standards and interpretations applicable as of 2017

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

Amendments to IAS 12 “Profit tax”

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

- Unrealized losses 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 losses, an entity will estimate deferred tax in combination with other deferred tax of the same type.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The amendments to IAS 7 `Treasury flows Statements` – 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 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 Metering;

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

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

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

- *Depreciation loss:* IFRS 9 introduces a new anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected losses from impairment of receivables. The standard requires entities to recognize the anticipated impairment losses on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment losses 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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 “Revenues from contracts with the clients” as subsequently amended and amendments to IFRS 15 “Effective date of IFRS 15” adopted by the EU on 22 September 2016 (applicable for the annual periods beginning on or after 1 January 2018);

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

- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programs;
- IFRIC 15 - Agreements on 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 to illustrate the transfer of the goods or services promised to customers 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 essential principle by applying the following steps: contract identification; identifying performance obligations from the contract; determining the transaction price; assigning the transaction price for the performance obligations of the contract; recognizing revenue when (or as) fulfills an execution obligation.

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

IFRIC 22 “Currency and advance payment transactions” (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/debt, but it may also lead to the recognition of a monetary asset/liability.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

- **IFRS 16 “Leasing”** (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 - Leasing;
 - IFRIC 4- Determining the extent to which an engagement contains a leased contract;
 - SIC 15 - Operational Leasing - Incentives;
 - SIC 27- Evaluation of the economic substance of the transactions involving the legal form of a lease contract.

IFRS 16 provides a model for controlling leases by setting principles for the recognition, measurement and presentation of lease contracts, ie the right to control the use of an asset identified for a certain period of time in exchange for a consideration. The right to control the use of the identified asset exists if the client has the right to obtain to a large extent 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 accounting for the lease, in particular by eliminating the distinction between financial and operating leases, 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 renting low-value assets.

- 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 together with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`;
- Amendments to IFRS 10 `Consolidated financial statements` and IAS 28 `Investments in Associates and Joint Ventures`- Sale or contribution of assets between an investor and its associate or joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);

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.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

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3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Transactions in foreign currency

a) Functional currency

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

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

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

c) Transactions and balances

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

3.4 Accounting for the effects of hyperinflation

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 'Financial Reporting in Hyperinflationary Economies'. This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the Company no longer applies IAS 29.

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

3.5 Intangible Assets

Computer Software

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

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

Service Concession Agreement

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

3.6 Tangible Assets

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

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

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 highlighted. All the other expenses with repairs and maintenance are recognized in the statement of the comprehensive income in the financial period when they occur.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.

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

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

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle 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-cycle production asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the revenue from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for achieving production of a qualifying asset.

The costs of the funds borrowed for especially 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 revenues from the investments obtained from the temporary investment of these loans.

Borrowing costs attributable to the liability 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. Assets' residual values and 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).

Gains and losses 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Impairment of non-financial assets

Assets subject to depreciation are reviewed for impairment losses 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). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of lei 474,952,575 (31 December 2017: RON 474,952,575) representing gas pipelines are managed by the Company. Therefore, the Company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8). The Company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the Company is directly influenced by the state of the network. Therefore, before 1 January 2010, the Company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.). Accounting policies applied to these assets were the same as those applied to the Company's tangible assets (Notes 3.7 and 3.6).

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

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

In accordance with Public Concession Law No. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the government. As of October 2007, the royalty was set at 10% of the revenue. The duration of the concession agreement is 30 years, until 2032.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial assets

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

(a) *Loans and receivables*

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

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

(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 elements, at fair value through profit or loss account. 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, 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.

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 he/she will recognize in the income statement the dividends from that investment.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss generating event') and if such event (or events) which generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The Company assesses first whether objective evidence of impairment exists.

i) *Assets registered at amortized cost*

Impairment testing of trade receivables is described above.

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ii) *Assets measured at fair value through the profit or loss account or at the fair value by other elements of the comprehensive income*

The Company evaluates for each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity instruments classified at fair value through other elements of the comprehensive income a significant or prolonged decline in the value of financial assets below their cost is considered an indicator that the assets are impaired. If any such evidence exists for these financial, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, minus any impairment loss on the financial asset previously recognized in profit or loss - are removed from other items of the comprehensive income and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed subsequently and any subsequent gain is recognized in other items of the comprehensive income.

3.10. Inventories

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

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

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

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

3.11. 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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

position at net value and disclosed separately as a current asset or liability. In cases where adjustments were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT must be paid to the state and can be recovered only in the event of debtor prescription, as a result of bankruptcy decision.

3.13. Cash and cash equivalent

Cash and cash equivalents comprise cash on hand, availability 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 highlighted in loans, under current liabilities.

3.14 Equity

Share capital

Ordinary shares are classified as equity.

Additional costs directly attributable to issue of new shares or options are shown in 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

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

3.16 Commercial payables and other payables

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

3.17 Deferred revenue

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

The grants collected are assimilated to the governmental subsidies.

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

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

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Employee benefits

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

Benefits granted on retirement

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

Credit Method. The present value is determined by discounting future cash flows with the interest rate of the long-term government bonds.

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

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

Social insurance

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

Profit sharing and bonuses

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

3.20 Provisions for risks and charges

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 reimbursement 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.

3.21 Revenue recognition

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

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

a) *Revenue from services*

Revenues from the domestic and international gas transmission consist in booking the transmission capacity and transmission through the NTS of the determined quantities of natural gas, expressed in units of energy, during the period of 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 the 15th of the month following the month for which the transmission service was provided: an invoice for the transmission services rendered for the previous month, prepared based on the final allocations; an invoice related to the final daily imbalances registered in the previous month; and an invoice related to the value of the booked capacity overrun tariff.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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.

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.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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:

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	125.008	121.191
USD depreciation by 10%	(125.008)	(121.191)
EUR appreciation by 10%	34.119.584	36.181.580
EUR depreciation by 10%	(34.119.584)	(36.181.580)

(ii) **Price risk**

The Company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 941.704, (March 2018: lei 932.991).

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

The Company is exposed to interest rate risk by its bank deposits. The Company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been lower/higher by 411.495 941 (December 2018: lei 3.051.941 lower/higher) as a result of reducing the interest rate for 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 47 % of the trade receivable balances on 31 March 2019 (31 December 2018: 50%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. As at 31 March 2019 the company has available payment guarantees from its clients amounting to lei 123.244.910.

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

<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Without rating	1,673,605	2.106.827
BB+	233.844.703	347.913.691
BBB-	53.229.036	13.569.848
BBB+	553.459.983	344.645.980
A	137.748	137.989
AA-	1.250.772	216.037
	843.595.847	708.590.372

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

(c) *Liquidity risk*

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

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

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

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

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

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	264.298.250	3.187.504	74.438.197	186.672.550
Commercial payables and other payables	<u>269.634.935</u>	<u>269.634.935</u>	<u>-</u>	<u>-</u>
	<u>533.933.185</u>	<u>272.822.439</u>	<u>74.438.197</u>	<u>186.672.550</u>

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

	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	259.278.444	3.121.315	70.206.550	185.950.579

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Commercial payables and other payables	<u>258.674.859</u>	<u>258.674.859</u>	<u>-</u>	<u>-</u>
	<u>517.953.303</u>	<u>261.796.174</u>	<u>70.206.550</u>	<u>185.950.579</u>

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables and other payables (see Note 19) and are not included: payables generated as a result of the legal provisions imposed by the authorities, payables to the employees and advance registered revenue.

