

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

**INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED AS AT 30
SEPTEMBER 2016
(UNAUDITED)**

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

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INTERIM FINANCIAL STATEMENTS

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INTERIM STATEMENT OF THE FINANCIAL POSITION
(expressed in RON, if not specified otherwise)



| | <u>Note</u> | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|--|-------------|---|-------------------------|
| ASSET | | | |
| Fixed assets | | | |
| Intangible Assets | 9 | 2.551.436.179 | 2.606.654.612 |
| Tangible Assets | 7 | 598.833.762 | 627.740.435 |
| Financial assets available for sale | 10 | - | - |
| Trade receivables and other receivables | 12 | <u>613.259.439</u> | <u>579.722.974</u> |
| | | 3.763.529.380 | 3.814.118.021 |
| Current assets | | | |
| Inventories | 11 | 88.967.697 | 73.991.633 |
| Commercial receivables and other receivables | 12 | 350.415.199 | 362.526.848 |
| Cash and cash equivalent | 13 | <u>859.418.622</u> | <u>700.797.782</u> |
| | | 1.298.801.518 | 1.137.316.263 |
| Total asset | | 5.062.330.898 | 4.951.434.284 |
| EQUITY AND DEBTS | | | |
| Equity | | | |
| Share capital | 14 | 117.738.440 | 117.738.440 |
| Hyperinflation adjustment of share capital | 14 | 441.418.396 | 441.418.396 |
| Share premium | 14 | 247.478.865 | 247.478.865 |
| Other reserves | 15 | 1.265.796.861 | 1.265.796.861 |
| Retained earnings | 15 | <u>1.530.198.501</u> | <u>1.496.805.410</u> |
| | | 3.602.631.063 | 3.569.237.972 |
| Long-term debts | | | |
| Provision for employee benefits | 21 | 102.947.599 | 102.947.599 |
| Deferred income | 17 | 1.040.446.176 | 930.578.140 |
| Deferred tax payment | 18 | <u>67.872.923</u> | <u>71.337.402</u> |
| | | 1.211.266.698 | 1.104.863.141 |

Notes 1 to 32 are part of these financial statements.

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INTERIM STATEMENT OF THE FINANCIAL POSITION
(expressed in RON, if not specified otherwise)



| | <u>Note</u> | <u>30 September 2016</u> <u>(unaudited)</u> | <u>31 December 2015</u> |
|----------------------------------|-------------|--|-----------------------------|
| Current debts | | | |
| Commercial debts and other debts | 19 | 191.525.008 | 225.501.304 |
| Provision for risks and charges | 20 | 34.387.492 | 15.109.696 |
| Current tax payment | 18 | 18.083.762 | 32.285.296 |
| Provision for employee benefits | 21 | <u>4.436.875</u> | <u>4.436.875</u> |
| | | <u>248.433.137</u> | <u>277.333.171</u> |
| Total debts | | <u>1.459.699.835</u> | <u>1.382.196.312</u> |
| Total equity and debts | | <u>5.062.330.898</u> | <u>4.951.434.284</u> |

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

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**INTERIM STATEMENT OF THE COMPREHENSIVE
INCOME**

(expressed in RON, if not specified otherwise)



| | | The nine months period ended 30 September 2016 (unaudited) | The nine months period ended 30 September 2015 (unaudited) |
|---|-------------|---|---|
| | Note | | |
| Revenues from the domestic transmission activity | | 902.349.421 | 950.325.551 |
| Revenues from the international transmission activity | | 240.298.540 | 237.403.516 |
| Revenues from the balancing activity | | 23.808.757 | - |
| Other revenues | 22 | <u>97.825.903</u> | <u>45.339.563</u> |
| Operational income before the construction activity according to IFRIC12 | | 1.264.282.621 | 1.233.068.630 |
| Depreciation | 7,9 | (155.913.042) | (143.661.098) |
| Employees costs | | (277.792.527) | (265.428.343) |
| Technological consumption, materials and consumables used | | (86.585.448) | (66.894.458) |
| Expenses with balancing gas | | (23.037.297) | - |
| Expenses with royalties | | (114.264.801) | (118.772.907) |
| Maintenance and transport | | (18.414.514) | (23.566.664) |
| Taxes and other amounts owed to the state | | (49.338.567) | (54.568.160) |
| Revenues/ (Expenses) with provisions for risks and expenses | | (19.277.796) | 5.727.102 |
| Other operating expenses | 23 | <u>(100.742.341)</u> | <u>(108.749.881)</u> |
| Operational profit before the construction activity according to IFRIC12 | | 418.916.288 | 457.154.221 |
| Income from the construction activity according to IFRIC12 | 33 | 49.223.495 | 133.585.220 |
| Cost of assets constructed according to IFRIC12 | 33 | <u>(49.223.495)</u> | <u>(133.585.220)</u> |
| Operational profit | | 418.916.288 | 457.154.221 |
| Financial income | 24 | 19.836.788 | 24.446.408 |
| Financial expenses | 24 | <u>(5.002.047)</u> | <u>(7.334.812)</u> |
| Financial income, net | | <u>14.834.741</u> | <u>17.111.596</u> |
| Profit before tax | | 433.751.029 | 474.265.817 |
| Profit tax expense | 18 | <u>(75.282.105)</u> | <u>(89.945.611)</u> |
| Net profit for the period | | <u>358.468.924</u> | <u>384.320.206</u> |
| Earnings per share, basic and diluted (expressed in RON per share) | 28 | 30,45 | 32,64 |
| Total comprehensive income for the period | | <u>358.468.924</u> | <u>384.320.206</u> |
| Director - General Petru Ion Vaduva | | | Chief Financial Officer Marius Lupean |

INTERIM STATEMENT OF CHANGES IN EQUITY
(expressed in RON, if not specified otherwise)



| | <u>Note</u> | <u>Share Capital</u> | <u>Share capital adjustments</u> | <u>Share premium</u> | <u>Other reserves</u> | <u>Retained earnings</u> | <u>Total equity</u> |
|---|-------------|----------------------|----------------------------------|----------------------|-----------------------|--------------------------|----------------------|
| Balance on 1 January 2015, | | <u>117.738.440</u> | <u>441.418.396</u> | <u>247.478.865</u> | <u>1.265.796.861</u> | <u>1.254.534.864</u> | <u>3.326.967.426</u> |
| Net profit for the period, reported | | - | - | - | - | 384.320.206 | 384.320.206 |
| Transactions with shareholders: | | | | | | | |
| Dividends related to 2014 | 15 | - | - | - | - | (256.669.799) | (256.669.799) |
| Balance on 30 September 2015 (unaudited) | | <u>117.738.440</u> | <u>441.418.396</u> | <u>247.478.865</u> | <u>1.265.796.861</u> | <u>1.382.185.271</u> | <u>3.454.617.833</u> |
| Net profit for the period | | | | | | 104.408.796 | 104.408.796 |
| Actuarial gain/loss for the period | | | | | | 10.211.343 | 10.211.343 |
| Transactions with shareholders: | | | | | | | |
| Dividends related to 2014 | | | | | | | |
| Balance on 31 December 2015 | | <u>117.738.440</u> | <u>441.418.396</u> | <u>247.478.865</u> | <u>1.265.796.861</u> | <u>1.496.805.410</u> | <u>3.569.237.972</u> |
| Net profit for the period | | - | - | - | - | 358.468.924 | 358.468.924 |
| Transactions with shareholders: | | | | | | | |
| Dividends related to 2015 | 15 | - | - | - | - | (325.075.833) | (325.075.833) |
| Balance on 30 September 2016 (unaudited) | | <u>117.738.440</u> | <u>441.418.396</u> | <u>247.478.865</u> | <u>1.265.796.861</u> | <u>1.530.198.501</u> | <u>3.602.631.063</u> |

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

CASH FLOWS INTERIM STATEMENT
(expressed in RON, if not specified otherwise)



| | <u>Note</u> | The nine months period ended 30 September 2016 (unaudited) | The nine months periods ended 30 September 2015 (unaudited) |
|--|-------------|---|--|
| Cash generated from operations | 25 | 561.769.199 | 606.433.087 |
| Interest paid | | - | (277.732) |
| Interest received | | 3.117.123 | 5.402.520 |
| Profit tax paid | | <u>(92.948.118)</u> | <u>(97.500.321)</u> |
| Net cash inflow from operation activities | | 471.938.204 | 514.057.554 |
| Cash flow from investment activities | | | |
| Payments to acquire tangible and intangible assets | | (114.576.624) | (157.279.677) |
| Cash flows from connection fees and grants | | <u>125.540.721</u> | <u>4.327.932</u> |
| Net cash used in investment activities | | 10.964.097 | (152.951.745) |
| Cash flow from financing activities | | | |
| Dividends paid | | (324.281.461) | (256.360.935) |
| Repayments of long-term loans | | <u>-</u> | <u>(18.000.000)</u> |
| Net cash used in financing activities | | (324.281.461) | (274.360.935) |
| Net change in cash and cash equivalents | | 158.620.840 | 86.744.874 |
| Cash and cash equivalent in the beginning of the year | 13 | <u>700.797.782</u> | <u>557.868.004</u> |
| Cash and cash equivalent as at the end of the period | 13 | <u>859.418.622</u> | <u>644.612.878</u> |

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

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

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA ("Company") has as main activity the transmission of natural gas. Also, the Company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 30 September 2016, the majority shareholder of the Company is the Romanian state, through the Ministry of Economy, Trade and Business Environment Relations.

