THE NATIONAL GAS TRANSMISSION COMPANY
TRANSGAZ S.A.

INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS' PERIOD ENDED AS AT 31 MARCH 2017 (UNAUDITED)

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

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

Contents **Page**

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(expressed in RON, if not specified otherwise)

	Note	31 March 2017 (unaudited)	31 December 2016
ASSET			
Fixed assets			
Intangible Assets	9	2.532.164.163	2.583.472.652
Tangible Assets	7	598.862.246	588.078.005
Financial assets available for sale	10	-	-
Trade receivables and other receivables	12	634.114.835	626.403.203
		3.765.141.244	**3.797.953.860**
Current assets			
Inventories	11	86.760.243	83.714.634
Commercial receivables and other receivables	12	538.249.180	523.488.266
Cash and cash equivalent	13	1.344.562.743	949.293.236
		1.969.572.166	**1.556.496.136**
Total asset		**5.734.713.410**	**5.354.449.996**
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	2.085.401.684	1.765.268.873
		4.157.834.246	**3.837.701.435**
Long-term debts			
Provision for employee benefits	21	109.128.058	109.128.058
Deferred income	17	1.037.159.135	1.036.619.965
Deferred tax payment	18	64.542.048	65.668.155
		1.210.829.241	**1.211.416.178**

Notes 1 to 32 are part of these financial statements.

(expressed in RON, if not specified otherwise)

	Note	31 March 2017	31 December 2016
Current debts			
Commercial debts and other debts	19	278.804.856	251.110.230
Provision for risks and charges	20	18.698.721	15.379.511
Current tax payment	18	63.788.484	34.084.780
Provision for employee benefits	21	4.757.862	4.757.862
		366.049.923	**305.332.383**
Total debts		**1.576.879.164**	**1.516.748.561**
Total equity and debts		**5.734.713.410**	**5.354.449.996**

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

Notes 1 to 32 are part of these financial statements.

	Note	Three months' period ended 31 March 2017 (unaudited)	Three months' period ended 31 March 2016 (unaudited)
Revenues from the domestic transmission activity		532.226.455	371.374.491
Revenues from the international transmission activity		91.650.179	80.548.213
Other revenues	22	14.784.884	12.923.438
Operational income before the construction activity according to IFRIC12		**638.661.518**	**464.846.142**
Depreciation	7,9	(53.343.721)	(51.368.807)
Employees costs	24	(79.541.892)	(79.719.840)
Technological consumption, materials and consumables used		(30.118.394)	(37.045.761)
Expenses with royalties		(62.387.664)	(45.192.272)
Maintenance and transport		(3.844.652)	(3.466.418)
Taxes and other amounts owed to the state		(17.416.880)	(13.795.647)
Revenues/ (Expenses) with provisions for risks and expenses		(3.319.210)	(2.664.751)
Other operating expenses	23	(16.660.378)	(28.021.951)
Operational profit before balancing and the construction activity according to IFRIC12		**372.028.727**	**203.570.695**
Revenues from the balancing activity		46.982.058	17.522.541
Expenses with balancing gas		(43.138.060)	(15.573.348)
Income from the construction activity according to IFRIC12	32	7.421.425	7.300.188
Cost of assets constructed according to IFRIC12	32	(7.421.425)	(7.300.188)
Operational profit		**375.872.725**	**205.519.888**
Financial income	25	11.074.534	6.982.120
Financial expenses	25	(4.152.071)	(2.134.877)
Financial income, net		**6.922.463**	**4.847.243**
Profit before tax		**382.795.188**	**210.367.131**
Profit tax expense	18	(62.662.377)	(37.871.034)
Net profit for the period		**320.132.811**	**172.496.097**
Earnings per share, basic and diluted (expressed in RON per share)	28	27,19	14,65
Total comprehensive income for the period		**320.132.811**	**172.496.097**

Director - General	Chief Financial Officer
Petru Ion Vaduva	Marius Lupean

(expressed in RON, if not specified otherwise)

	Note	Share Capital	Share capital adjustments	Share premium	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2016,		117.738.440	441.418.396	247.478.865	1.265.796.861	1.496.805.410	3.569.237.972
Net profit for the period, reported						172.496.097	172.496.097
Transactions with shareholders:							
Dividends related to 2015	15	-	-	-	-	-	-
Balance as at 31 March 2016 (unaudited)		117.738.440	441.418.396	247.478.865	1.265.796.861	1.669.301.507	3.741.734.069
Net profit for the period, reported		-	-	-	-	422.068.833	422.068.833
Actuarial gain/loss for the period						(1.025.634)	(1.025.634)
Transactions with shareholders:							
Dividends related to 2015		-	-	-	-	(325.075.833)	(325.075.833)
Balance as at 31 December 2016		117.738.440	441.418.396	247.478.865	1.265.796.861	1.765.268.873	3.837.701.435
Net profit for the period						320.132.811	320.132.811
Transactions with shareholders:							
Dividends related to 2016	15	-	-	-	-	-	-
Balance as at 31 March 2017 (unaudited)		117.738.440	441.418.396	247.478.865	1.265.796.861	2.085.401.684	4.157.834.246

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

(expressed in RON, if not specified otherwise)

	Note	The three months period ended 31 March 2017 (unaudited)	The three months periods ended 31 March 2016(unaudited)
Cash generated from operations	26	**449.549.765**	**179.190.537**
Interest paid		-	-
Interest received		870.958	1.048.595
Profit tax paid		(34.084.780)	(32.285.296)
Net cash inflow from operation activities		**416.335.943**	**147.953.836**
Cash flow from investment activities			
Payments to acquire tangible and intangible assets		(22.997.844)	(20.023.505)
Proceeds from disposal of tangible assets		49.910	-
Cash flows from connection fees and grants		2.169.198	492.108
Net cash used in investment activities		**(20.778.736)**	**(19.531.397)**
Cash flow from financing activities			
Dividends paid		(287.700)	(139.099)
Repayments of long-term loans		-	-
Net cash used in financing activities		**(287.700)**	**(139.099)**
Net change in cash and cash equivalents		**395.269.507**	**128.283.340**
Cash and cash equivalent in the beginning of the year	13	**949.293.236**	**700.797.782**
Cash and cash equivalent as at the end of the period	13	**1.344.562.743**	**829.081.122**

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean

1. GENERAL INFORMATION

The National Gas Transmission Company - SNTGN Transgaz SA (`Company`) has as main activity the transmission of natural gas. Also, the Company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 31 March 2017, the majority shareholder of the Company is the Romanian state, through the Ministry of Economy.

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

The natural gas sector is regulated by the National Energy Regulatory Authority - 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.

