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

INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED 30 SEPTEMBER 2018 (UNAUDITED)

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

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

INTERIM FINANCIAL STATEMENTS

Contents

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TRANSGAZ MAGISTRALA ENERGIEI

	Note	30 September 2018 (unaudited)	31 December 2017
ASSET			
Fixed assets			
Intangible Assets	9	2.481.268.869	2.490.561.098
Tangible Assets	7	528.768.146	558.555.440
Financial assets	10	43.810.880	232.533
Trade receivables and other receivables	12	709.430.283	660.030.895
		3.763.278.178	**3.709.379.966**
Current assets			
Inventories	11	117.598.092	82.093.413
Commercial receivables and other receivables	12	353.828.330	379.451.909
Cash and cash equivalent	13	926.072.606	1.062.351.834
		1.397.499.028	**1.523.897.156**
Total asset		**5.160.777.206**	**5.233.277.122**
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	1.413.702.376	1.648.717.472
		3.486.134.938	**3.721.150.034**
Long-term debts			
Long-term loans	16	233.185.000	69.895.500
Provision for employee benefits	21	95.853.939	95.853.939
Deferred revenue	17	1.070.617.096	1.009.428.147
Deferred tax payment	18	58.896.494	63.346.964
		1.458.552.529	**1.238.524.550**

Notes 1 to 32 are part of these financial statements.

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	Note	30 September 2018 (unaudited)	31 December 2017
Current debts			
Commercial debts and other debts	19	201.981.300	255.035.974
Provision for risks and charges	20	10.499.713	14.957.838
Current tax payment	18	-	-
Provision for employee benefits	21	3.608.726	3.608.726
		216.089.739	**273.602.538**
Total debts		**1.674.642.268**	**1.512.127.088**
Total equity and debts		**5.160.777.206**	**5.233.277.122**

Endorsed and signed on behalf of the Board of Administration on 12 November 2018, by:

Chairman of the Meeting
Petru Ion Văduva

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

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

	Note	Nine months ended as at 30 September 2018 (unaudited)	Nine months ended as at 30 September 2017 (unaudited)
Revenue from the domestic transmission activity		828.181.273	999.198.970
Revenue from the international transmission activity		238.801.097	252.240.143
Other revenue	22	48.725.587	50.997.737
Operational revenue before the balancing and construction activity according to IFRIC12		**1.115.707.957**	**1.302.436.850**
Depreciation	7,9	(161.902.167)	(160.550.253)
Employees costs	24	(287.021.919)	(290.271.993)
Technological consumption, materials and consumables used		(70.531.618)	(79.250.728)
Expenses with royalties		(106.698.238)	(125.143.912)
Maintenance and transmission		(23.981.974)	(18.029.884)
Taxes and other amounts owed to the state		(58.282.856)	(53.914.611)
Revenue/ (Expenses) with provisions for risks and expenses		4.458.125	5.651.747
Other operating expenses	23	(73.785.222)	(90.460.958)
Operational profit before the balancing and construction activity according to IFRIC12		**337.962.088**	**490.466.258**
Revenue from the balancing activity		118.837.728	92.299.433
Expenses with balancing gas		(118.837.728)	(87.337.083)
Revenue from the construction activity according to IFRIC12	32	109.545.456	28.067.161
Cost of assets constructed according to IFRIC12	32	(109.545.456)	(28.067.161)
Operational profit		**337.962.088**	**495.428.608**
Financial revenue	25	36.560.161	176.284.454
Financial expenses	25	(18.008.942)	(147.971.513)
Financial revenue, net		**18.551.219**	**28.312.941**
Profit before tax		**356.513.307**	**523.741.549**
Profit tax expense	18	(57.231.362)	(90.189.999)
Net profit for the period		**299.281.945**	**433.551.550**
Earnings per share, basic and diluted (expressed in RON per share)	28	25,42	36,82
Total comprehensive income for the period		**299.281.945**	**433.551.550**

Chairman of the Meeting
Petru Ion Văduva

Director General	Chief Financial Officer
Ion Sterian	Marius Lupean

	Note	Share Capital	Share capital adjustments	Share premium	Other reserves	Retained earnings	Total equity
Balance on 1 January 2017,		117.738.440	441.418.396	247.478.865	1.265.796.861	1.765.268.873	3.837.701.435
Net profit for the period						433.551.550	433.551.550
Transactions with shareholders:							
Dividends for 2016	15	-	-	-	-	(545.482.191)	(545.482.191)
Balance on 30 September 2017 (unaudited)		117.738.440	441.418.396	247.478.865	1.265.796.861	1.653.338.232	3.725.770.794
Net profit for the period, reported						148.509.493	148.509.493
Actuarial gain/loss for the period		-	-	-	-	17.825.963	17.825.963
Transactions with shareholders:							
Dividends for 2016	15	-	-	-	-	(170.956.216)	(170.956.216)
Balance on 31 December 2017		117.738.440	441.418.396	247.478.865	1.265.796.861	1.648.717.472	3.721.150.034
Net profit for the period, reported						299.281.945	299.281.945
Transactions with shareholders:							
Dividends for 2017	15	-	-	-	-	(534.297.041)	(534.297.041)
Balance on 30 September 2018 (unaudited)		117.738.440	441.418.396	247.478.865	1.265.796.861	1.413.702.376	3.486.134.938

Chairman of the Meeting
Petru Ion Văduva

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean

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

	Note	Nine months ended as at 30 September 2018 (unaudited)	Nine months ended as at 30 September 2017 (unaudited)
Cash generated from operations	26	**377.332.756**	**827.632.094**
Interest paid		(913.139)	-
Interest received		4.562.547	5.021.076
Profit tax paid		(63.069.758)	(97.499.840)
Net cash inflow from operation activities		**317.912.406**	**735.153.330**
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(108.687.353)	(49.286.168)
Receipts from transfer of tangible assets		-	136.220
Financial investments/shares		(43.578.347)	-
Cash flows from connection fees and grants		66.992.636	12.026.618
Net cash used in investment activities		**(85.273.064)**	**(37.123.330)**
Cash flow from financing activities			
Drawings long term loans		163.289.500	-
Dividends paid		(532.208.070)	(544.853.904)
Net cash used in financing activities		**(368.918.570)**	**(544.853.904)**
Net change in cash and cash equivalents		**(136.279.228)**	**153.176.096**
Cash and cash equivalent in the beginning of the year	13	**1.062.351.834**	**949.293.236**
Cash and cash equivalent as at the end of the period	13	**926.072.606**	**1.102.469.332**

Chairman of the Meeting
Petru Ion Văduva

Director General
Ion Sterian

Chief Financial Officer
Marius Lupean

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (`Company`) has as main activity the transmission of natural gas. Also, the Company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 30 September 2018, 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.