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" - "NERA". NERA's main responsibilities are the following:

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

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

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

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

2. OPERATIONAL FRAMEWORK OF THE COMPANY

Romania

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

- (i) According to the latest report "World Economic Outlook", Romania will register an advance of 5% of the GDP in 2016. The figure has been revised upwards compared to the previous estimate of 4.2%, which was published in April . Thus, Romania will record this year the highest economic growth in Europe, followed by Ireland (4.9%). The European average is 2%. The IMF estimates that in 2017 our economy will grow by 3.8%, but even so next year Romania will register the highest economic growth rate in Europe. For 2018, the IMF estimates that the Romanian economy will get a 3.3% advance.
- (ii) In the meeting of 30 September 2016, the Board of administration of the National Bank of Romania decided to maintain the monetary policy interest rate at 1.75 percent per year, to continue the proper management of liquidity in the banking system and reduce the required minimum reserve ratio applicable to foreign currency liabilities of credit institutions at 10 percent from 12 percent starting with the application period 24 October to 23 November 2016. The minimum reserve ratio for liabilities in lei is maintained at 8 percent.
- (iii) Recent evaluations reconfirm the outlook according to which the annual inflation remains on negative territory by the end of 2016. This is expected to increase gradually and then to return to the target range of the standstill in the second half of 2017 amid the effects of exhaustion of the standard rate reductions of the VAT and the disinflationary global shocks and the manifestation of inflationary pressures from aggregate demand and unit labor costs, announced the governor of the National Bank of Romania (BNR) Mugur Isarescu, during the conference to present the decisions taken in the monetary policy meeting.
- (iv) The rating agency S&P Global Ratings Rating agency reconfirmed the rating of Romania's long and short term government debt, in foreign currency and local currency BBB- / A-3, with a stable outlook. This reconfirmation is based on the results obtained by Romania in the economic sector, ie a moderate government debt and the prospect of continuing economic growth. The low level of interest rates and oil prices have contributed to economic growth in real terms of 3.8% last year and 5.2% in the first half of 2016, the fastest growth in the European Union" indicates the press release of the Ministry of Public Finance.

In the third semester of 2016 the leu appreciated by 1.60% as compared to EUR (1 EUR = 4,4523 RON on 30 September 2016, 1 EUR = 4,5245 RON on 31 December 2015) and appreciated by 3,99% as compared with the US dollar ("USD") (1 USD = 3,9822 RON on 30 September 2016, 1 USD = 4,1477 RON on 31 December 2015).

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

2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

In the third semester of 2015 the leu appreciated by 1,46% as compared to EUR (1 EUR = 4,4167 RON on 30 September 2015, 1 EUR = 4,4821 RON on 31 December 2014) and depreciated by 6,71% as compared with the US dollar ("USD") (1 USD = 3,9342 RON on 30 September 2015, 1 USD = 3,6868 RON on 31 December 2014).

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.

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been 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

The new or reviewed standards and interpretations applicable in the current reporting period

Amendments to the standards in the period 2010 -2012, in view of clarification, applicable as of January 2015.

IFRS 8 „Segments of activity” –the amendment to this standard conplates that entities are required to illustrate the rationale underlying the aggregation of the criteria on segments of activity and clarifies that entities shall apply the reconcilaitaion of the assets reported by segments of activity only if such assets are regularly reported.

IFRS 13 “Fair value measurement” – clears out the fact that by its application and by the amendments to IFRS 9 and IAS 39 the possibility to measure receivables and short term debts according to the invoiced value, void of discounting, is not eliminated, if there is no set interest rate and if the discounting is not significant.

Annual improvements of IFRSs 2014 (issued on 25 September 2014 and applicable for periods subsequent to 1 January 2016), with the purpose to clarify some inconsistencies

The changes have an impact upon four standards.

IFRS 5 „Non-current Assets Held for Sale and Discontinued Operations” has been amended to clarify the change on the sales method (reclassification from `assets held for sale` to `assets held for distribution` or vice versa) does not constitute a change of a plan of distribution or sale, and it must not be accounted as such.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amendment to IFRS 7 – “*Financial Instruments: Disclosures*” adds further clarification to management in determining whether the management contract of a financial asset that was transferred implies a continuous involvement, in the meaning of the presentation required by IFRS 7. An entity involved continuously in a transferred financial asset if, as part of the transfer, the entity retains any of the contractual rights and obligations inherent in the transferred financial asset or obtains any new contractual rights or obligations relating to the transferred financial asset.

The amendment clarifies also that the information presented on compensation under IFRS 7 are not required specifically for all interim periods, unless they are required by IAS 34.

The amendment to IAS 19 „Employee Benefits” clarifies that post-employment benefit obligations, decisions on the discount rate, the existence on the market of corporate bonds or government bonds used as a basis, should be based on the currency in which the obligations are expressed and not on the local currency in the country in which they occur.

IAS 34 Interim financial reporting require a cross reference between interim financial statements and "information presented elsewhere than in the interim financial report".

Amendments to IAS 1 "Presentation of Financial Statements" (issued in December 2014 and applicable for periods subsequent to January 1, 2016). The standard was amended to clarify the concept of materiality and it explains that an entity should make a specific presentation if the resulting information is not significant, although IFRS contains a list of specific requirements or minimum presentation requirements. The standard also provides new guidance on the presentation of subtotals in the financial statements: (a) they must be made up of elements recognized and evaluated in accordance with IFRS; (b) to be presented and labeled in a clear and understandable manner; (c) to be consistent from one period to another; and (d) may not be displayed with greater importance than subtotals and totals required by IFRS.

IAS 16 „Tangible assets” and IAS 38 „Intangible Assets”.

The initial requirements under IAS 16 are amended so as to clear out that the depreciation method based on the revenues generated by various activities involving the use of the relevant asset is not adequate. The requirements of IAS 38 are amended due to similar reasons, starting from the assumption that the depreciation method based on revenues generated by intangible assets are inadequate. The standard also contemplates the cases when such assumption may not be considered.

The new and the revised standards which are not mandatory for the reporting period (allow for a retroactive application; however they are not applied for current reporting as far as our company is concerned)

IFRS9 „Financial Instruments” was issued in 2009 and revised in 2014, to be applicable beyond January 2018 (retroactive application allowed) when it will replace IAS 39 *Financial Instruments*; The revised standard shall include besides the initial requirements, additional amendments introducing a new depreciation method and relevant amendments in terms of the classification and the assessment of assets and financial debt.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
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3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15 “Revenues from Contracts with Customers” (issued on 28 May 2014 to be effective as of 1 January 2018) allows for retroactive application as the transition method is retroactive.

The new standard introduces the basic principle of recognizing revenue when goods or services are transferred to the customer, at the transaction price. Any distinct goods or services must be recognized separately and any discounts or rebates to the contract price shall be generally allocated according to distinct elements. If the counter value ranges, for whatever reason, the minimum amounts have to be recognized if there is significant risk of reversal. Costs incurred to ensure customer contracts must be capitalized and amortised over the period in which the benefits of the contract are consumed. The standard applies to contracts with customers, sales of non-financial assets which are not the product resulted from the company’s core business.

IFRS 16 “Leases”. The new standard was issued in January 2016 and will be effective starting with January 2019. Early implementation is allowed provided IFRS 15 is also implemented. The standard entails key amendments mainly impacting lessees to recognise assets and liabilities for most of the leases as well as new requirements in terms the submission of information. The standard provides a single lessee accounting model, requiring the lessees to recognize assets and liabilities arising out of a lease contract, except for the cases in which the duration of the lease contract is 12 months or less or the relevant assets have a lower value. The definition of the lease contract contemplates two key element: the existence of an identified asset and the right to control the use of the identified asset for a period of time in exchange for consideration. There are no significant amendments as far as the lessors are concerned, pursuant to the approach under the former IAS17.

IAS7 “Statement of cash flows” (applicable as of January 2017). According to the amendment made it is compulsory for the financial standing to include information on the financing activities of an entity so as to be allow the impact of these activities over debts.

IAS12 “Tax on profit” (applicable as of January 2017). The amendment made clarifies the recognition of a deferred tax if the entity owns financial instruments evaluated at their fair value for which losses were registered subsequently as a result of the changes on the market.

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*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

b) 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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

system, which are transferred to the regulatory authority at the end of the concession agreement.

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

Due to the fact that the Service Concession Agreement ("SCA") had no commercial substance (i.e. nothing substantial has changed in the way the Company operated assets; cash flows have 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 has continued to recognize the asset, but reclassified it as intangible asset. The company has 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 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:

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

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

3. SUMMARY OF 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 income 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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fixed assets with a gross historical statutory book value of RON 474,952,575 (31 December 2015: 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 income. 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 that have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the Company include "trade receivables and other receivables" and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by NERA. The company recognized for the investments made until the balance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income. 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.

(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.

(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 has 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) that 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:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Company assesses first whether objective evidence of impairment exists.

i) Assets registered at amortized cost

Impairment testing of trade receivables is described above.

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

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

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. Inventories

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

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

The cost is determined based on the first in, first out method. Where necessary, 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.

3.12. 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 that have not been 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 have been declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

3.15 Borrowings

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

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

3.16 Current and deferred profit tax

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income 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 income 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.

3.18 Deferred income

Deferred income 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 income. The deferred income 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 NERA. The Company recognized for the investments made until the balance sheet date areceivable related to the remaining regulated value at the end of the concession agreement, at the curent value at the balance sheet date and a deferred income. The deferred income 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.

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 change in experience or changes in actuarial assumptions is recognized in the statement of comprehensive income in the period in which they arise.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 that has 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.

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 Income recognition

Income 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. Income is recorded net of value added tax, returns, rebates and discounts.