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) IMF improved the forecast on the Romanian economy growth to 4.2%, from 3.8% - the previous estimate, but the forecast is lower than the Government's initial estimation of 5.2%, pursuant to the report of the World Economic outlook as published by the financial institution. IMF forecasts a growth by 3.4% in the Romanian economy.

The head of the IMF delegation to Romania stated at the end of the March mission that, this year, the Romanian budgetary deficit will reach 3.7% of the Gross Domestic Product (GDP) and the budgetary imbalance will amount to 3.9% of the GDP in 2018.

The Government reported that the budgetary deficit will not exceed the threshold of 3% of the GDP as imposed by the European treaties.

For the current year, IMF also forecasted an inflation rate of 1.3% and of 3.1% in 2018, following a negative value of -1.6% in 2016.

IMF improved the forecast on the growth of the word economy to 3.7% in 2017 from an estimation of 3.4% in January (due to the developments in Europe, Japan and China), but they warned that the protectionist policies jeopardize the recovery.

(ii) In the meeting of 5 April 2017, 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 maintain the current levels of the minimum mandatory rates applicable to liabilities in RON and currency of the credit institutions.

(iii) The annual CPI inflation rate was estimated to increase over the entire estimation interval from -0.5% at the end of 2016 to 1.7% at the end of 2017 and to 3.4% at the edge of the Romanian National Bank forecast (quarter IV 2018). As opposed to the preceding report, the forecasted values of the annual inflation and of the core inflation rates decreased for the current year and increased for the end of the next year.

(iv) Moody's, the rating agency, maintained the rating for the long-term debt to Baa and for the short-term debt to P-3; however changing the outlook from positive to stable, similarly to the rating assigned by the other rating agencies - Standard & Poor's, Fitch and JCRA. This year, all four financial assessment agencies reconfirmed Romania's ratings.

Therefore, Moody's decision comes two weeks after Standard & Poor's reconfirmed the rating related to Romania's governmental debt to BBB-/A-3 for long and short-term debt in foreign and local currency – stable outlook. At the end of March this year, the Japanese rating agency JCR reported that the stable outlook was maintained and that the rating assigned to Romania for long-term debt in foreign and local currency (BBB/BBB+) was re-confirmed. Similarly, at the beginning of this year, Fitch Ratings confirmed Romania's ratings for long-term debt in foreign and local currency to "BBB minus", the outlook related to both ratings being stable. The "BBB minus" rating is "investment grade" type (recommended for investment).

(v) The risks and uncertainties associated to the inflation outlook are generated by internal and external factors. Domestically, they mainly derive from the behaviour of the fiscal policy and of the policy related to the revenues for 2017. Moreover, the uncertainties are also related to the future adjustments of the administrative prices and to the evolution of the domestic overall climate. Externally, it is worth mentioning the risks associated with the economic growth in the Euro zone generated by the political uncertainties related to the election calendar for 2017 and to the Brexit negotiations, by the monetary policy behaviour divergence of the central banks world-wide as well as by the problems of the European banking system.

At the end of Q I 2017 as opposed to the end of 2016 the Ron depreciated against the Euro (`EUR`) by 0,22% (1 EUR = 4,5511 RON as at 31 March 2017, 1 EUR = 4,5411 RON as at 31 December 2016) and improved by 0,97% against the US dollar (`USD`) (1 USD = 4,2615 RON as at 31 March 2017, 1 USD =4,3033 RON as at 31 December 2016).

At the end Q I 2016 as opposed to the end of 2015 the Ron depreciated against the Euro (`EUR`) by 1,12% (1 EUR = 4,4738 lei RON as at 31 March 2016, 1 EUR = 4,5245 lei RON as at 31 December 2015) and improved by 5,13% against the US dollar (`USD`) (1 USD = 3,9349 RON at 31 March 2016, 1 USD =4,1477 RON as at 31 December 2015).

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Company were prepared in accordance with the International Financial Reporting Standards adopted by the European Union (`EU IFRS`). The financial statements were prepared based on the historical cost convention, except for the financial assets available for sale, which are presented at fair value.

The preparation of the financial statements in accordance with EU IFRS requires the use of critical accounting estimates. Also, the management is required to use judgment in applying the Company's accounting policies. Areas with a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 5.

New accounting regulations

(a) Standards and interpretations became applicable in 2016

The following standards and amendments to the existing standards issued by the International Accounting Standard Board (`IASB`) and adopted by the European Union (`UE`) enterred into force in the current period:

- Amendments to IFRS 10 `Consolidated Financial Statements`, IFRS 12 `Disclosure of Interests in Other Entities` and IAS 28 `Investments in Associated and Joint Ventures`- Investment Entities: Applying the Consolidation Exception – was adopted by the EU on 22 September 2016 (applicable for the financial periods from 1 January 2016);

- Amendments to IFRS 11 `Joint Arrangements`– Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (applicable for the annual periods beginning on or after 1 January 2016)

- Amendments to IAS 1 `Presentation of Financial Statements` – Disclosure initiative requirements – adopted by the EU on 18 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IAS 16 `Tangible Assets` and IAS 38 `Intangible assets` – Clarification of acceptable methods of depreciation and amortisation - adopted by the EU on 2 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);

- Amendments to IAS 19 `Employee beenfits` – Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (applicable for the annual periods beginning on or after 1 February 2015);

- Amendments to IAS 27 `Separate financial statements` - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);

- Amendments to different standards `Improvements to IFRS (2010-2012 cycle)` resulting from the draft annual improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) mainly to remove inconsistencies and to clarify certain formulations - adopted by the EU on 17 December 2014 (applicable for the annual periods beginning on or after 1 January 2016);

- Amendments to different standards `Improvements to IFRS (2012-2014 cycle)` resulting from the draft annual improvement of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34)) mainly to remove inconsistencies and to clarify certain formulations - adopted by the EU on 15 December 2015 (applicable for the annual periods beginning on or after 1 January 2016).

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

At the date of these financial statements the following standards, revisions and interpretations were issued by IASB and adopted by the EU, but not applicable yet:

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

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

IFRS 9 includes the financial instrument requirements, referring to the recognition, classification and assessment, depreciation loss, derecognition and hedge accounting for covering loss:

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

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

- *Impairment losses:* IFRS 9 introduces a new model on impairment losses, based on expected losses that will require faster recognition of expected losses from impairment of receivables. The standard requires entities to record expected impairment losses regarding payables from initial recognition of financial instruments and also to recognize impairment losses faster than expected throughout their life.

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

- *Own credit risk:* IFRS 9 eliminates the volatility in the profit or loss account caused by changing the credit risk of liabilities at fair value. Changing the accounting requirements of such liabilities means that they will not be recognized through the profit or loss earnings generated by the deterioration of own credit risk of an entity.