Financial instruments categories:

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Financial assets		
Cash and cash equivalents	564.669.837	417.345.117
Term bank deposits	279.254.749	291.407.201
Loans and receivables	994.445.956	1.295.387.229
Financial assets available for selling	70.417.542	70.417.542
Provisions related to financial assets available for selling	<u>(24.816.713)</u>	<u>(24.816.713)</u>
	<u>1.883.971.371</u>	<u>2.049.740.376</u>

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Financial liabilities		
Debts evaluated to amortised cost		
Loans	238.140.000	233.195.000
Liabilities evaluated at fair value		
Financial securities for contracts	42.743.245	6.311.084
Commercial liabilities and other liabilities	<u>226.891.690</u>	<u>252.363.775</u>
	<u>507.774.935</u>	<u>491.869.859</u>

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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 in order to provide compensation to shareholders and benefits to the other stakeholders and 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 2019 the Company's strategy, unchanged since 2018, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 31 March 2019 was negative and on 31 December 2018 was null:

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Total borrowings	238.140.000	233.195.000
Except: cash and cash equivalents (Note 13)	<u>(843.924.586)</u>	<u>(708.752.317)</u>
Net cash position	<u>(605.784.586)</u>	<u>(475.557.317)</u>

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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 that are believed to be reasonable under certain circumstances.

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

5.1 Assumptions for the determination of the provision for retirement benefits

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

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

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

	<u>31 December 2018</u>
Inflation rate +1%	123.608.092
Inflation rate -1%	97.974.861
Investment return +1%	98.512.238
Investment return -1%	123.509.498

Analysis of the maturity of benefits payments:

	31 December 2018
Up to one year	2.939.793
Between 1 and 2 years	2.897.013
Between 2 and 5 years	7.472.724
Between 5 and 10 years	40.447.484

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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

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 (`NAMR`), 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).

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

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

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

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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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.

As of 01.01.2018, IFRS 15 "Revenue from contracts with customers" became applicable in Romania. This Standard supersedes a number of 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)).

6. INFORMATION ON SEGMENTS

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

The segment information provided to the Board of Administration, which makes strategic decisions for reportable segments, for the period ended 31 March 2019 are:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	378.768.801	-	-	-	378.768.801
Revenue from international transmission	-	86.265.849	-	-	86.265.849
Other revenue	11.309.124	-	-	(3.363.516)	7.945.608
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>390.077.925</u>	<u>86.265.849</u>	=	<u>(3.363.516)</u>	<u>472.980.258</u>
Depreciation	(37.491.954)	(8.106.736)	-	(1.709.378)	(47.308.068)
Operating expenses other than depreciation	<u>(163.313.651)</u>	<u>(13.079.568)</u>	=	<u>(32.035.576)</u>	<u>(208.428.795)</u>
Profit from operation before the balancing and construction activity according to IFRIC12	-	-	-	-	217.243.395

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

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Revenue from the balancing activity	-	-	103.961.449	-	103.961.449
Cost of balancing gas	-	-	(103.961.449)	-	(103.961.449)
Revenue from the construction activity according to IFRIC12	-	-	-	150.175.759	150.175.759
Cost of assets built according to IFRIC12	-	-	-	(150.175.759)	(150.175.759)
Operating profit	-	-	-	-	217.243.395
Net financial gain					11.777.787
Profit before tax					229.021.182
Profit tax					(37.633.679)
Net profit					191.387.503
Assets on segments	3.743.005.946	344.839.466	143.815.082	958.755.364	5.190.415.857
Liabilities on segments	1.174.406.375	17.047.663	78.582.391	16.260.860	1.286.297.289
Capital expenditure - increases in assets in progress	154.538.649	-	-	-	154.538.649
Non-cash expenses other than depreciation	13.903.435	383.113	-	96.285	14.382.833

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	34.167.318
Financial assets	45.600.828
Cash	843.924.586
Other assets	<u>35.062.632</u>
	958.755.364

Unallocated liabilities include:

Deferred tax	1.648.175
Payable tax	9.230.142
Dividends payable	4.732.243
Other debts	<u>650.300</u>
	16.260.860

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 impairment of inventories, other risk provisions.

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	375.099.548	3.669.253	378.768.801
Revenue from international transmission	192.351	86.073.498	86.265.849
Other revenue	<u>7.649.349</u>	<u>296.259</u>	<u>7.945.608</u>
	<u>382.941.247</u>	<u>90.039.011</u>	<u>472.980.258</u>

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

Percentage of the total revenue

ENGIE ROMANIA S.A.	20%
ROMGAZ S.A.	12%
E.ON GAZ FURNIZARE S.A.	10%

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 28.742.081 (31 December 2018: lei 25.617.027).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which is regulated by the National Regulatory Authority as well as the operating and financial revenues related to the claims for the regulated value of the regulated asset base remained undepreciated in the end of the Concession Agreement; the *international gas transmission* segment includes information related to the activity of pipeline gas transmission without the transshipment of the Romanian territory, 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 balancing activity of the national transmission system, 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 31 December 2018, is as follows:

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

6. INFORMATION ON SEGMENTS (CONTINUED)

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.178.419.674	-	-	-	1.178.419.674
Revenue from international transmission	-	324.380.804	-	-	324.380.804
Other revenue	51.685.794	-	-	53.950.426	105.636.220
Operating revenue before the balancing and the construction activity according to IFRIC12	<u>1.230.105.468</u>	<u>324.380.804</u>	<u>-</u>	<u>53.950.426</u>	<u>1.608.436.698</u>
Depreciation	(151.199.173)	(31.828.995)	-	(4.993.527)	(188.021.695)
Operating expense other than depreciation	<u>(707.574.147)</u>	<u>(50.161.907)</u>	<u>-</u>	<u>(101.194.308)</u>	<u>(858.930.362)</u>
Profit from operation before the balancing activity according to IFRIC12	-	-	-	-	561.484.641
Revenue from the balancing activity	-	-	235.427.293	-	235.427.293
Cost of balancing gas	-	-	(235.427.293)	-	(235.427.293)
Revenue from the construction activity according to IFRIC12	-	-	-	405.793.585	405.793.585
Cost of assets built according to IFRIC12	-	-	-	(405.793.585)	(405.793.585)
Profit from operation	371.479.181	242.389.902	-	(52.384.442)	561.484.641
Net financial gain	-	-	-	-	21.395.587
Profit before tax	-	-	-	-	582.880.228
Profit tax					(87.205.120)
Net profit					495.675.108
Assets on segments	3.709.437.875	352.259.381	144.737.737	789.372.467	4.995.807.460
Liabilities on segments	1.132.301.476	18.873.908	119.954.718	11.946.293	1.283.076.395
Capital expenditure - increases in assets in progress	421.491.278	-	-	28.416	421.519.694
Non-cash expenses other than depreciation	37.218.082	1.872.636	-	414.507	39.505.225

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

6. INFORMATION ON SEGMENTS (CONTINUED)

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

Unallocated assets include:

Tangible and intangible assets	34.158.078
Financial assets	45.600.828
Cash	708.752.317
Other assets	<u>861.244</u>
	789.372.467

Unallocated liabilities include:

Deferred tax	4.302.215
Dividends payable	5.357.678
Other debts	<u>2.286.400</u>
	11.946.293

Liabilities shown for the two main operating segments consist of payables and borrowings contracted by the Company for the acquisition of assets for the respective segments. The debts presented in relation to the balancing segment are mainly trade payables from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the impairment of inventories, other risk provisions.