The Company recognizes the income 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 income 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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Income from services

Income from domestic and international gas transmission is recognized at the time of delivery and assessment of the transmitted gas, according to the contract. The amounts of gas transmitted are evaluated and invoiced to customers on a monthly basis.

b) Income from the sale of goods

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

c) Interest income

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

d) Income from dividends

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

e) Mutual compensation and barter transactions

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies (see Note 29).

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 have been excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

f) Income from penalties

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

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

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 income from international transmission) are used to settle liabilities denominated in foreign currency.

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

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

| | <u>30 September 2016</u> | <u>31 December 2015</u> |
|--|--------------------------|-------------------------|
| | (unaudited) | |
| <i>Impact on profit and loss and on equity of:</i> | | |
| USD appreciation by 10% | 146.290 | 163.938 |
| USD depreciation by 10% | (146.290) | (163.938) |
| EUR appreciation by 10% | 34.124.280 | 5.600.361 |
| EUR depreciation by 10% | (34.124.280) | (5.600.361) |

(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 RON 2.846.870 lei (September 2015: 2.095.577 lei).

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

The Company is exposed to interest rate risk by its bank deposits. At the same time, the company was exposed until December 2015 to the risk of interest rate related to its long and short-term borrowings, of which most have variable rates. The Company has not concluded any commitment to diminish the risk. For the average exposure in the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by RON 2.007.727 lower/higher, (September 2015: RON 1.889.212 lower/higher) as a net result of amendment of the interest rate for bank deposits and for floating rate obligations.

(b) Credit risk

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company has drawn 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 63.49% of the trade receivable balances on 30 September 2016 (30 September 2015: 60.49%). 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.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|-----------|---|-------------------------|
| No rating | 5.139.230 | 1.433.162 |
| BB | 177.972.285 | 252.046.000 |
| BB+ | 5.280.941 | 1.910.084 |
| BBB- | - | 683.305 |
| BBB | 584.396.297 | 258.276.067 |
| BBB+ | 85.712.176 | 35.232.715 |
| A | 139.250 | 150.919.196 |
| A+ | 424.373 | - |
| AA | - | 167.844 |
| | <u>859.064.552</u> | <u>700.668.373</u> |

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 2016 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis of financial liabilities on 30 September 2016 is as follows:

| | <u>Total</u> <u>amount</u> <u>(unaudited)</u> | <u>Less</u> <u>than 1 year</u> <u>(unaudited)</u> | <u>1-5 years</u> | <u>over 5 years</u> |
|--|---|---|------------------|---------------------|
| Commercial payables and other payables | 101.888.748 | 101.888.748 | - | - |
| | <u>101.888.748</u> | <u>101.888.748</u> | <u>-</u> | <u>-</u> |

Maturity analysis of financial liabilities on 31 December 2015 is as follows:

| | <u>Total</u> <u>amount</u> | <u>Less</u> <u>than 1 year</u> | <u>1-5 years</u> | <u>over 5 years</u> |
|--|-------------------------------|-----------------------------------|------------------|---------------------|
| Commercial payables and other payables | 151.408.923 | 151.408.923 | - | - |
| | <u>151.408.923</u> | <u>151.408.923</u> | <u>-</u> | <u>-</u> |

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables to the Ministry of Economy and Trade 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 revenues.

Financial instruments categories:

| | <u>30 September 2016</u> <u>(unaudited)</u> | <u>31 December 2015</u> |
|--|--|-------------------------|
| Financial assets | | |
| Cash and cash equivalents | 298.337.966 | 168.364.078 |
| Term bank deposits | 561.080.656 | 532.433.704 |
| Loans and receivables | 924.936.039 | 931.218.691 |
| Financial assets available for selling | 163.122.672 | 163.122.672 |
| Provisions related to financial assets available for selling | <u>(163.122.672)</u> | <u>(163.122.672)</u> |
| | 1.784.354.661 | 1.632.016.473 |

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
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4. FINANCIAL RISK MANAGEMENT (CONTINUED)

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|--|---|--------------------------------|
| Financial liabilities | | |
| Liabilities evaluated at fair value | | |
| Financial securities for contracts | 4.028.742 | 4.116.283 |
| Commercial liabilities and other liabilities | <u>97.860.006</u> | <u>147.292.640</u> |
| | 101.888.748 | 151.408.923 |

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 2016 the Company's strategy, unchanged since 2015, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 30 September 2016 and on 31 December 2015 was null:

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|---|---|--------------------------------|
| Total borrowings | - | - |
| Except: cash and cash equivalents (Note 13) | <u>(859.418.622)</u> | <u>(700.797.782)</u> |
| Net cash position | <u>(859.418.622)</u> | <u>(700.797.782)</u> |

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

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 2015 is of RON 107.384.474 (Note 21).

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

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

Please find below the detailed present value change depending on the following variables:

| | <u>30 September 2016</u> | <u>31 December 2015</u> |
|----------------------------------|---------------------------------|--------------------------------|
| | (unaudited) | |
| Discount rate +1% | 95.779.511 | 95.779.511 |
| Discount rate -1% | 121.129.022 | 121.129.022 |
| Wage growth rate +1% | 120.891.227 | 120.891.227 |
| Wage growth rate -1% | 95.750.897 | 95.750.897 |
| Increasing longevity with 1 year | 107.657.861 | 107.657.861 |

Benefits payment maturity survey:

| | <u>30 September 2016</u> | <u>31 December 2015</u> |
|------------------------|---------------------------------|--------------------------------|
| | (unaudited) | |
| Up to one year | 4.436.875 | 4.436.875 |
| Between 1 and 2 years | 4.233.077 | 4.233.077 |
| Between 2 and 5 years | 19.713.282 | 19.713.282 |
| Between 5 and 10 years | 43.270.494 | 43.270.494 |
| Over 10 years | 228.169.506 | 228.169.506 |

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 from 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 has 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).

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

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

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 income achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from income, 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 income is based on tariffs approved by another regulator than the one setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;

5.4 Long-term debts

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 NERA. 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).

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

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 that makes strategic decisions for reportable segments, for the period ended 30 September 2016 are:

| | <u>Domestic gas</u> <u>transmission</u> | <u>International</u> <u>gas</u> <u>transmission</u> | <u>Balancing</u> | <u>Unallocated</u> | <u>Total</u> |
|--|--|---|--------------------------|--------------------------|-----------------------------|
| Income from domestic transmission | 902.349.421 | - | - | - | 902.349.421 |
| Income from the international transmission activity | - | 240.298.540 | - | - | 240.298.540 |
| Income from the balancing activity | - | - | 23.808.757 | - | 23.808.757 |
| Other revenues | 9.663.062 | - | 66.482 | 88.096.359 | 97.825.903 |
| Operating revenue before the construction activity according to IFRIC12 | <u>912.012.483</u> | <u>240.298.540</u> | <u>23.875.239</u> | <u>88.096.359</u> | <u>1.264.282.621</u> |
| Depreciation | (128.867.175) | (24.857.554) | - | (2.188.313) | (155.913.042) |
| Operating expenses other than depreciation | <u>(586.874.769)</u> | <u>(40.522.812)</u> | <u>(26.772.496)</u> | <u>(35.283.214)</u> | <u>(689.453.291)</u> |
| Profit from operation before the construction activity according to IFRIC12 | - | - | - | - | 418.916.288 |
| Revenues from the construction activity according to IFRIC12 | - | - | - | 49.223.495 | 49.223.495 |
| Cost of assets constructed according to IFRIC12 | - | - | - | (49.223.495) | (49.223.495) |
| Operating Profit | - | - | - | - | <u>418.916.288</u> |
| Net financial gain | - | - | - | - | 14.834.741 |
| Profit before tax | - | - | - | - | 433.751.029 |
| Profit tax | - | - | - | - | <u>(75.282.105)</u> |
| Net profit | - | - | - | - | 358.468.924 |
| Assets on segments | 3.745.117.653 | 400.116.151 | 17.105.364 | 899.991.730 | 5.062.330.898 |
| Liabilities on segments | 1.291.859.297 | 69.580.326 | 8.302.558 | 89.957.654 | 1.459.699.835 |
| Capital expenditure - increases in assets in progress | 63.350.208 | - | - | 2.744 | 63.352.952 |
| Non-cash expenses other than depreciation | 70.024.411 | 3.778.297 | - | 453.415 | 74.256.123 |

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

6. INFORMATION ON SEGMENTS (CONTINUED)

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts.

Unallocated assets include:

| | |
|--------------------------------|--------------------|
| Tangible and intangible assets | 39.901.311 |
| Cash | 859.418.622 |
| Other assets | <u>671.797</u> |
| | 899.991.730 |

Unallocated liabilities include:

| | |
|-------------------|-------------------|
| Deferred tax | 67.872.923 |
| Tax payable | 18.083.762 |
| Dividends payable | 3.454.634 |
| Other debts | <u>546.335</u> |
| | 89.957.654 |

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.