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

At the date of reporting these financial statements, IFRS as adopted by the EU are not significantly different from the regulations adopted by IASB, except for the following standards, amendments and interpretations, the application of which was not approved yet the EU until the authorization of these financial statements:

- IFRS 14 \`Regulatory Deferral Accounts\` (applicable for the annual periods beginning on or after 1 January 2018) – the European Commission decided not to initiate the adoption process for this interim standard, and to wait for the issuing of the final standard;

- IFRS 16 \`Leasing\` (applicable for the annual periods beginning on or after 1 January 2019);

- Amendments to IFRS 2 \`Share-based Payment\` – Classification and Measurement of Share-based Payment Transactions (applicable for the annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017;

- Amendments to IFRS 4 \`Insurance Contracts\` - The application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or when IFRS 9 \`Financial Instruments\` is applied for the first time), adoption is expected in 2017;

- Amendments to IFRS 10 \`Consolidated Financial Statements\` and IAS 28 \`Investments in Associates and Joint Ventures\`- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and subsequent amendments (the date of entry into force was postponed until completion of the research project for putting in equivalence);

- Amendments to IFRS 15 \`Revenue from Contracts with Customers\` - Clarifications to IFRS 15 Revenue from Contracts with Customers (applicable for the annual periods beginning on or after 1 January 2018), adoption is expected in the Q II 2017;

- Amendments to IAS 7 \`Statement of Cash Flows\` – disclosure initiative (applicable for the annual periods beginning on or after 1 January 2017;

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

- Amendments to IAS 40 `Investment Property` – transfers of investment property (applicable for the annual periods beginning on or after 1 January 2018), adoption is expected in the second half of 2017;

- Amendments to different standards `Improvements to IFRS (2014-2016 cycle)` resulting from the draft annual improvement of IFRSs (IFRS 1, IFRS 12 and IAS 28) mainly to remove inconsistencies and to clarify certain formulations (the amendments to IFRS 12 are applicable for the annual periods beginning on or after 1 January 2017, and the amendments to IFRS 1 and IAS 28 are applicable for the annual periods beginning on or after 1 January 2018), adoption is expected in the second half of year 2017;

- IFRIC 22 `Currency Transactions and Advance Consideration` (applicable for the annual periods beginning on or after 1 January 2018), adoption is expected in the second half of year 2017.

3.2 Reporting on segments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Transactions in foreign currency

a) *Functional currency*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Service Concession Agreement

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

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

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:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.8 Assets of public domain

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of RON 474,952,575 (31 December 2016: 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

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. Initial assessment of compensation is made at the fair value reflecting credit risk, applicable to regulated value remaining depreciated at the end of the contract. Subsequent assessment is performed at the amortized cost using the effective interest method. The effective interest rate used is based on historical data and does not change depending on the market interest rate.

(b) *Financial assets available for sale*

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

3.10. Inventories

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

The components recovered from disassembling 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable 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. The commercial payables and other payables accounts are closed following payment of debts, offset with mutual debts or their writing-off. Through the profit and loss account.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

For the connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge, for the grants collected and for the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator, the Company chose to record the total asset value and a deferred income. The deferred income is recorded in the profit and loss account for the useful life of related assets (connection pipes, metering - regulating stations and 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 as receivable related to the remaining regulated value at the end of the concession agreement, at the current value at the balance sheet date and a deferred 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

(Expressed in RON, unless otherwise stated)

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:

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 March 2017 (unaudited)	31 December 2016
Impact on profit and loss and on equity of:		
USD appreciation by 10%	145.237	150.839
USD depreciation by 10%	(145.237)	(150.839)
EUR appreciation by 10%	43.272.570	36.308.626
EUR depreciation by 10%	(43.272.570)	(36.308.626)

(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 985.972 (March 2016: 1.299.848 RON).

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

The Company is exposed to interest rate risk by its bank deposits. The Company has not concluded any commitment to diminish the risk. For the average exposure of 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 1.042.146 lower/higher, (December 2016: RON 2.946.452 lower/higher) as a net result of reducing the interest rate for bank deposits and for floating rate obligations.

(Expressed in RON, unless otherwise stated)

(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 72% of the trade receivable balances on 31 March 2017 (31 December 2016: 71%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the provisions already made.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	31 March 2017 (unaudited)	31 December 2016
No rating	5.198.708	5.265.922
BB	456.747.282	335.096.959
BB+	-	4.192.200
BBB-	4.699.344	974.762
BBB	551.337.595	495.423.597
BBB+	326.031.007	107.867.942
A	138.913	139.154
AA	87.221	193.562
	1.344.240.070	**949.154.098**

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.

(Expressed in RON, unless otherwise stated)

The Financial Department of the Company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.
The table below shows obligations on 31 March 2017 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Total amount (unaudited)	Less than 1 year (unaudited)	1-5 years	over 5 years
Commercial payables and other payables	134.999.489	134.999.489	-	-
	134.999.489	134.999.489	-	-

Maturity analysis of financial liabilities on 31 December 2016 is as follows:

	Total amount	Less than 1 year	1-5 years	over 5 years
Commercial payables and other payables	91.358.089	91.358.089	-	-
	91.358.089	91.358.089	-	-

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

(Expressed in RON, unless otherwise stated)

Financial instruments categories:

	30 March 2017 (unaudited)	31 December 2016
Financial assets		
Cash and cash equivalents	304.621.595	204.335.217
Term bank deposits	1.039.941.148	744.958.019
Loans and receivables	1.130.327.524	1.115.871.835
Financial assets available for selling	163.122.672	163.122.672
Provisions related to financial assets available for selling	(163.122.672)	(163.122.672)
	2.474.890.267	**2.065.165.071**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 March 2017 (unaudited)	31 December 2016
Financial liabilities		
Liabilities evaluated at fair value		
Financial securities for contracts	13.358.918	4.724.822
Commercial liabilities and other liabilities	121.640.571	86.633.267
	134.999.489	**91.358.089**

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.

(Expressed in RON, unless otherwise stated)

In 2017 the Company's strategy, unchanged since 2016, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 31 March 2017 and on 31 December 2016 was null:

	31 March 2017 (unaudited)	31 December 2016
Total borrowings	-	-
Except: cash and cash equivalents (Note 13)	(1.344.562.743)	(949.293.236)
Net cash position	(1.344.562.743)	(949.293.236)

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.

(Expressed in RON, unless otherwise stated)

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 2016: RON 113.885.920 (Note 21).