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. Within this context one may notice that:

(i) Romania experienced the third highest growth in the European Union in the second quarter of 2018 compared to Q2 2017, with GDP growth of 4.2% (adjusted) similar to the one registered by Latvia, according to the provisional data of Eurostat, the statistical office of the European Commission. In the second quarter compared to the first quarter, Romania's 1.4% growth is highest in the EU, with the following countries on the list being Sweden, 1%, and Poland, Hungary and Lithuania by 0.9%.

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

(ii) In the meeting held on 6 noiembrie 2018, 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 % 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 % per annum and to maintain the current levels of minimum reserve ratios applicable to credit and foreign currency liabilities of credit institutions.

(iii) According to the latest inflation report published by the National Bank of Romania (August 2018), the annual CPI inflation rate reached 5.4% at the end of the second quarter of 2018, 0.45 percentage points above the value registered in March, and thus the spread over the upper limit of the stationary target variation range of 2.5% ± 1 percentage point. The advance, less pronounced than in the previous period, occurred exclusively against the alert dynamics registered by the prices of exogenous components generated by the sudden increases in oil prices on international markets and the increase in excise duty on cigarettes. In contrast, the adjusted core component of inflation CORE2 moderated its annual growth rate (2.9% in June 2018, decreasing from 3.09% in April), in the context of dissipating the pressures exerted by quotations of agrifood raw materials , but also a slight appreciation of the national currency against the euro.

(iv) On June 20, 2018, S&P Global Ratings published a 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 confirmed its credit rating at BB +.

The decision of the financial assessment agency to review Transgaz's negative outlook is motivated by the following: the possibility of reducing 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 CAPEX increase related to BRUA Phase 1 and EBITDA decrease, BRUA project execution risks, possible liquidity pressures and long-term uncertainties related to Transgaz' gas transmission business position, taking into account potential changes in the main gas transmission routes in Central and Eastern Europe if the physical flow of Russian gas in Ukraine is replaced by new routes.

At the end of Q III 2018 as compared to the end of 2017 the leu depreciated against the EURO („EUR") by 0,09% (1 EUR= 4,6637 lei on 30 September 2018, 1 EUR = 4,6597 lei on 31 December 2017) and by 3,33% against the SUA („USD") (1 USD = 4,0210 lei on 30 September 2018, 1 USD = 3,8915 lei on 31 December 2017).

In Q III 2017 the leu depreciated by 1,28% against the EUR (4,5991 on 30 September 2017; 4,5411 on 31 December 2016) and appreciated by 9,43% against the USD (3,8977 on 30 September 2017; 4,3033 on 31 December 2016).

Romania's future economic orientation depends largely on the effectiveness of the economic, financial and monetary measures taken by the government, and on the fiscal, legal, regulatory and policy development. The management is unable to estimate the evolution of the economic environment which could have an impact on the Company's operations and neither the possible impact on the Company's financial position.

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 available for sale, which are presented at fair value.

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.

New accounting regulations

(a) Standards and interpretations applicable from 2016

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 the current period:

- The amendments to IFRS 10 `Consolidated financial statements`, IFRS 12 `Disclosure of Interests in Other Entities` and IAS 28 `Investments in Associates and Joint Ventures`- Investment Entities: Applying the Consolidation Exception – adopted by the the UE on 22 September 2016 (appplicable for the financial periods as of 1 January 2016);

- The amendments to IFRS 11 `Joint Arrangements` – Accounting for Procurement of an Interest in a Joint Operation– adopted by the the UE on 24 November 2015 (appplicable for the annual periods beginning on or after 1 January 2016);
- The amendments to IAS 1 `Presentation of Financial Statements` – Disclosure initiative – adopted by the the UE on 18 December 2015 (appplicable for the annual periods beginning on or after 1 January 2016);

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The amendments to IAS 16 `Tangible Assets` and IAS 38 `Intangible assets` – Clarifying acceptable methods of depreciationa and amortization - adopted by the the UE on 2 December 2015 (appplicable for the annual periods beginning on or after 1 January 2016);

- The amendments to IAS 19 `Employee Benefits` – Defined Benefit Plans: Employee Contributions - adopted by the the UE on 17 December 2014 (appplicable for the annual periods beginning on or after 1 February 2015);

- The amendments to IAS 27 `Separate Financial Statements` - Equity Method in Separate Financial Statements - adopted by the the UE on 18 December 2015 (appplicable for the annual periods beginning on or after 1 January 2016);

- Amendments to various standards `Improvements to IFRSs 2010–2012 Cycle` resulting from the annual project to improve IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) mainly to eliminate inconsistencies and to clarify certain formulations – adopted by the EU on 17 December 2014 (appplicable for the annual periods beginning on or after 1 January 2016);

- Amendments to various standards `Improvements to IFRSs 2012-2014 Cycle` resulting from the annual project to improve IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) mainly to eliminate inconsistencies and to clarify certain formulations – adopted by the EU on 15 December 2015 (appplicable for the annual periods beginning on or after 1 January 2016).

(b) Standards and interpretations issued by IASB and adopted by the EU, but not applicable

At the date of the reporting of these Financial Statements, the following standards, revisions and interpretations are issued by IASB and adopted by the EU, but are not applicable yet:

- IFRS 9 `Financial Instrumentse` - adopted by the the UE on 22 November 2016 (appplicable for the annual periods beginning on or after 1 January 2018);

- IFRS 15 `Revenue from Contracts with the Customers’, with further amendments, and the amendments to IFRS 15 `Effective Date of IFRS 15` – adopted by the the UE on 22 September 2016 (appplicable for the annual periods beginning on or after 1 January 2018);

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

  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 impairment loss model based on expected loss, which will require faster recognition of expected losses from impairment of receivables. The standard requires entities to recognize the expected impairment losses on receivables from the time of initial recognition of financial instruments, and to recognize more rapidly the expected impairment losses over their lifetime.

- *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.

- *Own credit risk:* IFRS 9 eliminates the volatility in the profit or loss account due to the change in credit risk related to the debt at fair value. Changing the accounting requirements for these liabilities implies that gains arising from the impairment of an entity's own credit risk will no longer be recognized through profit or loss.

