

2017

# BOARD OF ADMINISTRATION SNTGN TRANSGAZ SA

*A document drawn up pursuant to the provisions set forth in Article 29, paragraph 14 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented*

## ACTIVITY REPORT

**RADU ȘTEFAN CERNOV**

Member of the Board of Administration  
Non-executive Administrator

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## I. General considerations

<b>Mandate term</b>	<b>Contract of MANDATE</b> <b>April 30<sup>th</sup> 2013 – July 9<sup>th</sup>, 2017</b>
<b>Appointing Instrument/Mandate</b>	<ul style="list-style-type: none"> <li>■ Decision of the Ordinary General Meeting of Shareholders no. 5/30.04.2013 <b>elected administrator</b></li> <li>■ Decision of the Ordinary General Meeting of Shareholders no. 8/10.07.2013 Article 1b <b>administrator reconfirmed by cumulative voting</b></li> </ul>
<b>Capacity within the Board of Administration</b>	Non-Executive Administrator Member of the Board of Administration
<b>Advisory Committees of the Board I am a part of</b>	<ul style="list-style-type: none"> <li>■ the <b>Nomination and Remuneration Committee</b> - according to the Resolution no. 7/27.05.2013 made by the Board of Administration - non-executive Administrator;</li> <li>■ the <b>Audit and Rating Committee</b> - according to the Resolution no. 7/27.05.2013 made by the Board of Administration - non-executive administrator;</li> <li>■ the <b>Committee for regulation and Relationship with Public Authorities</b> - according to the Resolution no. 7/27.05.2013 made by the Board of Administration - non-executive administrator.</li> </ul>
<b>Short biography</b>	<p><b>I graduated from the University of Bucharest, the Faculty of Law, (2000).</b> Other certificates obtained:</p> <ul style="list-style-type: none"> <li>▪ Member of Bucharest Bar;</li> <li>▪ Member of the National Union of Romanian Bars.</li> </ul> <p>From the year 2000 until now, I have acquired professional experience in fields such as:</p> <ul style="list-style-type: none"> <li>▪ Coordinating Partner, Enescu Panait Pop and Associates Law Office (former Șova and associates) (January 2009 – present);</li> <li>▪ Senior Partner – coordinator of the Financing, Energy and Infrastructure Department, SCA Enescu Panait Pop and Associates (2006 – January 2009);</li> <li>▪ Coordinating Partner, Metron Corporation – own consultancy and business firm (2006);</li> <li>▪ Senior Consultant, Windmill Internațional Ltd – an American consultancy and private equity investment firm (2005 – 2006);</li> <li>▪ CEO, SC PTSOelecom SA – start-up in telecommunications (2004-2005);</li> <li>▪ Secretary of State, respectively Director - General – the Ministry of Communications and Information Technology (2002-2003);</li> <li>▪ Non-executive member of Romtelecom’s BoA (2002-2003);</li> <li>▪ Non-executive member of the Management Board of the Inspectorate General for Communications and Information Technology (2001-2003);</li> <li>▪ Non-executive member of the BoA of the National Research Institute for Communications (2002-2003);</li> <li>▪ Personal advisor of the minister; the Ministry of Communications and Information Technology (2001-2002).</li> </ul> <p><b>Since June 2013, I have been a non-executive member of the Board of</b></p>



Administration of SNTGN TRANSGAZ SA and, together with the other 4 administrators, I have been ensuring the administration of the company pursuant to the objectives in the Administration Plan, a plan unanimously approved by the shareholders of Transgaz through the Resolution No. 9/23.09.2013 made by the Ordinary General Meeting of Shareholders and the executed Contract of Mandate.

For more details, at the end of the Activity Report, I shall attach my Curriculum Vitae.

Documents including responsibilities of the Board of Administration (BoA) and of the Director General.

- Law No. 31/1990 on companies, republished as amended and supplemented;
- Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented (reporting duties);
- Law 297/2004 on the capital market, as amended and supplemented;
- Articles of Incorporation of Transgaz SA, updated - Chapter V, Article 19 and Article 20;
- MANDATE Agreement concluded;
- the Organizational and Operational Rules (OOR) of the BoA include information on: *the organization and operation of the BoA; the BoA tasks, the policy for management of conflicts of interest, operation mode, the liability of the administrators;*
- the Rules of Corporate Governance of Transgaz SA include information on:
  - *The role and duties of the Board of Administration;*
  - *The structure of the Board of Administration;*
  - *The appointment of the Board members;*
  - *The remuneration of the Board members;*
  - *The Advisory Committees of the Board of Administration;*
  - *The executive management;*
  - *The Code of Professional Conduct;*
  - *The shareholders' rights and treatment;*
  - *Transparency, Financial Reporting;*
  - *Conflict of interest and transactions with stakeholders;*
  - *Status of corporate information and CSR*
- The Internal Regulations on the organization and operation of the Advisory Committees established by the Board of Administration of the company include information on:
  - *The structure of the Advisory Committees;*
  - *The members of the Advisory Committees;*
  - *The duties of the Advisory Committees.*
  - ***the Nomination and Remuneration Committee;***
  - ***the Audit and Rating Committee;***
  - ***the Safety and Security Committee of the NTS;***
  - ***the Strategy and Development Committee;***
  - ***the Committee for Regulation and Relations with public authorities***

The Advisory Committees constituted by the Board of Administration are responsible for carrying out analyses and for making recommendations to the Board of Administration in the specific areas, and to submit each semester to its attention reports on their activity.

- The Code of Ethics of Transgaz SA in which the company employees



	<p>become familiarized and support the ethical values and the assets of the company, observe and apply the rules on ethics, integrity, avoidance of any conflicts of interest, prevention and reporting of fraud, corruption and the reporting of irregularities within the organization.</p>
<p><b>Board of Administration business organization</b></p>	<ul style="list-style-type: none"> <li>■ Transgaz SA is administered in <b>one-tier management system</b>. The current <b>Board of Administration</b> consists of <b>5 members</b> and <b>was selected and appointed according to the provisions set forth in the Government Emergency Ordinance no. 109/2011</b> on corporate governance of public enterprises, as amended and supplemented;</li> <li>■ For the effective management of the company, it was <b>decided to establish throughout the company an organizational entity – the Secretariat Service for the BoA and the GAS</b>, an entity that provides the <b>secretariat activities for all the powers of the Board of Administration / General Meeting of Shareholders</b> pursuant to the provisions set forth in the Government Emergency Ordinance no. 109/2011, as amended and supplemented; Law no. 297/2004, as amended and supplemented and the CNVM Regulations 1/2006 and 6/2009, as amended and supplemented;</li> <li>■ <b>Together with the other administrators I have decided that, in order to ensure the compliance of the administrative decisions / top management actions with the requirements</b> of the regulatory documents regarding the companies, the corporate governance, the capital market, the transparency, the communication, the overall activity of the Board of Administration has to be consistent with a procedure and permanently in line with the legal regulations related to the business of the company;</li> <li>■ For documenting the activities during the mandate of the Board of Administration, the following documents are filed chronologically by the Secretariat Service for the BoA and the GAS: <ul style="list-style-type: none"> <li>- the agenda for each Board meetings;</li> <li>- the minutes of the Board meetings;</li> <li>- the decisions of the Board of Administration together with the documents that were the basis for making such decisions (reports, essays, briefings, etc.);</li> <li>- the minutes of the Advisory Committees meetings;</li> <li>- the reports of the Advisory Committees within the Board of Administration;</li> <li>- the documents calling the Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders;</li> <li>- the minutes of the Ordinary General Meeting of Shareholders and of the Extraordinary General Meeting of Shareholders;</li> <li>- the decisions made by the Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders together with the documents that were the basis for making such decisions;</li> <li>- other documents / addresses / received by the Board of Administration for information / analysis / ordering of measures.</li> </ul> </li> <li>■ I have undertaken all the company management activity by full responsibility, professional ethics, integrity and transparency, efficiency and competitiveness, subject to sustainability and in line with the updated Articles of Incorporation of the Company, the Mandate Agreement signed and the best corporate governance practices.</li> </ul>
<p><b>Policies and procedures on the organization and activities of the Board of Administration</b></p>	<ul style="list-style-type: none"> <li>■ Process Procedures (PP) and Work Instructions (WI) established for the organization and performance in line with the relevant legal framework of the specific activities of the Board of Administration are: <ul style="list-style-type: none"> <li>- PP124 – Organization and performance of the Board meetings;</li> </ul> </li> </ul>



	<ul style="list-style-type: none"> <li>- PP125 - Organization and performance of the Board meetings via electronic means of communication;</li> <li>- PP126 - Organization and performance of the General Meetings of Shareholders;</li> <li>- WI PP 124-41 - Complete files of the BoA meetings and General Meetings of Shareholders;</li> <li>- WI PP 124-42 - Release of resolution excerpts made by the board and the General Meeting of Shareholders</li> <li>■ Policies and procedures existing throughout the Board of Administration, according to the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises: <ul style="list-style-type: none"> <li>- Policy on management of conflicts of interest;</li> <li>- Policy on dividend distribution – draft;</li> <li>- Policy on risk management;</li> <li>- Policy on transactions with "related parties";</li> <li>- Policy on sponsorship;</li> <li>- Policy on internal and external communication</li> </ul> </li> </ul> <p>Note:</p> <p>Given that, at regional, European and national level (the National Anticorruption Strategy) there is strong focus on increasing transparency in business, the elimination of corruption and implementation of best corporate governance practices in the administration and management of companies with majority state capital, I had the initiative of analyzing, jointly with the other administrators, the drawing up at the Board of Administration level, a new policy, namely:</p> <p>The policy on transparency, information dissemination, data governance and anticorruption, a document that shall allow the Board to develop a referential framework to stimulate the stakeholders' confidence in the decisions and resolutions made by the Transgaz administrators and in the actions taken by the company management.</p>
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<p><b>Information and communication</b></p>	<p>To ensure accurate and timely information of all stakeholders on the activity of the company, I have continuously watched the communication and public information activity, so that it is in line with the reporting requirements incumbent to Transgaz, as a listed company and as a transmission and system operator, an important player on the national and international energy scene.</p> <p>The guidelines pursued with priority in this regard are contained in the "Policy of the Board of Administration on internal and external communication" and are mainly focused on issues such as:</p> <ul style="list-style-type: none"> <li>- permanently alignment of our website with the requirements of transparency and dissemination of information imposed by the good corporate governance practices;</li> <li>- the performance of public communications and financial reporting consistent with the legal provisions related to our business;</li> <li>- the provision of correct, complete and timely information and of equal and non-discriminatory treatment during the provision of information to all Transgaz shareholders;</li> <li>- the provision of efficient logistic support (including the Conference Room) for the organization and performance of the Board meetings and of the General Meetings of Shareholders;</li> <li>- the dissemination of Board decisions pursuant to the procedures established;</li> <li>- the publication, pursuant to the law, of the convening notices and of the</li> </ul>

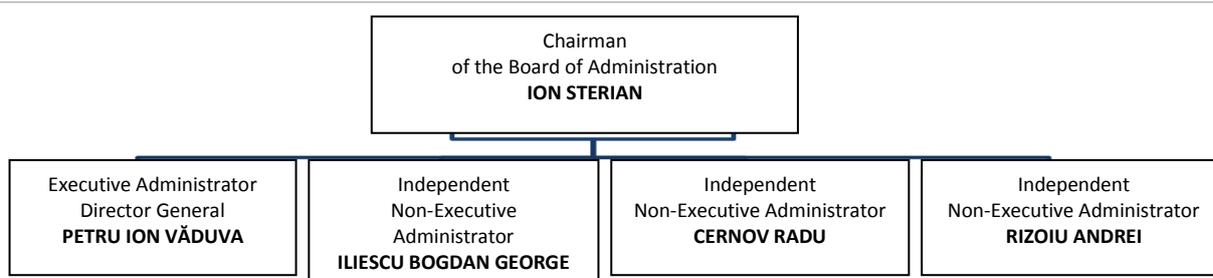


decisions made by the General Meeting of Shareholders on the company's website;  
 - maintaining a permanent communication with the top management;  
 - the improvement of the internal and external relations of the company

**Documentation on the management control and supervision System, financial reporting and self-assessment of the Board of Administration**

- Management plan of SNTGN Transgaz SA for the period between 2013 and 2017;
- Report on the administrators' activity, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, amended and supplemented as follows:
  - Every six months, submitted to the Ordinary General Meeting of Shareholders (OGMS) to take note of the administrators' activity;
  - each year – submitted for approval to the OGMS together with the approval of the annual financial statements and the discharge of the administrators;
- Management Plan for the period between 2013 and 2017 - prepared pursuant to the provisions of the Government Emergency Ordinance no. 109/2011, as amended and supplemented, and to the objectives undertaken under the Management Plan;
- Quarterly Report on the performance of the mandate, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, as amended and supplemented.
- Quarterly, half-yearly, annual financial reports pursuant to IFRS-EU
- Statutory Auditor's Report;
- Internal Auditor's Report;
- Management's report on the financial statements;
- Assessment Report pursuant to the Internal Control / Managerial System;
- Report (CSR) on Corporate Social Responsibility
- Declaration APPLY or EXPLAIN / the status of compliance with the new Code of Corporate Governance of the BSE;
- Declaration of accession to the National Anticorruption Strategy for the period 2016 - 2020

**Organization Chart of the Board of Administration**



Surname and given name(s)	Capacity in the Board	Legal basis under which the person was appointed		Mandate term
STERIAN ION	Non-executive Administrator <b>Chairman of the Board of Administration</b>	OGMS Resolution no. 5/30.04.2013 Art.7	administrator	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1b	reconfirmed as administrator by cumulative votes	
		<b>OGMS Resolution no. 8/10.07.2013 Art.2</b>	<b>Appointed as Chairman of the Board of Administration</b>	
VĂDUVA PETRU ION	Executive Administrator <b>Director - General</b>	OGMS Resolution no. 5/30.04.2013 Art.7	administrator	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1b	reconfirmed as administrator	



			by cumulative votes	
		<b>BoA Resolution no. 8/4.06.2013 Art.8</b>	<b>Appointed director general</b>	
ILIESCU BOGDAN GEORGE	Non-executive Independent Administrator	OGMS Resolution no. 8/10.07.2013 Art.1a	Elected as administrator by cumulative votes	4 years
CERNOV RADU ȘTEFAN	Non-executive Independent Administrator	OGMS Resolution no. 5/30.04.2013 Art.7	Elected as administrator by cumulative votes	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1a	Elected as administrator by cumulative votes	
RIZOIU ANDREI*	Non-executive Independent Administrator	OGMS Resolution no. 5/02.10.2014 Art.1	Administrator	3 years and 1 month

\* Mr. **Andrei Rizoiu** continues the mandate of Mr. Vlad Nicolae Neacsu who was appointed as an administrator during the Ordinary General Meeting of Shareholders 8/10.07.2013 and who gave up his mandate as an administrator pursuant to the Board Resolution 1/2014 as of January 24<sup>th</sup>, 2014. During the same Board meeting, Remus Dumitru Vulpescu was appointed as the provisional administrator (Article 1, Board Resolution 1/2014) who, during the Board meeting 18/2014, has been revoked, and Andrei Rizoiu was appointed as the provisional administrator (Article 2, Board Resolution 18 of June 2<sup>nd</sup>, 2014).

### Composition of the Advisory Committees

The composition of the Advisory Committees (equivalent to the mandate term) established under the Board of Administration, pursuant to Law No. 31/1990, Article 138<sup>^</sup>1, paragraph 2, Article 138<sup>^</sup>2, paragraph 2, Article 140<sup>^</sup>2, paragraphs (1) and (2), the Government Emergency Ordinance no. 109/2011, Article 34, Article 35, paragraph 2 and Article 55, paragraphs (2) and (3) of the Code of Corporate Governance is as follows:

1. NOMINATION AND REMUNERATION COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013
ILIESCU BOGDAN GEORGE	non-executive administrator, independent	BoA Resolution no. 13/29.07.2013
2. RATING AND AUDIT COMMITTEE		
ILIESCU BOGDAN GEORGE	non-executive administrator, independent, <b>Chairman of the Audit and Rating Committee</b>	BoA Resolution no. 13/29.07.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013
RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no. 21/16.06.2014
3. NTS SAFETY AND SECURITY COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
VĂDUVA PETRU ION	executive administrator	BoA Resolution no. 13/29.07.2013
RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no. 21/16.06.2014
4. STRATEGY AND DEVELOPMENT COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
VĂDUVA PETRU ION	executive administrator	BoA Resolution no. 7/27.05.2013
ILIESCU BOGDAN GEORGE	non-executive administrator, independent	BoA Resolution no. 13/29.07.2013



RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no. 21/16.06.2014
<b>5. COMMITTEE FOR REGULATION AND RELATIONS WITH PUBLIC AUTHORITIES</b>		
STERIAN ION	non-executive administrator	BoA Resolution no. 13/29.07.2013
VADUVA PETRU ION	executive administrator	BoA Resolution no. 7/27.05.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013

The entire activity of the current Board of Administration of SNTGN Transgaz SA, since taking mandate in May 2013, following the selection conducted pursuant to the Government Emergency Ordinance no. 109/2011, with the subsequent amendments and supplementing, is detailed in the **Administrators' Report** drawn up **quarterly / annually** and is submitted for approval by the General Meeting of Shareholders.

The Administrators' Report is public and can be found at the following address: <http://www.transgaz.ro/ro/informatii-investitori/raportari-anuale>.

The work undertaken by the Board members within the Advisory Committees is shown in the **Reports prepared by them and submitted quarterly to the Board of Administrators**.

## 2. Mandate, strategy, objectives - Commitments and Achievements

By adopting the **Government Emergency Ordinance no. 109/2011** on corporate governance in public enterprises, the Romanian Government assumed responsibility that, in the future, these companies to be removed from the political sphere and **to be run by professional managers transparently selected** by internationally and nationally recognized recruitment companies approved through a single process by all partners involved (the Government, the IMF, the EU).

In view of the fact that the efficiency and competitiveness of an economic operator mTSOly depend on the performance of its management, on the proper implementation of good corporate governance mechanisms during the operation of the company, pursuant to the Government Emergency Ordinance no. 109/2011, **Societatea Nationala de Transport Gaze Naturale TRANSGAZ SA has implemented the private management since May 2013**.

SNTGN TRANSGAZ S.A. Medias is the technical operator of the National Transmission System for Natural Gas and provides the compliance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness with the national strategy established for domestic and international transmission of natural gas, the dispatching of natural gas, research and designing in the field of natural gas transmission, consistent with the national and European laws and standards of quality, performance, environment and sustainable development.

**Transgaz was among the pioneer of a new stage of development in the national economy, being a company pioneering the implementation of the private professional management.** In this context, considering the need to ensure the energy security of the country through the development of mega projects aimed to facilitate the transmission of new natural gas resources discovered in the Black Sea, while keeping to a minimum the cTSO of natural gas transmission, **the company entered under private professional management in a crucial moment in its history**.

Societatea Nationala de Transport Gaze Naturale TRANSGAZ SA has a unified one-tier management system and is managed by a Board of Administrators consisting of 5 members.



Thus, the new administrators of the company selected professionally (the active Board of Administration) took the mandate for the administration of SNTGN Transgaz SA, and immediately started to develop the **Administration Plan of the company for the mandate term between 2013 and 2017**, as set forth in Article 30, paragraph 1 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented.

Whereas the **Administration Plan of SNTGN Transgaz SA Medias for the period between 2013 and 2017** is a crucial tool of strategic planning on the administration of the company, a company listed on the BSE, I have given full attention, together with the other administrators, to the set objectives, the clear establishment of the trajectory for the efficient operational activity and sustainable development and I have succeeded in building and implementing it so that the management plan would be governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, authorities and state institutions, media, etc).

**The Administration Plan of SNTGN Transgaz for the period between 2013 and 2017 was unanimously approved by the shareholders under Resolution no. 9/23.09.2013 made by the Ordinary General Meeting of Shareholders.**

While empowering the importance of its mission for the country and for the company, the private, professional management of Transgaz is committed to ensure transparent, efficient and optimal corporate governance which, by making the mTSO of the existing and future opportunities, to enable the company to achieve excellence in business, transforming it into a natural gas transmission system operator recognized on the international market of natural gas, a leader on the energy market in the region, thereby contributing to the definition of Romania as an important energy corridor for natural gas to Europe.

**The Administration Plan of the national natural gas transmission system operator prepared between 2013 and 2017 confirms the strategic vision of the administrators regarding:**

- the company's directions of sustainable development;
- the optimization of economic-financial and operational performance;
- the increase in the viability of the company in the national and international energy context that is constantly changing.

Starting from the overall diagnosis of the activity carried out and of the prerequisites of the environment in which it operates, while capitalizing with maximum efficiency all the existing and future opportunities, the **Administration Plan for the period between 2013 and 2017** I have rigorously structured the strategic directions for action on the management of resources, operational and management processes of the company in order to achieve maximum efficiency for the established performance targets and transforming the company into a company with international recognition, a leader on the energy market in the region, which could help define Romania as an important energy corridor for natural gas to Europe.