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

The detailed present value change is as follows depending on the following variables:

	31 December 2016
Discount rate +1%	101.660.373
Discount rate -1%	128.360.255
Wage growth rate +1%	128.132.825
Wage growth rate -1%	101.611.023
Increasing longevity with 1 year	114.189.786

Benefits payment maturity survey:

	31 December 2016
Up to one year	4.757.862
Between 1 and 2 years	4.542.881
Between 2 and 5 years	20.946.737
Between 5 and 10 years	44.955.350
Over 10 years	237.615.444

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).

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 depending on the expected date of commissioning. The Company also recognized a deferred revenue (see Note 3.18).

(Expressed in RON, unless otherwise stated)

6. INFORMATION ON SEGMENTS

Reporting segments are set according to the type of activities conducted by the company: the regulated activity, the activity not regulated and other activities. As a 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 on 31March, 2017 is as follows:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Income from domestic transmission	532.226.455	-	-	-	532.226.455
Income from the international transmission activity	-	91.650.179	-	-	91.650.179
Other revenues	10.584.250	-	-	4.200.634	14.784.884
Operating revenue before balancing and the construction activity according to IFRIC12	**542.810.705**	**91.650.179**	**-**	**4.200.634**	**638.661.518**
Depreciation	(44.078.870)	(8.549.268)	-	(715.583)	(53.343.721)
Operating expenses other than	(197.132.847)	(12.882.229)		(3.273.994)	(213.289.070)

(Expressed in RON, unless otherwise stated)

depreciation			-		
Profit from operation before balancing and the construction activity according to IFRIC12	-	-	-	-	**372.028.727**
Revenues from the balancing activity	-	-	46.982.058	-	46.982.058
Expenses with balancing gas	-	-	(43.138.060)	-	(43.138.060)
Revenues from the construction activity according to IFRIC12	-	-	-	7.421.425	7.421.425
Cost of assets constructed according to IFRIC12	-	-	-	(7.421.425)	(7.421.425)
Operating Profit	-	-	-	-	**375.872.725**
Net financial gain	-	-	-	-	6.922.463
Profit before tax	-	-	-	-	**382.795.188**
Profit tax	-	-	-	-	(62.662.377)
Net profit	-	-	-	-	**320.132.811**
Assets on segments	3.871.132.371	398.814.909	80.770.278	1.383.995.852	5.734.713.410
Liabilities on segments	1.362.312.940	25.205.707	57.734.362	131.626.155	1.576.879.164
Capital expenditure - increases in assets in progress	13.083.524	-	-	-	13.083.524
Non-cash expenses other than depreciation	5.621.039	189.192	-	(159.482)	5.650.749

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. The assets for the balancing segment comprise mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

Unallocated assets include:	
Tangible and intangible assets	38.503.646
Cash	1.344.562.743
Other assets	929.463
	1.383.995.852

Unallocated liabilities include:	
Deferred tax	64.542.048
Tax payable	63.788.484
Dividends payable	2.815.483
Other debts	480.140
	131.626.155

(Expressed in RON, unless otherwise stated)

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

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

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

	Domestic Clients	External Clients	Total
Revenues from the domestic transmission activity	532.226.455	-	532.226.455
Revenues from the international transmission activity	-	91.650.179	91.650.179
Other revenues	14.784.884	-	14.784.884
	547.011.339	91.650.179	638.661.518

6. INFORMATION ON SEGMENTS (CONTINUED)

Domestic clients with over 10% of the total income include:	Percentage of the total income
ENGIE ROMANIA S.A.	29%
E.ON ENERGIE ROMANIA SA.	19%

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 25.280.633 (31 December 2016: RON 25.463.844).

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 transhipment on Romanian territory, of which the activity performed with regard to the Isaccea 2 – Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipelines is not regulated, the related charges being based on commercial negotiation between the parties, and the activity performed regarding the Isaccea 1 – Negru Vodă 1 pipeline is regulated from 1 October 2016; *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.

(Expressed in RON, unless otherwise stated)

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 2016, is as follows:

	Domestic gas transmission	International gas transmission	Balancing	Unallocated	Total
Income from the domestic transmission	1.360.354.729	-	-	-	1.360.354.729
Income from the international transmission activity	-	328.571.017	-	-	328.571.017
Other revenues	12.462.236	-	-	113.996.642	126.458.878
Operating revenue before the construction activity according to IFRIC12	**1.372.816.965**	**328.571.017**	**-**	**113.996.642**	**1.815.384.624**
Depreciation	(172.300.374)	(33.447.035)	-	(2.915.947)	(208.663.356)
Operating expenses other than depreciation	(832.721.913)	(55.266.592)	-	(28.615.743)	(916.604.248)
Profit from operation before balancing and the construction activity according to IFRIC12	-	-	-	-	**690.117.020**
Revenues from the balancing activity	-	-	57.403.603	-	57.403.603
Expenses with balancing gas	-	-	(56.093.235)	-	(56.093.235)
Revenues from the construction activity according to IFRIC12	-	-	-	118.503.527	118.503.527
Cost of assets constructed according to IFRIC12	-	-	-	(118.503.527)	(118.503.527)
Operating Profit	-	-	-	-	**691.427.388**

(Expressed in RON, unless otherwise stated)

Net financial gain	-	-	-	-	22.547.308
Profit before tax	**-**	**-**	**-**	**-**	**713.974.696**
Profit tax	-	-	-	-	(119.409.766)
Net profit	**-**	**-**	**-**	**-**	**594.564.930**
Assets on segments	3.906.668.023	406.877.171	51.429.832	989.474.970	5.354.449.996
Liabilities on segments	1.360.420.874	17.034.710	35.903.437	103.389.540	1.516.748.561
Capital expenditure - increases in assets in progress	139.833.794	-	-	29.489	139.863.283
Non-cash expenses other than depreciation	103.356.130	5.117.973	-	593.200	109.067.303

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	39.217.589
Cash	949.293.236
Other assets	964.145
	989.474.970

Unallocated liabilities include:	
Deferred tax	65.668.155
Tax payable	34.084.780
Dividends payable	3.103.183
Other debts	533.422
	103.389.540

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.

6. INFORMATION ON SEGMENTS (CONTINUED)

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.

(Expressed in RON, unless otherwise stated)

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

	Domestic Clients	Foreign Clients	Total
Income from domestic transmission	1.360.354.729	-	1.360.354.729
Income from the international transmission activity	-	328.571.017	328.571.017
Income from balancing activity	57.403.603	-	57.403.603
Other revenues	123.069.661	3.389.217	126.458.878
	1.540.827.993	331.960.234	1.872.788.227

Domestic clients with over 10% of the total income include:	Percentage of the total income
ENGIE ROMANIA S.A.	22%
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.