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

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from domestic transmission	1.175.180.341	3.239.333	1.178.419.674
Revenue from international transmission	495.728	323.885.076	324.380.804
Other revenue	<u>104.472.988</u>	<u>1.163.232</u>	<u>105.636.220</u>
	1.280.149.057	328.287.641	1.608.436.698

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

Percentage of the total revenue

ENGIE ROMANIA S.A.	19%
OMV PETROM GAS SRL	12%

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

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(expressed in lei, unless otherwise stated)

7. TANGIBLE ASSETS

	<u>Lands and buildings</u>	<u>Assets of the transmission system</u>	<u>Other fixed assets</u>	<u>Assets in progress</u>	<u>Total</u>
On 31 March 2018 (unaudited)					
Cost on 1 January 2018	279.746.273	957.225.955	262.677.605	18.486.701	1.518.136.534
Accumulated depreciation	(147.718.908)	(605.699.488)	(206.162.698)	-	(959.581.094)
Initial net book value	<u>132.027.365</u>	<u>351.526.467</u>	<u>56.514.907</u>	<u>18.486.701</u>	<u>558.555.440</u>
Inflows	-	-	-	6.633.640	6.633.640
Transfers	62.222	-	6.745.555	(6.807.777)	-
Outflow (net book value)	(6.593)	-	(88.610)	-	(95.203)
Expense with depreciation	<u>(1.656.592)</u>	<u>(7.762.077)</u>	<u>(5.174.339)</u>	<u>-</u>	<u>(14.593.008)</u>
Final net book value	<u>130.426.402</u>	<u>343.764.390</u>	<u>57.997.513</u>	<u>18.312.564</u>	<u>550.500.869</u>
Cost	279.721.818	957.210.965	264.772.175	18.312.564	1.520.017.522
Accumulated depreciation	<u>(149.295.416)</u>	<u>(613.446.575)</u>	<u>(206.774.662)</u>	<u>-</u>	<u>(969.516.653)</u>
Final net book value	<u>130.426.402</u>	<u>343.764.390</u>	<u>57.997.513</u>	<u>18.312.564</u>	<u>550.500.869</u>

On 31 december 2018

Initial net book value	<u>130.426.402</u>	<u>343.764.390</u>	<u>57.997.513</u>	<u>18.312.564</u>	<u>550.500.869</u>
Inflow	-	-	-	7.949.196	7.949.196
Re-classification	-	(3.717)	-	165.059	161.342
Transfers	547.551	(152.608)	20.753.232	(21.148.175)	-
Outflow (net book value)	(1.712)	0	(15.423)	-	(17.135)
Expense with depreciation	(4.746.558)	(23.104.266)	(15.824.128)	-	(43.674.952)
Adjustments for impariment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.656.183)</u>	<u>(1.656.183)</u>
Final net book value	<u>126.225.683</u>	<u>320.503.799</u>	<u>62.911.194</u>	<u>3.622.461</u>	<u>513.263.137</u>
Cost	280.188.081	957.069.630	278.280.052	5.278.644	1.520.816.407
Accumulated depreciation	(153.962.398)	(636.565.831)	(215.368.858)	-	(1.005.897.087)
Adjustments for impariment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.656.183)</u>	<u>(1.656.183)</u>
Final net book value	<u>126.225.683</u>	<u>320.503.799</u>	<u>62.911.194</u>	<u>3.622.461</u>	<u>513.263.137</u>

La 31 martie 2019

Initial net book value	<u>126.225.683</u>	<u>320.503.799</u>	<u>62.911.194</u>	<u>3.622.461</u>	<u>513.263.137</u>
Inflow	-	-	-	3.174.674	3.174.674
Re-classification	1.178.503	-	27.885	-	1.206.388
Transfers	93.903	-	1.512.990	(1.606.893)	-

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Outflow (net book value)	(5.334)	-	(10.141)	-	(15.475)
Expense with depreciation	(1.614.452)	(7.707.069)	(5.668.299)	-	(14.989.820)
Adjustments for impairment	(652.977)	-	(19.514)	-	(672.491)
Final net book value	<u>125.225.326</u>	<u>312.796.730</u>	<u>58.754.115</u>	<u>5.190.242</u>	<u>501.966.413</u>
Cost	281.443.274	957.069.630	278.949.566	6.846.425	1.524.308.895
Accumulated depreciation	(156.217.948)	(644.272.900)	(220.195.451)	-	(1.020.686.299)
Adjustments for impairment	-	-	-	(1.656.183)	(1.656.183)
Final net book value	<u>125.225.326</u>	<u>312.796.730</u>	<u>58.754.115</u>	<u>5.190.242</u>	<u>501.966.413</u>

The gross book value of the fully depreciated assets, still used, is lei 273.561.000 lei (31 December 2017: 233.536.442 lei)..

Regarding the assets developed by the Company that 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 that are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to the NAMR at the end of the concession agreement fall within the scope of IFRIC 12.

The assets used for the provision of 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 fixed assets that are approved to be disposed of.

8. SERVICE CONCESSION AGREEMENT

In May 2002, the Company concluded a service concession agreement (‘SCA’) with the NAMR, 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 NAMR 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.

Upon 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 part directly of the national gas transmission system, but are complementary assets for gas transmission operations. The NAMR 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:

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- The Company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the Company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the Company and then approved by the ANRE;
- The Company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The Company must annually publish by 30 October the available capacity of the system for the following year;
- The Company must annually respond to the clients' orders by 30 November and the NAMR 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 NAMR 12 months in advance;
- The NAMR may cancel the agreement by a 6-month prior notice, if the Company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for 'national interest' reasons; in this case, the Company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The concession agreement does not include an automatic renewal clause.

The terms of the concession agreement haven't been amended after June 2003, except for the approval of the minimum investment plans.

9. INTANGIBLE ASSETS

	Assets related to the <u>ACS</u>	Information program	Intangible assets <u>in progress</u>	<u>Total</u>
On 31 March 2018 (unaudited)				
Cost as at 1 January 2018	6.076.105.751	50.568.382	200.167.387	6.326.841.520
Accumulated depreciation	(3.783.080.684)	(48.342.995)	-	(3.831.423.679)
Adjustments for impairment	-	-	(4.856.743)	(4.856.743)
Receivable related to the regulated value not depreciated in the end of the concession agreement	(529.761.578)	-	-	(529.761.578)
Receivable depreciation concession agreement	<u>90.827.909</u>	<u>=</u>	<u>-</u>	<u>90.827.909</u>
Initial net book value	1.854.091.398	2.225.387	195.310.644	2.051.627.429

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

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Cash-in	-	-	17.078.248	17.078.248
Transfers	5.165.937	1.873.057	(7.038.994)	-
Depreciation	(39.541.529)	(322.532)	-	(39.864.061)
Receivable related to the regulated value not depreciated in the end of the concession agreement	(1.279.130)	-	-	(1.279.130)
Receivable depreciation concession agreement	<u>7.549.955</u>	<u>-</u>	<u>-</u>	<u>7.549.955</u>
Final net book value	1.825.986.631	3.775.912	205.349.898	2.035.112.442