Reconsidering activity of SNTGN Transgaz SA depending on the evolution of the European and national energy sector, the future objectives of the European energy policy, the priorities of the national energy strategy, the changes in the environment in which the company operates, the objectives and directions for the administration of the company established for the period between 2013 and 2017 are directed mainly towards the following areas:





The administrators of SNTGN TRANSGAZ S.A. Medias considered that the objectives set out in the Management Plan of the company for the period between 2013 and 2017, the objectives then taken over by the Director - General and the executive management in the Management Plan, as they are listed below, shall reach the desires regarding the improvement of the company efficiency and its redefining in line with the requirements of the modern standards of performance and competitiveness at regional, European and international levels.

### Commitments and achievements

**With experience of more than a century in the transmission of natural gas, a strategic activity of the national economy, SNTGN TRANSGAZ SA Mediaş is one of the largest national companies where the corporate governance model is operated successfully.**

The results achieved during the period between 2013 and 2017 are based on the measures and approaches of the Board of Administrators on the company's management, mainly by:

- Redesigning the organizational structure through a modern and efficient new organization chart consistent with the safe and secure activity requirements regarding the exploitation of the natural gas National Transmission System (NTS), its competitiveness and sustainable development;
- Improving the institutional relations at national level (the Parliament, the Government, ANRE, ANRM) and at international level with countries of the European Union and other countries;
- Making the activity of the Advisory Committees efficient and responsible, including increased increasing the responsibility of the operational personnel;
- Optimizing the operational, investment and development activity, improving the works related to the operational activity

**In order to submit a clear and concise presentation of the manner the strategic objectives assumed under the Administration Plan of the company for the period between 2013 and 2017 have been met, I have used the model below:**

No.	Objective assumed under the Administration Plan 2013-2017	Courses of action for achieving the assumed objective	Objective initiated / started	Objective that continues
<b>A. ENERGY SAFETY AND SECURITY</b>				
1	The strengthening of the role played by SNTGN TRANSGAZ S.A. Medias as a gas transmission system operator on the European and national energy market, as a result of the EU	✓ The preparation of the Development Plan for the natural gas National Transmission System in the period between 2014 and 2023, approved by ANRE under Decision No. 2819/17.12.2014 which comprises 5 major projects in various stages of execution and whose		



requirements on the development of interconnection between NTS and the similar transmission systems in neighboring countries, of the potential for exploitation of significant reserves of natural gas discovered in the Black Sea and the shale gas in the future;

**estimated total value amounts to approx. Euros 1.5 billion:**

1. The development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria corridor (BRUA)

The feasibility study was completed in 2015. In May 2015 the *Innovation and Networks Executive Agency (INEA)* signed the financing contract for a grant in the amount of EUR 1,519,342, representing 50% of the total estimated cTSO for designing the compressor stations. In May 2016 the contract for design services for the 3 compressor stations (SC Podisor, SC Bibești and SC Jupa) was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z o.o. In September 2016, the financing agreement for a grant in the amount of Euros 179.3 million was signed for Phase 1 of the BRUA Project. In order to ensure the effective management of the whole project, of all operations related to its implementation, development and monitoring, at organizational level, the BRUA Project Management Unit was created separately. The project is in the stage of obtaining the Building Permits and the procurement procedures for tubular material and technological equipment (valves).

2. The Development in Romania of the Southern Transmission Corridor for taking gas from the Black Sea shore

The feasibility study was completed in January 2016. The feasibility study included the selection of the pipeline route and the execution of the topographical, geotechnical and hydrological surveys. Simultaneously with the preparation of the Feasibility Study, the following activities were initiated:

- the identification of the landowners along the pipeline route;
- the procedure regarding the authorizing of the execution of construction works by obtaining the Town Planning Certificates.

The procedure for environmental impact assessment is in the stage of Filing of the notification and its initial assessment.

3. The project regarding the interconnection of the national transmission system with the international pipelines for transmission of natural gas

The pre-feasibility study was initiated in 2014



at the Department of Design Research within the company; in 2015 a series of technical and economic tests were conducted in order to determine the viability of the investment, and the study was approved in June 2016.

4. The Project on developments of the NTS in the North-East of Romania in order to improve gas supply in the area and to ensure the transmission capacity to the Republic of Moldova

The feasibility study was completed in January 2016 but is now updated as suggested by the JASPERS consultant hired by the Ministry of European Funds.

5. The development in Romania of the Central Transmission Corridor for taking natural gas from the Black Sea shore.

**The pre-feasibility study was completed at the end of 2016.**

□ Drawing up the Development Plan for the National Transmission System for natural gas in the period between 2016 and 2025, submitted for approval to ANRE, which includes a number of 6 major projects. The Project regarding new developments of the NTS in order to take gas from the Black Sea shore was introduced.



**Map of Major Projects in the NTS**

□ Also in order to achieve the objective of strengthening the role of SNTGN Transgaz SA as a gas transmission system operator on the European and national energy market, the administrators have ordered the company management to implement the following guidelines:

- the establishment of the Representative Office Transgaz Bucharest – an action fulfilled under Resolution no. 12/18.12.2013 issued by the Extraordinary General Meeting of Shareholders;
- the completion of the interconnection with the Republic of Moldova – a goal achieved in 2014;

- the establishment of the Representative Office Transgaz SA Brussels, an secondary office of SNTGN Transgaz SA – an action fulfilled under Resolution no. 2/29.04.2014 issued by the Extraordinary General Meeting of Shareholders;
- the establishment of the Representative Office Transgaz SA Chisinau, an secondary office of SNTGN Transgaz SA – an action fulfilled under Resolution no. 7/218.12.2015 issued by the Extraordinary General Meeting of Shareholders;
- the completion of the interconnection between Romania and Bulgaria on the Giurgiu – Ruse route – a goal achieved in 2016.

Romania currently has **interconnection points** with 4 of the 5 neighboring countries (except SERBIA) as follows:

UKRAINE
<b>Orlovka (UA) – Isaccea (RO)</b> -DN 1000, Capacity = 8.6 billion m3/year, P <sub>max</sub> = 55 bars
<b>Tekovo (UA) – Medieșu Aurit (RO)</b> -DN 700, Capacity = 4.0 billion m3/year, P <sub>max</sub> = 70 bars
HUNGARY
<b>Szeged (HU) – Arad(RO)- Csanadpalota-</b> DN 700, Capacity = 1.75 billion m3/year, P <sub>max</sub> = 63 bars
REPUBLIC OF MOLDOVA
<b>Ungheni (MO) – Iași(RO)-</b> DN 500 , Capacity = 1.5 billion m3/year, P <sub>max</sub> = 50 bars
BULGARIA
<b>Ruse (BG) – Giurgiu(RO)</b> -DN 500, Capacity = 1.5 billion m3/year, P <sub>max</sub> = 40 bars

2

**The completion of the interconnection between the gas transmission systems of Romania and Bulgaria on the Giurgiu – Ruse route;**

The process for achieving this goal was as follows:

- in 2013 the Giurgiu Gas Metering Station (GMS) and the Group of Line Valves and Land Pipeline from the Giurgiu GMS to the Group of Valves;
- in 2014 – the completion of the work "Protection pipeline and laying fiber optic cable, undercrossing the Danube River for data transmission";
- - in 2016 – the Giurgiu - Ruse interconnection was completed (in September, the main line was drawn under the Danube and in November it



		<p>was commissioned; the backup pipeline undercrossing the Danube River was commissioned in December 2016). Also at the end of 2016, the Interconnection Agreement between the two transmission and system operators was signed.</p>		
3	<p><b>The creation of the technical conditions necessary to ensure the bi-directional flow of natural gas on the interconnection between Romania and Hungary on the Arad-Szeged route;</b></p>	<p>In October 2015, Transgaz submitted to the European Commission (the Innovation and Networks Executive Agency - INEA) the "Financing Application" for the Phase 1 of the project "Development in Romania of the National Transmission System for Natural Gas on the Bulgaria-Romania-Hungary - Austria Corridor" (part of the Project of Common Interest - encoded in the PCI 7.1.5. list "Gas pipeline from Bulgaria to Austria via Romania and Hungary) - BRUA.</p> <p>In order to ensure compliance with the Regulation (EU) no. 984/2013, TRANSGAZ and FGSZ signed a new TSO membership agreement in order to use the trading platform services for standard and non-standard capacity products (Regional Booking Platform) owned by FGSZ.</p> <p>Currently, TRANSGAZ can provide, on the Romania – Hungary route, a flow of natural gas falling under the requirements of the Regulation (EU) no. 994/2010.</p> <p>During the execution of the NTS upgrade works meant to increase the bidirectional gas flow capacity between Romania and Hungary, Transgaz has considered the prospect of implementing the plans for use of natural gas potential in the Black Sea.</p> <p>Given that the initial estimates indicate that they considerably exceed the possibility of transmission by the Romanian National Transmission System, the development of the transmission capacity to Hungary under the BRUA Project is taken into account.</p>		
4	<p><b>The continuation of actions for the conclusion of development agreements regarding the NTS interconnection with similar transmission systems from neighboring countries;</b></p>	<p>The Interconnection Agreements concluded until today:</p> <ul style="list-style-type: none"> <li>■ the Interconnection Agreement for the Csanadpalota Interconnection Point, concluded with FGSZ Zrt., Hungary on 02.12.2015;</li> <li>■ the Interconnection Agreement for the Isaccea 1 Interconnection Point, concluded with PJSC Ukrtransgaz, Ukraine, on 19.07.2016;</li> <li>■ the Interconnection Agreement for the Negru Voda 1 Interconnection Point, concluded with Bulgartansgaz, Bulgaria on</li> </ul>		



		<p>19.05.2016;</p> <ul style="list-style-type: none"> <li>■ the Interconnection Agreement for the Ruse - Giurgiu Interconnection Point, concluded with Bulgartansgaz, Bulgaria, on 22.12.2016.</li> </ul>		
5	<p><b>The activity development by streamlining the absorption of European funds and creating a efficient and flexible financing structure</b></p>	<p>In 2014, the company established the European Funds and International Relations Division, and for the optimization of the absorption of European funds, in June <b>2015</b>, the European funds unit was established within the Division as an organizational structure responsible for accessing EU funds and for monitoring projects developed through European funds in order to avoid major nonconformities occurring in the management of this type of financing, non-conformities that may lead to the repayment of the allocated funds.</p> <p>Funding Applications / Financing Contracts between 2013 and 2016</p> <p>2014:</p> <p>1. Upgrading of the Șinca Turbocompressor Station and of the Related Facilities Application date: 10.06.2014 The current state of the application: Project implemented Eligible value of the Project: Estimated: RON 96,474,122 The amount to which contract was finalized is of RON 88,810,261.37 Value of non-refundable financing requested / approved: Estimated receivable: RON 47,816,886, Final cTSOs required to be refunded: RON 44,401,030.7 Nr. of Financing Contract: 6T/30.06.2014 Date of signature: 30.06.2014 Type / name / axis / KAI the funding application falls under: the European Regional Development Fund (ERDF); the Priority Axis (PA) 4 Key Area of Intervention 1 (KAI 1). The Sectoral Operational Program - Increase of Economic Competitiveness - SOP IEC (natural gas and electricity)</p> <p>2. FEED for compressor stations in Corbu, Hateg and Horia – action number 7.1.5-0026 RO--S-M-14 Application date: 2014 The current state of the application: Project during implementation Eligible value of the project: Euros 3,038,684 Value of non-refundable financing requested / approved: Euros 1,519,342 Nr. of Financing Contract:</p>		



INEA/EFC/ENER/M2014/0025

Date of signature: 18.05.2015

Type / name / axis / KAI the funding application falls under:

Connecting Europe Facility 2015 Program (CEF 2015, CALL II)

**2015:**

1. The development in Romania of the natural gas National Transmission System on the Bulgaria - Romania - Hungary - Austria pipeline transmission corridor, GMS Podisor-Horia and 3 new compressor stations (Jupa, Bibești and Podisor)" - (abbreviated BRUA) - First Stage

Application date: 12.10.2015

The current state of the application: Approved / stage preceding the signing of the Financing Contract

Eligible value of the project: Euros 448,301,000.00

Value of non-refundable financing requested / approved: Euros 179,320,400.00 (40%).

Nr. of Financing Contract / Date of signature: 2016

Type / name / axis / KAI the funding application falls under: the Connecting Europe Facility Program 2015 (CEF 2015, CALL II).

**2016: Actions**

1. BRUA Project - Phase 1

The Financing Contract for the BRUA Project – Phase 1 was signed for the amount of EUR 179,320,400.

On December 19<sup>th</sup>, 2016, the **Application File for BRUA Phase 1** was submitted to the Competent Authority for Projects of Common Interest (ACPIC), in order to be analyzed and approved. The date of acceptance of the application file is the date when the legal authorization proceedings begin.

**2. The design of BRUA-related Compressor Stations**

The initial implementation timeframe of the Financing Contract = June 30<sup>th</sup>, 2016; it was established, together with INEA, the extension of the Financing Contract by 9 months, until March 31<sup>st</sup>, 2017 and the implementation schedule of this project shall be correlated with the implementation schedule of the BRUA Project - Phase 1.

On April 1<sup>st</sup>, 2016, the Action Status Report (ASR) was sent to INEA. As a result of the delay in completion of the intermediate

		<p>Stages of the Technical Project, TRANSGAZ requested INEA for a new extension of the Financing Contract - up to June 30<sup>th</sup>, 2017. The request for extension and the related documents were submitted on December 22<sup>nd</sup>, 2016.</p> <p><b>3. The development of NTS in Moldova (Onesti - Gheraiesti - Letcani)</b></p> <p>On July 28<sup>th</sup>, 2016, at the headquarters of JASPERS in Bucharest, a meeting took place and was attended by the representatives of JASPERS and of the MFE on the feasibility study (FS).</p> <p>The technical and economic aspects were discussed in order to amend and update the FS. The documents, the FS and the ACB were verified by the representatives of JASPERS who, on November 15<sup>th</sup>, 2016, sent their recommendations for the update of the FS and of the ACB and these are to be implemented.</p>		
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**B. COMPETITIVENESS**

1	<p><b>The optimization and streamlining of the management systems and processes inside the company, of the quality of operational processes and their compliance with the requirements of the Integrated Management System for Environment Quality (IMSEQ) and the modern standards of performance and competitiveness;</b></p>	<p>In order to achieve this objective between 2013 and 2016, we have been undertaken in the following areas:</p> <p><b>The contracting of natural gas transmission services</b></p> <p>2013 – Implementation of BH-type services (backhaul) in the interconnection point with Hungary.</p> <p>2014 – Allocation of enhanced capacity at the interconnection point with Hungary (part of the pilot project); Implementation of short-term services (quarter, month, day).</p> <p>2015 – Reconfiguring the GMOIS IT platform (business concept) in order to manage the contracts for services from points 1 and 2.</p> <p>2016 – Implementation of capacity allocation methodology for point Negru Voda I. The transmission contracts signed with the beneficiaries of the services are consistent with the regulated framework contract and provide the legal framework for the provision of firm and interruptible transmission services.</p> <p>The provision of the internal transmission service means all the activities and operations carried out for and in connection with booking the transmission capacity and the transmission of the fixed quantities of natural gas through the NTS.</p> <p><b>Commercial balancing activity</b></p>		
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2013

- the certification of the independent system operator;
- the review of the network code (approved by Order 16/2013) in order to achieve consensus with the gas market participants;
- the continuation of actions on the implementation of transparency requirements set forth in the Regulation (EC) No. 715/2009;
- the regulation on third party access to transmission systems;
- the implementation of the conditions related to the activity within the Department of Commercial Balancing.

2014

- the testing of the GMOIS II Platform under a plan approved by ANRE. (phase completed) The process has continued in 2016 following new amendments;
- the analysis of the balancing network code developed by ENTSOG in order to impose any amendments and additions;
- the analysis of the interoperability network code issued by ENTSOG in order to impose any amendments and additions;
- the preparation of the Capacity Allocation Agreement and of the Operating Agreement for Interconnection with the Republic of Moldova - Ungheni;

2015

- the preparation of the "Interim Action Report" approved by ANRE under Decision no. 2296/11.11.2015;
- the application of penalty charges for imbalances. They apply to imbalances caused monthly since December 1<sup>st</sup>, 2015 pursuant to ANRE Order no. 160/27.11.2015;
- actions for the fulfillment of the obligations set forth in the Memorandum of Understanding with FGSZ Hungary (bidirectional flow, standardization and harmonization of commercial balancing processes and of units of metering );
- the conclusion of technical Conventions for the establishment of related technological parameters of the input-output physical points of the NTS;
- the implementation of software for calculation of the technical capacity for the exit points of NTS;

2016

- the preparation of the Capacity Allocation



Agreement and of the Operating Agreement with Bulgartansgaz for interconnection Giurgiu - Ruse;

- the capacity secondary market – the preparation of the rules based on consulting and the implementation of the related information platform – **it has not been done yet.**

**Operating / dispatching activities, technological regimes**

- the implementation of the SIMONE simulation gas flow program, the offline version. Personnel training for using the program;

- the development of the weather information system for the monitoring and optimizing the gas flows in NTS, including personnel training;

- the development of dispatcher manual based on flows of natural gas in the transmission programs drawn up based on nominations and forecasts of consumption;

- the preparation of the transmission programs for the next day based on the dispatcher manual and its verification with the online SIMONE program in SCADA;

- the determination of the pipeline linepack by using the SIMONE program; the determination of the gas stock necessary for the OBA mechanism; the determination of the pipeline storage capacity;

- the development of procedures for calculating the gas losses due to the execution of works in the NTS with support from UPG Ploiesti;

- the development of procedures regarding the publication on the Transgaz website of the information relating to the suspension of the transmission services.

**Gas quality metering activity**

- the assurance of unique traceability of the working standards at the central laboratory;

- the preparation of the Feasibility Study for making a test bench for the verification / calibration of the Turbine meters and of the ultrasonic meters for line pressure;

- the preparation of a Study on taking-over of the metering systems for use when entering the NTS (Electricity and Gas Law no. 123/2012);

- the monitoring of metering systems in real time through the SCADA system;

- the monitoring of automatic odorization



		<p>installations through the SCADA system;</p> <ul style="list-style-type: none"> <li>- the creation of the database of metering instruments;</li> <li>- a study on the upgrading of metering systems at the exit points of the NTS;</li> <li>- the preparation and updating of technical operating conditions relating to the points of interconnection;</li> <li>- the online monitoring of gas quality in at all major entry points in the NTS;</li> <li>- the fulfillment of the transparency requirements set forth in the Regulation (EC) No. 715/2009 by determining a method for allocating the annual Wobbe number on the exit points of the NTS situated in quality areas with weighted average;</li> <li>- the implementing of the technical odorization standard after its approval;</li> <li>- the preparation of odorization rules for other odorization substances replacing the ethanethiol.</li> </ul> <p><b>The optimization of the activity regarding quality - environment, prevention and protection</b></p> <p>Pursuant to the ANRE Order No. 34 as of May 31<sup>st</sup>, 2013 regarding the approval of the "Regulation for granting incorporation authorizations and licenses for the natural gas field" for SNTGN Transgaz SA, the <b>Integrated Management System for Quality- Environment-Occupational Health and Safety</b> was implemented in 2014 pursuant to SR EN ISO 9001:2008, ISO 14001:2005 and SR OHSAS 18001:2008 and recertified in 2015 and 2016.</p> <p>Thus, the company is aligned to the international management systems that allow the control of risks to health and safety of its own employees or of the suppliers who are operating on the premises of the organization.</p>		
2	<p><b>The intensification of the design activity and scientific research in the field of natural gas transmission;</b></p>	<p>In order to ensure the sustainable development of the company, the focused was on developing and intensifying the research and design for reducing technology consumption, environmental protection, upgrading of natural gas transmission activity.</p> <p>Courses of action for implementation:</p> <ul style="list-style-type: none"> <li>- the optimization of quality and efficiency of studies, research topics, projects and works executed with SNTGN Transgaz SA specialists;</li> </ul>		



		<ul style="list-style-type: none"> <li>- the increase in the number of skilled employees by attracting specialists of high professional value;</li> <li>- training specialized courses for the personnel;</li> <li>- the continuous professional certification of designers and researchers;</li> <li>- 2016 – the creation of two new design compartments;</li> <li>- the development of the cooperation in the field of research with international natural gas transmission system operators (GRTGAS France, Fluxys Belgium), as envisaged in the memoranda concluded with them. The memoranda concluded between Transgaz and other transmission and system operators in Europe and other countries aimed at addressing in common the existing and future projects regarding the transmission of gas, in full compliance with the EU laws, the need for further development and integration of the gas markets within the internal European energy market, the identification of solutions to increase cross-border cooperation, the diversification of gas supply routes and the creation of access to new sources of gas, thereby improving the security of gas supply at regional and European level.</li> </ul>		
3	<p><b>The minimization of technological consumption;</b></p>	<p>The technological consumption includes the SNTGN Transgaz SA's own consumption and the technical losses. Related to the total amount of gas circulated, the technological consumption has been continuously decreased over the recent years, representing a generator of economic efficiency for the company.</p> <p>The compliance with the natural gas quantities representing the technological consumption is an important indicator for operational performance. The technological consumption is the expenditure necessary to purchase the natural gas covering the consumption of its own installations; the discharge of separators and pipelines; the couplings, repairs and losses caused by metering errors, technical accidents, etc. The technological consumption of the TSO is recovered through the transmission tariff, being included in the operating expenses.</p> <p>For the period between 2013 and 2017, we, the administrators of the company have had in mind the implementing of an effective program of measures to maintain the share</p>		



of technological consumption in the total natural gas transmitted through the NTS at a level of 1.70%.