7. TANGIBLE ASSETS

	Lands and buildings	Assets of the transmission system	Other fixed assets	Assets in progress	Total
On 31 March 2016					
Cost on 1 January 2016	280.589.451	982.191.304	242.947.392	12.350.195	1.518.078.342
Accumulated depreciation on 1 January 2016	(133.298.492)	(560.848.140)	(196.191.275)	-	(890.337.907)
Initial net book value	147.290.959	421.343.164	46.756.117	12.350.195	627.740.435
Inflow /Reclassification	-	-	-	4.726.446	4.726.446
Transfers	17.274	-	3.281.742	(3.299.016)	-
Outflow (net book value)	(2.007)	-	(65.249)	-	(67.256)
Expense with depreciation	(2.030.872)	(8.488.783)	(3.437.843)	-	(13.957.498)
Final net book value	145.275.354	412.854.381	46.534.767	13.777.625	618.442.127
	280.525.315	982.131.560	243.757.081	13.777.625	1.520.191.581

(Expressed in RON, unless otherwise stated)

Cost					
Accumulated depreciation	(135.249.961)	(569.277.179)	(197.222.314)	-	(901.749.454)
Final net book value	145.275.354	412.854.381	46.534.767	13.777.625	618.442.127
On 31 December 2016					
Initial net book value	145.275.354	412.854.381	46.534.767	13.777.625	618.442.127
Inflow	86.122	-	-	16.026.273	16.112.395
Inventory value reclassification	(2.030.244)	(24.688.508)	(2.419.565)	1.933	(29.136.384)
Transfers	162.820	-	13.940.780	(14.103.600)	-
Outflow (net book value)	-	-	(97.334)	-	(97.334)
Depreciation reclassification	1.238.937	22.501.436	2.383.804	-	26.124.177
Expense with depreciation	(6.074.779)	(25.446.815)	(11.845.382)	-	(43.366.976)
Final net book value	138.658.210	385.220.494	48.497.070	15.702.231	588.078.005
Cost	278.715.005	957.443.052	246.397.056	15.702.231	1.498.257.344
Accumulated depreciation	(140.056.795)	(572.222.558)	(197.899.986)	-	(910.179.339)
Final net book value	138.658.210	385.220.494	48.497.070	15.702.231	588.078.005

7. TANGIBLE ASSETS (CONTINUED)

By ANRE Order no 34/2016 the transmission activity carried out on the Isaccea 1 – Negru Voda 1 pipeline is regulated as of 1 October 2016. The related assets summing up RON 29.138.316 and the cumulated depreciation summing up RON 26.124.177 were reclassified to intangible assets, in compliance with the classification criteria IFRIC 12.

The gross book value of fully depreciated assets, still used, is RON 184.201.623 (31 December 2016: RON 182.515.051).

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

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

8. SERVICE CONCESSION AGREEMENT

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

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

The main terms of the concession agreement are the following:

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

(Expressed in RON, unless otherwise stated)

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

9. INTANGIBLE ASSETS

	SCA related assets	Computer software	Intangible assets in progress	Total
On 31 March 2016 (unaudited)				
Cost on 1 January 2016	5.886.450.613	51.571.742	168.427.149	6.106.449.504
Accumulated depreciation at 1 January 2016	(3.449.478.182)	(49.510.466)	-	(3.498.988.648)
Provisions for impairment	-	-	(806.244)	(806.244)
Initial net book value	2.436.972.431	2.061.276	167.620.905	2.606.654.612
	-	-	7.154.272	7.154.272

(Expressed in RON, unless otherwise stated)

Inflows/Reclassifications				
Transfers	9.228.387	-	(9.228.387)	-
Outflows	(2.157)	-	-	(2.157)
Amortization	(37.034.468)	(537.112)	-	(37.571.580)
Provisions for impairment	-	-	-	-
Final net book value	2.409.164.193	1.524.164	165.546.790	2.576.235.147
Cost	5.895.660.209	51.571.742	166.353.034	6.113.584.985
Accumulated amortization	(3.486.496.016)	(50.047.578)	-	(3.536.543.594)
Provisions for impairment	-	-	(806.244)	(806.244)
Final net book value	2.409.164.193	1.524.164	165.546.790	2.576.235.147

On 31 December 2016				
Initial net book value	2.409.164.193	1.524.164	165.546.790	2.576.235.147
Inflows /Reclassifications	38.236.672	-	111.954.359	150.191.031
Transfers	116.428.266	221.662	(116.649.928)	-
Outflows	-	-	-	-
Depreciation	(113.520.044)	(1.105.397)	-	(114.625.441)
Depreciation reclassification	(26.124.177)	-	-	(26.124.177)
Provisions for impairment	-	-	(2.203.908)	(2.203.908)
Final net book value	2.424.184.910	640.429	158.647.313	2.583.472.652
Cost	6.050.325.148	49.842.900	161.657.465	6.261.825.513
Accumulated amortization	(3.626.140.238)	(49.202.471)	-	(3.675.342.709)
Provisions for impairment	-	-	(3.010.152)	(3.010.152)
Final net book value	2.424.184.910	640.429	158.647.313	2.583.472.652

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

10. FINANCIAL ASSETS AVAILABLE FOR SALE

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

Company	**Activity**	**% Percentage owned 2017**	**% Percentage owned 2016**	**31 March 2017 (unaudited)**	**31 December 2016 (unaudited)**

Resial SA	Production	68,16	68,16	18.116.501	18.116.501
Mebis SA	Gas production distribution and supply	17,47	17,47	6.461.736	6.461.736
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.

10. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

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.

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 31 March 2017, NIC's ownership structure was the following: Botas - Turkey 17.93% (31 December 2016: 17.93%), Bulgargaz - Bulgaria 17.93% (31 December 2016: 17.93%), SNTGN Transgaz SA - Romania 17.93% (31 December 2016: 17.93%), MOL - Hungary 10.35% (31 December 2016: 10.35%), OMV Gas & Power GmbH - Austria 35.86% (31 December 2016: 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 obtain 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 provisioned.

11. INVENTORIES

	31 March 2017 (unaudited)	31 December 2016
Gas inventories	22.477.964	19.682.519
Spare parts and materials	75.787.442	75.537.278
Provisions for slow moving inventories	(11.505.163)	(11.505.163)
	86.760.243	83.714.634

According to NERA Order No. 2 issued on 20 January 2011, 20mln m^3 (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 analysed below:

	31 March 2017 (unaudited)	31 December 2016
Provision on 1 January	11.505.163	9.806.906
(Revenue)/expense with the provision for the impairment of the stocks (Nota 23)	-	1.698.257
Provision in the end of the period	11.505.163	11.505.163

During 2017 and 2016 provisions for the impairment of the stocks were constituted according to Note 3.10.