Cost	6.081.271.688	52.441.440	210.206.642	6.343.919.770
Accumulated depreciation	(3.822.622.213)	(48.665.528)	-	(3.871.287.741)
Adjustments for impairment	-	-	(4.856.744)	(4.856.744)
Receivable related to the regulated value not depreciated in the end of the concession agreement	98.377.864	-	-	98.377.864
Receivable depreciation concession agreement	<u>(531.040.708)</u>	<u>-</u>	<u>-</u>	<u>(531.040.708)</u>
Final net book value	1.825.986.631	3.775.912	205.349.898	2.035.112.442

As at 31 December 2018

Initial net book value	1.825.986.631	3.775.912	205.349.898	2.035.112.442
Inflows	-	-	389.858.610	389.858.610
Reclassifications	3.717	-	(164.818)	(161.101)
Transfers	76.719.874	1.619.654	(78.339.528)	-
Outflows	(2.051)	-	-	(2.051)
Depreciation	(121.710.062)	(1.253.591)	-	(122.963.653)
Depreciation re-classification	-	-	-	-
Adjustments for impairment	-	-	(2.157.507)	(2.157.507)
Receivable related to the regulated value not depreciated in the end of the concession agreement	(20.700.555)	-	-	(20.700.555)
Receivable depreciation concession agreement	<u>22.818.755</u>	<u>-</u>	<u>-</u>	<u>22.818.755</u>
Final net book value	1.783.116.309	4.141.975	514.546.655	2.301.804.939

Cost	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)
Receivable related to the regulated value not depreciated in the end of the concession agreement	(551.741.263)	-	-	(551.741.263)
Receivable depreciation concession agreement	<u>121.196.619</u>	<u>-</u>	<u>-</u>	<u>121.196.619</u>
Net book value	1.783.116.309	4.141.975	514.546.655	2.301.804.939

As at 31 December 2019

Initial net book value	1.783.116.309	4.141.975	514.546.655	2.301.804.939
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Inflows	-	-	151.363.978	151.363.978
Reclassifications	(1.206.384)	-	124.544	(1.081.840)
Transfers	2.115.284	46.253	(2.161.537)	-
Outflows	-	-	-	-
Depreciation	(40.978.978)	(440.650)	-	(41.419.628)
Depreciation re-classification	672.487	-	-	672.487
Adjustments for impairment	-	-	-	-
Receivable related to the regulated value not depreciated in the end of the concession agreement	(706.639)	-	-	(706.639)
Receivable depreciation concession agreement	<u>7.952.993</u>	<u>=</u>	<u>-</u>	<u>7.952.993</u>
Final net book value	1.750.965.072	3.747.578	663.873.640	2.418.586.290
Cost	6.158.886.933	54.107.348	670.887.891	6.883.882.172
Accumulated depreciation	(3.984.623.571)	(50.359.770)	0	(4.034.983.341)
Adjustments for impairment	-	-	(7.014.251)	(7.014.251)
Receivable related to the regulated value not depreciated in the end of the concession agreement	(552.447.902)	-	-	(552.447.902)
Receivable depreciation concession agreement	<u>129.149.612</u>	<u>-</u>	<u>-</u>	<u>129.149.612</u>
Net book value	1.750.965.072	3.747.578	663.873.640	2.418.586.290

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

10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	<u>Percentage owned 2019</u>	<u>Percentage owned 2018</u>	<u>31 March 2019 (unaudited)</u>	<u>31 December 2018</u>
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	238.477	238.477
Eurotransgaz	Gas transmission	100	100	45.600.828	45.600.828
Minus adjustments for impairment of investments in:					
Resial SA, Mebis SA and Phaedra's SHA				(24.816.714)	<u>(24.816.714)</u>

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45.600.828 45.600.828

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' share capital to ensure the financial sources necessary for the procurement 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. Because of the fact that the consortium is to be wound up because it was not declared successful in the tender for the procurement of DESFA, the company recorded an adjustment for the impairment of 100% of the cost.

In case of the financial assets held by Transgaz, i.e. Mebis SA, Phaedra S.A and Resial SA, the application of IFRS 9 has no impact whatsoever, as such assets are measured at the fair value by the profit and loss account and 100% impairment adjustments were established.

The share titles held in Eurotransgaz S.R.L, represent an equity investment recognized according to IFRS 9, which as at the date of the transaction was measured at the fair value by other elements of the comprehensive income.

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The standard is not applied to the interests in subsidiaries, associated entities and joint ventures accounted for pursuant to IFRS 10 Consolidated financial statements, IAS 27 Individual financial statements or IAS 28 Investments in associated entities and in joint ventures and Transgaz, as sole shareholder of Eurotransgaz SRL, applies these standards upon the consolidation of the financial statements.

11. INVENTORIES

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Gas inventories	26.923.879	30.865.253
Spare parts and materials	74.616.118	78.950.598
Materials in custody to third parties	279.514.789	174.188.219
Adjustments for the impairment of inventories	<u>(28.762.730)</u>	<u>(28.762.730)</u>
	<u>352.292.056</u>	<u>255.241.340</u>

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 stocks are included in the amount of 268.727.446 lei purchased by the company for the achievement of the BRUA Phase I project.

Movements in the adjustments account are analysed below:

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Adjustment on 1 January	28.762.730	20.593.986
(Revenue)/expense with the adjustment for the impairment of the inventories (Note 23)	-	<u>8.168.744</u>
Adjustment in the end of the period	<u>28.762.730</u>	<u>28.762.730</u>

In 2018 adjustments for the impairment of the inventories were constituted according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Trade receivables	684.305.235	705.024.026
Advance payments to suppliers	172.457	156.315
Loan to Resial SA (Note 10)	1.770.346	1.770.346

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Receivable related to the unamortized regulated value at the end of the concession agreement	635.470.681	629.754.861
Non-refundable loans as subsidies	3.127.035	3.905.908
Other receivables	73.411.463	190.183.321
Adjustment for impairment of trade receivables	(323.085.866)	(312.732.990)
Provision for impairment of other receivables	(47.125.664)	(46.916.888)
	<u>1.028.045.687</u>	<u>1.171.144.899</u>

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 31 March 2019 the company established letters of bank guarantee for this parties as follows:

- Two letters of bank guarantee in the total amount of lei 5.442.460 issued by the Romanian Commercial Bank valid until 30.09.2019;

All the letters are guaranteed by collateral deposits in the same amount.

On 31 March 2019, the amount of Lei 25.193.692 (31 December 2018: Lei 86.731.826) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 5% in USD (31 December 2018: 2%) and 95% in EUR (31 December 2018: 98%).