In fulfilling the stated objective, we have decided to draw up a program of technical measures meant to reduce the technological consumption, its continuous monitoring and the increase in the operational efficiency, a program consisting mainly of measures such as:

- the supplementing of monitoring gas leaks through modern and real time methods with advanced equipment;
- the decrease of quantities of discharged natural gas;
- the increase in the efficiency of technological gas heating equipment by changing or upgrading them;
- the effective monitoring of the metering system integrity and of the operation in optimum accuracy range, of the integrity of equipment in the delivery MRSs, technological nodes, compressor stations, line valves, etc.;
- the implementation of a program of measures meant to improve the natural gas metering , gas analysis and odorization;

Related to the total amount of gas circulated, the technological consumption was reduced continuously between 2013 and 2015, representing a generator of economic efficiency for the company.

The decrease in the share of technological consumption from the total natural gas circulated through the NTS, from 1.60% in 2012, 1.17% in 2013 and 0.71% in 2015 is the result of the joint efforts of the exploitation and operating divisions, as well as of some appropriate technical measures.

Also for close monitoring of this indicator, the administrators have decided to constitute in the company a Committee for the coordination of monitoring the implementation of the measures contained in the Priority Program to reduce the technological consumption for the period between 2013 and 2017, a committee including specialists working for the company who, each month, through various briefings, inform the Board and the executive management about the current technological consumption and submit proposals for its



		optimization.		
4	<b>The improvement of the quality of executing investment programs of upgrading and development, of programs for the repair, rehabilitation and maintenance of the NTS</b>	<p>The strengthening of the discipline in the foundation / execution / control of the implementation of investment programs for upgrading, development and of programs for repair, rehabilitation and maintenance of the gas natural NTS has allowed the company not only to achieve the development goals set and also to keep under control the expenditure related to the execution of such programs and the compliance with the budget of income and expenses. Thus, the lines of action envisaged were focused on:</p> <ul style="list-style-type: none"> <li>- the establishment of an organizational entity (division / department) in charge with the monitoring of the implementation of investment programs and the monitoring of the compliance of the expenditure generated with the approved budget;</li> <li>- the establishment of project management units for the strategic investment works;</li> <li>- the request made by the Board of Administration for monthly (preliminary and final) Reports on the activity of the company;</li> <li>- the submission of monthly Reports regarding the departments / divisions for monitoring the set objectives.</li> </ul>		
5	<b>The completion of the implementation of the SCADA control and data acquisition system;</b>	<p>2015 - Project completed  2016 – the establishment of a separate organizational entity involved in the monitoring of the system, its interaction with the other industrial systems and its subsequent developments (SCADA Automations Unit)</p>		
6	<b>The optimum determination of the necessary human resources in relation to the actual needs of the company in terms of its activity and development;</b>	<p>The optimal determination of the number of employees working for the company is correlated to the actual needs for employees required by the activities carried out by the company, with the upgrading and refurbishment operated within the NTS, with the future development projects of the company.</p> <p>In general, the policy regarding the human resources is to naturally reduce the number of employees (through retirements that shall occur in the coming years and the resignations throughout the company) and to maintain the level of growth in wage costs within the inflation rate.</p> <p>The evolution of staff per categories of studies reveals the interest of the company to cover the staffing needs by employing highly qualified specialists and the continuous improvement of the existing</p>		



		<p>employees, with obvious trends to increase the number of employees with higher education.</p> <p>The optimal determination of the number of employees within the company based on the actual needs of the activities carried out by the company, the upgrading and refurbishments made to the NTS, the future development of SNTGN Transgaz SA shall remain an important topic to consider, depending on the company's increased needs for development in the future and a higher level of technology through the implementation of the SCADA system.</p>		
7	<p><b>The improvement of the process for staff training, and professional development;</b></p>	<p>Within the company, the process of staff training is performed continuously and is planned through courses with external trainers inside or outside the country or by internal trainers through the Training and Professional development Centre.</p> <p>The training area has two components: the professional one (technical, economic and other specialties) necessary to perform duties in the job description and the general one on the professional development in various fields.</p> <p>The training, improvement and professional development of the employees of the company shall be done based on the Training Plan developed by the company, in line with the provisions set forth in the Collective Labor Agreement in force.</p> <p><b>Directions for action:</b></p> <ul style="list-style-type: none"> <li>- the increase in the number of qualification and training courses with internal staff through the Training and Professional development Centre;</li> <li>- the development and implementation of the mentoring program;</li> <li>- the training and improvement of the shift dispatchers and pipeline transmission system operators and in the natural gas regulating stations for monitoring, control and acquisition of SCADA data.</li> </ul>		
8	<p><b>The optimization of the quality of implementation of good corporate governance principles;</b></p>	<p>The objective set for the improvement of the implementation of corporate governance principles has been and is always taken into account by the Board members, given that the company's administrators, acting and continuing to act in the spirit of best corporate governance practices, ensure an administration process that is effective, transparent and efficient, can achieve their goals and increase the stakeholders' trust in</p>		



the company's capabilities in order to ensure maximum efficiency of its activity.

In line with this objective, the company's administrators have sought to align and ensure the compliance of the Transgaz activity with the requirements and regulations in force on corporate governance (the Government Emergency Ordinance no. 109/2011, as amended and supplemented, the New Code of Corporate Governance of the BSE, the Government Resolution no. 722/2016, the legislative regulations specific to the capital market, etc.)

Transgaz was among the pioneers of this new management system that, after nearly four years, due to the good corporate governance practices implemented, is proving to be a successful model not only for the development of the company but also for the development of the national economy.

Moreover, the company's Board of Administration has approved the Company's Rules of Corporate Governance that was drafted pursuant to the provisions of the New Code of Corporate Governance of the BSE and that provides the framework for the regulation and performance of the activity. SNTGN Transgaz SA joined the Code of Corporate Governance of the Bucharest Stock Exchange and apply the recommendations of this code pursuant to the Declaration on compliance or non-compliance with the Code of Corporate Governance (the "APPLY or EXPLAIN" Declaration).

The Rules of Corporate Governance of SNTGN Transgaz SA include information on:

- the role and duties of the Board of Administration (BoA);
- the structure of the Board of Administration;
- the appointment of the Board members;
- the remuneration of the Board members;
- the Advisory Committees within the Board of Administration;
- the executive management;
- the Code of Professional Conduct;
- the rights and treatment of shareholders;
- transparency, financial reporting;
- conflict of interest and transactions with stakeholders;
- corporate information and CSR

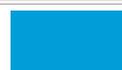
In the company Transgaz, a company listed on the Bucharest Stock Exchange, for the effective monitoring and control of the



		implementation and increase in the efficiency of practices and models of good corporate governance, the administrators approved the establishment of an organizational entity with role and responsibilities in corporate management.		
9	<b>The optimization of the process for costs budgetary control.</b>	<p>Through the constant responsible and effective monitoring and control of the economic and financial management, combined with rigorous controlling regarding:</p> <ul style="list-style-type: none"> <li>- the budget planning and tracking, patrimonial management</li> <li>- the general accounting and management</li> <li>- the accounting system and accounting policy, tariff policy,</li> </ul> <p>the administrators of the company have managed not only to strengthen the discipline on the financial and accounting execution, but also to enhance the role of controlling by applying the costs control method in order to reduce the costs and to improve the economic profitability of the company;</p> <ul style="list-style-type: none"> <li>■ the establishment of an entity inside the company, with the role and responsibilities in monitoring the implementation of investment programs and the pursuit of the compliance of the expenditure generated by them with the approved budget;</li> <li>■ training and coaching in the field of controlling</li> </ul>		

### C. SUSTAINABLE DEVELOPMENT

1	<b>The strengthening and diversification of Transgaz' internal and external cooperation relations</b>	<p>The establishment, within Transgaz in 2014, of the European Funds and International Relations Division allowed the consolidation and diversification of Transgaz external cooperation relations as follows:</p> <ul style="list-style-type: none"> <li>- collaboration with natural gas transmission system operators from neighboring countries;</li> <li>- collaboration with other transmission system operators inside and outside Europe;</li> <li>- the signature, in 2015, of Memoranda of Cooperation with: Fluxys - Belgium; Pilnacroltd - Croatia; Ukrtransgaz - Ukraine;</li> <li>- the signature, in 2016, of Memoranda of Cooperation with: Vestmoldovatransgaz – the Republic of Moldova; Pvgascity Jsc - Vietnam; Socar - Azerbaijan; GRTgaz SA - France; DESFA - Greece; SRBIJAGAS - Serbia;</li> <li>- Collaboration with national and</li> </ul>		
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		<p>international BoAies, with the European Commission and other international relations (GIE, PP&amp;SA, CNR-CME, ARME, CRE, AmCham, etc.);</p> <p>SNTGN Transgaz S.A. joined along time and has remained a member in various national and international BoAies in the field.</p> <p>The advantages and benefits of being a member in these organizations are mainly: the promotion of the company's objectives and of its interests, the access to updated information on regulations, policies, innovations, standards and products in the gas industry, and the participation in various national and international events (conferences, seminars, forums, symposia, etc.).</p> <p>Actions have been taken to in order to join once again the Gas Infrastructure Europe (GIE) Association established in order to promote the interests of natural gas infrastructure operators and to provide a framework for cooperation among the operators of such infrastructures at European level.</p> <p>Since October 1<sup>st</sup>, 2016, Transgaz became a full member in this Association.</p> <p>Resolution no. 2/29.04.2014 issued by the Extraordinary General Meeting of Shareholders approved the establishment of the <b>Representative Office of Transgaz SA Brussels</b>, a secondary office of SNTGN Transgaz SA without legal personality.</p> <p>The Representative Office aims to create new opportunities for a direct and constructive dialogue with the EU institutions, the major players in the energy sector and the partners of the company, to promote the mission and vision of the company at EU level and generally to stimulate the fulfillment of the key strategic objectives of TRANSGAZ, which are aimed at transforming the company into a gas transmission system operator internationally recognized.</p> <p><b>Transgaz' Representative Office in Chisinau</b> was established in order to develop the infrastructure projects in the field of natural gas, in cooperation with the Republic of Moldova.</p>		
2	The optimization of the risks management that may affect the	By complying with the requirements set forth in Standard 8 " <b>Risk Management</b> " in the GSG Order no. 400/2015 for approving the	Objective reached by more	



	<p><b>company's activity</b></p>	<p>Code of Internal / Managerial Control of Public Entities, the company has taken the following actions:</p> <p>2013 - Self-assessment of the Internal Control / Managerial System and reporting SGG</p> <p>2014 - Development and monitoring of implementation of the Internal Control / Managerial System Development Program</p> <p>2015 – The procedure PP- 91 "Development / update of Risk Register" was developed</p> <p>2016 – Development of risk registers per services / divisions / departments / company</p> <p>For the risks identified at department / division level up to the level of service / office Programs have been developed to minimize the identified (inherent) risks;</p> <p>The Risk Register per company and the Program of Measures to Minimize Risk for risks escalated to top management was developed and updated;</p> <p>The Risk Management Team (RMT) within SNTGN Transgaz SA was established under Decision no. 518/19.07.2016 pursuant to SGG Order no. 400/2015, as amended and supplemented by SGG Order No. 200/2016 on risk management, the following actions have been taken so far:</p> <ul style="list-style-type: none"> <li>- the <b>Risk Management</b> procedure was developed and the identified risks shall be analyzed by the Risk Management Team for the development of the final form of the Risk Register.</li> </ul> <p>It should be noted that all measures taken to date relate to operational risks, but other risks identified throughout the company should be considered and analyzed:</p> <ul style="list-style-type: none"> <li>• Risks related to the economic environment;</li> <li>• Risks related to the natural gas field;</li> <li>• Risks related to the natural gas transmission activity (laws, regulations);</li> <li>• Financial Risks;</li> <li>• Risks generated by natural disasters (earthquakes, floods).</li> </ul> <p>By the nature of the activities carried out, the company is exposed to the identified risks and, in the event that any of these risks materializes, it could adversely affect the business, financial status and/or operational results of SNTGN Transgaz SA.</p> <p>By ensuring an effective optimization of the management of risks identified and the compliance with the legislative requirements for the organization of Risk Management,</p>	<p>than 65%</p>	
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		<p>the administrators of Transgaz believe that the negative impact of risks on the business conducted and on its financial-economic results can be avoided and therefore they pay particular attention to further risks at company level.</p>		
3	<p><b>The optimization of labor productivity in physical units (Km of upgraded pipelines / average number of employees) and in units of value (turnover / average number of employees)</b></p>	<p>The labor productivity quantifies the efficiency with which labor is used. A proper increase in labor productivity is achieved through automation, robotization and staff reduction.</p> <p>For labor productivity to increase, we have continuously acted – between 2013 and 2015 – in order to naturally reduce the personnel without affecting the current activity by redistributing the duties and responsibilities of the jobs whose occupants have retired (and by restructuring programs (in 2015, we developed a program including the dismissal of 72 employees whose jobs were cut).</p> <p>Regarding the other factor significantly influencing the achievement of the labor productivity indicator, i.e. the turnover, it was affected in 2015 by the decrease of the revenues from transmission services due to a decrease in the revenues approved under the ANRE Order no. 136/August 14<sup>th</sup>, 2015, and the changing of the structure of revenues from transmission services starting with the third regulatory period.</p> <p>Given that SNTGN TRANSGAZ S.A. has the obligation to ensure the safe operation of the NTS, it results that labor productivity can be optimized by reducing the number of employees only up to a certain threshold, and this must be rigorously complied with.</p>		
4	<p><b>The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment</b></p>	<p>Actions taken for the increase in energy efficiency and the decrease in the negative impact of technological processes over the environment have been focused on achieving specific objectives in this field:</p> <ul style="list-style-type: none"> <li>- <i>the efficient use of energy consuming resources;</i></li> <li>- <i>the efficient correlation of energy resource management with the legislative requirements in this field;</i></li> <li>- <i>the promotion of the energy management best practices;</i></li> <li>- <i>the application of new technologies with high energy efficiency;</i></li> <li>- <i>the improvement of energy management in the context of projects designed to minimize the emissions of greenhouse gases; of</i></li> </ul>		



*renewable energy and other energy projects.*

**5 The maintenance of financial balance and operational stability**

The analysis of the financial balance can be achieved based on the balance sheet substantiated by the two concepts of its development: patrimonial and financial. The maintenance of the financial balance is the essential condition for the survival of the company and the assessment of financial balance must take into account the concrete conditions of the incapacity to make payments. The financial balance and the operational stability throughout SNTGN Transgaz SA Medias are monitored through a set of financial ratios whose evolution for 2013 - 2017 is shown below

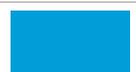
Year	2013		2014		2015		2016		2017
	Planned	Achieved	Planned	Achieved	Planned	Achieved	Planned	Achieved 9 months	Planned
Current liquidity	1,62	2,17	1,68	3,09	1,71	4,11	1,73	5,23	1,79
Immediate liquidity	1,51	2,06	1,59	2,98	1,62	3,83	1,65	4,87	1,71
Patrimonial solvency %	77%	77%	77%	70%	79%	72%	80%	71%	81%
Permanent capital - thousand RON	3.526.707	3.612.051	3.740.435	4.404.651	3.909.951	4.674.101	4.106.569	4.813.898	4.309.767
Working capital - thousand RON	209.627	377.171	266.776	675.715	277.692	859.983	302.238	1.050.368	326.992
Need for working capital - thousand RON	88.261	109.910	30.287	117.847	65.767	159.185	65.795	190.950	73.336
Net treasury - thousand RON	121.367	267.262	236.489	557.868	211.925	700.798	236.443	859.419	253.656

**6 The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream metering and regulating stations not connected to the transmission system);**

- the alignment of business to the requirements in the European and national legislative regulations related to the transmission of natural gas in order to successfully face the changes taking place in the environment in which they operate and to maintain viability in a dynamic environment;
- the redeployment of the existing modules and the expansion with new functionalities of the computer system for company resource management (ERP), currently known as MAIS;
- the implementation of computer system integration solutions for the consolidation of information in the existing systems and the homogenization of software and hardware used. This computer system shall also manage a "Data Warehouse" type database used for the development of an application for Business Intelligence and reporting;
- the implementation of efficient e-mail solution with advanced management, monitoring and use capacities;
- the implementation of a new solution for monitoring the flows of documents from



		<p>SNTGN Transgaz SA;</p> <ul style="list-style-type: none"> <li>- the development and upgrading of the IT systems and of the IT and communications infrastructure (IT&amp;C equipment, IP telephony, videoconferencing, teleconferencing, radio networks, etc.) by implementing integrated projects throughout the company;</li> <li>- the implementation of a solution for business continuity in the secondary site, allowing the timely resumption of critical activities and of the company activity at acceptable parameters in the event of interruption or failure of the secondary site;</li> <li>- the upgrading of the current computer security solution based on outdated Checkpoint equipment by adding new functionalities in terms of hardware and software.</li> </ul>		
7	<b>The improvement of occupational health and safety</b>	<ul style="list-style-type: none"> <li>■ The implementation and certification of the Occupational Health and Safety Management System (OHSMS) pursuant to SR-OHSAS 18001:2008, which aligns the company to the international management systems and enables the continuous control of risks to the health and safety of its own employees or of the suppliers that are operating on the premises of the organization.</li> </ul> <p><b>Objective achieved - System IMPLEMENTED and certified in 2014 and recertified in 2015 and 2016.</b></p>		
8	<b>The improvement of the general internal and external communication process inside the company, of the corporate image</b>	<ul style="list-style-type: none"> <li>- The increase in the level of representation of SNTGN Transgaz SA internally and internationally and the improvement of the quality of communication and representation (establishment of representation offices, departments responsible);</li> <li>- The improvement of the existing procedure process of the company with regard to the overall communication regarding the level of representation and the employees with duties in this area;</li> <li>- the development of training programs for the employees in charge with communication and representation of the company at different levels and based on topic;</li> <li>- the implementation of a coherent, efficient and dynamic policy of communication and social responsibility that meets the demand for information and the social needs of the interested public and of the community;</li> <li>- the efficient management of the internal</li> </ul>		



		<p>and external channels and streams of data and information;</p> <ul style="list-style-type: none"> <li>- the continuous improvement of action vectors in terms of internal and external communication quality and its financial dimension;</li> <li>- the permanent alignment of the corporate image to the requirements and standards of image, transparency, communication and public relations imposed by its status as a listed company;</li> <li>- the development, at corporate level, of the media communication plans in times of crisis;</li> <li>- the implementation, at top and medium management level, of the "open door policy" method</li> </ul>		
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After summarizing the data presented above in a matrix of the strategic objectives undertaken under the Management Plan undertaken by SNTGN Transgaz SA in the period between 2013 and 2017 and the way the company acted in order to achieve / fulfill them, we achieve the following assessment:

UNDERTAKEN STRATEGIC OBJECTIVE	No.	Objective undertaken under the Administration Plan 2013-2017	Objective initiated / started	Objective that continues
A. ENERGY SECURITY AND SAFETY	1	The strengthening of the role of SNTGN Transgaz SA Medias as gas transmission system operator on the European and national energy market as a result of the EU requirements regarding the development of NTS interconnection with similar transmission systems in the neighboring countries, the potential of exploit the significant reserves of natural gas discovered in the Black Sea and of the shale gas in the future;		
	2	The completion of the interconnection between the gas transmission systems of Romania and Bulgaria on the Giurgiu – Ruse route;		
	3	The creation of the technical conditions necessary to ensure the bi-directional flow of natural gas on the interconnection between Romania and Hungary on the Arad-Szeged route;		
	4	The continuation of the actions for the conclusion of the development agreements referring to the interconnection of NTS with similar transmission systems of the neighboring countries;		
	5	The development of business by optimizing the absorption of European funds and the creation of efficient and flexible financing structures.		
<b>5 OBJECTIVES UNDERTAKEN AND STARTED of which 4 OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE</b>				
B. COMPETITIVENESS	1	The optimization and streamline of the management systems and processes throughout the company, of the quality of operational processes and their alignment to the requirements of the Integrated Management System for Environment Quality (IMSEQ) and of the modern standards of performance and competitiveness;		
	2	The intensification of design and scientific research in the transmission of natural gas;		
	3	The minimization of the technological consumption;		
	4	The improvement of the quality of investment programs of upgrading and development, of the programs for repair, rehabilitation and maintenance of the NTS		
	5	The completion of the implementation of the SCADA data control and acquisition system;		



	6	The optimum sizing of the necessary human resources compared to the actual needs of the business and the development of the company;		
	7	The improvement of the process for training, teaching and development of the employees;		
	8	The optimization of the quality good corporate governance principle implementation;		
	9	The optimization of the cTSO budgetary control process.		