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade receivables	765.734.463	763.524.342
Advance payments to suppliers	3.176.762	159.785
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	634.114.835	626.403.203
Non-refundable loans as subsidies	11.674.280	3.127.035
Other receivables	62.207.221	58.889.109
Provision for impairment of commercial receivables	(265.496.478)	(262.984.485)
Provision for impairment of other receivables	(40.817.414)	(40.997.866)
	1.172.364.015	1.149.891.469

(Expressed in RON, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

The company challenged administratively the taxation decision related to the additional tax payment obligations amounting to RON 25,409,833 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.

On 31 March 2017, the amount of RON 25.311.534 (31 December 2016: RON 25.335.973lei) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 5% in USD (31 December 2016: 5%) and 95% in EUR (31 December 2016: 96%).

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

	31 March 2017 Trade receivables (unaudited)	31 December 2016 Trade receivables
Current and not impaired (1)	310.088.112	431.827.408
Overdue but not impaired		
- overdue less than 30 days	149.210.850	63.908.430
- overdue between 30 and 90 days	35.637.324	1.638.736
- overdue more than 90 days	5.301.699	3.165.283
Due, but not impaired - total (2)	190.149.873	68.712.449
Impaired (gross)		
- outstanding less than de 30 days	-	-
- overdue between 30 and 90 days	4.062.729	9.558.108
- overdue between 90 and 360 days	71.988.096	117.022.047
- overdue more than 360 days	189.445.653	136.404.330
Total impaired (3)	265.496.478	262.984.485
Except the provision for impairment (4)	265.496.478	262.984.485
Total trade receivables and other receivables (1+2+3-4)	500.237.985	500.539.857

(Expressed in RON, unless otherwise stated)

12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)

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

	31 March 2017 (unaudited)	31 December 2016
Group 1	266.772.739	375.276.053
Group 2	43.315.373	56.551.355
Trade receivables	310.088.112	431.827.408

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

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

Movements in the provision account are analysed below:

	31 March 2017 (unaudited)	31 December 2015
Provision on 1 January	303.982.351	204.562.839
(Income)/expense with the provision for doubtful debts (Note 23)	2.331.541	99.419.512
Provision at the end of the period	306.313.892	303.982.351

During trimestrului I 2017 and 2016 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 2016 is mainly due to the additional provision with Electrocentrale Bucureşti.

13. CASH AND CASH EQUIVALENT

	31 March 2017 (unaudited)	31 December 2016
Cash at bank in RON	924.005.066	605.720.529

Cash at bank in foreign currency	420.235.003	343.433.569
Other cash equivalents	322.674	139.138
	1.344.562.743	949.293.236

13. CASH AND CASH EQUIVALENT (CONTINUED)

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 0.38 % on 31 March 2017 (0,52 % on 31 March 2016) and these deposits have an average maturity of 30 days.

As at 31 March 2017, a chattel mortgage of a collateral deposit account of Lei 6.379.137 was established for the creditor, i.e. the Romanian Commercial Bank SA, as a guarantee as far as the obligations under contract no. DGLC 9166/23.09.2016. The mortgage is due on 11 December 2017.

14. SHARE CAPITAL AND SHARE PREMIUM

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

The authorized number of ordinary shares is 11.773.844 (31 December 2016: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 March 2017 is the following:

	Number of ordinary shares	Statutory value (RON)	Percentage (%)
The Romanian state, represented by the	6.888.840	68.888.400	58,5097

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.

(Expressed in RON, unless otherwise stated)

Ministry of Economy			
Other shareholders	4.885.004	48.850.040	41,4903
	11.773.844	117.738.440	100,0000

The ownership structure on 31 December 2016 is the following:

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

By Government Emergency Ordinance 1 dated 4 January 2017 the Ministry of Economy was established following the restructuring of the Ministry of Economy Trade and Business Environment relations. The transfer of shares owned by the Romanian State from the account of the Ministry of Economy Trade and Business Environment relations to the account of the Ministry of Economy, was registered with SC Depozitarul Central SA on 10 March 2017.

In the statutory accounting, before 1 January 2012, the Company included in the share capital certain reserves from revaluation for revaluations made before 31 December 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by 31 December 2003. Therefore, in these financial statements, the Company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on 31 December 2003 and the increase in the share capital that took place after 1 January 2004 was recognized in nominal terms.

15. OTHER RESERVES, LEGAL RESERVES AND RETAINED EARNINGS

Other reserves

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

(Expressed in RON, unless otherwise stated)

Legal reserve

In accordance with the Romanian legislation and the Company's Articles of Incorporation, it must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for allocation on 31 March 2017, amounts to RON 23.547.688 (31 December 2016: 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 21,80 /share, related to the profit of the previous year (2015: RON 21,80 per share). The total dividends declared from the profit of 2015 are RON 325.075.833 (dividends declared from the profit related to 2004: RON 256.669.799).

16. LONG-TERM BORROWINGS

The company has no long term borrowing.

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).

	31 March 2017 (unaudited)	31 December 2016
Initial balance	1.036.619.965	930.578.140
Increase referring to the regulated value remained unamortized at the end of the concession agreement	10.716.443	29.205.149
Increases	2.867.908	125.988.900

(Expressed in RON, unless otherwise stated)

Reimbursed amounts	-	-
Amounts recorded in the income (Note 22)	(13.045.181)	(49.152.224)
Final balance	1.037.159.135	1.036.619.965

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:

	31 March 2017 (unaudited)	31 December 2016
Deferred income related to the regulated value remained unamortized at the end of the concession agreement	522.942.444	527.528.941
Connections and assets received free of charge	291.354.765	293.361.138
Grants	222.861.926	215.729.886
	1.037.159.135	1.036.619.965

In September 2016 the Company received from the European Commission the amount of EUR 25.834.490 as pre-financing related to the Grant Agreement on the project “Development on the Romanian territory of the national gas transmission system on the transmission corridor Bulgaria-Romania-Hungary-Austria”-BRUA Phase 1.

18. PROFIT TAX

Profit tax expense

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Expense with the profit tax - current	63.788.484	38.967.593
Deferred tax - impact of temporary differences	(1.126.107)	(1.096.559)
Profit tax expense	62.662.377	37.871.034

In 2017 and 2016, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian legislation.