The analysis based on the quality of the trade receivables and other receivables is as follows:

	31 March 2019 (unaudited) <u>Trade receivables</u>	31 December 2018 <u>Trade receivables</u>
Current and not impaired (1)	295.895.074	347.260.252
IFRS 9 provision	-	467.070
Overdue but not impaired		
- overdue less than 30 days	39.201.578	39.301.469
- overdue between 30 and 90 days	21.547.099	5.864.812
- overdue more than 90 days	<u>4.575.618</u>	<u>331.573</u>
Due, but not impaired - total (2)	<u>65.324.295</u>	<u>45.497.854</u>
Impaired (gross)		
- outstanding less than de 30 days	7.528.705	74.421

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- overdue between 30 and 90 days	8.777.180	1.086.687
- overdue between 90 and 360 days	18.691.287	18.909.219
- overdue more than 360 days	<u>288.088.694</u>	<u>292.662.663</u>
Total impaired (3)	<u>323.085.866</u>	<u>312.732.990</u>
Except the adjustment for impairment (4)	<u>323.085.866</u>	<u>312.732.990</u>
Total trade receivables (1+2+3-4)	<u>361.219.369</u>	<u>392.291.036</u>

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

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

The client categories established in respect of the current receivables based on this estimation model are: transit clients, transmission clients, dispute clients and various clients.

For the estimation of a non-cashing in risk related to the current receivables, a percentage of 5% was applied with a 25% non-cashing in probability assuming that a coherent accounting policy for receivables adjustment is applied within the company: the receivables exceeding the 30 days' time frame are adjusted for short periods of time with percentages gradually increased up to 100%.

As a result of this loss estimation model application, pursuant to IFRS 9, additional impairment adjustments were registered – lei 363.445 for the Transmission Clients category and lei 103.625 for the Dispute Clients category.

Analysis according to the quality of the receivables, of the current and not impaired financial assets can be made based on historical information on issues related to the recovery of these receivables.

	<u>31 March 2019</u>	<u>31 December 2018</u>
Group 1	280.566.331	310.849.895
Group 2	<u>15.328.743</u>	<u>36.410.357</u>
Trade receivables	<u>295.895.074</u>	<u>347.260.252</u>

Group 1 - existing clients/related parties where there were no recovery problems.

Group 2 - existing clients/related parties where payment delays were recorded in the past.

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Movements in the provision account are analysed below:

	<u>31 December 2019</u>	<u>31 December 2018</u>
	<u>(unaudited)</u>	
Adjustment on 1 January	359.649.877	333.150.569
(Revenue)/expense with the adjustment for doubtful debts (Note 23)	<u>10.561.653</u>	<u>26.499.308</u>
Adjustment at the end of the period	<u>370.211.530</u>	<u>359.649.877</u>

In 2018 adjustments for receivables from insolvent companies or from companies in significant financial difficulties were established.

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

13. CASH AND CASH EQUIVALENT

	<u>31 March 2019</u>	<u>31 December 2018</u>
	<u>(unaudited)</u>	
Cash at bank in RON	246.115.010	156.298.591
Cash at bank in foreign currency	597.480.838	552.291.781
Other cash equivalents	<u>328.738</u>	<u>161.945</u>
	<u>843.924.586</u>	<u>708.752.317</u>

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

The weighted average of the effective interest related to short-term bank deposits was of 0.61% on 31 March 2019 (0.46% on 31 December 2017) and these deposits have a maximum maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

	<u>Number of</u>	<u>Share capital</u>	<u>Share</u>	<u>Total</u>
	<u>ordinary shares</u>		<u>premium</u>	
IFRS				
On 31 December 2017	11.773.844	117.738.440	247.478.865	365.217.305
On 31 december 2018 (unaudited)	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	<u>-</u>	<u>441.418.396</u>	<u>-</u>	<u>441.418.396</u>
On 31 December 2018, 31 March 2019 (unaudited)	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>

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The authorized number of ordinary shares is 11,773,844 (31 December 2017: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 March 2019 is the following:

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

The ownership structure on 31 December 2018 is the following:

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

By Government Emergency Ordinance 1 of 4 January 2017 the Ministry of Economy was established through the reorganizing of the Ministry of Economy, Trade and Business Environment. The transfer of the shares held by the Romanian State from the account of the Ministry of Economy, Trade and Business Environment to the account of the Ministry of Economy was recorded at SC Depozitarul Central SA on 10 march 2017.

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 RESERVES AND RETAINED EARNINGS

Other reserves

Before the adoption of 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

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respective assets restated depending on inflation until 1 January 2004. It was recalled `Other reserves` upon adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of related assets.

Legal reserve

In accordance with the Romanian legislation and the Company's Articles of Incorporation, it must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 December 2018, amounts to Lei 23,547,688 (31 December 2017: Lei 23,547,688). The legal reserve is included in the `Retained earnings` in these financial statements.

Dividend allocation

In the course of 2018, the Company declared and allocated a dividend of RON 45.38/share, related to the profit of the previous year (2017: Lei 46.33 per share). The total dividends declared from the profit of 2017 are RON 534.297.041 (dividends declared from the profit of 2016: RON 545.482.192).

In October 2017, the Company approved and distributed a dividend of 14.52 lei/share from the existing amounts of the balance sheet of "Other Reserves" as at 31 December 2016. The amount of the declared dividends is of 170,956,214.88 lei.

In December 2018 the Company approved and distributed a dividend in the amount of 1.14 lei/share of the existing amounts in the account "Other reserves" as at 31 december 2017. The amount of the declared dividends is of lei 13.472.486.

16. LONG-TERM BORROWINGS

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 route" ("BRUA Phase I").

- 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 also signed with the EIB the 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 - Podișor) 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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16. LONG TERM LOANS (CONTINUATION)

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 from the loan no 83644RO the first tranche 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 mil. was received.

On 31 December 2018 no amount related to the loans no 88825RO and no.89417RO was disbursed.

The European Bank for Reconstruction and Development (EBRD)

On 23 February 2018 Transgaz signed with EBRD a contract amounting to Lei 278 million, the equivalent of EUR 60 million, for the financing of the BRUA Project. On 31 december 2018 no amount of the loan was drawn.

The maturity of the loan from the EIB is illustrated below:

	<u>31 March 2019 (unaudited)</u>	<u>31 December 2018</u>
Within 1 year	-	-
Between 1 and 5 years	62.868.960	58.765.140
Over 5 years	<u>175.271.040</u>	<u>174.429.860</u>
	<u>238.140.000</u>	<u>233.195.000</u>

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

	<u>31 March 2019 (unaudited)</u>	<u>31 December 2018</u>
Current portion of the long term loans	<u>-</u>	<u>-</u>

Fair value

The book values and fair values of the long term loans are as follows:

	<u>Book values</u>		<u>Fair values</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
EIB	<u>238.150.000</u>	<u>233.195.000</u>	<u>238.221.403</u>	<u>233.276.105</u>

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The fair value is determined based on the amount of the future discounted cash flows, by means of a discounting rate equal to the value of the interest to which the management considers that the company may obtain similar loans, at the end of the reporting period.

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

	<u>31 March 2019</u>	<u>31 December 2018</u>
	<u>(unaudited)</u>	
Variable interest rate	=	=

17. DEFERRED REVENUE

Deferred revenue consists of connection fees charged to clients for their connection to the national gas transmission system, of 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 operator. The Company uses the connection fee to achieve the connection to the national transmission system of the client's objectives. 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 throughout the duration of the concession agreemen.