9 OBJECTIVES UNDERTAKEN AND STARTED of which 8 OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE				
C. SUSTAINABLE DEVELOPMENT	1	The strengthening and diversifying of the internal and external cooperation relations of SNTGN Transgaz SA		
	2	The optimization of the management of risks that may affect the company's activity.	65%	
	3	The optimization of labor productivity in physical units (Km of rehabilitated pipelines / average number of employees) and in units of value (turnover / average number of employees)		
	4	The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment		
	5	The maintenance of financial balance and operational stability		
	6	The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream metering and regulating stations not connected to the transmission system)		
	7	The improvement of occupational health and safety		
	8	The improvement of the general internal and external communication process inside the company, of the corporate image.		
8 OBJECTIVES UNDERTAKEN AND STARTED out of which one reached 65%, of which 7 UNDERTAKEN OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE				
22 OBJECTIVES UNDERTAKEN AND STARTED of which: 1 objective achieved 65%; 19 STARTED OBJECTIVES CONTINUE; 3 COMPLETED OBJECTIVES				

### 3. Performance objectives and criteria pursuant to the mandate - Degree of fulfillment

Because performance matters on the road to excellence, the Board of Administration of SNTGN Transgaz SA had in view the determination of the performance criteria and objectives, SMART performance indicators metering the business, profitability and productivity, effectiveness of quantitative and qualitative objectives set and expressing the company's strategic development direction and its dynamics between 2013 and 2017.

Although all performance indicators are important, some indicators are important at strategic level and they are the ones that are part of the functional areas of the company.

Throughout the process of strategic forecast regarding the administration of SNTGN TRANSGAZ S.A. Medias in the period between 2013 and 2017, the changes to the current strategy are translated into strategic objectives that determine the reasons why new initiatives for the company's managerial redesign and the use of major investment programs for the development and upgrading of the NTS, for business development and international cooperation are appropriate and necessary for the sustainable development of the company.

The performance criteria and objectives established in the Administration Plan of SNTGN Transgaz SA for the period between 2013 and 2017 also appear in the Management Plan and are deemed as economic, financial and managerial performance objectives for the management company.

No.	Indicator	2013	2014	2015	9 months 2016	2017	
1	Investments commissioned (thousand RON)	Performance objective	Achievement of scheduled level				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	219,028	195,400	254,000	141,000	250,000
		Achieved	212,367	118,843	289,763	60,270	

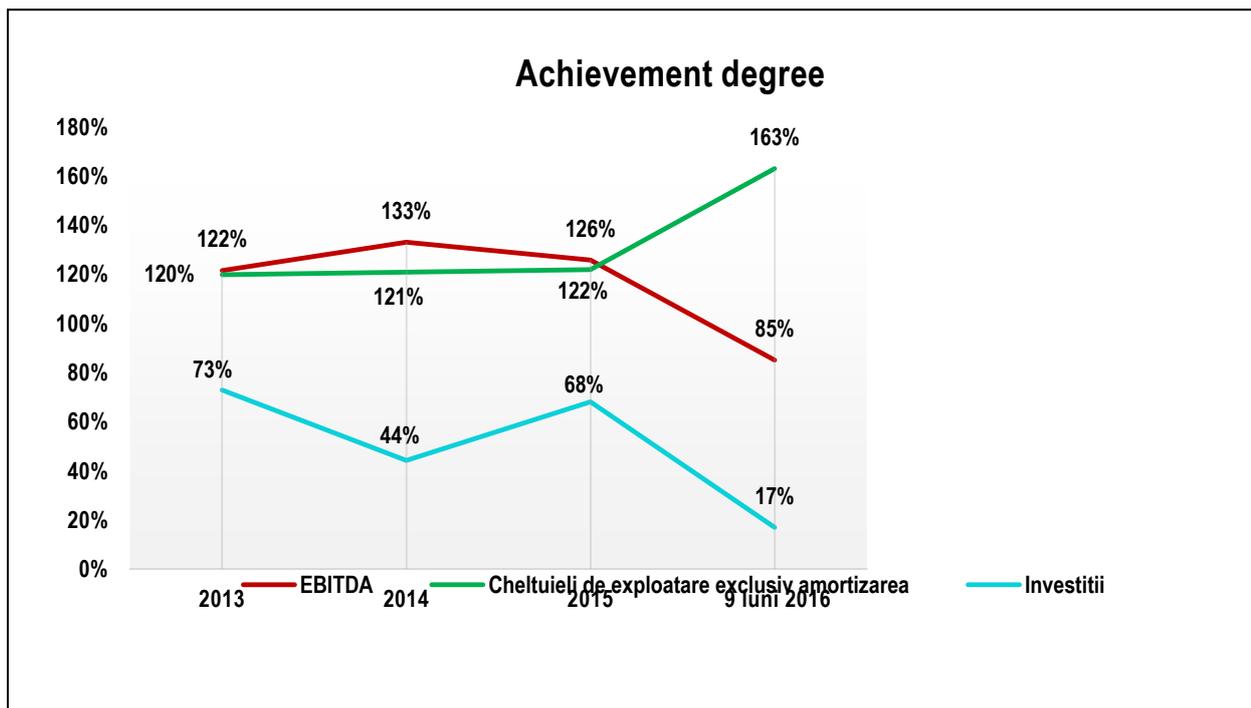
2	EBITDA (thousand RON)	Degree of achievement	96.96%	60.82%	114.08%	42.74%	
		Level of achievement depending on weighting coefficient	14.54%	9.12%	17.11%	6.41%	
		Performance objective	EBITDA growth				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	589,084	583,753	619,625	675,539	713,346
		Achieved	715,873	776,861	779,579	85.09%	
3	Labor productivity (RON/person)	Degree of achievement	121.52%	133.08%	125.81%	574,829	
		Level of achievement depending on weighting coefficient	18.23%	19.96%	18.87%	12.76%	
		Performance objective	Increase in labor productivity in units of value (turnover / average no. of employees)				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	303,621	327,472	344,627	372,217	388,155
		Achieved	300,610	332,567	331,000	243,442	
		Degree of achievement	99.01%	101.56%	96.05%	65.40%	
		Level of achievement depending on weighting coefficient	14.85%	15.23%	14.41%	9.81%	

No.	Indicator		2013	2014	2015	9 months 2016	2017
4	Outstanding payments (thousand RON)	Performance objective	Making payments within the contract duration (in current prices)				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	0	0	0	0	0
		Achieved	0	0	0	0	
		Degree of achievement	100%	100%	100%	100%	
		Level of achievement depending on weighting coefficient	15%	15%	15%	15%	
5	Outstanding receivables (RON)	Performance objective	Decrease of volume of outstanding receivables (in current prices)				
		Weighting factor	0.1	0.1	0.1	0.1	
		Administration Plan	76,000	72,200	68,590	65,075	61,821
		Achieved	79,424	99,724	186,479	250,370	
		Degree of achievement	95.69%	72.40%	36.78%	25.99%	
		Level of achievement depending on weighting coefficient	9.57%	7.24%	3.68%	2.60%	
6	Technological consumption (%)	Performance objective	Compliance with the quantities of natural gas representing the technological consumption				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	100%	100%	100%	100%	100%
		Achieved	62%	41%	38%	40%	

		Degree of achievement	161.29%	243.90%	263.16%	252.52%	
		Level of achievement depending on weighting coefficient	24.19%	36.59%	39.47%	37.88%	
		Performance objective	Decrease of operating expenditure per RON 1000 of operating incomes				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	737.27	759.24	748.64	735.09	724.57
		Achieved	647.25	642.63	647.6	668.65	
		Degree of achievement	113.91%	118.15%	115.60%	110%	
		Level of achievement depending on weighting coefficient	17.09%	17.72%	17.34%	16.49%	
		Level of achievement depending on weighting coefficient	113.49%	121.22%	125.90%	100.95%	
	<b>TOTAL</b>	Level of achievement depending on weighting coefficient	<b>113.49%</b>	<b>121.22%</b>	<b>125.90%</b>	<b>100.95%</b>	
7	Operating expenditure per RON 1000 of operating incomes (RON)						

#### PERFORMANCE CRITERIA AND OBJECTIVES FOR CALCULATION OF THE VARIABLE COMPONENT OF REMUNERATION

No.	Indicator		2013	2014	2015	9 months 2016	2017
1	EBITDA (thousand RON)	Performance objective	Achievement of EBITDA goal undertaken under the Administration Plan				
		Administration Plan	589,084	583,753	619,625	675,539	713,346
		Achieved	715,873	776,861	779,579	574,829	
		Degree of achievement	121.52%	133.08%	125.81%	85.00%	
2	Operating expenditure excluding depreciation (thousand RON)	Performance objective	Decrease in level of operating expenditure compared to level undertaken under the Administration Plan				
		Administration Plan	958,976	1,061,920	1,077,002	1,126,733	1,139,606
		Achieved	800,767	878,458	883,818	689,453	
		Degree of achievement	119.76%	120.88%	121.86%	163.00%	
3	Investments (thousand RON)	Performance objective	Increase in level of investments actually made compared to level undertaken under the Administration Plan				
		Administration Plan	279,462	343,832	352,200	369,200	381,820
		Achieved	203,763	151,776	239,554	63,439	
		Degree of achievement	72.91%	44.14%	68.02%	17.00%	



*Operating expenses excluding depreciation*

#### PERFORMANCE CRITERIA FOR THE NATURAL GAS TRANSMISSION SERVICE

Performance Indicator (No. of article)	Objective	2013	2014	2015	9 months 2016
IP1 – Resolving requests for access for connection to the NTS (Article 5)	98%	100%	100%	100%	100%
IP2 – Execution of the installation for the NTS connection as per the requests for access (Article 6, letter (a) and (b))	98%	100%	100%	100%	100%
IP4 – Information on the resumption of service provision (Article 8 (1) letters (a) and (b))	95%	100%	100%	100%	100%
IP5 – Notification of scheduled interruptions in the service and its resumption (Article 9 (1))	100%	100%	100%	100%	100%
IP6 – Resolution of complaints coming from NTS users on natural gas metering (Article 10 (1) letters (a) and (b))	98%	100%	100%	100%	100%
IP7 – Resolution of complaints regarding the integrity and safe operation of the NTS (Article 11 paragraph (2))	95%	100%	100%	100%	100%
IP8 – The TSO's obligations to inform the applicants / users as set forth in other regulations of ANRGN (Article 12)	95%	100%	100%	100%	100%
IP11 – Safety Indicators (Article 15 (1) letter (a)) RCA	maximum 8,3%	7,0%	7,4%	7,5%	7,6%
(Article 15 (1) letter (b)) NAP	0,8	0,04	0,01	0,01	0,01

(Article 15 (1) letter (c)) NAP<sub>T</sub>

0,1

0,00

0,00

0,00

0,00

#### 4. Activity carried out within the Advisory Committees

In order to comply with the legal provisions on the capital market (Law no. 297/2004 on the capital market, as amended, and the Code of Corporate Governance of the Bucharest Stock Exchange), the Board of Administration approved by Resolution No. 7/27.05.2013 the update of the structure and composition of the Advisory Committees as follows:

- the Nomination and Remuneration Committee;
- the Audit and Rating Committee;
- the NTS Safety and Security Committee;
- the Strategy and Development Committee;
- the Committee for Regulation and Relations with public authorities

The Internal Regulations on the organization and operation of the Advisory Committees established by the company's Board of Administration (pursuant to Article 34, Article 35, paragraph 2 and Article 55, paragraph 2 and paragraph 3) (the latest version approved by the Board Resolution no. 39/17.12.2015) includes information on:

- the structure of the Advisory Committees;
- the members of the Advisory Committees;
- the duties of the Advisory Committees.

The Advisory Committees established by the Board of Administration are responsible for carrying out analyses and for making recommendations to the Board of Administration in the specific areas, submitting regular/quarterly reports on their activity.

The composition of the Advisory Committees (equivalent to the mandate term) established under the Board of Administration, pursuant to Law No. 31/1990, Article 138<sup>1</sup>, paragraph 2, Article 138<sup>2</sup>, paragraph 2, Article 140<sup>2</sup>, paragraphs (1) and (2), the Government Emergency Ordinance no. 109/2011, as amended and supplemented, Article 34, Article 35, paragraph 2 and Article 55, paragraphs (2) and (3), and of the Code of Corporate Governance is as shown in Chapter I:

I am a member of the following Advisory Committees:

THE NOMINATION AND REMUNERATION COMMITTEE
THE AUDIT AND RATING COMMITTEE
THE COMMITTEE FOR REGULATION AND RELATIONS WITH PUBLIC AUTHORITIES



The activity carried out along with the other administrators, who are members in these Advisory Committees, was constructive, analytical and in line with the duties set for each of these Committees and has consisted primarily of:

- **Consultations** on the materials / documents prepared by various entities within the SNTGN Transgaz SA organizational structure (departments / divisions / services) and submitted to the **Committee**;
- **Analyses** carried out based on the following documents: Reports / Notes / Briefings;
- **Proposals / Measures / Recommendations** to the Board of Administration, after analyzing the submitted documents

In details, the activity carried out by the Advisory Committees is presented in the Reports concluded, reports stored in the archive of SNTGN Transgaz SA.

*The Internal Regulations on the organization and operation of the Advisory Committees established at the Board of Administration include the tasks set out as follows:*

## THE NOMINATION AND REMUNERATION COMMITTEE

- coordinates the process for the appointing of Board members;
- develops and proposes to the Board of Administration the Procedure for election of Board members;
- makes recommendations for both the administrator position and for the occupation of vacancies in the Board of Administration;
- assesses the aggregate of professional skills, knowledge and experience of the Board of Administration, of the administrators and of other management positions;
- establishes the requirements for the occupation of a certain position in the company management;
- develops and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and of other management positions;
- recommends the Board of Administration candidates for the listed positions;
- applies the best corporate governance practices by improving knowledge of the company's business and constantly updating the professional skills of the Board members;
- develops the remuneration policy for administrators;
- submits to the General Meeting of Shareholders such remuneration policy for approval;
- makes proposals on the remuneration of directors and other management positions;
- informs about the remuneration policy in the company's Bylaws/ Rules of Corporate Governance;
- indicates in the Annual Report the total amount of the administrators and directors' direct and indirect remuneration, broken down per fixed and variable components of such remuneration; for the determination of the non-executive administrators' remuneration it shall observe the principle of such remuneration being directly proportional to the responsibility and the time devoted by them to the duties;
- draws up an annual report on the remuneration and other benefits granted to administrators and directors during the financial year, a report which is submitted to the General Meeting of Shareholders and includes information set forth in Article 55, paragraph (3) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises;
- may benefit, if necessary, from assistance from external experts for the performance of the tasks required.

## THE AUDIT AND RATING COMMITTEE

- assists and makes the Board of Administration proposals for establishing the accounting and financial control system, the financial and budgetary planning;
- assists the Board of Administration in fulfilling its responsibilities in terms of financial reporting, internal control, risk management and company rating;
- regularly assesses the efficiency of the financial reporting, internal control and risk management system adopted by the company;
- conducts an annual evaluation of the internal control system and submits relevant reports to the Board of Administration;



- assesses the conflicts of interest related to the transactions of the company and of its subsidiaries with the affiliates;
- monitors the application of the legal standards and of the generally accepted internal audit standards;
- receives and assesses the reports from the internal audit team;
- submits regular reports to the Board of Administration;
- develops and submits to the Board of Administration for approval an opinion on the policy that would ensure that any transaction of the company with any of its close partner companies whose value is equal to or greater than 5% of the net assets of the company (pursuant to the latest financial report) is approved by the Board;
- meets whenever necessary, but at least twice a year for the issuing of the biannual and annual results, when it makes sure they are distributed to the shareholders and to the public;
- verifies the compliance of the prepared audit reports with the audit plan approved by the company;
- provides support to the Board in monitoring the reliability and completeness of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting standards applied by it;
- cooperates with the external financial audit of the company, which shall submit to it a report describing all the existing relations between the latter, on the one hand and the company and the group it is part of, on the other hand;
- makes recommendations to the Board of Administration on the selection, appointment, reappointment replacement of the financial auditor and on the terms and conditions of his/her remuneration;
- monitors the independence and objectivity of the financial auditor in particular by monitoring the rotation of the partners dedicated to the Issuer in the audit company; performs the tasks set forth in Article 47 of the Government Emergency Ordinance no. 90/2008, approved with amendments by Law no. 278/2008, pursuant to Article 34, paragraph (3) of the Government Emergency Ordinance no. 109/2011, as amended and supplemented.

#### **THE COMMITTEE FOR REGULATION AND RELATIONSHIP WITH PUBLIC AUTHORITIES**

- assists the Board of Administration in analyzing the regulating activity and of the legal obligations devolving upon the company in this field;
- monitors the relationships with the public authorities and assists the BoA during the management of the collaboration policy;
- monitors the compliance by the company with the obligations provided by the regulations incidental to the activity performed;
- analyses and sends to the Board of Administration proposals on the regulation framework.

## **5. Supervision and control of the company's management**

The Board of Administration is the main BoA supervising the company's activity and operates as a buffer between the executive management of the company represented by directors and its shareholders.

The Board of Administration is headed by a chairman appointed by the General Meeting of Shareholders from among the Board members. The Chairman of the Board of Administration is the Director - General of SNTGN "Transgaz" S.A. The Board of Administration delegated the management of the company to the Director - General of SNTGN "Transgaz" S.A. The Director - General of SNTGN "Transgaz" S.A. represents the company in its relations with third parties.



During the mandate, the number of Board meetings and of General Meetings of Shareholders is shown in the table below:

Year	No. of Board resolutions	No. of resolutions made by the Ordinary General Meeting of Shareholders	No. of resolutions made by the Extraordinary General Meeting of Shareholders
2013	26	7	5
2014	45	4	3
2015	41	4	3
2016	49	5	3

Based on the strategy approved under the Administration Plan, in order to ensure effective supervision of the company management, general guidelines were established in relation to strategies per areas and policies of the company (operational, development, investment, human resources, commercial policies, code of ethics, code of corporate governance, treasury policies, policies regarding the occupational health and safety, the relations with the investors, the public communication and social responsibility, etc.) designed to define the course of action and the organizational intervention ways to streamline the company's activity.

In order to be informed and to make effective decisions, the Board of Administration periodically asks the executive management to provide it with briefings / reports on the planning, budget execution and progress made in implementing the objectives set forth in the Administration Plan, reports on the status of activities within the departments / divisions, i.e.:

- **Monthly Activity Report** for each department / division;
- **Activity Report regarding the company's activity**, developed bimonthly (preliminary and final).

**Other Reports the Board of Administration requires from the executive management:**

■ Quarterly Report on the execution of the mandate, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, as amended and supplemented.
■ Quarterly, half-yearly, annual Financial Reports pursuant to IFRS-EU
■ Statutory Auditor's Report;
■ Internal Auditor's Report;
■ Management's report on the financial statements;
■ Assessment Report pursuant to the Internal Control / Managerial System;
■ Report (CSR) on the Corporate Social Responsibility;
■ Declaration APPLY or EXPLAIN / the status of compliance with the new Code of Corporate Governance of the BSE;
■ Quarterly report of the heads of departments and divisions and of the heads of independent services;
■ Quarterly report of the territorial exploitations within SNTGN Transgaz SA and of the Medias subsidiary office.

The Board of Administration sends the General Meeting of Shareholders **annual reports on their activity, as they are required** by the Government Emergency Ordinance no. 109/2011, as amended and supplemented, the accounting and financial and sectoral laws related to the company's business.

The **system of procedures established** for each of the procedural activities of the company is one of the effective tools for supervising the company's activity as part of the mechanism for monitoring and control of the actions taken for the fulfillment of the objectives set.

**The divisions for supervision and control of the company's executive management activity** were focused mainly on the following areas of action and organizational intervention:





Managed by a Board of Administration composed of professional administrators with extensive expertise in the field, SNTGN TRANSGAZ SA has managed to achieve economic and financial performances year by year and to be subject to an upward trend in terms of business and human resources development contributing to its execution, stock exchange capitalization.

The Transgaz Board of Administration meets at the company's registered office or in any other another place which it establishes, whenever necessary but at least once every three months, and is convened by the Chairman of the Board following the request of two Board members or by the Director - General. During the meetings, the Board of Administration shall adopt resolutions conducive to the fulfillment of the duties in an effective and efficient manner.

**While exercising the powers / duties I have as set forth in the Articles of Incorporation and the Mandate Agreement as a non-executive administrator of Transgaz, I have been in charge with the supervision and control of the executive management in the spirit of good corporate governance practices and of the professional ethics, with full responsibility, good faith and professionalism, reliability, sound control and I have spared no effort to fulfil the objectives undertaken for the management of the company during the period between 2013 and 2017.**

**The main powers of the Board of Administration are as follows:**

- establishes the main course of action and development of the company, elaborates the policies of Transgaz SA according to the effective regulations;
- establishes the accounting system and the financial control and approves the financial planning;
- approves the organizational structure and the organizational and operational rules of SNTGN Transgaz SA;
- appoints and revokes the Director - General of SNTGN Transgaz SA and sets his/her remuneration;
- supervises the Director - General's activity;
- prepares the annual report, organizes the general Meetings of shareholders and sets their remuneration and implements their decisions;
- files the petition for the insolvency of SNTGN Transgaz SA to start pursuant to the legal regulations;
- approves the levels of securities for persons acting as administrators;



- concludes legal documents for the acquisition, sale, exchange or pledging the assets of SNTGN Transgaz SA based on the approval of the General Meeting of Shareholders when the law imposes this condition;
- approves the powers of branches per areas of business (economic, commercial, technical, administrative, financial, legal, etc.) in order to achieve the company's field of business;
- approves the conclusion of any agreement for which it has not been delegated the power to the company's Director - General;
- submits every year to the General Meeting of Shareholders, after each financial year ends, the report on the activity of TRANSGAZ SA, the balance sheet and the profit and loss account for the previous year;
- submits to the General Meeting of Shareholders the activity program and the draft budget of income and expenses for the coming year;
- calls the General Meeting of Shareholders whenever necessary;
- establishes the rights, obligations and responsibilities of the TRANSGAZ S.A. employees pursuant to the approved organizational structure;
- decides on the contracting of bank loans, including of external loans, establishes the powers and current bank loans, the trade credits on short and medium term and approves the release of the securities;
- approves the number of jobs and the regulatory documents for the establishment of functional and production departments;
- approves the production, research, development and investment programs;
- approves policies for environmental protection, occupational safety, pursuant to the current legal regulations;
- approves, within the limits of the budget of revenues and expenditures approved by the General Meeting of Shareholders, changes in its structure pursuant to the powers it was authorized for;
- negotiates the collective bargaining agreement by mandating the Director - General and approves the status of the employee;
- ensures and is responsible for the performance of any other tasks and duties established by the General Meeting of Shareholders or as set forth in current laws;
- makes any other decisions regarding the business of the company, except those that are within the competence of the General Meeting of Shareholders;
- elaborates the management plan that includes the management strategy during the mandate in order to achieve the targets and performance criteria established in the mandate contracts;
- approves the internal regulation on the organization and operation of the consulting committees set up at the level of the Board of Administration and the members thereof;
- approves the management plan during the mandate and for the first year of the mandate of the Director - General of TRANSGAZ SA;
- approves the amendment of the secondary object of activity of SNTGN Transgaz SA;
- approves the set up/dissolution of working points – work sites of the NTS.