(c) Standards and interpretations issued by IASB, but not adopted yet by the EU

At the date of the reporting these Financial Statements, IFRS as adopted by the EU are not very diffrent from the provisionsa adopted by IASB, except for the following standards, amendments and interpretations, the aplication of which has not been approved by the EU until the date of authorization of these financial statements:

- IFRS 14 `Deferral accounts related to the regulated activities` (appplicable for the annual periods beginning on or after 1 January 2016) – the European Commision decided not to issue the process of approving this interim, but to wait for its completion;
- IFRS 16 `Leases` (appplicable for the annual periods beginning on or after 1 January 2019);

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IFRS 2 `Share-based Payment` – Classification and measurement of share-based payment transactions (appplicable for the annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 `Insurance Contracts` - Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts (appplicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`;
- Amendments to IFRS 10 `Consolidate financial statements` and IAS 28 `Investments in Associates and Joint Ventures`- Sale or contribution of assets between an investor and its associate ot joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);
- Amendments to IFRS 15 `Revenue from Contracts with the Customers` - Clarifications to IFRS 15 Revenue from Contracts with the Customers (appplicable for the annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 `Statement of Treasury Flow` – the disclosure initiative (appplicable for the annual periods beginning on or after 1 January 2017;
- Amendments to IAS 12 `Income taxes` – Recognition of assets with Deferred Tax Assets for Unrealised Losses (appplicable for the annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 `Investment Property` –property related to Investment transactions (appplicable for the annual periods beginning on or after 1 January 2018);
- Amendments to various standards `Improvements to IFRSs 2014-2016 Cycle` resulting from the annual project to improve IFRSs (IFRS 1, IFRS 12 și IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (the 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 appplicable for the annual periods beginning on or after 1 January 2018);
- IFRIC 22 `Currency transactions and advance payments` (appplicable for the annual periods beginning on or after 1 January 2018).

3.2 Reporting on segments

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

3.3 Transactions in foreign currency

a) *Functional currency*

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Transactions and balances*

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

3.4 Accounting for the effects of hyperinflation

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

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

3.5 Intangible Assets

Computer Software

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years).
Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

Service Concession Agreement

From 2010, the Company started to apply IFRIC 12, `***Service Concession 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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of 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.
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.

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).

As shown in Note 3.5, 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).

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

3.9 Financial assets

The Company classifies its financial assets into the following categories: valued at fair value through profit or loss, loans and receivables and available for sale. 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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a receivable related to the regulated value remained valid at the end of the concession agreement, at the current value at the balance sheet date, and a deferred revenue. 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 available for sale

Financial assets available for sale are non-derivative instruments that are either classified specifically in this category or they don't fall with any of the other categories. They are included in the fixed assets, except the situation when the management plans to alienate investments within 12 months from the end of the reporting period.

Regular acquisitions and sales of financial assets are recognized at the trading date - date when the Company commits to buy or sell the respective asset. Investments are initially recognized at the fair value plus trading expenses for all the financial assets that are not registered at fair value through profit or loss. The financial assets available for sale are subsequently recorded at fair value. The loans and receivables are registered at amortized cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other items of the comprehensive income.

When the titles of value categorized as available for sale are sold or depreciated, the cumulated adjustments of the fair value recognized in the equity are included in the profit and loss account at `gains and losses from investment securities`.

Dividends related to financial assets available for sale are recognized in profit or loss in other items of the comprehensive income when determining the Company's right to receive them.

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

ii) Assets classified as available for sale

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 as available for sale, 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, financial assets available for sale, 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, provision is made for obsolete and slow moving inventories. Individually identified obsolete inventories are provided 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 provision for impairment.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Value Added Tax

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

3.15 Borrowings

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

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

3.16 Current and deferred profit tax

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.
Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The management periodically evaluates positions on tax returns regarding situations where the applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, based on the estimated amounts due to tax authorities.

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

3.17 Commercial payables and other payables

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Deferred revenue

Deferred revenue is recorded for connection fees applied to customers upon their connection to the gas transmission network, for the objectives received free of charge, for grants collected and for the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator.

The grants collected and the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator 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.

The connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge from the clients represents the basis for the continuation of the providing of the service in accordance with the IFRIC 18.

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 collected and for the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator, the Company chose to record the total asset value and a deferred revenue. The deferred revenue is recorded in the profit and loss account for the useful life of related assets (connection pipes, metering - regulating stations, meters).

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 a receivable related to the remaining regulated value at the end of the concession agreement, at the current value at the balance sheet date and a deferred revenue. The deferred revenue is recognized in the profit and loss account for the remaining duration of the concession agreement. The Company has the obligation to modernize and maintain the national transmission system at certain operating parameters.

3.19 Employee benefits

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Benefits granted on retirement

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

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

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

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

Social insurance

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

Profit sharing and bonuses

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

3.20 Provisions for risks and charges

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	30 September 2018 (unaudited)	31 December 2017
Impact on profit and loss and on equity of:		
USD appreciation by 10%	120.049	38.536
USD depreciation by 10%	(120.049)	(38.536)
EUR appreciation by 10%	68.719.104	64.842.955
EUR depreciation by 10%	(68.719.104)	(64.842.955)

(ii) Price risk

The Company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 2.096.540 (December 2017: lei 3.067.062).

(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 2.635.285 (December 2017: lei 3.629.530 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 provisions 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 57 % of the trade receivable balances on 30 September 2018 (31 December 2017: 61%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the provisions already made.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	30 September 2018 (unaudited)	31 December 2017
No rating	**735.607**	**4.400.920**
BB	**-**	**355.439.685**
BB+	**667.733.406**	**-**
BBB-	**2.577.243**	**3.901.284**
BBB	**-**	**224.008.353**
BBB+	**254.314.152**	**474.084.727**
A	**138.086**	**138.479**
AA	**219.229**	**190.822**
	925.717.723	**1.062.164.270**

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 30 September 2018 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis of financial liabilities on 30 September 2018 is as follows:

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	260.359.564	3.121.181	63.910.715	193.327.667
Commercial payables and other payables	115.772.467	115.772.467	-	-
	376.132.031	118.893.648	63.910.715	193.327.667

Maturity analysis of financial liabilities on 31 December 2017 is as follows:

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	78.443.204	830.048	17.885.494	59.727.662
Commercial payables and other payables	127.068.682	127.068.682	-	-
	205.511.886	127.898.730	17.885.494	59.727.662

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

Financial instruments categories:

	30 September 2018 (unaudited)	31 December 2017
Financial assets		
Cash and cash equivalents	595.794.646	622.330.653
Term bank deposits	330.277.960	440.021.181
Loans and receivables	1.020.989.262	1.004.745.959
Financial assets available for selling	68.389.117	24.578.237
Provisions related to financial assets available for selling	(24.578.237)	(24.578.237)
	1.990.872.748	**2.067.097.793**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	30 September 2018 (unaudited)	31 December 2017
Financial liabilities		
Debts evaluated to amortised cost		
Loans	233.185.000	69.895.500
Liabilities evaluated at fair value		
Financial securities for contracts	5.500.507	5.488.821
Commercial liabilities and other liabilities	110.271.960	121.579.861
	348.957.467	**196.964.182**

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

Capital risk management

The company's objectives related to capital management refer to keeping the Company's capacity to continue its activity 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 2018 the Company's strategy, unchanged since 2017, 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 September 2018 was negative and on 31 December 2017 was null:

	30 September 2018 (unaudited)	31 December 2017
Total borrowings	233.185.000	69.895.500
Except: cash and cash equivalents (Note 13)	(926.072.606)	(1.062.351.834)
Net cash position	(692.887.606)	(992.456.334)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the Company for similar financial instruments.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The Company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events 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 2017: Lei 99.462.667 (Note 21).

The presentation of the current value for the 2017 depending on the following variables:

	31 December 2017
Discount rate +1%	110.501.383
Discount rate -1%	89.869.030
Investment return +1%	90.221.183
Investment return -1%	101.440.189

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

Benefits payment maturity survey:

	31 December 2017
Up to one year	3.608.726
Between 1 and 2 years	3.366.142
Between 2 and 5 years	10.320.110
Between 5 and 10 years	44.098.649

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

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 registered as a subsidy for the value of the investments made, which the Company will not recover through the tariff, implicitly the value of the intangible asset not recovered through the tariff, recognized for the right to charge users. The Company recognized for the investments made by the balance sheet date a debt related to the remaining regulated value valid at the end of the concession agreement, at the present value at the balance sheet date. The present value was determined for the remaining period of the concession contract, because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)). Investments in progress are recognized in the regulated asset base after completion. For investment in progress the remaining regulated value at the end of the concession agreement was estimated at depending on the expected date of commissioning. The Company also recognized a deferred revenue (see Note 3.18).

6. INFORMATION ON SEGMENTS

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

The segment information provided to the Board of Administration , which makes strategic decisions for reportable segments, for the period ended 30 September 2018 are:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	828.181.273	-	-	-	828.181.273
Revenue from international transmission	-	238.801.097	-	-	238.801.097
Other revenue	32.871.700	-	-	15.853.887	48.725.587
Operating revenue before the balancing and the construction activity according to IFRIC12	**861.052.973**	**238.801.097**	**-**	**15.853.887**	**1.115.707.957**
Depreciation	(134.969.220)	(23.796.626)	-	(3.136.321)	(161.902.167)

Operating expenses other than depreciation	(522.177.808)	(36.649.242)	-	(57.016.652)	(615.843.702)
Profit from operation before the balancing and construction activity according to IFRIC12	-	-	-	-	**337.962.088**
Revenue from the balancing activity	-	-	118.837.728	-	118.837.728
Cost of balancing gas	-	-	(118.837.728)	-	(118.837.728)
Revenue from the construction activity according to IFRIC12	-	-	-	109.545.456	109.545.456
Cost of assets built according to IFRIC12	-	-	-	(109.545.456)	(109.545.456)
Operating profit					**337.962.088**
Net financial gain	-	-	-	-	18.551.219
Profit before tax					**356.513.307**
Profit tax	-	-	-	-	(57.231.362)
Net profit	**-**	**-**	**-**	**-**	**299.281.945**
Assets on segments	3.734.096.710	349.004.397	56.128.667	1.021.547.432	5.160.777.206
Liabilities on segments	1.565.476.766	14.496.373	28.729.618	65.939.511	1.674.642.268
Capital expenditure - increases in assets in progress	124.337.244	-	-	-	124.337.244
Non-cash expenses other than depreciation	12.269.170	526.316	-	113.427	12.908.913

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	34.674.599
Financial assets	43.810.880
Cash	926.072.606
Other assets	16.989.347
	1.021.547.432
Unallocated liabilities include:	
Deferred tax	58.896.494
Dividends payable	6.450.255
Other debts	592.762
	65.939.511

6. INFORMATION ON SEGMENTS (CONTINUED)

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.

	Domestic Clients	Foreign Clients	Total
Revenue from the domestic transmission	825.635.594	2.545.679	828.181.273
Revenue from international transmission	313.652	238.487.445	238.801.097
Other revenue	47.852.615	872.972	48.725.587
	873.801.861	241.906.096	1.115.707.957

Domestic clients with over 10% of the total revenue include:	Percentage of the total revenue
ENGIE ROMANIA S.A.	21%
OMV PETROM GAS SRL	15%

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 58.976.371 (31 December 2017: lei 23.316.993).

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

6. INFORMATION ON SEGMENTS (CONTINUED)

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2017, is as follows:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Revenue from domestic transmission	1.338.046.808	-	-	-	1.338.046.808
Revenue from international transmission	-	333.289.677	-	-	333.289.677
Other revenue	43.022.626	-	-	35.586.668	78.609.294
Operating revenue before the balancing and the construction activity according to IFRIC12	**1.381.069.434**	**333.289.677**	**-**	**35.586.668**	**1.749.945.779**
Depreciation	(177.366.329)	(34.223.854)	-	(2.837.561)	(214.427.744)
Operating expense other than depreciation	(767.985.695)	(56.271.222)	-	(46.534.956)	(870.791.873)
Profit from operation before the balancing activity according to IFRIC12	**-**	**-**	**-**	**-**	**664.726.162**
Revenue from the balancing activity	-	-	120.686.221	-	120.686.221
Cost of balancing gas	-	-	(120.686.221)	-	(120.686.221)
Revenue from the construction activity according to IFRIC12	-	-	-	63.949.856	63.949.856
Cost of assets built according to IFRIC12	-	-	-	(63.949.856)	(63.949.856)
Profit from operation	-	-	-	-	**664.726.162**
Net financial gain	-	-	-	-	40.318.788
Profit before tax	-	-	-	-	**705.044.950**
Profit tax	-	-	-	-	(122.983.907)
Net profit	-	-	-	-	**582.061.043**
Assets on segments	3.696.911.193	371.852.971	49.025.393	1.115.487.565	5.233.277.122
Liabilities on segments	1.373.537.407	18.292.005	51.800.729	68.496.947	1.512.127.088
Capital expenditure - increases in assets in progress	95.566.363	-	-	5.293	95.571.656
Non-cash expenses other than depreciation	40.879.002	2.000.526	-	205.138	43.084.666

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	36.399.335
Financial assets	232.533
Cash	1.062.351.834
Other assets	16.503.863
	1.115.487.565
Unallocated liabilities include:	
Deferred tax	63.346.964
Dividends payable	4.361.284
Other debts	788.699
	68.496.947

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.

	Domestic Clients	**Foreign Clients**	**Total**
Revenue from domestic transmission	1.336.256.356	1.790.452	1.338.046.808
Revenue from international transmission	436.416	332.853.261	333.289.677
Other revenue	72.135.197	6.474.097	78.609.294
	1.408.827.969	341.117.810	1.749.945.779

6. INFORMATION ON SEGMENTS (CONTINUED)

Domestic clients with over 10% of the total revenue include:	Percentage of the total revenue
ENGIE ROMANIA S.A.	23%
E.ON ENERGIE ROMANIA SA.	15%

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

7. TANGIBLE ASSETS

	Lands and buildings	Assets of the transmission system	Other fixed assets	Assets in progress	Total
On 30 September 2017 (unaudited)					
Cost on 1 January 2017	278.715.005	957.443.052	246.397.056	15.702.231	1.498.257.344
Accumulated depreciation	(140.056.795)	(572.222.558)	(197.899.986)	-	(910.179.339)
Initial net book value	138.658.210	385.220.494	48.497.070	15.702.231	588.078.005
Inflows / Inventory	583.409	-	59.293	17.116.350	17.759.052
Transfers	330.554	-	17.218.180	(17.548.734)	-
Outflow (net book value)	(4.618)	(28.693)	(99.226)	-	(132.537)
Expense with depreciation	(5.702.399)	(25.282.788)	(12.660.775)	-	(43.645.962)
Final net book value	133.865.156	359.909.013	53.014.542	15.269.847	562.058.558
Cost	279.731.181	957.225.955	254.747.048	15.269.847	1.506.974.031
Accumulated depreciation	(145.866.025)	(597.316.942)	(201.732.506)	-	(944.915.473)
Final net book value	133.865.156	359.909.013	53.014.542	15.269.847	562.058.558
On 31 December 2017					
Initial net book value	133.865.156	359.909.013	53.014.542	15.269.847	562.058.558
Inflows	-	-	-	11.587.155	11.587.155
Transfers	16.850	-	8.353.451	(8.370.301)	-
Outflow (net book value)	(1.388)	-	(6.309)	-	(7.697)
Depreciation re-classification	(38.252)	38.252	-	-	-
Expense with depreciation	(1.815.001)	(8.420.798)	(4.846.777)	-	(15.082.576)
Final net book value	132.027.365	351.526.467	56.514.907	18.486.701	558.555.440
Cost	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)
Final net book value	132.027.365	351.526.467	56.514.907	18.486.701	558.555.440
On 30 September 2018 (unaudited)					
Initial net book value	132.027.365	351.526.467	56.514.907	18.486.701	558.555.440
Inflows / Re-classifications	-	(3.717)	-	13.627.226	13.623.509
Transfers	393.552	(152.608)	11.862.595	(12.103.539)	-
Outflow (net book value)	(8.305)	-	(104.035)	-	(112.340)
Depreciation re-classification	-	1.606	-	-	1.606
Expense with depreciation	(4.826.491)	(23.151.783)	(15.321.795)	-	(43.300.069)

Final net book value	127.586.121	328.219.965	52.951.672	20.010.388	528.768.146
Cost	279.971.860	957.069.630	266.714.151	20.010.388	1.523.766.029
Accumulated depreciation	(152.385.739)	(628.849.665)	(213.762.479)	-	(994.997.883)
Final net book value	127.586.121	328.219.965	52.951.672	20.010.388	528.768.146

The gross book value of the fully depreciated assets, still used, is Lei 268.059.995 (31 December 2017: Lei 233.536.442).

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.

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:

- 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;

8. SERVICE CONCESSION AGREEMENT (CONTINUATION)

- 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 ACS	Information program	Intangible assets in progress	Total
On 30 September 2017 (unaudited)				
Cost	6.050.325.148	49.842.900	161.657.465	6.261.825.513
Accumulated depreciation	(3.626.140.238)	(49.202.471)	-	(3.675.342.709)
Provisions for impairment	-	-	(3.010.152)	(3.010.152)
Initial net book value	2.424.184.910	640.429	158.647.313	2.583.472.652
Inflows / Re-classifications	(619.702)	-	28.886.963	28.267.261
Transfers	17.798.798	788.502	(18.587.300)	-

Outflows	(11.452)	-	-	(11.452)
Depreciation	(117.518.911)	(178.840)	-	(117.697.751)
Final net book value	2.323.833.643	1.250.091	168.946.976	2.494.030.710
Cost	6.067.467.202	49.436.003	171.957.128	6.288.860.333
Accumulated depreciation	(3.743.633.559)	(48.185.912)	-	(3.791.819.471)
Provisions for impairment	-	-	(3.010.152)	(3.010.152)
Final net book value	2.323.833.643	1.250.091	168.946.976	2.494.030.710
On 31 December 2017				
Initial net book value	2.323.833.643	1.250.091	168.946.976	2.494.030.710
Inflows	-	-	37.981.188	37.981.188
Transfers	8.638.550	1.132.379	(9.770.929)	-
Depreciation re-classification	48.944	-	-	48.944
Depreciation	(39.496.070)	(157.083)	-	(39.653.153)
Provisions for impairment	-	-	(1.846.591)	(1.846.591)
Final net book value	2.293.025.067	2.225.387	195.310.644	2.490.561.098
Cost	6.076.105.751	50.568.382	200.167.387	6.326.841.520
Accumulated depreciation	(3.783.080.684)	(48.342.995)	-	(3.831.423.679)
Provisions for impairment	-	-	(4.856.743)	(4.856.743)
Final net book value	2.293.025.067	2.225.387	195.310.644	2.490.561.098
On 31 September 2018 (unaudited)				
Initial net book value	2.293.025.067	2.225.387	195.310.644	2.490.561.098
Inflows / Re-classifications	3.717	-	110.710.259	110.713.976
Transfers	10.449.966	3.216.043	(13.666.009)	-
Outflows	(2.051)	-	-	(2.051)
Depreciation re-classification	(1.606)	-	-	(1.606)
Depreciation	(118.831.536)	(1.171.012)	-	(120.002.548)
Final net book value	2.184.643.557	4.270.418	292.354.894	2.481.268.869
Cost	6.086.542.188	53.784.425	297.211.638	6.437.538.251
Accumulated depreciation	(3.901.898.631)	(49.514.007)	-	(3.951.412.638)
Provisions for impairment	-	-	(4.856.744)	(4.856.744)
Final net book value	2.184.643.557	4.270.418	292.354.894	2.481.268.869

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:

Company	**Activity**	**%**	**%**	**30 September 2018**	**31 December 2017**

		Percentage owned 2018	Percentage owned 2017	(unaudited)	
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	-	-	238.477	-
Eurotransgaz	Gas transmission	100	100	43.572.403	232.533
Minus provision for impairment of investments in: Resial SA and Mebis SA				(24.578.237)	(24.578.237)
				43.810.880	232.533

10. FINANCIAL ASSETS (CONTINUED)

Shares in Resial SA

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a client. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the Company, which is why the stake is not consolidated and is recorded at cost less the provision for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully provisioned. 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 provisioned. The Company has no obligations to Mebis SA.

Participation in the Limited liability company Eurotransgaz Ltd.

By EGMS Resolution 10/12.12.2017 it was approved the establishment of the company EUROTRANSGAZ Ltd. on the territory of the Republic of Moldova for the successful participation in the privatization of the State Enterprise Vestmoldtrasgaz. In 2018 Transgaz participated in the increase in the share capital of EUROTRANSGAZ in view of ensuring 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.

11. INVENTORIES

	30 September 2018 (unaudited)	31 December 2017
Gas inventories	22.171.734	20.634.892
Spare parts and materials	114.044.838	82.052.507
Provisions for slow moving inventories	(18.618.480)	(20.593.986)
	117.598.092	82.093.413

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

Movements in the provision account are analysed below:

	30 September 2018 (unaudited)	31 December 2017
Provision on 1 January	20.593.986	11.505.163
(Revenue)/expense with the provision for the impairment of the stocks (Note 23)	(1.975.506)	9.088.823
Provision in the end of the period	18.618.480	20.593.986

In 2018 provisions for the impairment of the stocks were constituted according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	30 September 2018 (unaudited)	31 December 2017
Trade receivables	526.509.685	645.428.901
Advance payments to suppliers	35.325.516	113.140
Loan to Resial SA (Note 10)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	709.430.283	660.030.895
Non-refundable loans as subsidies	3.127.035	3.127.035
Granted guarantees	83.884.890	13.895.365
Other receivables	55.703.970	48.267.691
Provision for impairment of trade receivables	(306.277.600)	(288.882.833)
Provision for impairment of other receivables	(46.215.512)	(44.267.736)
	1.063.258.613	1.039.482.804

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

The company challenged administratively the tax decision on additional tax payment obligations in the amount of RON 25,409,833 issued by ANAF consisting of revenue tax, VAT, penalties and late payments, and set up a provision. 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 advances granted by the company within the contractual relations are guaranteed by the suppliers by letters of bank guarantee.
As at 30 September 2018 the company established guarantees for third parties, as follows:

- Letter of bank guarantee in the amount of lei 1.675.800 issued by the Romanian Commercial Bank, valid until 19.10.2018;
- Letter of bank guarantee in the amount of lei 13.260.000 issued by BRD Groupe Societe Generale, valid until 07.01.2019.

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

On 31 March 2018, the amount of Lei 120.512.072 (31 December 2017: Lei 22.890.364) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 1% in USD (31 December 2017: 5%) and 99% in EUR (31 December 2017: 95%).

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

	30 September 2018 Trade receivables (unaudited)	31 December 2017 Trade receivables
Current and not impaired (1)	213.469.381	311.578.947
Overdue but not impaired		
- overdue less than 30 days	4.165.513	28.152.535
- overdue between 30 and 90 days	398.984	1.869.266
- overdue more than 90 days	2.198.207	14.945.320
Due, but not impaired - total (2)	6.762.704	44.967.121
Impaired (gross)		
- outstanding less than de 30 days	363.528	232.521
- overdue between 30 and 90 days	4.304.429	229.393
- overdue between 90 and 360 days	17.047.388	25.489.322
- overdue more than 360 days	284.562.255	262.931.597

Total impaired (3)	306.277.600	288.882.833
Except the provision for impairment (4)	306.277.600	288.882.833
Total trade receivables and other receivables (1+2+3-4)	220.232.085	356.546.068

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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.

	30 September 2018 (unaudited)	31 December 2017
Group 1	195.405.462	254.039.394
Group 2	18.063.919	57.539.553
Trade receivables	213.469.381	311.578.947

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.

Movements in the provision account are analysed below:

	30 September 2018 (unaudited)	31 December 2017
Provision on 1 January	333.150.569	303.982.351
(Revenue)/expense with the provision for doubtful debts (Note 23)	19.342.543	29.168.218
Provision at the end of the period	352.493.112	333.150.569

In 2017 provisions for receivables from insolvent companies or from companies in significant financial difficulties were established.

13. CASH AND CASH EQUIVALENT

	30 September 2018 (unaudited)	31 December 2017
Cash at bank in RON	69.115.662	361.132.448
Cash at bank in foreign currency	856.602.060	701.031.822
Other cash equivalents	354.884	187.564
	926.072.606	1.062.351.834

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 0.86% on 30 September 2018 (0.46% on 31 December 2017) and these deposits have an average maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Share capital	Share premium	Total
IFRS				
On 31 December 2016	11.773.844	117.738.440	247.478.865	365.217.305
On 30 September 2017 (unaudited)	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	441.418.396	-	441.418.396
On 31 December 2017, 30 September 2018 (unaudited)	11.773.844	559.156.836	247.478.865	806.635.701

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 30 September 2018 is the following:

	Number of ordinary shares	Statutory value (RON)	Percentage (%)
The Romanian state, represented by the Ministry of Economy	6.888.840	68.888.400	58,5097
Other shareholders	4.885.004	48.850.040	41,4903

	11.773.844	117.738.440	100,0000

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

The ownership structure on 31 December 2017 is the following:

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

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 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.

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

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 30 September 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.

16. LONG-TERM BORROWINGS

European Investment Bank (EIB)

The loan was contracted on 27 October 2017 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 1”). The amount of the loan is EUR 50 million and its essential characteristics are: the duration-15 years, grace period – 3 years and a fixed interest.

The financial commitments undertaken by the Loan Agreement 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.

The repayment is in equal bi-annual tranches, based on three individual schedules.

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

16. LONG TERM LOANS (CONTINUATION)

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 30 September 2018 no amount of the loan was drawn.

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

	30 September 2018 (unaudited	31 December 2017
Within 1 year	-	-
Between 1 and 5 years	52.233.440	13.979.100
Over 5 years	180.951.560	55.916.400
	233.185.000	69.895.500

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

	30 September 2018 (unaudited)	31 December 2017
Current portion of the long term loans	-	-

Fair value

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

	Book values		Fair values	
	2018	2017	2018	2017
EIB	233.055.000	69.895.500	234.351.482	70.399.203

16. LONG TERM LOANS (CONTINUATION)

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:

	30 September 2018 (unaudited)	31 December 2017
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).

	30 September 2018 (unaudited)	31 December 2017
Initial balance	1.009.428.147	1.036.619.965
Increase referring to the regulated value remained unamortized at the end of the concession agreement	34.155.315	16.405.285
Increases	66.992.636	12.761.355
Amounts recorded in the revenue (Note 22)	(39.959.002)	(56.358.458)
Final balance	1.070.617.096	1.009.428.147

17.DEFERRED REVENUE (CONTINUED)

The Company is entitled to recover the unamortized regulated value of the investments made as operator of the National Transmission System (see also Note 3.18). The deferred revenue is recognized in the profit and loss account for the remained duration of the concession agreement (Note 22).

The balance of the deferred revenue consists of:

	30 September 2018 (unaudited)	31 December 2017
Deferred revenue related to the regulated value remained unamortized at the end of the concession agreement	523.174.107	511.672.968
Connections and assets received free of charge	269.083.893	280.598.540
Grants	278.359.096	217.156.639
	1.070.617.096	1.009.428.147

18. PROFIT TAX

Profit tax expense

	Nine months ended as at 30 September 2018 (unaudited)	Nine months ended as at 30 September 2017 (unaudited)
Expense with the profit tax - current	61.681.832	93.594.574
Deferred tax - impact of temporary differences	(4.450.470)	(3.404.575)
Profit tax expense	(4.450.470)	(3.404.575)

In 2018 and 2017, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Profit before tax	356.513.307	523.741.549
Theoretical expense with the tax the statutory rate of 16% (2017: 16%)	57.042.130	83.798.648
Non-taxable expenses, net	189.232	6.391.351
Profit tax expense	57.231.362	90.189.999
Profit tax related liability, current	-	30.179.514

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

18. PROFIT TAX (CONTINUED)

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 30 September 2018 (31 December 2016: 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:

	30 September 2018	Movement	31 December 2017	Movement	30 September 2017	Movement	1 January 2017
Deferred tax payment							
Tangible and intangible assets	74.810.520	(4.450.470)	79.260.990	(1.224.337)	80.485.327	(3.404.575)	83.889.902
Deferred tax recoverable							
Provision for employee benefits	(15.914.026)	-	(15.914.026)	2.307.721	(18.221.747)	-	(18.221.747)
	58.896.494	(4.450.470)	63.346.964	1.083.384	62.263.580	(3.404.575)	65.668.155

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.

18. PROFIT TAX (CONTINUED)

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

	30 September 2018 (unaudited)	31 December 2017
Deferred tax liabilities payable in more than 12 months as reported	58.896.494	63.346.964

19. TRADE PAYABLES AND OTHER PAYABLES

	30 September 2018 (unaudited)	31 December 2017
Trade payables	65.038.648	91.877.816
Suppliers of fixed assets	35.977.160	21.586.143
Dividends payable	6.450.255	4.361.284
Debts related to royalties	27.567.292	41.989.737
Other taxes	16.064.568	17.438.093
Amounts payable to employees	12.542.078	17.844.844
VAT payable	2.155.108	18.742.254
VAT not applicable	7.511.563	15.692.749
Guarrantees for capacity booking auctions	3.570.710	2.005.812
Investment works compensations	3.004.791	-
Other debts	22.099.127	23.497.242
	201.981.300	255.035.974

On 30 September 2018, of the total trade payables and other debts the amount of lei 19.509.583 (31 December 2017: lei 5.161.169) is expressed in foreign currency, especially in EUR.

20. PROVISIONS FOR RISKS AND CHARGES

	30 September 2018 (unaudited)	31 December 2017
Current provision		
Provision for litigation	296.341	296.341
Provision term contract	-	3.082.289
Provision for employee participation in profits	10.203.372	11.579.208
	10.499.713	14.957.838

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 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 2017

Inflation rate values used in the calculation model were established using a differentiated approach, depending on the considered time horizon. For the period 2017-2022, the values were set to ensure a natural progression up to the level of 2022, taking into account the values forecasted by the National Bank of Romania. The annual inflation for the year 2017 published by the NBR, the inflation target for 2018 and 2019 published by the NBR in the quarterly inflation reports, was taken into account. For the years 2020-2021, the values were estimated to ensure the transition to a long-term target value of the inflation rate of 2%. Such parameters have been estimated since 2022 to take into account the value of the target inflation target for the euro area. In the reports and materials published by the European Central Bank, a target inflation rate of 2% for the euro area is specified, which ensures the long-term financial balance of the market.

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

The calculation hypothesis used in the calculation model considers that the inflation rate registered in one year determines the increase of the salary in the next year, with a rate equal to the inflation rate, in order to keep the value of the salary unchanged in real terms.

The investment return values used in the calculation model were established using a differentiated approach, depending on the considered time horizon. In the short and medium term the return calculated for government securities issued by the Ministry of Public Finance in RON for transactions with such financial instruments on the financial markets in Romania was used as a reference. It was taken into account that the investment return was at least equal to the inflation rate, in order to use in the calculation model a real investment return higher than zero. As of 2020 the investment returns have been estimated based on the inflation rate used in the calculation model, so that the actual investment return assumed to be below 2%. A real investment return of less than 2%, correlated with an inflation rate of maximum 2%, is considered to ensure the balance of the long-term financial markets.

Movement in the provision for employee benefits

1 January 2017	113.885.920
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	99.462.665
of which:	
Short-term	3.608.726
Long-term	95.853.939
30 September 2018	99.462.665
of which:	
Short-term	3.608.726
Long-term	95.853.939

22. OTHER REVENUE

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Revenues from penalties for delay payments applied to clients	4.186.302	6.283.487
Revenues from connection fees, grants and goods taken free of charge	17.304.826	16.770.946
Revenues from the claim related to the remaining regulated value recognized by ANRE at the end of the Concession Agreement	22.654.176	22.414.734
Revenues from the sale of residual materials	691.943	908.009
Revenues from leases	1.193.258	1.061.696
Revenues from recovered materials	903.707	739.246
Other revenues from operation	1.791.375	2.819.619
	48.725.587	50.997.737

23. OTHER OPERATING EXPENSES

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Loss/gain on impairment of receivables	19.342.543	40.282.812
Security and protection expenses	13.878.289	9.583.037
Utilities	4.616.439	4.440.417
Penalties and fines	301.611	685.748
Telecommunications	2.780.208	2.636.248
Gas storage capacity booking	3.766.085	3.384.570
Sponsorship expenses	2.730.000	1.121.332
Maintenance expenses	665.104	641.495
Rent	3.878.445	3.498.291
Professional training	512.432	546.798
Marketing and protocol expenses	884.443	647.974
Study and research expenses	280.970	2.618.210
Insurance premia	846.565	1.092.280
Bank charges and other fees	989.206	139.324
Loss on liabilities	3.947	-
Loss/(gain) from inventories impairment	(1.975.505)	1.046.652
Loss on disposal of fixed assets	114.391	7.761
Other	20.170.049	18.088.009
	73.785.222	90.460.958

24. EMPLOYEE COSTS

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Salaries and benefits	262.113.926	221.000.418
Cost of insurance and social security	16.059.487	60.931.101
Other employee costs	8.848.506	8.340.474
	287.021.919	**290.271.993**

Average number of employees in financial year:

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Blue collars	2.719	3.115
White collars	1.591	1.484
	4.310	4.599

25. NET FINANCIAL REVENUE/(EXPENSES)

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Revenue from foreign exchange differences	16.755.898	16.233.610
Interest revenue	19.804.263	17.168.863
Other financial revenue	-	142.881.981
Financial revenue	**36.560.161**	**176.284.454**
Expenses from foreign exchange differences	(16.257.426)	(9.427.101)
Cost of interest	(1.752.222)	-
Other financial revenue	706	(138.544.412)
Financial expenses	**(18.008.942)**	**(147.971.513)**

26. CASH FROM OPERATION

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Profit before tax	**356.513.307**	**523.741.549**
Adjustments for:		
Amortization	161.902.167	160.550.253
Gain/(loss) on disposal of fixed assets	114.391	7.761
Provisions for risks and charges	(4.458.125)	(5.651.747)
Provisions for impairment of inventories	(1.975.505)	-
Revenue from connection fees, grants and goods taken free of charge	(17.304.826)	(16.770.946)
Loss from receivables from various debtors	3.947	-
Provisions for the impairment of receivables	19.342.543	40.282.812
Provisions for impairment of financial assets	-	(138.544.435)
Expenses related to financial assets	-	138.544.435
Cost of interest	1.752.222	-
Interest revenue	(19.804.263)	(17.168.863)
Loss/(gain) from impairment of inventories	-	1.046.653
Effect of exchange rate fluctuation on other items than operating	140.031	95.434
Revenue from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement	(22.654.176)	(22.414.734)
Other revenue	-	(336.736)
Operating Profit before the changes in working capital	**473.571.713**	**663.381.436**
(Increase)/decrease in trade and other receivables	2.489.694	234.964.634
(Increase)/decrease in inventories	(33.529.174)	3.465.897
Increase/(decrease) in trade payables and other debts	(65.199.477)	(74.179.873)
Cash generated from operations	**377.332.756**	**827.632.094**

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 30 September 2018 and 30 September 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

	Nine months ended 30 September 2018 (unaudited)	**Nine months ended 30 September 2017 (unaudited)**
Salary paid to the members of the Board of Administration and management	13.058.761	11.503.759
Social contribution of the Company	264.362	2.583.381
	13.323.123	14.087.140

In the periods ended 30 September 2018 and 30 September 2017, 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

	30 September 2018 (unaudited)	**31 December 2017**
Loan to Resial SA	1.770.346	1.770.346
Minus the provision for loan impairment	(1.770.346)	(1.770.346)
	-	-

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

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	75.438.600	116.093.783
Electrocentrale Deva SA	Entity under common control	1.714.768	3.768.668
Electrocentrale Bucureşti SA	Entity under common control	64.624.439	76.222.022
E.ON Energie Romania	Entity under common control	62.402.720	-
		204.180.527	196.084.473

iv) Sales of goods and services (VAT excluded)

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	640.962	348.976
Energoterm Tulcea SA	Entity under common control	1.922	12.832
Electrocentrale Deva SA	Entity under common control	35.587	177.353
Electrocentrale București	Entity under common control	46.435	-
Electrocentrale Galati SA	Entity under common control	285.695	325.319
Electrocentrale Constanta	Entity under common control	83.668	153.845
		1.094.269	1.018.325

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

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	1.893.479	14.143.616
Electrocentrale Deva SA	Entity under common control	1.071.818	76.974
Electrocentrale București	Entity under common control	2.193.554	-
E.ON Energie Romania	Entity under common control	10.934.307	-
		16.093.158	14.220.590

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

vi) Receivables from related parties (without the provision)

	Relationship	30 September 2018 (unaudited)	31 December 2017
SNGN Romgaz	Entity under common control	23.179.376	25.633.158
Electrocentrale Deva SA	Entity under common control	611.354	1.006.552
Electrocentrale Bucureşti SA	Entity under common control	13.119.978	44.440.496
Electrocentrale Galaţi SA,	Entity under common control	-	46.558
Electrocentrale Constanţa	Entity under common control	-	60.711
Energoterm Tulcea SA	Entity under common control	-	7.903
E.ON Energie Romania	Entity under common control	14.006.655	27.918.880
		50.917.363	99.114.258

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

	Relationship	30 September 2018 (unaudited)	31 December 2017
SNGN Romgaz	Entity under common control	-	7.497.192
Electrocentrale Deva SA	Entity under common control	13.534	23.710
Electrocentrale Bucuresti	Entity under common control	913.320	3.515.087
E.ON Energie Romania	Entity under common control	556.138	511.442
		1.482.992	11.547.431

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

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	-	47.592.490
E.ON Energie Romania	Entity under common control	54.342.140	-
		54.342.140	47.592.490

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	4.277.494	3.590.817
Electrocentrale București SA	Entity under common control	4.252	3.566
Termo Calor Pitești	Entity under common control	2.535	2.670
E.ON Energie Romania	Entity under common control	479.868	-
		4.764.149	3.597.053

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

	Relationship	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
SNGN Romgaz	Entity under common control	21.750.115	3.346.904
Electrocentrale Deva SA	Entity under common control	5.072.350	-
Electrocentrale București	Entity under common control	3.652.463	-
E.ON Energie Romania	Entity under common control	279.239	-
		30.754.167	3.346.904

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

	Relationship	30 September 2018 (unaudited)	31 December 2017
E.ON Energie Romania	Entity under common control	6.787.815	17.768.036
		6.787.815	17.768.036

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

	Relationship	30 September 2018 (unaudited)	31 December 2017
SNGN Romgaz	Entity under common control	1.192	516.446
Termo Calor Pitești	Entity under common control	-	453

E.ON Energie Romania	Entity under common control	886.016	1.320.215
		887.208	1.837.114

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

	Relationship	30 September 2018 (unaudited)	31 December 2017
SNGN Romgaz	Entity under common control	1.624	15.253.653
Electrocentrale Deva SA	Entity under common control	222.731	31.010
Electrocentrale București	Entity under common control	400.476	2.138.852
Electrocentrale Galaţi	Entity under common control	17.957	17.957
Electrocentrale Constanţa	Entity under common control	22.022	22.022
Termo Calor Pitesti	Entity under common control	7.223	7.223
Energoterm Tulcea	Entity under common control	4.768	4.768
E.ON Energie Romania	Entity under common control	385.607	11.252.277
		1.062.408	28.727.762

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.

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Profit attributable to the Company's equity holders	299.281.945	433.551.550
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (RON per share)	25,42	36,82

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 0.24 % of the receivables were settled by transactions that haven't involved cash outflows during the nine months period ended 30 September 2018 (31 December 2017: 0.20%). 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 2018 and 2017.

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 30 September 2018 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 1.004.362.828

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.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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 30 managers (30 managers in 2017).

iv) Environmental aspects

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

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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 semester I 2018, are: lei 160.391 (without VAT) for statutory audit and lei 61.787 (VAT excluded) for services other than the statutory audit.

32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

In accordance with IFRIC 12 the revenue and costs of network construction, in return for which the intangible asset is recorded should be recognized in accordance with IAS 11, Construction Contracts.

	Nine months ended 30 September 2018 (unaudited)	Nine months ended 30 September 2017 (unaudited)
Revenue from the construction activity according to IFRIC12	109.545.456	28.067.161
Cost of assets constructed according to IFRIC12	(109.545.456)	(28.067.161)

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

Chairman of the Meeting
Petru Ion Văduva

Director - General
Ion Sterian

Chief Financial Officer
Marius Lupean