	<u>31 March 2019</u>	<u>31 December 2018</u>
	<u>(unaudited)</u>	
Initial balance	<u>541.987.503</u>	<u>497.755.179</u>
Increases	(388.960)	67.112.639
Amounts recorded in the revenue (Note 22)	<u>(5.578.684)</u>	<u>(22.880.315)</u>
Final balance	<u>536.019.859</u>	<u>541.987.503</u>

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

The balance of the deferred revenue consists of:

	<u>31 March 2019</u>	<u>31 December 2018</u>
	<u>(unaudited)</u>	
Connections and assets received free of charge	260.482.625	265.035.065
Grants	<u>275.537.234</u>	<u>276.952.438</u>
	<u>536.019.859</u>	<u>541.987.503</u>

The company obtained from the European Union through the National Agency for Innovation and Networks (INEA), for the BRUA project, a grant of 1.519.342 Euros, representing 50% of the estimated eligible costs granted for financing the design for the three compressor stations (Podișor,

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Bibesti and Jupa) and a grant of 179.320.400 Euro, representing 40% of the estimated eligible costs, granted for financing the BRUA Phase I project implementation.

In order to finance the implementation of the BRUA Phase I project, the following amounts were received as pre-financing: EUR 25.834.489,60 (in 2016) and EUR 13.839.087,37 (in 2018).

18. PROFIT TAX

Profit tax expense

	Three months ended as at 31 March 2019 (unaudited)	Three months ended as at 31 March 2018 (unaudited)
Expense with the profit tax - current	40.287.719	47.181.304
Deferred tax - impact of temporary differences	<u>(2.654.040)</u>	<u>(1.131.285)</u>
Profit tax expense	<u>37.633.679</u>	<u>46.050.019</u>

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

	Three months ended as at 31 March 2019 (unaudited)	Three months ended as at 31 March 2018 (unaudited) (retreated)
Profit before tax	229.021.182	282.654.808
Theoretical expense with the tax the statutory rate of 16% (2017: 16%)	36.643.390	45.224.770
Non-taxable expenses, net	<u>990.289</u>	<u>825.249</u>
Profit tax expense	<u>37.633.679</u>	<u>46.050.019</u>
Profit tax related liability, current	<u>9.230.142</u>	<u>45.656.282</u>

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

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18. PROFIT TAX (CONTINUED)

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 31 March 2018 (31 March 2018: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(revenue from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

	<u>31 March</u> <u>2019</u> (unaudited)	<u>Movement</u>	<u>31 December</u> <u>2018</u>	<u>Movement</u>	<u>31 March</u> <u>2018</u> (unaudited)	<u>Movement</u>	<u>1 January</u> <u>2018</u> (retreated)
Deferred tax payment:							
Tangible and intangible assets	71.949.513	(2.289.901)	74.239.414	(3.890.291)	78.129.705	(1.131.285)	79.260.990
Deferred tax recoverable							
Provision for employee benefits	(17.601.909)	-	(17.601.909)	(1.687.883)	(15.914.026)	-	(15.914.020)
Risks and expenses	(3.300.370)	(364.139)	(2.936.231)	(590.391)	(2.345.840)	-	(2.345.840)
Receivables and other assets	<u>(49.399.059)</u>	-	<u>(49.399.059)</u>	<u>(3.627.013)</u>	<u>(45.772.046)</u>	-	<u>(45.772.046)</u>
	<u>1.648.175</u>	<u>(2.654.040)</u>	<u>4.302.215</u>	<u>(9.795.578)</u>	<u>14.097.793</u>	<u>(1.131.285)</u>	<u>15.229.078</u>

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

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

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
Deferred tax liabilities payable in more than 12 months as reported	<u>1.648.175</u>	<u>4.302.215</u>

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19. TRADE PAYABLES AND OTHER PAYABLES

	<u>31 March 2019</u> <u>(neauditat)</u>	<u>31 December 2018</u>
Trade payables	140.990.876	174.656.915
Suppliers of fixed assets	54.372.920	51.234.117
Dividends payable	4.732.243	5.357.678
Debts related to royalties	47.250.112	44.328.459
Other taxes	14.143.298	19.013.804
Amounts payable to employees	14.102.524	17.485.842
VAT payable	642.986	-
VAT not applicable	9.205.361	17.229.300
Guarantees capacity booking auctions	-	-
Compensations investment works	22.268.687	22.268.687
Other debts	<u>83.337.896</u>	<u>45.625.846</u>
	<u>391.046.903</u>	<u>397.200.648</u>

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

20. PROVISIONS FOR RISKS AND CHARGES

	<u>31 March 2019</u> <u>(unaudited)</u>	<u>31 December 2018</u>
<i>Current provision</i>		
Provision for litigation	1.841.652	1.841.652
Provision term contract	2.527.562	2.527.562
Provision for employee participation in profits	<u>18.099.754</u>	<u>14.278.573</u>
	<u>22.468.968</u>	<u>18.647.787</u>

Employees` profit share 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.

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

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salary average achieved during 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. 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 2018

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 agreement. 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 2018, and it is the probability that a person of a certain age on 31 December 2018 will survive up to a certain time in the future.
- the employee redundancy used in the calculation was established using a conservative approach, lower than those calculated on the basis of the company's past experience, this being a hypothesis that we considered reasonable on the basis of the information provided by the company.
- employee departure rates are important in the context when employees leave the company and no longer receive the benefit. The amount of the provision for the two benefits granted by the company covers the benefits that the company will pay to its current employees, who survive until the payment of each benefit and have been continuously employed by the company;
- The calculation parameters and assumptions used about the evolution of the consumer price index, the average annual return on investment and the annual percentage change of the salary were estimated from 2023 to take into account the target inflation level for the Euro area; for the period 2019-2022 the values were set to ensure natural progression up to the level of 2023, taking into account the values predicted by the National Bank of Romania.
- The calculation parameters and assumptions used for mortality rates are taken from the mortality tables published by the National Institute of Statistics and the values for departure rates were

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estimated based on the data provided by the company and also on previous experience in making similar assessments.

Movement in the provision for employee benefits

1 January 2017	<u>113.885.920</u>
of which:	
Short-term	4.757.862
Long-term	109.128.058
Interest cost	1.708.289
Current service cost	4.909.607
Payments from provisions during the year	(3.215.188)
Actuarial gain/loss related to the period	(17.825.963)
31 December 2017	<u>99.462.665</u>
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	<u>110.011.930</u>
of which:	
Short-term	2939793
Long-term	107.072.137

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22. OTHER REVENUE

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited) retreated
Revenues from penalties for delay payments applied to clients	743.676	1.494.153
Revenues from connection fees, grants and goods taken free of charge	5.578.684	5.550.668
Revenue for the receivable related to the regulated value remained recognized by ANRE in the end of the concession agreement	-	-
Revenues from the sale of residual materials	106.214	664.650
Revenues from leases	389.176	399.514
Revenues from recovered materials	503.937	270.247
Revenues from operating grants for other operating expenses	-	-
Other revenues from operation	<u>623.921</u>	<u>587.742</u>
	<u>7.945.608</u>	<u>8.966.974</u>

The category of the revenues from penalties includes the revenues from the compensation collected as a result of exercising the right for the unilateral termination of the gas transmission contracts concluded following the conduct of the process for the incremental capacity the scope of which is the allocation of the incremental capacity. The amounts were agreed between the parties and cashed in during 2018.