SNTGN TRANSGAZ SA draws up periodic and continuous reports about important events concerning the company, including but not limited to its financial situation, performance, ownership and management, both in the media and on its website ([www.transgaz.ro](http://www.transgaz.ro)).

The company prepares and disseminates relevant periodical and continuous information pursuant to the International Financial Reporting Standards (IFRS) and to other reporting standards or environment, social and governance standards (ESG). The information is disseminated both in Romanian and in English.

Pursuant to the schedule of financial communication with the Bucharest Stock Exchange, the administrative and executive management of Transgaz has organized and organizes meetings with financial analysts, brokers, financial advisors and investors both during the dissemination of the financial statements and of the economic-financial results and on the occasion of other aspects of the life and activity of the company, impacting the TGN stock prices and the decisions to invest in the company shares.

**The Board members have made and still make decisions in the sole interest of the company and have not taken or shall not take part in any deliberation or decision that creates a conflict between their personal interests and those of the company or of subsidiaries controlled by it.**



Each Board member shall make sure he/she avoids any direct or indirect conflict of interest with the company or a subsidiary controlled by it and, if such a conflict arises, he/she shall refrain from deliberating and voting on such matters pursuant to the legal provisions in force.

In order to ensure the procedural fairness of **the transactions with related parties**, the Board members apply the following criteria but without being limited to them:

- they maintain the powers of the Board of Administration or of the General Meeting of Shareholders, as appropriate, for approving the most important transactions;
- they ask for preliminary opinions on the most important transactions from the internal control structures;
- they approve that the negotiations regarding such transactions are conducted by one or more independent administrators or by the administrators having no links with the parties concerned;
- they use independent experts.

The Board of Administration **sets the corporate policy for dissemination of information** in compliance with the current laws and the company's Articles of Incorporation. This policy must guarantee equal access to information for shareholders, investors and the significant shareholders and it must not allow abuses on confidential information or information about "transactions with itself".

The **Corporate Social Responsibility** is an aspect of corporate governance through which companies initiated various socially responsible actions that can be quantified in terms of sustainability and sustainable performance.

The crucial role played by TRANSGAZ SA in the energy field in Romania and in Europe is naturally associated with its willingness to support the real needs of all those who constantly contribute to the smooth running of its activity. A part of its sustainable development strategy, the social responsibility policy aims to permanently increase the accountability of the company towards the employees, shareholders, partners, community and environment.

The priority areas where TRANSGAZ S.A. gets involved and shall be involved from social point of view are: sustainable development of the community, education, sport, arts and culture, humanitarian activities, health, environment.

Given the successful implementation of the private management throughout Transgaz, the current Board of Administration decided to involve the company in the pilot projects initiated by the Romanian Government in 2015 and 2016, projects on the improvement of corporate governance and on the increase in transparency (*Delivery Unit and Strengthening of Financial Management within State-owned Companies*).

## 6. Risk Management

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The risks identified in the company and requiring proper management and control include:

### Risks related to the natural gas sector

- The risk associated with government intervention in the key infrastructure sectors;
- The amendment of the regulatory framework specific to the natural gas market and of the legal regulations applicable to the company's activity;
- The impact of competing projects on the international transmission of natural gas;
- The seasonal fluctuation of the activity;
- The changing in gas prices in Romania.

### Risks related to natural gas transmission activity

- The regulated nature of the natural gas transmission activity;
- The variations in the price of gas purchased by the company;
- The risk related to the implementation of the new business model of SNTGN Transgaz SA;
- The conclusion of international transmission contracts on the basis of intergovernmental agreements;
- The failure to meet the minimum investment program – an obligation of SNTGN Transgaz SA undertaken under the Concession Agreement;

The risk of failing to improve the profitability of the current activity of gas transmission and the reduction of the technological consumption;  
 The risk regarding the limited access to own sources for financing the development plans;  
 The failure to develop other income generating activities as its main field of business  
 The risk that ANRE does not accept the remuneration of investments made and their inclusion in RAB  
 The risk that the National Transmission System can be affected by natural disasters;  
 The risk on the regime of classified information of SNTGN Transgaz SA;  
 Strong unions that can make the process of optimizing and streamlining the company's business difficult.

**Financial Risks**

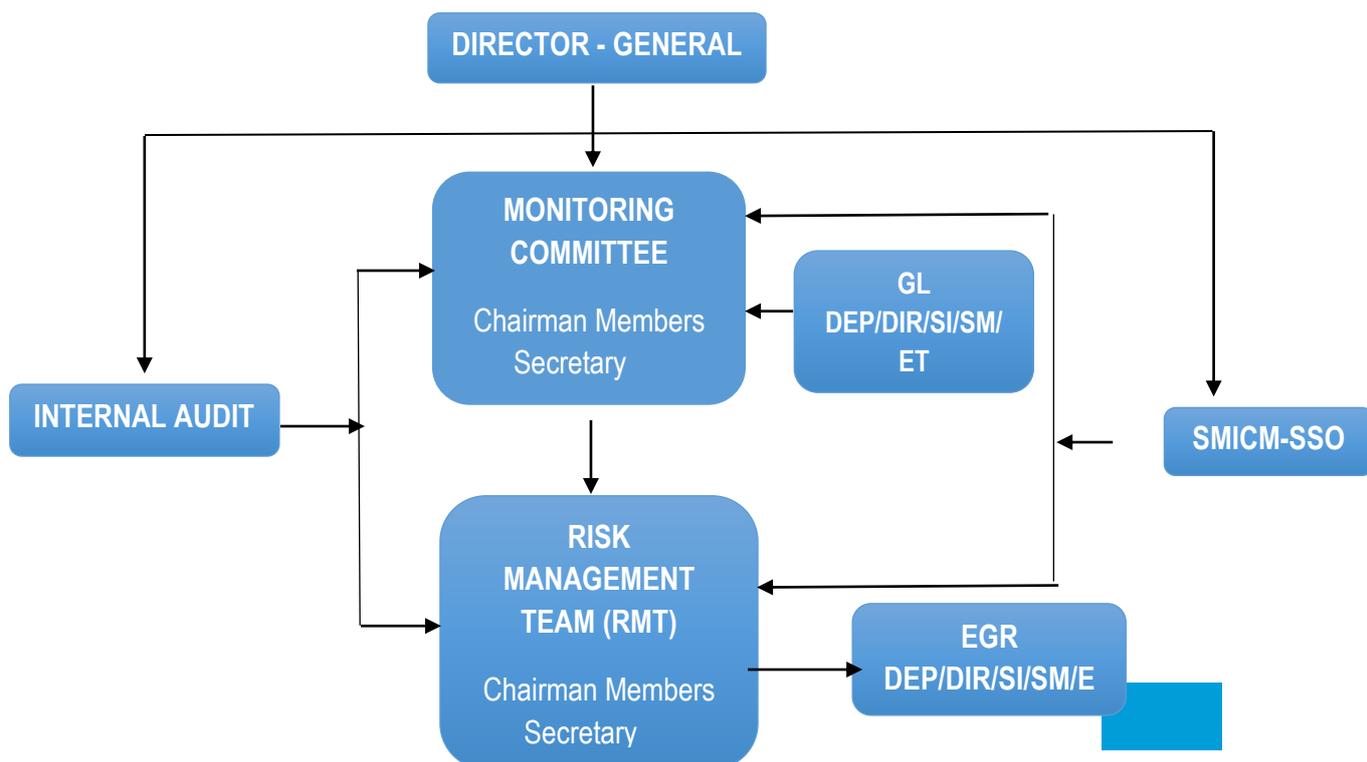
Credits;  
 Exchange rates;  
 Interest rate;  
 Liquidities.

By the nature of the activities carried out, the company is exposed to the risks identified and shown above and, in the event that any of these risks materializes, it could adversely affect the business, financial status and/or operational results of SNTGN Transgaz SA.

By ensuring an effective optimization of the management of risks identified, through the proper and effective implementation and development of a risk management system, of a measure program regarding the risks for the company, the administrators of Transgaz believe that it can avoid / reduce / assume the impact of risks over the company's business and its financial-economic results.

In order to meet the requirements set forth in Order no. 400/2015 issued by the General Secretariat of the Government for approving the Code for Internal / Managerial Control of Public Entities, as amended and supplemented by Order no. 200/2016 issued by the General Secretariat of the Government, lays down the establishment, based on an internal decision, of a structure in charge of managing risks within the company, which is called the Risk Management Team – in Transgaz, the administrators ordered the executive management this measure and so this team was established under Decision no. 518/19.06.2016.

The organizational structure of the Internal Control / Managerial System within SNTGN Transgaz SA pursuant to Order no. 200/2016 issued by the General Secretariat of the Government is as follows:



**NOTE:**

**GL/DEP/DIR/SI/SM/ET** - Working Group per Department / Division / Independent Service / Medias Subsidiary /Regional Office;

**EGR/DEP/DIR/SI/SM/ET** - Risk Management Team per Department / Division / Independent Service / Medias Subsidiary / Regional Offices.

Other activities carried out:

- ✓ the preparation of the **Procedure PP-91 "Development / update of the Risk Register"**;
- ✓ the establishment of the associated specific objectives and performance indicators per departments, divisions - **Annex 1** - "Specific objectives and performance indicators per Department / Division / Medias Subsidiary / Regional Offices " in PP-91 "Development / update of the Risk Register";
- ✓ the establishment of performance indicators and related objectives per departments, divisions, U.M.P. Black Sea;
- ✓ the establishment of activities specific to the Service / Office within the Department / Division / Independent Services in order to fulfill the specific objectives and performance indicators and the inherent risks per activities - **Annex 1** - "Objectives, activities, performance indicators, risk, risk level and control instruments within the Service / Office" in PP-91 "Development / update of the Risk Register";
- ✓ the development of the Programs for the minimization of identified (inherent) risks for the risks identified within department / division up to the level of the department /office;
- ✓ the development and update of the **Risk Register per company** for the risks escalated to the company management and the Program for Measure for Risk Minimization for risks escalated to top management.

As the risk management is a very complex process and the number of departments within the company is relatively high, initially we identified the **operational risks** at office, service, department, company level and have developed risk registers per service, department, company (pursuant to PP-91).

Subsequently, the **Risk Management** procedure was developed and the identified risks shall be subject to the *Risk Management Team* and the *Monitoring Commission* for them to draw up the final Risk Register per company and the Risk Minimization Plans.

**It should be noted that all measures taken to date relate to operational risks**, but other risks identified within the company should be considered and analyzed as well:

- Risks related to the economic environment;
- Risks related to the natural gas field;
- Risks related to the natural gas transmission activity (laws, regulations);
- Financial Risks;
- Risks generated by natural disasters (earthquakes, floods).

## 7. Financial performance achieved during the mandate

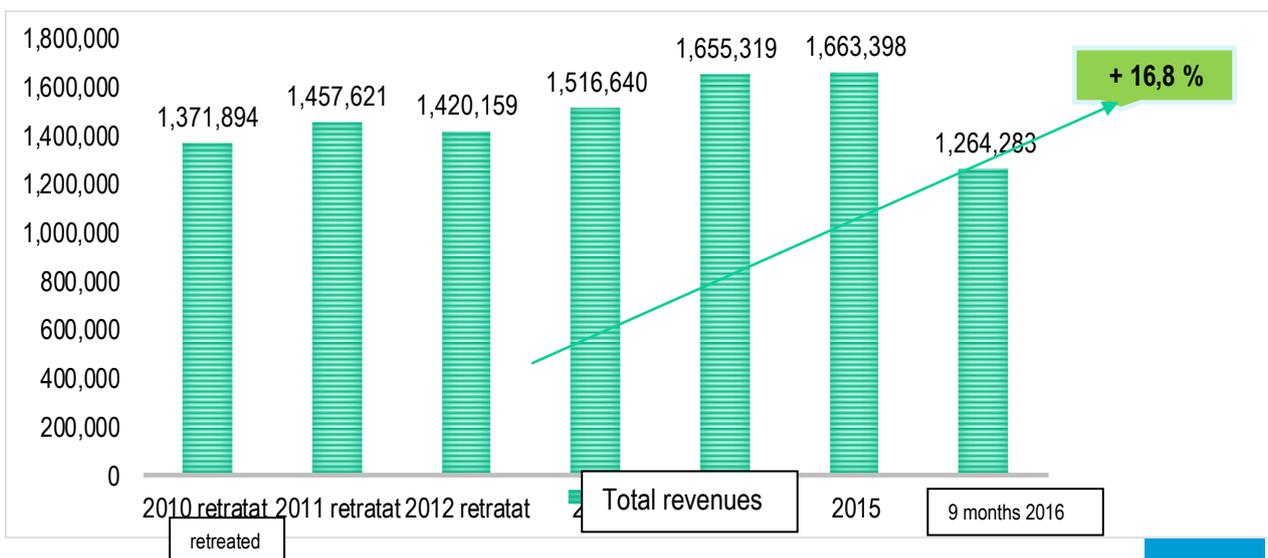
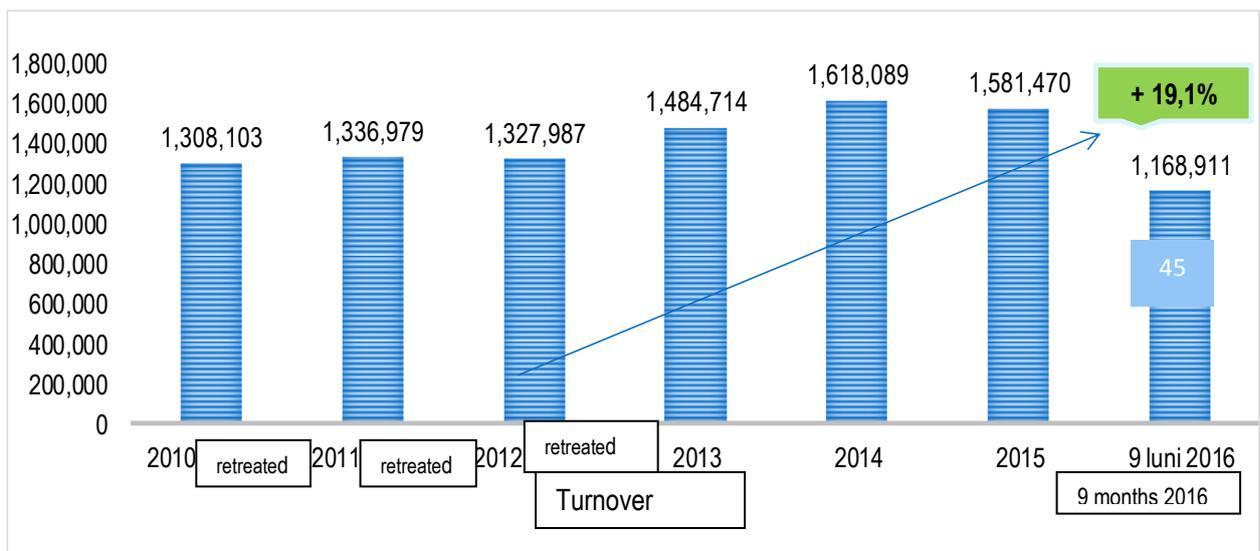
The sustainable financial performance is the main expectation of being a majority shareholder.

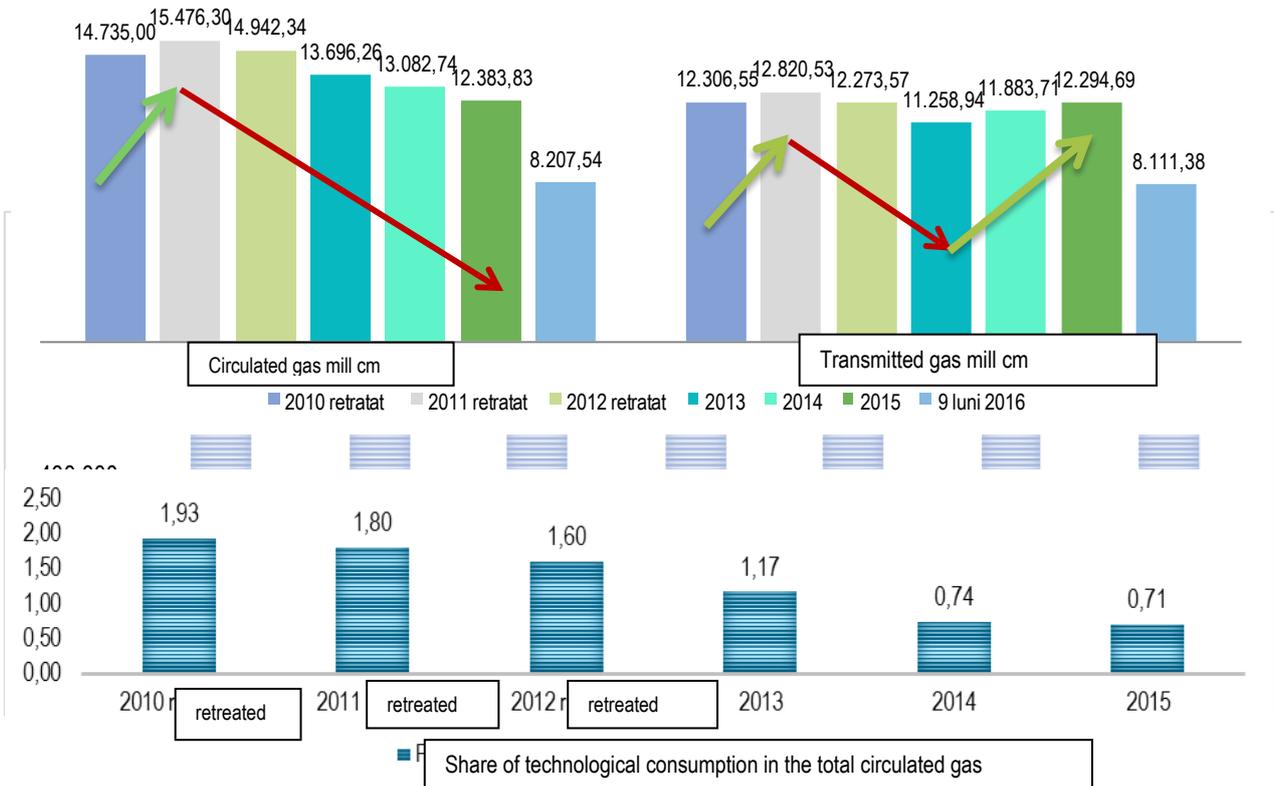
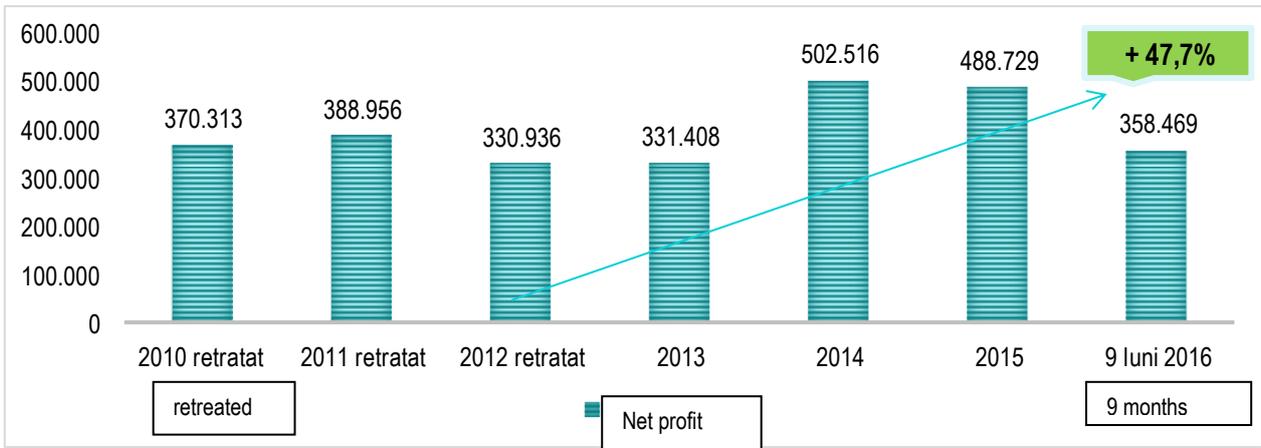
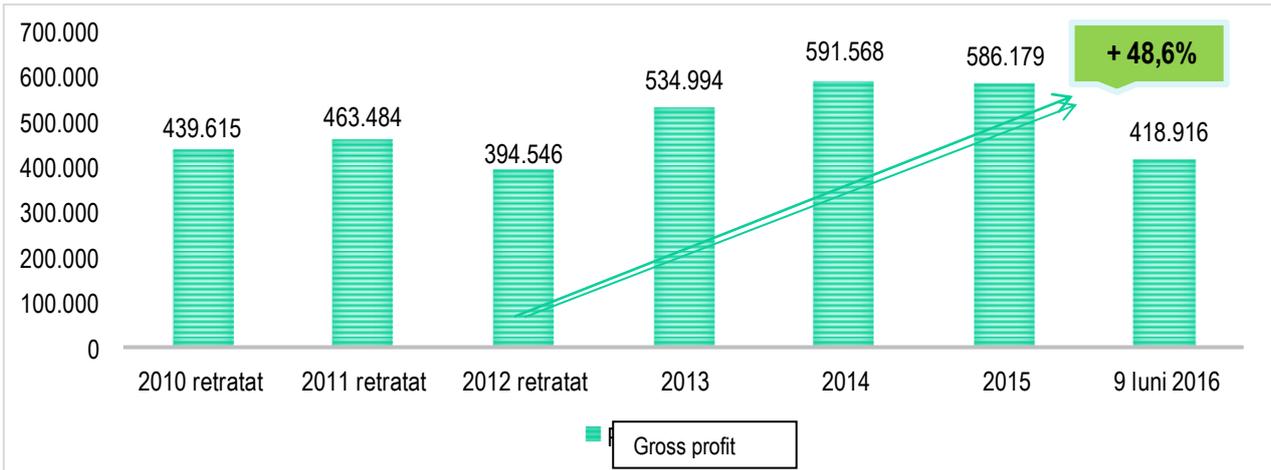
### THE MAIN ECONOMIC AND FINANCIAL INDICATORS