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

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

| | <u>Domestic Clients</u> | <u>External Clients</u> | <u>Total</u> |
|---|-------------------------|-------------------------|----------------------|
| Revenues from the domestic transmission activity | 902.349.421 | - | 902.349.421 |
| Revenues from the international transmission activity | - | 240.298.540 | 240.298.540 |
| Revenues from the balancing activity | 23.808.757 | - | 23.808.757 |
| Other revenues | <u>97.292.685</u> | <u>533.218</u> | <u>97.825.903</u> |
| | <u>1.023.450.863</u> | <u>240.831.758</u> | <u>1.264.282.621</u> |

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

6. INFORMATION ON SEGMENTS (CONTINUED)

| <i>Domestic clients with over 10% of the total income include:</i> | <u>Percentage of the total income</u> |
|--|---------------------------------------|
| ENGIE ROMANIA S.A. | 20% |
| E.ON ENERGIE ROMANIA SA. | 18% |

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

The Company has receivables from external clients amounting to RON 26.489.308 (31 December 2015: RON 27.298.854).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which, due to its monopoly character is regulated by the National Regulatory Authority as well as the information related to the activity of connection to the national transmission system; the *international gas transmission* segment includes information related to the activity carried out through pipelines without transshipment on Romanian territory, it is not a regulated activity, and the related charges are based on commercial negotiation between the parties;

The balancing segment includes expenses and income 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 income such as sales of assets, rents, royalties, operating income and financial related claim for the regulated value which remained depreciated of the regulated asset base at the end of the Concession Agreement.

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 2015, is as follows:

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

6. INFORMATION ON SEGMENTS (CONTINUED)

| | <u>Domestic gas transmission</u> | <u>International gas transmission</u> | <u>Unallocated</u> | <u>Total</u> |
|---|--------------------------------------|---|--------------------|----------------------|
| Income from the domestic transmission | 1.259.788.164 | - | - | 1.259.788.164 |
| Income from the international transmission activity | - | 318.752.083 | - | 318.752.083 |
| Other revenues | <u>7.662.724</u> | <u>-</u> | <u>77.194.848</u> | <u>84.857.572</u> |
| Operating income before the construction activity according to IFRIC12 | 1.267.450.888 | 318.752.083 | 77.194.848 | 1.663.397.819 |
| Depreciation | (158.278.136) | (32.141.239) | (2.981.331) | (193.400.706) |
| Operating expenses other than depreciation | (821.366.695) | (46.320.679) | (16.131.109) | (883.818.483) |
| Profit from operation before the construction activity according to IFRIC12 | - | - | - | 586.178.630 |
| Revenues from the construction activity according to IFRIC12 | - | - | 211.125.109 | 211.125.109 |
| Cost of assets constructed according to IFRIC12 | - | - | (211.125.109) | (211.125.109) |
| Profit from operation | - | - | - | 586.178.630 |
| Net financial gain | - | - | - | 20.922.045 |
| Profit before tax | - | - | - | 607.100.675 |
| Profit tax | <u>-</u> | <u>-</u> | <u>-</u> | <u>(118.371.673)</u> |
| Net profit | - | - | - | 488.729.002 |
| Assets on segments | 3.735.748.222 | 471.545.941 | 744.140.121 | 4.951.434.284 |
| Liabilities on segments | 1.263.726.129 | 11.596.300 | 106.873.883 | 1.382.196.312 |
| Capital expenditure - increases in assets in progress | 239.532.928 | - | 21.451 | 239.554.379 |
| Non-cash expenses other than depreciation | 102.389.094 | 1.140.702 | 200.693 | 103.730.489 |

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

6. INFORMATION ON SEGMENTS (CONTINUED)

Assets indicated for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts.

Unallocated assets include:

| | |
|--------------------------------|------------------|
| Tangible and intangible assets | 42.053.886 |
| Cash | 700.797.782 |
| Other assets | <u>1.288.453</u> |
| | 744.140.121 |

Unallocated liabilities include:

| | |
|-------------------|----------------|
| Deferred tax | 71.337.402 |
| Tax payable | 32.285.296 |
| Dividends payable | 2.660.262 |
| Other debts | <u>590.923</u> |
| | 106.873.883 |

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.

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

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

| | <u>Domestic Clients</u> | <u>Foreign Clients</u> | <u>Total</u> |
|---|-------------------------|------------------------|----------------------|
| Income from domestic transmission | 1.259.788.164 | - | 1.259.788.164 |
| Income from the international transmission activity | - | 318.752.083 | 318.752.083 |
| Other revenues | <u>84.508.031</u> | <u>349.541</u> | <u>84.857.572</u> |
| | <u>1.344.296.195</u> | <u>319.101.624</u> | <u>1.663.397.819</u> |

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

Percentage of the total income

| | |
|------------------------------|-----|
| GDF SUEZ ENERGY ROMANIA S.A. | 21% |
| E.ON ENERGIE ROMANIA SA. | 18% |

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

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

7. TANGIBLE ASSETS

| | Lands and buildings | Assets of the transmission system | Other fixed assets | Assets in progress | Total |
|--|--------------------------------|--|-------------------------------|-------------------------------|----------------------|
| On 30 September 2015 | | | | | |
| Cost on 1 January 2015 | 276.436.908 | 982.193.974 | 229.042.472 | 5.332.058 | 1.493.005.412 |
| Accumulated depreciation on 1 January 2015 | <u>(124.691.384)</u> | <u>(526.683.705)</u> | <u>(186.790.061)</u> | - | <u>(838.165.150)</u> |
| Initial net book value | <u>151.745.524</u> | <u>455.510.269</u> | <u>42.252.411</u> | <u>5.332.058</u> | <u>654.840.262</u> |
| Inflows | 184.158 | - | (131.601) | 18.375.512 | 18.428.069 |
| Transfers | 454.933 | - | 10.426.165 | (10.881.098) | - |
| Outflows (net book value) | (67.778) | (425) | (44.212) | - | (112.415) |
| Expense with depreciation | <u>(6.249.992)</u> | <u>(25.640.042)</u> | <u>(9.599.337)</u> | - | <u>(41.489.371)</u> |
| Final net book value | 146.066.845 | 429.869.802 | 42.903.426 | 12.826.472 | 631.666.545 |
| Cost | 277.313.024 | 982.191.304 | 236.560.121 | 12.826.472 | 1.508.890.921 |
| Accumulated depreciation | <u>(131.246.179)</u> | <u>(552.321.502)</u> | <u>(193.656.695)</u> | - | <u>(877.224.376)</u> |
| Final net book value | <u>146.066.845</u> | <u>429.869.802</u> | <u>42.903.426</u> | <u>12.826.472</u> | <u>631.666.545</u> |
| On 31 December 2015 | | | | | |
| Initial net book value | <u>146.066.845</u> | <u>429.869.802</u> | <u>42.903.426</u> | <u>12.826.472</u> | <u>631.666.545</u> |
| Inflow /Reclassification | 371.232 | - | 10.312 | 10.053.758 | 10.435.302 |
| Transfers | 3.276.428 | - | 7.253.607 | (10.530.035) | - |
| Outflow (net book value) | 1 | (1) | (9.406) | - | (9.406) |
| Expense with depreciation | <u>(2.423.547)</u> | <u>(8.526.637)</u> | <u>(3.401.822)</u> | - | <u>(14.352.006)</u> |
| Final net book value | 147.290.959 | 421.343.164 | 46.756.117 | 12.350.195 | 627.740.435 |
| Cost | 280.589.451 | 982.191.304 | 242.947.392 | 12.350.195 | 1.518.078.342 |
| Accumulated depreciation | <u>(133.298.492)</u> | <u>(560.848.140)</u> | <u>(196.191.275)</u> | - | <u>(890.337.907)</u> |
| Final net book value | <u>147.290.959</u> | <u>421.343.164</u> | <u>46.756.117</u> | <u>12.350.195</u> | <u>627.740.435</u> |
| On 30 September 2016 | | | | | |
| Initial net book value | <u>147.290.959</u> | <u>421.343.164</u> | <u>46.756.117</u> | <u>12.350.195</u> | <u>627.740.435</u> |
| Inflow /Reclassification | 86.121 | - | - | 13.879.331 | 13.965.452 |
| Transfers | 114.071 | - | 11.789.052 | (11.903.123) | - |

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

| | | | | | |
|---------------------------|----------------------|----------------------|----------------------|-------------------|----------------------|
| Outflow (net book value) | (2.008) | - | (146.851) | - | (148.859) |
| Expense with depreciation | <u>(6.088.609)</u> | <u>(25.459.411)</u> | <u>(11.175.246)</u> | - | <u>(42.723.266)</u> |
| Final net book value | 141.400.534 | 395.883.753 | 47.223.072 | 14.326.403 | 598.833.762 |
| Cost | 280.753.282 | 982.057.502 | 245.330.720 | 14.326.403 | 1.522.467.907 |
| Accumulated depreciation | <u>(139.352.748)</u> | <u>(586.173.749)</u> | <u>(198.107.648)</u> | - | <u>(923.634.145)</u> |
| Final net book value | <u>141.400.534</u> | <u>395.883.753</u> | <u>47.223.072</u> | <u>14.326.403</u> | <u>598.833.762</u> |

The gross book value of fully depreciated assets, still used, is RON 193.649.020 (31 December 2015: RON 182.427.622).

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 do not fall within the scope of IFRIC 12.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
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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 NERA;
- The Company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The Company must annually publish by 30 October the available capacity of the system for the following year;
- The Company must annually respond to the clients' orders by 30 November and the NAMR must be informed on all rejected orders decided by the Company's management;
- The Company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, as of October 2007: 10%) of the gross income 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.

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

9. INTANGIBLE ASSETS

| | <u>SCA related assets</u> | <u>Computer software</u> | <u>Intangible assets in progress</u> | <u>Total</u> |
|--|-----------------------------------|------------------------------|--|----------------------|
| On 30 September 2015 | | | | |
| Cost on 1 January 2015 | 5.619.519.832 | 50.595.047 | 231.288.776 | 5.901.403.655 |
| Accumulated amortization at 1 January 2015 | (3.314.374.331) | (46.107.074) | - | (3.360.481.405) |
| Provisions for impairment | - | - | (6.042.584) | (6.042.584) |
| Initial net book value | <u>2.305.145.501</u> | <u>4.487.973</u> | <u>225.246.192</u> | <u>2.534.879.666</u> |
| Inflows | - | - | 134.104.500 | 134.104.500 |
| Transfers | 79.564.704 | 519.280 | (80.083.984) | - |
| Outflows | (16.474) | (649) | (5.671.158) | (5.688.281) |
| Amortization | (100.188.537) | (2.696.543) | - | (102.885.080) |
| Provisions for impairment | - | - | 5.236.340 | 5.236.340 |
| Final net book value | <u>2.284.505.194</u> | <u>2.310.061</u> | <u>278.831.890</u> | <u>2.565.647.145</u> |
| Cost | 5.698.678.614 | 51.112.149 | 279.638.134 | 6.029.428.897 |
| Accumulated depreciation | (3.414.173.420) | (48.802.088) | - | (3.462.975.508) |
| Provisions for impairment | - | - | (806.244) | (806.244) |
| Net book value | <u>2.284.505.194</u> | <u>2.310.061</u> | <u>278.831.890</u> | <u>2.565.647.145</u> |
| On 31 December 2015 | | | | |
| Initial net book value | <u>2.284.505.194</u> | <u>2.310.061</u> | <u>278.831.890</u> | <u>2.565.647.145</u> |
| Inflows/Reclassifications | (398.017) | - | 77.020.609 | 76.622.592 |
| Transfers | 187.771.997 | 459.597 | (188.231.594) | - |
| Outflows | 16.474 | (2) | - | 16.472 |
| Amortization | (34.923.217) | (708.380) | - | (35.631.597) |
| Final net book value | <u>2.436.972.431</u> | <u>2.061.276</u> | <u>167.620.905</u> | <u>2.606.654.612</u> |
| Cost | 5.886.450.613 | 51.571.742 | 168.427.149 | 6.106.449.504 |
| Accumulated amortization | (3.449.478.182) | (49.510.466) | - | (3.498.988.648) |
| Provisions for impairment | - | - | (806.244) | (806.244) |
| Final net book value | <u>2.436.972.431</u> | <u>2.061.276</u> | <u>167.620.905</u> | 2.606.654.612 |

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

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

9. INTANGIBLE ASSETS (CONTINUED)

On 30 September 2016

| | | | | |
|---------------------------|----------------------|--------------------|--------------------|----------------------|
| Initial net book value | <u>2.436.972.431</u> | <u>2.061.276</u> | <u>167.620.905</u> | <u>2.606.654.612</u> |
| Inflows/Reclassifications | 9.098.356 | - | 49.473.621 | 58.571.977 |
| Transfers | 48.195.040 | 171.823 | (48.366.863) | - |
| Outflows | (2.157) | - | - | (2.157) |
| Amortization | <u>(112.402.121)</u> | <u>(1.386.132)</u> | <u>-</u> | <u>(113.788.253)</u> |
| Final net book value | <u>2.381.861.549</u> | <u>846.967</u> | <u>168.727.663</u> | <u>2.551.436.179</u> |
| Cost | 5.943.725.218 | 49.793.956 | 169.533.907 | 6.163.053.081 |
| Accumulated amortization | (3.561.863.669) | (48.946.989) | - | (3.610.810.658) |
| Provisions for impairment | - | - | (806.244) | (806.244) |
| Final net book value | <u>2.381.861.549</u> | <u>846.967</u> | <u>168.727.663</u> | <u>2.551.436.179</u> |

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

On 31 December 2014 for the works related to the Giurgiu -Russe Interconnection pipeline an impairment of 5.236.340 million RON was constituted for the works which, for technical reasons, can not be used by the Company to complete the project. In 2015, the works that no longer have utility for the Company were invoiced to the construction company, and the provision for the impairment of intangible assets in the amount of 5.236.340 million RON was canceled.

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

10. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale consist of unlisted stakes in the following companies:

| <u>Company</u> | <u>Activity</u> | <u>% Percentage owned 2016 (unaudited)</u> | <u>% Percentage owned 2015</u> | <u>30 September 2016 (unaudited)</u> | <u>31 December 2015</u> |
|--|--|--|--|--|-----------------------------|
| Resial SA | Production | 68,16 | 68,16 | 18.116.501 | 18.116.501 |
| Mebis SA | Gas production distribution and supply | 17,47 | 17,47 | 6.461.736 | 6.461.736 |
| Nabucco Gas Pipeline International Gmbh | Gas transmission | 17,93 | 17,93 | 138.544.435 | 138.544.435 |
| Minus provision for impairment of investments in: Resial SA and Mebis SA | | | | (24.578.237) | (24.578.237) |
| Nabucco Gas Pipeline International Gmbh | | | | (138.544.435) | (138.544.435) |

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 has been fully provisioned. The Company has no obligations to Mebis SA.

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

10. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

Shares in Nabucco Gas Pipeline International Gmbh

Nabucco Gas Pipeline International Gmbh ("NIC") is a limited liability company, based in Vienna, Austria, established to build a gas transmission pipeline from the Caspian Sea through Turkey, Bulgaria, Romania and Hungary to Austria.

The Company has participated with BOTAS - Turkey, Bulgargaz - Bulgaria, MOL - Hungary and OMV Gas & Power GmbH - Austria to the share capital of NIC, each company holding a 20% stake in the share capital. In February 2008, the share capital of NIC was increased by the contribution of a new shareholder, RWE Gas Midstream Germany.

The Company's stake in the Nabucco project at the end of 2012 was 17.38%, as a result of refusal of shareholder FGSZ Hungary to ensure the future funding for the project.

On 30 September 2016, NIC's ownership structure was the following: Botas - Turkey 17.93% (31 December 2015: 17.93%), Bulgargaz - Bulgaria 17.93% (31 December 2015: 17.93%), SNTGN Transgaz SA - Romania 17.93% (31 December 2015: 17.93%), MOL - Hungary 10.35% (31 December 2015: 10.35%), OMV Gas & Power GmbH - Austria 35.86% (31 December 2015: 35.86%).

In June 2013, the final decision of the Shah Deniz group, the Azerbaijani gas supplier, was made, deselecting the Nabucco West project as an option to carry natural gas from the Shah Deniz 2 field, which prompted NIC shareholders to make the decision to close, in a controlled manner, the Nabucco companies (NIC and subsidiaries).

During 2014 income was obtained from the liquidation of NIC amounting to EUR 959,350,39. At the same time, after the reconciliation of the amounts transferred in an escrow account by the Shah Deniz Consortium the amount of EUR 1,468,500 was received.

In the near future there is the prospect of collecting additional amounts from the liquidation of NIC, but due to the uncertainty level, the investment of the company in NIC of RON 138,544,435 was fully provided.

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

11. INVENTORIES

| | <u>30 September 2016</u> | <u>31 December 2015</u> |
|--|---------------------------------|--------------------------------|
| | (unaudited) | |
| Gas inventories | 24.753.075 | 10.388.000 |
| Spare parts and materials | 75.223.732 | 73.410.539 |
| Provisions for slow moving inventories | <u>(11.009.110)</u> | <u>(9.806.906)</u> |
| | <u>88.967.697</u> | <u>73.991.633</u> |

According to NERA Order No. 2 issued on 20 January 2011, 20mln m³ (212 thousand MWh) of gas were stored in the underground storage facilities. Through NERA Order no 160/2015 which provides the obligations of our company, as transmission system operator, related to the balancing of the national transmission system.

Movements in the provision account are analyzed below:

| | <u>30 September 2016</u> | <u>31 December 2015</u> |
|---|---------------------------------|--------------------------------|
| | (unaudited) | |
| Provision on 1 January | 9.806.906 | 8.116.148 |
| (Revenue)/expense with the provision for the impairment of the stocks (Nota 23) | <u>1.202.204</u> | <u>1.690.758</u> |
| Provision in the end of the period | <u>11.009.110</u> | <u>9.806.906</u> |

In 2016 and in 2015 provisions for the impairment of the stocks were constituted according to Note 3.10.

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

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|--|---|--------------------------------|
| Trade receivables | 475.710.570 | 443.686.549 |
| Advance payments to suppliers | 5.167.252 | 1.074.859 |
| Undue VAT | 2.604.697 | 2.184.495 |
| 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 | 613.259.439 | 579.722.974 |
| Non refundable loans as subsidies | 3.127.035 | 22.829.804 |
| Other receivables | 120.374.264 | 95.543.634 |
| Provision for impairment of trade receivables | (242.728.077) | (189.018.112) |
| Provision for impairment of other receivables | <u>(15.610.888)</u> | <u>(15.544.727)</u> |
| | <u>963.674.638</u> | <u>942.249.822</u> |

On 30 September 2016, the amount of RON 28.242.390 (31 December 2015: RON 29.490.241) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 4% in USD (31 December 2015: 4%) and 96% in EUR (31 December 2015: 94%).

Other trade receivables include the amount of RON 60.430.363 representing the guarantees established by the Company for obtaining grants for the SCADA project and in order to prove the capacity of our company as reliable payer in terms of its commercial contracts.

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

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

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUATION)

| | 30 September 2016 | 31 December 2015 |
|--|---------------------------------|---------------------------------|
| | Trade <u>receivables</u> | Trade <u>receivables</u> |
| | <u>(unaudited)</u> | |
| Current and not impaired (1) | 133.607.585 | 171.597.162 |
| Overdue but not impaired | | |
| - overdue less than 30 days | 93.048.974 | 70.733.418 |
| - overdue between 30 and 90 days | 3.940.388 | 1.540.649 |
| - overdue more than 90 days | <u>2.385.546</u> | <u>10.797.208</u> |
| Due, but not impaired - total (2) | <u>99.374.908</u> | <u>83.071.275</u> |
| Impaired (gross) | | |
| - outstanding less than de 30 days | - | 17.276.865 |
| - overdue between 30 and 90 days | 16.099.148 | 19.860.297 |
| - overdue between 90 and 360 days | 99.346.579 | 64.897.716 |
| - overdue more than 360 days | <u>127.282.350</u> | <u>86.983.234</u> |
| Total impaired (3) | <u>242.728.077</u> | <u>189.018.112</u> |
| Except the provision for impairment (4) | <u>242.728.077</u> | <u>189.018.112</u> |
| Total trade receivables and other receivables (1+2+3-4) | <u>232.982.493</u> | <u>254.668.437</u> |

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.

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

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

| | <u>30 September 2016</u> (unaudited) | <u>31 December</u> <u>2015</u> |
|-------------------|---|-----------------------------------|
| Group 1 | 121.870.718 | 142.867.920 |
| Group 2 | <u>11.736.867</u> | <u>28.729.242</u> |
| Trade receivables | <u>133.607.585</u> | <u>171.597.162</u> |

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

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

Movements in the provision account are analyzed below:

| | <u>30 September</u> <u>2016</u> (unaudited) | <u>31 December</u> <u>2015</u> |
|--|---|-----------------------------------|
| Provision on 1 January | 204.562.839 | 100.156.424 |
| (Income)/expense with the provision for doubtful debts (Note 23) | <u>53.776.126</u> | <u>104.406.415</u> |
| Provision at the end of the period | <u>258.338.965</u> | <u>204.562.839</u> |

During 2016 and 2015 provisions for receivables from insolvent companies or from companies in significant financial difficulties were established. The increase of the provision for the impairment of the trade receivables in 2015 is mainly due to the additional provision with Interagro and Electrocentrale București and for year 2016 to the provision with Electrocentrale Bucuresti.

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

13. CASH AND CASH EQUIVALENT

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|----------------------------------|---|-------------------------|
| Cash at bank in RON | 543.589.509 | 641.146.910 |
| Cash at bank in foreign currency | 315.475.043 | 59.521.463 |
| Other cash equivalents | <u>354.070</u> | <u>129.409</u> |
| | <u>859.418.622</u> | <u>700.797.782</u> |

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

The weighted average of the effective interest related to short-term bank deposits was of 0.48% on 30 September 2016 (0.81% on 31 December 2015) and these deposits have an average maturity of 30 days.

14. SHARE CAPITAL AND SHARE PREMIUM

| | <u>Number of ordinary shares</u> | <u>Share capital</u> | <u>Share premium</u> | <u>Total</u> |
|---|--|----------------------|--------------------------|--------------------|
| IFRS | | | | |
| On 31 December 2015 | 11.773.844 | 117.738.440 | 247.478.865 | 365.217.305 |
| On 30 September 2016 | 11.773.844 | 117.738.440 | 247.478.865 | 365.217.305 |
| Capital adjustment to the hyperinflation accumulated on 31 December 2003 | <u>-</u> | <u>441.418.396</u> | <u>-</u> | <u>441.418.396</u> |
| On 31 December 2015, 30 September 2016 | <u>11.773.844</u> | <u>559.156.836</u> | <u>247.478.865</u> | <u>806.635.701</u> |

The authorized number of ordinary shares is 11.773.844 (31 December 2015: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 30 September 2016 is the following:

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

14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUATION)

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

The ownership structure on 31 December 2015 is the following:

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

By Government Emergency Ordinance 86 of 17 December 2014 the Ministry of Economy, Trade and Tourism becomes shareholder of the Company. The transfer of shares from the account of the General Secretariate of the Government to the account of the Ministry of Economy, Trade and Tourism was recorded at SC Depozitarul Central SA on 20 February 2015.

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.

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

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.

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 2016, amounts to RON 23.547.688 (31 December 2015: RON 23.547.688). The legal reserve is included in the "Retained earnings" in these financial statements.

Dividend allocation

In 2016, the Company declared and allocated a dividend worth RON 27,61/share, related to the profit of the previous year (2015: RON 21,80/share). The total dividends declared from the profit of 2015 are RON 325.075.832,84.

16. LONG-TERM BORROWINGS

The company has no long term borrowing.

On 31 December 2015 the loan contracted in 2010 from BRD GSC, amounting to 120.000.000 lei, for the financing of the investment program of the company, was reimbursed in full.

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

16. LONG-TERM BORROWINGS (CONTINUATION)

The effective interest rate

Depending on the loan category, the effective interest rate can be analyzed as follows:

| | <u>30 September 2016</u> (%) | <u>31 December 2015</u> (%) |
|-----------------------------|---------------------------------|--------------------------------|
| Long-term borrowings in RON | - | 2,20 |

17. DEFERRED INCOME

Deferred income 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 income (presented as "income from the connection fees") is registered as income for the period when the related assets are depreciated and estimating the duration of the relationship with the client (Note 22).

| | <u>30 September</u> <u>2016</u> (unaudited) | <u>31 December 2015</u> |
|---|---|-------------------------|
| Initial balance | <u>930.578.140</u> | <u>893.778.017</u> |
| Increase referring to the regulated value remained unamortized at the end of the concession agreement | 20.703.058 | 24.004.144 |
| Increases | 125.423.203 | 57.247.851 |
| Reimbursed amounts | - | (432.615) |
| Amounts recorded in the income (Note 22) | <u>(36.258.225)</u> | <u>(44.019.257)</u> |
| Final balance | <u>1.040.446.176</u> | <u>930.578.140</u> |

In 2015, following the completion of the reverse flow project implementation at GMS Isaccea and Negru Voda to increase security of supply for Romania and Bulgaria, the amount of 432.615 RON was reimbursed representing the difference between the eligible accepted amount and the initially paid prefinancing.

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

17. DEFERRED INCOME (CONTINUATION)

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 income is recognized in the profit and loss account for the remained duration of the concession agreement (Note 22).

The balance of the deferred income consists of:

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|--|---|-------------------------|
| Deferred income related to the regulated value remained unamortized at the end of the concession agreement | 526.225.649 | 526.290.497 |
| Connections and assets received free of charge | 297.216.161 | 298.897.102 |
| Grants | <u>217.004.366</u> | <u>105.390.541</u> |
| | <u>1.040.446.176</u> | <u>930.578.140</u> |

In September 2016 Transgaz received a European grant amounting to EUR 25.834.490 under the Grant Agreement regarding the project `The Development of the Romanian Gas Transmission System along Bulgaria – Romania – Hungary – Austria Route` - BRUA Phase 1.

18. PROFIT TAX

Profit tax expense

| | The nine months period ended <u>30 September 2016</u> (unaudited) | The nine months period ended <u>30 September 2015</u> (unaudited) |
|--|--|--|
| Expense with the profit tax - current | 78.746.584 | 93.550.350 |
| Deferred tax - impact of temporary differences | <u>(3.464.479)</u> | <u>(3.604.739)</u> |
| Profit tax expense | <u>75.282.105</u> | <u>89.945.611</u> |

In 2016 and 2015, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian legislation.

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

18. PROFIT TAX (CONTINUATION)

| | The nine months period ended <u>30 September 2016</u> (unaudited) | The nine months period ended <u>30 September 2015</u> (unaudited) |
|---|--|--|
| Profit before tax | 433.751.029 | 474.265.817 |
| Theoretical expense with the tax the statutory rate of 16% (2015: 16%) | 69.400.165 | 79.127.911 |
| Non-taxable expenses, net | <u>5.881.940</u> | <u>10.817.700</u> |
| Profit tax expense | <u>75.282.105</u> | <u>89.945.611</u> |
| Profit tax related liability, current | <u>18.083.762</u> | <u>34.592.526</u> |

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

Deferred tax

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 30 September 2016 (31 December 2015: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(income from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

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

18. PROFIT TAX (CONTINUATION)

| | <u>30 September</u> <u>2016</u> (unaudited) | <u>Movement</u> | <u>31 Dec. 2015</u> | <u>Movement</u> | <u>30 September</u> <u>2015</u> (unaudited) | <u>Movement</u> | <u>1 January</u> <u>2015</u> |
|---------------------------------|---|--------------------|---------------------|------------------|---|--------------------|---------------------------------|
| Deferred tax payment | | | | | | | |
| Tangible and intangible assets | 85.054.439 | (3.464.479) | 88.518.918 | 334.512 | 88.184.406 | (3.604.739) | 91.789.145 |
| Deferred tax recoverable | | | | | | | |
| Provision for employee benefits | <u>(17.181.516)</u> | - | <u>(17.181.516)</u> | <u>919.868</u> | <u>(18.101.384)</u> | - | <u>(18.101.384)</u> |
| | <u>67.872.923</u> | <u>(3.464.479)</u> | <u>71.337.402</u> | <u>1.254.380</u> | <u>70.083.022</u> | <u>(3.604.739)</u> | <u>73.687.761</u> |

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

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

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|---|---|-------------------------|
| Deferred tax liabilities payable in more than 12 months as reported | <u>67.872.923</u> | <u>71.337.402</u> |

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

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

19. TRADE PAYABLES AND OTHER PAYABLES

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|--|---|-------------------------|
| Trade payables | 35.460.742 | 44.072.030 |
| Suppliers of fixed assets | 4.295.215 | 46.934.799 |
| Dividends payable | 3.454.634 | 2.660.262 |
| Debts to the Ministry of Economy and Trade (see below) | - | 51.717.551 |
| Debts related to royalties | 35.164.679 | 39.081.119 |
| Other taxes | 17.275.026 | 17.494.432 |
| Amounts payable to employees | 12.223.447 | 15.074.577 |
| VAT payable | 15.669.102 | - |
| Other debts | <u>67.982.163</u> | <u>8.466.534</u> |
| | <u>191.525.008</u> | <u>225.501.304</u> |

In 2005, the Ministry of Economy and Trade decided to request the Company the equivalent interest for payment delays for dividends declared and unpaid left from 2000-2003 (Note 22).

On 30 September 2016, the amount of RON 511.107 (31 December 2015: RON 30.530.459), representing suppliers and other debts, is expressed in foreign currency, especially in EUR.

20. PROVISIONS FOR RISKS AND CHARGES

| | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|---|---|-------------------------|
| <i>Current provision</i> | | |
| Provision for litigation | 296.341 | 296.341 |
| Provision term contract | - | 3.577.194 |
| Provision for employee participation in profits | 8.681.318 | <u>11.236.161</u> |
| Other provisions | <u>25.409.833</u> | |
| | <u>34.387.492</u> | <u>15.109.696</u> |

The company challenged administratively the taxation decision related to the additional tax payment obligations amounting to 25,409,833 RON issued by ANAF consisting of income tax, VAT, penalties and late interest and set up a provision.

The company paid the amounts stipulated in the taxation decision in order to be able to develop its activity in the directions set by its management and in order to facilitate the financing of future projects.

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

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.

The main actuarial assumptions used for calculation at the date of 31 December 2015 were as follows:

- a) Discount rate:
 - The following values were used: long-term inflation rate 2% per year, effective long-term rate of return for government bonds 2.2% per year, average discount rate 3.86% per year;

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

- b) The inflation rate estimated based on statistics issued by NIS and NBR forecast in 2015 is - 0.30%; 1.10% in 2016; 2.80% in 2017; 2.50% in 2018-2030 and following a downward trend in the coming years;
- c) The growth rate of salaries - for 2016 and subsequent years was estimated at a salary growth rate of 2% above the consumer price index;
- d) The mortality rate among employees is based on the Population Mortality Table in Romania for 2013 issued by the National Institute of Statistics of Romania.

The Management believes that the update of the provision as at 30 September 2016 would not have a significant impact on the financial statements. The average number of personnel on 30 September 2016 is 4,682 (4,726 at 31 December 2015) and changes in the personnel structure and staff rotation were not significant in year 2016.

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

Movement in the provision for employee benefits

| | |
|--|--------------------|
| 1 January 2015 | <u>113.133.649</u> |
| of which: | |
| Short-term | 2.915.400 |
| Long-term | 110.218.249 |
| | |
| Interest cost | 4.124.857 |
| Current service cost | 4.240.527 |
| Payments from provisions during the year | (3.903.216) |
| Actuarial loss related to the period | (10.211.343) |
| | |
| 31 December 2015 | <u>107.384.474</u> |
| of which: | |
| Short-term | 4.436.875 |
| Long-term | 102.947.599 |
| | |
| 30 September 2016 | <u>107.384.474</u> |
| of which: | |
| Short-term | 4.436.875 |
| Long-term | 102.947.599 |

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

22. OTHER REVENUES

| | The nine months period ended <u>30 September 2016</u> (unaudited) | The nine months period ended <u>30 September</u> <u>2015</u> (unaudited) |
|--|--|---|
| Revenue from penalties for late payment to clients | 3.940.385 | 6.424.612 |
| Income from connection fees, grants and goods taken free of charge | 15.490.319 | 13.283.270 |
| Income from the receivable related to the remaining regulated value recognized NERA at the end of the concession agreement | 20.767.906 | 19.827.314 |
| Revenues from the sale of residual materials | 1.786.492 | 2.630.643 |
| Rental income | 1.067.965 | 1.140.690 |
| Revenues from recovered materials | 311.715 | - |
| Other operating income | <u>54.461.121</u> | <u>2.033.034</u> |
| | <u>97.825.903</u> | <u>45.339.563</u> |

The company accrued at other operating revenues the amount of RON 51.717.515 representing delay penalties related to the dividends paid in delay in the period 2000-2003, prescribed.

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

23. OTHER OPERATING EXPENSES

| | The nine months period ended 30 September 2016 (unaudited) | The nine months period ended 30 September 2015 (unaudited) |
|---|---|---|
| Loss on impairment of receivables | 53.776.126 | 72.918.806 |
| Security and protection expenses | 9.519.859 | 8.346.796 |
| Utilities | 4.480.940 | 4.713.726 |
| Penalties and fines | 525.437 | 258.268 |
| Telecommunications | 3.307.487 | 2.239.323 |
| Gas storage capacity booking | 3.389.130 | 2.128.480 |
| Sponsorship expenses | 1.038.000 | 917.500 |
| Maintenance expenses | 823.685 | 851.707 |
| Rent | 3.723.607 | 2.396.262 |
| Professional training | 635.959 | 923.083 |
| Marketing and protocol expenses | 537.814 | 462.612 |
| Research and studies expenses | 327.610 | 1.489.676 |
| Insurance premia | 894.713 | 489.023 |
| Bank charges and other fees | 271.443 | 296.684 |
| Loss/(gain) from the impairment of stocks | 1.202.203 | 660.245 |
| Loss on disposal of fixed assets | 149.105 | 84.393 |
| Loss on receivables | 2.263.027 | |
| Cost on impairment of intangible assets | - | (5.236.340) |
| Other | <u>13.876.196</u> | <u>14.809.637</u> |
| | <u>100.742.341</u> | <u>108.749.881</u> |

24. NET FINANCIAL INCOME/(EXPENSES)

| | The nine months period ended 30 September 2016 (unaudited) | The nine months period ended 30 September 2015 (unaudited) |
|--|---|---|
| Income from foreign exchange differences | 4.056.437 | 7.681.034 |
| Interest income | 15.773.469 | 16.765.374 |
| Other financial income | <u>6.882</u> | <u>-</u> |
| Financial income | 19.836.788 | 24.446.408 |
| Expenses from foreign exchange differences | (5.002.047) | (7.028.541) |
| Interest expense | - | (277.732) |
| Other financial expenses | <u>-</u> | <u>(28.539)</u> |
| Financial expenses | <u>(5.002.047)</u> | <u>(7.334.812)</u> |

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

25. CASH GENERATED FROM OPERATION

| | The nine months period ended 30 September 2016 <u>(unaudited)</u> | The nine months period ended 30 September 2015 <u>(unaudited)</u> |
|---|--|--|
| Profit before tax | 433.751.029 | 474.265.817 |
| <i>Adjustments for:</i> | | |
| Amortization | 155.913.042 | 143.661.098 |
| Impairment on intangible assets | - | (5.236.340) |
| Gain/(loss) on disposal of fixed assets | 149.105 | 84.393 |
| Provisions for risks and charges | 19.277.796 | (5.727.102) |
| Revenues from connection fees, grants and goods taken free of charge | (15.490.319) | (13.283.270) |
| Impairment on receivables | 53.776.125 | 72.918.805 |
| Interest expense | - | 277.732 |
| Interest income | (15.773.469) | (16.765.374) |
| Loss /(gain) on impairment of stocks | 1.202.203 | 660.245 |
| Loss from receivables | 2.263.027 | 2 |
| Effect of exchange rate fluctuation on other items than operating | 17.952 | (24.310) |
| Revenue from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement | (20.767.906) | (19.827.314) |
| Other revenue | <u>(307.437)</u> | <u>-</u> |
| Operating profit before the changes in the working capital | <u>614.011.148</u> | <u>631.004.382</u> |
| (Increase)/decrease in trade and other receivables | (45.933.136) | (10.825.513) |
| (Increase)/decrease in inventories | (16.178.267) | (5.440.578) |
| Increase/(decrease) in trade payables and other debts | <u>9.869.454</u> | <u>(8.305.204)</u> |
| Cash generated from operations | <u>561.769.199</u> | <u>606.433.087</u> |

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

26. TRANSACTIONS WITH RELATED PARTIES

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

Related parties may enter into transactions which unrelated parties cannot conclude, and transactions between related parties will not apply the same terms, conditions and values as for unrelated parties. During the periods ended 30 September 2016, 31 December 2015 and 30 September 2015 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

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

| | The nine months period ended 30 September 2016 (unaudited) | The nine months period ended 30 September 2015 (unaudited) |
|--|---|---|
| Salary paid to the members of the Board of Administration and management | 11.127.864 | 9.220.409 |
| Social contribution of the Company | <u>2.498.231</u> | <u>2.067.979</u> |
| | <u>13.626.095</u> | <u>11.288.388</u> |

In the periods ended 30 September 2016 and 30 September 2015, 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 2016 (unaudited) | 31 December 2015 |
|---|--|-------------------------|
| Loan to Resial SA | 1.770.346 | 1.770.346 |
| Minus the provision for loan impairment | <u>(1.770.346)</u> | <u>(1.770.346)</u> |
| | <u>-</u> | <u>-</u> |

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

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

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

| | | The nine months period ended <u>30 September</u> <u>2016</u> (unaudited) | The nine months period ended <u>30 September</u> <u>2015</u> (unaudited) |
|---------------------------|-----------------------------|--|--|
| | <u>Relationship</u> | | |
| SNGN Romgaz | Entity under common control | 79.413.101 | 82.020.956 |
| Electrocentrale Deva SA | Entity under common control | 1.861.489 | 3.084.118 |
| Electrocentrale București | Entity under common control | 75.350.265 | 75.831.027 |
| Electrocentrale Galați SA | Entity under common control | 5.481.556 | 6.490.982 |
| Electrocentrale Constanța | Entity under common control | 8.583.948 | 9.756.942 |
| Energoterm Tulcea SA | Entity under common control | 1.298.788 | 770.464 |
| Termo Calor Pitești | Entity under common control | <u>2.572.518</u> | <u>2.659.697</u> |
| | | <u>174.561.665</u> | <u>180.614.186</u> |

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

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

iv) Sales of goods and services (VAT excluded)

| | | The nine months period ended 30 September 2016 (unaudited) | The nine months period ended 30 September 2015 (unaudited) |
|---------------------------|-----------------------------|---|---|
| | | <u>Relationship</u> | <u>2015</u> |
| SNGN Romgaz | Entity under common control | 53.480 | 123.568 |
| Termo Calor Pitesti | Entity under common control | 530 | 1.217 |
| Energoterm Tulcea SA | Entity under common control | 1.939 | 4.169 |
| Electrocentrale Deva SA | Entity under common control | 38.450 | 9.414 |
| Electrocentrale Bucuresti | Entity under common control | 2.034.758 | 2.542.337 |
| Electrocentrale Galati SA | Entity under common control | - | 241.043 |
| Electrocentrale Constanta | Entity under common control | 49.516 | 54.618 |
| | | <u>2.178.673</u> | <u>2.976.366</u> |

v) Receivables from related parties (net of provision)

| | | 30 September 2016 (unaudited) | 30 September 2015 |
|----------------------------|-----------------------------|--|------------------------------|
| | | <u>Relationship</u> | <u>2015</u> |
| SNGN Romgaz | Entity under common control | 12.798.340 | 7.845.428 |
| Electrocentrale Deva SA | Entity under common control | - | 1.104.346 |
| Electrocentrale București | Entity under common control | 13.417.991 | 25.154.090 |
| Electrocentrale Galați SA, | Entity under common control | 2.156.202 | 2.193.595 |
| Electrocentrale Constanța | Entity under common control | 3.437.764 | 3.017.730 |
| Energoterm Tulcea SA | Entity under common control | 267.620 | 330.577 |
| Termo Calor Pitești | Entity under common control | 59.100 | 663.327 |
| | | <u>32.137.017</u> | <u>40.309.093</u> |

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

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

| <u>Relationship</u> | | <u>The nine months period ended 30 September 2016</u> (unaudited) | <u>The nine months period ended 30 September 2015</u> (unaudited) |
|---------------------|-----------------------------|--|--|
| SNGN Romgaz | Entity under common control | <u>13.964.894</u> | <u>49.894.693</u> |

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

| <u>Relationship</u> | | <u>The nine months period ended 30 September 2016</u> (unaudited) | <u>The nine months period ended 30 September 2015</u> (unaudited) |
|---------------------------|-----------------------------|--|--|
| SNGN Romgaz | Entity under common control | 3.715.868 | 2.148.845 |
| Electrocentrale București | Entity under common control | 3.707 | 3.707 |
| Termo Calor Pitești | Entity under common control | 2.746 | <u>3.588</u> |
| Electrocentrale Deva SA | Entity under common control | - | <u>230</u> |
| | | <u>3.722.321</u> | <u>2.156.370</u> |

viii) Debts to related parties from services (other services – without the VAT)

| <u>Relationship</u> | | <u>30 September 2016</u> (unaudited) | <u>31 December 2015</u> |
|---------------------------|-----------------------------|---|-------------------------|
| SNGN Romgaz | Entity under common control | 934.174 | 308.404 |
| Electrocentrale București | Entity under common control | - | 706 |
| TermoCalor Pitești | Entity under common control | <u>116</u> | <u>696</u> |
| | | <u>934.290</u> | <u>309.806</u> |

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

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

ix) Debts to related parties from gas supply (without the VAT)

| | <u>Relationship</u> | <u>30 September</u> <u>2016</u> <u>(unaudited)</u> | <u>31 December</u> <u>2015</u> |
|-------------|-----------------------------|--|-----------------------------------|
| SNGN Romgaz | Entity under common control | 16.002.375 | - |

x) Services supply related to connection fees

| | <u>Relationship</u> | <u>30 September</u> <u>2016</u> <u>(unaudited)</u> | <u>31 December 2015</u> |
|-------------|-----------------------------|--|-------------------------|
| SNGN Romgaz | Entity under common control | - | <u>1.594.660</u> |

xi) Transactions related to bank deposits

| | <u>Relationship</u> | <u>30 September</u> <u>2016</u> <u>(unaudited)</u> | <u>31 December 2015</u> |
|----------|-----------------------------|--|-------------------------|
| Eximbank | Entity under common control | - | <u>40.000.000</u> |
| | | - | <u>40.000.000</u> |

The company established in 2015 at Eximbank a negotiated bank deposit in the amount of 40,000,000 lei, renewed at due date and liquidated at maturity before 31 December 2015.

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

27. EARNINGS PER SHARE

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

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

| | The nine months period ended <u>30 September 2016</u> (unaudited) | The nine months period ended <u>30 September 2015</u> (unaudited) |
|---|--|--|
| Profit attributable to the Company's equity holders | 358.468.924 | 384.320.206 |
| Weighted average of the number of shares | 11.773.844 | 11.773.844 |
| Basic and diluted earnings per share (RON per share) | 30,45 | 32,64 |

28. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 0,12 % of the receivables were settled by transactions that haven't involved cash outflows during the nine months period ended 30 September 2016 (31 December 2015: 1%). 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 2016 and 2015.

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

29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

The Service Concession Agreement (S.C.A. - Note 8) provides that, at the end of the agreement, the 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 NERA, as presented in Note 3.18.

The minimum investment program for the period of 2012-2016 was approved under Government Decision No. 919/2012. The amount foreseen for 2016 is of RON 216 million.

On 30 September 2016 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of RON 74.911.502.

ii) Taxation

The taxation system in Romania is in a phase of consolidation and harmonization with the European legislation. However, there are still various interpretations of the tax legislation. 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.

The company was subject to a tax inspection activity developed during September 2015 – March 2016 with the purpose to check all the tax returns and/or the operations relevant for the tax inspection. The period subject to assessment was December 2009 – December 2014 for VAT and January 2009 – December 2014 for tax on profit (Note 20).

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

29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

iii) Insurance policies

The Company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 31 managers.

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 30 September 2016 and 31 December 2015 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

v) Lawsuits and other actions

During the normal activity of the Company, there have been 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 and 2016 additional requests for data and information within the investigation of the Competition Council was received. The Company has 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 June 6, 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.

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

29. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

vi) Government policies in the gas sector in Romania

The NERA 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 income. At the same time, the Romanian government could decide to change the royalty applied to the Company for using the assets part of the public domain according to SCA. (Note 8).

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

There are various interpretations of the legislation in force. In certain situations, NERA 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 NERA are properly presented in these financial statements.

vii) The political and economic situation in Ukraine

In 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.

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

30. RESTATEMENTS RELATED TO THE PREVIOUS PERIODS

The comparative figures in the financial statements prepared by the Company for the period ended as at 30 September 2015 are different as compared to the financial statements reported in the previous year as follows:

Revenues and costs from the construction of assets according to IFRIC 12

In accordance with IFRIC 12, the revenues and costs related to construction or improvement of the transmission network, for which the intangible asset is recorded, must be acknowledged according to IAS 11, Construction contracts.

The company does not gain profit from the construction activity, the amount of the revenues is equal to the costs of this activity and therefore the Company has not presented on 30 September 2015 these revenues and costs in the income statement because it believed that the impact is not significant on users of the financial statements and the information is presented only in the notes to the financial statements.

These financial statements include the following restatements:

| | The nine months period ended |
|--|-------------------------------------|
| | <u>30 September 2015</u> |
| | <u>(unaudited)</u> |
| Revenue from the construction activity according to IFRIC ₁₂ , as reported previously | - |
| Revenue from the construction activity according to IFRIC ₁₂ , retreated | <u>133.585.220</u> |
| | 133.585.220 |
| Cost of assets constructed according to IFRIC ₁₂ , as reported previously | - |
| Cost of assets constructed according to IFRIC ₁₂ | <u>(133.585.220)</u> |
| | <u>(133.585.220)</u> |
| Total retreated comprehensive income 30 September 2015 | |

-

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NOTES TO THE INTERIM FINANCIAL STATEMENTS
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31. FEES of the STATUTORY AUDITOR

The fees related to the financial year ended as at 31 December 2015 charged by Deloitte Audit SRL are: 160.391 RON for statutory audit services and 45.310 RON for services other than the statutory audit.

The fees related to the nine month period ended 30 September 2016 charged by Deloitte Audit SRL are 98.791 RON for the limited revision of the financial statements as at 30 June 2016 and 14.906 lei for the legal auditing of the transactions.

32. REVENUES AND COSTS FROM THE CONSTRUCTION OF ASSETS

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

| | The six months period ended <u>30 September 2016</u> (unaudited) | The six months period ended <u>30 September</u> <u>2015</u> (unaudited) |
|--|---|--|
| Revenues from the construction activity according to IFRIC12 | 49.223.495 | <u>133.585.220</u> |
| Cost of assets constructed according to IFRIC12 | (49.223.495) | <u>(133.585.220)</u> |

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

Director - General
 Petru Ion Vaduva

Chief Financial Officer
 Marius Lupean