23. OTHER OPERATING EXPENSES

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Loss/gain on impairment of receivables	10.561.653	(10.027.852)
Security and protection expenses	5.542.192	4.383.079
Utilities	2.252.752	1.586.909
Penalties and fines	38.629	103.301
Telecommunications	881.982	728.710
Gas storage capacity booking	789.703	1.722.729
Sponsorship expenses	9.000	-
Maintenance expenses	324.385	99.736
Rent	1.065.537	1.356.099
Professional training	33.301	87.722
Marketing and protocol expenses	30.395	384.506
Insurance premia	229.821	294.043
Bank charges and other fees	1.157.221	2.094.165

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Loss/gain from inventory depreciation	-	9.088.823
Loss on disposal of fixed assets	15.475	95.203
Other	<u>5.301.861</u>	<u>4.573.357</u>
	<u>28.233.907</u>	<u>16.570.530</u>

24. EMPLOYEE COSTS

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Salaries and benefits	73.798.343	72.630.389
Cost of insurance and social security	5.359.468	5.450.615
Other employee costs	<u>836.611</u>	<u>763.055</u>
	<u>79.994.422</u>	<u>78.844.059</u>

Average number of employees in financial year:

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Blue collars	2.625	2.844
White collars	<u>1.614</u>	<u>1.548</u>
	<u>4.239</u>	<u>4.392</u>

25. NET FINANCIAL REVENUE/(EXPENSES)

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Revenue from foreign exchange differences	17.130.889	2.129.681
Interest revenue	5.540.723	5.999.409
Other financial revenue	<u>15.665</u>	<u>-</u>
Financial revenue	22.687.277	8.129.090
Expenses from foreign exchange differences	(10.112.641)	(2.573.453)
Interest expenses	<u>(796.849)</u>	<u>(301.478)</u>
Financial expenses	(10.909.490)	(2.874.931)

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26. CASH FROM OPERATION

	Three months ended <u>31 March</u> <u>2019</u> <u>(unaudited)</u>	Three months ended <u>31</u> <u>March 2018</u> <u>(unaudited)</u> <u>retreated</u>
Profit before tax	229.021.182	282.654.808
<i>Adjustments for:</i>		
Depreciation	47.308.068	46.525.930
Gain/(loss) on disposal of fixed assets	15.475	95.203
Provisions for risks and charges	3.821.181	3.586.654
Revenue from connection fees, grants and goods taken free of charge	(5.578.684)	(5.550.668)
Adjustments for the impairment of receivables	10.561.653	(939.029)
Interest expenses	796.849	301.478
Interest revenue	(5.540.723)	(5.999.409)
Effect of exchange rate fluctuation on other items than operating	5.014.286	16.819
Operating Profit before the changes in working capital	<u>285.419.287</u>	<u>320.691.785</u>
(Increase)/decrease in trade and other receivables	(69.410.711)	(204.690.204)
(Increase)/decrease in inventories	(97.050.716)	7.830.899
Increase/(decrease) in trade payables and other debts	<u>164.312.148</u>	<u>3.157.909</u>
Cash generated from operations	<u>283.270.008</u>	<u>126.990.389</u>

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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.

During the periods ended 31 March 2018 and 31 March 2017 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

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Salary paid to the members of the Board of Administration and management	3.580.145	3.258.366
Social contribution of the Company	<u>80.553</u>	<u>73.312</u>
	<u>3.660.698</u>	<u>3.331.678</u>

In the periods ended 31 March 2019 and 31 March 2018, no advance payments and loans were granted to the Company's administrators and management, except advance payments from salaries and those for business trips, and they don't owe any amount to the Company at the end of the period coming from such advance payments.

The provision for the mandate contract is presented in Note 20.

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

ii) Loan to a related party

	31 March 2019 (unaudited)	31 December 2018
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment for loan impairment	<u>(1.770.346)</u>	<u>(1.770.346)</u>
	<u>-</u>	<u>-</u>

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.8.

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27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

		Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	54.878.011	26.429.446
Electrocentrale Deva SA	Entity under common control	620.428	1.097.352
Electrocentrale București SA	Entity under common control	23.893.902	44.430.455
Electrocentrale Constanta	Entity under common control	2.141.861	-
E.ON Energie Romania	Entity under common control	<u>29.033.475</u>	<u>43.216.091</u>
		<u>110.567.677</u>	<u>115.173.344</u>

iv) Sales of goods and services (VAT excluded)

		Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	39.692	593.172
Energoterm Tulcea SA	Entity under common control	-	1.922
Electrocentrale Deva SA	Entity under common control	3.162	12.433
Electrocentrale București	Entity under common control	-	46.435
Electrocentrale Galati SA	Entity under common control	105.777	69.440
Electrocentrale Constanta	Entity under common control	43.085	20.314
E.ON Energie Romania	Entity under common control	<u>78</u>	<u>-</u>
		<u>191.794</u>	<u>743.716</u>

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

		Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	4.310.498	1.048.171
Electrocentrale Deva SA	Entity under common control	667.628	600.081
Electrocentrale București	Entity under common control	1.016.323	-
Electrocentrale Tulcea	Entity under common control	-	512.796

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Electrocentrale Constanta	Entity under common control	422.437	-
E.ON Energie Romania	Entity under common control	<u>4.039.563</u>	<u>6.264.699</u>
		<u>10.456.449</u>	<u>8.425.747</u>

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

vi) Receivables from related parties (without the adjustment)

		31 March	31 December
		2019	2018
		(unaudited)	
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	23.254.460	26.080.064
Electrocentrale Deva SA	Entity under common control	1.026.006	638.383
Electrocentrale București SA	Entity under common control	38.892.162	25.924.390
Electrocentrale Constanța	Entity under common control	4.592.336	2.487.375
E.ON Energie Romania	Entity under common control	<u>20.416.462</u>	<u>25.457.928</u>
		<u>88.181.426</u>	<u>80.588.140</u>

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

		31 March	31 December
		2019	2018
		(unaudited)	
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	1.971.001	4.573.651
Electrocentrale Deva SA	Entity under common control	360.964	125.887
Electrocentrale Bucuresti	Entity under common control	2.207.648	1.471.193
Electrocentrale Constanta	Entity under common control	5.490.698	5.394.574
E.ON Energie Romania	Entity under common control	<u>5.266.272</u>	<u>3.071.021</u>
		<u>15.296.583</u>	<u>14.636.326</u>

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

		Three months	Three months
		ended	ended
		31 March 2019	31 March 2018
		(unaudited)	(unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	22.258.155	-
E.ON Energie Romania	Entity under common control	-	20.203.025
		<u>22.258.155</u>	<u>20.203.025</u>

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27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

		Three years ended 31 March 2019 (unaudited)	Three years ended 31 March 2018 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	796.329	1.728.034
Electrocentrale București SA	Entity under common control	1.676	1.789
Termo Calor Pitești	Entity under common control	-	1.125
E.ON Energie Romania	Entity under common control	<u>2.421.119</u>	-
		<u>3.219.124</u>	<u>1.730.948</u>

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

		Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	4.990.475	10.803.214
Electrocentrale Deva SA	Entity under common control	280.653	10.550
Electrocentrale București	Entity under common control	4.838.682	1.194.258
Electrocentrale Constanta	Entity under common control	478.254	-
E.ON Energie Romania	Entity under common control	<u>16.082.799</u>	<u>2.411.427</u>
		<u>26.670.863</u>	<u>14.419.449</u>

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

		31 March 2019 (unaudited)	31 December 2018
	<u>Relationship</u>		
E.ON Energie Romania	Entity under common control	-	-
SNGN Romgaz	Entity under common control	<u>18.535.204</u>	<u>13.269.220</u>
		<u>18.535.204</u>	<u>13.269.220</u>