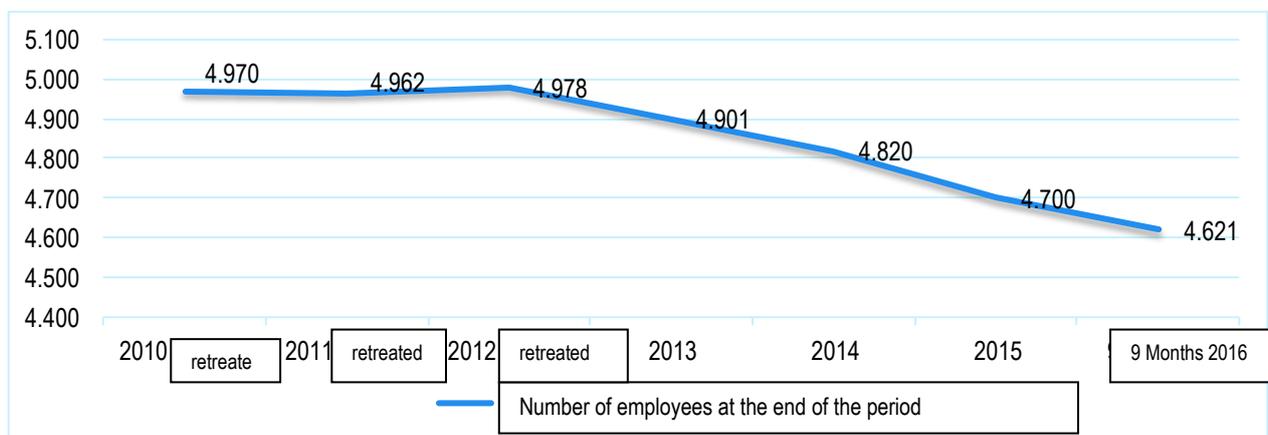
Indicators	2010 Restated	2011 Restated	2012 Restated	2013	2014	2015	9 months 2016
Turnover - thousand RON	1,308,103	1,336,979	1,327,987	1,484,714	1,618,089	1,581,470	1,168,911
Total revenues - thousand RON	1,371,894	1,457,621	1,420,159	1,516,640	1,655,319	1,663,398	1,264,283
Total expenses - thousand	933,279	994,137	1,025,612	981,647	1,063,751	1,077,219	845,366

RON							
Gross profit - thousand RON	439,615	463,484	394,546	534,994	591,568	586,179	418,916
Net profit - thousand RON	370,313	388,956	330,936	331,408	502,516	488,729	358,469
Circulated gas - (million cubic meters)	14,735.00	15,476.30	14,942.34	13,696.26	13,082.74	12,383.83	8,207.54
Transmitted gas - (million cubic meters)	12,306.55	12,820.53	12,273.57	11,258.94	11,883.71	12,294.69	8,111.38
% of technological consumption of total circulated gas	1.93	1.80	1.60	1.17	0.74	0.71	1.03
EBITDA - in total sales	44.67%	47.00%	42.27%	48.22%	48.01%	49.29%	49.18%
Gross profit rate	33.53%	34.54%	29.59%	28.74%	37.74%	38.39%	37.11%
Return on capital	12.51%	12.87%	11.02%	10.87%	15.10%	13.69%	9.95%
Current liquidity ratio	1.58	1.85	1.58	2.17	3.09	4.10	5.23
Number of employees at end of period	4,970	4,962	4,978	4,901	4,820	4,700	4,621

Note: Data pursuant to IFRS-EU for the period 2013-9 months of 2016 and data restated in IFRS-EU for 2010-2012  
**THE EVOLUTION OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS 2015 VS 2012**



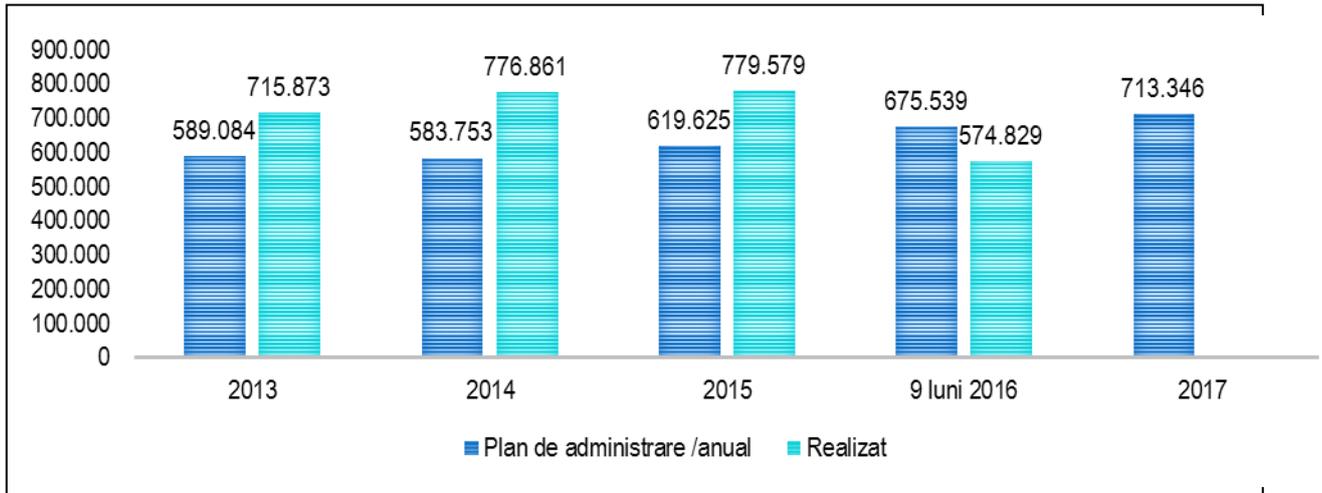




**THE EVOLUTION OF PERFORMANCE INDICATORS TAKEN INTO ACCOUNT FOR THE CALCULATION OF THE ADMINISTRATORS' REMUNERATION VARIABLE COMPONENT**

INDICATOR		2013	2014	2015	9 months 2016	2017
EBITDA (thousand RON)	Performance objective	Achievement of EBITDA goal undertaken under the Administration Plan				
	Administration Plan	589,084	583,753	619,625	675,539	713,346
	Achieved	715,873	776,861	779,579	574.829	
	Degree of achievement	121.52%	133.08%	125.81%	85.09%	
Operating expenditure without redemption (thousand RON)	Performance objective	Decrease in level of operating expenditure compared to level undertaken under the Administration Plan				
	Administration Plan	958,976	1,061,920	1,077,002	1,126,733	1,139,606
	Achieved	800,767	878,458	883,818	689.453	
	Degree of achievement	119.76%	120.88%	121.86%	163.42%	
Investments (thousand RON)	Performance objective	Increase in level of investments actually made compared to level undertaken under the Administration Plan				
	Administration Plan	279,462	343,832	352,200	369,200	381,820
	Achieved	203,763	151,776	239,554	63.439	
	Degree of achievement	72.91%	44.14%	68.02%	17,18%	

Detailed information regarding the evolution of the economic and financial results and of the performance indicators can be found both in the **Administrators' Annual Report**, a public document posted on the company's website and in the annual Financial Statements prepared pursuant to IFRS-EU, also posted on the Transgaz website.

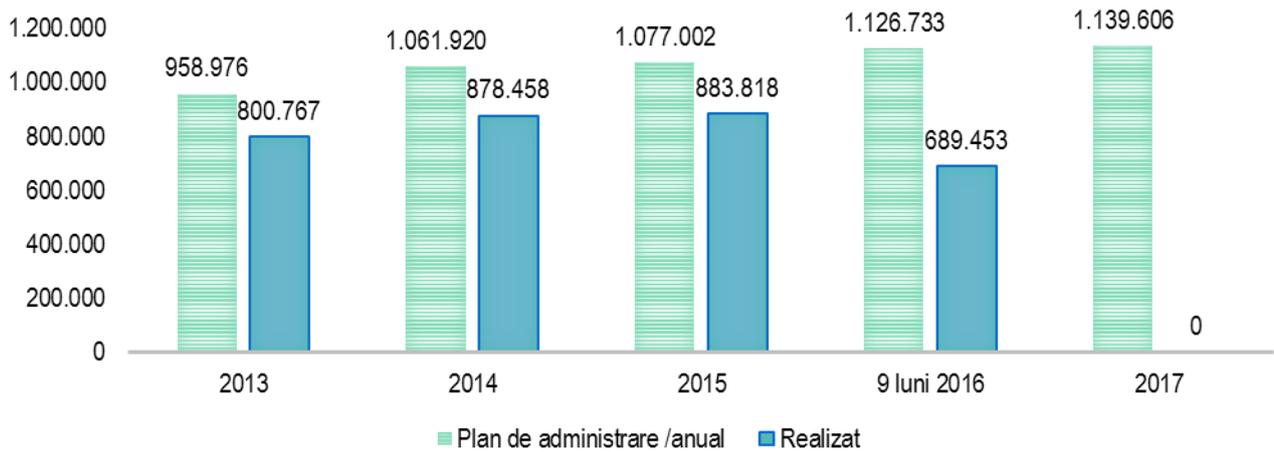


**EBITDA – thousand RON**

**Administration plan/annual**

**Achieved**

**OPERATING EXPENDITURE EXCLUDING DEPRECIATION – thousand RON**

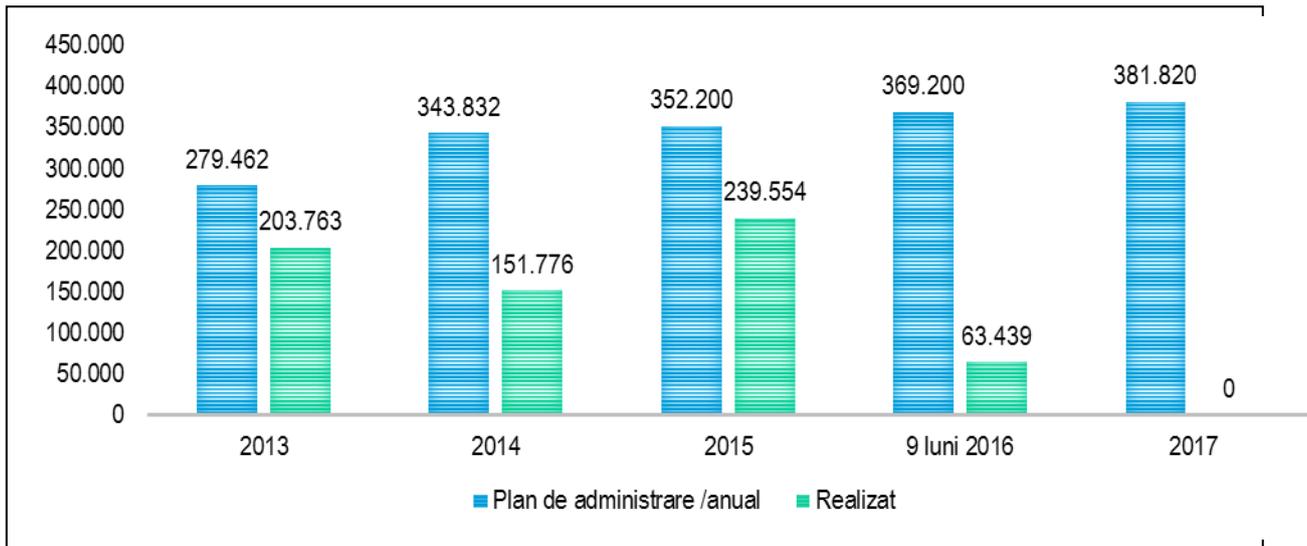


**Administration plan/annual**

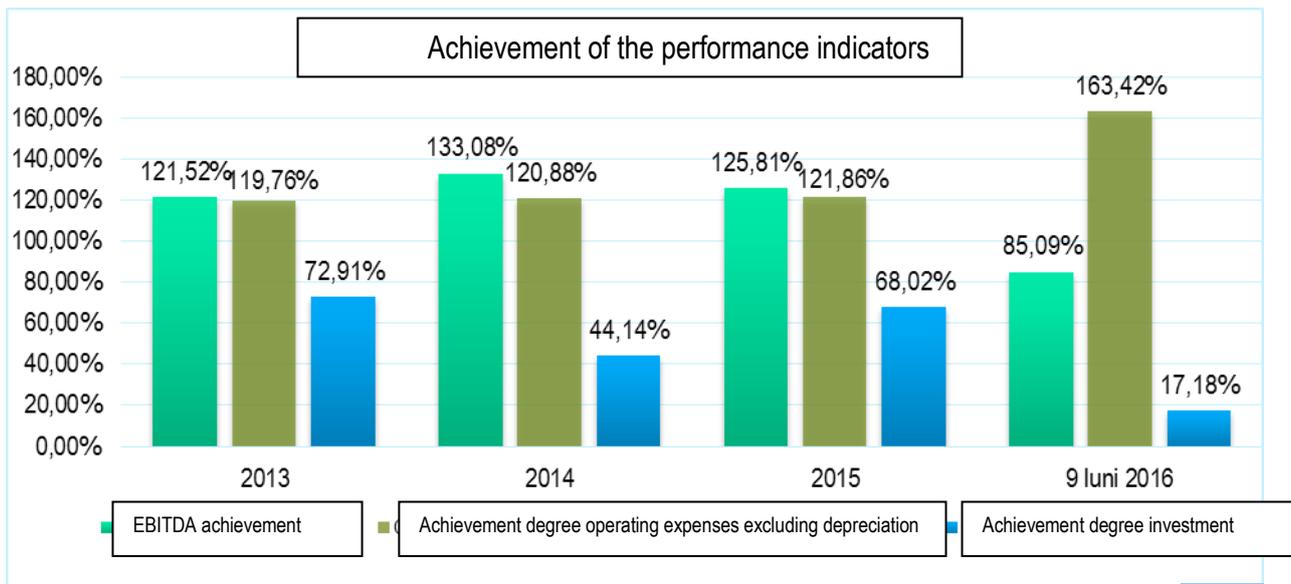
**Achieved**



## INVESTMENTS - thousand RON



### Achievement of the performance indicators



Due to the fact that the implementation and application of the corporate governance principles as they are set forth in the Government Emergency Ordinance no. 109/2011 provide **not only a balance between compliance and performance, but a real increase in economic efficiency and investment climate**, the company's administrators must respond several particular challenges arising from the streamlining and strategic integration of the company into the European natural gas transmission system in light of the natural gas reserves discovered in the Black Sea.

The resources discovered in the Black Sea, together with the complex strategic movements ongoing within the European market of natural gas, are of particular importance for the future of the country and the company's involvement in such events is of special importance not only for its future but also for the energy security of the country for the next two to three decades.

While helping to ensure the energy independence of Romania, SNTGN Transgaz SA is responsible for implementing an investment program of over **Euros 1.5 billion, dedicated to the construction of the national transmission infrastructure for the new natural gas reserves discovered in the Black Sea** and for connecting the NTS to the European infrastructure.

Through the proposed investment projects for the development and upgrading of the natural gas transmission infrastructure, through the implementation of intelligent control, automation, communications and network management systems, **the administrative and executive management of Transgaz pursue both to maximize the energy efficiency throughout the chain of activities carried out and to create an intelligent natural gas transmission system that is efficient, reliable and flexible and able to effectively cope with the future demands for natural gas transmission.**

It should be stressed that the savings made in recent years by timing the TSO of the investments and projects in this period, except those strictly necessary for the security and immediate development of the NTS, underlie the solid basis for its own financing of such projects of strategic importance. In this context, a major challenge for the company in these projects is to benefit from support from the Romanian State in clarifying and facilitating the building permits for these projects of particular importance.

While empowering the mission undertaken on the performance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy established for the national and international transmission of natural gas, SNTGN TRANSGAZ SA, the transmission system operator of the natural gas National Transmission System (NTS), included in the Administration Plan for the period between 2013 and 2017 an investment program amounting to **RON 1,726.5 million.**

The estimation of the investments was made taking into account **the needs and opportunities of development of the NTS and the prospects of development of the national transmission infrastructure for natural gas transmission** in line with the transmission and operation requirements of the European network of gas transmission and of the national and European energy context already known when substantiating the indicators in the Administration Plan.

**It must be emphasized that Transgaz estimated for the period between 2013 and 2017 maximum investments including projects necessary and known when budgeting for the NTS and the probable but still uncertain projects for the development of the NTS.**

The analysis of the fulfillment of the performance indicator "Investments" is shown in the table below:

Investments	Administration Plan 2015		Administration Plan 2014		Administration Plan 2013	
	Thousand RON	%	Thousand RON	%	Thousand RON	%
Investments delayed for legislative reasons	50,658	14%	127,965	37%	34,414	12%
Achievements	239,554	68%	151,776	44%	203,763	73%
Investments delayed due to non-compliance with the execution schedules	24,254	7%	21,408	6%	8,469	3%
Savings from PIF	20,264	6%	9,984	3%	8,021	3%
Investments delayed due to internal causes (design and bids)	17,470	5%	32,699	10%	24,795	9%
<b>TOTAL INVESTMENTS</b>	<b>352,200</b>	<b>100%</b>	<b>343,832</b>	<b>100%</b>	<b>279,462</b>	<b>100%</b>



The reasons why the indicator "Investments" was achieved below the level undertaken in the Administration Plan are mainly determined by:

**a. Difficulty in obtaining the opinion from ROMSILVA**

Following Transgaz' many legal intervention by the entry into force on October 4<sup>th</sup>, 2014 of Law no. 127/2014, Article 130, paragraph (2), letter h) was amended and states that the transmission system operator and system operator has the right "**to use, free of charge, the state-owned pieces of land occupied by the objectives relating to the transmission system and the state-owned pieces of land used for execution, operation, maintenance and repair works, including the pieces of land forming part of the national forest fund, notwithstanding the provisions set forth in Article 42, paragraph (1) letter b) of Law no. 46/2008 – the Forest Code, as amended and supplemented.**"

A legislative gap makes it impossible at this time to obtain the approvals for temporary occupation of the pieces of land in the forest fund from Romsilva. Although Transgaz has a right to use free of charge the areas of the forest fund for public interest for the implementation of new route development programs, **the Forest Code requires that these lands are handed over to Romsilva at the end of the term for which the approval initial was issued although Law no. 123/2012 and Order no. 118/2014 issued by the ANRE President for the approval of the technical norms for the design and execution of natural gas pipelines do not allow reforestation of the underground pipeline protection area.**

Hence, Romsilva refuses to approve the temporary occupation of the pieces of land in the forest fund as requested by Transgaz. In the absence of such approvals, the local and/or county authorities do not issue the building permits and **this causes a major blockage for the development activities of Transgaz.**

In this legislative context, we consider that the amendment of the **Forest Code** is imperative so that it would encompass two provisions essential for the company, namely:

- Transgaz can benefit by exemption from obtaining the Building Permit for constructions at distances less than 50 meters from the edge of the forest, outside the forest fund **without the approval of the territorial structure of the central public authority responsible for forestry;**
- Transgaz can return the temporarily occupied pieces of land for which clearing was or is required for the execution of public works and for which the specific legislation that provides the protection and normal operation of the objectives / systems requires that the pieces of land should not be forested, **into a category of use other than the original.**

However, it is necessary that the provisions set forth in Order no. 694/2016 for approving the Methodology regarding the definitive removal, temporary occupation and land exchange and calculation of financial obligations with the provisions set forth in Order no. 118/2014 approving the technical Norms for the design and execution of natural gas pipelines, regarding the restriction of reforestation of protection areas.

**b. Difficulty in obtaining the owners' consents**

**This issue occurred and Transgaz made numerous efforts to amend certain regulatory documents regulating such situations. Law no. 127 as of September 30<sup>th</sup>, 2014 amended and supplemented the Law on electricity and natural gas no. 123/2012, so that by amending Article 113, Transgaz obtained the following rights:**

*"(1) The rights of use and easement concern the public utility, are legally enforceable and their content is set forth in Article 109 and shall be exercised without registration in the Land Register.*

*(2) The exercise of the rights of use and easement is performed compulsorily throughout the existence of the objective / gas system, both when it is executed and when an operating capacity is modernized, repaired, serviced, in case of intervention works, of failure, under the law, without any **prior formality.***

*(3) For the purpose of granting fair indemnities and compensations related to the exercise of the rights of use and easement, the holders of licenses and permits conclude with the owners of the pieces of land affected by the exercise of the rights of use and servitude a framework convention whose content is determined under a decision made by the Government.*

*(4) The holders of licenses and permits are required to conclude the framework conventions referred to in paragraph (3) not later than 30 days from the request made by the affected owners."*

Under the same regulatory document mentioned above, the free of charge exercise by Transgaz of the right of use and easement over the state-owned pieces of land was obtained, **including for those that are part of the national forest fund**. Although the legal provision is explicit, both the local government public administration authorities and the landowners **do not comply** with Law no. 123/2012 concerning the exercise by the transmission system operator and system operator of the legal rights of use and easement and **there is no legal sanction for this violation**.

**The current situation is clarified by the enactment of Law no. 185/2016 on certain measures necessary for the implementation of the projects of national importance in the natural gas field, a law published in the Official Gazette of Romania Part I no. 848/25.10.2016 and Law no. 197/2016 for the approval of the Government Emergency Ordinance no. 22/2014 amending and supplementing Law no. 50/1991 on the authorization of construction works.**

#### c. **Delays caused by failure to comply with the execution schedules undertaken by contractors**

Due to delays in the supply of tubular material and other equipment, delays occurred also in the compliance with the execution schedules undertaken by the contractors, which led to them being forced to pay penalties as set forth in the contracts.

#### d. **Savings from the planned amount**

The completion of the procurement through electronic auction resulted in a saving of about 6% in 2015, 3% in 2014 and 3% in 2013 from the estimated value as a result of concluding procurement contracts to a value lower than the one undertaken under the Administration Plan.

	Achievements vs Administration Plan 2013			Achievements vs Administration Plan 2014			Achievements vs Administration Plan 2015		
	Undertaken Thousand RON	Achieved Thousand RON	Degree of achievement %	Undertaken Thousand RON	Achieved Thousand RON	Degree of achievement %	Undertaken Thousand RON	Achieved Thousand RON	Degree of achievement %
EBITDA	589.084	715.873	<b>121.52%</b>	583.753	776.861	<b>133.08%</b>	619.625	779.579	<b>125.81%</b>
Operating expenditure excluding redemption	958.976	800.767	<b>119.76%</b>	1,061,920	878,458	<b>120.88%</b>	1,077,002	883,818	<b>121.86%</b>
	<b>Main factors of influence:</b>  <b>Savings of RON 163 million</b> , mainly for the following items of expenditure: technological consumption and losses of natural gas on the transmission system RON 68,898 thousand, due to two factors:  - the quantity of natural gas intended for technological consumption lower than the program by 1,035,200 MWh, with a favorable impact of RON 63,089 thousand;  - the average purchase price lower by 3.49 RON/MWh with a positive			<b>Main factors of influence:</b>  <u>Increased revenues from transmission of natural gas</u> by <b>RON 12,687 thousand</b> due mainly to the reserved capacity increased by 8,481 MWh/h compared to the plan due to the introduction, on August 1 <sup>st</sup> , 2014, of the booking capacity on points of entry and exit and of the quantity of natural gas transmitted increased by 5,645,497 MWh compared to the plan on account of gas transmitted for storage; <u>The increase in revenues from international transmission of natural gas</u> by <b>RON 2,879 thousand</b> , due to variations in the exchange rates of the currencies of the ongoing contracts; <u>The unfavorable difference</u> of <b>RON 5.921 thousand</b> recorded in other			<b>Main factors of influence:</b>  <u>The increase in revenues from the international transmission of natural gas</u> by <b>RON 48,850 thousand</b> due to variations in the exchange rates of currencies of the ongoing contracts; <u>Revenues from reservation of higher capacity</u> by <b>RON 125,183 thousand</b> due to: - the increase in the share of the fixed component from total revenues from 35% to 60%; - the increase in the booked capacity by 208,063,416 MWh due to the introduction, on August 1 <sup>st</sup> , 2014, of capacity reservation on entry-exit points; <u>Revenues from volumetric component lower</u> by <b>RON 244,188 thousand</b> due to: - the decrease in the share of the		

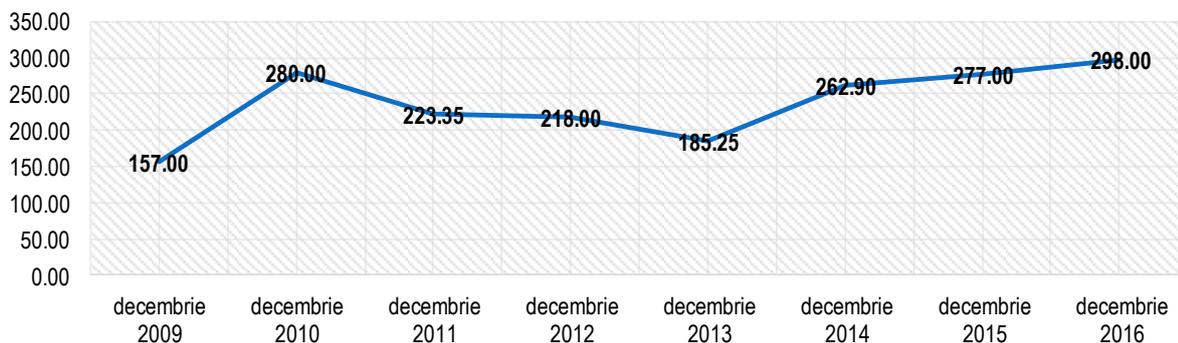


	<p>impact of RON 5,809 thousand;</p> <p>works and services to third parties: RON 63,990 thousand; expenses for materials: RON 4,016 thousand; expenses for other taxes and dues: RON 686 thousand; NTS concession royalties: RON 2,391 thousand; monopoly tax: RON 2,342 thousand.</p> <p><b><u>Overruns of almost RON 4 million</u></b> for the fee for granting a license for the operation of the NTS (RON 263 thousand) and other operating costs (RON 3,639 thousand)</p>	<p>operating income;</p> <p><b><u>Savings of RON 248.2 million</u></b>, mainly for the following items of expenditure: technological consumption and losses of natural gas on the transmission system RON 128,018, due to two factors: the amount of natural gas intended for technological consumption was lower than the program by 1,512,629 MWh, with a favorable impact of RON 130,121 thousand; the average purchase price paid was higher by 2.01 RON/MWh with a negative impact of RON 2,103 thousand;</p> <p>works and services to third parties: RON 79,623 thousand; expenditure for the provision for liabilities and expenditure: RON 6,713 thousand.</p> <p>Overrun of RON 64.8 million, mainly on the following elements of expenditure: taxes and dues: RON 16,237 thousand; royalties for NTS concession: RON 1,557 thousand; other operating costs: RON 46,980 thousand.</p>	<p>fixed component from total revenues from 65% to 40%;</p> <ul style="list-style-type: none"> <li>- the increase the amount of invoiced gas by 11,400,573 MWh (994,693 thousand cubic meters);</li> </ul> <p>The favorable difference of RON 36,926 thousand recorded in other operating income due to the registration of the amounts related to the reversal of income into advance recognized by Transgaz following the exercise of its right to receive the remaining value of investments made in the NTS at the end of the Concession Agreement;</p> <p><b><u>Savings of RON 345.8 million</u></b>, mainly for the following items of expenditure: technological consumption and losses of natural gas on the transmission system RON 197.670 thousand, due to two factors:</p> <ul style="list-style-type: none"> <li>- the quantity of natural gas intended for technological consumption lower than the program by 1,576,799 MWh, with a favorable impact of RON 174,141 thousand;</li> <li>- the average purchase price lower by 24.36 RON/MWh with a positive impact of RON 23,529 thousand;</li> </ul> <p>works and services to third parties: RON 109,632 thousand;</p> <p>other administrative expenses: RON 11,655 thousand;</p> <p>royalty expenses: RON 7,016 thousand.</p> <p><b><u>Overruns of RON 152.9 million</u></b>, mainly in the following expense items:</p> <ul style="list-style-type: none"> <li>- taxes and dues: RON 56,203 thousand, mainly due to tax monopoly;</li> <li>- expenses related to the provision for risks and expenditure: RON 8,697 thousand;</li> <li>- other operating costs: RON 88,005 thousand, mainly due to expenses related to provisions depreciation of receivables.</li> </ul>
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## Indicators of the Transgaz stock activity for the period 2013-2016 versus 2009-2012

Evolution of the closing price of the TGN share (lei/share) in the period 2009-2016



Evolution of the market capitalization TRANSGAZ in the period 2009-2016 RON bln.



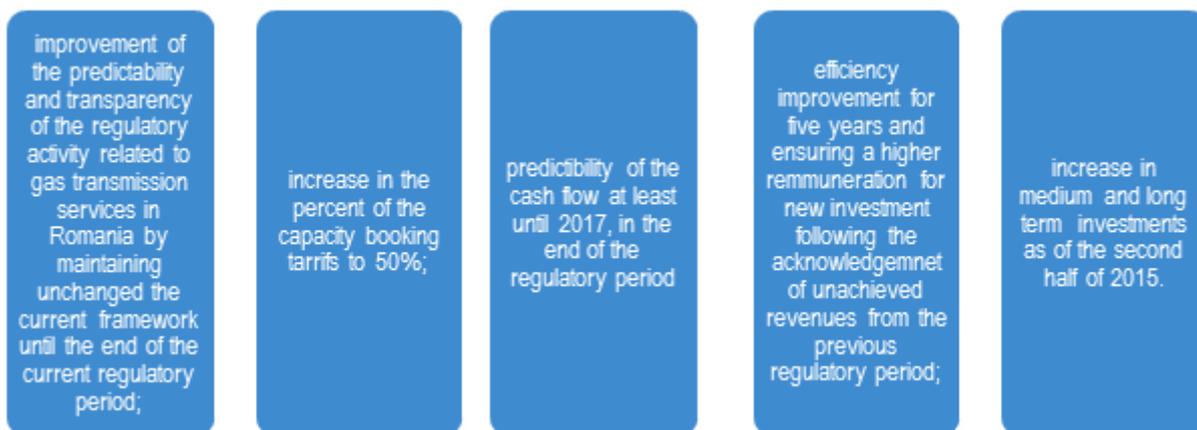
### Transgaz Rating

On June 24<sup>th</sup>, 2015, Standard&Poor's Ratings Services improved the rating of SNTGN Transgaz SA from **"BB"** to **"BB+" with a stable outlook**.

The financial rating agency's decision to improve the rating of Transgaz recognizes the success of the company administrators and executive management's efforts to improve and modernize the operational and institutional transparency, to effectively budget and monitor the investment program of the company and its operating expenses. At the same time, the rating agency recognized the progress made in the activity of the regulatory authority and the preparation of the regulatory framework.

The positive points listed in the Standard&Poor's analysis include:





The stable outlook reflects the opinion of Standard&Poor's stating that the regulatory framework has improved, remains predictable and transparent and Transgaz shall be able to achieve this way strong financial and operational results in the next two or three years. The report also notes that an increase in Romania's rating by two points may result in an improvement in the conditions in which the company's credit profile and the government support remain unchanged.

In the rating history of Transgaz, as it is shown below, **it can be seen that during the mandate of the current Board of Administration, the rating of Transgaz for loans in foreign currency and loans in local currency recorded a positive trend, i.e. from "BB with negative outlook" to "BB + with stable outlook"**.

No.	Date	Rating of loans in foreign currency	Rating of loans in local currency
1	2006	the monitoring of the company begins for the rating to be established	-
2	26 March 2007	BB+ positive outlook	BB+ positive outlook
3	29 February 2008	BBB- negative outlook	BBB- with negative outlook
4	30 October 2008	BB+ negative outlook	BBB- with negative outlook
5	17 February 2010	BB+ negative outlook	BBB- with negative outlook
6	24 March 2010	BB+ stable outlook	BBB- cu stable outlook
7	26 January 2011	BB+ stable outlook	BBB- cu stable outlook
8	5 May 2011	BB+ stable outlook	BBB- cu stable outlook
9	7 December 2011	BB+ stable outlook	BB+ stable outlook
10	11 June 2012	BB+ / under supervision with negative outlook	BB+ / under supervision with negative outlook
11	4 September 2012	BB negative outlook	BB negative outlook
12	8 August 2014	BB stable outlook	BB stable outlook
13	24 June 2015	BB+ stable outlook	BB+ stable outlook

## 8. Self-assessment of the personal activity and of that of the Council

Since the managerial performance is the objective result of a managerial exercise, in the acceptance of the private management of SNTGN Transgaz SA, together with an effective management thinking, the strategic directions that this thinking to materialize has also been defined.

The special professional skills, the extensive management expertise and the ability to control visible and invisible dynamics of the team, its psychology, are just some of the advantages of the private management of SNTGN Transgaz SA, a **sense integrating management**.



**The private and professional management of the company** has succeeded in substantiating the administration and management plans effective in terms of operational intervention and supervision so that through them to achieve the optimization of the activity efficiency and the business development in the context of a national and international environment continuously changing.

As accepted by the private management of the company, the use of modern tools for operational and metering of performance, instruments successfully used the in strategic management, shall allow the effective monitoring of the courses of action established for achieving the strategic objectives concerning the management of the company for the period between 2013 and 2017.

The Board of Administration annually assesses its size, composition and works so that its activity, as seen in relation to the dynamic of the requirements of the Board role and duties, is constantly aligned and hence the decisions made for the management of the company are timely, effective and competitive.

The **Annual Administrators' Report**, a report that shall require the approval of the Ordinary General Meeting of Shareholders (OGMS) together with the annual financial statements, details the management activity of the company compared to the objectives undertaken under the Administration Plan. Also on this term, pursuant to the legal provisions, the administrators of the company submit to the approval of OGMS the discharge from administration.

The structure of the Board of Administration of TRANSGAZ ensures a balance between the executive and non-executive members so that no person or small group of persons can dominate the decision making process of the Board of Administration. The decision-making process within the company is and shall remain a collective responsibility of the Board of Administration, which shall be held jointly responsible for all decisions taken while exercising its powers.

The Board members constantly update their skills and improve their knowledge on the company's activity and on the best corporate governance practices in order to fulfill their role.

The term of the mandate granted is of 4 years. It started on April 30<sup>th</sup>, 2013 and ends on July 9<sup>th</sup>, 2017.

Regarding the activity I have carried out during the 2013-2017 mandate, as a non-executive administrator, I would like to mention that the following have been achieved:

- |  |
|--|
| ■ in compliance with the applicable legislation related to the field of business, the interest of the company and increase of its performance;   |
| ■ in a professional and competent manner while pursuing efficiency and excellence in business;   |
| ■ in good faith, with loyalty and with the mandate of a good manager of state property and other shareholders;   |
| ■ in the spirit of best corporate governance practices;  |
| ■ in a transparent, prudent manner and with utmost responsibility and seriousness;   |
| ■ in compliance with the standards of moral and professional ethics and integrity;   |
| ■ through total commitment and acceptance of tasks and projects of national and international strategic scale;   |
| ■ effectively and based on consensus and effective communication both during the actions undertaken and the decisions made for the management of the company;  |
| ■ in a sustainable manner through remodeling and development of business by strategically repositioning the company, which became a major player on the European, regional and international energy scene; |
| ■ through total professional support granted in my area of expertise but also through collaboration with the other administrators in other areas of reference of Transgaz activity.                        |



The current Board of Administration of SNTGN Transgaz SA has acted in a collective and unitary manner pursuant to the legal provisions in force and has strictly complied with the terms of the mandate granted and the commitments made on the management of the company in 2013-2017.

If I summarize on the architecture, competence and work of the current Board of Administration of SNTGN TRANSGAZ S.A., I can add the following:



Self-assessment report prepared by the Board members on the compliance of the activity with the requirements of the New Code of Corporate Governance of the Bucharest Stock Exchange



SNTGN Transgaz S.A., as a company listed on the BSE in the Premium category, has voluntarily adopted the provisions set forth in the Code of Corporate Governance of the Bucharest Stock Exchange and has been reporting since 2010 its total or partial compliance with the **Declaration on compliance or non-compliance with the Code of Corporate Governance (the Declaration "APPLY or EXPLAIN")** contained in the Administrators' Report.

The companies listed on the stock exchange, which have implemented the corporate governance principles, have to fill out since 2011 the **Declaration "Apply or Explain"**, a document that is part of the Annual Administrators' Report. The new Code was designed by the Bucharest Stock Exchange as part of a new corporate governance framework and aims to promote higher standards of governance and transparency of the listed companies.

The implementation of the new rules is based on the "apply and explain" principle ("Apply or Explain") offering the market clear, accurate and timely information about how the listed companies comply with the corporate governance rules.

Transgaz is fully complying with most of the provisions set forth in the new Code and the provisions the company has not yet complied with were detailed in a current report submitted to the Bucharest Stock Exchange in January 2016; it is also published on the company's website in the section: Informatii investitori / Raportari curente / 2016. Any subsequent compliance the company shall achieve in this regard shall be reported to the capital market.

The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
<b>Section A - Responsibilities</b>			
<b>A.1</b>	All companies should have an internal regulation of the Council including the terms of reference / responsibilities of the Board and the key management functions of the company, and applying, inter alia, the General Principles in Section A.	X	
<b>A.2</b>	Provisions for the management of conflicts of interest should be included in the Council Regulation. However, the Board members must notify the Board of any conflicts of interest that have arisen or may arise and to refrain from participating in discussions (including by absence, unless that failure would prevent the formation of the quorum) and to vote for a decision to be made on the matter giving rise to the conflict of interest.	X	
<b>A.3</b>	The Board of Administration or the Supervisory Board must consist of at least 5 members.	X	
<b>A.4</b>	The majority of the Board members must have no executive office. At least one member of the Board of Administration or of the Supervisory Board must be independent in the case of companies in the Standard category. In the case of companies in the Premium category, at least two non-executive members of the Board of Administration or of the Supervisory Board should be independent. Each independent member of the Board of Administration or of the Supervisory Board, as appropriate, shall submit a declaration at the time of his/her nomination for election or re-election and when there is any change in his/her status, indicating the elements based on which he/she is considered to be independent in terms	X	



The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
of his/her character and judgment and pursuant to the following criteria:			
<b>A.4.1.</b> he/she is not the Director - General / CEO of the company or of a company controlled by it and has not held such an office in the past 5 years.	X		
<b>A.4.2.</b> he/she is not employed by the company or a company controlled by it and has not held such an office in the past 5 years.	X		
<b>A.4.3.</b> he/she does not receive and has not received any additional remuneration or other benefits from the company or a company controlled by it, except for those related to his/her capacity as a non-executive administrator.	X		
<b>A.4.4.</b> he/she is not and has not been the employee or does not have or has not had in the preceding year a contractual relationship with a significant shareholder of the company, a shareholder who controls more than 10% of the voting rights, or with a company controlled by him/her.	X		
<b>A.4.5.</b> he/she does not have or has not had in the previous year a business or professional relation with the company or a company controlled by it, either directly or as a customer, partner, shareholder, Board member / Administrator, Director - General / CEO or employee of a company if, by its substantial nature, this relation could affect his/her objectivity.	X		
<b>A.4.6.</b> he/she is not and has not been in the last 3 years the internal or external auditor or the partner or shareholder or employee of the current external financial auditor and of the internal auditor of the company or of a company controlled by it.	X		
<b>A.4.7.</b> he/she is not the Director - General / CEO of another company where another Director - General / CEO of the company is a non-executive administrator.	X		
<b>A.4.8.</b> he/she has not been the company's non-executive administrator for more than 12 years.	X		
<b>A.4.9.</b> he/she has no family ties with a person in the cases referred to in boxes A.4.1 and A.4.4.	X		
<b>A.5</b> Other professional commitments and obligations of a relatively permanent nature of a Board member, including executive or non-executive positions on the Board of companies and non-profit institutions, have to be disclosed to the shareholders and potential investors prior to his/her nomination and during his/her mandate	X		
<b>A.6</b> Any Board member must provide the Board information on any relation with a shareholder who directly or indirectly holds shares		X	The information shall be requested from the Board members. Transgaz shall



The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	representing more than 5% of all the voting rights. This obligation extends to any kind of relation which may affect the member's position on matters decided by the Board.			send the Bucharest Stock Exchange a current report at the time of compliance.
<b>A.7</b>	The company must appoint a secretary of the Board responsible for supporting the activity of the Board.	X		
<b>A.8</b>	The declaration on corporate governance shall inform whether or not an evaluation of the Board took place under the management of the Chairman or of the nomination committee and, if so, it shall summarize the key measures and changes resulting from it. The company must have implemented a policy / guide on the assessment of the Board, including the purpose, criteria and frequency of the evaluation process.		X	The activity of the Board of Administration is assessed based on the performance criteria included in the administration plan and the mandate agreements, their degree of achievement being contained in the annual report of the BoA. The company has no policy / guide for evaluating the activity of the BoA, the evaluation being made based on the aforementioned criteria. TGN shall send a current compliance report when preparing such policy.
<b>A.9</b>	The Corporate Governance Statement must contain information regarding the number of meetings of the Board of Administration and of the committees over the past year, the participation of the administrators (in person and by proxy) and a report of the Board and of the committees on their activity.	X		
<b>A.10</b>	The Corporate Governance Statement must include information on the exact number of independent members of the Board of Administration or of the Supervisory Board.	X		
<b>A.11</b>	The Board of the companies in the Premium Category has to establish a nomination committee consisting of non-executive members, which shall manage the procedure for the nomination of new Board members and make recommendations to the Board. MTSO members of the Nomination Committee shall be independent.	X		
<b>Section B – Risk Management System and Internal Control System</b>				
<b>B.1</b>	The Board has to establish an audit committee where at least one member shall be an independent non-executive administrator. MTSO members, including the chairman, must prove to have the adequate qualifications relevant to the offices and responsibilities of the committee. At least one member of the Audit Committee shall have proven and appropriate accounting or	X		



The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	auditing experience. For the companies in the Premium Category, the audit committee must be composed of at least three members and the majority of the members of the audit committee must be independent.			
<b>B.2</b>	The chairman of the audit committee has to be an independent non-executive member.	X		
<b>B.3</b>	The responsibilities of the audit committee include the obligation to conduct an annual evaluation of the internal control system.	X		
<b>B.4</b>	The evaluation should consider the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the audit committee of the Board, the timeliness and effectiveness with which the executive management solves deficiencies or weaknesses identified by the internal control to the submission of relevant reports to the Board.	X		
<b>B.5</b>	The audit committee must assess the conflicts of interest in connection with the transactions of the company and of its subsidiaries with related parties.	X		
<b>B.6</b>	The audit committee has to evaluate the effectiveness of the internal control system and of the risk management system.	X		
<b>B.7</b>	The audit committee must monitor the application of the legal standards and of the generally accepted internal audit standards. The audit committee shall receive and assess the reports of the internal audit team.	X		
<b>B.8</b>	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they must be followed by periodic (at least annual) or ad hoc reports to be submitted afterwards to the Board.	X		
<b>B.9</b>	No shareholder may benefit from preferential treatment over other shareholders in connection with the transactions and agreements concluded by the company with their shareholders and affiliates.	X		
<b>B.10</b>	The Board must adopt a policy in order to ensure that any transaction of the company with any of the companies it has close relations with and whose value is equal to or greater than 5% of the net assets of the company (pursuant to the latest financial report) is approved by the Board after a binding opinion of the audit committee of the Board and properly disclosed to the shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.		X	This policy shall be drafted and approved pursuant to the Organizational and Operational Rules of the Board of Administration and to the Articles of Incorporation.
<b>B.11</b>	The internal audits have to be conducted by a structurally separate division (audit department) of	X		

The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	the company or by hiring an independent third party entity.			
<b>B.12</b>	In order to ensure the fulfillment of the main functions of the internal audit department, it should functionally report to the Board through the audit committee. For administrative purposes and as part of the management obligations to monitor and reduce risks, it must report directly to the Director - General.	X		
<b>Section C - Fair rewards and incentives</b>				
<b>C.1</b>	<p>The company has to publish on its website the remuneration policy and to include in the annual report a statement on the implementation of the remuneration policy during the annual period under analysis.</p> <p>The remuneration policy should be formulated so as to allow the shareholders to understand the principles and arguments underlying the remuneration of the Board members and of the Director - General, as well as of the management in the two-tier system. It should describe how to run the process and to make decisions regarding the remuneration, detail the components of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives linked to value of shares, the benefits in kind, pensions and others) and describe the purpose, principles and commitments underlying each component (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should specify the term of the contract signed by the CEO and the period of notice stipulated in the contract, as well as any potential compensation for dismissal without just cause.</p> <p>The remuneration report must state the implementation of the remuneration policy for the people identified in the remuneration policy during the annual period under analysis. Any significant change occurred in the remuneration policy has to be published in due time on the website of the company.</p>		X	
<b>Section D - Building value through relations with the investors</b>				
<b>D.1</b>	The company must establish a department for Relations with Investors – indicating for the public the person/persons responsible or the organizational unit. In addition to the information required by the law, the company must include on its website a section dedicated to the Relations	X		



The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
with Investors both in Romanian and in English, with all relevant information of interest to the investors, including:			
D.1.1. The main corporate regulations: the Articles of Incorporation, the procedures for the General Meetings of Shareholders;	X		
D.1.2. The professional CVs of the members in the company's management Board other professional commitments of the Board members, including executive and non-executive positions in boards of directors of companies or non-profit institutions;	X		
D.1.3. The current reports and the regular reports (each trimester, quarter and year) - at least those set forth in box D.8 - including the current reports containing detailed information on non-compliance with this Code;	X		
D.1.4. Information on the general Meetings of shareholders: the agenda and informational materials; the procedure for election of Board members; the arguments supporting the nominations for election to the Board, together with their professional CVs; the shareholders' questions about items on the agenda and the responses from the company, including the decisions made;		X	The company partially applies this provision pursuant to Article 29 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented.
D.1.5. Information on corporate events such as payment of dividends and other distributions to the shareholders, or other events that lead to the acquisition or limitation of a shareholder's rights, including the deadlines and principles for such operations. The information shall be published within a timeframe allowing the investors to take investment decisions;	X		
D.1.6. The name and contact details of a person who can provide, upon request, relevant information;	X		
D.1.7. The presentations of the company (e.g. presentations for investors, presentations of quarterly results, etc.), the financial statements (each trimester, quarter, year), the audit reports and the annual reports.	X		
D.2 The company shall implement a policy on the annual allotment of dividends or other benefits to the shareholders, as proposed by the Director - General or the Executive Board and adopted by the Board as a set of guidelines the company intends to follow on the allotment of the net profit. The principles of the policy for annual allotment to the shareholders shall be published on the company website.		X	The allotment of the company profit shall be done pursuant to the provisions set forth in the Government Emergency Ordinance no. 64/2001 regarding the allotment of profit to national companies, national firms and companies fully or majority owned by the state and the autonomous



The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
			administrations.
<p><b>D.3</b> The company shall adopt a policy in connection with the forecasts, whether they are made public or not. The forecasts refer to the quantified conclusions of studies aimed to determine the overall impact of a number of factors relating to a future period (so called hypotheses): by its nature, this forecast has a high level of uncertainty and the actual results may differ significantly from the initially submitted forecasts. The forecast-related policy shall establish the frequency, the timeframe taken into account and the contents of the forecasts. If published, the forecasts can only be included in the reports issued each year, quarter or trimester. The forecast-related policy shall be published on the company website.</p>		X	<p>The activity of the company is regulated by the ANRE. The Transgaz administration plan includes the management strategy during the mandate term. It is rigorously structured and includes strategic courses of action regarding the management of all resources, the operational and management processes of the company in order to achieve the performance objectives set with maximum efficiency.</p>
<p><b>D.4</b> The rules of the general Meeting of shareholders should not limit the participation of shareholders in general Meetings and the exercise of their rights. The amendments of the rules shall come into force, at the earliest, during the next Meeting of shareholders.</p>	X		
<p><b>D.5</b> The external auditors shall attend the general Meeting of shareholders when their reports are discussed at these Meetings.</p>	X		
<p><b>D.6</b> The Board shall submit to the annual general Meeting of shareholders a brief appraisal of the internal control system and significant risk management system, as well as opinions on issues subject to the decision of the general Meeting.</p>	X		<p>This information is contained in the annual report of the Board of Administration and in the management Statement prepared pursuant to Article 30 of the Accounting Law no. 82/1991</p>
<p><b>D.7</b> Any financial specialist, consultant, expert or analyst may attend the Meeting of shareholders based on a prior invitation from the Board. The accredited journalists may also attend the general Meeting of shareholders, unless the Chairman of the Board decides otherwise.</p>	X		
<p><b>D.8</b> The quarterly and half-yearly financial reports shall include information both in Romanian and in English regarding the key factors that influence changes in the level of sales, the operational profit, the net profit and other relevant financial indicators both from a quarter to another and from one year to another.</p>	X		
<p><b>D.9</b> A company shall hold at least two Meetings / teleconferences with the analysts and investors every year. The information presented on these occasions shall be published in the <i>Relations with Investors</i> section on the company website on the dates of such Meetings / teleconferences.</p>	X		



The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
D.10	If a company conducts various forms of artistic and cultural expression, sports, educational or scientific activities and believes that their impact on the innovative character and competitiveness of the company are part of its mission and development strategy, it shall publish the policy regarding its activity in this field.	X		

## 9. Courses of action for activity continuation and improvement

As non-executive administrator, I agree with the general belief of my administrator colleagues and I also wish to underline the fact that the **active members of the Board of Administration of SNTGN TRANSGAZ SA are a TEAM** that during the mandate has succeeded in joining their forces and competencies and in efficiently, constructively consolidating and acting as a unitary whole.

Through professionalism, ethics, responsibility and seriousness, through dedication and passion for performance and excellence in business, the operating Board of Administration has succeeded in proving, through results, that it can develop and lead to the growth of Transgaz activity year by year and that, through an efficient communication and permanent dialogue it has become a **powerful team, able to undertake realistic and ambitious strategic investment programs for the national, regional and international energetic industry.**

Societatea Națională de Transport Gaze Naturale TRANSGAZ is the technical operator of the National System for Transmission of natural gas and ensures the efficient, transparent, safe fulfilment, the non-discriminating access and competitiveness of the national strategy established for the internal and international transmission, the dispatching of natural gas, the research and design of natural gas transmission field by complying with the legal provisions and the national and European quality, performance, environment and sustainable development standards.

**Under the current administrative and executive management, TRANSGAZ is going through the most beautiful period of its existence, namely the transformation and modernization of the business model, the remodeling of its attitude towards the company and the interested parties, organizational re-design and compliance with the legislative standards applicable to the activity performed.**

For 9 years, TRANSGAZ has been a company listed on the Bucharest Stock Exchange, a transparent company open to dialogue and with good corporate practices, a successful company, a successful local brand, a company that believes in its organizational values and that constantly invests in the education and professional development of the human resources at its disposal.

The administration plan of SNTGN Transgaz SA is governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, authorities and state institutions, media, etc.) and reflects the strategic vision of the administrators on the directions of strategic redefinition and streamline of the company in line with the requirements of the European policy on energy safety and security, competitiveness and sustainability and with the future needs and opportunities of Romania in order to become a major player on the European gas market.

The current Board of Administration of SNTGN TRANSGAZ SA has managed, through the strategic courses of action set out in the company Administration Plan, to strategically redefine the company and to transform it into a company of strategic importance for the national and regional economy, into a central pillar for the assurance of the Romanian energy security.

By empowering the significance of the company both as an engine of the national economy and as a vector for the economic growth of the country, through its role in the development of the energy sector and the transformation of Romania into an energy power of Europe, the current administrators of the company are on the verge of starting one of the largest and mTSO important



programs for the development of the gas transmission infrastructure in Romania in the past 20 years, with investment projects estimated at **Euros 1.5 billion**.

In the context of profiling two new sources of gas supply, i.e. **the gas from the Caspian region and the ones recently discovered in the Black Sea**, the investments proposed by Transgaz in the Development Plan for the National Transmission System of Natural Gas over the next 10 years, a plan approved by ANRE under Decision no. 2819/17.12.2014, represent strategic investments for the energy security and the development of the gas transmission infrastructure in Romania and its compliance with the requirements of the relevant European regulations.

The proposed investments shall result in:

- the assurance of adequate interconnectivity with neighboring countries;
- the creation of new routes for gas transmission at regional level for the transmission of natural gas from various new sources of supply;
- the creation of the infrastructure necessary for extracting and transmitting the natural gas from the offshore perimeters in the Black Sea in order to sell them on the Romanian market and other markets in the region;
- the expansion of the natural gas transmission infrastructure in order to improve gas supply of deficit areas;
- the creation of a single integrated market throughout the European Union.

Given the complex and extensive investment program, Transgaz envisages, besides its own sources, the use of external financing under favorable conditions.

In this regard, the company has established a professional department for accessing European funds and international relations, involved in accessing the European funds and in the development of international cooperation relations.

Moreover, Transgaz established a financing committee with role in attracting funding from international financial institutions or from other financial and banking institutions and from the capital market by the issue of bonds.

The strategic vision of those who today bear responsibility for the destiny of this company focuses on professional and effective management able to face challenges and constraints, on the development and upgrading of the national gas transmission infrastructure, on competitiveness and capitalizing of existing and future opportunities so that TRANSGAZ become a gas transmission system operator with recognition on the international market of natural gas, a leader on the energy market in the region, an important link in the national and European energy chain.

Focusing on fully achieving the desiderates set and the fulfillment of the strategic objectives on operational effectiveness, performance optimization and sustainable development of the company, by complying with the principles of good corporate governance, the current Board of Administration wants to renew, based on the legal provisions in force, its mandate and thus to be able to continue with the same dedication, responsibility and efficiency, transparency and professionalism to all stakeholders, the road opened in the 2013-2017 mandate for the construction and development of a solid and effective future of the Romanian energy sector.

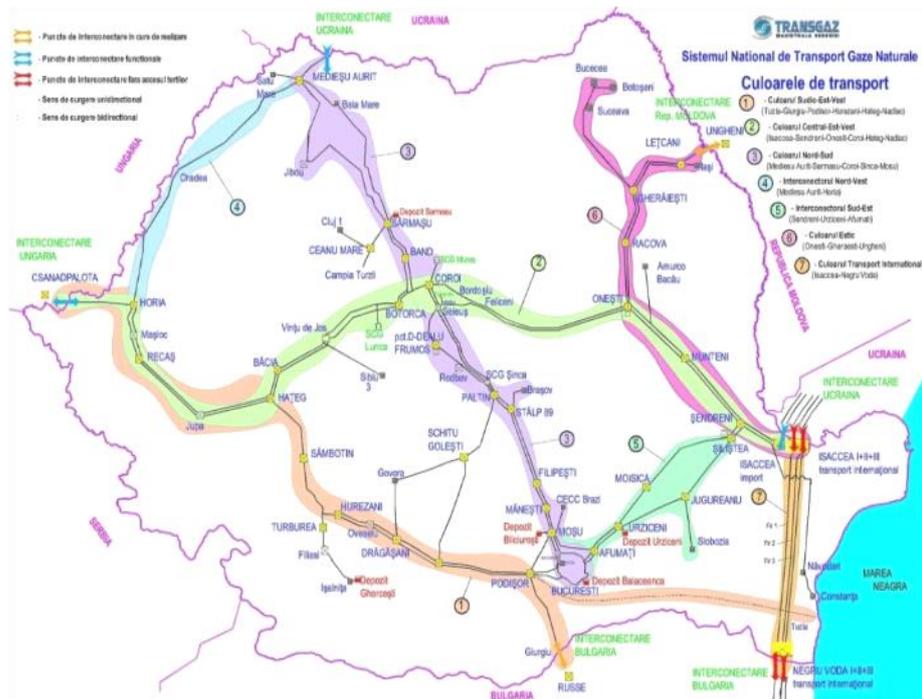


A. ENERGY SAFETY AND SECURITY

UNDERTAKEN STRATEGIC OBJECTIVE	No.	Objective undertaken under the Administration Plan 2013-2017 and that would be continued for another mandate in 2017-2021
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1 The strengthening of the role played by SNTGN Transgaz S.A. Medias as a gas transmission system operator on the European and national energy market, as a result of the EU requirements on the development of interconnection between NTS and the similar transmission systems in neighboring countries, of the potential for exploitation of significant reserves of natural gas discovered in the Black Sea and the shale gas in the future;

2 The completion of the strategic investment projects included in the NTS Development Plan for the period between 2014 and 2023:



Project	Estimated value million Euros	Completion deadline
1. The development in Romania of the National Gas Transmission System on the <b>Bulgaria - Romania - Hungary - Austria Corridor - BRUA</b>	547,4 of which: Phase 1 480	Stage 1: 2019 Stage 2: 2020
<b>BRUA - A TRANSGAZ PROJECT FOR ROMANIA and EUROPE</b> Cofinanțat de Uniunea Europeană Mecanismul pentru Interconectarea Europei Non-refundable financing received: - <b>Euros 1.52 million</b> through the Connecting Europe Facility, representing 50% of the total estimated costs of designing the compression stations. - <b>Euros 179.32 million</b> through the Connecting Europe		



		Facility, representing 40% of total eligible costs for the works of the BRUA Project - Phase 1		
		2. The development in Romania of the <b>Southern Transmission Corridor</b> for taking gas from the Black Sea shore	278,3	2020
		3. The interconnection of the national transmission system of natural gas to the natural gas international transmission pipeline T1 and reverse flow Isaccea.	65	2019
		4. <b>The development of the NTS in the North – East part of Romania</b> in order to improve the gas supply in the area and to ensure the transmission capacity to the Republic of Moldova	119,1	2018
		5. The widening of the bi-directional gas transmission corridor Bulgaria - Romania - Hungary - Austria (BRUA Phase 3)	479	2023
		6. A project regarding new developments of the NTS in order to take gas from the Black Sea shore.	8-17	2019
		<b>Total</b>	<b>Euros 1.5 billion</b>	
	3	The development of interconnection between the gas transmission systems in Romania and Bulgaria on the Giurgiu – Ruse route;		
	4	The creation of the technical conditions necessary to ensure the flow of natural gas on the bi-directional interconnection between Romania and Hungary on the Arad-Szeged route;		
	5	The continuation of the actions for the conclusion of the development agreements referring to the interconnection of NTS with similar transmission systems of the neighboring countries;		
	6	The development of business by optimizing the absorption of European funds and the creation of efficient and flexible financing structures.		
<b>B. COMPETITIVENESS</b>	1	The optimization and streamline of the management systems and processes throughout the company, of the quality of operational processes and their alignment to the requirements of the Integrated Management System for Environment Quality (IMSEQ) and of the modern standards of performance and competitiveness;		
	2	The intensification of design and scientific research in the transmission of natural gas;		
	3	The minimization of the technological consumption;		
	4	The improvement of the quality of investment programs of upgrading and development, of the programs for repair, rehabilitation and maintenance of the NTS		
	5	The completion of the implementation of the SCADA data control and acquisition;		
	6	The optimum sizing of the necessary human resources compared to the actual needs of the business and the development of the company;		
	7	The improvement of the process for training, teaching and development of the employees;		
	8	The optimization of the quality good corporate governance principle implementation;		
	9	The optimization of the cTSO budgetary control process.		
<b>C. SUSTAINABLE DEVELOPMENT</b>	1	The strengthening and diversifying of the internal and external cooperation relations of SNTGN Transgaz SA		
	2	The optimization of the management of risks that may affect the company's business		
	3	The optimization of human resource management processes		
	4	The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment		
	5	The maintenance of financial balance and operational stability		
	6	The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream metering and adjusting stations not connected to the transmission system)		
	7	The improvement of occupational health and safety		
	8	The improvement of the general internal and external communication process inside the company and of the image capital		

In addition to the strategic objectives undertaken during the 2013-2017 mandate and started / initiated and that are to be continued during a new mandate, the current Board of Administration also proposes new objectives it intends to undertake during another mandate or objectives resulting from the Integrity Plan and developed within the company following the accession of Transgaz to the National Anticorruption Strategies (NACS).

GENERAL OBJECTIVE	SPECIFIC OBJECTIVE
The development of a culture of transparency for good corporate governance	The increase in institutional transparency and decision-making processes
	The increase in the transparency of public resource management processes
The increase in the institutional integrity by including corruption prevention measures as mandatory elements of the management plans and their regular evaluation as part of the administrative performance improvement	The improvement of the capacity to manage the management failure by correlating the tools having impact on the early identification of institutional risks and vulnerabilities.
The strengthening of integrity, the minimization of corruption risks and vulnerabilities in priority sectors and fields	The increase in integrity, the minimization of corruptions vulnerabilities and risks in the business environment
The increase in the awareness and understanding of the standards of integrity by the employees and the beneficiaries of public services	The increase in the level of anti-corruption education of the company employees
	The increase in the level of information of the public about the impact of corruption
The strengthening of performance to combat corruption through administrative and criminal means	The strengthening of administrative control mechanisms
The increase in the degree of implementation of the anti-corruption measures by approving the integrity plan and the regular self-assessment throughout the company	The strengthening of the institutional integrity through plans developed on the basis of risk analysis and internal management control standards.

The Activity Report is prepared pursuant to Article 29, paragraph 14 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented.

I hereby enclose to this Activity Report my Curriculum Vitae.

**RADU ȘTEFAN CERNOV**

**Member of the Board of Administration**

**Non-executive Administrator**