(Expressed in RON, unless otherwise stated)

	The three months period ended 31 March 2017	The three months period ended 31 March 2016
Profit before tax	382.795.188	210.367.131
Theoretical expense with the tax on the statutory rate of 16% (2015: 16%)	61.247.230	33.658.741
Non-taxable expenses, net	1.415.147	4.212.293
Profit tax expense	62.662.377	37.871.034
Profit tax related liability, current	63.788.484	38.967.593

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

(Expressed in RON, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

Deferred tax

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

	31 March 2017 (unaudited)	Movement	31 December 2016	Movement	31 March 2016 (unaudited)	Movement	1 January 2016
Deferred tax payment							
Tangible and intangible assets	82.763.795	(1.126.107)	83.889.902	(3.532.457)	87.422.359	(1.096.559)	88.518.918
Deferred tax recoverable							
Provision for employee benefits	(18.221.747)	-	(18.221.747)	(1.040.231)	(17.181.516)	-	(17.181.516)
	64.542.048	(1.126.107)	65.668.155	(4.572.688)	70.240.843	(1.096.559)	71.337.402

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.

(Expressed in RON, unless otherwise stated)

18. PROFIT TAX (CONTINUED)

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

	31 Mach 2017 (unaudited)	31 December 2016
Deferred tax liabilities payable in more than 12 months as reported	64.542.048	65.668.155

19. TRADE PAYABLES AND OTHER PAYABLES

	31 March 2017 (unaudited)	31 December 2016
Trade payables	113.018.399	67.842.305
Suppliers of fixed assets	2.749.749	12.861.215
Dividends payable	2.815.483	3.103.183
Debts related to royalties	62.387.664	54.627.779
Other taxes	15.092.414	19.758.749
Amounts payable to employees	12.330.339	16.300.594
VAT payable	30.619.091	20.559.485
VAT not due	14.594.937	39.967.165
Other debts	25.196.780	16.089.755
	278.804.856	251.110.230

On 31 March 2017, the amount of RON 10.877.578 (31 December 2016: RON 3.147.245), representing suppliers and other debts, is expressed in foreign currency, especially in EUR.

(Expressed in RON, unless otherwise stated)

20. PROVISIONS FOR RISKS AND CHARGES

	31 March 2017 (unaudited)	31 December 2016
Current provision		
Provision for litigation	296.341	296.341
Provision term contract	3.588.610	3.588.610
Provision for employee participation in profits	14.813.770	11.494.560
	18.698.721	15.379.511

The participation of employees to the profit is calculated within the limit of 10% of the net profit but no more than a basic average monthly salary achieved in the reference financial year.

21. PROVISION FOR EMPLOYEE BENEFITS

Employee benefits

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

The main actuarial assumptions used for calculation at the date of 31 December 2016 were as follows:

a) Discount rate: the following values were used: the estimated long term inflation rate 2% per year, the real long term yield rate estimated for governmental bonds 2,2 per year, forward balance rate 4,20% per year;
b) The inflation rate estimated based on the statistics issued by INSSE and the BNR forecasts is 2,10% in 2017; 2,50% in 2018-2030, having an ascending trend in the following years;
c) The rate of the salaries increase – for 2016 and the following years a salary increase rate of 2% was estimated over the consumer price index;
d) The mortality rate with the employees is based on the Mortality Table of the population of Romania 2013 issued by the National Statistics Institute of Romania;

(Expressed in RON, unless otherwise stated)

21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

Movement in the provision for employee benefits

1 January 2016	107.384.474
of which:	
Short-term	4.436.875
Long-term	102.947.599
Interest cost	4.038.488
Current service cost	4.262.223
Former service cost	61.816
Payments from provisions during the year	(2.886.715)
Actuarial gain/loss related to the period	1.025.634
31 December 2016	113.885.920
of which:	
Short-term	4.757.862
Long-term	109.128.058
31 March 2017	113.885.920
of which:	
Short-term	4.757.862
Long-term	109.128.058

22. OTHER REVENUES

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Revenue from penalties for late payment to clients	463.275	499.075
Income from connection fees, grants and goods taken free of charge	5.590.775	4.403.245
Income from the receivable related to the remaining regulated value recognized NERA at the end of the concession agreement	7.454.406	7.082.414
Rental income	346.506	337.086
Other Revenues from operating	929.922	601.618
	14.784.884	12.923.438

(Expressed in RON, unless otherwise stated)

23. OTHER OPERATING EXPENSES

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Loss on impairment of receivables	2.331.540	15.342.832
Security and protection expenses	2.956.544	2.907.169
Utilities	1.696.192	1.592.955
Penalties and fines	500.896	19.787
Telecommunications	946.017	1.112.199
Gas storage capacity booking	1.267.350	477.000
Maintenance expenses	157.592	243.343
Rent	1.123.934	1.420.281
Professional training	103.973	163.900
Marketing and protocol expenses	152.937	145.007
Research and studies expenses	-	267.610
Insurance premium	371.744	308.585
Bank charges and other fees	45.370	92.816
Loss on disposal of fixed assets	16.994	69.399
Other	4.989.295	3.859.068
	16.660.378	28.021.951

24. EMPLOYEE RELATED EXPENSES

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Salaries and allowances	61.175.513	61.027.759
Expenses related to social insurance and protection	17.665.045	17.558.419
Other employee related expenses	701.334	1.133.662
	79.541.892	**79.719.840**

Average number of employees during the financial year:

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Workers	3.146	3.302
Office employees	1.479	1.398
	4.625	4.700

(Expressed in RON, unless otherwise stated)

25. NET FINANCIAL INCOME/(EXPENSES)

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Income from foreign exchange differences	5.423.737	1.265.722
Interest income	5.650.797	5.713.279
Other financial income	-	3.119
Financial income	**11.074.534**	**6.982.120**
Expenses from foreign exchange differences	(4.152.071)	(2.134.877)
Financial expenses	**(4.152.071)**	**(2.134.877)**

(Expressed in RON, unless otherwise stated)

26. CASH GENERATED FROM OPERATION

	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
Profit before tax	**382.795.188**	**210.367.131**
Adjustments for:		
Depreciation	53.343.721	51.368.807
Gain/(loss) on disposal of fixed assets	16.994	69.399
Provisions for risks and charges	3.319.210	3.002.062
Revenues from connection fees, grants and goods taken free of charge	(5.590.775)	(4.403.245)
Provisions for impairment of claims	2.331.540	15.342.832
Interest income	(5.650.797)	(5.713.279)
Effect of exchange rate fluctuation on other items than operating	(16.337)	(369.573)
Income from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement	(7.454.406)	(7.082.414)
Operating Profit before the changes in working capital	**423.094.338**	**262.581.720**
(Increase)/decrease in trade and other receivables	(9.694.029)	(94.193.886)
(Increase)/decrease in inventories	(3.045.609)	(6.627.423)
Increase/(decrease) in trade payables and other debts	39.195.065	17.430.126
Cash generated from operations	**449.549.765**	**179.190.537**

(Expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES

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

During the periods ended 31 March 2017 and 31 March 2016 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 three months period ended 31 March 2017 (unaudited)	**The three months period ended 31 March 2016 (unaudited)**
Salary paid to the members of the Board of Administration and management	2.542.983	2.288.720
Social contribution of the Company	573.451	516.060
	3.116.434	2.804.780

In the periods ended 31 March 2017 and 31 March 2016, no advance payments and loans were granted to the Company's administrators and management, except advance payments from salaries and those for business trips, and they don't owe any amount to the Company at the end of the period coming from such advance payments.

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

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

ii) Loan to a related party

	31 March 2017 (unaudited)	**31 December 2016**
Loan to Resial SA	1.770.346	1.770.346
Minus the provision for loan impairment	(1.770.346)	(1.770.346)
	-	-

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

(Expressed in RON, unless otherwise stated)

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

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	48.564.896	15.602.320
Electrocentrale Deva SA	Entity under common control	2.997.032	697.317
Electrocentrale Bucureşti	Entity under common control	53.747.799	40.362.788
Electrocentrale Galaţi SA	Entity under common control	-	2.990.216
Electrocentrale Constanţa	Entity under common control	-	4.110.610
Energoterm Tulcea SA	Entity under common control	-	759.007
Termo Calor Piteşti	Entity under common control	-	1.284.193
		105.309.727	65.806.451

(Expressed in RON, unless otherwise stated)

27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

iv) Sales of goods and services (VAT excluded)

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	2.790	2.711
Energoterm Tulcea SA	Entity under common control	4.270	-
Electrocentrale Deva SA	Entity under common control	91.573	942
Electrocentrale Galati SA	Entity under common control	106.857	-
Electrocentrale Constanta	Entity under common control	73.608	-
		279.098	3.653

v) Gas sale – the balancing activity (VAT excluded)

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	13.766.344	-
Electrocentrale Deva SA	Entity under common control	52.083	-
		13.818.427	-

vi) Receivables from related parties (net of provision)

	Relationship	31 March 2017 (unaudited)	31 December 2016
SNGN Romgaz	Entity under common control	18.710.619	30.082.437
Electrocentrale Deva SA	Entity under common control	4.117.114	-
Electrocentrale Bucureşti SA	Entity under common control	89.294.107	46.564.667
Electrocentrale Galaţi SA,	Entity under common control	264.130	756.332
Electrocentrale Constanţa	Entity under common control	509.955	2.292.341
Energoterm Tulcea SA	Entity under common control	10.741	69.291
		112.906.666	79.765.068

vii) Accounts receivable – balancing activity

Relationship	31 March 2017 (unaudited)	31 December 2016

SNGN Romgaz	Entity under common control	16.405.749	7.802.777
Electrocentrale Deva SA	Entity under common control	61.661	-
		16.467.410	7.802.777

26. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	19.149.672	-

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

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	7.147	564.107
Electrocentrale București SA	Entity under common control	1.014	1.127
Termo Calor Pitești	Entity under common control	1.506	1.470
		9.667	566.704

x) Gas purchase - balancing activity (VAT excluded)

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)
SNGN Romgaz	Entity under common control	8.736.696	-

xi) Purchase of other services – balancing (VAT excluded)

	Relationship	The three months period ended 31 March 2017 (unaudited)	The three months period ended 31 March 2016 (unaudited)

(Expressed in RON, unless otherwise stated)

SNGN Romgaz	Entity under common control	1.267.350	-

xii) **Debts to related parties from services (other services – VAT included)**

	Relationship	31 March 2017 (unaudited)	31 December 2016
SNGN Romgaz	Entity under common control	2.233	576.377
Electrocentrale București SA	Entity under common control	-	800
TermoCalor Pitești	Entity under common control	575	586
		2.808	577.763

26 .TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)

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

	Relationship	31 March 2017 (unaudited)	31 December 2016
SNGN Romgaz	Entity under common control	-	6.044.680

xiv) Debts to related parties from gas supply (VAT included)

	Relationship	31 March 2017 (unaudited)	31 December 2016
SNGN Romgaz	Entity under common control	35.520.248	19.510.104

28. EARNINGS PER SHARE

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

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

	The three months period ended	The three months period ended

	31 March 2017 (unaudited)	31 March 2016 (unaudited)
Profit attributable to the Company's equity holders	320.132.811	172.496.097
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (RON per share)	27,19	14,65

29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH

Compensations

Approximately 0,14 % of the receivables were settled by transactions that haven't involved cash outflows during the three months period ended 31 March 2017 (31 December 2016: 0,12%). 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 2017 and 2016.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

i) Commitments

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

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by 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 31 March 2017 the value of the contractual firm obligations for the purchase of tangible and intangible assets is RON 259.740.130.

30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

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.

iii) Insurance policies

The Company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 30 managers (30 managers in 2016).

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 31 March 2017 and 31 December 2016 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 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.

30. 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 2 – 3 % 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

(Expressed in RON, unless otherwise stated)

The Company received grants for the building of the Giurgiu - Ruse interconnector. From technical reasons, the initial execution contract was terminated, the auction procedure being reinitiated for the completion of the work. The Company did not receive any request for reimbursement of funds and submitted a request for the extension of the deadline for work completion. The site was accepted and commissioned in the end of 2016.

ix) The calculation of capacity surplus

In the period October – December 2016 the company calculated the capacity surplus in line with ANRE Order no 14/30 March 2016 and no. 160/26 November 2016. The calculation used by the company for the capacity surplus as of 1 October 2016 could be the subject of disputes to be settled by ANRE, the impact being of approximately RON 38.200 thousand.

31. FEES OF THE STATUTORY AUDITOR

The fees related to the previous financial year ended as at December 31, 2016 charged by Deloitte Audit in Q I 2017, are: RON 190.865 for the statutory audit and RON 17.738 for other services than the statutory audit.

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 three months period ended 31 March 2017 (unaudited)	**The three months period ended 31 March 2016 (unaudited)**
Revenues from the construction activity according to IFRIC12	7.421.425	7.300.188
Cost of assets constructed according toIFRIC12	(7.421.425)	(7.300.188)

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

32. EVENTS FOLLOWING THE BALANCE SHEET DATE

The distribution of a gross dividend (46,33 lei/share) related to the profit for 2016 was approved within the General Shareholders' Meeting convened on 27 April 2017. The total dividends appropriated out of the profit for 2016 amount to Lei 545.482.192,52.

Director - General
Petru Ion Vaduva

Chief Financial Officer
Marius Lupean