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

		31 March 2019 (unaudited)	31 December 2018
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	4.172	500.136
Electrocentrale București	Entity under common control	458	487
Termo Calor Pitești	Entity under common control	-	-
E.ON Energie Romania	Entity under common control	<u>1.194.240</u>	<u>1.131.853</u>

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1.198.870

1.632.476

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

		<u>31 March 2019</u>	<u>31 December 2018</u>
	<u>Relationship</u>	<u>(unaudited)</u>	
SNGN Romgaz	Entity under common control	875.256	2.715.878
Electrocentrale Deva SA	Entity under common control	125.846	38.697
Electrocentrale București	Entity under common control	760.675	3.155.294
Electrocentrale Constanța	Entity under common control	51.825	-
E.ON Energie Romania	Entity under common control	<u>2.984.660</u>	<u>10.601.236</u>
		<u>4.798.262</u>	<u>16.511.105</u>

xiv) Guarantees from affiliates

		<u>Three months ended 31 March 2019 (unaudited)</u>	<u>31 December 2018 (unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	37.840.355	24.335.239
Electrocentrale Constanța	Entity under common control	984.918	164.899
Electrocentrale Deva SA	Entity under common control	858.900	169.053
E.ON Energie Romania	Entity under common control	<u>7.819.735</u>	<u>8.059.011</u>
		<u>47.503.908</u>	<u>32.728.202</u>

28. EARNINGS PER SHARE

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

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

	<u>Three months ended 31 March 2019 (unaudited)</u>	<u>Three months ended 31 March 2018 (unaudited)</u>
Profit attributable to the Company's equity holders	191.387.503	236.604.789
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	16,26	20,10

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 0.25 % of the receivables were settled by transactions that haven't involved cash outflows during the three months period ended 31 March 2018 (31 March 2017: 0.13%). 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 first quarter 2019 and first quarter 2018.

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

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 31 March 2018 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 795.702.416 lei.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

On 14 December 2017, the Company signed a second loan agreement with the European Investment Bank of Euro 50 million, up to the ceiling approved by the EIB for the financing of Transgaz' projects. The open-ended contract allows Transgaz to choose, at a later stage, how to draw and repay - in Lei or EUR, the type of interest - fixed or variable, the drawings - during 2018 and 2019, with a repayment period of 15 years and the grace period for the principal repayment 3-year. This second contract will complement the own funding sources, if needed. The contract also allows the Company to cancel the loan within the first 12 months of signing, without financing costs and to perform disbursements in a 24 months time span from its conclusion the financing costs will be aggregated before the first drawing from the financing contract.

On 24 January 2019 the Company signed with the European Investment Bank the loan contract for the amount of EUR 100 million representing the second tranche of the loan approved for Transgaz in the amount of lei 150 million, 15 years maturity, 3 years grace period upon the repayment of the principal amount for the funding of the project „Development on the Romanian territory of the Southern Gas Transmission Corridor for taking over gas from the Black Sea shore”.

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.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The Company's management believes that fiscal obligations included in these financial statements are properly presented.

In accordance with the Order of the Ministry of Public Finance No. 881/2012, Transgaz prepares statutory IFRS financial statements as of 2012, these statements also being the base for determining the fiscal obligations of the Company. Because the tax rules for taxpayers that apply the accounting regulations according to IFRS are new, there is a risk that a subsequent fiscal control could have another interpretation than the Company on how to determine the tax base.

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 49 managers (30 managers in 2017).

iv) Environmental aspects

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

Environmental regulations are under development in Romania and the Company did not record any obligation on 31 September 2018 and 31 December 2017 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.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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 losses 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. Based on its own estimates, the Company's management believes there are no circumstances to give rise to significant potential obligations in this regard.

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, paragraph (4) of Regulation (EC) No 1/2003 of the European Union Council on the implementation of EU rules on competition laid down in Art. 81 and 82 of the EC Treaty which became art. 101 and 102 respectively of the Treaty on the Functioning of the European Union. Based on their own estimates, the Company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

In 2017 one of the company's administrators from the period 2013-2017 initiated court proceedings for the recovery of the amounts representing the difference not paid, amounts that he considered he is due according to the mandate contract during the period 2014-2016. Based on its own estimates the Company deems that there are no circumstances that could lead to potential significant obligations in this respect.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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. (Note 8).

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

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

vii) The political and economic situation in Ukraine

As of 2014 the economic and political situation in Ukraine witnessed an accentuated deterioration. 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. The Company cannot estimate at this point the impact of such events on its activity of domestic and international transmission.

viii) Grants for the Giurgiu – Ruse interconnector

The Company received grants for the building of the Giurgiu - Ruse interconnector. From technical reasons, the initial execution contract was terminated, the auction procedure being reinitiated for the completion of the work. The Company did not receive any request for reimbursement of funds and submitted a request for the extension of the deadline for work completion. The objective was accepted and commissioned at the end of 2016. In December 2017, the Company received from the European Commission the amount of EUR 1,883,690.39, representing the final tranche of the non-reimbursable financing of the project for the interconnection of the natural gas transmission systems of Romania and Bulgaria.

31. FEES OF THE STATUTORY AUDITOR

The fees related to the financial year ended as at 31 December 2017 charged by Deloitte Audit SRL, invoiced in Q1 I 2018 are: lei 160.391 (VAT excluded) for the statutory audit and lei 61.787 (VAT excluded) for services other than the statutory audit and the fees related to semester II 2017 are: lei 98,791 for limited revision of the financial standing as at 30 June 2017 and lei 45,311 for other services than the statutory audit.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

32. RETREATMENTS RELATED TO THE PREVIOUS PERIOD

The Company prepared and published financial statements for the financial year ended as at 31 March 2018. The compared figures from the financial statements prepared by the company for the financial year ended as at 31 March 2018 differ from the ones of the previously submitted financial statements as follows:

Registration of the receivable related to the regulated value remained undepreciated upon the termination of the Concession agreement.

As of 01.01.2018, IFRS 15 "Revenue from contracts with customers" became applicable in Romania. This Standard supersedes a number of 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 will recognize the updated receivable related to the regulated amount remaining undepreciated at the end of the concession agreement as a consideration and not as a grant, and the intangible asset will be presented in the financial statements at a value less the amount of the updated receivable.

	Year ended 31 March 2018
Other revenues, previously reported	2.490.561.098
Other revenues, retreated	<u>2.051.627.429</u> (438.933.669)
Depreciation, previously reported	660.030.895
Depreciation, retreated	<u>587.291.596</u> (72.739.299)

33. 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 "Revenues from contracts with the customers".

	Three months ended 31 March 2019 (unaudited)	Three months ended 31 March 2018 (unaudited)
Revenue from the construction activity according to IFRIC12	150.175.759	16.519.774

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
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Cost of assets constructed according to IFRIC12	(150.175.759)	(16.519.774)
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The related costs were equal to the revenue. The Company did not obtain any profit from the construction of the intangible asset.

34. EVENTS SUBSEQUENT TO THE BALANCE DATE

On 24 April 2019, the Company concluded a loan agreement with the Romanian Commercial Bank for lei 186 million, with variable interest, 15 years payment period and a 3-year grace period for the repayment of the principal in order to finance the project "Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor ("BRUA Phase 1").

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean