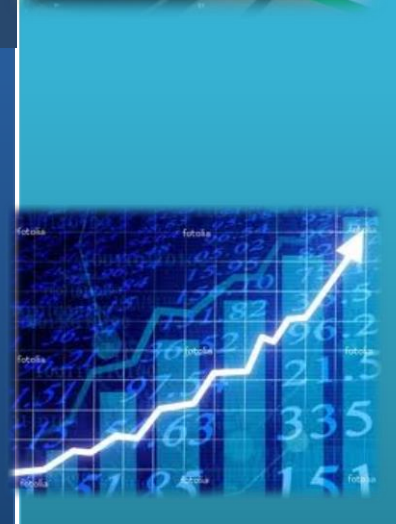


THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ SA

# CONSOLIDATED REPORT ISSUED BY THE BOARD OF ADMINISTRATION

- 2017 -



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## THE ADMINISTRATORS' MESSAGE TO SHAREHOLDERS, INVESTORS

*Dear shareholders,  
Dear investors,*

*With a tradition for more than a century in Romania, gas transmission is a strategic activity for the national economy. The performance of this activity increased year by year through the work, passion and professionalism of those who have worked in this field and contributed to what TRANSGAZ is today - a responsible company, a company of the future, a company in which the corporate governance model is working successfully.*

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

*As a transparent company, open to dialogue and good corporate practice, as a high-performance company, TRANSGAZ is today a successful national brand, a company that believes in its organizational values and invests permanently in the education and professional development of its human resources. TRANSGAZ is a company managed in a unitary management system, the Board of Administration being appointed by the General Meeting of the Shareholders in accordance with GEO 109/2011, as further amended and supplemented .*

*During its first mandate between 2013 and 2017, the Board of Administration, consisting of Mr **Ion Sterian**, as non-executive administrator and chairman of the Board of Administration, Mr **Petru Ion Văduva**, as executive administrator and director general, Mr **Bogdan George Iliescu**, Mr **Radu Cernov**, Mr **Andrei Rizoiu**, as non-executive administrators, managed the company in accordance with the **Management Plan of Transgaz for 2013-2017**, a plan approved unanimously by the shareholders of the company through OGM Resolution 9/23.09.2013 and the Management Plan.*

*In proving their competence, professionalism, moral integrity, responsibility and commitment, the members of the Board of Administration proved by their outstanding results every year that they have become a strong team able to undertake and fulfil responsibilities of high and strategic importance, not only for the future of the company but also for the sustainable development of the national economy, and therefore have undertaken the necessary diligence to the renewal of the mandate of administrators between 2017-2021, in order to continue with the same responsibility, efficiency, transparency and professionalism towards all stakeholders the way opened by the 2013-2017 mandate for the building and development of a solid and efficient future of the Romanian energy sector.*

*By OGMS Resolution 1/27.04.2017 the mandate of Mr Ion Sterian, Mr Petru Ion Văduva and Mr Bogdan George Iliescu was renewed and by OGMS Resolution no.13 / 28.12.2017 the appointment of Remus Gabriel Lapusan and Nicolae Minea as administrators of SNTGN Transgaz SA was approved.*

*Developed in accordance with the provisions of Article 30 (1) of Government Emergency Ordinance 109/2011 on the corporate governance of public enterprises, as further amended and supplemented, **the proposal for the Management Component of the Management Plan of SNTGN Transgaz SA for 2017-2021** is governed by a responsible, professional and ethical attitude in relation to all stakeholders*

(shareholders, employees, partners, community, state authorities and institutions, media, etc.) and reflects the administrators' vision on strategic redefining and company streamlining directions in line with the safety and energy security requirements of the European energy policy, with the competitiveness and sustainable development as well as with the future needs and opportunities of Romania to become a major player on the regional and European natural gas market.

**The strategic objectives included in the Management Component of the Management Plan of SNTGN Transgaz SA for 2017-2021 are aligned with the Shareholders' Letter of Expectations and aim to increase the company's performance, to make the company's activity more efficient, to redefine it strategically in accordance with the requirements of the modern standards of performance and competitiveness, and to transform TRANSGAZ into an internationally recognized company, a leader of the energy market in the region, capitalizing with maximum efficiency all existing and future opportunities, so that Romania becomes an important energy corridor in the field of natural gas to Europe.**

In the context of profiling major new sources of natural gas supply, **the natural gas from the Caspian Sea region and those recently discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2014-2023, plan approved by the ANRE by the Decision no. 2819/17.12.2014** are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.

In recognizing the importance of TRANSGAZ both as a driver of activities in the national economy and as a vector of the economic growth of the country, by its role in the development of the energy sector and in the transformation of Romania into an energy power of Europe, the company's administrators undertook to further launch and implement one of the largest and most important gas transmission infrastructure development plan in Romania over the past 20 years, with investment projects **estimated at 1.6 billion euros**.

The sustainable development of the Romanian natural gas infrastructure requires a comprehensive investment plan enabling NTS alignment to gas transmission network transmission operation requirements compliant with the European environmental protection regulations .

In this respect Transgaz developed under Art. 125 (6) of Law 123/2012 on electricity and gas and the National Energy Strategy the **2017 – 2026 TYNDP**, as a supplementation of the 2014-2023 TYNDP, approved by ANRE **Decision no 910/22.06.2017**.

The proposed investments will result in securing an appropriate degree of interconnectivity with neighbouring countries; creating several natural gas transmission routes at a regional level for natural gas transmission from various new sources of supply; creating the necessary infrastructure for takeover and transmission of natural gas from offshore perimeters in the Black Sea in order to capitalize them on the Romanian market and other markets in the region; extending the natural gas transmission infrastructure in order to improve natural gas supply in deficient areas; creating an integrated single market in the European Union.

Given the need to finance a complex and extensive investment plan, Transgaz envisages, in addition to its own sources of funding, attracting and using additional external funding under advantageous

*conditions as well. We refer to obtaining European funds, funding from international financial institutions, from other banking and financial institutions as well as financing instruments specific to the capital market.*

*In compliance with the principles of good corporate governance, the company administrators shall continue to act in the 2017-2021 mandate with the utmost responsibility, efficiency, transparency and professionalism for the efficient and competitive management of the company, in line with the expectations of the Shareholders' Letter of Expectations, namely: **operational efficiency and stability, energy safety and security, optimization of performance and sustainable development of the company.***

Yours sincerely,

**ION STERIAN**

**Administrator –Director General**

**PETRU ION VĂDUVA – Administrator**

**BOGDAN GEORGE ILIESCU – Administrator**

**REMUS GABRIEL LĂPUȘAN – Administrator**

**NICOLAE MINEA– Administrator**

## 1. ISSUER IDENTIFICATION DATA

### 1.1 Report and issuer identification data

Report prepared according to the provisions of Law no. 24/2017, on issuers of financial instruments and market operations.

**For the year concluded on:** 31 December 2017

**Report date:** 16 March 2018

**Company name:** The National Gas Transmission Company TRANSGAZ SA

**Telephone/Fax number:** 0269-803333/0269-839029

**VAT Number:** RO13068733

**Registration number with the Trade Register:** J32/301/2000

**Subscribed and paid up capital:** LEI 117,738,440

**Regulated market on which issued securities are traded:** The Bucharest Stock Exchange

### 1.2 Mission, Vision, Organizational Values

Transgaz is a joint stock company, operating according to the provisions of the Romanian legislation and its updated Articles of Incorporation. It is a company listed on the Bucharest Stock Exchange, stock exchange symbol – TGN.

#### Mission

In line with the European energy policy requirements, Transgaz' mission represents the fulfilment in conditions of efficiency, transparency, safety and competitiveness of the national energy strategy established for domestic and transmission, international transit, natural gas dispatching and research and design in the field of natural gas transmission.

#### Transgaz' mission is:

- The safe operation of the NTS based on economic efficiency;
- NTS rehabilitation, upgrading and development on the main consumption directions;
- NTS interconnection with the natural gas transmission systems of the neighboring countries;
- Development of new gas transmission infrastructures towards Western Europe;
- Ensuring non-discriminatory access to the NTS;
- The implementation of participatory management in all of the company's action fields;
- Development of the organizational culture and of the national performance standards;
- Implementation of the regulations in the natural gas sector;
- Improvement of the natural gas transmission activity informatization, preparation of the normative acts draft and European actions to support them;
- The good corporate governance principles integration into the business practice.

#### Vision

The company intends to become a transmission operator recognized on the international gas market, a leader on the energy market in the region with a modern gas transmission system integrated at European level and with an effective management system.

**Vision as a message to the Romanian society**

The responsible fulfillment of the public service mission, the safe operation of the national gas transmission system, high quality services, safe connection to the NTS under non discriminatory and transparent conditions for all network users and the integration at European level of the national gas market.

**Vision as a message to the shareholders**

A proficient company oriented towards continuous growth of the plus value for the shareholders.

**Vision as a message to employees**

The company as an attractive, stable and motivating working environment with a continuous commitment to professional excellence.

**The organisational values defining Transgaz' business ethics are:**

- Professionalism and tradition;
- Compliance with the principles of ethics and professional conduct;
- Respect for the environment and for the people;
- Responsibility towards business partners and social dialogue, towards the state institutions and the community;

**Transgaz ' core strengths**

- The quality of licensed NTS operator - monopoly;
- The solid financial profile of the company;
- The continuity of the technical, economic and financial performance;
- The predictability of the cash-flow due to the regulated character of the gas transmission activity;
- Dividends granted to shareholders.

### 1.3 Shareholding

According to the provisions of Government Emergency Ordinance no. 55/19.11.2015 on the establishment of measures in the field of the central public administration and for the amendment and supplementation of regulatory acts, it was established the Ministry of Economy, Trade and Relations with the Business Environment, by the reorganisation of the activities of the Ministry of Economy, Trade and Tourism. Thus, on 29.01.2016 it was registered at Depozitarul Central S.A. the amendment of the account owner from the Romanian State through the Ministry of Economy, Trade and Tourism to the Romanian State through the Ministry of Economy Trade and Relations with the Business Environment.

Later, according to the provisions of Government Emergency Ordinance no. 1/04.01.2017 on the establishment of measures in the field of the central public administration and for the amendment and supplementation of regulatory acts, the Ministry of Economy was established, by the reorganisation of the activities of the Ministry of Economy, Trade and Relations with the Business Environment. Thus, on 02.03.2017 the amendment of the account owner from the Romanian State through the Ministry of Economy, Trade and Relations with the Business Environment to the Romanian State through the Ministry of Economy was registered at Depozitarul Central S.A..

On 31 December 2017 Transgaz's shareholding structure was as follows:

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by the Ministry of Economy	6.888.840	58,5097
Free float - Other shareholders (natural and legal persons) out of which:	4.885.004	41,4903
- natural persons	1.048.270	8,9034
- legal persons	3.836.734	32,5869
Total	11.773.844	100,00

Table 1 –Shareholding structure on 31.12.2017

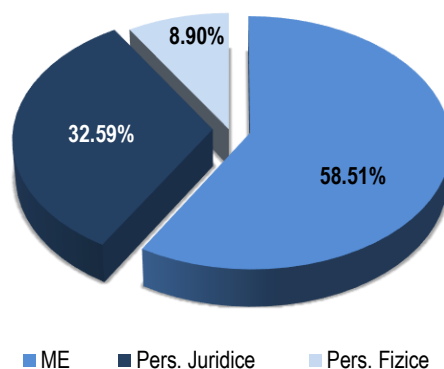


Chart 1- Transgaz's shareholding structure on 31.12.2017

The share capital of Transgaz on 31 December 2017 is of 117.738.440 lei and is divided into 11.773.844 registered shares, each share having a nominal value of 10 lei.

Regarding the **number of shareholders**, according to Transgaz shareholders' register at the reference date of 31 December 2017, a number of 8.766 TGN shareholders are registered, namely 1.147 more shareholders than on 31 December 2016.

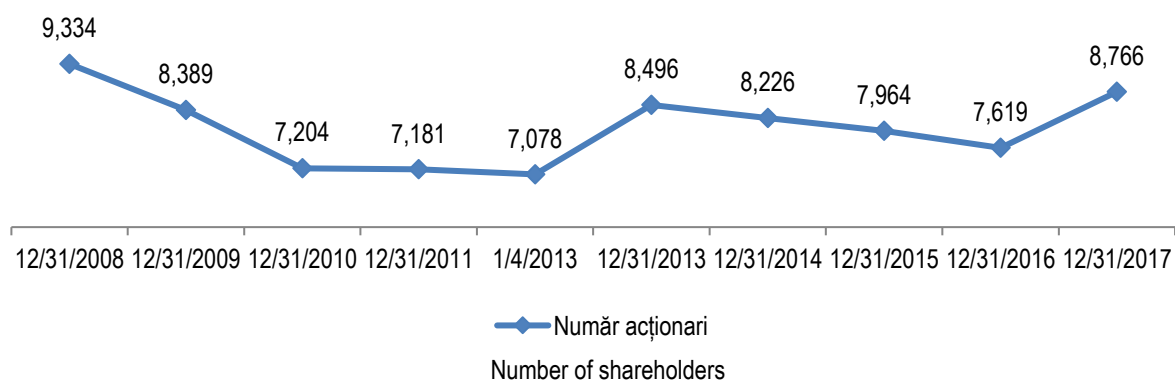


Chart 2- Number of Transgaz shareholders from the listing and until 31 December 2017

## 1.4 Structure

Transgaz was set up in 2000, based on the GD no. 334/28 April 2000 *on the reorganisation of the former National Natural Gas Company (SNGN) Romgaz SA, published in the Official Journal of Romania, Part I, no. 194/04.05.2000.*

Based on GD no. 334/2000, SNGN Romgaz SA was restructured and reorganized, by division, SNGN "Romgaz" S.A. being disestablished, and the main activities in the natural gas sector were separated and organized in separate activities.

Following the abovementioned reorganising, Transgaz became the technical operator of the NTS and is responsible for its functioning in conditions of quality, safety, economic efficiency and environmental protection.

*By ANRE Order no. 3/22 January 2014 regarding the approval of the certification of the National Gas Transmission Company Transgaz - SA Mediaş as transmission and system operator of the National gas transport system was established that the National Gas Transmission Company Transgaz - SA Mediaş must be organized and must operate as an "independent system operator".*

In addition, as operator of the NTS, Transgaz has the obligation, according to the legal provisions on the measures for ensuring the natural gas supply safety and to the regulations of the European Union, to ensure the interconnection with similar natural gas transmission systems from neighbouring countries, creating the technical and technological conditions necessary for ensuring the natural gas supply safety.

SNTGN Transgaz SA (Transgaz) conducts its activity in the following locations:

- Transgaz registered office: Mediaş, 1 C. I. Motaş Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaş, 11 George Enescu Street, Sibiu County, code 551018;
- Design and Research Department: Mediaş, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanţi Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street;
- Transgaz Representative Office - Chişinău – Republic of Moldova;
- European Funds and International Relations Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.
- Design and Research Workshops - Braşov, 2 Nicolae Titulescu Street.
- Limited liability company EUROTRANSGAZ: MD-2004, Bvd. Ştefan cel Mare şi Sfânt, 180, of.506, Chişinău city, Republic of Moldova.

Transgaz owns **9 regional offices and a branch**:

- Arad Regional Office, 56 Poetului Street, Arad, Arad County, code 310369;
- Bacău Regional Office, 63 George Bacovia Street, Bacău, Bacău County, code 600238;
- Brăila Regional Office, 5 Ion Ghica Street, Brăila, Brăila County, code 810089;
- Braşov Regional Office, 12A Grigore Ureche Street, Braşov, Braşov County, code 500449;
- Bucharest Regional Office, 24 Lacul Ursului Street, District 6, Bucharest, code 060594;
- Cluj Regional Office, 12 Crişului Street, Cluj-Napoca, Cluj County, code 400597;
- Craiova Regional Office, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, code 200011;
- Mediaş Regional Office, 29 George Coşbuc Street, Mediaş, Sibiu County, code 551027;
- Constanţa Regional Office, 2 bis Caraiman Street, Constanţa, Constanţa County, code 900117;
- Mediaş Branch, 59 Sibiului Street, Mediaş, Sibiu County.

## 2. EXECUTIVE SUMMARY

### 2.1 Indicators of the economic and financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. at 31 December 2017 was conducted based on the indicators included in the revenue and expense budget approved by OGMS Decision No.1/27.04.2017.

The value of the standard performance indicators achieved at 31 December 2017 as compared to the value achieved at 31 December 2016 is as follows:

No.	Performance criteria	Performance objective	MU	Weighting coefficient	2016	2017
					Achieved	
1.	<b>Commissioned investments</b>	Plan achieved	LEI thousand	0,15	143.281	54.286
2.	<b>EBITDA</b>	EBITDA increase	LEI thousand	0,15	900.091	879.050
3.	<b>Labour productivity</b>	Increasing labour productivity in units of value (turnover / average no. of employees);	LEI/ pers.	0,15	375.177	395.796
4.	<b>Outstanding payments</b>	Payments made during the contract duration (in current prices)	LEI thousand	0,15	0	0
5.	<b>Outstanding receivables</b>	Diminished amount of outstanding receivables (in current prices)	LEI thousand	0,1	268.410	307.210
6.	<b>Technological consumption</b>	Remaining within the gas quantities representing technological consumption	%	0,15	37%	90%
7.	<b>OPEX at LEI 1000 operating revenue</b>	Diminishing of OPEX at LEI 1000 operating revenue	LEI	0,15	631	620

The main economic and financial indicators achieved in 2017 as compared to 2016 are as follows:

No.	Indicator	Achieved at 31 December					Dynamics(%)
		2017	2016	2015	2014	2013	
	0	1	2	3	4	5	
1.	Turnover	1.800.079	1.750.203	1.581.470	1.618.089	1.484.714	102,85
2.	Operating revenue before the balancing and the construction activity acc. to IFRIC12	1.749.946	1.815.385	1.663.398	1.655.319	1.516.640	96,40
3.	Revenue from balancing	120.686	57.404	x	x	x	210,24
4.	Revenue from the construction activity acc. to IFRIC12	63.950	118.504	211.125	136.635	161.741	53,96
5.	Financial revenue	190.548	32.231	43.237	33.375	40.721	591,20
6.	Operating expense before the balancing and the construction activity acc. to IFRIC12	1.085.324	1.125.268	1.077.219	1.063.751	981.647	96,44
7.	Cost of balancing gas	120.686	56.093	x	x	x	215,15
8.	Cost of assets built according to IFRIC12	63.950	118.504	211.125	136.635	161.741	53,96
9.	Financial costs	150.228	9.683	22.315	14.356	148.957	1551,41
10.	Gross profit	704.942	713.975	607.101	610.587	426.758	98,75
11.	Profit tax	125.305	125.079	120.722	115.377	99.954	100,18
12.	Revenue from the deferred profit tax	2.321	5.669	2.350	7.306	4.604	40,94
13.	Net profit	581.958	594.565	488.729	502.516	331.408	97,90
14.	Total comprehensive result for the period	599.785	593.539	498.940	486.385	335.240	101,05
15.	Transmitted gas*)	12.869.908	12.074.677	12.294.693	11.883.713	11.258.941	106,59
16.	Investment expenses	95.599	140.179	239.554	151.776	203.763	68,20
17.	Rehabilitation expenses	13.954	16.546	20.020	51.752	61.176	84,33
18.	Technological consumption	73.831	84.406	83.146	92.124	95.500	87,47
19.	Technological consumption thousand cm	95.243	108.874	88.103	96.940	160.140	87,48

\* transmitted quantity for which transmission services are invoiced

Table1- Main economic and financial indicators between 2013 and 2017

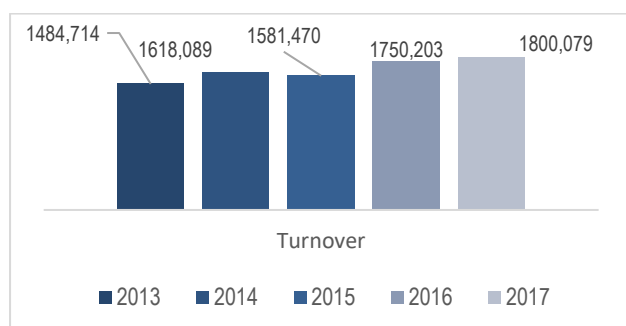


Chart 3-Turnover 2013-2017 (LEI thousand)

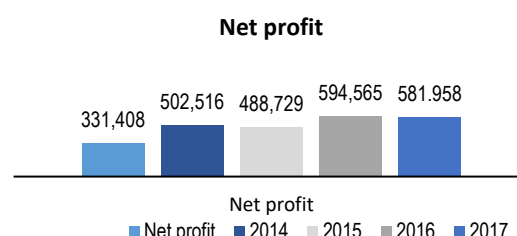


Chart 4-Net profit 2013-2017 (Lei thousand)

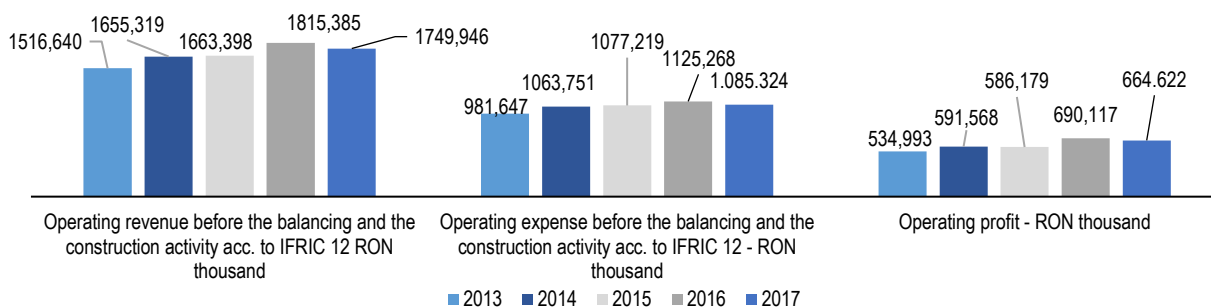


Chart 5-Operating revenue, expense and profit between 2013 and 2017

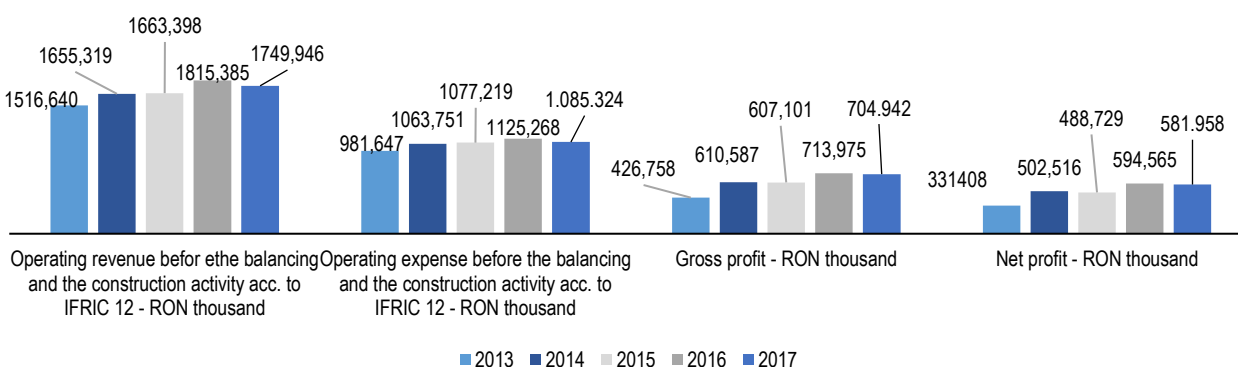


Chart 6-Main economic and financial indicators between 2013 and 2017

Transgaz holds the monopoly in Romania in terms of natural gas transmission and circulates approximately 90% of the total natural gas consumed. Approximately 18,10% of the total operating revenue achieved in 2017 is in foreign currency and is achieved from the international gas transmission activity.

At 31 December 2017, the Company's assets in bank accounts amounted to LEI 1.058.930.848 of which 66,20% were liquid assets denominated in foreign currency, most of them in EUR.

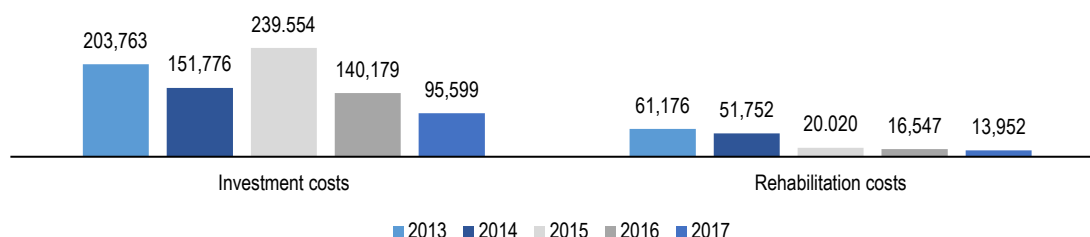


Chart 7-Investment and rehabilitation costs between 2013 and 2017 (LEI thousand)

The Transgaz performance between 2013 and 2017 is also reflected by the evolution of the following indicators:

No.	Indicators	Calculation formula	2013	2014	2015	2016	2017
1.	Profitability indicators						
1.	EBITDA in total sales	EBITDA	48,22%	48,01%	49,29%	51,35%	48,83%
		Turnover					
	EBITDA in equity	EBITDA	23,49%	23,35%	21,84%	23,42%	23,62%
		Equity					
	Gross profit share	Gross profit	28,74%	37,74%	38,39%	40,79%	39,16%
		Turnover					
	Return on equity	Net profit	10,87%	15,10%	13,69%	15,49%	15,64%
		Equity					
2.	Liquidity indicators						
	Current liquidity indicator	Current assets	2,17	3,09	4,10	5,10	5,57
		Short term debts					
	Immediate liquidity indicator	Current assets - Stocks	2,06	2,98	3,83	4,82	5,27
		Short term debts					
3.	Risk indicators						
	Indebtness indicator	Borrowed capital	0,79%	0,00%	0,00%	0,00%	1,88%
		Equity					
	Interest coverage ration	EBIT	187,73	616,54	1.903,61	X	X
		Interest expense					
4.	Management indicators						
	Days sales outstanding - clients	Average accounts receivable x 365 days	97,57	94,18	99,56	125,88	142,85
		Turnover					
	Days payable outstanding - suppliers	Average accounts payable x 365 days	22,41	17,61	19,32	17,64	19,44
		Turnover					

Table 2- Profitability, liquidity, risk and management indicators between 2013 and 2017

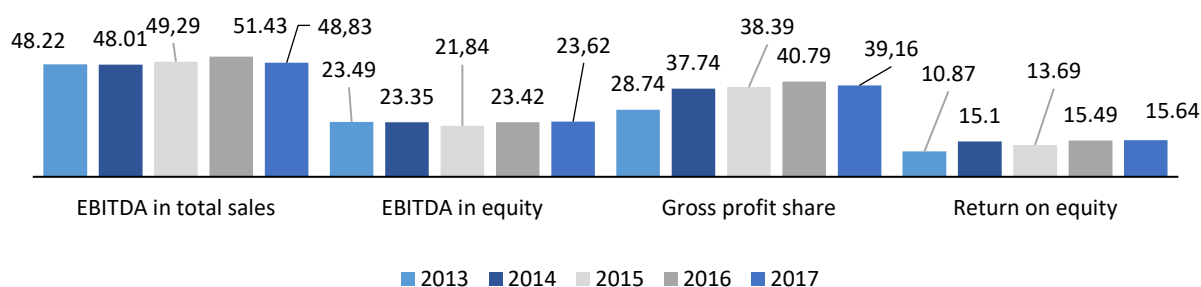


Chart 8- Profitability indicators between 2013 and 2017

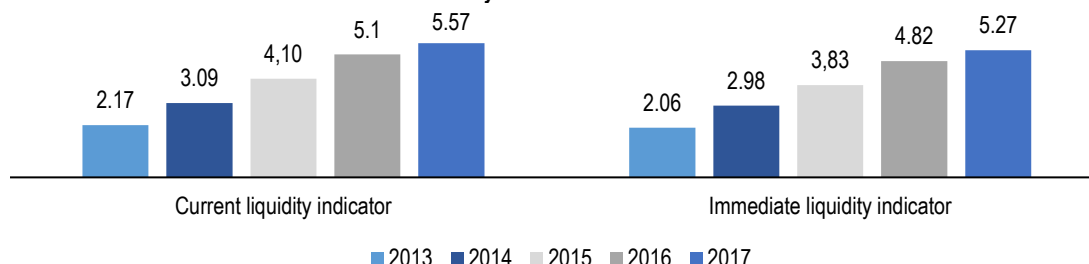


Chart 9- Liquidity indicators between 2013-2017

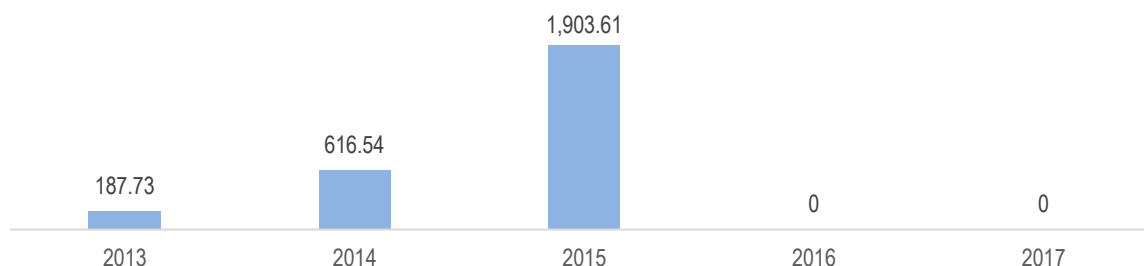


Chart 10-Risk indicators between 2013 and 2017

### 3. NTS DEVELOPMENT PROJECTS

#### 3.1 Strategic projects

In consideration of compliance with European Directive EC/73/2009 Art. 22 on the obligation to prepare the **Ten-Year Development Plans** for all gas transmission system in the European Union, and Article 125 (6) of Law 123/2012, SNTGN Transgaz SA Mediaș, as the technical operator of the National Transmission System for gas in Romania prepared the **2017-2026 TYNDP** by updating and supplementing the **2014-2023 TYNDP**.

The document presents the development directions of the Romanian gas transmission network and the major projects that the company intends to implement in the next 10 years in order to achieve a maximum degree of transparency in the development of the national gas transmission system.

The **2017-2026 TYNDP** complies with the European energy policy on:

- ensuring safety of natural gas supply;
- increasing the interconnection of the national gas transmission network to the European network;
- increasing the flexibility of the national gas transmission network;
- liberalization of the gas market;
- integrating the gas market at the level of the European Union.

Thus, the projects proposed in the **2017-2026 TYNDP** are:

1. Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor;
2. Development in Romania of the Southern Transmission Corridor for taking over the gas from the Black Sea shore
3. The interconnection of the national transmission system with the T1 international gas transmission pipelines;
4. The development of the NTS in the North East of Romania to enhance gas supply to the zone and to ensure transmission capacity to Moldova;
5. Extension of the Bulgaria - Romania - Hungary - Austria bidirectional gas transmission corridor (BRUA Phase 3);
6. Project on new developments of the NTS for taking over Black Sea gas;
7. Interconnection of the National Gas Transmission System of Romania with the National Gas Transmission System of Serbia;
8. Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS.

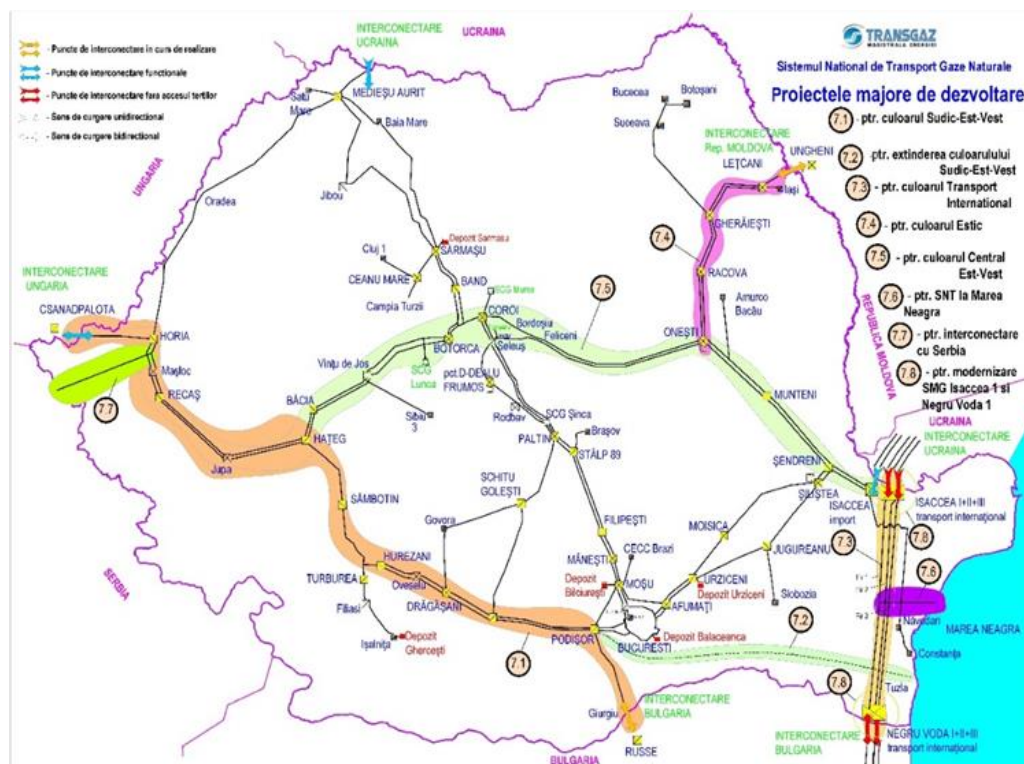


Fig. 1- Map of the NTS major projects

## 1. Development on the national gas transmission system on the Bulgaria – Romania – Hungary – Austria corridor

The project aims to create gas transmission capacity between the interconnection points of the Romanian and the Hungarian gas transmission systems, and the Romanian and Bulgarian systems.

For this purpose it is necessary to construct a pipeline approximately **529 km** long on the **Podisor - Corbu - Hateg - Horia** route and **3 new compression stations** at **Jupa, Bibesti and Podisor**. The estimated total value of the investment is **EUR 547,4 million**.

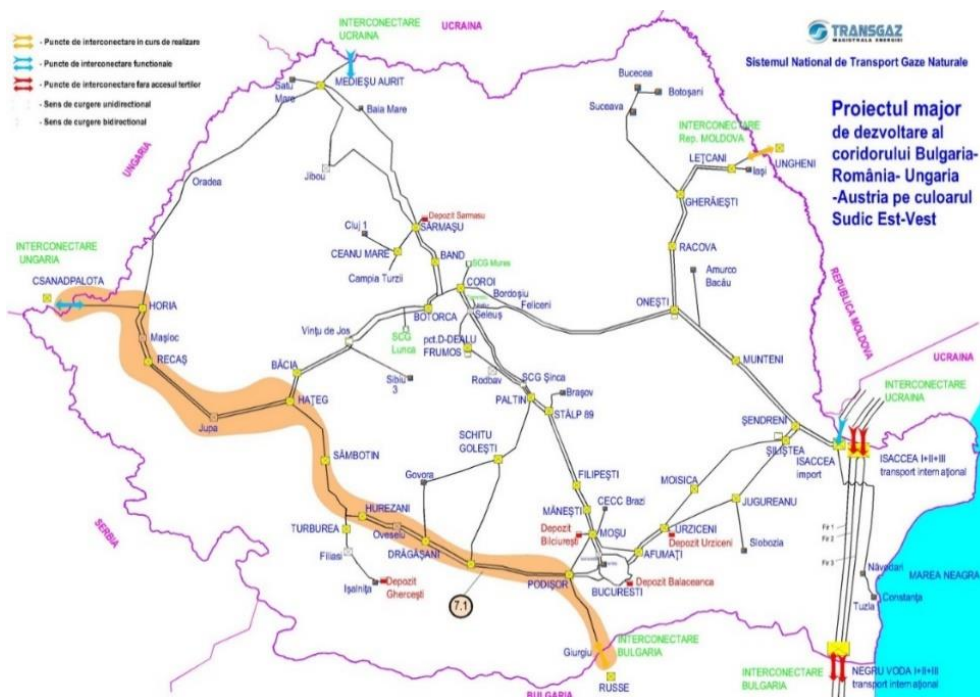


Fig. 2- The BRUA Corridor

Transgaz envisages the staged development of the BRUA Project:

### Phase I

- Podișor-Recaș 32" x 63 bar gas transmission pipeline, approximately 479 km-long;
- Three gas compressor stations (CS Podișor, CS Bibesti, CS Jupa) each station being equipped with two compressor units with the possibility to ensure bidirectional gas flow.

At the end of Phase I the following capacities will be assured:

- To Hungary: 1.75 bcm/y;
- To Bulgaria: 1.5 bcm/y;

### Phase II

- Recaș – Horia 32" x 63 bar gas transmission pipeline, approximate length 50 km;
- Podișor GCS upgrade, Bibești GCS upgrade and Jupa GCS upgrade, whereby each station will be equipped with one more compression aggregate;
- Horia GMS extension.

At the end of Phase 2 the following capacities will be assured:

- To Hungary: 4.4 bcm/y;
- To Bulgaria: 1.5 bcm/y;

### Estimated project development calendar

Development stages	Status/Estimated completion date
Pre-feasibility study	completed
Feasibility Study	completed
Obtaining the environmental permit	completed
Technical documentation for obtaining construction permits	completed for the pipeline and for the compressor stations
Obtaining construction permits	February 2017 for the pipeline February 2017 for the compressor stations
Taking the final investment decision Phase I	2016
Construction Phase I	November 2019
Commissioning Phase I	December 2019
Start of operation Phase I	December 2019
Taking the final investment decision Phase II	December 2018/February 2019*
Construction Phase II	2022*
Commissioning Phase II	2022*
Start operation Phase II	2022*

\* The completion of Phase 2 will depend on the successful Open Season for the RO-HU incremental capacity booking.

**Estimated completion date:** 2019 for Phase I, respectively 2022\* for Phase 2

**Estimated value:** Euro 547, 4 million, split as follows:

- Phase I: Euro 478,6 million
- Phase II: Euro 68,8 million

### Inclusion of the Project in international plans

- **PCI Project (the first list):** 7.1.5;
- **PCI Project (the second list) :**  
Phase I: 6.24.2  
Phase II: 6.24.7
- **PCI Project (the third list):** Phase I: 6.24.1 position 2., Phase II: 6.24.4 position 4.

**Priority Corridor:** Gas interconnections in the North-South corridor of Central and South-Eastern Europe («NSI EastGas»)

### Current status

Considering its statute of project of common interest, even from the first PCI list, Transgaz obtained a grant by the Connecting Europe Facility for the design of the three compressor stations. For the design of the three compressor stations a Grant Agreement was signed with the **Innovation and Networks Executive Agency (INEA)**, for a grant in the amount of EUR 1,519,342 representing 50% of the total estimated amount of the design costs of the compressor stations.

In May 2016 the design services contract for the design of the 3 compressor stations was concluded (CS Podișor, CS Bibești and CS Jupa) with the Polish company Gornicze Biuro Projectow PANGAZ sp. z o.o.

In October 2015 Transgaz submitted an application within the session for the submission of financing requests in order to obtain a grant for the execution works related to stage I of the BRUA Project.

The financing request was submitted in the portal of the Innovation and Networks Executive Agency (INEA) on 12.10.2015. on 19.01.2016 the CEF Committee validated the list of projects proposed to receive a grant by the CEF mechanism. The BRUA Project – Phase 1 was proposed to benefit of a grant in the amount of EUR 179.3 million. On 9 September 2016 the Grant Agreement was signed.

The Procedure for the environmental impact assessment related to the BRUA project was completed and on December 2016 the National Agency for Environmental Protection issued the Environmental Agreement.

In December 2016 Transgaz launched onto SEAP the public tenders for the procurement of the following materials and equipment for Phase 1 of the BRUA Project:

- pipe material and curves;
- compressor groups;
- valves;
- electro insulating joints;

In 2017 the activities related to the preparation for the commencement of the works for the implementation of the BRUA Project – Phase I continued. At the end of 2017 the status of the public procurement was as follows:

- the contract for the procurement of the compressor groups and the contract for the procurement of the electro insulating joints – were signed in the course of August 2017.
- The contracts for the procurement of the execution of the pipeline, related to lots 1, 2 and 3 were signed in the course of November 2017.
- The contract for the procurement of the valves is being signed.
- The contract for the procurement of the pipe material, the contract for the procurement of the automation works and the contract for the execution of the compressor stations – procurement procedure is ongoing.

## **CONSTRUCTION PERMIT AND COMPREHENSIVE DECISION**

In February 2017 the Ministry of Energy issued the Construction Permit No 1/24.02.2017 authorizing the execution of the construction works related to the 'Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania – Hungary – Austria route (including the power supply, cathodic protection and optic fibre) Phase I: Podișor –Recaș gas transmission pipeline, 479 km long, Podișor, Bibești, Jupa gas compressor stations, Site arrangements and pipe warehouse.

Considering the status of project of common interest and the applicability of the provisions of EU Regulation no. 347/2013 of the European Parliament and of the Council on trans-European energy infrastructures (EU Regulation No. 347/2013), the implementation of the BRUA project implies the obtaining of the exhaustive decision.

According to the provisions of EU Regulation No. 347/2013 - the comprehensive decision is the decision or the sum of the decisions taken by an authority or authorities of the Member States, except for the courts, which determines whether or not a project initiator is authorized to carry out a project.

Romania has opted for the 'collaborative system' of issuing the exhaustive decision. Under this system, the Ministry of Energy, acting as the Competent National Authority responsible for facilitating and coordinating the authorization procedure for projects of common interest (ACPC) for the implementation of Regulation (EU) No.347/2013, coordinates the issuance of the exhaustive decision and the process of issuing individual decisions.

For obtaining the Comprehensive Decision Transgaz took the following steps:

- On 19 December 2016 Transgaz S.A. sent the application file for the project BRUA Phase I to A.C.P.I.C for the issuing of the Comprehensive Decision (according to EU Regulation 347/2013).
- On 18 October 2017 Transgaz S.A. sent to ACPIC The Project Final Report for the permitting process and the public consultation concept for Project BRUA Phase I.

At the end of 2017 the procedures for the issuing of the comprehensive decision were in progress.

## **ARCHAEOLOGICAL ASPECTS**

In August 2017, 4 framework contracts for specific archeology services were concluded, following the tender procedure, for the implementation of the project BRUA Phase 1.

At the end of 2017, activities to conclude the following Subsequent Contracts were in progress:

- archaeological surveying of above ground facilities;
- intrusive archaeological diagnosis;
- preventive archaeological research of the sites identified during the technical design stage.

## **BIODIVERSITY ASPECTS**

The tender for the procurement of biodiversity monitoring services for gas pipeline construction projects and related technical installations was launched on SEAP on 03.10.2017. The aim of this approach is to conclude a framework contract for biodiversity monitoring and following that to conclude subsequent contracts, including for the BRUA project. It is estimated that the tender for the framework contract will be completed in May 2018 and the subsequent contracts for the BRUA project will be concluded in June 2018.

## **STEPS FOR OBTAINING THE GRANTS NECESSARY FOR THE IMPLEMENTATION OF BRUA PHASE I FROM BERD AND BEI**

From 2016 SNTGN Transgaz S.A. worked closely with BERD specialists to carry out the technical, economic and environmental due diligence process on SNTGN Transgaz S.A. and on the project. The environmental and social documentation prepared according to the BERD performance standards was submitted for public consultation on 12.07.2017 for a period of 120 days according to the BERD policy on BERD's and Transgaz's websites. On 13 December 2017 the Board of BERD approved the funding of the BRUA project. On 23 februarie 2018 SNTGN Transgaz S.A. and BERD signed a loan agreement under which BERD will make available to the company a loan of up to 278 million lei, the equivalent of 60 million euro, for 15 years, a grace period of 3 years and a fixed interest.

On 27 October 2017 s-a încheiat contractul de împrumut pentru suma de 50 milioane euro cu dobândă fixă în EUR pentru o perioadă de 15 ani și termen de grație de 3 ani la rambursare principal cu Banca Europeană de Investiții, a cărei ofertă a fost desemnată câștigătoare în urma derulării unei proceduri de negociere competitivă la care BEI a participat alături de alte 3 bănci ofertante.

October 27, 2017, the loan agreement for the amount of EUR 50 million was concluded with the fixed interest rate in EUR for a period of 15 years and a 3-year grace period for principal reimbursement with the European Investment Bank, whose tender was awarded winner following a competitive negotiation procedure in which the EIB participated alongside three other bidding banks.

## **CURRENT STATUS OF THE PROJUECT BRUA – PHASE II AND MAIN IMPLEMENTATION STAGES**

The main development and implementation stages of the BRUA Phase 2 Project are presented below:

<b>Development and implementation stages</b>	<b>Execution period</b>
Pre-feasibility study	completed
Feasibility study	completed
Environmental Permit	Obtained in December 2016
FEED and permitting documentation for the construction permit	2015 – 2017
Construction of Recaş - Horia pipeline	2021 –2022*
Extension of compressor stations (GCS Podișor, GCS Bibești, GCS Jupa)	2021 –2022*
Start of operation Phase II	2022*

\* Date of start of operation depends on the successful completion of the Open Season procedure for capacity booking and on its calendar.

Starting with 2016 SNTGN Transgaz SA, FGSZ - Hungary and Gas Connect - Austria together with the regulatory authorities in Romania, Hungary and Austria prepared the necessary documentation for the Binding Open Season for capacity booking at Interconnection Points between Romania and Hungary and between Hungary and Austria. This approach was also encouraged and supported by representatives of the European Commission by active participation.

In the autumn of 2017, FGSZ Hungary announced that it would limit the Binding Opening Season only at the Interconnection Point between Romania and Hungary for reasons regarding the existence of capacities available in the interconnection pipelines of Hungary with the neighboring countries, thus no additional investments being necessary for the Hungary – Austria interconnection.

As a result, SNTGN Transgaz S.A. together with FGSZ carried out at the end of 2017 the Binding Open Season for the Interconnection Point between Romania and Hungary. The capacity offered was over-subscribed proving market interest and ensuring the commercial viability of the BRUA Phase II project, with successful economic tests.

Network Users who booked capacity in the Binding Open Season may exercise their right to waive the capacity booked by 14 December 2018, when the results of the Open Season procedure will be validated and the Final Investment Decision for Phase II will be taken.

Although SNTGN Transgaz S.A. intended to complete Phase II at the end of 2020 (as approved in the company's TYNDP), FGSZ can complete the project on the Hungarian territory only in 2022, which is why the project is expected to be commissioned in October 2022.

In September 2017 the public consultation was organized and carried out in accordance with EU Regulation No. 347/2013 and the Public Participation Concept was approved on 07.08.2017 by the Competent Authority for projects of common interest. The final synthetic report on the results of public consultations was published on the project web site. The final synthetic report on the results of the public consultations will be part of the project application file - within the specific authorization procedure, according to EU Regulation no. 347/2013.

## 2. Development of the Southern Corridor on the Romanian territory for taking over Black Sea gas (the Tuzla – Podisor pipeline)

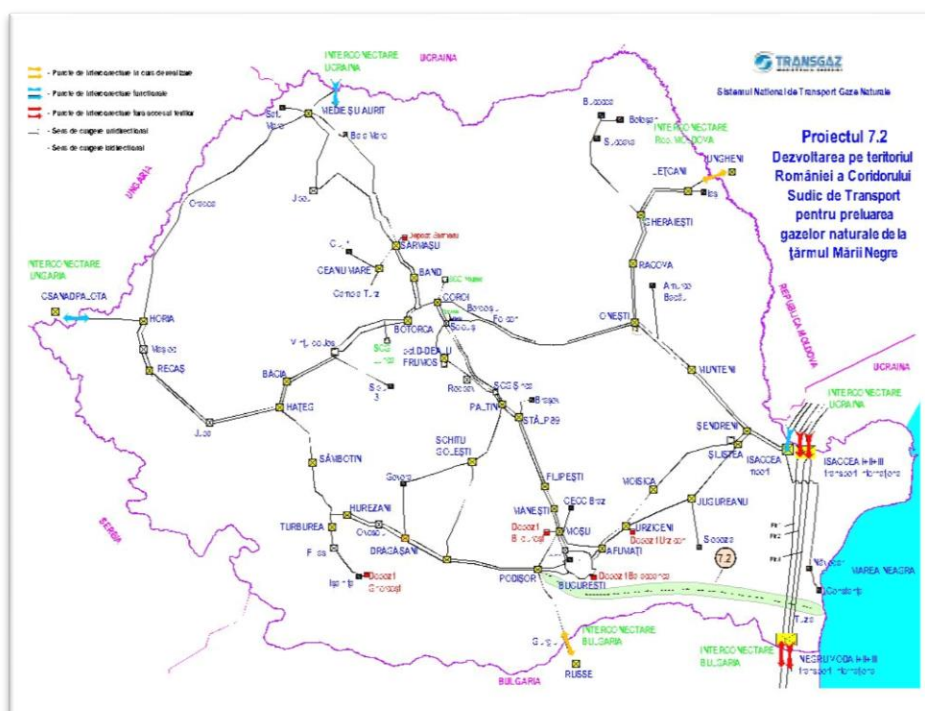


Fig. 3 - Black Sea - Podișor Southern Corridor

The major goal of this investment is to build a gas transmission telescopic pipeline Tuzla - Podișor, 308.2 km long and Dn 1200 and Dn 1000 connecting the natural gas resources available at the Black Sea to the corridor BULGARIA - ROMANIA - HUNGARY - AUSTRIA, thus ensuring the possibility of transmission gas towards Bulgaria and Hungary through existing interconnectors Giurgiu - Ruse (Bulgaria) and Nădlac - Szeged (Hungary).

This pipeline will also be interconnected with the current T1 international gas transmission pipeline.

## Estimated project development calendar

Development stages	Status/Estimated completion date
Prefeasibility study	completed
Feasibility study	completed
Environmental impact assessment	March 2018
Technical documents for obtaining the construction permits	March 2018
Obtaining the construction permits	March 2018
Taking the final investment decision Stage 1	2018
Construction	2019 - 2020
Commissioning/ Start of operation	2020

## Estimated completion date: 2020

The completion dates depend on the execution schedules of the offshore upstream projects. Transgaz has not yet taken a final investment decision (FID) for this project.

## Estimated value: Euro 298,3 million.

## Inclusion of the Project in international plans

- PCI Project (second list): 6.24.8
- PCI Project (third list): 6.24.4 position 5

**Priority corridor:** Gas interconnections in the North-South corridor of Central and South-Eastern Europe («NSI EastGas»)

## Current status

The feasibility study was completed in January 2016. In the feasibility study the pipeline route was selected and topographical geotechnical and hydrological surveys were conducted.

The procedure for the environmental impact assessment was initiated according to Order No 135/76/84/1284 dated 10 februarie 2010 on the approval of the Metodology for the application of the environmental impact assessment for public and private projects. In this respect notifications were submitted on the intention to achieve the Project to the three County Agencies for Environmental Protection (Constanța, Călărași and Giurgiu), the Presentation report was prepared and the Screening decision was issued.

The procedure for the procurement of the services for the environmental impact assessment was completed and the Environmental Permit was obtained and the services contract was signed with the selected consultant. The consultant completed and submitted to the National Agency for Environmental Protection the Adequate Assessment Study and the Environmental Impact Report.

In order to analyze the quality of the report on the environmental impact public debates were conducted in the period 27.12.2017 - 28.12.2017.

Because of its importance the Project was proposed and fulfilled the eligibility conditions for its inclusion on the **Third EU List of Projects of Common Interest** issued by the European Commission on 23.11.2017. In line with the provisions of Regulation (EU) no 347/2013 the **Notification for the initiation of previous procedure for the submission of the application** was submitted to the Competent Authority and the approval was received in 23.03.2017.

**The Concept on the public participation was prepared** for the project of common interest "*Black Sea shore – Podișor Pipeline (RO) for taking over Black Sea gas*" was submitted to ACPIC on 24.05.2017 and was approved by the Ministry of Energy on 27.06.2017.

During 17-27.07.2017 public consultations were conducted in the following locations: Tuzla, Amzacea, Cobadin, Alexandru Odobescu, Borcea, Frăsinet, Isvoarele, Băneasa si Stoenеști.

Following the public consultations the **Final Synthetical Report on the results of public consultations**, which was published on the company's website.

The Town Planning Certificates related to the counties of Constanța, Giurgiu and Călărași.

The identification of the owners affected by the implementation of the project is ongoing.

The procedure for capacity booking in the point PM Tuzla was initiated according to the procedure approved by ANRE by notice no 13/22.06.2017 following the receipt of an incremental capacity request on 19.10.2017.

At the date of the Report the analysis of the demand related to the non-binding stage of the process was in progress. The request analysis period was 20.10.2017-18.01.2018.

The FEED is being prepared by the Research and Design Division.

The indicative calendar for the development of the project may be amended depending upon the evolution of the upstream offshore projects.

### **3. Interconnection of the National Transmission System with the T1 international gas transmission pipeline and Isaccea reverse flow**

This project is very important because:

- By its implementation it is created a transmission corridor between the markets in Greece, Bulgaria, Romania and Ukraine, in the conditions in which the new interconnection between Greece and Bulgaria is achieved;
- The transmission contract for the capacity of the Transit 1 pipeline expired on 1 October 2016. Starting with gas year 2016-2017, the transmission capacity of the Transit 1 pipeline is auctioned according to the European Code on capacity allocation mechanisms at the cross-border interconnection points and to ANRE Order no. 34/2016;
- Physical reverse flows could be ensured at the Negru Voda 1 point in accordance with Regulation (EU) 994/2010;
- The project is necessary also in the context of the taking over of the newly discovered gas in the Black Sea by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.

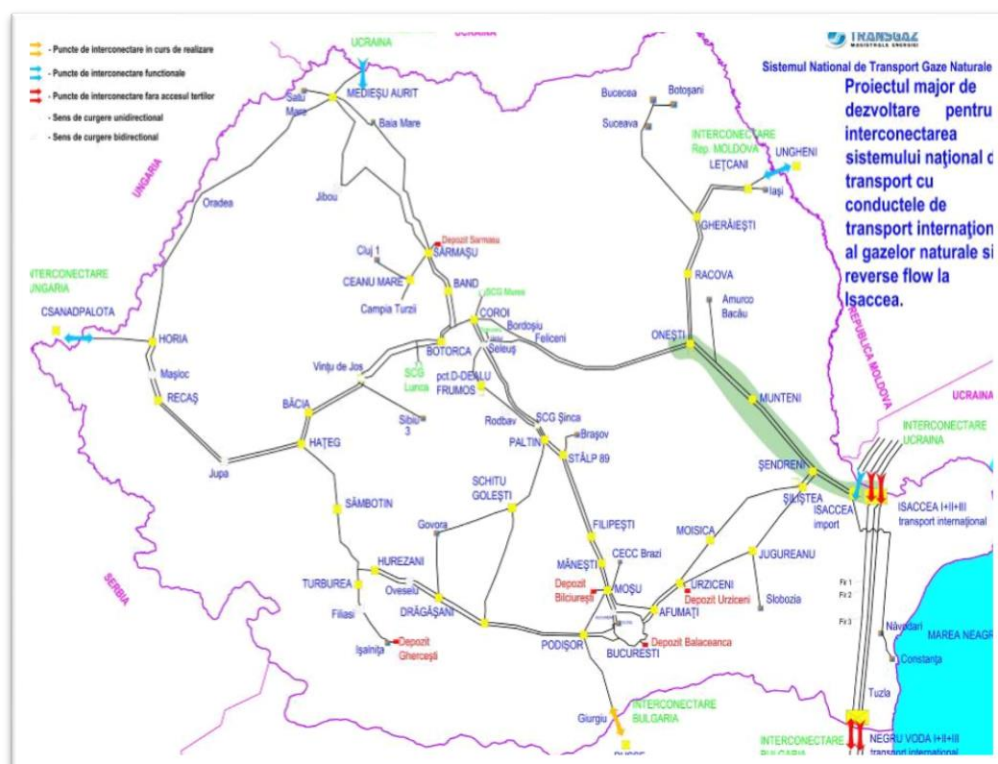


Fig. 4- NTS/Transit / Interconnector at Isaccea

### The project description:

The project consists of the following:

- **Phase I:**
  - Interconnection works between NTS and the international transmission pipeline T1 in the area of the metering station Isaccea;
  - Repair works to the Dn 800 mm Cosmești - Onești (66,0 km) pipeline.
- **Phase II:**
  - Upgrading and extension of the Siliștea compressor station;
  - Upgrading and extension of the Onești compressor station;
  - Changes at TN Siliștea, TN Șendreni și TN Onești.

### Estimated project development schedule:

Development stages	Status/Estimated completion date
<b>Phase I</b>	<b>2018</b>
Prefeasibility study	Completed
Feasibility study	Completed
Environmental impact assessment	March 2018
Technical documents and obtaining the construction permit	April 2018
Obtaining the construction permit	April 2018
Construction	2018
Commissioning / startup operation	2018

Phase II	2019
Prefeasibility study	completed
Feasibility study	completed
Environmental impact assessment	December 2018
Technical documents and obtaining the construction permit	January 2019
Obtaining the construction permit	January 2019
Construction	2019
Commissioning/Start of operation	2019

**Completion deadline:** 2018 for Phase I, respectively 2019 for Phase II

**Investment Estimated value:** EURO 100,55 million.

**Cost breakdown:**

Phase I	Euro 8,36 million
Phase II	Euro 92,19 million
<b>TOTAL</b>	<b>Euro 100,55 million</b>

This project was included in the TYNDP edition of 2017 and is also on the third list of **European projects of common interest, section 6.24.10, part of the NSI EAST Priority Corridor.**

**Current status**

- The FEED for the NTS interconnection with the T1 pipeline at Isaccea and the Documentation for the Approval of the Intervention Works for repair works to the Cosmești – Onești pipeline were approved.
- The FEED for the repair works to the Cosmești – Onești pipeline is being prepared.
- All the town planning certificates related to each phase were obtained.
- The identification of the owners affected by the implementation of the project is ongoing.
- The Environmental Notifications were prepared and submitted to the Agency for Environmental Protection (APM) Bacău, APM Tulcea, APM Galați, APM Vrancea și APM Brăila..
- All the decisions for the initial evaluation stage were obtained from all of the above mentioned APMs.
- The environmental procedures are ongoing: preparation of the presentation reports and their submission to APM, participation to the CAT meetings, media coverage, etc.
- At the same time the activity related to the preparation and submission to approving authorities of the documentations for obtaining the necessary approvals requested by the town planning certificates are ongoing.

Because of its importance the Project was proposed and fulfilled the eligibility conditions for its inclusion in the **Third EU List of Projects of Common Interest** issued by the European Commission on 23.11.2017.

In line with the provisions of Regulation (EU) no 347/2013 the **Notification in view of the initiation of the previous procedure to the submission of the application** and its approval was obtained on 17.01.2018.

At present the **Concept on the public participation** is being prepared and the locations in which the public consultation will be conducted are determined.

#### 4. Development of the National Transmission System in view of increasing the transmission capacity in the North-Eastern region of the country and on the Romania – Republic of Moldova interconnector

Considering the necessity to improve the gas supply of the north-eastern region of Romania and taking into account the perspective offered by the new interconnection pipeline between Romania and the Republic of Moldova (Iași - Ungheni) to provide transmission capacities to/from the Republic of Moldova, a series of developments are necessary with regard to the Romanian gas transmission system for ensuring technical parameters appropriate to the consumption requirements of the regions concerned.

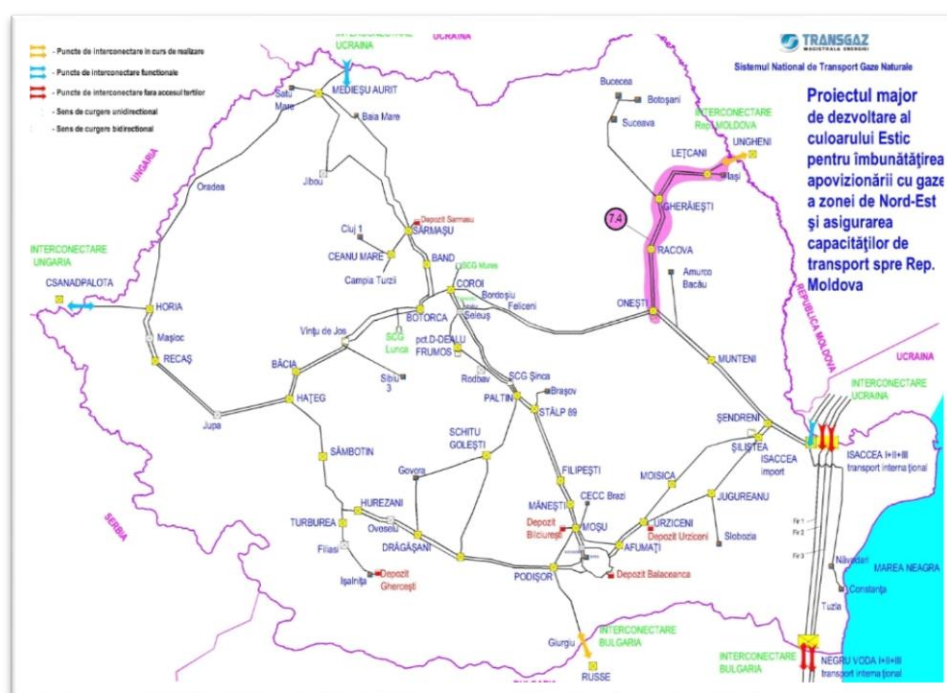


Fig. 5 - NTS developments in North - Eastern Romania

#### Project Description:

In order to improve both the implementation process and the obtaining of funding in programs made available from the European regional development funds, the project consists of the following objectives:

- Construction of a new DN 700, Pn 55 bar 104 km gas transmission pipeline in the Onești – Gherăești direction. The route of this pipeline will be mostly parallel with the existing DN 500 Onești – Gherăești pipeline;
- Construction of a new DN 700, Pn 55 bar 61km gas transmission pipeline in the Gherăești – Letcani direction, this pipeline will replace the existing DN 400 Gherăești – Iași pipeline on the Gherăești – Letcani pipeline section;
- Construction of a new gas compressor station at Onești, having an installed power of 9,14 MW, 2 compressors of 4,57 MW each, one active and one as a backup;
- Construction of a new gas compressor station at Gherăești, having an installed power of 9,14 MW, 2 compressors of 4,57 MW, each, one active and one as a backup.

## Estimated project development schedule

Development stages	Status/Estimated completion date
Solution study	completed
Feasibility study	completed
Completion of FEED for pipelines	completed
Completion of FEED for compressor stations	completed
Obtaining pipeline construction permits	completed
Obtaining construction permits for the compressor stations	completed
Construction	2018-2019
Commissioning/Start of operation	2019

**Estimated completion date:** 2019

**Estimated value:** EUR 152,7 million, broken down as follows:

Onești-Gherăiești gas transmission pipeline	Euro 51,79 million
Gherăiești-Lețcani gas transmission pipeline	Euro 30,38 million
Onești compressor station	Euro 35,29 million
Gherăiești compressor station	Euro 35,26 million
<b>TOTAL</b>	<b>Euro 152,7 million</b>

## Inclusion of the project in international plans

The project **Development of the National Transmission System in view of increasing the transmission capacity in the North-Eastern region of the country and on the Romania – Republic of Moldova interconnector** was accepted as eligible according to the conditions set by the Operational Program Large Infrastructure (POIM). Within such program Priority axis (PA) 8- Strategic objective (OS) 8.2– “The increase in the interconnectivity of the National Gas Transmission System with neighboring states”, has a financial allocation of approximately EURO 55 million.

## Current status

The Revision 0 of the Feasibility Study was completed in January 2016 and Rev 2 of the Feasibility Study, completed during January 2018, includes all the updates following the clarifications of the details related to the eligibility of the costs stipulated in the Applicant's Guideplines and in the recommendations of the consultant JASPERS.

Within the feasibility study the following works were completed:

- Topographical, geotechnical and hydrological surveys;
- Identification of the land owners along the pipeline route;
- The procedure for the authorization of the execution of the construction works, in order to obtain the Town Planning certificates and most of the approvals.

## The procedure related to the environmental impact assessment

For this project the National Agency for Environmental Protection issued the following regulations:

- Environmental Permit no SB 3/06.07.2017;
- The Screening Decision no 2/09.01.2018 (revision of the environmental agreement);

The Research and Design Division within TRANSGAZ **finalized during January 2018 the FEED for the gas transmission pipeline, the FEED for the two compressor stations and the FEED for the electrical installations, cathode protection, pipeline automation and security.**

The tender books for the procurement of the materials (pipe materials, curves, valves and monobloc electroinsulated joints) are completed and validated by the National Agency for Public Procurement.

The Construction Permit no 2/15.09.2017 was obtained according to the provisions of Law 185/2016 on some necessary measures for implementing projects of national importance in the gas field.

By GD no 562/2017 the objective named "Development of the capacity of the national transmission system in order to ensure gas flows in the Romania-R Moldova direction" was initiated as project of national interest benefiting of the provisions of Law 185/2016 on the necessary measures for the implementation of projects of national importance in the gas field.

#### **5. Extension of the Bulgaria – Romania - Hungary – Austria bidirectional gas transmission corridor (BRUA Phase 3)**

Assuming that the transmission capacity necessary for transmission Black Sea gas to the Central and Western European markets exceeds the transmission potential of the BRUA Corridor Phase 2 TRANSGAZ planned the development of the **Central Corridor**, which basically follows the pipeline route of the current system, but currently operates at inappropriate technical parameters for a main pipeline.

#### **Project description:**

Developing gas transmission capacity on the Onesti - Coroi - Hațeg - Nădlac corridor depending on the volume of gas available from the Black Sea or other onshore blocks.

The development of this gas transmission corridor implies the following:

- Rehabilitation of some existing pipelines belonging to the NTS;
- Replacement of some existing pipelines belonging to the NTS with new pipelines or the construction of new pipelines installed parallel to the existing ones ;
- Development of 4 or 5 new compressor stations with a total installed power of approximately 66-82,5MW.

Transgaz developed the pre-feasibility study for the development of **this gas transmission corridor**, and in order to enhance and streamline both the implementation process and the possibilities of obtaining a grant, the **corridor** was divided into two projects the implementation of which will meet the goals set for the achievement of this gas transmission corridor.

1. Ensuring reverse flow on the Romania-Hungary interconnection:

- The project will consist of the following:

- 2. Development of NTS between Onesti and Băcia:**

- The project will consist of the following:

- The above projects were grouped into the updated list (List 3/2017) of projects of common interest published as an annex to Regulation 347/2013 and are included at position 6.24 as Further enlargement of the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (BRUA, phase 1, 2 and 3).

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**Estimated value:** EURO 530 million.\

### **Status of the project**

Until now the **pre-feasibility study was completed.**

Transgaz will start the feasibility study when there will be additional data and information from the concessionaires of the Black Sea perimeters (confirmations on capacity requests, the approximate availability of gas on the Black Sea shore, etc.).

It is worth underlining that the achievement of this corridor still depends on the evolution of the capacity request, namely on the results of the processes for the exploration of the gas fields at the Black Sea or other off-shore blocks, a final investment decision may be taken only when the additional capacity request is confirmed by agreements and booking contracts.

This project promoted by Transgaz was included in the updated list of Projects of Common Interest published on the European Commission's website List 3/2017.

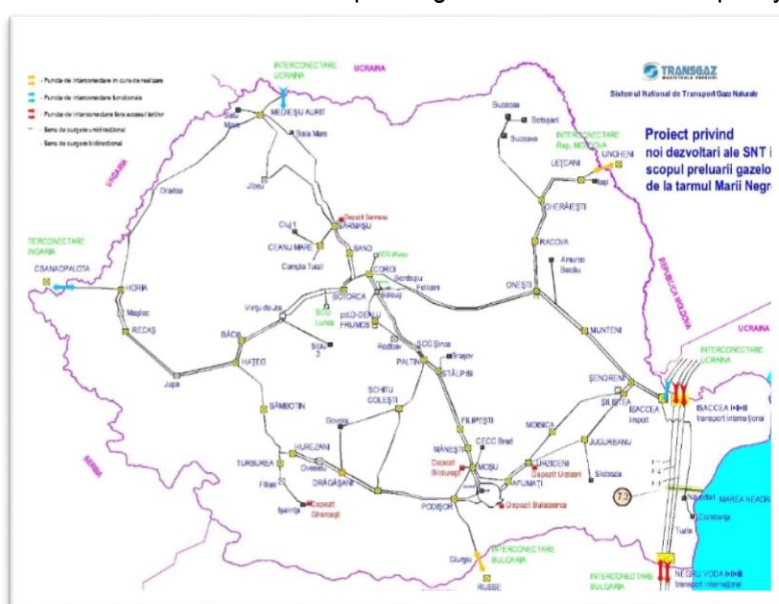
## **6. Project on new NTS developments the taking over Black Sea gas**

Considering the gas resources recently discovered in the Black Sea, Transgaz intends to extend the NTS to create additional point for taking over Black Sea gas from the offshore Black Sea blocks.

This project became necessary following the discussions had/initiated by Transgaz in 2015 with Black Sea block exploration and development license holders.

### **Project description**

Transgaz completed the feasibility study for a Dn 500 25 km transmission pipeline from the Black Sea shore to the existing T1 international transmission pipeline. The study analyses two routes of the gas transmission pipeline and different diameters depending on the transmission capacity.



**Fig. 7 - NTS Black Sea developments**

**Estimated project development schedule:**

Development stages	Stage / Estimated completion date
Pre-feasibility study	completed
Feasibility study	completed
Technical documentation for obtaining construction permits	completed
Obtaining Construction permits	completed
Taking the final investment decision	2018
Construction	2018-2019
Commissioning / start of operation	2019

**Estimated completion deadline:** 2019, depending on the offshore upstream project schedules.

**Estimated investment value:** EUR 9,14 million.

**Current status:**

Transgaz completed the feasibility study and the FEED.

The town planning certificates related to the investment objective were obtained.

The environmental procedure was completed and the Environmental Permit was obtained on 21.11.2017.

The Construction permit was obtained on 20.12.2017.

The project was declared as Project of National Importance by Governmental Decision no 563 of 4 August 2017.

Because of its importance the Project was proposed and fulfilled the eligibility conditions to be included in the **Third EU List of Projects of Common Interest** issued by the European Commission on 23.11.2017. The capacity booking procedure was issued in the PM Vadu point according to the Procedure endorsed by ANRE by an opinion no 13/22.06.2017, following the receipt of an incremental capacity request on 21.07.2017. At present the binding stage of the process is ongoing.

**7. Romania - Serbia interconnection - interconnection of the national gas transmission system with the natural gas transmission system of Serbia**

In the context of the provisions of the European Union Energy Strategy and actions to implement the objectives of this strategy (competitiveness, sustainability and security of energy supply), Romania pays special attention to ensuring the dimension of energy security, developing energy infrastructure by diversifying energy sources and routes, by consolidating the solidarity between Member States and by ensuring the efficient functioning of the energy market.

The project for the interconnection of the National Gas Transmission System in Romania with the one in Serbia is aimed at developing the degree of interconnection between the natural gas transmission systems in the EU Member States and to increase energy security in the region.

The analyzed option of natural gas export to Serbia is the taking over of gas from the future BRUA pipeline (Phase I). The closest BRUA pipeline point on the border between Romania and Serbia is Mokrin, in the Arad area.

The project Interconnection of the national gas transmission system with the similar natural gas transmission system in Serbia consists of the construction of an approximately 97 km-long pipeline for the interconnection of the national natural gas transmission system with the similar natural gas transmission system in Serbia on the Arad-Mokrin direction.

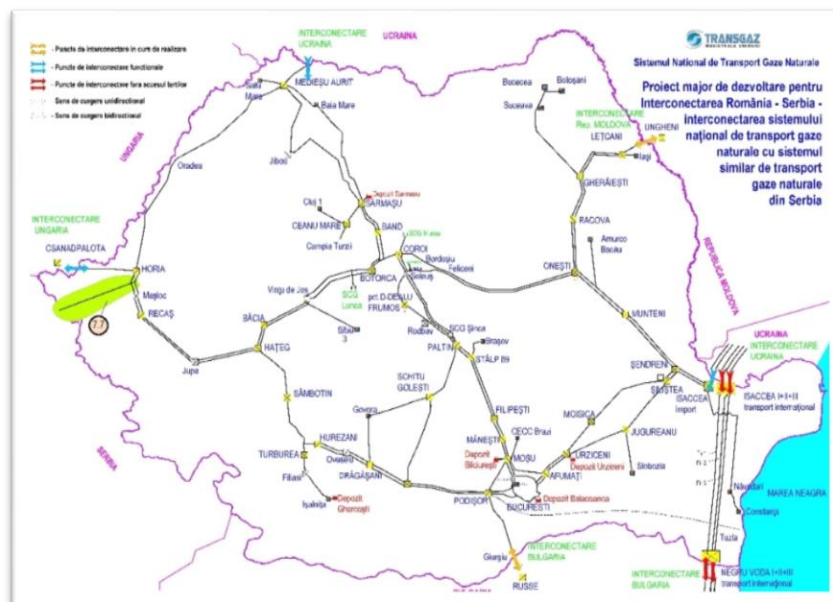


Fig. 8 - Interconnection of NTS with Serbia in the Arad - Mokrin direction

### Project description:

The project will consist of the following:

- Construction of a new interconnection pipeline in the Arad - Mokrin direction, approximately 97 km long, of which approximately 85 km on the territory of Romania and 12 km on territory of Serbia, with the following characteristics:
  - BRUA pipeline pressure in the Arad area: 47 bar (NP BRUA – 63 bar);
  - Interconnection pipeline diameter : 600 mm ;
  - Transmission capacity: max. 1 bcm/year (115, 000 Smc/h), pressure at Mokrin: 42 bar ;
  - Transmission capacity: max. 1,6 bcm/year (183 000 Smc/h), pressure at Mokrin: 35 bar.
- Construction of a gas metering station (located in Romania).

### Estimated project development schedule

Development stages	Stage / Estimated completion date
Feasibility Study	February 2018
Design	December 2018
Technical documentation for obtaining construction permits and the Construction Permit	December 2018
Bidding and procurement documentation	2019
Construction	2019 - 2020
Commissioning / Start of operation	2020

**Estimated completion deadline:** anul 2020

**Estimated completion deadline:** EUR 50,7 million of which:

- EUR 40,9 million for the pipeline on Romanian territory (including the PIG launching receiving stations)
- EUR 8,3 million for the pipeline on Serbian territory (including the PIG launching receiving stations and the regulating station)
- EUR 1,5 million gas metering station (located in Romania)

The export of natural gas to Serbia will be achieved after the completion of the BRUA project (Phase I).

If natural gas is taken over from Serbia to Romania, it can be directed to consumption in the Timișoara - Arad area via the DN 600 Horia - Mașloc - Recaș (25 bar) pipeline, at lower pressures than in the BRUA pipeline.

### **Current status**

In February 2018 the Research and Design Division completed the preparation of the Pre-Feasibility Study. At present the Feasibility Study is being prepared.

### **8. Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS**

In order to increase the level of energy security in the region, the following interconnection agreements were signed:

- **Interconnection Agreement for the Isaccea 1 Interconnection Point**, concluded with PJSC Ukrtransgaz, Ukraine, on 19 July 2016;
- **Interconnection Agreement for the Negru Vodă 1 Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 19 May 2016.

The modernization of the gas metering stations at the two interconnection points is included in these Agreements.

**The project Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS** consists of the construction of two new gas metering stations within the existing premises of the metering stations.

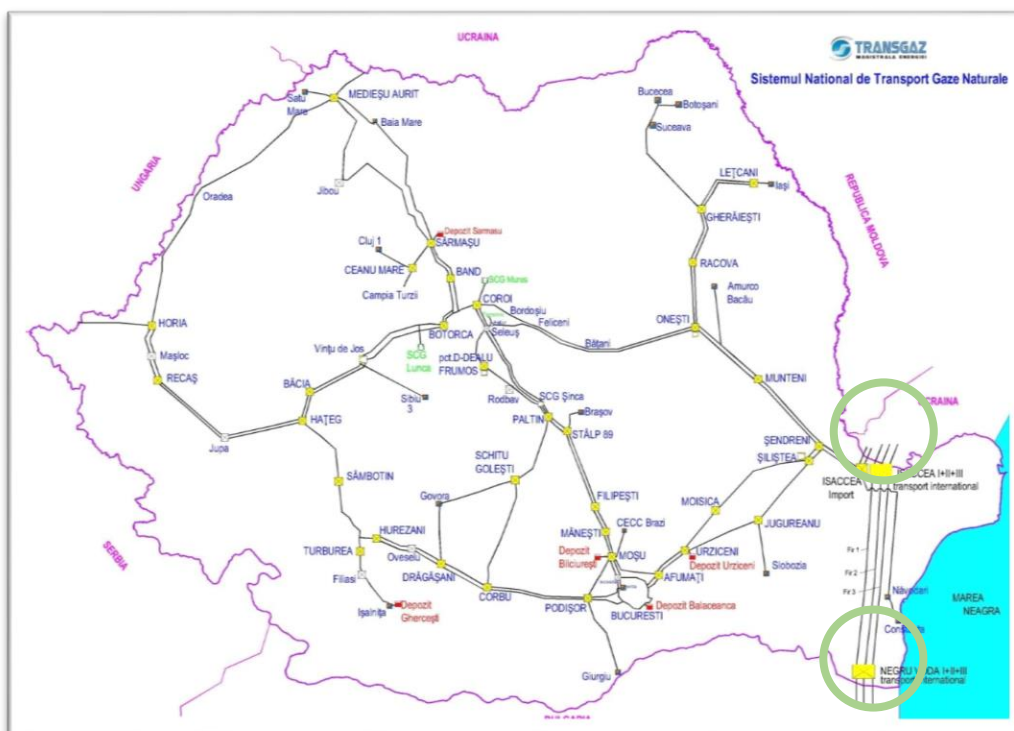


Fig. 9 - Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS

## Project description:

### 1. Isaccea 1 Gas Metering Station

The upgraded metering station will be equipped with a separation / filtering installation and a metering installation:

- Separation / filtering is provided by a separation / filtration battery.
- The metering installation will consist of several parallel (operating and backup) metering lines provided with ultrasonic meters for metering the quantities of gas delivered, each line having three independent measurement systems (Pay, Check and Control). The Pay and Check independent systems will use dual ultrasonic meters, and the Control systems will use a simple ultrasonic meter.

The number of metering lines is sufficient to allow metering of gas to be delivered through the GMS. The number of operating lines will depend on the gas quantities to be circulated through the SMG. In order to verify the traceability of ultrasonic meters on the metering lines, ultrasonic meters will be periodically connected in series with a reference meter line provided with a turbine meter.

If one of the systems no longer complies with established standards and / or error limits, the relevant metering line will be closed and withdrawn from normal operation until the remediation of the causes which led to the relevant disfunctionalities.

The volumes resulting from the independent measurement of the Pay, Check and Control systems will be monitored continuously.

## 2. Negru Vodă 1 Gas Metering Station

The upgraded metering station will be provided with a separation / filtering installation and a metering installation:

- Separation / filtering is provided by a separation / filtration battery.
- The metering system will consist of several parallel metering (operating and backup) lines provided with ultrasonic meters for metering the quantities of gas delivered, each line being provided with two independent metering systems (Pay and Check). The Pay and Check independent systems will use dual ultrasonic meters.

The number of metering lines is sufficient to allow metering of gas to be delivered through the GMS. The number of operating lines will depend on the gas quantities to be circulated through the SMG. In order to verify the traceability of ultrasonic meters on the metering lines, ultrasonic meters will be periodically connected in series with a reference meter line provided with a turbine meter.

If one of the systems no longer complies with established standards and / or error limits, the relevant metering line will be closed and withdrawn from normal operation until the remediation of the causes which led to the relevant disfunctionalities.

The volumes resulting from the independent measurement of the Pay and Check systems will be monitored continuously.

### Estimated project development schedule:

Development stages	Estimated completion date
Feasibility Study	2018
Design	2018
Technical documentation for obtaining construction permits and the Construction Permit	2018
Construction	2018 - 2019
Commissioning / Start of operation	2019

### Estimated completion deadline: 2019

### Estimated total investment: EUR 13.9 million of which:

- EUR 7,1 million for the modernization of Isaccea 1 GMS
- EUR 6,8 million for the modernization of Negru Vodă 1 GMS

### Current status

Within the Research and Design Division the preparation of the feasibility study was initiated for the two metering stations.

### Achievement of TYNDP 2017

Nr. crt	Project	Estimated total value Eur million.	Program	Achievements 2017 (lei)	TOTAL	
					lei	Eur million
1	Development of the national gas transmission system on the Romanian territory, on the Bulgaria – Romania – Hungary – Austria corridor <b>BRUA</b>		Feasibility studies	0	4.296.872	0,95
			Design	16.572.817	34.495.554	7,67
			Development	0	-	
	<b>TOTAL</b>	<b>547,4</b>		<b>16.572.817</b>	<b>38.792.426</b>	<b>8,62</b>
2	Development of the <b>Southern Corridor</b> on the Romanian territory for taking over Black Sea gas		Feasibility studies	26.155	935.391	0,21
			Design	2.918.977	3.295.628	0,73
			Development		-	0
	<b>TOTAL</b>	<b>298,4</b>		<b>2.945.132</b>	<b>4.231.019</b>	<b>0,94</b>
3	Interconnection of the National Transmission System with the international gas transmission pipeline		Feasibility studies	765.438	765.438	0,17
			Design	383.151	383.151	0,09
			Development	0	-	0
	<b>TOTAL</b>	<b>100,55</b>		<b>1.148.589</b>	<b>1.148.589</b>	<b>0,26</b>
4	Development of the National Transmission System in view of improving gas supply in the area and increasing the transmission capacity in the <b>North-Eastern</b> region of the country and on the Romania – <b>Republic of Moldova</b> interconnector		Feasibility studies	386.936	3.770.331	0,84
			Design	1.840.430	3.404.116	0,76
			Development	0	-	0
	<b>TOTAL MOLDOVA</b>	<b>152,7</b>		<b>2.227.366</b>	<b>7.174.447</b>	<b>1,59</b>
5	Extension of the Bulgaria – Romania - Hungary – Austria bidirectional gas transmission corridor (BRUA Phase 3)		Feasibility studies		-	0
			Design		-	0
			Development		-	0
	<b>TOTAL</b>	<b>530</b>			-	0
6	Project on new NTS developments the taking over Black Sea gas		Feasibility studies	531.811	531.811	0,12
			Design	0	-	0,00
			Development	0	-	0,00
	<b>TOTAL</b>	<b>9,14</b>		<b>531.811</b>	<b>531.811</b>	<b>0,12</b>
7	Romania - Serbia interconnection		Feasibility studies	46.365	46.365	0,01
			Design		-	0
			Development		-	0
	<b>TOTAL</b>	<b>42,4</b>		<b>46.365</b>	<b>46.365</b>	<b>0,01</b>
8	Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS		Feasibility studies	47.410	47.410	0,01
			Design		-	0
			Development		-	0
	<b>TOTAL</b>	<b>13,9</b>		<b>47.410</b>	<b>47.410</b>	<b>0,01</b>
	<b>TOTAL</b>	<b>1.694,49</b>		<b>23.519.489</b>	<b>51.972.067</b>	<b>11,55</b>

### 3.2 Data procurement and control System SCADA

In order to improve the quality of the execution and efficiency of the operational activity within Transgaz SA the Data procurement and control System SCADA was implemented.

The implementation of the SCADA Project was reported as completed on 30.11.2015. The details related to the implementation/achievement degree per types of objectives is contemplated in the table below:

Type indicator	In the contract	Connected
National Dispatching Center of Medias	1	1
Gas Dispatching Center of Bucharest	1	1
Dispatching Centers of Regional Offices	9	9
MRSs	948	948
Line valves	106	106
Technological Nodes	33	33
Compressor stations	5	5
International gas transit stations	6	6
Gas import stations	2	2
Underground storages	7	7
Domestic producers	4	4
<b>TOTAL</b>	<b>1.122</b>	<b>1.122</b>

The SCADA System:

- Ensures the transmission, in real time, of the technological data (pressure, flow, temperature, gas quality, calorific power) to the National dispatching centre;
- Improves TRANSGAZ' ability to control and react promptly and efficiently to any potential risk of interruption of the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensures the necessary conditions to offer short term gas transmission services in the entry/exit points in/out of the national transmission system and to perform the contracts related to such types of services according to the requirements of Regulation (EC) no 715/2009.

Considering the need to extend the SCADA system to other facilities of the NTS, by the Decision of the Board of Administration no 29/2016 approves the establishment within the Operation Division of the Automation and SCADA Unit.

In 2017 a series of activities were performed in order to maintain, develop and upgrade the National Gas Transmission System according to the concept of smart network (SCADA), to ensure the compatibility of its operation with similar European transmission systems in view of the integration in the european unique market:

- Maintenance of the industrial system;
- Integration/execution of the new locations/relocations/reception of the works,
- Participation in technical committees/tenders

Technical analysis reports (SCADA instrumentations – listing internal/external requests and settling/solving solutions).

The activity of the Automation and SCADA Unit is presented in detail in **Annex 1**.

**Automation and SCADA Division-** Development and Investment Modernization Plan/Supply Plan achievement:

Development and Investment Modernization Plan:

- In order to maintain the functionality of the SCADA system:
  - Spare parts for the SCADA system -telecommunication equipment is in the procurement stage;
  - SCADA licenses supplementation are in the analysis / documentation phase.
  - In order to identify the objectives that require the building/refurbishment/modernization of the electrical supply, distribution, automation and video monitoring facilities, technical documentation actions and analyses were carried out at the objectives belonging to the Craiova, Constanța, Arad and Bucharest Regional Offices.
- Air conditioning equipment was procured and installed in the technological Nodes Sâmbotin and Ceanu Mare to ensure the recommended environment for the operation within the optimum parameters of the automation and power supply.

#### Supply Plan:

- In order to support the maintenance and guarantee programs of the SCADA system, the following were started / finalized:
  - Procurement according to Contract 600/22.12.2016, Electronic, electromechanical and electrotechnical accessories" - spare parts, equipment, SDV;
  - Procurement of Electric accumulators - SCADA Transgaz System is in the contract signing stage;
  - The tender book Electronic, electromechanical and electrotechnical accessories - SCADA Transgaz system was submitted for publication;
  - Preparation of the tender book Materials, consumables, equipment, spare parts, tools, devices and verifiers necessary for carrying out the specific activities of maintenance, relocation, integration of new equipment in order to ensure the functioning in the projected parameters of the SCADA system - document preparation phase.
- In order to maintain the functionality of the industrial actuation / automation systems, the following were started / finalized:
  - Preparation of the tender book Procurement of electronic measuring instruments, electronics kit, hand tools;
  - Procurement of air conditioning systems for the microclimate control of the automation rooms in the Ceanu Mare Technological Node and Sâmbotin Technological Node was completed.

In cooperation with the specialized departments at SNTGN TRANSGAZ SA, discussions were initiated (in March 2017) with the Management Authority within the Operational Programme for Large Infrastructure (AM POIM) regarding the possibility of financing Transgaz projects which are directly connected or related to the activity of the Automation and SCADA Unit from European grants. The technical and procedural discussions focused on the possibility of achieving some projects from POIM funds which were not used in other areas of activity between 2014 and 2017.

The projects proposed by TRANSGAZ that have been analyzed and showed potential for receiving European grants are:

- the creation of a National Cathodic Protection System;
- the use of microgenerators to transform kinetic energy into electrical energy.

In cooperation with the European Funds Unit, the opportunities for obtaining new grants are continuously monitored for other projects within the area of action and technical interest of the Automation and SCADA Unit:

- Developing the policies/requirements regarding the defining elements of the cyber security strategy for the industrial systems of Transgaz;

- Developing/expanding the technical intervention procedures through the HelpDesk software application;
- Initiation of strategy elements on maintenance in electrical installations and industrial actuation / automation.

## 4. CONSOLIDATED FINANCIAL REPORT

On 18 December 2017, the Limited Liability Company EUROTRANSGAZ SRL Chisinau (EUROTRANSGAZ S.R.L.) was established in the Republic of Moldova. In relation to EUROTRANSGAZ S.R.L., SNTGN Transgaz SA Mediaș is a sole associate, based on the decision of the General Meeting of the Shareholders no.10/12 December 2017, regarding the establishment of this company.

The main scope of activity of EUROTRANSGAZ consists in the following:

1. Natural gas production, natural gas transmission, natural gas distribution, natural gas storage, natural gas supply
2. Transmission through pipelines
3. Storage
4. Consultancy for business and management.

The share capital of the company is 1,014,682 Moldavian lei (RON equivalent of 232,533 lei) and it is owned entirely by SNTGN Transgaz SA Medias – its founder.

Therefore, as of 2017, the company is required to prepare consolidated financial statements in accordance with IFRS 10 - Consolidated Financial Statements, IFRS 12 - Presentation of Interests in Other Entities and IAS 21 - Effects of Changing Courses of currency exchange.

### 4.1 Consolidated financing position

According to Article 1 of Order no. 881/25 June 2012 of the Ministry of Public Finance on the application of the International Financial Reporting Standards by companies having securities admitted to trading on a regulated market, starting with financial year 2012, the companies having securities admitted to trading on a regulated market are obliged to apply the International Financial Reporting Standards (IFRS) upon preparation of the individual annual financial statements.

On 31 December 2017, the financial position is as follows:

Indicator	31.12.2017	31.12.2016	Dynamics (%)
	Thousand lei	Thousand lei	
0	1	2	3=1/2
Intangible Assets	2.490.561	2.583.473	96,40%
Tangible Assets	558.555	588.078	94,98%
Financial assets	0	0	0,00%
Trade receivables and other receivables	660.031	626.403	105,37%
<b>Fixed assets</b>	<b>3.709.147</b>	<b>3.797.954</b>	<b>97,66%</b>
Inventories	82.092	83.715	98,06%
Commercial receivables and other receivables	379.498	523.488	72,49%
Cash and cash equivalent	1.062.540	949.293	111,91%
Current assets - TOTAL	1.523.130	1.556.496	97,91%

<b>TOTAL ASSET</b>	<b>5.233.277</b>	<b>5.354.450</b>	<b>97,74%</b>
Debts to be paid over a one-year period	273.704	305.333	89,61%
Debts to be paid over a period of more than one year	1.238.525	1.211.416	102,24%
<b>Total debts</b>	<b>1.512.229</b>	<b>1.516.749</b>	<b>99,70%</b>
<b>Equity</b>	<b>3.721.048</b>	<b>3.837.701</b>	<b>96,96%</b>
Share capital	117.738	117.738	100,00%
Hyperinflation adjustment of share capital	441.418	441.418	100,00%
Share premium	247.479	247.479	100,00%
Other reserves	1.265.797	1.265.797	100,00%
Retained earnings	1.648.616	1.765.269	93,39%
Conversion difference financial standing	0	0	0
<b>Total equity and debts</b>	<b>5.233.277</b>	<b>5.354.450</b>	<b>97,74%</b>

*Table 3-The Company's statement of consolidated financial position between 2016 and 2017*

### **Intangible Assets**

From 2010, in accordance with the EU approval process, the Company started to apply IFRIC 12 **Service Concession Arrangements**, adopted by the EU.

The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the gas transmission system, which are transferred to the regulatory authority at the end of the concession agreement.

The Company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement ('SCA') had no commercial substance (i.e. nothing substantial changed in the way the Company operated assets; cash flows changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of the derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12).

Consequently, the Company continued to recognize the asset, but reclassified it as intangible asset. The company tested the intangible assets recognized at the time without identifying depreciation.

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

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

**Intangible assets decreased by lei 92.912 thousand** as compared with 31.12.2017, this decrease being mainly due to the fact that the developments brought to the national transmission system do not exceed the depreciation expense registered for this type of intangible assets.

### **Tangible Assets**

Tangible assets include auxiliary buildings of operating assets, office buildings, land, assets used for the transit activity, as well as objectives related to the national transmission system taken over free of charge.

**Tangible assets decreased by lei 29.523 thousand** as compared to 31.12.2016, mainly due to the fact that the tangible assets inflow and the reclassification of the tangible assets did not exceed the depreciation cost for tangible assets.

#### ***Trade receivables and other receivables***

**The increase of the receivables to ANRM on 31 december 2017 by the amount of LEI 33.628 thousand**, calculated after the entry into force of Law 127/2014 of 5 October 2014, which states that in case of termination of the concession agreement for any reason, or upon termination, the investment of the national transmission system operator shall be transferred to the owner of the national transmission system or another concession provider on payment of a compensation equal to the regulated value remaining not amortized, established by ANRE.

The company recognized as of 2014 a receivable related to the residual regulated value and an advance income.

The deferred revenue is recognized in the profit and loss account for the remaining duration of the concession agreement.

The Lei **33.628** thousand increase compared to 31 December 2016 is determined mainly by the updating of the receivables with the modifications registered in the RAB.

#### ***Inventories***

**On 31 December 2017 inventories decreased by Lei 1.623 thousand** compared to 31 December 2016, mainly on account of the increase of adjustments for the depreciation of the consumables.

#### ***Commercial receivables and other receivables***

On 31 December 2017 the balance figure of the trade receivables and other receivables decreased by Lei **143.990 thousand** as compared to 31 December 2016, mainly due to the following factors:

- A decrease of the customer receivable balance by Lei 118.095 thousand mainly because of the decrease of the receivables balance from transmission and international transit;
- Decrease of advance payments to suppliers by Lei 47 thousand;
- Registration of subsidies received amounting to Lei 61 thousand;
- An increase of provisions for impairment of commercial receivables and other receivables by Lei 29.168 thousand.
- Increase of the balance of other receivables by Lei 3.257 thousand.

#### ***Cash at bank and in hand***

As at 31 December 2017 the company's cash increased by LEI **113.245** thousand as compared to the end of 2016, this increase is due to the fact that the holdings in the bank and in lei decreased by LEI 244.587 thousand and the bank deposit accounts in foreign currency increased by LEI 357.761 thousand, in the cash at bank accounts and cash equivalents an increase of LEI 49 thousand is registered.

### ***Debts to be paid over a one-year period***

In the structure of debts to be paid over a one-year period, the following changes were noticed compared to 31 December 2016:

- A balance increase in commercial payables and other payables by Lei 4.029 thousand mainly due to the increase of commercial receivables by Lei 32.854 thousand, the decrease of the debts related to royalties by Lei 12.638 thousand, the decrease of the payable VAT by Lei 1.817 thousand, the decrease of the undue VAT by Lei 24.275 thousand, of the increase in the balance of the dividends to be paid by Lei 1.258 thousand, the decrease of balance of other taxes by Lei 2.319 thousand, the increase of the amounts payable to employees by Lei 1.551 thousand, the increase of other debts by Lei 9.413 thousand;
- A decrease of the provision for risk and charges by Lei 422 thousand due to the cancellation of the provision for the employees participation to profit for 2016, which is exceeded by Lei 85 thousand by the provision established for 2017 and the diminishing of the provision for the contract of mandate by Lei 507 thousand as compared to 2016;
- A decrease of the debt related to tax on current profit by Lei 34.085 thousand as a result of the payment of the tax on current profit as instalment IV as advance payment in December 2017;
- The increase of the current payment of the provision for employees benefits with Lei 1.149 thousand.

### ***Long-term debts***

The evolution of long-term debts is due to the following aspects:

- The recording of the first installment of the loan contracted on 27 October 2017 for the financing of the project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria route (BRUA Phase 1) amounting to Lei 69.896 thousand.
- Decrease of provision for employees benefits by Lei 13.275 thousand
- **Decrease of registered revenue and subsidies by Lei 27.192** mainly due to the recording at revenue of the portion corresponding to the current period of the public domain debt and which is exceeded by the recalculation of the debt acknowledged after the legislation change according to which the Company is entitled to recover the remaining un-depreciated value of the assets related to the company's investments as titleholder of the National Gas Transmission System;
- **The decrease of deferred tax liabilities by Lei 2.321 thousand** is mainly due to the decrease of the variation between the basis of accounting and the tax base for Transgaz's tangible and intangible assets.

### ***Equity***

The subscribed and paid up capital remained unchanged. The decrease in retained earnings by LEI 116.653 thousand is determined in particular by the allocation of the profit related to 2016 which exceeded the profit related to 2017.

## **4.2 Consolidated comprehensive income**

The situation of the profit loss account as at 31.12.2017

No.	Specification	Obtained at 31 December				
		2013	2014	2015	2016	2017
0	1	2	3	4	5	6
<b>1.</b>	<b>REVENUE</b>					
1.1	Operating revenue before the balancing and the construction activity according to IFRIC12	1.516.640	1.655.319	1.663.398	1.815.385	1.749.946
1.2	Revenue from the construction activity according to IFRIC12	161.741	136.635	211.125	118.504	63.950
1.3	Revenue from the balancing activity				57.404	120.686
1.4	Financial revenue	40.721	33.375	43.237	32.231	190.548
<b>2.</b>	<b>COSTS</b>					
2.1	Operating costs before the balancing and the construction activity according to IFRIC12	981.647	1.063.751	1.077.219	1.125.268	1.085.324
2.2	Cost of assets built according to IFRIC12	161.741	136.635	211.125	118.504	63.950
2.3	Costs of balancing gas				56.093	120.686
2.3	Financial costs	148.957	14.356	22.315	9.683	150.228
<b>3.</b>	<b>GROSS PROFIT, of which:</b>	<b>426.758</b>	<b>610.587</b>	<b>607.101</b>	<b>713.975</b>	<b>704.942</b>
3.1	Operating result before the balancing and the construction activity according to IFRIC12	534.994	591.568	586.179	690.117	664.622
3.2	Balancing activity result	X	X	X	1.311	0
3.3	Financial result	-108.236	19.019	20.922	22.547	40.320
<b>4.</b>	<b>PROFIT TAX</b>	<b>99.954</b>	<b>108.071</b>	<b>118.372</b>	<b>119.410</b>	<b>122.984</b>
<b>5.</b>	<b>NET PROFIT</b>	<b>331.408</b>	<b>502.516</b>	<b>488.729</b>	<b>594.565</b>	<b>581.959</b>
<b>6.</b>	<b>Conversion differences financial standing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>
<b>7.</b>	<b>Other elements of comprehensive income</b>	<b>3.832</b>	<b>-16.131</b>	<b>10.211</b>	<b>-1.026</b>	<b>17.826</b>
<b>8.</b>	<b>Total comprehensive income for the period</b>	<b>335.240</b>	<b>486.385</b>	<b>498.940</b>	<b>593.539</b>	<b>599.784</b>

*Table 7 Statement of the consolidated comprehensive income between 2013 and 2017*

### **Operating revenue**

Operating revenue before the balancing and the construction activity according to IFRIC 12 obtained between 01.01 and 31.12.2017 is as follows:

No.	Specification	Achievements (Lei thousands)		Dynamics (%)
		2017	2016	
0	1	2	3	4=2/3*100
1.	<b>Revenue from the domestic transmission activity</b>			
	- Lei thousand	1.338.047	1.360.355	98,36
	- MWh	138.108.028	129.786.374	106,41
	- Lei/MWh	9,69	10,48	92,43
	- thousand cm *	12.869.908	12.074.677	106,59
	- Lei/1000 cm	103,97	112,66	92,28
2.	<b>Revenue from the international transmission activity</b>			
	- Lei thousand	333.290	328.571	101,44
3.	<b>Other operating revenue</b>			
	- Lei thousand	78.609	126.459	62,16
<b>TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12</b>		<b>1.749.946</b>	<b>1.815.385</b>	<b>96,40</b>

\* the transmitted quantity for which transmission services are invoiced

**Tabel 8- Revenue from the operating activity –Achievements 2017 vs. Achievements 2016**

### Operating expense

Operating expense obtained between 01.01. and 31.12.2017 as compared to the same period of 2016 is as follows:

No.	Specifications	Achievements (Lei thousands)		Dynamics (%)
		2017	2016	
0	1	2	3	4=2/3*100
1.	Amortization	214.428	208.663	102,76
2.	Indemnities, salaries, other expenditures related to salaries and benefits to employees	385.228	369.161	104,35
3.	Technological consumption, materials and consumables used, of which:	105.032	110.011	95,47
	Transmission system technological consumption and loss	73.831	84.406	87,47
	Technological consumption amount MWh	1.012.875	1.184.300	85,53
	Auxiliary materials	23.664	21.580	109,66
	Other material expenditures	7.537	4.025	187,24
4.	Expenditures related to royalties	167.134	168.893	98,96
5.	Maintenance and transport, of which	27.398	29.569	92,65
	Works, services performed by third parties	13.954	16.547	84,33
6.	Taxes and other amounts due to the State, of which:	71.564	67.544	105,96
	The fee for obtaining the license for gas transmission and international transit	7.438	7.275	102,24
	Monopoly tax	58.212	52.989	109,86
	Special construction tax	0	1.418	0,00
7.	Expenditures related to the provision for risks and expenses	1.273	1.707	74,55
8.	Other operating expenditures	113.257	169.718	66,73
<b>TOTAL OPERATIONAL REVENUES before the balancing and the construction activity according to IFRIC12</b>		<b>1.085.324</b>	<b>1.125.268</b>	<b>96,45</b>

**Tabel 9- Operating costs achieved in 2017 vs. 2016**

## 4.3 Consolidated Cash flow statement

Cash flow statement on 31 December 2017 is presented below:

Indicator	Financial year ended 31 December (Lei thousand)	
	2017	2016
Profit before tax	704.942	713.975
<i>Adjustments for:</i>		
Amortization	214.428	208.663
Provision for the impairment of the intangible assets	1.847	2.204
Gain/(loss) on disposal of fixed assets	-133	163
Provisions for risks and charges	-422	270
Provisions for guarantees	-26.405	0
Revenue from connection fees, grants and goods taken free of charge	2.614	-21.186
Provisions for employees benefits	1.694	1.437
Provisions for the impairment of stocks	9.089	1.698
Loss on account of debts and various debtors	3	2.381
Provisions for the impairment of receivables	26.554	99.420
The effect of the update of the provision for employees benefits	1.708	4.038
Interest revenue	-22.903	-21.277
Effect of exchange rate fluctuation on other items than operating	364	-81
Revenue from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement	-29.953	-27.967
Other revenue	-337	-307
<b>Operating Profit before the changes in working capital</b>	<b>883.090</b>	<b>963.431</b>
(Increase)/decrease in trade and other receivables	110.261	-265.248
(Increase)/decrease in inventories	-7.468	-11.421
Increase/(decrease) in trade payables and other debts	2.323	61.851
<b>Cash generated from operations</b>	<b>988.208</b>	<b>748.613</b>
Paid interest	0	0
Received interest	3.435	3.985
Paid profit tax	-160.915	-123.280
<b>Net cash inflows generated from operating activities</b>	<b>830.728</b>	<b>629.318</b>
<b>Cash flow from investments</b>		
Payments for the acquisition of tangible and intangible assets	-85.240	-182.260
Cash from transfer of tangible assets	281	0
Financial assets investments	0	0
Cash from connection fees and non-reimbursable funds	12.761	126.070
<b>Net cash used in investment activities</b>	<b>-72.198</b>	<b>-56.190</b>
<b>Cash flow from financing activities</b>		
Loan	69.896	0
Dividends paid	-715.180	-324.633
<b>Net cash used in financing activities</b>	<b>-645.285</b>	<b>-324.633</b>
<b>Net change in cash and cash equivalents</b>	<b>113.245</b>	<b>248.495</b>

Cash and cash equivalents at the beginning of the year	949.293	700.798
Cash and cash equivalents at end of the period	1.062.538	949.293

Table 4 – Statement of consolidated cash flow - 2017 vs. 2016

The analysis of the cash flow as of 31 December 2017 show an increase in liquid assets by Lei **113.245** thousand as compared to 31 December 2016.

The changes brought to the structure of cash flow for are:

- cash flow generated from the operation is of Lei 830.728 thousand, by Lei 201.410 thousand higher than in 2016;
- cash flow used in investment activity is of Lei 72.198 thousand, by Lei 16.008 thousand lower than in 2016;
- cash flow used in financing activity is of Lei 645.285 thousand, by Lei 320.652 thousand lower than in 2016.

On 31 December 2017, the consolidated balance of the availabilities in the bank accounts were in the amount of 1,062,538 thousand lei, of which the ones related to Transgaz SA Medias were in the amount of 1.062.352 lei, and the ones related to EUROTRANSGAZ SRL Chişinău were in the amount of 186 lei.

#### 4.4 Evaluation of the gas transmission service provision

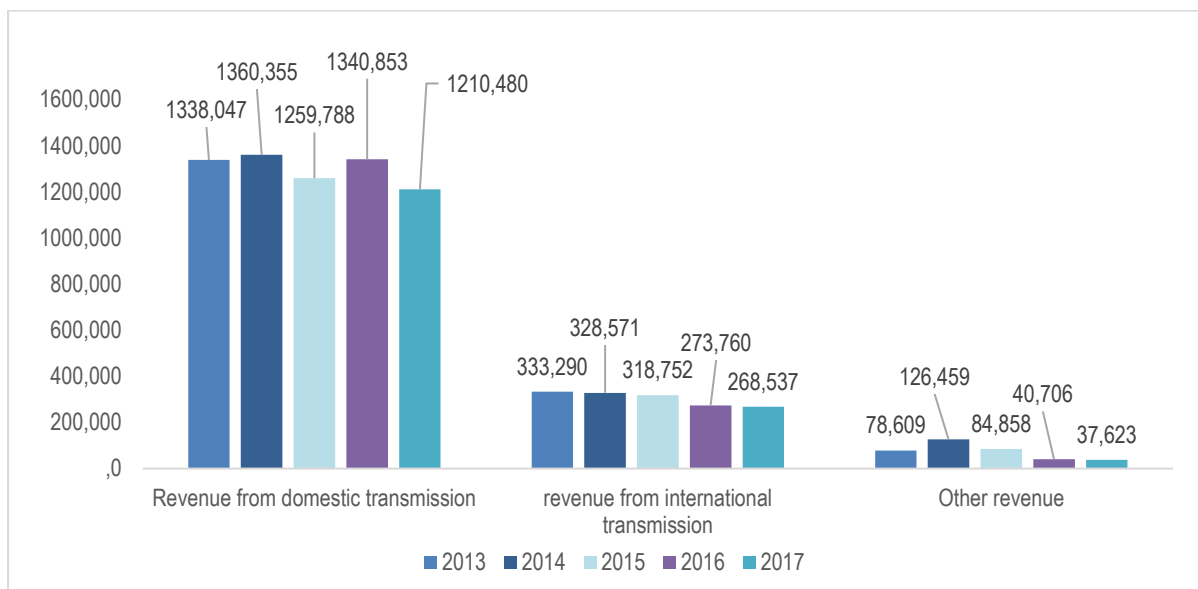
The NTS gas transmission covers over 90% of the natural gas consumed in Romania and, therefore, it may be deemed that the Company:

- does not face competitive situations in the field
- it does not significantly depend on a client/a group of clients from its portfolio.

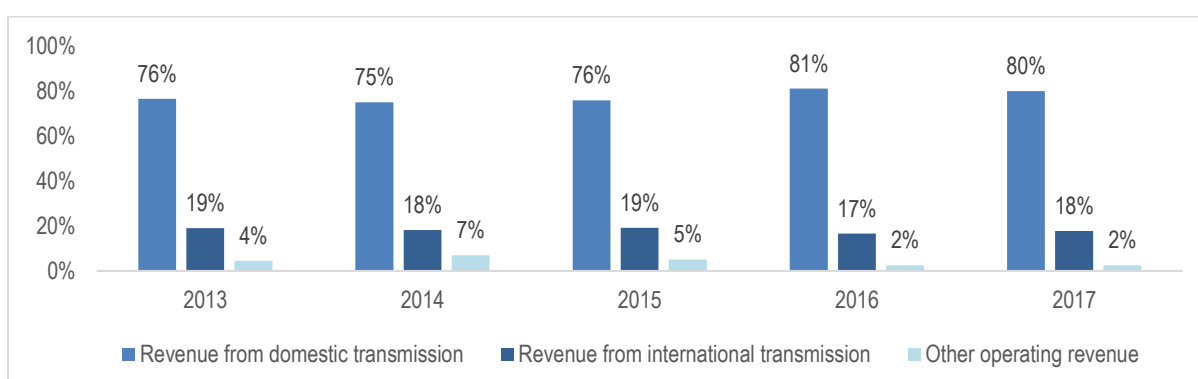
No.	Specifications	Achieved at 31 December					Dynamics (%)
		2017	2016	2015	2014	2013	
0	1	2	3	4	5	6	7=2/3*100
<b>1.</b>	<b>Revenue from the domestic transmission activity</b>						
	- Lei thousand	1.338.047	1.360.355	1.259.788	1.340.853	1.210.480	98,36
	- MWh*	138.108.028	129.786.374	131.259.673	126.703.188	119.741.363	106,41
	- Lei/MWh	9,69	10,48	9,60	10,58	10,11	92,43
	- cm thousand*	12.869.908	12.074.677	12.294.693	11.883.713	11.258.941	106,59
	- Lei/1000 cm	103,97	112,66	102,47	112,83	107,51	92,28
<b>2.</b>	<b>Revenues from the international transmission activity</b>						
	Lei thousand	333.290	328.571	318.752	273.760	268.537	101,44
<b>3.</b>	<b>Other operational revenue</b>						
	Lei thousand	78.609	126.459	84.858	40.706	37.623	62,16
<b>4.</b>	<b>TOTAL OPERATIONAL REVENUE before the balancing and the construction activity according to IFRIC12</b>						
	Lei thousand	<b>1.749.946</b>	<b>1.815.385</b>	<b>1.663.398</b>	<b>1.655.319</b>	<b>1.516.640</b>	<b>96,40</b>

\* transmitted quantity for which transmission services are invoiced

Table 11-Evolution of the income from the domestic and international gas transmission during the period 2013-2017



**Chart11-Structure of the operating revenue between 2013 and 2017**



**Chart12-The share of the activities in the total operating revenue between 2013 and 2017**

Out of the total operating revenue before the balancing and the construction activities according to IFRIS 12, achieved during 01.01-31.12.2017 approximately 19% are achieved in currency from the international gas transmission activity.

## 2017 Achievements versus 2016 Achievements

The situation of the financial results as at 31 December 2017 as compared to the achievements of the similar period of 2016 is presented in the table below:

Thousand lei

Name	Obtained in 2017	Obtained in 2016	Changes
1	2	3	$4 = \frac{2}{3} \times 100 - 100$
Operating revenue before the balancing and the construction activity according to IFRIC12	1.749.946	1.815.385	-4%
Revenue from the balancing activity	120.686	57.404	110%

Revenue from the construction activity according to IFRIC12	63.950	118.504	-46%
Financial revenue	190.548	32.231	491%
Operating costs before the balancing and the construction activity according to IFRIC12	1.085.324	1.125.268	-4%
Cost of balancing gas	120.686	56.093	115%
Assets costs according to IFRIC12	63.950	118.504	-46%
Financial costs	150.228	9.683	1451%
<b>GROSS PROFIT -total, of which:</b>	<b>704.942</b>	<b>713.975</b>	<b>-1%</b>
· from operaton	664.622	690.117	-4%
· from the financial activity	40.320	22.547	79%
Profit tax	122.984	119.410	3%
<b>NET PROFIT</b>	<b>581.958</b>	<b>594.565</b>	<b>-2%</b>
Other elements of the gross result	17.826	-1.026	-1.838%
<b>The total gross result related to the period</b>	<b>599.784</b>	<b>593.539</b>	<b>1%</b>

Table 12- Financial results - 2017vs. 2016

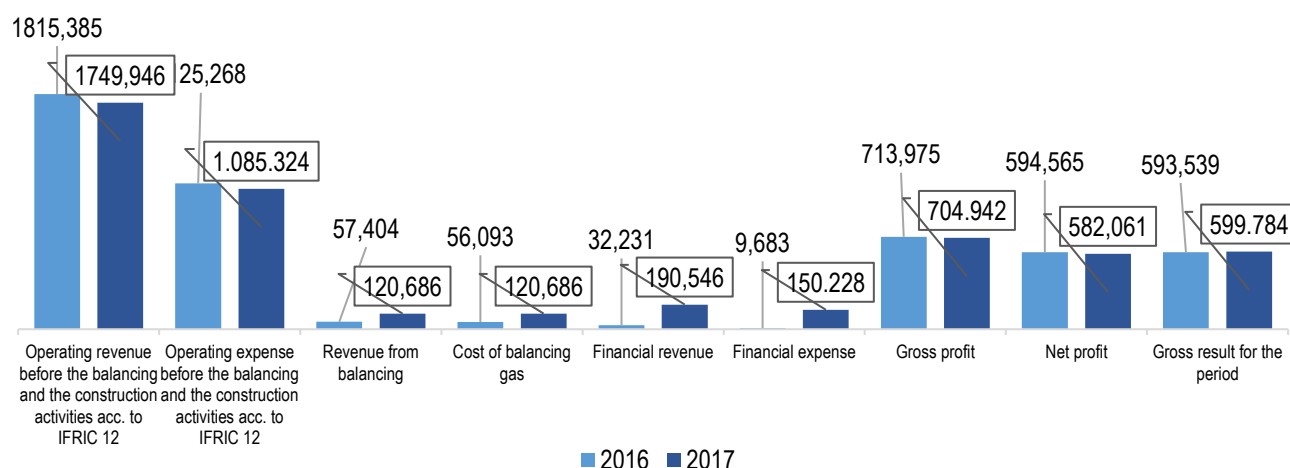


Chart 11 – Financial results 2017 vs. 2016 (lei thousand))

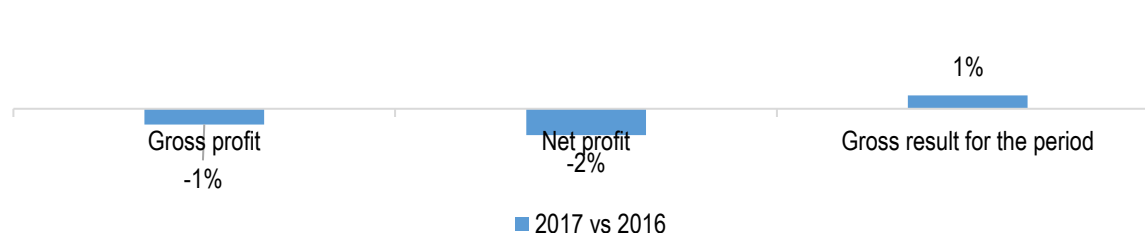


Chart 12- Financial results 2017 vs. 2016 (%)

Operating revenue before the balancing and the construction activity according to IFRIC12 decreased 4% as compared to 2016, which is lower by Lei 65.439 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by RON 6.818 thousand due to:
  - booked capacity lower by cu 86.724.046 MWh, with a negative influence of 166.777 thousand lei
  - capacity booking tariff higher by 0,449 lei/MWh based on the increase in short-term bookings, with a positive influence of 159.959 thousand lei
- commodity component revenue lower by RON 15.490 thousand due to:
  - the commodity tariff lower by 0,348 lei/MWh with a negative influence of 49.919 thousand lei caused by the decrease of the variable component share in the total revenue from 40% to 35%;
  - the quantity of transmitted gas higher than 2016 by 8.321.654 MWh /795.231 thousand cm (▲ 6%) detailed by types of consumers as follows:

		12 months 2016	12 months 2017	Differences
Quantity transmitted for direct consumers	MWh	53.346.659	59.201.654	5.854.995
	thousand cm	4.968.826	5.537.653	568.827
Quantity transmitted for distributions	MWh	76.439.715	78.906.375	2.466.660
	thousand cm	7.105.851	7.332.255	226.404
Total*)	MWh	129.786.374	138.108.028	8.321.654
	thousand cm	12.074.677	12.869.908	795.231

\*the transmitted quantity for which transmission services are invoiced

Table 5 – Quantity of gas invoiced - 2017 vs. 2016

Starting with the sixth year of the third regulatory period (2017 – 2018), the total revenue at the basis of the tariff setting for the transmission activity is allocated 65% for the fix component and 35% for the volumetric component, which results in the redistribution of the transmission revenue as follows: the decreasing of transmission revenue in winter quarters, based on the lowering of revenue from the volumes transmitted, and the increasing of transmission revenue in summer quarters, based on the increasing of revenue from capacity booking, compared to the previous gas year.

- international gas transmission revenue higher by **RON 4.719 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue lower by **RON 47.850 thousand**, mainly due to the prescription in 2016 of default interest related to the dividends received in arrears for the period 2000-2003, amounting to RON 51.718 thousand, revenues which are not to be found in the achievements of 2017.

Revenue from balancing was higher by Lei **63.283 thousand** due to the following factors:

- higher gas amount by 761.271 MWh with a positive influence of Lei 59.225 thousand

- trading price higher by 2,71 lei MWh, with a positive influence of Lei 4.058 thousand

Revenue from the construction activity was lower by **RON 54.554 thousand** registered in line with IFRIC 12, according to which revenues and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, shall be acknowledged in line with IAS 11, Construction Contracts;

Financial revenue with a positive influence of **Lei 158.315 thousand** was due to the return to the revenues of the provision made-up for the impairment of Transgaz's participation in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138.544.435. In September 2017, the Commercial Court of Vienna issued the resolution contemplating that Nabucco Gas Pipeline International GmbH (NIC) was disincorporated and, on 30 September 2017, the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenues the provision made-up in the previous years in the same amount.

**Operating costs before the balancing and the construction activity, according to IFRIC12** decreased by **4%** as compared to 2016, which is lower by **RON 39.944 thousand**.

The company made savings of RON 71.401 thousand, mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss decreased by RON 10.575 thousand due to the following:
  - amount of gas for technological consumption lower by 171.425 MWh/ 13.631 thousand m<sup>3</sup> (▼ 14%), with a positive influence of RON 12.218 thousand;
  - average purchase price for 2017 is higher by RON 1,62 /MWh as compared to 2016, with a negative influence of RON 1.642 thousand;
- Maintenance and transport: Lei 2.172 thousand
- Royalty expenses: Lei 1.759 thousand
- Other operating expenses: Lei 56.895 thousand mainly due to the reduction of provisions for risks and expenses and for the impairment of current assets (-63.652 thousand).

Overruns amounting to Lei 31.457 thousand were recorded mainly with respect to the following cost elements:

- fixed asset depreciation cost: Lei 5.765 thousand;
- cost of personnel: Lei 16.075 thousand;
- charges and tax costs: Lei 4.022 thousand;
- auxiliary materials and other material costs: Lei 5.595 thousand.

**The financial cost** is higher by **RON 140.544 thousand** due to the fact that, on 30 September 2017, the company removed the asset, in amount of Lei 138.544.435, representing Transgaz's share in the share capital of Nabucco Gas International Company GmbH from its accounting records.

**As compared to the gross profit obtained in 2016, the estimated gross profit for 2017 increased by 1%, which is higher by RON 9.033 thousand.**

## 4.5 Evaluation of the activity related to the financial risk management

### Financial risk factors

By the nature of the activities performed, the company is exposed to various risks, which include: **market risk** (including currency risk, interest rate risk on fair value, interest rate risk on cash flow and price risk), **credit risk** and **liquidity risk**.

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company does not use derivative financial instruments to protect itself from certain risk exposures.

### Market risk

#### Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets and recognized liabilities.

The Company does not perform formal actions to minimize the currency risk related to its operations; thus, the Company does not apply hedge accounting.

The management believes, however, that the Company is covered in terms of the currency risk, given that sales in foreign currencies (mainly incomes from international transmission) are used to settle liabilities denominated in foreign currencies.

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

	31 December 2017	31 December 2016
<i>Impact on profit and loss and on equity of:</i>		
USA dollar appreciation by 10%	38.536	150.839
USA dollar depreciation by 10%	(38.536)	(150.839)
Euro appreciation by 10%	64.849.945	36.308.626
Euro depreciation by 10%	(64.849.945)	(36.308.626)

#### Price risk

The Company is exposed to the commodity price risk related to the gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to period would have been lower/higher by Lei 3.067.062 (Decembre 2016: Lei 3.545.065).

#### Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by deposits with banks. The Company did not conclude any commitment to diminish the risk.

For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by LEI 3.629.530 lower/higher (December 2016: LEI 2.946.452 lower/higher), as a net result of the interest rate variation for bank deposits, and the interest rate variation for floating rate obligations.

### **Credit risk**

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company has drawn up a number of policies underlying that products and services are sold to proper customers.

The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 61,02% of the trade receivable balances as at 31 December 2017 (31 December 2016: 71%).

Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the provisions already made.

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

	31 December 2017	31 December 2016
Without rating	4.587.327	5.265.922
BB	355.439.685	335.096.959
BB +	0	4.192.200
BBB-	3.901.284	974.762
BBB	224.008.353	495.423.597
BBB+	474.084.727	107.867.942
A	138.479	139.154
AA	190.822	193.562
	<b>1.062.350.677</b>	<b>949.154.098</b>

All financial institutions are presented to Fitch rating or equivalent.

### **Liquidity risk**

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

The company forecasts cash flows.

The financial structure of the Company continuously monitors the Company's liquidity requirement to make sure there is enough cash to meet the operational requirements, maintaining at the same time a sufficient level of unused borrowing facilities at any time, so that the company does not break the limits or loan agreements (where applicable) for any of its credit facilities.

Such forecasts take into account the Company's debt financing plans, compliance with agreements, compliance with internal objectives on the balance sheet indicators and, if appropriate, external regulations or legal provisions - for example, restrictions on currency.

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

The table below shows the obligations as at 31 December 2017 in terms of remained contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Analysis of financial liabilities as at 31 December 2017 in terms of maturity:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans	78.443.204	830.048	17.885.494	59.727.662
Commercial debts and other debts	127.161.874	127.161.874	-	-
	<b>205.605.078</b>	<b>127.991.922</b>	<b>17.885.494</b>	<b>59.727.662</b>

Analysis of financial liabilities on 31 December 2017 in terms of maturity:

	Total amount	less than 1 year	1-5 years	over 5 years
Commercial debts and other debts	<u>91.358.089</u>	<u>91.358.089</u>	-	-
	<u>91.358.089</u>	<u>91.358.089</u>	-	-

Commercial and other debts comprise trade payables, suppliers of fixed assets, dividends payable and payables to the Ministry of Economy and other payables and do not include: debts resulted from legal requirements imposed by authorities, payables to employees and accrued revenues.

Categories of financial instruments:

Financial assets	31 December 2017	31 December 2016
Cash and cash equivalents	622.517.060	204.335.217
Term bank deposits	440.021.181	744.958.019
Credits and receivables	1.004.745.959	1.115.871.835
Financial assets available for sale	24.578.237	163.122.672
Provisions for available-for-sale financial assets	(24.578.237)	-163.122.672
	<b>2.067.284.199</b>	<b>2.065.165.071</b>

Financial liabilities	31 December 2017	31 December 2016
Debts measured at depreciated cost	-	-
Loans	69.895.500	-

Financial guarantees related to contracts	5.488.821	4.724.822
Commercial debts and other debts	121.673.053	86.633.267
	<b>197.057.374</b>	<b>91.358.089</b>

### Capital risk management

The company's objectives related to capital management refer to maintaining the Company's capacity to continue its activity in order to provide compensation to shareholders and benefits to the other stakeholders and maintain an optimal structure of the capital, as to reduce capital expenditure.

There are no capital requirements imposed from outside.

Like the other companies in this sector, Transgaz monitors the capital based on the debt leverage. This factor is calculated as net debt divided by total capital.

The net debt is calculated as total borrowings (including `current and long-term borrowings`, as indicated in the statement of financial position), except cash and cash equivalent. The total capital is calculated as "equity", according to the statement of financial position, plus the net debt.

In 2017, the Company's strategy which remained unchanged compared to 2016, was to keep the debt leverage degree as low as possible to keep a significant borrowing capacity for future investments.

The leverage was zero as at 31 December 2017 and 31 December 2016.

	31 December 2017	31 December 2016
Total loans	69.895.500	-
Less: cash and cash equivalents	(1.062.350.677)	(949.293.236)
Net cash position	(992.455.177)	(949.293.236)

### Fair value estimate

The fair value of financial instruments traded on an active market is based on market prices quoted at the end of the reporting period.

The fair value of financial instruments that are not traded on an active market is set using valuation techniques.

The book value less the provision for the impairment of trade receivables and commercial debt is deemed to approximate their fair value.

The fair value of financial liabilities is estimated by discounting the future contractual cash flows using the current market interest rate available to the Company for similar financial instruments.

## 4.6 Financial and economic performance indicators for 2017-2021

In compliance with Chapter 5.4 of the Management Plan of The National Gas Transmission Company Transgaz SA Mediaș for 2017-2021, named "Performance indicators for 2017- 2021 ", the performance criteria and objectives are defined and set as follows:

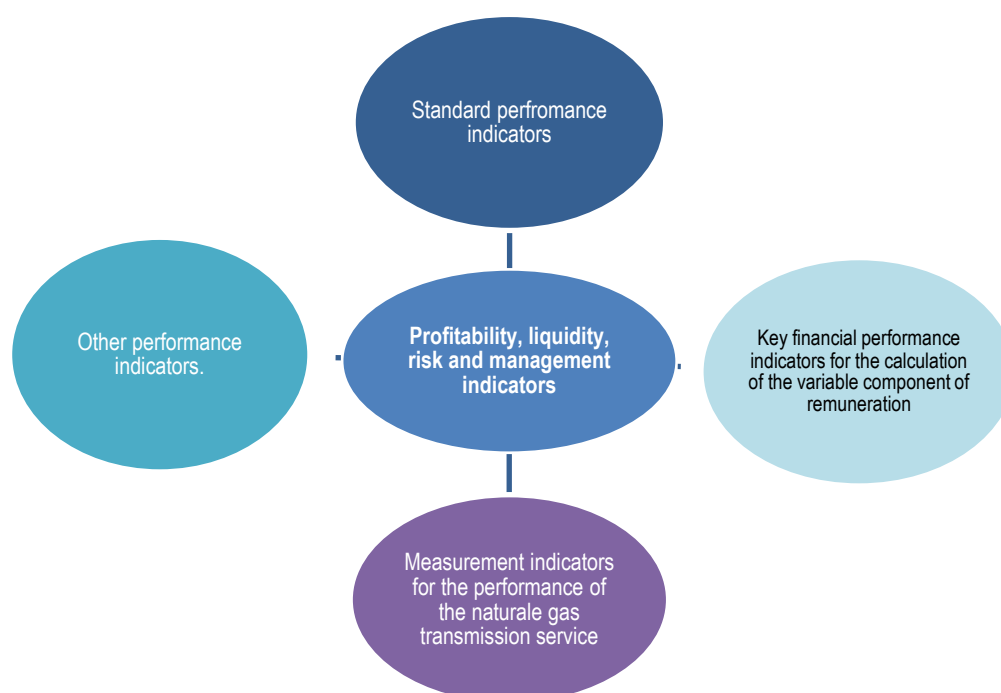


Fig. 10- Performance indicators

## 1. STANDARD PERFORMANCE INDICATORS

Performance criteria	Performance objective	Management Plan 2017	Achieved 2017	Achievement degree %
Implemented investments –lei thousand	Achieving the planned level	92.670	54.286	58,58
EBITDA –thousands Lei	Increasing EBITDA	565.892	879.050	155,34
Work productivity – Lei/pers	Increasing work productivity in value units (turnover / average personnel no.)	321	396	123,39
Overdue payments-lei thousand	Making payments according to contract terms (in current prices)	0	0	100,00
Overdue receivables –lei thousand	Decreasing the volume of overdue receivables (in current prices)	255.126	307.210	83,05
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100	90	110,77
Operating expenses for 1000 Lei operating revenue - Lei	Decreasing operating expenses for 1000 Lei operating revenue	769	620	124,00

Tabel 15- Fulfilment of standard performance indicators at 31 December 2017

## 2. PROFITABILITY, LIQUIDITY, RISK AND MANAGEMENT INDICATORS

The performance of Transgaz between 2017 and 2021 were as follows:

No.	Indicators	Calculation formula	2017	Achieved 2017	2018	2019	2020	2021
1.		<b>Indicatori de profitabilitate</b>						
	EBITDA in total sales	EBITDA Turnover	37,71%	48,83%	33,04%	37,73%	45,75%	55,24%
	EBITDA in equity	EBITDA Equity	15,70%	23,62%	12,47%	13,17%	17,14%	22,96%
	Gross profit share	Gross profit Turnover	24,76%	39,16%	18,35%	22,68%	16,17%	16,90%
	Capital rate of return	Net profit Equity	8,65%	15,64%	5,80%	6,75%	5,17%	5,98%
2.		<b>Liquidity indicators</b>						
	Current liquidity indicator	Circulating assets Short-term debts	3,09	5,57	1,58	1,01	1,29	1,90
	Immediate liquidity indicator	Circulating assets - Stocks Short-term debts	2,97	5,27	1,39	0,91	1,11	1,66
3.		<b>Risk indicators</b>						
	Degree of indebttness indicator	Borrowed capita Equity	1,86%	1,88%	16,78%	66,78%	85,28%	87,29%
	Interest coverage ratio	EBIT Interest expenses	1.343,88	x	X	X	3,62	3,67
4.		<b>Accountancy indicators</b>						
	Days sales outstanding - clients	Average balance - clients x 365 days Turnover	99,81	142,85	70,04	78,84	67,38	58,25
	Days payable outstanding - suppliers	Average balance – suppliers x 365 days Turnover	62,62	19,44	74,29	166,22	79,08	40,13

Tabel 6 – Profitability, liquidity, risk and management indicators in 2017 - 2021

### 3. INDICATORS FOR MEASURING THE PERFORMANCE OF THE GAS TRANSMISSION SERVICE

Performance Indicator related to the transmission service	Calculation formula for the indicators	OBJECTIVE	Achieved
IPO Registration of the applications/proceedings /complaints related to the gas transmission service	$IP_0^1 = \frac{N_{T0} + N_{T2}}{N_{inreg} - N_{clasate}} \times 100 \%$	$IP_0^1 \geq 90\%$	0%
IP1 Compliance with the gas delivery-offtake conditions	$IP_1^1 = \frac{N_{Rparametrii10}}{N_{TRparametrii} - N_{RCLparametrii}} \times 100\%$	$IP_1^1 \geq 95\%$	-
	$IP_1^2 = \frac{N_{verificareP24}}{N_{TverificareP}} \times 100\%$	$IP_1^2 \geq 95\%$	-

Performance Indicator related to the transmission service	Calculation formula for the indicators	OBJECTIVE	Achieved
	$IP_1^3 = \frac{N_{Rcalitate15}}{N_{TRcalitate} - N_{RCLcalitate}} \times 100\%$	$IP_1^3 \geq 95\%$	-
	$IP_1^4 = \frac{N_{Rmasurare15}}{N_{TRmasurare} - N_{RCLmasurare}} \times 100\%$	$IP_1^4 \geq 95\%$	100%
	$IP_1^5 = \frac{N_{Vmasurare2}}{N_{TRmasurare} - N_{RCLmasurare}} \times 100\%$	$IP_1^5 \geq 95\%$	100%
IP2 Access to the transmission system	$IP_2^1 = \frac{N_{acces}}{N_{TCacces}} \times 100\%$	$IP_2^1 \geq 95\%$	100%
	$IP_2^2 = \frac{N_{Racces15}}{N_{TRacces} - N_{RCLacces}} \times 100\%$	$IP_2^2 \geq 95\%$	-
IP3 Connection to the transmission system (TS)	$IP_3^1 = \frac{N_{racordare}}{N_{TCracordare}} \times 100\%$	$IP_3^1 \geq 95\%$	100%
	$IP_3^2 = \frac{N_{Rracordare15}}{N_{TRracordare} - N_{RCLracordare}} \times 100\%$	$IP_3^2 \geq 95\%$	-
	$IP_3^3 = \frac{N_{IR}}{N_{TIR}} \times 100\%$	$IP_3^3 \geq 95\%$	0%
	$IP_3^4 = \frac{N_{Rperpif15}}{N_{TRperpif} - N_{RCLperpif}} \times 100\%$	$IP_3^4 \geq 95\%$	-
IP4 Restoration of the lands and/or assets affected by the execution of some works to the facilities of the TS	$IP_4^1 = \frac{N_{Rrefacere15}}{N_{TRrefacere} - N_{RCLrefacere}} \times 100\%$	$IP_4^1 \geq 95\%$	100%
IP5 Notification of the limitations and/or unplanned interruption and resumption of the provision of the gas transmission service	$IP_5^1 = \frac{N_{U6}}{N_{Uafectati}} \times 100\%$	$IP_5^1 \geq 98\%$	78,16%
	$IP_5^2 = \frac{N_{U24}}{N_{Uafectati}} \times 100\%$	$IP_5^2 \geq 98\%$	0%
IP6 Notification of the planned limitations and/or interruptions and resumption of the provision of the gas transmission service	$IP_6^1 = \frac{N_{U5}}{N_{Uafectati}} \times 100\%$	$IP_6^1 \geq 98\%$	10,5%
	$IP_6^2 = \frac{N_{Ureulare}}{N_{Uafectati}} \times 100\%$	$IP_6^2 \geq 98\%$	78,12%
IP7 Addressing requests/complaints on the provision of the gas transmission service other than the ones treated distinctly within such standard	$IP_7^1 = \frac{N_{SSR30}}{N_{TSSR} - N_{SSRclasate}} \times 100\%$	$IP_7^1 \geq 80\%$	76,39%
IP8 Tel Verde	$IP_8^1 = \frac{N_{Atimp60}}{N_{Atotal}} \times 100\%$	$IP_8^1 \geq 98\%$	100%
	$IP_8^2 = \frac{N_{ASC6}}{N_{ASCtotal}} \times 100\%$	$IP_8^2 \geq 98\%$	100%
IP9 Achievement of the payment obligation related to the compensations due in line with the provisions of the performance standard for the gas transmission service	$IP_9^1 = \frac{N_{comp30}}{N_{TCcomp}} \times 100\%$	$IP_9^1 \geq 90\%$	-

\* The performance standard sets the levels of the performance indicators for the following activities:

- connection to the NTS of the applicants, including addressing their requests, execution of some new connection installations/modification of some existing installations and restoration of the lands affected by such works;
- ensuring the safety and continuity of the service in line with the contractual provisions and the legal provisions in the field;

- c) settling the complaints and referrals of the applicants/NTS users related to the service performed by the TSO, others than the ones mentioned at letter (a) and (b);
- d) settling the complaints of the NTS users related to gas metering;
- e) settling the complaints of the NTS users related to the TSO connected to the fulfilment of the obligations by it according to the performance standard.

Note:

Regarding performance indicator  $[(IP)]_{-0}$ , given the territorial dispersion of the company as well as the complexity of the process of implementing the working procedures according to the Performance Standard, Transgaz proposed itself to develop a separate IT application for this activity. The application was completed and tested only at the beginning of the current gas year, and as such there was no separate management of the unique numbers assigned to requests/complaints received, other than those used for all documents entered into or out of the company. At present, all requests/complaints are managed separately through the computer software used.

Regarding specific performance indicator  $[(IP)]_{-3^1}$ , according Art. 14 of GR 1043/2004, which regulates the connection stages, the TSO has the obligation to make available to the applicant the connection agreement within 60 days from the registration of the application, and the TSO obligation to send a reply regarding the acceptance or the refusal of connection is not established. In this respect, Transgaz took into account and complied with the term specified in this normative act.

According to the specific performance indicator  $[(IP)]_{-3^3}$ , which stipulates that the commissioning of a connection facility is carried out within the deadline established in the connection contract, the company commissioned 4 connection facilities at the request of the contractual partners. Even if the investment process is completed on a certain date, the commissioning and operation of the facilities was carried out at the time indicated by the applicant. Thus, this indicator was not fulfilled from the perspective of ANRE Order 161/2015, the reasons being explained above.

Regarding specific performance indicator  $[(IP)]_{-5^1}$ , the value of this indicator did not meet the standard requirement, as 4 adjacent partners and 236 network users were not informed or inadequately informed for various reasons such as:

technical problems of the HELPDESK platform;

the information regarding interruption was received outside the working hours.

The value of the specific performance indicator  $[(IP)]_{-5^2}$  did not meet the standard requirement, as 9 adjacent partners were informed only by telephone.

The value of the specific performance indicator  $[(IP)]_{-6^1}$  did not meet the standard requirement, as 30 adjacent partners and 379 network users were not informed or inadequately informed for various reasons such as:

the manoeuvre sheet was sent for verification and approval less than 5 working days prior to the limitation/interruption (in some cases no account was taken of public holidays or weekend which are non-

working days), which is why the approved sheet reached the office responsible for informing adjacent partners/network users within fewer days prior to the limitation/interruption;

there is no written information.

Regarding the value of the performance indicator  $[[IP]]_{6^2}$ , did not meet the standard requirement, since the supply of gas transmission system services to 100 adjacent partners and network users was not resumed within the deadline specified in the notification. Information on the non-observance of the deadline for resuming the provision of the transmission service is related to each regional office.

Regarding performance indicator  $[[IP]]_7$ , which foresees the settlement within 30 days of requests/complaints regarding the natural gas transmission system, other than those separately considered by the standard, for 51 requests/complaints no response was provided within this term due to the fact that the information/data was provided by the regional offices, for various reasons, with delay. Thus, the deadline set by the standard was not met. Starting with the current gas year, with the support of the IT application to which all of the regional offices also have direct access, each request/complaint received and each response given are much more strictly monitored.

#### 4. OTHER PERFORMANCE INDICATORS: STATUS OF THE IMPLEMENTATION AND DEVELOPMENT OF THE INTERNAL CONTROL/MANAGEMENT SYSTEM WITHIN TRANSGAZ

Annually, between September and October the self-assessment process related to the implementation of Internal /Management Control System (ICM/S) is performed. In 2017 the self evaluation was based on the organizational structure approved by the updated Rules of Procedure, namely 151 organizational entities.

The conclusion, resulted from the analysis and centralization of data from the self-assessment questionnaires submitted by the organizational entities, is that the company internal control/management system is **partially compliant**, 15 standards being implemented out of the 16 standards set by the Order of the GSG No 400 / 2015 approving the Code of internal/management control of public entities, amended and supplemented by GSG order no. 200/2016, respectively the process for the implementation of the internal/management control standards within the company is of 94%.

Standard	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
No of compartments to which the standard applies	151	151	151	151	151	151	151	151	151	151	151	151	151	21	151	1
<b>Implemented I</b>	151	149	150	151	150	141	150	143	135	150	147	151	151	21	151	1
<b>Partially implemented PI</b>		2	1		1	10	1	8	15	1	4					
<b>Not implemented NI</b>								0	1							
<b>At the level of the company</b>	I	I	I	I	I	I	I	I	PI	I	I	I	I	I	I	I

Table 187- Standards implementation 31.12.2017

## 5. THE CONSOLIDATED NON-FINANCIAL STATEMENT

### 5.1 Reasons for non-financial reporting

According to the provisions of the Order of the Ministry of Public Finance no. 1938 of August 17, 2016 on the amendment and additions to accounting regulations, public interest entities which, at the balance sheet date, exceed the criterion of having an average of 500 employees during the financial year, shall include in the administrators' report a non-financial statement containing, to the extent to which this is necessary to understand the development, performance and position of the entity and the impact of its activity, information on at least environmental, social and staff issues, namely human rights, the fight against corruption and bribery (art I, item 2, 492<sup>1</sup>, par. (1)) or shall draw up a separate report (art I, item 2, 492<sup>4</sup>, par. (1)).

In accordance with the provisions of the Order of the Ministry of Public Finance no. 1938 of August 17, 2016, art I, item 3, 556<sup>1</sup>, par. (1) SNTGN Transgaz SA has the obligation to prepare a consolidated non-financial statement.

SNTGN Transgaz SA opted for submitting the non-financial statement in the administrators' report.

In defining and establishing non-financial expectations, the shareholder, the Romanian State, the Ministry of Economy and the other shareholders must ensure that non-financial expectations do not impede the fulfillment of financial expectations related to improving profitability and reducing losses.

For TRANSGAZ, the non-financial expectations of the public supervisory body and other shareholders expressed in the letter of expectation are.

- Compliance with the requirements of the European and national regulatory framework for natural gas transmission;
- Optimizing the quality of implementation of the principles of good corporate governance, ethics and integrity;
- Improving the process of strategic budgeting and monitoring of systems and management processes;
- Strengthening and diversifying the relations of internal and external collaboration;
- Increasing energy efficiency and reducing the negative impact of technological processes on the environment;
- Increasing the adaptability and the capacity of the company to react to the permanent changes of the environment in which it operates;
- Increasing the satisfaction of customers, business partners, suppliers and the quality of the services provided;
- Improving occupational safety and security;
- Improving the general, internal and external communication process of the company, of the image capital;
- Improving the professional training, improvement and development process of the staff;
- Increasing the market value, stock market capitalization and investor confidence in the company's shares;

- Optimizing the company's rating;
- Implementing an internal control mechanism to protect the investment made by shareholders in the company and its assets and to assist administrators in the annual assessment of the effectiveness of control mechanisms;
- Optimizing the social responsibility policy model and granting of sponsorship.

## 5.2 Responsible management and sustainable strategies

Starting from the definition of sustainability, "meeting today's needs without sacrificing the ability of future generations to meet their own needs," also known as sustainable development, we underline the importance of such a development policy.

Sustainable development policy helps the organization to avoid, mitigate or control the harmful impact of its activities on the environment and the population, to comply with applicable legal requirements and may be part of a trend that customers value.

The main pillars of sustainability are:

- increasing competitiveness by innovation and transfer of new technologies;
- protecting the environment by the implementation of environmental management systems, by streamlining processes or by reducing the consumption of natural resources;
- organizational development and IT integration in the company, by developing IT staff that will substantially increase the value added by the department to the company, ie.. the ability to adapt to market requirements;
- communication and developing human resources by interactive methods and key situations simulations.

Responsible management can be described as an attempt to maintain the balance between the interests of the entire world (people, companies, the environment) for the prosperity of both the present and future generations.

In order to comply with this principle, the policies adopted within the company aim at:

- minimizing the negative impact of the activity on the natural and social environment;
- generating economic benefits to the local community;
- improving working conditions;
- preserving natural heritage.

### 5.2.1. Environmental issues

The commitment assumed by the company's management through the "*Policy Statement on the Quality Management System, Occupational Health and Safety Management*" is a clear proof that TRANSGAZ is responsible for ensuring an organizational climate in which all stakeholders: employees, shareholders, clients, suppliers, community and environment can interact effectively and responsibly both economically and socially.

The main activities in the field of environmental protection in 2017 were planned and organized aiming to prevent pollution, to reduce the risks of environmental incidents on the sites within the company, as well as to comply with the legislative provisions in the field.

As such, the main directions pursued were:

## **A. Monitoring of regulatory acts**

At the level of the company there are **17 environmental permits** for a number of 1,195 objectives of SNTGN Transgaz SA. According to the *Plan for the renewal of regulatory acts*. **Requests for renewal of environmental permits** have not been submitted.

With regard to the water management permits, the legislation in the field requires the obtaining of regulatory acts for all the objectives related to waters. As a result, the company owns **130 water management permits** for crossing water courses with natural gas pipelines, out of which, in 2017, **renewal documentation has been submitted for 17 of them**.

In accordance with the procedures issued by the national environmental protection authorities, the **projects for development, repair and maintenance of the national gas transmission system** have been registered in the Integrated Environmental System. For this purpose, the activity of implementing the regulatory acts with regard to environmental protection was coordinated, following the observance of the procedure specified in the legislation, and a number of **36 projects** were registered.

In this respect, the projects submitted to the TEC have been verified and environmental protection opinions have been issued in order to comply with the legislative provisions.

## **B. Assessment of compliance with relevant legislation**

### **Internal assessment**

This activity was carried out by planning the various types of integrated internal inspections, at the level of the Department of Environmental Quality, Protection and Security, as well as at the level of Territorial Operations, and these were carried out by specialized inspectors from each field.

As a result of these inspections, in order to assess the compliance with the legislation and to improve the activity, environmental protection **measures** have been established:

- in the field of hazardous substances management - the display of the revised Safety Data Sheets of the used substances;
- in the field of pollution prevention - staff training with regard to *Accidental pollution intervention plans*;
- in the field of waste management - proper labeling of containers, drafting of documents related to legislation, improper storage of metal waste.

### **External assessment**

In 2017, S.N.T.G.N. Transgaz S.A was subjected to 15 external inspections listed in the table below. These were carried out by the control structures within the National Environmental Guard, the Romanian Water Administration, the Environmental Protection Agencies as follows:

No.	Name of inspection authority	Inspected site	Date of inspection
1.	GNM Dolj	Craiova Regional Office	25.01.2017

No.	Name of inspection authority	Inspected site	Date of inspection
2.	SGA Covasna-ABA Olt	Braşov Regional Office – Băţani section	01.02.2017
3.	ABA Buzău Ialomiţa	Bucharest Regional Office - Renewal of water management permits	17.02.2017
4.	ABA Buzău Ialomiţa	Bucharest Regional Office - Renewal of water management permits	17.02.2017
5.	GNM Sibiu	SNTGN TRANSGAZ- Botorca storage facility	16.03.2017
6.	GNM Covasna	Braşov Regional Office – Băţani section	17.05.2017
7.	GNM Gorj	Craiova Regional Office - PM Sambotin	31.05.2017
8.	ABA Jiu	Arad Regional Office – Deva section	06.09.2017
9.	ABA Jiu	Craiova Regional Office	18.09.2017
10.	ABA Argeş	Braşov Regional Office	09.11.2017
11.	ABA Jiu	Craiova Regional Office	04.12.2017
12.	ABA Buzău Ialomiţa	Bucharest Regional Office - Renewal of water management permits	16.11.2017
13.	GNM Sibiu	Mediaş Regional Office	13.12.2017
14.	GNM Sibiu	SNTGN TRANSGAZ– Botorca storage facility	14.12.2017
15.	APM Bacău	Bacău Regional Office –site visit for new projects	20.12.2017

Regarding the contraventions applied to SNTGN TRANSGAZ S.A. we state **that the company has not been contravenientally sanctioned for failure to comply with the legislative provisions in the field of environmental protection, more precisely in the domain of water management with a fine of 35.000 lei, of which the amount of 17.500 lei was paid within 24 hours.** Following controls and inspections, no sanctions were applied and only improvement measures were established, as shown by inspection reports drafted by the control authorities, in the areas of:

- waste management;
- analysis of environmental factors;
- water management permits;
- accidental pollution intervention plans;
- management and storage of dangerous chemicals and chemical mixes.

### **C. Specialized reporting to authorities in the field**

Monthly and quarterly reporting to the relevant authorities was prepared in accordance with the regulatory obligations of the company:

- according to the provisions of art. 9, c) of GEO no. 196/2005 on the Environmental Fund, the company has to pay the obligations to the **Environment Fund Administration**, which are the monthly charges for pollutant emissions into the atmosphere; in order to meet these financial obligations, the service follows the consumption of specific resources, quantifies and draws up the statement for the Environment Fund;
- in accordance with the provisions of Article 13 paragraph 2 of Law no. 132/2010 on Selective Collection of Waste in Public Institutions, they are tracked and centralized at the company level

and the **Waste Register** is sent monthly to the National Environmental Protection Agency of Bucharest;

- the monitoring of waste management was performed at the company level and reports were submitted to the authorities in accordance with the obligations in the environmental permits;
- the annual Environmental Reports, related to each Territorial Operation, were elaborated and transmitted in accordance with the obligations of the environmental protection permits.

#### **D. BRUA Project**

The Environmental Management Service ensures the coordination of environmental protection design for the three compressor stations that are part of the BRUA project.

#### **E. Environmental Protection Expenditure**

For the purpose of carrying out the environmental protection activity, expenses related to the purchase of specific services and expenses related to the fees requested by the authorities were provided.

In the company's programs, respectively the **Annual Program of Services Performed by Third Parties**, the required environmental services were funded and budgeted, and by the **Supply Program for 2017** environmental protection materials and products were requested.

We would like to specify that the procurement of various types of services was initiated, the stage of these services being different and correlated with the needs resulting from the main gas transmission activity of SNTGN TRANSGAZ SA Mediaș.

In 2017, the specifications for the following environmental services were drafted and transmitted, which were sent to the specialized department:

- physical and chemical analysis services for domestic waste water;
- physicochemical analysis services for the characterization and classification of liquid / solid waste generated from the pigging installation / cleaning activity of filter elements / separators.

As a result of the company's decision to initiate the accreditation procedure of the Environmental Factors Monitoring Laboratory, actions have been initiated and carried out to budget this process, resulting in the introduction of the **2017 Annual Program of Services Performed by Third Parties**, the procurement of the **consultancy services for the accreditation of the laboratory**.

#### **F. Maintenance of certification and transition to the new ISO 14001:2015 standard for the Environmental Management System**

In 2017, the internal training of environmental inspectors was carried out, where the Surveillance Audit Report drafted by SRAC was presented, resulting in four areas of improvement in the environmental protection activity, namely:

- monitoring the implementation of the measures imposed by the inspections;
- specification of environmental aspects in projects;
- management of the types of waste resulting from repair works;
- monitoring and managing the environmental aspects of the Mediaș Branch.

At the same time, the transition to the new ISO 14001:2015 standard has started, by identifying all processes related to the activity and drawing up the Flow Diagrams and Process Sheets.

Also during this period, an external diagnostic audit was carried out by Syscert Bucharest.

### **G. Activity carried out by the Environmental Factors Monitoring Laboratory**

The planning of the activities carried out in 2017 by the Environmental Factors Monitoring Laboratory consisted of the following:

- monitoring the pollution sources carried out by the Environmental Factors Monitoring Laboratory for 526 sites within the territorial operations;
- identifying and evaluating the environmental aspects of the company's sites for 318 sites.

In accordance with the requirements of the Environmental Permits issued by the National Environmental Protection Agency in Bucharest, the monitoring involved systematically conducting measurements on environmental factors at the company's sites, as follows:

- conducting measurements on the noise level;
- check of sewerage technology facilities for the detection of methane and ethylmercaptan emissions;
- determination of emissions of atmospheric pollutants (CO, NO<sub>x</sub>, SO<sub>2</sub>) from the combustion gases from the compressor stations, thermal power stations, convection stoves and gas heaters;
- identification of different situations not complying with the legislation on environmental protection and/or accidental pollution;
- preparation of measuring bulletins, environmental assessment sheets and monitoring reports.

#### **Degree of monitoring of pollution sources:**

Type of activity / Reporting period	Number of proposed monitorings	Number of completed monitorings	Degree of achievement (%)
Monitoring	526	462	87.83

#### **Objectives proposed and achieved for the assessment of environmental issues:**

Year	Number of objectives proposed for the assessment of environmental issues	Number of objectives for which the assessment of environmental issues was achieved	Degree of achievement (%)
2017	318	282	88.67

On the basis of the endowment with equipment from 2014-2016, the monitoring of the sources of pollution and the assessment of the environmental issues materialized in **monitoring reports with measurement bulletins followed by corrective action plans** prepared by the Environmental Management Service were carried out.

These plans to remedy the found nonconformities are subject to the approval of the management of SNTGN Transgaz SA-Mediaş and also represent control and guidance for the Territorial Operations.

## Financial resources allocated

For 2017, in PAAP 2017 by the PASET 2017 program, Appendix no. 8 "Environmental services", item no. 1: "Service and Metrological Check Services for the equipment from the Laboratory for the Monitoring of Environmental Factors" the amount of LEI 126.112 was planned.

The detailed activity of HSSEQ is presented in **Appendix 2**.

## 5.2.2. Staff related issues

In general, the human resource policy is to reduce the number of staff by retirement in the coming years and to maintain a level of the increase in salary expenses within the inflation rate.

The development of the number of staff in the period 2013-2017 foreseen in the Management Plan is presented in the following table:

STAFF INDICATOR	2013	2014	2015	2016	2017
Number of staff approved by BVC-beginning of year	5,175	4,946	4,820	4,747	4,673
Reduction of staff (naturally-retired and other ways of termination of the ILA)	229	126	73	74	58
Number of staff at the end of the year	4,946	4,820	4,747	4,673	4,615
ESTIMATED MEDIUM NUMBER	4,950	4,883	4,784	4,710	4,644

Table 8-Development of the average number of employees in 2013-2017 approved in the management plan

The evolution of the number of staff in the period 2013-2017 is the following:

Specification	2013	2014	2015	2016	2017
Number of employees at the beginning of the period	4,978	4,901	4,820	4,700	4,607
Number of newly employed persons	65	120	125	147	187
Number of persons who have ceased work relations with the company	142	185	244	240	389
Number of employees at the end of the period	4,901	4,820	4,700	4,607	4,405

Table 209-Development of the average number of employees in 2013-2017

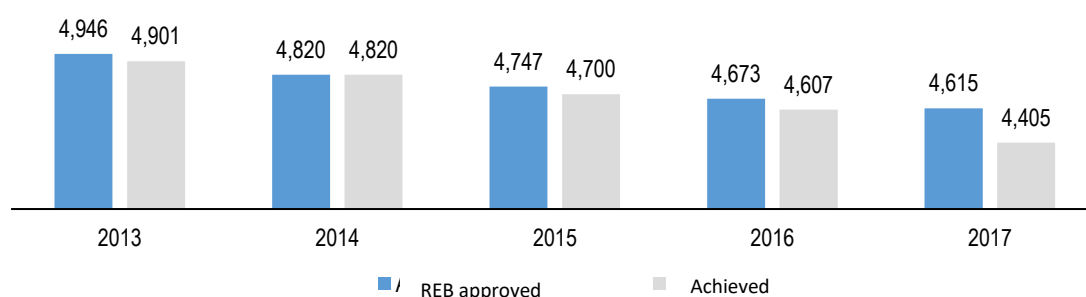


Chart 1713-Average number of employees in 2013-2017 approved vs. achieved

In 2017, 187 persons were employed and 389 employees ceased work relations with the company. The development of the number of staff in 2017 is as follows:

Specification	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Number of employees at the beginning of the period	4,607	4,618	4,631	4,646	4,647	4,632	4,607	4,580	4,518	4,423	4,399	4,398
Number of newly employed persons	25	29	29	13	13	4	12	14	13	8	10	17
Number of persons who have ceased work relations with the company	14	16	14	12	28	29	39	76	108	32	11	10
<b>Number of employees at the end of the period</b>	<b>4,618</b>	<b>4,631</b>	<b>4,646</b>	<b>4,647</b>	<b>4,632</b>	<b>4,607</b>	<b>4,580</b>	<b>4,518</b>	<b>4,423</b>	<b>4,399</b>	<b>4,398</b>	<b>4,405</b>

Table 10-The average number of employees in 2017

On 31 December 2017, SNTGN TRANSGAZ S.A. registered 4,405 employees with individual labour agreements, out of which 4,351 for an indefinite term and 54 for a fixed term.

In 2017, the policy of reducing staff numbers in line with retirements, voluntary departures and redundancies of staff on disbanded jobs as a result of the reorganization of certain activities continued.

In parallel with this reduction, recruitment activities were carried out by specialists for the development projects in which the company is involved. Due to these two influences, the number of employees of the company on December 31, 2017 is lower by 202 persons than on December 31, 2016.

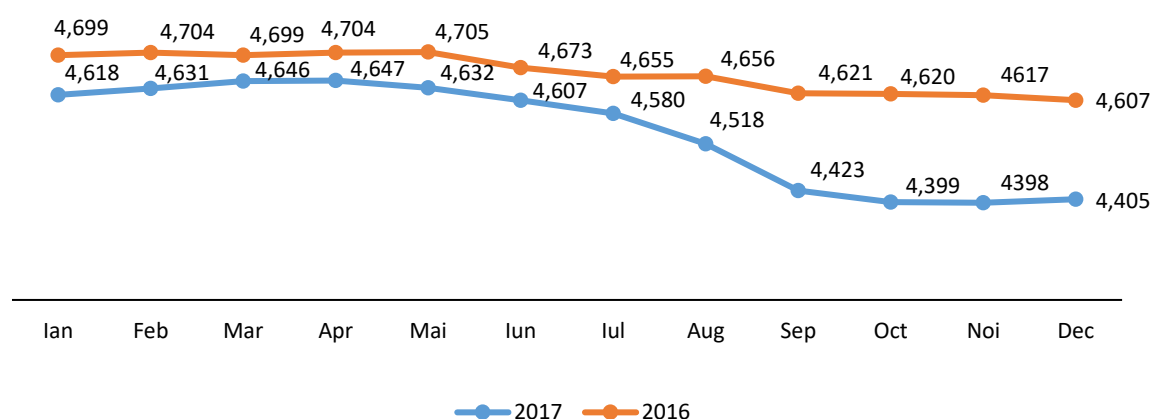


Chart 18-The average number of employees in 2017 vs. 2016

In order to increase the efficiency of the use of qualified staff for the full performance of their duties in the new working conditions, in accordance with the Administration Plan of S.N.T.G.N. TRANSGAZ S.A. 2013-

2017, 376 technical works were scheduled for standardization in 2017, but following the analysis performed at the level of the Validation Committee, the following were established:

- renouncement of staff and time norms extraction for 62 technical works within Territorial Operations\*, 16 technical works at the Gas Compressor Stations\*\* and 2 technical works within the Mediaș Branch\*\*\*;
- the addition of 22 additional technical works identified as necessary to be standardized in Territorial Operations\*, and 5 technical works at Mediaș Branch,\*\*\*

resulting in 323 technical works to be standardized for 2017.

Due to the necessity of carrying out certain technical works, the members of the standardizing team managed to identify and standardize in addition 80 technical works that were not foreseen to be standardized compared to the 376 works scheduled to be standardized at the beginning of 2017, as follows:

UNIT	TECHNICAL WORKS SCHEDULED TO BE STANDARDIZED IN 2017	TECHNICAL WORKS STANDARDIZED IN 2017
Territorial operations*	197	192
Compressor Stations**	25	2
Mediaș Branch***	101	262
<b>TOTAL</b>	<b>323</b>	<b>456</b>

*Table 22-Scheduled technical works / technical works standardized in 2017*

In accordance with the Schedule of staggering the standardization of technical works approved by the General Manager, 471 technical works were scheduled to be timed in 2017, the standardizing team succeeding in the activity carried out to time at the end of the year 607 works presented in the following table :

2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL 2017
E.T. ARAD		2	5				4		5	3	3		22
E.T. BACĂU		3	3	2	6	4	5	4	2	5			34
E.T. BRAȘOV				6			2	7	5				20
E.T. BRĂILA		3	15	6	8	4		1	5	7	2		51
E.T. BUCUREȘTI		5			1	6		5	5	8	4	5	39
E.T. CLUJ		6	2	3	4	10	10	15	5	3	8	3	69
E.T. CONSTANȚA			7		5	1	5	4		9	1		32
E.T. CRAIOVA		1	7	6	1	7	2	2	2	3			31
E.T. MEDIAȘ			1	1	3	3	4			3	1		16
SUCURSALA		9	9	11	26	29	53	47	28	58	11		281
SCG			1	1	6			3			2		13
<b>Total works timed</b>		<b>29</b>	<b>50</b>	<b>36</b>	<b>60</b>	<b>64</b>	<b>85</b>	<b>88</b>	<b>57</b>	<b>99</b>	<b>32</b>	<b>7</b>	<b>608</b>

*Table 23-Total works timed in 2017*

The development of the staff structure by category of studies reveals the interest of the company to cover the needs of staff through the employment of highly qualified specialists as well as the continuous improvement of the existing staff, considering the tendencies of increasing the number of employees with

higher education in parallel with the decrease of the number of employed persons with secondary education and the number of employees with general education and in training.

The development of the structure of the staff by category of education during the period January 1 - December 31, 2017 is presented in the following table:

No.	Category	2013	2014	2015	2016	2017
1.	Higher education graduates	1,096	1,169	1,237	1,291	1,370
2.	High school graduates	1,565	1,521	1,446	1,414	1,346
3.	Trade school graduates	896	877	834	792	708
4.	General studies graduates + training classes	1,344	1,253	1,183	1,110	981
<b>TOTAL employees</b>		<b>4,901</b>	<b>4,820</b>	<b>4,700</b>	<b>4,607</b>	<b>4,405</b>

Table 2411-Development of the staff structure by categories of education during 2013-2017

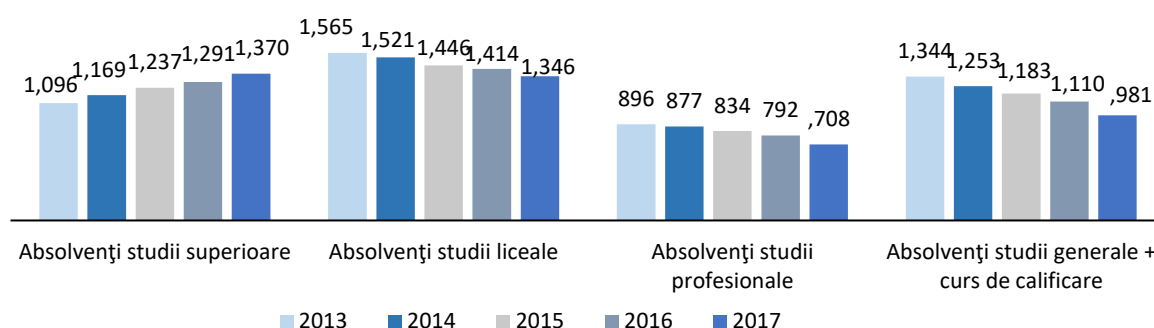


Chart 19-Development of the staff structure by categories of education during 2013-2017

## Improving the training and professional development process of staff

Within the company, the process of professional training of staff is carried out continuously and planned through courses with *external trainers from the country or abroad or with internal trainers through the Centre for Vocational Training*.

Training has two components: a *professional component* (technical, economic, other specialties) necessary for the fulfillment of the work duties in the job description and a *general component* regarding the professional training in various fields.

The training, improvement and professional development of the employees within the company are carried out on the basis of the annual program of training and professional development elaborated at the level of the company, in accordance with the provisions of the Collective Labour Agreement in force.

In the field of training and continuous improvement of employees in 2017 there were organized training courses and training with external trainers from the country and abroad for 1,169 employees in specific fields and / or complementary to the field of activity of the company.

We would like to mention that through our own Vocational Training Center there were conducted qualification courses for the employees in the professions operator in the extraction, treatment, transport and distribution of natural gas, mechanical locksmith and welder, thermal engines mechanic, professions for which we hold the C.N.F.P.A. permit, the diplomas being recognized in the EU labour market.

Also, a large number of employees attended an annual training course with the specialized staff of the Vocational Training Center and with lecturers co-opted from the company's specialists.

The status of the number of training and improvement courses for company employees in 2017 is presented in the following table:

No.	Category	2017												TOTAL
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1.	No. of courses with internal trainers (through our own Vocational Training Center)	5	1	-	-	1	1	-	-	1	4	-	-	13
2.	No. of courses with external trainers	2	13	11	3	10	4	11	7	8	13	19	9	110
	<b>TOTAL</b>	<b>7</b>	<b>14</b>	<b>11</b>	<b>3</b>	<b>11</b>	<b>5</b>	<b>11</b>	<b>7</b>	<b>8</b>	<b>17</b>	<b>19</b>	<b>9</b>	<b>123</b>

*Table 25-The status of training / improvement courses for company employees in 2017*

The status of the number of training and improvement courses for company employees in 2013-2017 is presented in the following table:

No.	Category	2013	2014	2015	2016	2017
1.	No. of courses with internal trainers	11	13	11	8	13
2.	No. of courses with external trainers	106	124	135	147	110
	<b>TOTAL</b>	<b>117</b>	<b>137</b>	<b>146</b>	<b>155</b>	<b>123</b>

*Table 26-The status of qualification / improvement courses during 2013-2017*

Through our own vocational training center, a number of 83 employees were trained in 2017 in the professions for which we hold the CNFPA certification.

The status of the number of employees who have completed training / improvement courses during the period 2013-2017 is the following:

No.	Category	2013	2014	2015	2016	2017
1.	No. of trained staff by courses with internal trainers	1,180	1,097	1,206	155	834
2.	No. of trained staff by courses with external trainers	833	1,213	912	953	1,169
	<b>TOTAL</b>	<b>2,013</b>	<b>2,310</b>	<b>2,118</b>	<b>1,108</b>	<b>2,003</b>

*Table 27-The status of the number of staff who have completed training/improvement courses*

On **31 December 2017**, the trade union members rate was 96.91% of the total of 4,405 employees, and 4,669 were trade union members.

There are 4 trade unions with which the SNTGN Transgaz employees are registered, namely:

- The "Transport Gaz Mediaș" Trade Union;
- The Free Trade Union SNTGN TRANSGAZ SA Mediaș;
- The technological research trade union "CERTEH" Mediaș;
- The professional trade union "Metan" Mediaș.

The "Gaz Mediaș" Trade Union is the representative union at the unit level, according to the provisions of Law no. 62/2011 of the Social Dialogue, art. 51. c), which is why they represent the employees of the company when concluding and carrying out the collective labour agreement concluded at the level of SNTGN TRANSGAZ SA.

The relations between the employer and the employees are regulated by the Collective Labour Agreement at the company level, registered with the Sibiu Territorial Labour Inspectorate under no. 112/23.06.2015 in the Register of Collective Agreements, as well as by the individual labour agreements of the employees. The period of validity of the Collective Labour Agreement at the company level was extended by 12 months, until June 25, 2018 by the Addendum concluded on May 26, 2017.

The relations between the employer and the employees are in line with the legal provisions in force during the year 2017, and there are no conflicting elements in relation to these relations.

### 5.2.3. Social issues

Corporate Social Responsibility is an aspect of corporate governance, by which a number of socially responsible actions have been initiated at the level of companies, that can be quantified in terms of sustainability and sustainable performance.

SNTGN TRANSGAZ SA Mediaș, consistent with the principle of applying responsible management in fulfilling the assumed mission, is aware of the importance of the fact that sometimes financial support for a noble cause or for an important purpose is vital and therefore through the programs and projects of social responsibility initiated, is actively involved in the life of the community, thus demonstrating its status as a "good citizen".

The essential role of TRANSGAZ in the energy field in Romania and Europe is naturally complemented by the desire to support the real needs of all those who are constantly contributing to the smooth running of its operations.

As part of the TRANSGAZ Sustainable Development Strategy, the *social responsibility policy* aims to permanently increase the company's accountability to employees, shareholders, partners, the community and the environment, as well as streamlining the impact of social responsibility programs initiated for this purpose.

The company's social responsibility policy is based on a set of principles that define this interaction between the company on the one hand and employees, shareholders, partners, community and the environment on the other.

By observing the principles of financial prudence and transparency, the communication and CSR actions proposed for 2017 were rigorously dimensioned both in structure and value and responded to the reporting requirements of Transgaz as an issuer of securities, but also to growth requirements related to the company's image and reputation capital. Detailed information on social responsibility is available on the Transgaz website at: <http://www.transgaz.ro/responsabilitate-sociala>.

## Sponsorship activity, financial aid according to CCM and partnerships concluded in 2017

### SPONSORSHIPS

In line with art. **XIV** of **GEO. 2/2015**, amending and supplementing certain normative acts and other actions, it was provided that economic agents referred to in Article 1 of Government Ordinance no. 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are majority or sole shareholders or hold directly or indirectly a majority share, approved by Law no. 47/2014, who provide cash donations or sponsorships, in line with the regulations in force, comply with the following levels when granting such donations or sponsorships:

- a) minimum 40% of the approved amount, in the medical and healthcare field, for equipping, services, actions or other activities connected with this filed including the support for medical treatment or interventions of particular people and for national programs;
- b) minimum 40% of the approved amount, in the field of education, social or sports for equipping, services, actions or other activities connected with this filed including national programs;
- c) maximum 20% of the approved amount, for other actions and activities including for supplementing the ones provided in letter a) and b).

The level of sponsorship expenditures for SNTGN Transgaz SA is regulated in the REB for 2017, approved by **OGMS Decision No.1/27.04.2017**, in the following structure:

(lei  
thousand)

SPONSORSHIP CATEGORY	PROPOSAL REB 2017
Expenditures related to sponsorship in the medical and health fields	1.200
Expenditures related to sponsorship in the fields of education, learning, social, sport, of which:	1.600
-for sports clubs	1.100
Other sponsorship expenditures	200
<b>TOTAL</b>	<b>3.000</b>

(lei)

No	SPONSORSHIP CATEGORY	BUDGETED AMOUNT 2017	AMOUNT GRANTED 2017	REMAINING AMOUNT
0	1	2	3	4=2-3
1.	HEALTH AND MEDICAL FIELD	1.200.000	857.000	343.000
2.	EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which:	1.600.000	1.511.082	88.918
	- for sports clubs	800.000	800.000	0
3.	OTHER SPONSORSHIP EXPENDITURES	200.000	194.250	5.750
<b>TOTAL SPONSORSHIP EXPENDITURES</b>		<b>3.000.000</b>	<b>2.562.332</b>	<b>437.668</b>

Table 28- - Statement of sponsorship budget 2017 and budgeted / granted amounts up to 31.12.2017

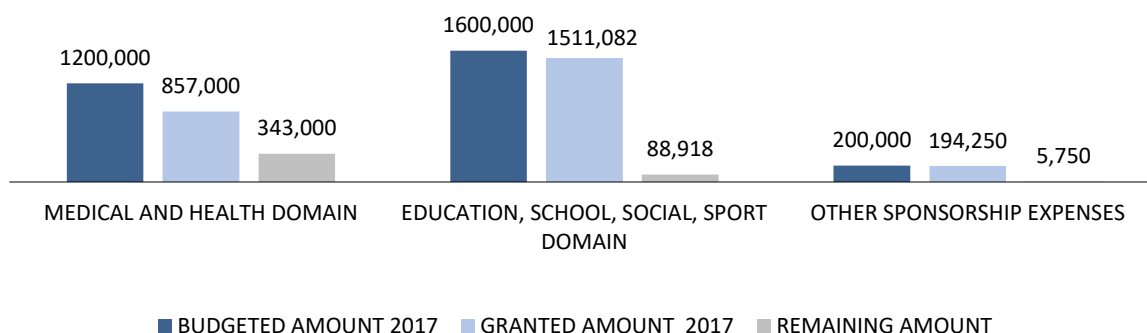


Chart 20 Statement of the sponsorship budget for 2017 and budgeted / granted sums up to 31.12.2017

Considering the need to ensure a responsible and effective management of the sponsorships and financial aid granted at the level of Transgaz was followed:

- preparation of **The company's policy to grant sponsorship and financial aid**, a document which provides an effective framework for monitoring their progress and implementation in accordance with the legal and tax regulations in force;
- **updating the activity process procedure PP-51** on the preparation of the sponsorship documents;
- **the establishment** by Decision No. 258/20.04.2015 of the Director General, of the **Commission for the review of the applications for sponsorship**.

In 2017, sponsorship was granted in the following fields: **medical and health, amounting to Lei 857.000, education and social/sports field - amounting to Lei 1.511.082, and other sponsorship expenditures - amounting to Lei 194.250**. The detailed report of the sponsorships granted in 2017 is available on the company's website at the following address: <http://www.transgaz.ro/ro/responsabilitate-sociala/informatii-publice-privind-activitatea-de-sponsorizare>

## FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

At the level of SNTGN TRANSGAZ SA Mediaș, the granting of financial aid to employees is regulated by PP-52 "**Preparation of the documents for financial aid**" and is carried out through the Administrative and Corporate Activities Department which analyses the social (financial) applications received from the employees (according to the provisions of the Collective Labour Contract), are presented for approval to the Legal Endorsement Unit and then for approval and analysis to the Board of Administration.

In 2017, 45 applications for social aid were processed out of which 10 applications for social aid in the total amount of lei 50.221 come from 2016 considering that at the date the Report for the meeting of the Board of Administration dated 20 December 2016 was prepared such applications were being processed. The situation of the processing of the 45 applications for social aid in the course of 2017 is as follows:

- **4** applications for social aid were closed due to the fact that they did not comply with the legal provisions;
- **29** applications for social aid in the total amount of **lei 362.730,71** were submitted for analysis and approval to the Board of Administration in the meeting dated 21 December 2017,

- 12 applications for social aid were being processed the date when the report for the BA meeting dated 21 december 2017 was prepared and they will be completed in the course of 2018.

In 2017 the Board of Administration approved a number of **29** applications for financial aid amounting to **362.730,71 lei**

Centralized data related to such activity during 2013–2017 is as follows:

Sponsorships	2013	2014	2015	2016	2017
Number of contracts	18	34	74	68	51
Value (Lei)	2.183.672	2.234.566	2.268.600	2.891.600	2.562.332

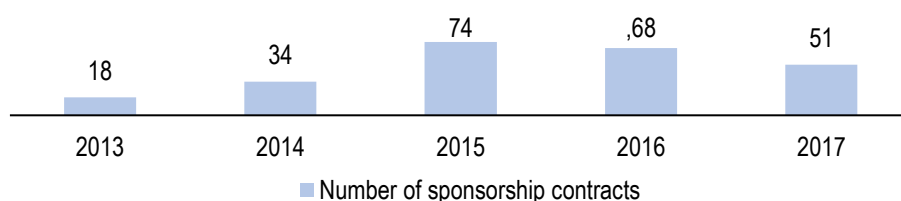


Chart 21-Evolution of the number of sponsorship contracts concluded during 2013-2017

Financial aid	2013	2014	2015	2016	2017
Number of Aids granted	17	20	21	17	29
Value (lei)	85.604	120.105	120.106	87.493	362.730

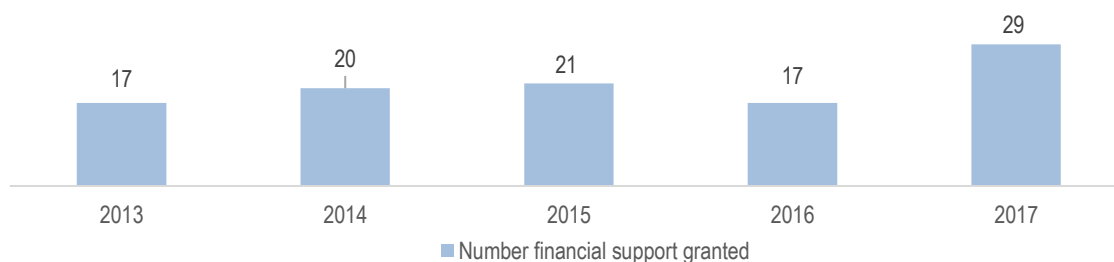


Chart 22-Evolution of the number of financial aids granted during 2013-2017

## 5.2.4 Ethics and integrity

Having regard to Government Decision no. 583/2016 regarding the approval of the National Anticorruption Strategy for the period 2016 - 2020, SNTGN Transgaz SA adopted on November 21, 2016 the **STATEMENT regarding the adherence to the fundamental values, principles, objectives and monitoring mechanism of the SNA 2016 -2020**, by which it condemns corruption in all forms in which it manifests and assumes the fulfilment of the specific measures related to the competence of the company included in **Transgaz' Integrity Plan** for the period 2016 - 2020 approved by the Decision no. 181 of February 23, 2017.

Preventing and combating fraud and corruption is a priority for S.N.T.G.N. Transgaz S.A., which has a constant concern for improving the quality of the management by introducing effective measures to diminish the corruption phenomenon.

**Transgaz' Integrity Plan** aims to achieve the following objectives

GENERAL OBJECTIVE	SPECIFIC OBJECTIVES
Developing a culture of transparency for good corporate governance	Increasing institutional transparency and the transparency of decision-making processes
	Increasing the transparency of public resource management processes
Increasing institutional integrity by including corruption prevention measures as mandatory elements of managerial plans and their regular assessment as an integral part of the administrative performance	Enhancing the ability to manage management failure by correlating tools that impact early identification of institutional risks and vulnerabilities.
Strengthening integrity, reducing vulnerabilities and corruption risks in priority sectors and areas of activity	Increasing integrity, reducing vulnerabilities and corruption risks in the business environment
Increasing the level of knowledge and understanding of integrity standards by employees and beneficiaries of public services	Increasing the degree of anti-corruption education of the company's staff
	Raising public awareness of the impact of corruption
Strengthening the combat ability against corruption by criminal law and administrative means	Strengthening administrative control mechanisms
Increasing the degree of implementation of anti-corruption measures by approving the integrity plan and regular self-assessment at the company level	Strengthening institutional integrity through developed plans based on risk analysis and internal managerial control standards.

The implementation of the Integrity Plan is based on a set of principles that guides the behaviour, attitudes, rights, and the fulfilment of work duties by those responsible for implementation.

These principles are:

- **The principle of transparency** – the implementation of the Plan will be permanently focused on maximizing the ways and means of informing the decision-makers and employees in order to ensure clarity and understanding of ongoing processes;
- **The principle of responsibility** - involves assuming, by those responsible for implementation, of the obligations of carrying out actions to the end by assuming responsibility for consequences;  
*The Principle of Competence* - in implementing the Plan, the persons with the necessary knowledge and skills, invested with the exercise of these tasks and responsible for their actions will be involved;
- **The principle of cooperation with the civil society and local stakeholders** – in implementing the Plan, public authorities will collaborate in an open, fair and efficient way with the civil society and local stakeholders;
- **The principle of non-discrimination** - the implementation of the Plan will ensure the involvement of all community groups in the process of project design and implementation, including vulnerable groups;

- **The principle of professionalism** - will be manifested by the quality of solving problems based on competencies, qualities and will be characterized by the responsibility and attitude towards own obligations.

In the year 2017, 9 main risk areas were identified within the company: human resources, procurement, NTS operation, design, work monitoring, information and communication technology, audit, corporate governance, and the risks in these areas of activity were analysed; measures have been proposed to reduce them by means of Transgaz' Integrity Plan for the period 2016 - 2020.

Transgaz conducts regular and ongoing reports on important events concerning the company, including but not limited to financial status, performance, ownership and management, both in the media and on its own website ([www.transgaz.ro](http://www.transgaz.ro)).

The Company prepares and disseminates relevant periodic and ongoing information in accordance with International Financial Reporting Standards (IFRS) and other environmental, social and governance (ESG) reporting standards. The information is disseminated in both Romanian and English.

The company organizes regular meetings with financial analysts, brokers, market specialists and investors to present the financial results (annually, quarterly, half-yearly), which are relevant meetings in their investment decision.

The general and specific strategic objectives of SNTGN TRANSGAZ SA are set in the context of alignment with the requirements of the new European energy policy on energy security and safety, sustainable development and competitiveness.

In this context, the implementation and development of corporate governance principles, the development of responsible, transparent business practices, is increasingly becoming a necessity in the substantiation and application of business strategies and business policies.

By subscribing to this goal, SNTGN TRANSGAZ SA Mediaș also aims, through its own governance regulation, to provide a rigorous framework for sizing and regulating corporate governance at the company level, developing an effective and proactive relationship system in relation to shareholders and stakeholders.

Transgaz Administrators appreciate that, acting in the spirit of best corporate governance practices, the proposed objectives can be achieved and the stakeholders' trust in the company's capabilities to maximize the efficiency of the business increases.

### 5.2.5 Compliance policy

In order to ensure a responsible management both from the environmental, social, staff perspective and from the perspective of the control of all the activities carried out in the company and the associated risk management, the emphasis is on the further development and implementation of the internal / managerial control system at the company level according to Order SGG 400/2015 for the approval of the Code of internal / managerial control of public entities, amended and supplemented by the **Order of the General Secretariat of the Government no. 200/2016**.

## Development of the Internal/Management Control system

### 1. Background data

#### Definition of the internal/management control

In the Romanian legislation **internal management control** is defined as ***all forms of control exercised at the level of the public entity, including internal audit, established by the management in accordance with its objectives and legal regulations, to ensure the management of public funds in an economical, efficient and effective manner; it also includes organizational structures, methods and procedures.***

According to International Standards on Auditing issued by the Standards International Auditing and Assurance Board (IAASB) of the International Federation of Accountants (IFAC), internal control is defined as ***the process designed, implemented and maintained by those in charge with the governance, management and other staff categories in order to provide reasonable assurance regarding the achievement of the objectives of the entity regarding the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations.***

***The term `controls` refers to any aspects of one or more components of the internal control.***

## 2. Legal framework

The implementing, development and monitoring of the Internal Control/Management System, is based on the following legislation:

- **Ministry of Public Finance Order no. 946/2005** approving the Code of internal control/management, including internal control standards/managerial public entities and to develop Internal control/Management systems, republished;
- **Order no. 1423 on 30.10.2012** on the amendment of the Order no. 946/2005 of the Minister of Public finance approving the Code of internal/management control, including internal control/management standards related to public entities and for the development of Internal/management control systems.
- **MPF Order no. 1649/2011**, supplementing the OMF no. 946/2005, includes a range of information on the implementation programs of Internal/management control in public entities, self-evaluation of the internal control/management system reporting the its implementation stage in the public entities;
- **The Order of the Ministry of Finance no. 1423 on 30.10.2012** on the amendment of the Order no. 946/2005 approving the Code of Internal/management control, including internal control/management standards at public entities and Internal/management control systems development.

In 2015, the Order no. 808/2015 approved the repeal of the **Order of the Ministry of Public Finance no. 946/2005** on the approval of the Code of internal/ management control, including Internal/management control standards at public entities and to develop the internal control/Management systems, republished, with the adjacent legislation, the **Order of the General Secretariat of the Government no. 400/2015** on the approval of the Code of internal control/management of public entities, as last amended and supplemented by **Order of the General Secretariat of the Government (GSG) no. 200/2016**.

## 3. Organizational structure of the Internal Control/Management System

The organizational structure of the Internal Control/management System within Transgaz, according to the **Order of the General Secretariat of the Government No. 200/ 2016** is as follows

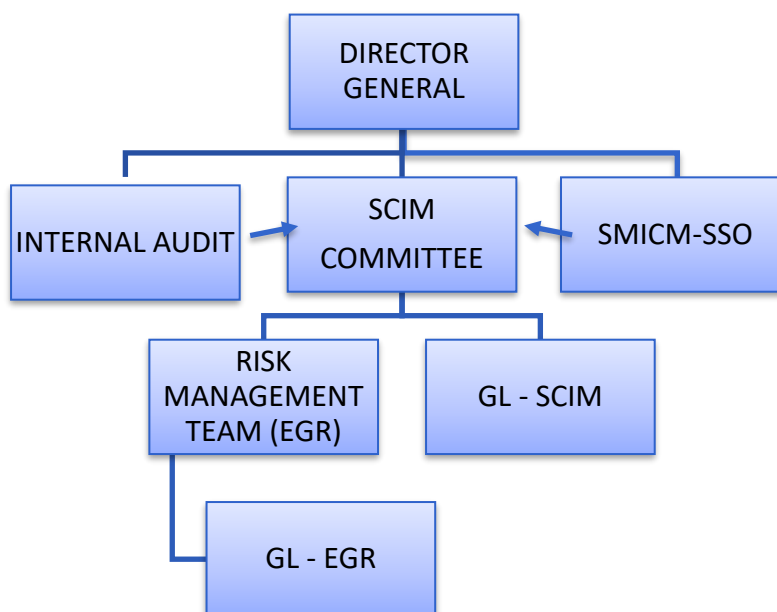


Fig. 11- The organizational structure of the internal / managerial control system within SNTGN Transgaz SA

**NOTE:**

**WG-SCI/M**– Work Group by Division/Unit/Department/Medias Subsidiary/Regional Office for the development of SCI/M;

**WG – EGR** – Risk Management Team by Division/Unit/Department/Medias Subsidiary/Regional Office.

For monitoring, coordination and methodological guidance for the implementation and development of the Internal/management control system, the general director of Transgaz approves by **Decision no. 519 of 19.07.2016** updated by Decision no 603/27.06.2017 the establishment of a structure to perform the necessary tasks, called **the Monitoring Committee**.

The organization and operation of the *Monitoring Committee* are set out in the SCI/M Monitoring Committee's Organization and Operation Rules and in the 'SCI/M Monitoring Committee' procedure, which is under development.

The **chairman** of the Monitoring Committee is the Deputy director general of the company, Mr Gheorghe Hațegan.

The chairman of the Monitoring Committee sets the agenda of the meetings, chairs the meetings and prepares the minutes of the meetings and the decisions of the Committee.

The **members** of the *Monitoring Committee* are directors of divisions/units/departments/Medias Subsidiary/regional offices of the company. The members of the Monitoring Committee may designate a **responsible for the development of the internal/management control system within the division/unit/Subsidiary/regional office** he/she is representing.

The **Secretary** of the *Monitoring Committee* is the Head of the SCI/M Implementation and Monitoring Department.

The *Monitoring Committee* Secretariat is provided by the Internal/Managerial Control System Implementation and Monitoring Department within the Budgeting Strategy Unit, the Strategy and Corporate Management Division.

*The Monitoring Committee* has the following main tasks:

- coordinates the process of updating the company's overall objectives, specific objectives and activities including also the performance or outcome indicators for their evaluation;
- monitors and evaluates annually the overall objectives of the company;
- Analyzes and prioritizes annually the significant risks that may affect the fulfilment of the overall goals, setting risk tolerance limits. They must be approved by the company management, they are mandatory and they are sent to all departments in order for them to be applied;
- analyses and approves the formalized procedures and forwards them for approval to the company director general (members involved in activities subject to review and approval);
- examines in view of approving the notification on the conduct of risk management process developed by the Risk Management Team;
- analyses in view of approving the notification related to the performance monitoring at the level of the entity, drafted by the secretary of the monitoring committee, based on annual reports for annual performance monitoring from the compartments;
- develops/updates/monitors annually the program for the implementation and development of the Internal/management control system of the company, a program that includes objectives, actions, responsibilities, deadlines;
- submits for approval to the Director General the program for the implementation and development of the Internal/management control system of the company;
- guides divisions in the company in terms of implementation and development of the Internal/management control system;
- presents to the Director General, whenever deemed necessary, but at least once a year, information on progress on the implementation and development of the internal control/management system in relation to the program adopted at the company level, the monitoring, coordination and methodological actions and guidance undertaken and other issues arising in connection with this field;
- performs annual self-assessment of the internal control/management system development within the company;
- prepares and submits annual reports on the state of implementation of the internal control/management system under GSG Order no. 400/2015 as amended and supplemented by Order GSG no. 200/2016 approving the Internal Control and Management Code related to public entities at the balance sheet date of the previous financial year, with the annual financial standing, to the hierarchical superior body (Ministry of Economy, Trade and Relations with Business environment as a higher public entity);
- prepares and submits to the hierarchical superior body (Ministry of Economy, Trade and Relations with the business Environment as a hierarchically superior public entity) on the terms set out therein, but not later than 15 March each year, the developed and updated programs for the implementation of internal control/management system, including administrative provisions establishing a structure that deals with the development of the internal control /management system.

In order to manage risks in the company, Transgaz' Director General established by **Decision no. 518 of 19.06.2016, updated by Decision no 602/27.06.2017, the Risk Management Team** within Transgaz *Risk Management Teams* within the divisions/independent departments/Medias Subsidiary/Regional offices.

The Risk Management Team comprises members which are substitutes of the divisions/units/departments/Medias Subsidiary/regional offices directors and is coordinated by the **chairman**, which is different from the person who coordinates the Monitoring Committee.

The president of the company's *Risk Management Team* is the Deputy director –general, Mr Grigore Târsac.

The Chairman of the *Risk Management Team* sets the agenda of the meetings, chairs the meetings and prepares the minutes of the meetings, including the debates on risks and control measures established and sends them for structural entities for implementation.

**The Risk Management Team Secretary** and her/his deputy are appointed by the President from the responsible persons by division/unit/department/Medias Subsidiary/regional office.

The organizing and working of the Risk Management Team is the responsibility of the President and is set by the Organization and Operation Rules and the 'Risk Management Team Activity' procedure, under development. The secretary of the company Risk Management Team prepares the company Risk Register by centralizing risk registers by division/unit/department/Medias Subsidiary/regional office.

On the basis of the semester/annual reports on the conduct of risk management by division/unit/department/Medias Subsidiary/regional office, but also based on the Plan for the implementation of measures for minimizing risks, the Secretary of the Risk Management Team prepares a semester/annual report on risk management, which is analyzed and discussed to be sent for approval to the Monitoring Commission.

The activity of the Monitoring Committee and of the Risk Management Team is advised by the Head of Internal Audit.

Risk Management Team members constitute risk management teams at the level of the division/unit/department/Medias Subsidiary/regional office coordinated by them, consisting of the head of the departments in the relevant entities.

*The Risk Management Team* at the level of the company has the following tasks:

- coordinates **risk management teams** established within the divisions/Independent departments / Medias Subsidiary / Regional offices they represent;
- analyses and prioritizes significant risks that may affect the achievement of specific objectives of the divisions/Independent departments / Medias Subsidiary / Regional offices they represent;
- validates or invalidates the escalated risks;
- proposes the appetite for risk related to the current year;
- proposes the risk tolerance limits;
- sends within the set deadlines in the *team* meetings, notices related to the conduct of the risk management process at the level of the Company;
- analyses and validates the Program for the Actions to Minimize Risk per company for the escalated risks;
- analyses the status of implementation of control actions to minimize risks and establishes the necessary corrections, reviewing risk exposure to risks and validates the residual risks;

- receives in due time in the *team meetings* from the Teams for Risk Management teams established at the level of the divisions/Independent departments / Medias Subsidiary/Regional offices information regarding the conduct of the risk management process within them;
- analyses the information on conducted risk management process developed by the Secretary of the Risk Management Team, based on annual reports from the divisions/Independent departments/ Medias Subsidiary/ regional offices;
- Presents to the monitoring, coordination and methodological Committee guidance for the implementation and development of the Internal Control/Management System, whenever deemed necessary, but at least once a year, information regarding the conduct of the risk management process at the company level.
- Risk Management teams established at the level of the divisions/Independent departments/Medias Subsidiary/Regional offices have the following main responsibilities:
  - identifies, evaluates and prioritizes risks that may affect the achievement of the specific goals;
  - informs those structures of its findings in order to maintain the identified risks within acceptable limits;
  - draws up the risk register at the level of the divisions/Independent departments/Medias Subsidiary/Regional offices they represent according to the process procedure PP-106 "Risk Management";
  - validates or invalidates the solution proposed for classifying risks;
  - approves the risks proposed for escalation;
  - ranks risks and develops the risk profile;
  - reviews and adopts actions related to retained risks control and designates the person responsible for monitoring the implementation of actions/actions for keeping risks under control (RM);
  - discuss the status of implementation of control actions, establish the necessary corrections, review and sets the exposure to residual risk and sets the residual risk that it evaluates;
  - Sets the closure of the solved risks.

The secretary of the *Risk management team per company* (the person who replaces him/her) has mainly the following tasks:

- Centralizes Risk Registers per Division/Independent Departments/ Medias Subsidiary/ Regional offices for all inherent risks identified and escalated and prepares the Risk Register per company for escalated risks, and updates it annually;
- Centralizes the Monitoring Report of the state of implementation of the actions to minimize risks per Division/Independent Departments/ Medias Subsidiary/ Regional offices;
- Centralizes the Program of actions for Risk Minimization for the Division/Independent Departments/ Medias Subsidiary/ Regional offices;
- Centralizes the Program of actions for Risk Minimization per company for the escalated risks;
- Prepares the Semester/Annual report for risk management at the level of the company.

#### 4. Internal control/management standards

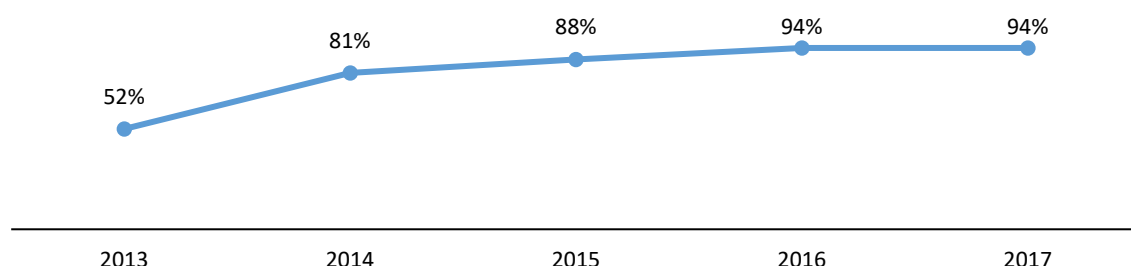
The establishment of the internal control/management system is the responsibility of the management of each public entity and must be based on internal/managerial control standards promoted by the GSG.

Internal Control/management standards established under the **Order of the General Secretariat of the Government no. 400/2015** for the approval of the Code of Internal/management control of public entities, as last amended and supplemented by the **Order of the SGG No.200/2016** defining the minimum management rules that all public entities must comply with.

The standards are grouped in **five categories called key elements**:

Key elements	Standards
<b>I. CONTROL ENVIRONMENT</b>	
Comprises issues related to organization, human resources management, ethics, deontology and integrity	Standard 1 - Ethics and integrity
	Standard 2 – Responsibilities, positions and tasks
	Standard 3 – Competence, performance
	Standard 4 – Organizational structure
<b>II. PERFORMANCE AND RISK MANAGEMENT</b>	
Refers to the target setting management, planning (multiannual planning), scheduling (management plan) and performance (monitoring performance).	Standard 5 - Targets
	Standard 6 - Planning
	Standard 7 – Monitoring performance
	Standard 8 –Risk management
<b>CONTROL ACTIVITIES</b>	
Refers to documentation of procedures, continuity of operations, recording exceptions, separation of responsibilities, monitoring, etc.	Standard 9 - Procedures
	Standard 10 - Surveillance
	Standard 11 – Continuity of activity
<b>III. INFORMATION AND COMMUNICATION</b>	
Refers to issues related to the creation of an informational system and of a reporting system regarding the execution of the management plan, budget, resource use and documentation management.	Standard 12 – Information and communication
	Standard 13 – Documentation management
	Standard 14 – Accounting and financial reporting
<b>IV. AUDIT AND ASSESSMENT</b>	
Refers to the development of the capacity of assessment of the internal/management control for ensuring continuity of its improvement.	Standard 15 – Internal/management control assessment
	Standard 16 – Internal audit

The evolution of the implementation degree and development of the internal/management control system between 2013-2017 is as follows:



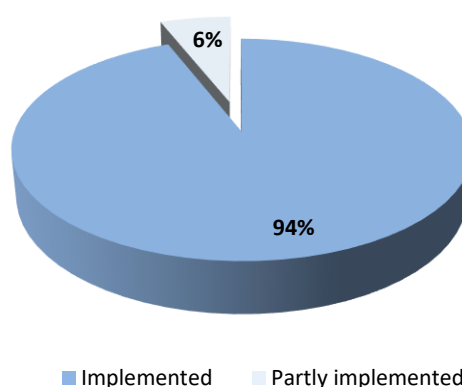
**Chart 2315-** The evolution of the implementation of SCI/M

The conclusion, resulted from the analysis and centralization of data from the self-assessment questionnaires submitted by the organizational entities, is that the company internal control/management system is **partially compliant**, 15 standards being implemented out of the 16 standards set by the Order of the GSG No 400 / 2015 approving the Code of internal / management control of public entities, amended and supplemented by GSG order no. 200/2016.

Standard	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
No of compartments to which the standard applies	151	151	151	151	151	151	151	151	151	151	151	151	151	21	151	1
<b>Implemented I</b>	151	149	150	151	150	141	150	143	135	150	147	151	151	21	151	1
Partially implemented PI		2	1		1	10	1	8	15	1	4					
<b>Not implemented NI</b>								0	1							
At the level of the company	I	I	I	I	I	I	I	I	PI	I	I	I	I	I	I	I

**Table 29-** Implementation of internal management control standards at SNTGN Transgaz SA on 31.12.2017

### Share of implemented standards %



**Chart 24-** Share of implemented standards on 31.12.2017

For the implementation of all standards related to Internal Control/Management throughout 2018 the following actions are provided:

The name of the standard	At the level of the company		
	I		I
0	1	0	1
<b>I. CONTROL ENVIRONMENT</b>			
Standard 1 - Ethics, integrity	YES		
Standard 2 – Tasks, responsibilities	YES		
Standard 3 - Competence, performance	YES		
Standard 4 – Organizational Structure	YES		
<b>II. PERFORMANCE AND RISK MANAGEMENT</b>			
Standard 5 - Objectives	YES		
Standard 6 - Planning	YES		
Standard 7 – Monitoring performances	YES		
Standard 8 – Risk Management	YES YES		
<b>III. CONTROL ACTIVITIES</b>			

The name of the standard	At the level of the company		
	I		I
Standard 9 - Procedures		YES	Preparation of updating system procedure, according to SR EN ISO 9001:2015 and PS 01 SMI, for all the entities of the organizational structures within Transgaz SA.
Standard 10 – Surveillance	YES		
Standard 11 – Continuing the activity	YES		
<b>IV. INFORMATION AND COMMUNICATION</b>			
Standard 12 – Information and communication	YES		
Standard 13 – Documents control	YES		
Standard 14 – Accounting and financial reporting	YES		
<b>V. AUDITING AND EVALUATION</b>			
Standard 15 – Evaluation of the internal control/management system	YES		
Standard 16 – Internal Audit	YES		

Table 30- Measures set up to implement IP standards

In order to comply with the provisions of **GSG Order no. 200/2016 completing the GSG Order no. 400/2015** in the first semester of 2017 the following actions were undertaken:

- The General Status regarding the Stage of Implementation and Development of the internal / managerial control system within SNTGN Transgaz SA on 31 December 2016 was prepared in accordance with the provisions of SGG Order no. 200/2016, amending and supplementing Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, and was submitted to the Ministry for Economy, Trade, Industry and the Business Environment";
- In order to report on the state of implementation of the Internal/Managerial Control System within SNTGN Transgaz SA on 31 December 2016 (as a result of analyzing and centralizing the data from the self-evaluation questionnaires sent by the organizational entities), the Report of the Director General on the Internal / Managerial Control System according to the model provided in Annex no. 4.3. of the Instructions provided for in SGG Order no. 400/2015 on the approval of the Code of internal/managerial control of public entities, amended and supplemented by SGG Order no. 200/2016 and other attached documents were prepared and submitted to the Ministry for Economy, Trade, Industry and the Business Environment;
- The Plan for the Development of the Internal/Managerial Control System within SNTGN Transgaz SA - 2017, prepared according to the provisions of Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, amended and supplemented by OSGG no. 200 / 2016, Art.4, paragraph (1) corroborated with Art.8, paragraph (1), was approved and submitted to the Ministry of Economy, Trade, Industry and the Business Environment;
- Ongoing preparation of the Procedure PP-106 **Risk management** in accordance with the requirements of SR EN ISO 9001:2015 and PS 01 SMI;
- The **Internal network system (Transgaz on intranet – ZoneInterDep –Control Intern Managerial)** was updated, with limited access of the members of the committee appointed by Decision and of the responsible persons within the department/division/regional office. This network system was created for a fast and effective communication for the preparation of all

the necessary documents to prove the implementation of the ICMS within all entities belonging to the company;

- The activities to be performed according to the procedure within Transgaz were inventoried at 31.12.2017, and they summed up 219 and the system and process procedures prepared/updated at 30.06.2017, summed up 153;
- The performance indicators associated to the objectives specific to the departments, divisions, were set, summed up 353, at 31.12.2017;
- The Risk Register of escalated risks per company and the Action Plan for the minimization of escalated risks updating is in progress;
- It was held the meeting of SCI/M Monitoring and Implementation Committee on 06.07.2017, analyzing the current SCI/M implementation and development stage within the independent/ Medias Subsidiary/regional offices divisions/units/departments on 30.06.2017 and it was submitted the Report of Transgaz risk management and monitoring –30.06.2017”;
- by letter no. 13182/DSMC/21.03.2017 the updating / preparation of the following documents, according to PP-91 "Development / update of the risk register, was requested for all existing entities according to the last approved organizational structure:
  - specific objectives, activities, performance indicators, risks, level of risk and control instruments (Annex 1 and Annex 1a of PP-91 Development / update of the risk register);
  - the service/office risk register (Annex 5 of PP-91 Development / update of the risk register) for all existing services / offices according to the last approved organizational structure;
  - the risk register by the division / unit / independent department / Mediaș Subsidiary / regional office (Appendix 6 of PP-91 "Development / update of the risk register");
  - the Risk Alert Form (Annex 2 of PP-91 Development / update of the risk register) for the escalated risks at the level of divisions / units at the company level;
  - the Plan for the minimization measures of identified risks within the division / unit / independent department / Mediaș Subsidiary / regional office;
  - Follow-up sheet regarding risk control measures (Annex 4 of PP-91 Development / update of the risk register.
- update of the Decision no. 519/19.07.2016 on the setting up of the *Commission for Monitoring, Coordination and Methodological Guidance on the Implementation and Development of the Internal Control / Managing System of SNTGN Transgaz SA* by Decision no. 603/06.27.2017;
- Updating of Decision no. 518/19.07.2016 on the establishment of the Risk Management Team within Transgaz, according to the provisions of GSG Order no. 400/2015 of 12 June 2015 amended and supplemented by SGG Order no. 200/2016 by Decision no. 602/2017;
- nomination / re-nomination of the persons responsible for the implementation and development of SCI/M within divisions / units / departments and newly established units;
- the establishment, within the organizational structure of the Budget Strategy Unit subordinated to the Strategy and Corporate Management Division, of a new functional entity under the name of SCI/M Implementation and Monitoring Department with the Risk Management Office, approved by the Transgaz BoA Resolution no.5/27.02.2017;
- the preparation of the report on the company risk management monitoring by the EGR on the basis of reports regarding the monitoring and management of risks at the level of independent divisions / units / departments according to Letter no. 27 317 / DSMC / 06.16.2017.
- conduct of the Risk Management Team meetings on 03.07.2017 and on 06.07.2017 on:
  - the approval of the Rules of Procedure related to the Risk Management Team;
  - the approval of the Statement-Commitment on the Director-General's Risk Management Policy;
  - the approval of the Risk management Methodology for Transgaz;

- the endorsement of the Report on the monitorization of the company's risk management process, prepared by the Risk Management Team based on the Reports on the risk monitoring and management at the level of divisions/units/independent services, pursuant to Letter no. 27317/DSMC/16.06.2017.
- the meeting of the Monitoring Committee was held on 06.07.2017 for:
  - the approval of the Monitoring Committee's Rules of Procedure;
  - analysis/approval of the Report on the Managerial/Internal Control System implementation status as at 30.06.2017 vs. 31.12.2016;
  - approval of the Report on the monitoring of the risk management process at the company's level, as prepared by the Risk Management Team based on the Reports Reports on the risk monitoring and management at the level of divisions/units/independent departments, pursuant to Letter no. 27317/DSMC/16.06.2017;
  - approval of the Centralizing statement of the Managerial/Internal Control System implementation and development as at 30.06.2017 – report which is delivered to the Ministry of Economy, Bucharest.
- Conduct of the training session for the members of the Monitoring Committee and for the persons in charge with the Managerial/Internal Control System at the level of divisions/units/independent departments/regional operating centre by 3 working groups, with the following agenda:
  - Establishment/updating of specific objectives and performance indicators relevant for the divisions/units/independent departments/regional operating centre (supplementation of Annex 1 to PP-91 Risk Preparation/updating);
  - Establishment of objectives, activities, performance indicators, risks and control instruments at the level of departments/offices/compartments (Annex 1a to PP-91 Preparation/updating of the Risk Register);
  - Filling-in of Analytic Sheets of the Synthetic Sheets at the level of the departments/divisions/units/subsidiaries/operating centres;
  - Training on the filling-in of the annexes under PP-91 Preparation/updating of the Risk Registry (Annex 1 and 1a, Annex 2 – Risk alert Sheet, Annex 3 – Risk mitigation programme, Annex 4 – Risk Registry);
  - Establishment of the material aspects on the filling-in of the self-assessment questionnaire regarding the Managerial/Internal Control System implementation status;
  - Preparation of the "List of Specific Objectives and performance indicators by Regional Operating Centre" – for **Standard 5** – "Objective";
  - Preparation of the "List of Specific Objectives, risks and control instruments by Regional Operating Centre" – for **Standard 8** – "Risk management"; the completion of the establishment/updating of objectives and the supplementation of the annexes under PP-91 Preparation/updating of Transgaz' Risk Registry are scheduled for 01.11.2017 and posted on the CommonZone INTRANET/ZoneInterDep/ ControlInternManagerial on 12.12.2017;
- Submission of the "Self-assessment Questionnaire for 2017" to all Transgaz' structures for the conduct of the self-assessment process regarding the status of the Managerial/Internal Control System implementation at Transgaz' level, by Letter no. DSMC/46496/03.10.2017 and the filling-in of the questionnaire according to the provisions of PP-162"
- Aggregation of the questionnaire results submitted by 151 departments/offices: 15 "implemented" standards and one "partially implemented" standard; the internal control standards' average implementation degree related to the 151 structures, as at 31.12.2017 is **98.18% implemented standards**.

In the next period, the following must be achieved:

- Updating Decision no. 548 of 26 July 2016 on the appointment of the SCI/M responsible in SNTGN Transgaz SA;
- Updating the Process Procedure PP 91 - **Development/ update of the Risk Register**;
- preparation of System Procedure PS-106 **Risk Management**, in accordance with the requirements of SR EN ISO 9001: 2015 and PS 01 SMI; by Letter no. DSB/59651/11.12.2017 the Quality Management Department was provided with process sheets and the flow diagrams related to this procedure; following validation thereof, the **System procedure "Risk Management"** will be prepared;
- preparation of the **Procedure on the SCI/M Monitoring Committee's activity**;
- preparation of the **Procedure on the activity of the Risk Management Team** at the company level;
- updating the **Process procedure PP-162 "Self-assessment of Transgaz Managerial/Internal Control System"**;
- approval of Transgaz' Risk Management Strategy;
- approval of the Report on the risk monitoring and management for 2017 within Transgaz;
- approval of the Report on the monitoring of Transgaz' performance for 2017;
- approval of the Risk tolerance limit for 2018;
- approval of Transgaz' Risk profile for 2018;
- approval of System for the monitoring of the activities related to Transgaz' objective structure for 2018;
- preparation of the Managerial/Internal Control System Program for 2018-2021;
- analysis / updating of the company's Risk Registry and Action Plan for the mitigation of the major risks associated to Transgaz for 2018;
- filling-in of the Analytical sheets and of the Synthetical sheets for each Transgaz' entity for 2018;
- preparation of the Centralizing statement of the Managerial/Internal Control System implementation and development as at 31.12.2017, according to *Order no. 200/2016 of the General Secretariat of the Government amending Order no. 400/12.06.2016 on the approval of the Managerial/Internal Control System within state-owned entities* and the submission thereof to the Ministry of Economy;
- preparation of the Report on the internal managerial control as at 31 December 2017 according to *Order no. 200/2016 of the General Secretariat of the Government amending Order no. 400/12.06.2016 on the approval of the Managerial/Internal Control System within state-owned entities* and the submission thereof to the Ministry of Economy;
- preparation of the Centralizing statement of Transgaz' Managerial/Internal Control System implementation and development – Chapter I according to *Order no. 200/2016 of the General Secretariat of the Government amending Order no. 400/12.06.2016 on the approval of the Managerial/Internal Control System within state-owned entities* and the submission thereof to the Ministry of Economy.

## Risk Management

By the type of activities performed the company is exposed to the risks identified above and therefore in the event that any of the risks identified materialize, the business activity, financial condition and/or the results of operations of Transgaz could be adversely affected.

The company risks identified and requiring adequate management and control include:

Gas sector risks
The risk associated with government intervention in key sectors of infrastructure;
Changing of regulatory framework for gas market and of legal regulations applicable to the company's business;

The impact of competing projects on the work of international gas transmission;
Seasonal fluctuation of business;
Changing gas prices in Romania.
<b>Risks related to gas transmission</b>
Regulated nature of gas transmission activity;
Variations in the price of gas purchased by the company;
Risk related to implementation of the new business model of Transgaz;
Conclusion of international gas transmission contracts based on intergovernmental agreements;
Failure to meet minimum investment plan - Transgaz obligation under the Concession Agreement;
The risk of failing to improve the profitability of current activity and reduction of technological consumption;
Risk associated with limited access to own sources for funding development plans;
Impossibility to develop other profit generating activities as main domain of activity
The risk that ANRE does not accept the remuneration of investments made and their introduction in the RAB
The risk that the National Transmission System can be affected by natural disasters;
The risk regarding the regime of classified information of SNTGN Transgaz SA;
Strong unions that can hinder the process of optimizing and streamlining the company activity.
<b>Financial risks</b>
Credit;
Exchange rates;
Interest rate;
Liquidities.

Activities performed to establish company **operational risks**:

- preparation of procedure **PP- 91 Preparation/updating of risk register**;
- establishing specific objectives and performance indicators associated with specific work and objectives by divisions and units – **Annex 1** – Specific objectives and performance indicators by division/unit/department/Medias Subsidiary/regional office in PP-91 Preparation/updating of risk register;
- establishing performance indicators associated with specific activities and targets by divisions, units, the Black Sea PMU;
- establishing activities specific to the department/office within the division/unit/independent department to meet specific targets and the performance indicators and inherent risks by activities –Annex 1a – Department/office targets, activities, performance indicators, risks, risk level and control instruments in PP-91 Preparation/updating of risk register;
- preparation of Plans to minimize identified (inherent) risks for the risks identified by division/unit and until the department/office level;
- preparation and updating of the **company Risk Register** for escalating risks and the Plan of Measures to Minimize Risks for escalated risks for the top management.

Since risk management is a very complex process and the number of company sections is relatively high initially office, department, company, **operational** risks were identified, and risk registers were prepared by office, department, and company (according to PP-91).

Subsequently the **Risk Management** procedure was developed following that the risks identified are analyzed by the Risk Management Team and the Monitoring Committee for the preparation of the company final Risk Register and of the plans for minimizing risks.

**All measures taken until now refer to operational risks**, but it should be also considered and other company risks identified:

- Risks related to the economic environment;
- Risks related to the gas sector;
- Risks related to natural gas transmission activity (laws, regulations);
- Financial risks;
- Risks due to natural disasters (earthquakes, floods).

#### **5.2.6 Key non-financial performance indicators**

From the category of the **non-financial operational performance indicators** (presented in Annex 2a of GD 722/2016 for the approval of the Metodological Rules for the application of some provisions of the Governmental Emergency Ordinance no.109/2011 on the corporate governance of public enterprises) within the company the following indicators are monitored:

No	Indicator	Objective	No	2017		Achievement degree
				Planned	Achieved	
Operational						
6	Monitoring the Implementation and Investment Strategy	<b>Achievement of the FID projects from the 10 years Development Plan</b> <i>I=(achieved+initiated actions)/proposed actions</i> <b>1.Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).</b>	6.1	Phase I: Obtaining construction permit for pipeline;	Completed	100%
			6.2	Obtaining construction permit for stations	Completed	
7	Increasing energy efficiency	Maintaining the share of the technological consumption in the total circulated gas below 1%	7.1	<1	0,73	136,9%
Oriented towards public services						
8	Performance indicators related to the gas transmission service	Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016)	8.1	$IP_0^1 \geq 90\%$	0%	0%
			8.2	$IP_1^1 \geq 95\%$	-	
			8.3	$IP_1^2 \geq 95\%$	-	
			8.4	$IP_1^3 \geq 95\%$	-	
			8.5	$IP_1^4 \geq 95\%$	100%	
			8.6	$IP_1^5 \geq 95\%$	100%	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	100%	
			8.10	$IP_3^2 \geq 95\%$	-	
			8.11	$IP_3^3 \geq 95\%$	0%	

			8.12	$IP_3^4 \geq 95\%$	-	
			8.13	$IP_4^1 \geq 95\%$	100%	
			8.14	$IP_5^1 \geq 98\%$	78,16%	
			8.15	$IP_5^2 \geq 98\%$	0%	
			8.16	$IP_6^1 \geq 98\%$	10,5%	
			8.17	$IP_6^2 \geq 98\%$	78,12%	
			8.18	$IP_7^1 \geq 80\%$	76,39%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	100%	
			8.21	$IP_9^1 \geq 90\%$	-	
<b>Corporate governance</b>						
<b>9</b>	<b>Implementing the internal/managerial control system</b>	<p>Implementing the provisions of the SGG Order no. 400/2015 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p><i>I</i> = implemented standards/standards provided by Order 400/2015*100  Achievement of the measures provided for in the Program for the implementation of the SCIM <i>I</i>= measures achieved within the deadline/proposed measures *100</p>	9.1	94%	94% No. ME 270251/ 30.01.2018 Letter no. DSMC/2497/ 17.01.2018	100%
<b>10</b>	<b>Clients satisfaction</b>	<p>Achievement of the targets provided for in the administration plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)</p>	10.1	7,7	7,7	100%
<b>11</b>	<b>Setting the risk management policies and risk monitoring</b>	<p>Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG</p>	11.1	-Preparation of the methodology related to risk management	Achieved Approved in the meeting RMT dated 06.07.2017 – Report no. DSMC/3176/07.07.2017	100%
			11.2	- Preparation of the statement	Achieved	

		<i>Order no. 400/2015 for the approval of the internal/managerial Control Code of public entities as subsequently amended.</i>		related to risk management ;	Approved in the meeting RMT dated 06.07.2017 – Report no. DSMC/3176/07.07.2017	
			11.3	- Preparation of the Rules of Procedure of the Risk Management Team (RMT);	Achieved Approved in the meeting RMT dated 06.07.2017 – Report no. DSMC/3176/07.07.2017	
			11.4	-Updating the Decision for the establishment of the RMT.	Achieved Decision no.602/27.06.2017	
<b>12</b>	<b>Timely reporting of the key performance indicators</b>	<i>Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100</i>	12.1	Financial communication calendar to BSE	Achieved	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	Achieved Letter no 12315/16.03.2017	
			12.3	SCIM reporting	Achieved Letter no. DSMC/2497/17.01.2018 ME no.270251/ 30.01.2018 Letter no.31870/07.07.2017 ME no. 382743/17.08.2017 Letter no. 11925/ 14.03.2017 – no. ME 381077/16.03.2017	
			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	Achieved Letter no. 7349/14.02.2018	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	Achieved Letter no. 38304/16.08.2017	
<b>13</b>	<b>Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans</b>	<i>Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline /proposed measures *100</i>	13.1	- Updating the company's web site in line with the Memorandum ,Increasing transparency and standardizing the display of	Report no 3 / 20.12.2017	100%

				information of public interest"	
			13.2	- Training courses for employees with responsibilities to supply information of public interest in order to increase capabilities to supply them (relevance of the information)	Achieved (by the organization and conduct of the course External communication in crisis situations)
			13.3	- Publication of the technical indicators together with the financial ones for funding projects from external grants	Achieved ( <a href="http://www.transgaz.ro/ro/activitati/cooperare-internationala/proiecte-majore-de-dezvoltare">www.transgaz.ro/ro/activitati/cooperare-internationala/proiecte-majore-de-dezvoltare</a> )
			13.4	-Preparation of the policy on corruption prevention	The following were prepared: The Policy statement and the Policy on corruption prevention They will be submitted in March to the BA for approval.
			13.5	- Organization of training courses with themes on integrity, corruption and fraud (management);	According to the training program for 2017 405 employees were trained of which 360 managers. All employees of the General Inspection Department and of the Internal Audit Department are planned to attend in the first quarter of 2018 courses with the theme Ethics and Integrity. The anti fraud dept will set the training program.
			13.6	- Initiation of a campaign for the information of employees on the phenomenon of fraude and corruption (management);	Internal: The Declaration for the adherence to SNA was sent to all employees As well as the Integrity Plan of the Company. External: according to Ord. 1244/2017, The Anti fraud department within DCC/MEC will reanalyze this aspect.
			13.7	- Consultation of the employees in the process for the	Achieved (by sending to all the structures within the company by email a

				preparation of the Integrity Plan	Questionnaire in the preparation stage and the draft Integrity Plan after its preparation).
			13.8	- Adoption and distribution within the company of the declaration for adherence to SNA;	Achieved (by sending it by email to all the structures within the company and posting it on intranet).
			13.9	-Preparation of the Integrity Plan;	Achieved (sent by Letters no 8731 and 8732/23.02.2017 to the Ministry of Economy and the Ministry of Justice)
			13.10	- Approval and distribution within the company of the Integrity Plan	Achieved (Decision no. 181/23.02.2017 for the approval of the Integrity Plan sent to all the structures of the company by email on 24.02.2017
			13.11	- Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities	Achieved (sent by Letter no DSMC 4226/29.01.2018, together with Annex 1 – The situation of Integrity related incidents , Annex 2- Reporting the implementation of the SNA measures Ministry of Justice and the Report dated 30.01.2018 on the status of achievement of Transgaz Integrity Plan)
			13.12	-Annual publication of the performance indicators monitored within the company's Integrity Plan	Achieved (by the publication of the Annual Evaluation of the Integrity Plan on intranet)
			13.13	_ Quarterly Evaluation of the status of implementation of SCIM.	Achieved Letter no. DSMC/2497/17.01.2018 ME nr.270251/ 30.01.2018 Letter no. 31870/07.07.2017 – no. ME 382743/17.08.2017 Letter no. 11925/ 14.03.2017 – no. ME 381077/16.03.2017

**Table 31– Achievement of the key non-financial performance indicators for the calculation of the variable component of the remuneration in 2017**

Note:

Regarding performance indicator  $[[IP]]\_0$ , given the territorial dispersion of the company as well as the complexity of the process of implementing the working procedures according to the Performance Standard, Transgaz proposed itself to develop a separate IT application for this activity. The application was completed and tested only at the beginning of the current gas year, and as such there was no separate management of the unique numbers assigned to requests/complaints received, other than those used for all documents entered into or out of the company. At present, all requests/complaints are managed separately through the computer software used.

Regarding specific performance indicator  $[[IP]]\_3^1$ , according Art. 14 of GR 1043/2004, which regulates the connection stages, the TSO has the obligation to make available to the applicant the connection agreement within 60 days from the registration of the application, and the TSO obligation to send a reply regarding the acceptance or the refusal of connection is not established. In this respect, Transgaz took into account and complied with the term specified in this normative act.

According to the specific performance indicator  $[[IP]]\_3^3$ , which stipulates that the commissioning of a connection facility is carried out within the deadline established in the connection contract, the company commissioned 4 connection facilities at the request of the contractual partners. Even if the investment process is completed on a certain date, the commissioning and operation of the facilities was carried out at the time indicated by the applicant. Thus, this indicator was not fulfilled from the perspective of ANRE Order 161/2015, the reasons being explained above.

Regarding specific performance indicator  $[[IP]]\_5^1$ , the value of this indicator did not meet the standard requirement, as 4 adjacent partners and 236 network users were not informed or inadequately informed for various reasons such as:

technical problems of the HELPDESK platform;

the information regarding interruption was received outside the working hours.

The value of the specific performance indicator  $[[IP]]\_5^2$  did not meet the standard requirement, as 9 adjacent partners were informed only by telephone.

The value of the specific performance indicator  $[[IP]]\_6^1$  did not meet the standard requirement, as 30 adjacent partners and 379 network users were not informed or inadequately informed for various reasons such as:

the manoeuvre sheet was sent for verification and approval less than 5 working days prior to the limitation/interruption (in some cases no account was taken of public holidays or weekend which are non-working days), which is why the approved sheet reached the office responsible for informing adjacent partners/network users within fewer days prior to the limitation/interruption;

there is no written information.

Regarding the value of the performance indicator  $[IP]_{6^2}$ , did not meet the standard requirement, since the supply of gas transmission system services to 100 adjacent partners and network users was not resumed within the deadline specified in the notification. Information on the non-observance of the deadline for resuming the provision of the transmission service is related to each regional office.

Regarding performance indicator  $[IP]_7$ , which foresees the settlement within 30 days of requests/complaints regarding the natural gas transmission system, other than those separately considered by the standard, for 51 requests/complaints no response was provided within this term due to the fact that the information/data was provided by the regional offices, for various reasons, with delay. Thus, the deadline set by the standard was not met. Starting with the current gas year, with the support of the IT application to which all of the regional offices also have direct access, each request/complaint received and each response given are much more strictly monitored.

## 5.2.7 EUROTRANSGAZ SRL – The Republic of Moldova

In the conclusions of the Joint Romanian-Moldovan Economic Commissions for Economic Cooperation up to now, and especially over the last two years, the necessity and the opportunity to intensify the dialogue in the energy domain were highlighted, the Romanian Ministry of Economy emphasizing on several occasions that the Romanian party has a special interest in working with the Moldovan counterpart ministry and in identifying opportunities for the development of projects in the field of natural gas and electricity transmission, including by the participation in the acquisition of assets in the relevant sectors if the governmental authorities in Chisinau would privatize energy companies.

In the light of these bilateral cooperation commitments between the government of Romania and the government of the Republic of Moldova for the development of the energy infrastructure to meet the goals agreed during the high level dialogue, and taking into account Transgaz's leading position in the implementation of projects of common interest compliant with the European Union's energy policy on the diversification of gas supply sources and routes to enhance energy security in Central and South-Eastern Europe, the Romanian Ministry of Economy by letter 3621/10.10.2017 urged SNTGN Transgaz SA, based on an opportunity and necessity analysis, to take all necessary steps to create the conditions leading to a successful participation in the privatization procedure for SE Vestmoldtransgaz.

Considering that on 27 October 2017 the Government of the Republic of Moldova announced the launching of a new stage of privatization of the Moldovan property, including SE Vestmoldtransgaz, the gas transmission system operator operating the Iasi-Ungheni interconnector on the Moldovan side, it was generated the opportunity to prepare a solid application for the participation of S.N.T.G.N. Transgaz S.A. in the investment contest organized by the Chisinau authorities.

The participation of Transgaz in the tendering procedure for the procurement of SE Vestmoldtransgaz was necessary for the above-mentioned general considerations, but also for particular reasons concerning the predictability and safety of the Iasi-Ungheni interconnector, the construction and operation of the Ungheni-Chisinau gas pipeline and the installations related to this project and the securing of the access to energy for a significant segment of consumers (most of whom are Romanian citizens residing in the Republic of Moldova) that could become vulnerable in the post-2019 perspective.

Since according to the legislation of the Republic of Moldova on the field of privatization, bidders may be entities with domestic or foreign legal personality, with privately owned capital, and other options for

participation in the investment contest would not meet the adequate proportion of guarantees for the interests of the Romanian party, or for the Romanian-Moldovan joint interest, it was necessary that SNTGN Transgaz SA establishes an entity in the Republic of Moldova for carrying out the economic activity and for concluding trade acts.

The establishment of a Transgaz subsidiary in Moldova is also supported by the strengthening of the cooperation and collaboration relations with the neighboring state, the Republic of Moldova, being a strategic company management objective from the perspective of the stakeholders, in the light of strategic investment projects Transgaz included in the 2017-2026 TYNDP, among which project 7.4 Developments of the NTS in the North-East area of Romania to improve the gas supply to the area as well as to provide transmission capacities to/from the Republic of Moldova.

Thus, at the end of 2017, EUROTRANSGAZ SRL was established with the headquarters in the Republic of Moldova.

Later, on 27 February 2018, Transgaz won, through its subsidiary in Moldova, Eurotransgaz, the privatization tender for the SE Vestmoldtransgaz. In the coming years, Eurotransgaz SRL will carry out an investment process in the Republic of Moldova, which will include the construction of a gas pipeline between Ungheni and Chisinau, as well as the facilities necessary for the operation of this pipeline in terms of efficiency, safety and competitiveness, offering alternative routes and sources of supply for the regional market.

To meet the non-financial expectations of the public supervisory body and other shareholders to:

- comply with the requirements of the European and national regulatory framework for the gas transmission;
- enhance the quality of implementation of the principles of good corporate governance, ethics and integrity;
- consolidate and diversify internal and external collaboration relations;
- increase energy efficiency and reduce the negative impact of the technological processes on the environment;
- increase customer, business partners, suppliers satisfaction and the quality of the services provided;
- improve the general, internal and external communication process of the company, the image capital;
- increase market value, stock market capitalization and investor confidence in the company's shares;
- improve the company's rating;
- implement an internal control mechanism to protect the investment made by shareholders in the company and its assets and to assist the administrators in the annual assessment of the effectiveness of the control mechanisms,

Transgaz considers the implementation of company policies also at the level of the subsidiaries.

## **6. CORPORATE GOVERNANCE**

Corporate Governance is a very broad concept that includes elements such as the managers' responsibility for the accuracy of information in financial reports, very tight deadlines for financial reporting, full disclosure and transparency of financial results, transparency of internal audit, processes and external audits.

In detail, corporate governance refers to how the rights and responsibilities are divided between the categories of participants in the company's activities, such as the board of administration, managers,

shareholders, and other interest groups, while also specifying how business decisions are made, how to define strategic objectives, how to reach them and how to monitor economic performance.

Practice confirms the need to step up efforts to accept corporate governance, as it has been noticed that organizations dedicated to implementing its principles have even managed to maximize their performance.

The general and specific strategic objectives of SNTGN TRANSGAZ SA are set in the context of the alignment with the requirements of the new European energy policy on energy security and safety, sustainable development and competitiveness.

In this context, the implementation and development of corporate governance principles, the development of responsible, transparent business practices, is increasingly becoming a necessity in the substantiation and application of business strategies and business policies.

By subscribing to this aim, Transgaz aims to effectively implement the provisions of the Corporate Governance Regulation in order to provide a rigorous framework for sizing and regulating corporate governance principles at the company level.

The **Company's Corporate Governance Regulation** was endorsed by the Board of Administration by the Decision no.3/18.01.2011 and approved by the Ordinary General Meeting of Shareholders on March 2, 2011, by GMS Decision no.1/2011 (art.4).

The document has a structure in line with the requirements in the field and includes **9 chapters**, as follows:

- |  |
|--|
| - Chapter 1 - <b>Corporate Governance Structures:</b> Board of Administration, Advisory Committees, Executive Management. The tasks of the executive management are set out in the Transgaz Regulation of Organization and Functioning and the Code of Conduct sets out the ethical rules of mandatory conduct for all employees and applies to all organizational and hierarchical structures of the company. |
| - Chapter 2 - <b>Shareholder rights:</b> shareholder rights, shareholder treatment.  |
| - Chapter 3 - <b>Board of Administration:</b> the role and obligations of the Board of Administration, the structure of the Board of Administration, the appointment of the members of the Board of Administration, the remuneration of the members of the Board of Administration.  |
| - Chapter 4- <b>Transparency, financial reporting, internal control and risk management:</b> transparency and financial reporting.   |
| - Chapter 5 - <b>Conflict of interests and transactions with persons involved:</b> conflict of interests; transactions with persons involved.  |
| - Chapter 6 - <b>Corporate Information Regime.</b>   |
| - Chapter 7 - <b>Social Responsibility.</b>  |
| - Chapter 8 - <b>Administration system.</b>  |
| - Chapter 9 - <b>Final Provisions.</b>   |

## 6.1 Corporate Governance Statement

### I. STATEMENT OF COMPLIANCE WITH THE CODE

### II. CORPORATE GOVERNANCE STATEMENT ITEMS

- Section A - Information on the composition, responsibilities and activities of the Board and the Committees.
- Section B - Risk and internal control information.
- Section C - Remuneration Information.
- Section D - Shareholder Information.

### I. STATEMENT OF COMPLIANCE WITH THE CODE

SNTGN Transgaz SA, as a company listed on the BSE in the Premium category, voluntarily adopted the CGC provisions of the BSE and reports as of 2010 total or partial compliance with the **Statement on compliance or non-compliance with the provisions of the Corporate Governance Code (the “apply or explain” statement)** contained in the Administrators' Report.

In September 2015, a new BSE Corporate Governance Code was launched for companies listed on the main market, with effect from January 4, 2016.

The new Code was designed by the BSE as part of a new corporate governance framework and aims to promote higher standards of governance and transparency for listed companies.

The implementation of the new rules is based on the "apply and explain" principle, which provides the market with clear, accurate and timely information on how listed companies comply with corporate governance rules.

Transgaz is in full compliance with most of the provisions of the new Code, and the provisions with which the company is not yet in compliance were explicitly presented in a current report sent to the BSE in January 2016, which was also published on the company's website at the section: *Investor Information / Current Reports / 2016*.

On October 12, 2016, SNTGN TRANSGAZ SA, through an Current Report sent to the BSE, brought to the attention of the interested parties the compliance with the new provisions of the BSE CGC, as follows:

Section	CGC provisions	Explanation of compliance
<b>A.2.</b>	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	Provision included in the Board of Administration ROF at art. 17, approved by Art. 1 of the OGMS Decision no. 4 of June 23, 2016.

**Table of compliance or non-compliance with the provisions of the new Code**

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
<b>Section A-Responsibilities</b>				
<b>A.1</b>	All companies must have an internal Board Regulation that includes the terms of reference / responsibilities of the Board and the key management functions of the company and which applies, inter alia, the General Principles of Section A.	X		
<b>A.2</b>	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	X		
<b>A.3</b>	The Board of Administration or the Supervisory Board must be composed of at least 5 members.	X		
<b>A.4</b>	Most members of the Board of Administration should not hold executive positions. At least one member of the Board of Administration or the Supervisory Board must be independent in the case of companies from the Standard Category. In the case of Premium Category companies, no less than two non-executive members of the Board of Administration or the Supervisory Board must be independent. Each independent member of the Board of Administration or the Supervisory Board, as the case may be, must file a statement at the time of his/her nomination for election or re-election, and when any change of his/her status occurs, indicating the elements based on which he/she is considered as independent from the point of view of his/her character and judgment and according to the following criteria:	X		
	<b>A.4.1.</b> He / she is not the General Manager / Chief Executive Officer of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
	<b>A.4.2.</b> He / she is not the employee of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
	<b>A.4.3.</b> He/she does not receive and has not received any additional remuneration or other	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	benefits from the company or a company controlled by it, other than those corresponding to the capacity of non-executive administrator.			
	<b>A.4.4.</b> He/she is not or was not the employee or does not or did not have a contractual relationship in the previous year with a significant shareholder of the company, a shareholder controlling over 10% of the voting rights, or a company controlled by it.	X		
	<b>A.4.5.</b> He/she has not and did not have a business or professional relationship with the company or a company controlled by it, either directly or as a client, partner, shareholder, member of the Board / Administrator, general manager / executive manager or employee of a company if, by virtue of its substantive nature, this relationship may affect his/her objectivity.	X		
	<b>A.4.6.</b> He/she is not and was not, in the last 3 years, an external or internal auditor or a partner or employed associate of the current external financial auditor or the internal auditor of the company or a company controlled by it.	X		
	<b>A.4.7.</b> He/she is not the general manager / executive director of another company where another general manager / executive director of the company is the non-executive administrator.	X		
	<b>A.4.8.</b> He/she has not been a non-executive administrator of the company for more than 12 years.	X		
	<b>A.4.9.</b> He/she has no family ties with a person in the cases mentioned in A.4.1 and A.4.4.	X		
<b>A.5</b>	Other relatively permanent commitments and obligations of a member of the Board, including executive or non-executive positions in the Board of Non-Profit organizations and companies, should be disclosed to potential shareholders and investors prior to nomination and during his/her term of office.	X		
<b>A.6</b>	Any member of the Board must report to the Board any relationship with a shareholder directly or indirectly owning shares representing more than 5% of all voting rights. This obligation refers to any relationship that may affect the member's position on matters decided by the Board.		X	Information will be requested from Board of Administration members Transgaz will send to the BSE a current report at the time of compliance.
<b>A.7</b>	The company must designate a Board Secretary responsible for supporting the work of the Council.	X		
<b>A.8</b>	The Corporate Governance Statement will inform whether a Board assessment has taken		X	The activity of the Board of

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	place under the leadership of the Chairman or the nomination committee and, if so, will summarize the key measures and the resulting changes. The company must have a policy / guidance on the Council's assessment with regard to the purpose, criteria and frequency of the assessment process.			Administration is evaluated on the basis of the performance criteria included in the management plan as well as in the mandate contracts, and the extent to which they are fulfilled is included in the Board of Administration annual report. The company does not have a policy / guide for assessing the activity of the Board of Administration, the assessment being made on the basis of the above mentioned criteria. TGN will send a current compliance report when drafting this policy.
<b>A.9</b>	The corporate governance statement should contain information on the number of Board and committee meetings over the past year, the participation of administrators (in person and in absentia), and a report by the Board and committees on their activities.	X		
<b>A.10</b>	The corporate governance statement should include information on the exact number of independent members of the Board of Administration or the Supervisory Board.	X		
<b>A.11</b>	The Boards of Premium Category Companies must establish a nomination committee composed of non-executive members, which will lead the nomination process of new members of the Board and make recommendations to the Board. Most members of the nomination committee must be independent.	X		
<b>Section B - Risk Management System and Internal Control System</b>				
<b>B.1</b>	The Board should establish an audit committee in which at least one member has to be a non-executive independent administrator. Most members, including the Chairman, must have	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee. At least one member of the audit committee must have proven and appropriate auditing or accounting experience. In the case of Premium Category companies, the audit committee must consist 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 should be an independent non-executive member.	X		
<b>B.3</b>	Within its responsibilities, the audit committee must carry out an annual assessment of the internal control system.	X		
<b>B.4</b>	The assessment should take into account 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 promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified following the internal control and the submission of relevant reports to the Board.	X		
<b>B.5</b>	The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties.	X		
<b>B.6</b>	The audit committee should assess the effectiveness of the internal control system and risk management system.	X		
<b>B.7</b>	The Audit Committee should monitor the application of generally accepted legal standards and auditing standards. The Audit Committee should receive and evaluate internal audit team reports.	X		
<b>B.8</b>	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they should be followed by regular reports (at least annually) or ad-hoc reports to be submitted to the Board.	X		
<b>B.9</b>	No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates.	X		
<b>B.10</b>	The Board must adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relationships with a value equal to or greater than 5% of the net assets of the company (according to the		X	This policy will be developed and approved in accordance with the Board of

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	latest financial report) is approved by the Board following a binding opinion of the Board's Audit Committee and properly disclosed to shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.			Administration ROF and the Articles of Incorporation.
<b>B.11</b>	Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.	X		
<b>B.12</b>	In order to ensure the main functions of the internal audit department, it must report functionally to the Board through the audit committee. For administrative purposes and within the management's responsibility to monitor and mitigate risks, it must report directly to the Director General.	X		
<b>Section C - Fair rewards and motivation</b>				
<b>C.1</b>	<p>The company must publish its remuneration policy on its intranet page and include a statement on the implementation of the remuneration policy in the annual report during the annual period under review.</p> <p>The remuneration policy should be formulated in such a way as to enable shareholders to understand the principles and arguments underpinning the remuneration of the members of the Board and of the Director General as well as the directors in the dualist system. It should describe the management of the decision-making process on remuneration and detail the components of the executive management's remuneration (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions, etc.) and describe the purpose the principles and assumptions underlying each component (including general performance criteria for any form of variable remuneration). In addition, the remuneration policy must specify the duration of the contract of the executive director and the notice period stipulated in the contract, as well as possible compensation for unjustified revocation.</p> <p>The remuneration report should present the implementation of the remuneration policy for the persons identified in the remuneration policy during the annual period under review.</p>		X	Transgaz partially applies this provision by observing the provisions of GEO 109/2011 art.39 and art. 55 (2).

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	Any major change in the remuneration policy should be published in a timely manner on the company's website.			
<b>Section D-Building value by the relationship with investors</b>				
<b>D.1</b>	The company must organize an Investor Relations Service-indicating to the general public the responsible person(s) or organizational unit. In addition to the information required by law, the company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:	X		
	<b>D.1.1.</b> Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.	X		
	<b>D.1.2.</b> Professional CVs of members of the company's governing bodies, other professional engagements of Board members, including executive and non-executive positions in boards of administration in non-profit companies or institutions.	X		
	<b>D.1.3.</b> Current reports and regular reports (quarterly, half-yearly and annually) - at least those under D.8 - including current reports with detailed information on non-compliance with this Code;	X		
	<b>D.1.4.</b> Information on the general meetings of the shareholders: agenda and informative materials; the procedure for electing the members of the Board; the arguments that support the proposals of candidates pr for election in the Board together with their professional CVs; the shareholders' questions about the agenda items and the company's replies, including the resolutions adopted.		X	The Company partially applies this provision, in accordance with art. 29 of GEO 109/2011 on Corporate Governance of Public Enterprises, as subsequently amended and supplemented.
	<b>D.1.5.</b> Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of the rights of a shareholder, including the deadlines and the principles applied to such operations. Such information will be published within a time frame that will allow investors to make investment decisions.	X		
	<b>D.1.6.</b> Names and contact details of a person who will be able to provide relevant information upon request.	X		
	<b>D.1.7.</b> Company presentations (e.g., investor presentations, quarterly results presentations,	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.			
<b>D.2</b>	The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the Director General or the Directorate and adopted by the Board in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the policy regarding annual distribution to shareholders will be published on the company's website.		X	The distribution of the company's profits is made in accordance with the provisions of Government Emergency Ordinance 64/2001 on the distribution of profits of national companies, and trade companies with full or majority state capital, as well as autonomous administrations.
<b>D.3</b>	The company will adopt a policy in relation to the forecasts, whether they are made public or not. The forecasts refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (so-called assumptions): by its nature, this projection has a high level of uncertainty, the actual results may differ significantly from the forecasts originally presented. The forecasting policy will determine the frequency, the period considered and the content of the forecasts. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The forecasting policy will be published on the company's website.		X	The activity of the company is regulated by ANRE. The management plan of Transgaz includes the management strategy during the mandate. It is rigorously structured and includes strategic action directions for managing all the resources, operational and management processes of the company in order to achieve, with maximum efficiency, the established performance targets.
<b>D.4</b>	The rules of the general meetings of the shareholders must not limit the participation of shareholders to general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting with the next meeting of the shareholders.	X		
<b>D.5</b>	External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
D.6	The Board will give a brief assessment to the Annual General Meeting of the Shareholders on the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting.	X		This information is included in the annual report of the Board of Administration as well as in the Statement of the management, drawn up in accordance with art. 30 of the Accounting Law no. 82/1991.
D.7	Any specialist, consultant, expert, or financial analyst may attend the meeting of the shareholders on the basis of a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	X		
D.8	The quarterly and half-yearly financial reports will include both Romanian and English information on the key factors that affect changes in sales, operating profit, net profit and other relevant financial ratios from one quarter to another quarter, and from one year to another.	X		
D.9	A company will hold at least two meetings / teleconferences with analysts and investors each year. The information presented on these occasions will be published in the Investor Relations section of the company's website at the date of the meetings / teleconferences.	X		
D.10	If a company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities, and considers that their impact on the innovation and competitiveness of the company is part of its mission and development strategy, it will publish its activity policy in this area.	X		

## II. CORPORATE GOVERNANCE STATEMENT ITEMS

### Section A - Information on the composition, responsibilities and activities of the Board and the Committees

#### Administration system

Transgaz has a unitary management system and is managed by a Board of Administration. It has the general competence to take out all necessary actions in order to successfully carry out the object of the company, except for the issues that are within the competence of the General Meeting of the Shareholders according to the provisions of the Articles of Incorporation updated on December 12, 2017, or the applicable laws.

The management of Transgaz is provided by a Board of Administration formed mostly by non-executive and independent administrators within the meaning of Art.138<sup>2</sup> of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

The Board of Administration is composed of 5 members that guarantee the efficiency of the supervisory, analysing and evaluating capacity of the company as well as the fair treatment of the shareholders. Members of the Board of Administration are elected by the General Meeting of Shareholders for a four-year term, and if the duties are duly fulfilled, the mandate may be renewed or they may be revoked by the Ordinary General Meeting in case of failure to meet the main objectives.

Members of the Board of Administration may be shareholders. The Transgaz Board of Administration is chaired by a Chairman appointed by the General Meeting of the Shareholders, from among the members of the Board of Administration, which ensures the optimal functioning of the company's bodies. Members of the Board of Administration will participate in all the General Meetings of the Shareholders and will exercise their mandate in good faith and knowledge for the interest of the Company with due diligence and care without disclosing the confidential information and trade secrets of the Company during the term of office and after its termination.

The Articles of Incorporation of Transgaz, updated on December 12, 2017 and approved by the Extraordinary General Meeting of Shareholders by Decision no. 10/12.12.2017, regulates the duties, responsibilities and powers of the Board of Administration as well as the obligations of the company's administrators.

The Board of Administration operates in accordance with its own regulations and legal regulations in force. Following the implementation of the new Corporate Governance Code of the BSE, the Board of Administration approved the amendment of the *Regulation of Organization and Functioning of the Board of Administration of SNTGN Transgaz SA* in order to comply with its provisions and was approved in Art. 1 of the Decision of the Ordinary General Meeting of the Shareholders no. 4 of June 23, 2016.

The structure of the Transgaz Board of Administration ensures a balance between executive and non-executive members, so that no individual or restricted group of persons can dominate the decision-making process of the Board of Administration.

The decision-making process within the company will remain a collective responsibility of the Board of Administration, which will be held jointly and severally responsible for all decisions taken in the exercise of its powers. The renouncement of the mandate by independent administrators shall be accompanied by a detailed statement of the reasons for such renouncement.

Members of the Board of Administration will constantly update their competencies and improve their knowledge of the company's business and best corporate governance practices in order to fulfil their role.

## Members of the Board of Administration of SNTGN Transgaz SA

The composition of Transgaz' Board of Administration until July 11, 2017 is as follows:

STERIAN ION	Non-Executive Administrator-Chairman, General Director since May 17, 2017
PETRU ION VĂDUVA	Executive Administrator-General Director, until May 16, 2017
BOGDAN GEORGE ILIESCU	Non-Executive Administrator, Independent
ANDREI RIZOIU	Non-Executive Administrator, Independent
RADU STEFAN CERNOV	Non-Executive Administrator, Independent

Composition of Transgaz' Board of Administration as of July 11, 2017, following the Decision of the Ordinary General Meeting of the Shareholders no. 3/19.06.2017, respectively of the Decision of the Ordinary General Meeting of the Shareholders no. 13/28.12.2017:

STERIAN ION	Executive Administrator-General Director
PETRU ION VĂDUVA	Non-Executive Administrator
BOGDAN GEORGE ILIESCU	Non-Executive Administrator, Independent
MINEA NICOLAE	Non-Executive Administrator, Independent
LĂPUȘAN REMUS-GABRIEL	Non-Executive Administrator, Independent

The CVs of the members of Transgaz' Board of Administration are available on the company's website at: [www.transgaz.ro/Despre noi/Management/Consiliul de administrație](http://www.transgaz.ro/Despre noi/Management/Consiliul de administrație).

### Role and Duties of the Board of Administration

Transgaz' management is provided by a Board of Administration meeting at the company's headquarters or at another decided location whenever necessary but at least once every three months.

The Board of Administration is chaired by the Chairman. If the Chairman is temporarily unable to exercise his/her duties, the Board of Administration may, during that period of impossibility, instruct another Administrator to act as Chairman.

In the organizational structure of the company the Administration Board and General Meeting of the Shareholders Secretariat Service is established, with responsibilities in supporting the activity of the Board of Administration.

The meetings of the Board of Administration may take place by telephone or video-conference or other means of communication through which all persons present at the meeting may hear each other and participation in such a meeting shall be deemed to be participation for the purpose of fulfilling quorum and voting requirements.

In the year 2017 there were 51 meetings of the Board of Administration and the attendance of the members of the Board of Administration at these meetings was as follows:

Administrator	Participation in meetings	
	In person	In absentia (by proxy)
STERIAN ION	51	-
PETRU ION VĂDUVA	48	1 by proxy and 2 in absentia
BOGDAN GEORGE ILIESCU	48	1 in absentia and 2 by proxy
ANDREI RIZOIU	18	3 in absentia
RADU ȘTEFAN CERNOV	15	5 by proxy and 1 in absentia
MINEA NICOLAE	30	-
LĂPUȘAN REMUS GABRIEL	29	1 by proxy

The debates shall be recorded in the minutes of the meeting, which shall include the names of the participants, the order of the discussions, the decisions made, the number of votes cast and the separate opinions. Minutes shall be signed by the chairman of the meeting and by at least one other administrator. Based on the minutes, the Secretary of the Board of Administration shall draw up the decision, which shall be signed by the Chairman.

The Board of Administration will delegate the management of the company to the General Director of SNTGN Transgaz SA, which is not the Chairman of the Board of Administration. The General Director of SNTGN Transgaz SA represents the company in its relations with third parties.

The Director shall draw up and submit to the Board of Administration a management plan for the duration of the mandate and for the first year of the mandate, including the management strategy for achieving the objectives and performance criteria set out in the mandate contract.

The management plan must be correlated and must develop the management plan of the Board of Administration and be subject to its approval.

The assessment of the activity of the directors by the Board of Administration will cover both the execution of the mandate contract and the management plan.

The General Director shall prepare and submit to the Board of Administration the reports provided by law. The General Director shall submit to the Board of Administration for approval the transactions concluded with the administrators or directors, employees or shareholders holding control over Transgaz or with a company controlled by them, if the transaction has, individually or in a series of transactions, a value of at least the equivalent in LEI of EUR 50,000.

The executive directors and the directors of subsidiaries are appointed by the General Director and are subordinate to it, are officials of TRANSGAZ S.A., carry out its operations and are accountable to it for the performance of their duties under the same conditions as the members of the Board of Administration.

The duties of the executive directors and of the directors within the branches are established by Transgaz' Rules of Procedure.

Persons who are incompatible under the Companies Law no. 31/1990, republished, as amended and supplemented, may not be executive directors or branch directors.

The Board of Administration, according to art. 19 paragraph 8 of the Articles of Incorporation, updated on December 12, 2017, informs, at the first general meeting of the shareholders following the conclusion of the legal act, on: any transaction with the administrators or with the directors, with the employees, with the shareholders who control the company or with a company controlled by them, the transactions concluded with the spouse, relatives or affiliates up to the fourth degree, including the persons mentioned above, any transaction concluded between TRANSGAZ SA with another public enterprise or with the public supervisory body, if the transaction has a value, individually or in a series of transactions, of at least the equivalent in LEI of EUR 100,000.

The Board of Administration is required to make available, at the general meeting of shareholders and financial auditors, Transgaz S.A. documents and activity reports according to the legal provisions.

### **Liability of administrators**

The liability of the administrators is governed by the legal provisions regarding the mandate as well as the special provisions of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

### **Incompatibility**

The persons provided for in the Companies Law no. 31/1990, republished, as subsequently amended and supplemented, are incompatible with the membership of the Board of Administration

The person who is incompatible with the status of administrator, according to the Companies Law no. 31/1990, republished, as amended and supplemented, may not be the general director of TRANSGAZ S.A.

### **Duties of the Board of Administration**

The Board of Administration has the following main tasks:

- to establish the main directions of activity and development of the company;
- to draw up the management plan, which includes the management strategy for the duration of the mandate to achieve the objectives and performance criteria set by mandate contracts;
- to approve the internal regulation on the organization and functioning of the advisory committees set up at the level of the Board of Administration and their composition;
- to establish accounting policies and the financial control system and approve financial planning;
- to approve the organizational structure and the regulation of organization and functioning of TRANSGAZ S.A. ;
- to appoint and revoke the general director of TRANSGAZ S.A. and determine his/her remuneration;
- to approve the management plan for the duration of the mandate and for the first year of the term of the general director of TRANSGAZ S.A. ;
- to supervise the work of the general director;
- to prepare the annual report, organize the general meeting of shareholders and implement its decisions;
- to introduce the request for initiating insolvency proceedings for TRANSGAZ S.A., in accordance with the legal regulations in force;
- to approve the level of guarantees for persons who are managers;
- to conclude legal documents by which to acquire, lease, rent, change or warrant assets in the patrimony of TRANSGAZ S.A., with the approval of the general meeting of shareholders when the law imposes this condition;
- to approve the competences of the branches by field of activity (economic, commercial, technical,

- administrative, financial, legal etc.) in order to achieve the activity of TRANSGAZ SA;
- to approve the change of the secondary activity scope of SNTGN „Transgaz” S.A;
  - to approve the set-up/closure of objective work points of NTS;
  - to approve the conclusion of any contracts for which it has not delegated the competence of the general director of TRANSGAZ S.A.;
  - to submit annually to the general meeting of the shareholders, after the end of the financial year, the report on the activity of TRANSGAZ S.A., the balance sheet and the profit and loss account for the previous year;
  - to submit to the general meeting of the shareholders the activity program and the draft income and expenditure budget for the following year;
  - to convene the general meeting of shareholders whenever necessary;
  - to establish the rights, obligations and responsibilities of the TRANSGAZ SA staff, according to the approved organizational structure;
  - to decide on the contracting of bank loans, including foreign ones; to establish the competencies and level of contracting of bank loans in the domestic and foreign markets, of trade credits and guarantees, including by pledging shares related to holdings held in other companies according to the law; to approve the release of guarantees;
  - to approve the number of posts and the normative act for the establishment of functional and production departments;
  - to approve production, research, development and investment programs;
  - to approve policies for environmental protection, occupational safety, according to the legal regulations in force;
  - to approve, within the limits of the revenue and expenditure budget approved by the general meeting of shareholders, changes in its structure within the limits of the powers for which it has been mandated;
  - to negotiate the collective labour agreement by mandating the general director and to approve the status of the staff;
  - to ensure and to be responsible for the fulfilment of any other tasks and duties established by the general meeting of the shareholders or which are provided by the legislation in force;
  - to decide on behalf of and for the General Assembly of the Shareholders of the limited liability company on the territory of the Republic of Moldova;
  - to adopt any other decisions concerning the activity of the company, except those which are within the competence of the general meeting of the shareholders.

### **Appointment of Board members**

The Company has set up a Nomination and Remuneration Committee to coordinate the process of appointing Board members and to make recommendations for both the position of administrator and the vacant positions within the Board in accordance with GEO 109/2011 on Corporate Governance in Public Enterprises, as subsequently amended and supplemented.

When a vacancy is created in the Board of Administration, the election of a new member is made under the conditions stipulated by the law. The duration for which the new administrator is elected to fill the vacancy shall be equal to the period remaining until the expiry of his/her predecessor's term.

### **Advisory Committees set up at the level of the Board of Administration**

Starting with May 27, 2013 the Board of Administration Decision no. 7 of May 27, 2013 approved the new structure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA, as follows:

- Nomination and Remuneration Committee;
- Audit and Rating Committee;
- Safety and Security Committee of S.N.T .;
- Strategy and Development Committee;
- Regulatory and Public Authority Relations Committee.

**The Rules of procedure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA**, updated on July 11, 2017, can be found on its own website in the **Management/Board of Administration** section.

The last update of the regulation was aimed at amending the composition of the Advisory Committees following the Decision of the Board of Administration no. 22/11.07.2017 regarding the appointment of the new members in the Advisory Committees, an amendment imposed by the OGMS Decision no. 3/19.06.2017 appointing new members of the Transgaz Board of Administration.

**Task sheets of the five advisory committees set up at the level of the Board of Administration:**

ADVISORY COMMITTEE	REMARKS	DUTIES
<b>NOMINATION AND REMUNERATION COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ coordinates the process of appointing the members of the Board of Administration;</li> <li>▪ elaborates and proposes to the Board of Administration the Procedure for the election of the members of the Board of Administration;</li> <li>▪ addresses recommendations on both the position of administrator and the filling of vacant positions within the Board of Administration;</li> <li>▪ assesses the cumulative professional skills, knowledge and experience at the level of the Board of Administration, directors and other management functions;</li> <li>▪ establishes the requirements for occupying a certain position in the management of the company;</li> <li>▪ elaborates and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and other management positions;</li> <li>▪ recommends to the Board of Administration candidates for the listed positions;</li> <li>▪ apply best practices of corporate governance by improving knowledge of the company's business and constantly updating the professional competencies of board members;</li> <li>▪ develops the remuneration policy for administrators;</li> <li>▪ submits such remuneration policy for approval to the General Meeting of Shareholders;</li> <li>▪ formulates proposals on the remuneration of directors and other management functions;</li> <li>▪ informs about the remuneration policy in the Corporate Governance Statute / Regulations of the company;</li> <li>▪ presents in the Annual Report the total amount of the direct and indirect remuneration of administrators and directors, separately, according to the fixed and variable components of such remuneration;</li> <li>▪ in determining the remuneration of non-executive directors, it will observe the principle of proportionality of this remuneration with the</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
		<p>responsibility and time devoted to the exercise of their functions by them;</p> <ul style="list-style-type: none"> <li>draws up an annual report on the remuneration and other advantages granted to the administrators and directors during the financial year, which shall be presented to the general meeting of the shareholders and includes the information provided in art. 55 paragraph (3) of GEO no. 109/2011 on Corporate Governance of Public Enterprises;</li> <li>may, where appropriate, call on external experts to assist with the tasks they are required to perform.</li> </ul>
<b>AUDIT AND RATING COMMITTEE</b>	<p>will be composed of at least three members of the Board of Administration and the majority of members must be independent;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>at least one member of the committee must have proven and appropriate audit or accounting experience;</p> <p>the chairman of the committee must be an independent non-executive member;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>assists and recommends the Board of Administration, proposes the establishment of the accounting and financial control system and approves the financial and budgetary planning;</li> <li>assists the Board of Administration in fulfilling its responsibilities in financial reporting, internal control, risk management and company rating;</li> <li>assesses on a regular basis the effectiveness of financial reporting, internal control and risk management system adopted by the company;</li> <li>performs an annual assessment of the internal control system and presents relevant reports to the Board of Administration;</li> <li>assesses conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties;</li> <li>monitors the application of generally accepted legal standards and internal audit standards;</li> <li>receives and evaluates internal audit team reports;</li> <li>submits regular reports to the Board of Administration;</li> <li>elaborates and submits to the Board of Administration for approval an opinion on the policy by which to ensure that any transaction of the company with any of the companies with which it has close relationships, the value of which is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board;</li> <li>meets as often as necessary, but at least twice a year for drafting half-yearly and annual results, when their dissemination to shareholders and the general public is performed;</li> <li>checks the compliance of the audit reports with the approved audit plan at the company level;</li> <li>provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by reviewing the relevance and consistency of accounting standards applied by the Company;</li> <li>collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other;</li> <li>addresses recommendations to the Board of Administration on the selection, appointment, recounting, replacement of the financial auditor and the terms and conditions of his/her remuneration;</li> <li>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;</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
		<ul style="list-style-type: none"> <li>fulfills the duties provided in art. 47 of GEO no. 90/2008, approved with amendments by Law no. 278/2008, in accordance with art. 34 par. (3) of GEO 109/2011.</li> </ul>
<b>SAFETY AND SECURITY COMMITTEE OF NTS</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>periodically reviews the critical infrastructure criteria list of Transgaz and the established security measures;</li> <li>provides the necessary conditions for the implementation of measures to protect all critical infrastructure objectives of the company or under the authority/coordination of the company;</li> <li>monitors / updates its own programs for preventing and combating terrorism through optimal physical and organizational protection measures, with recommendations to the Board of Administration;</li> <li>monitors the fulfilment of programs for maintenance and modernization of NTS development as well as the observance of the technical norms for operation and maintenance of production capacities.</li> </ul>
<b>STRATEGY AND DEVELOPMENT COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>assists the Board of Administration in fulfilling its responsibilities in the field of elaboration and updating of the general strategy of the development of company;</li> <li>analyses the opportunities identified for business development and issues recommendations to the Board of Administration on these;</li> <li>analyses and assists the Board of Administration on the direction of international development and cooperation of the company;</li> <li>monitors and analyses the implementation of strategic and action plans / programs regarding the obligations of Transgaz as an NTS technical operator and stock exchange issuer;</li> <li>develops proposals for improving and streamlining strategic activity, development and collaboration;</li> <li>addresses recommendations to the Board of Administration on the effective operation of strategic and action plans / programs;</li> <li>monitors and analyses the performance indicators of the transport system and the economic and financial performance of the company's activity.</li> </ul>
<b>REGULATORY AND PUBLIC AUTHORITY RELATIONS COMMITTEE</b>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set</p>	<ul style="list-style-type: none"> <li>assists the Board of Administration in analysing the regulatory activity and legal obligations of the company in this field;</li> <li>monitors the fulfilment by the company of the obligations stipulated by the regulations that are incident to the performed activity;</li> <li>analyses and submits proposals to the Board of Administration on the regulatory framework;</li> <li>monitors collaborative relationships with public authorities and assists the Board of Administration in establishing and managing the collaboration policy.</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
	out in the Corporate Governance Code.	

### Composition of advisory committees set up at the level of the company's Board of Administration

Composition of advisory committees set up at the level of the company's Board of Administration up to May 16, 2017:

Name of the Advisory Committee	Composition of the Committee	
Nomination and Remuneration Committee	Sterian Ion	- non-executive administrator
	Cernov Radu Ștefan	- non-executive, independent administrator
	Iliescu Bogdan George	- non-executive, independent administrator
Audit and Rating Committee	Iliescu Bogdan George	- non-executive, independent administrator, Chairman of the Audit and Rating Committee
	Cernov Radu Ștefan	- non-executive, independent administrator
	Rizoiu Andrei	- non-executive, independent administrator
Security and Safety Committee of NTS	Sterian Ion	- non-executive administrator
	Văduva Petru Ion	- executive administrator
	Rizoiu Andrei	- non-executive, independent administrator
Strategy and Development Committee	Sterian Ion	- non-executive administrator
	Văduva Petru Ion	- executive administrator
	Iliescu Bogdan George	- non-executive, independent administrator
	Rizoiu Andrei	- non-executive, independent administrator
Regulatory and Public Authority Relations Committee	Sterian Ion	- non-executive administrator
	Văduva Petru Ion	- executive administrator
	Cernov Radu Ștefan	- non-executive, independent administrator

Following the fact that in the meeting of the Board of Administration dated May 16, 2017, Mr. Petru Ion Văduva renounced the position of General Director, and Mr. Ion Sterian was appointed Interim General Director, the composition of the Nomination and Remuneration Committee was changed. Thus, by taking over the position of interim general director, Mr. Ion Sterian is no longer a member of this committee, being replaced by Mr. Petru Ion Văduva.

Subsequently, following OGMS no. 3/19.06.2017 appointing new interim administrators, namely Minea Nicolae and Lăpușan Remus-Gabriel, at the meeting of the Board of Administration dated July 11, 2017 it was decided to change the composition of the advisory committees established at the Board of Administration level of the company. As of this date, the composition of the committees is as follows:

Name of the Advisory Committee	Composition of the Committee	
Nomination and Remuneration Committee	Văduva Petru Ion	- non-executive administrator
	Minea Nicolae	- non-executive, independent administrator
	Iliescu Bogdan George	- non-executive, independent administrator

Audit and Rating Committee	Iliescu Bogdan George	- non-executive, independent administrator, Chairman of the Audit and Rating Committee
	Minea Nicolae	- non-executive, independent administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator
Security and Safety Committee of NTS	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator
Strategy and Development Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Iliescu Bogdan George	- non-executive, independent administrator
	Minea Nicolae	- non-executive, independent administrator
Regulatory and Public Authority Relations Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator

The activity carried out in 2017 by the five advisory committees set up at the level of the Board of Administration on the basis of:

- Art. 140<sup>2</sup> of the Companies Law no. 31/1990, as subsequently amended and supplemented, republished;
- The Corporate Governance Code of the BSE;
- Art. 4 of the Board of Administration Decision no. 7 of May 27, 2013;
- Art. 9 of the Board of Administration Decision no. 13 of July 29, 2013;
- Art. 4 of the Board of Administration Decision no. 2 of February 10, 2014;
- Art. 1 of the Board of Administration Decision no. 21 of June 16, 2014;
- Art. 10.1 of the Board of Administration Decision no. 43 of November 19, 2014;
- Art. 12 of the Board of Administration Decision no. 39 of December 17, 2015;
- Art. 4 of the Board of Administration Decision no. 15 of May 16, 2017 and
- Art. 2 of the Board of Administration Decision no. 22 of July 11, 2017

intended to monitor the actions of the members of the Advisory Committees in accordance with the areas in which they were designated and is reflected in their half-yearly activity report, which highlights:

- how the materials and documents of the different organizational structures of SNTGN Transgaz SA were consulted by the members of the Advisory Committees;
- analyses by members of the Advisory Committees on the content of documents and materials submitted;
- proposals / measures / recommendations of the members of the Advisory Committees regarding the content of materials and documents submitted for analysis and approval / endorsement to the Board of Administration; and
- the documents by which the Board of Administration in its plenary decided on the content and the issues addressed in the documents submitted for analysis/approval/endorsement.

The way of presenting the activity report of the advisory committees set up at the Board of Administration level in 2017 was designed so as to reflect in a comprehensive and accurate manner the entire activity regarding the analysis, consultation and the decision making process regarding the activity of the company.

No.	Description	Responsible	Composition of the Committee
1.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and June 2017	Nomination and Remuneration Advisory Committee	Sterian Ion– until May 16, 2017 Văduva Petru Ion– from May 17, 2017 Cernov Radu Ștefan Iliescu Bogdan George
2.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-June 2017	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Rizoiu Andrei
3.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-June 2017	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Cernov Radu Ștefan
4.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-June 2017	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Rizoiu Andrei
5.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-June 2017	Audit and Rating Advisory Committee	Iliescu Bogdan George Cernov Radu Ștefan Rizoiu Andrei
6.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee during January-December 2017	Nomination and Remuneration Advisory Committee	Sterian Ion– until May 16, 2017 Văduva Petru Ion– from May 17, 2017 Cernov Radu Ștefan– until July 10, 2017 Minea Nicolae– from July 11, 2017 Iliescu Bogdan George
7.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-December 2017	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Rizoiu Andrei– until July 9, 2017 Minea Nicolae– from July 11, 2017
8.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-December 2017	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Cernov Radu Ștefan– until July 10, 2017 Lăpușan Remus Gabriel– from July 11, 2017
9.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-December 2017	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Rizoiu Andrei– until July 9, 2017 Lăpușan Remus Gabriel– from July 11, 2017
10.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-December 2017	Audit and Rating Advisory Committee	Iliescu Bogdan George Cernov Radu Ștefan– until July 10, 2017 Rizoiu Andrei– until July 9, 2017 Lăpușan Remus Gabriel– from July 11, 2017 Minea Nicolae– from July 11, 2017

## Section B - Risk and internal control information

At the level of Transgaz an Audit Committee was initially established, but following the approval of the new structure of the Advisory Committees by the Board of Administration Decision no. 7 of May 27, 2013,

the *Audit and Rating Committee* was established to regularly review the compliance of financial reporting, internal control, and the company's risk management and rating system. The audit committee must be composed of at least three members and the majority of the members must be independent. The Chairman of the Audit Committee should be an independent non-executive member. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee.

The members of the Committee shall assist and make recommendations to the Board of Administration on the establishment of the accounting and financial control system as well as the financial and budgetary planning.

The Committee conducts auditing analyses and draws up audits reports based on them, while verifying the compliance of the audit reports with the approved audit plan at the company level. Within the company the Internal Audit Service is established, which is under the direct subordination of the Board of Administration. It reports to the Audit and Rating Committee on a quarterly basis, a synthesis of the internal audit work carried out.

The Committee provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by reviewing the relevance and consistency of accounting standards applied by the Company.

The Committee collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other;

The Audit and Rating Committee monitors the independence and accountability of the financial auditor, in particular by monitoring the rotation of the company's dedicated partners in the audit firm, and makes recommendations to the Board of Administration on the selection, appointment, re-appointment, replacement of the financial auditor, and terms and conditions of its remuneration.

### **Conflict of interests**

The members of the Board of Administration will make decisions in the sole interest of the company and will not take part in the debates or decisions that create a conflict between their personal interests and those of the company or the subsidiaries controlled by it. In this respect, the Board of Administration approved the *Conflict of Interest Management Policy* in order to comply with Art. A.2. of the new Corporate Governance Code of the BSE, and was approved at art. 2 by the OGMS Decision no. 4 of June 23, 2016.

### **Transactions with involved persons**

Each member of the Board of Administration shall ensure that there is no conflict of interest either directly or indirectly with the company or a subsidiary controlled by it, and in the event of such conflict, it will refrain from debating and voting on those matters, in accordance with the legal provisions in force.

In order to ensure the procedural fairness of the transactions with the parties involved, the members of the Board of Administration resort to the following criteria, but not limited to:

- retaining the competence of the Board of Administration or the GMS, as appropriate, to approve the most important transactions;
- asking for a prior opinion on the most important transactions from internal control structures;
- entrusting negotiations relating to these transactions to one or more independent administrators or to administrators who have no links with the concerned parties;
- the use of independent experts.

### Section C - Remuneration Information

The Company has set up a Nomination and Remuneration Committee that prepares the remuneration policy for administrators and directors set up by the Board of Administration Decision no. 7 of May 27, 2013.

The Committee will submit to the Board of Administration proposals for the remuneration of administrators and directors, ensuring that these proposals are in line with the remuneration policy adopted by the company.

The remuneration of board members is made up of a fixed monthly allowance and a variable component based on performance indicators.

Remuneration and other benefits to administrators and directors are recorded in the annual financial statements and in the annual report of the nomination and remuneration committee.

### Section D - Shareholder Information

All holders of financial instruments issued by Transgaz of the same type and class of securities receive equal treatment and the company always makes sustained efforts to achieve effective, active and permanent communication in order to exercise rights in an fair manner.

All Transgaz shareholders will be treated fairly. All issued shares give the holders equal rights; any modification of the rights conferred by them will be subject to the approval of the holders directly affected in the special meetings of the respective holders.

Transgaz makes every effort to facilitate the participation of shareholders in the works of the General Meetings of the Shareholders, the dialogue between shareholders and members of the Board of Administration and / or management, as well as the full exercise of their rights. The participation of the shareholders in the works of the General Meetings of the Shareholders is fully encouraged, and shareholders who can not participate in the meetings are given the possibility of voting in absentia - on a special proxy basis, or by correspondence.

The Company has created a special section, called *Investor Relations*, on its own website, where relevant information on procedures for access to and participation in the General Meeting of Shareholders (GMS), GMS notices to attend, GMS completions, exercise of rights voting in the GMS, GMS agenda materials, special proxy templates, GMS decisions, current reports, company financial statements, dividend information, financial calendar, corporate governance are constantly updated and accessible, thus contributing to transparent and fair information to all interested.

At the same time, Transgaz has set up a specialized organizational structure for the management of the capital market activity, namely the *Investor Relations Service*, whose activity is dedicated to the relationship with investors and shareholders. The staff of the service is permanently instructed / prepared / professionally trained on issues related to the company's relationship with its shareholders, the capital market institutions as well as the principles of corporate governance.

## 6.2 Capital Market Activity

**SNTGN TRANSGAZ SA Mediaș**, by the efficient use of managerial tools and the responsible execution of measures taken towards shareholders, investors, the business environment and the community, managed to be **ranked 3<sup>rd</sup>** on the last trading day in 2017 **in the Trading Top 10 on the BSE and 6<sup>th</sup> in the Trading Top 10 on the BSE for the entire year 2017**. Also in December 2017, Transgaz ranked **7<sup>th</sup>**

**in the Top 15 listed companies, according to the stock market capitalization** with a LEI 1,059 million increase in stock market capitalization, as compared to the same period of 2016.

TGN shares are attractive portfolio shares due to the company's business scope, the monopoly Transgaz holds in the natural gas transport, the company's position on the national and international energy market, the strong financial profile and the capacity of the company to generate performance, stable and predictable income, and attractive dividend policy.

**For the year 2016, a gross dividend per share of LEI 46.33** was approved at the OGMS of April 27, 2017, subject to the application of the 90.00473% share of the profit after the profit tax deduction, based on the GO no. 64/2001 on the distribution of profits of the national companies, national firms and companies with full or majority state capital, as well as of the autonomous administrations, as subsequently amended and supplemented, and the Government Memorandum which mandates representatives of the Romanian State in the GMS to decide on the allocation of a 90% share of the net profit realized in 2016 in the form of dividends. At the same time, the Ordinary General Meeting of Shareholders dated 23/ October 24, 2017, by applying the provisions of Government Emergency Ordinance no. 29/2017 for the amendment of Article 1 (1) g) of the Government Ordinance no. 64/2001 on the distribution of profits of the national companies, national firms and companies with full or majority state capital, as well as of the autonomous administrations and amending art. 1 par. (2) and (3) of Government Emergency Ordinance no. 109/2011 on Corporate Governance of Public Enterprises, approved **the distribution as dividends of the amount of LEI 171 million, from the amounts existing in the balance on December 31, 2016 of the "other reserves" and "Earnings carried forward" accounts**, respectively the payment of a gross dividend of **LEI 14.52 per share**, to all shareholders registered in Transgaz Shareholders Register, dated November 8, 2017.

### **TGN shares**

The year 2017 was the year when the closing price of TGN shares registered, throughout the year, net values higher than those in 2016, with a historical maximum in May 2017 of LEI 449.00 / share. Thus, as of January 2017, the TGN shares followed an upward trend with a maximum of LEI 449.00 / share recorded in May amid the publication of information on the granting of additional dividends distributed from the existing amounts in the balance on December 31, 2016, in "Other reserve" and "Earnings carried forward" accounts.

Subsequently, amid the ex-dividend date for the financial year 2016 as well as the non-approval by the OGMS of the distribution of additional dividends from the reserves and the Earnings carried forward as of December 31, 2016, the TGN shares suffered a depreciation, at the end of June having the value of LEI 358.00/share, this being the minimum of 2017.

As of July 2017, TGN shares followed an upward trend, mainly due to the approval in October of the payment, as of November 28, 2017, of the additional dividends distributed from the amounts existing in the balance on December 31, 2016, of the "Other reserves" and "Earnings carried forward" accounts. In December 2017, the value of TGN shares slightly increased due to the additional ex-dividend date.

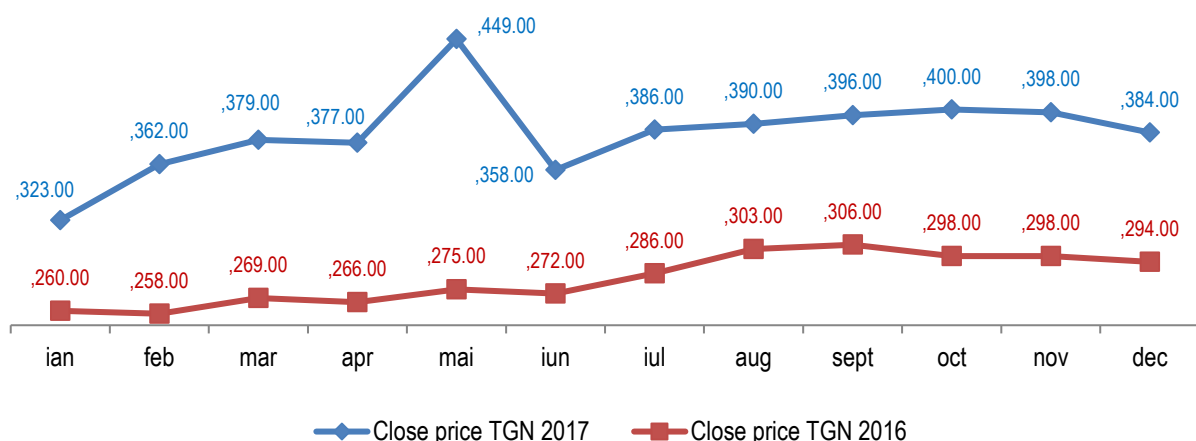


Chart 25 -The closing price of TGN shares in the period Jan 01, 2017- Dec 31, 2017 vs. Jan 01, 2016-Dec 31, 2016

The traded volumes, as well as transaction values, recorded oscillating values in 2017. Thus, in the first quarter of the year both the volume and the traded values had mainly increases, compared to the first quarter of 2016, after which in April 2017 the traded volumes decreased by about 33% and the transaction values by about 40% amid the period of investors waiting for the approval by the OGMS of the value of the distributed dividends from the company's profits on December 31, 2016.

Subsequently, both the volume and the traded values recorded significant increases, reaching 316,144 transactions in June 2017 and a value of LEI 132,91 million, which are also the maximum values of 2017. In July, due to the failure of the OGMS to approve the distribution of additional dividends from the reserves and the earnings carried forward on December 31, 2016, the traded volumes, as well as the transaction values, suffered significant decreases.

In the third quarter, amid the publication of the convocation notice regarding the approval and payment starting with November 28, 2017 of the dividends distributed from the existing amounts in the balance on December 31, 2016 from the "Other reserves" and the "Earnings carried forward" accounts, the traded volumes and transaction values increased, and by the end of 2017 they had oscillating values, but higher than those in the similar period of 2016.

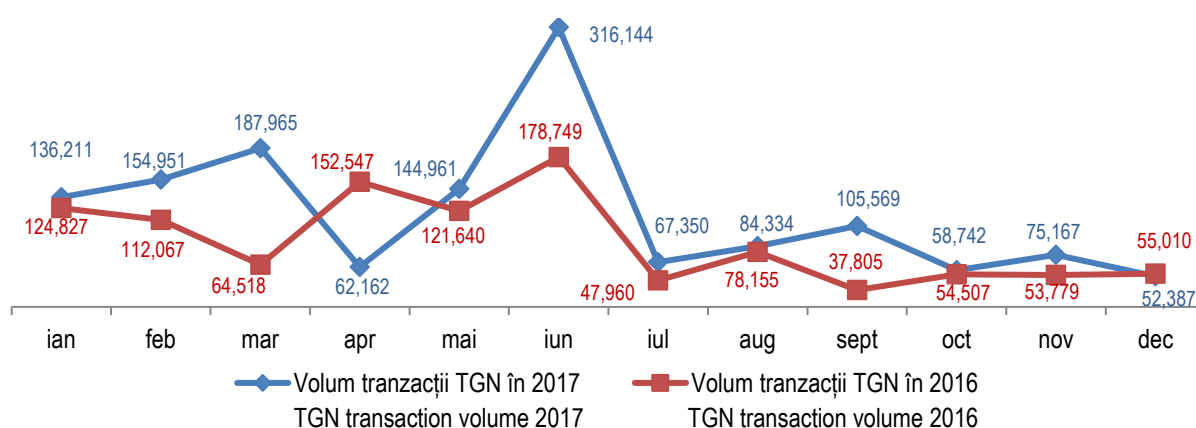


Chart 26-TGN transaction volume in the period Jan 01, 2017- Dec 31, 2017 vs. Jan 01, 2016-Dec 31, 2016

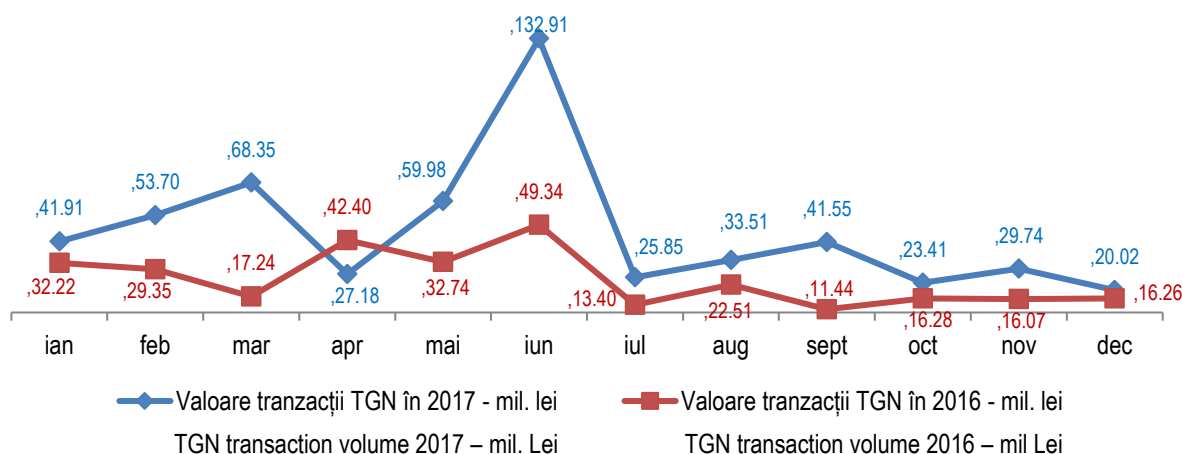


Chart 27 -TGN transaction value - K LEI - in the period Jan 01, 2017- Dec 31, 2017 vs. Jan 01, 2016–Dec 31, 2016

### Stock Market Indicators: P/BV, EPS, PER, DIVY

Year	P/BV	PER	DIVY	EPS
2008	0.92	7.36	7.92	20.29
2009	0.84	9.82	6.67	25.36
2010	1.39	8.38	4.65	31.96
2011	1.02	6.99	12.88	31.94
2012	0.79	8.26	13.65	32.24
2013	0.73	6.62	11.49	27.97
2014	1.01	9.25	6.69	28.41
2015	0.98	6.49	7.87	42.68
2016	0.97	7.08	9.39	41.51
2017	1.18	7.60	15.85	50.50

Table 3212-Status of Stock Market Indicators in the Period 2008-2017

In the period ended on December 31, 2017, all four stock exchange indicators, namely P/BV (price-to-book ratio valuation), PER (share price / earnings per share), dividend yield (DIVY) as well as the EPS (earnings per share) indicator increased significantly compared to the same period of 2016.

In 2017, the P/BV increased compared to 2016, bringing it to 1.18, indicating that TGN shares again became fairly valued market shares.

The value of the PER indicator of 7.60 indicates an increase in the efficiency of the investment in the TGN shares compared to 2016.

Increase in dividend yield (DIVY) is due to the increase in the share applied to the company's dividend distribution, from 65.01977% in 2015 to 90.00473% of retained earnings after tax deduction in 2016.

The value of 50.50 registered in 2017 by the EPS indicator is due to the very good financial results obtained by the company, this being the highest value recorded since the company's listing.

The value of stock market indicators for Transgaz, compared to those of similar companies in Europe at the beginning of 2018 is the following:

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	11.5	1.9	10.3
SNAM Rete Gas	Italy	12.9	2.0	11.6
Fluxys	Belgium	31.5	2.9	12.0
<b>Media</b>		<b>18.6</b>	<b>2.3</b>	<b>11.3</b>
<b>Transgaz</b>	<b>Romania</b>	<b>11.7</b>	<b>1.1</b>	<b>4.2</b>
Premium /Discount		37%	52%	63%

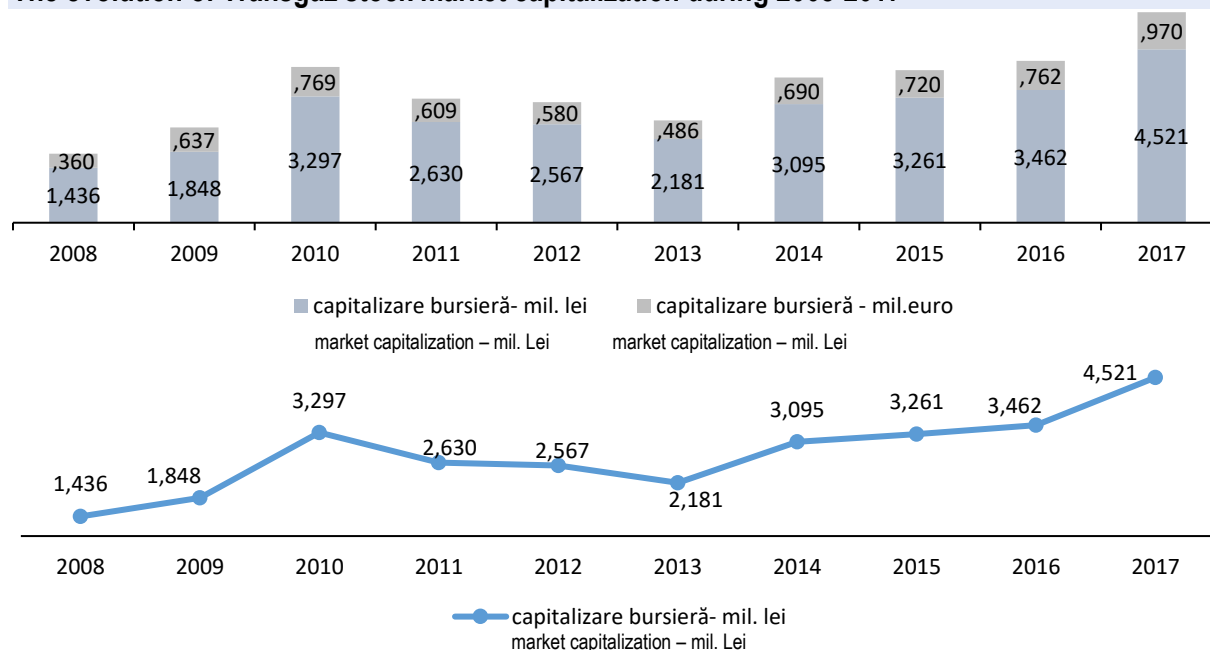
Source: Bloomberg on February 6, 2018

Table 33-The value of Transgaz stock exchange indicators compared to similar companies in Europe

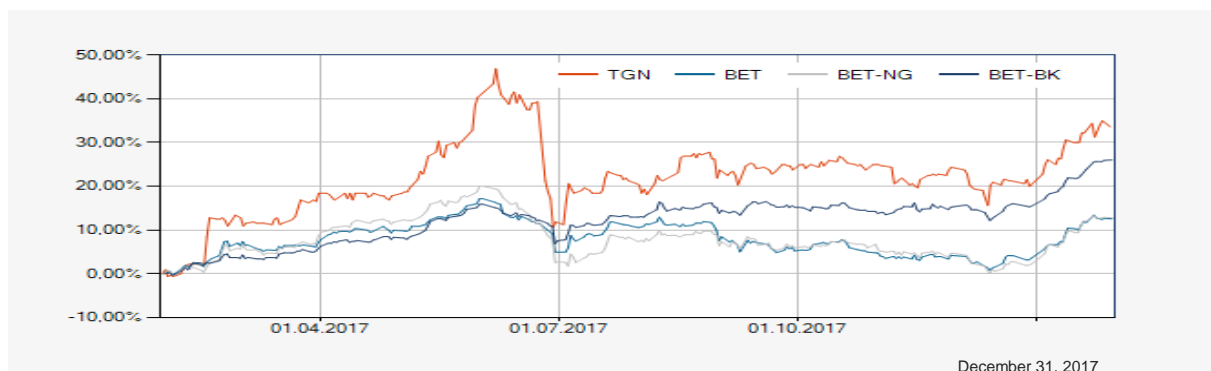
### Stock market capitalization

The stock market capitalization of the company on December 31, 2017 was LEI 4.52 billion (EUR 970 million), i.e. LEI 1.059 million (EUR 208 million) above the level recorded on December 31, 2016.

### The evolution of Transgaz stock market capitalization during 2008-2017



### Evolution of TGN shares versus BET, BET-NG and BET-BK stock market indicators throughout 2017



Source: [www.bvb.ro](http://www.bvb.ro)

As can be seen, during the entire period of 2017, the TGN shares recorded higher values than those of the BET, BET-NG and BET-BK main stock market indicators, with a peak in June 2017, where Transgaz registered net higher values, thus higher than these indicators.

Subsequently, at the beginning of July 2017, it has a strong downward trend, thus approaching the values of the three stock market indicators, and then, in the course of the following months, it has higher values than these stock market indicators.

### Dividend policy

The value of dividends to shareholders is determined in accordance with **Government Ordinance no. 64** of August 30, 2001 on the distribution of profits of national companies, national firms and trade companies with full or majority state capital, as well as autonomous administrations, approved by Law no. 769/2001, as subsequently amended and supplemented, which provides in art. (1) (f) for the distribution from the accounting profit remaining after the deduction of the corporate tax of ***“minimum 50% dividends in the case of national companies with full or majority state capital”***.

In 2016, the approved value for dividends for the year 2015 was determined according to the provisions of GO no. 64/2001 by applying the share of **65.01977%** on the net profit reintegrated with the amount representing representing employee participation in profit. In 2017, the determination of the dividend value for the year 2016 was made on the basis of the provisions of GO no. 64/2001 and the Government Memorandum which mandated the representatives of the Romanian State in the GMS to decide on the allocation of a 90% share of the net profit realized in 2016 in the form of dividends by applying the **90.00473%** share on the net profit reintegrated with the amount representing employee participation in profit.

The Company records and pays distributed dividends from the net profit only after approval of the annual financial statements by the General Meeting of Shareholders.

Thus, by Decision no. 2 of the Ordinary General Meeting of Shareholders dated April 29, 2016, published in the Official Gazette of Romania, Part IV, no. 1973/23.05.2016, the payment of a **gross dividend for the financial year 2015 was approved, amounting to LEI 27.61/share**.

By Decision no. 1 of the Ordinary General Meeting of Shareholders dated April 27, 2016, published in the Official Gazette of Romania, Part IV, no. 1638/15.05.2017, the payment of a **gross dividend for the financial year 2016 was approved, amounting to LEI 46.33 / share**.

At the same time, the Ordinary General Meeting of Shareholders dated 23/ October 24, 2017, by applying the provisions of Government Emergency Ordinance no. 29/2017 for the amendment of Article 1 (1) g) of the Government Ordinance no. 64/2001 on the distribution of profits of the national companies, national

firms and companies with full or majority state capital, as well as of the autonomous administrations and amending art. 1 par. (2) and (3) of Government Emergency Ordinance no. 109/2011 on Corporate Governance of Public Enterprises, approved **the distribution as dividends of the amount of LEI 171 million, from the amounts existing in the balance on December 31, 2016 of the “other reserves” and “Earnings carried forward” accounts**, respectively the payment of a **gross dividend of LEI 14.52 per share**, to all shareholders registered in Transgaz Register of shareholders, dated November 8, 2017.

At the end of 2017, the Company paid the shareholders net dividends for the financial year 2016 amounting to LEI 536,336,922.11 for a number of 11,727,683 shares and net dividends granted according to Government Emergency Ordinance No. 29/2017 in the amount of LEI 167,197,949.19 for a number of 11,663,526 shares.

### **Review of Transgaz rating**

On 24 June 2015 Standard&Poor's Rating Services has improved Transgaz SA Medias rating from “BB” to “BB+” with a **stable outlook**.

The decision of the financial evaluation agency to improve Transgaz' rating acknowledges the successful efforts of the management team to improve and modernize the operational activity and the institutional transparency of the company's investment program.

At the same time, the rating agency acknowledged the progress of the regulatory authority's activity and the stabilization of the regulatory framework.

Among the strengths mentioned in Standard&Poor's analysis, we would like to highlight the following:

- improvement of predictability and transparency of the Romanian gas transmission regulatory activity, by keeping the current regulatory framework unchanged until the end of the current regulatory period;
- cash flow predictability at least until 2017, at the end of the regulatory period;
- increase in the percentage of the capacity booking tariffs to 50%;
- obtaining efficiency increments for a five years period and ensuring a higher remuneration for new investments following the recognition of revenues from the previous regulatory period;
- increase of medium and long term investments starting with the second half of 2015.

The stable outlook reflects Standard&Poor's opinion according to which the regulatory framework has improved, remains predictable and transparent and Transgaz will be able to obtain solid operational and financial results in the following two or three years.

The report also provides that an improvement of Romania's rating by two notches may determine an improvement of the company's rating if both the company's credit profile and the governmental support remain unchanged.

### **6.3 Mergers or significant reorganisations**

In 2017, no mergers or reorganisations were made as far as Transgaz is concerned.

## 7. ANALYSIS OF THE COMPANY'S ACTIVITY

### 7.1 Analysis of the operational activity

#### 7.1.1 The activity of domestic natural gas transmission

During **1 October 2015 - 30 September 2016**, the regulated tariffs for the provision of natural gas transmission services through NTS were set based on ANRE Order No. 39/10 August 2016 on the approval of the regulated revenue, total revenue and transmission tariffs for gas transmission through the National Transmission System.

During **1 October 2017 - 31 December 2017** the regulated tariffs for gas transmission through the NTS were established on the basis of **ANRE Order no. 72/2 August 2017** on the approval of the regulated income, the total income and the transmission tariffs for gas transmission through the National Transmission System.

**The natural gas transmission service** ensures the fulfilment of Transgaz's obligations to provide the network users with access to the NTS based on equivalent, non-discriminatory and transparent conditions and contractual terms.

The transmission agreements concluded with the beneficiaries of the services are consistent with the regulated framework agreement and provide the legal framework for the provision of firm and interruptible transmission services.

The provision of the domestic gas transmission service designates all the activities and operations carried out for and in relation to transmission capacity booking and the transmission through the NTS of determined natural gas quantities.

The transmission of natural gas quantities is performed from the commercial delivery/receipt points at NTS entry to the commercial delivery/receipt points at NTS exit, *the natural gas volumes required to cover NTS losses being the responsibility of Transgaz*.

Through the **gas transmission services** contracted in **2017**, total amount of **138.140.038,272036 MWh (12.872.891,688 mii mc)** was transmitted to:

Distribution:	78.906.374,553317 MWh (7.332.253,514 mii mc);	57,12%
Direct consumers	39.728.226,370866 MWh (3.726.149,904 mii mc);	28,76%
Storage:	19.225.727,891547 MWh (1.788.099,486 mii mc);	13,92%
Reverse flow (Csanadpalota):	279.709,456306 MWh (26.388,784 mii mc);	0,20%

Under Report no. 15000/31.03.2017 approved by the Board of Administration by Resolution no. 13/2017 services for booking the capacity of underground storage facilities were contracted in amount of **372.750 MWh** both to maintain in store the gas amounts remained from the previous cycle and to store additional gas amounts necessary for Transgaz' actions to balance and safely operate the NTS.

The main beneficiaries of the domestic gas transmission service in **2017** are the following:

The main network users 2017	Invoiced value VAT excluded 2017 (lei)	%
ENGIE ROMÂNIA	456.080.563,94	32%
E.ON ENERGIE ROMÂNIA	307.300.566,40	21%
OMV PETROM GAS BUCUREȘTI	169.151.333,01	12%
ROMGAZ S.A. MEDIAȘ	144.048.888,91	10%
ELECTROCENTRALE BUCUREȘTI	113.156.083,05	8%
AZOMUREȘ TG. MUREȘ	62.502.096,73	4%
CHEMGAS HOLDING	34.405.100,67	3%
C-GAZ & ENERGY DISTRIBUȚIE SRL	17.153.228,97	1%
CONEF GAZ BUCUREȘTI	14.495.893,14	1%
PREMIER ENERGY SRL	13.561.336,55	1%
Others	105.237.321,30	7%
<b>Total</b>	<b>1.437.092.412,65</b>	<b>100,00%</b>

Table 34 - The share of the main users of the NTS as at 31.12.2017

In order to cover the losses from the NTS and for the own technological consumption in **2017** Transgaz purchased natural gas amounting to **95.242 thousand cm**.

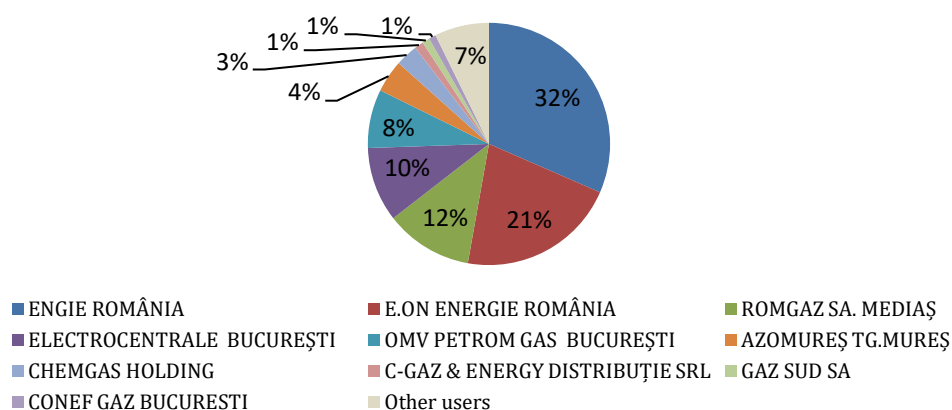


Chart 28 - The share of the main users of the NTS during 01.01- 31.12.2017

In 2017, **238** long-term **contracts** (annual) and short-term **contracts** (quarterly, monthly, daily) for gas transmission services were concluded with the network users in respect of the NTS entry/exit points, including for the interconnection points Csanadpalota, Ruse–Giurgiu, Negru Voda 1, Negru Voda–town, Mangalia.

Total contracts per NTS – period January – December 2017

Contract type	Annual	Quarterly	Monthly	Daily	Total
<b>Contracts no.</b>	35	46	131	6	218

Total contracts concluded into the RBP in respect of the interconnection points - period January – December 2017

Contract type	Annual	Quarterly	Monthly	Daily	Total
Contracts no.	4	1	15	0	20

The trading activity is minutely presented in **Annex 4**.

The evolution of the gas amounts circulated and transmitted through the NTS as well as the of the gas consumption during 2013-2017 and for 2017 as opposed to 2016 is as follows:

Indicator	MU	2013	2014	2015	2016	2017	+/-	%
0	1	2	3	4	5	6	7=6-5	7=6/5*100
Circulated gas	Thou sand cm	13.696.258	13.082.740	12.383.825	12.201.157	12.974.819	773.662	6%
Transmitted gas	Thou sand cm	11.258.941	11.883.713	12.294.693	12.074.677	12.872.891	798.214	7%
Technological consumption	Thou sand cm	160.140	96.940	88.103	108.874	95.242	-13.632	-13%
Share technological consumption / circulated gas	%	1,17%	0,74%	0,71%	0,89%	0,73%		

Table 35 - Evolution of the circulated, transmitted gas amounts and of the technological consumption during 2013-2017

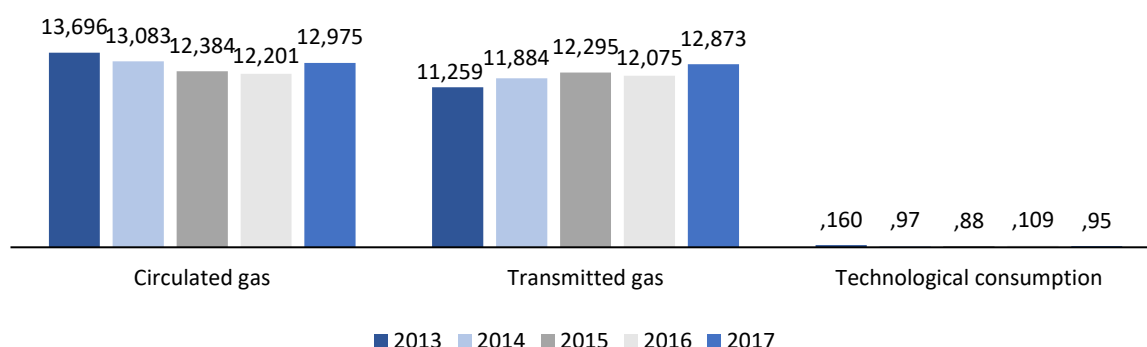
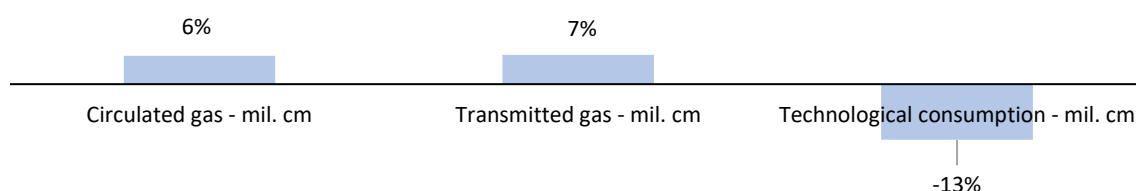


Chart 29 - Circulated, transmitted and technological consumption gas amounts during 2013-2017



year 2017 vs. 2016

Chart 30- Evolution of the circulated, transmitted gas amounts and of the technological consumption for 2017 vs. 2016

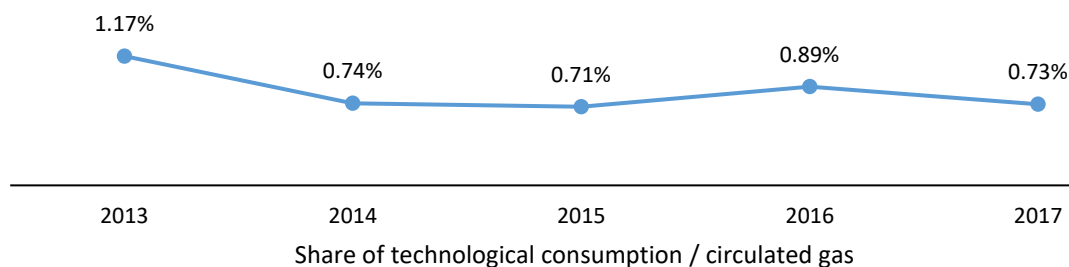


Chart 31 – Evolution of the technological consumption share in total circulated gas for the period 2013-2017

	2013	2014	2015	2016	2017
Forecasted technological consumption – thousand cm	296.290	197.600	173.036	119.823	105.346
Achieved technological consumption – thousand cm	160.140	96.940	88.103	108.874	95.242

Table 3613 – Achieved vs. forecasted technological consumption gas amounts for the period 2013-2017

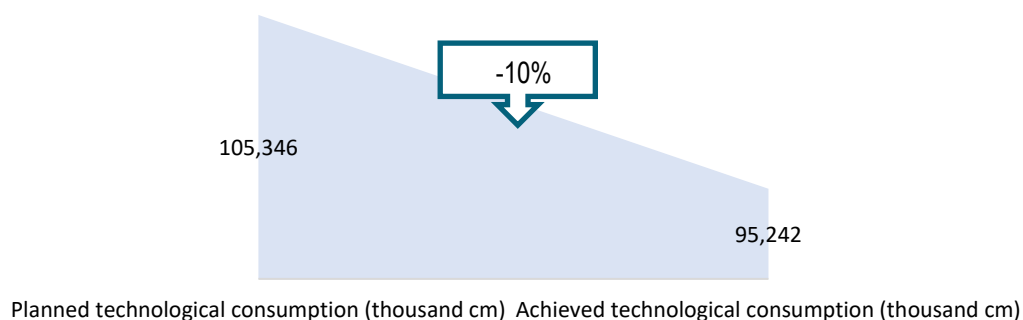


Chart 32– the level of the technological consumption total achieved vs. total planned for 2017

Therefore, as it may be seen, in 2017 as opposed to the previous year, the evolution of the technological consumption per NTS decreased, being by 13% lower than the one registered during 01.01-30.09.2016 and by 10% lower than as planned for the period 01.01-30.09.2017.

	(thousand cm)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
ROMGAZ	487	426	401	444	386	383	373	391	414	452	460	474	5.092
PETROM	351	323	365	358	372	337	358	354	342	350	333	335	4.179
OTHERS	44	44	55	50	48	46	47	46	43	43	40	41	546
CURRENT IMPORT	356	248	69	5	3	4	1	0	1	83	115	297	1.182
WITHDRAWAL FROM STORAGE	692	384	192	36	0	0	0	5	5	19	300	342	1.976
ACHIEVED	1.931	1.426	1.082	891	809	769	779	795	805	948	1.249	1.490	12.975
PLANNED	1.594	1.052	1.008	740	827	791	827	833	798	917	1.027	1.292	11.705

Table 37- Gas amounts circulated in the NTS vs planned for 2017

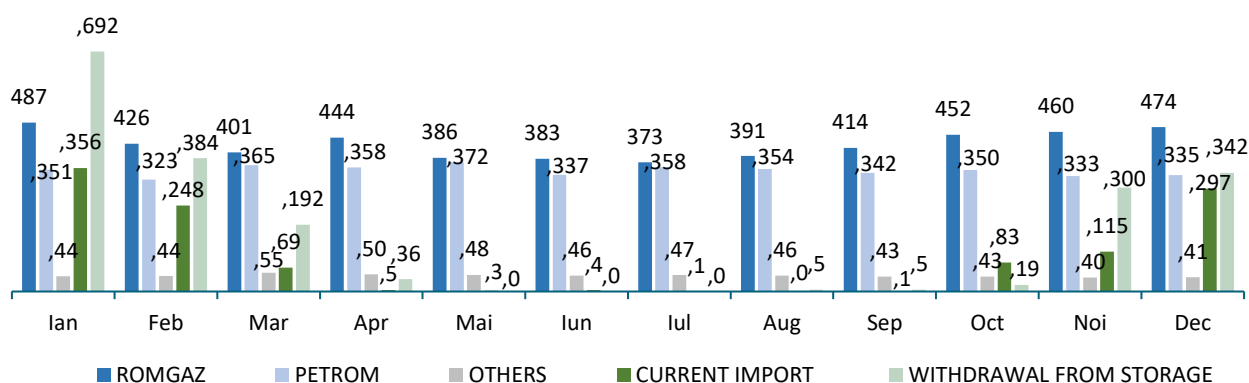


Chart 33-Gas amounts circulated in the NTS (mil.cm) in 2017, by sources

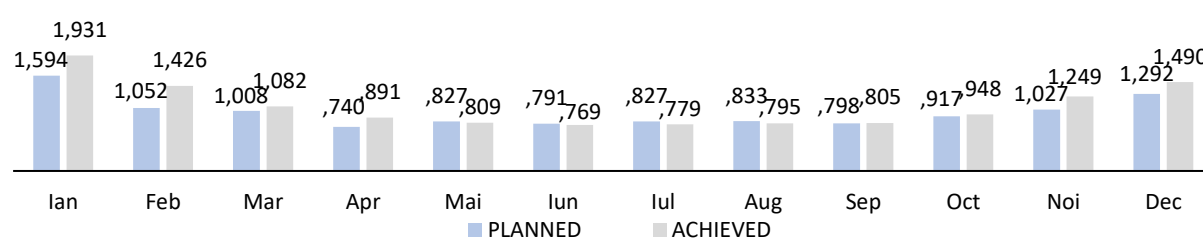


Chart 34-Gas amounts circulated in the NTS (mil.cm)–Achieved 2017 vs. Planned 2017

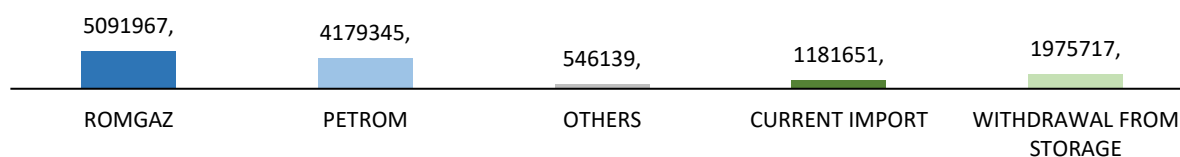


Chart 35 - Gas amounts circulated in the NTS (mil cm), by sources, in 2017

(thousand cm)

Gas transmitted in 2017 vs. planned						
	Jan	Feb	Mar	Apr	May	Jun
PLANNED	1.575.299	1.040.971	997.466	733.853	822.334	786.117
ACHIEVED	1.915.795	1.410.720	1.075.797	891.435	804.073	762.351

(thousand cm)

Gas transmitted in 2017 vs. planned							
	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
PLANNED	818.974	823.209	787.652	911.399	1.019.620	1.282.808	11.599.702
ACHIEVED	772.073	789.608	799.625	941.582	1.236.901	1.472.931	12.872.891

Table 38 – Gas amounts transmitted to direct consumers and distributions by NTS planned vs. achieved 2017

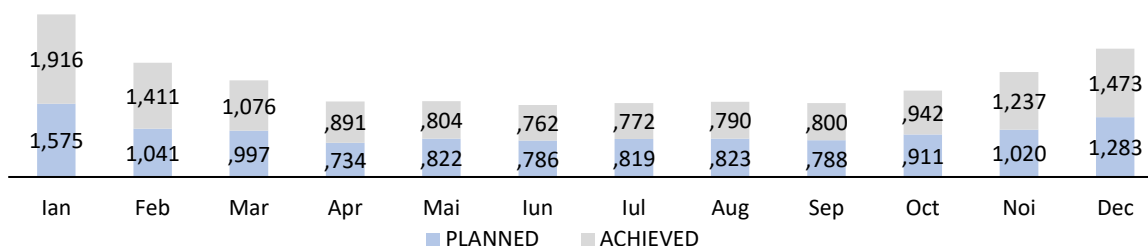


Chart 36 – Gas amounts transmitted to direct consumers and distributions in the NTS planned 2017 vs. achieved 2017 (thousand cm)

As it can be noticed, in 2017, the gas transmitted amount was 18,87 bcm by 1,27 bcm higher than planned.

(thousand cm)

Gas amounts for storage in 2017 vs. planned													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
PLANNED	-	-	-	203.078	394.090	349.900	296.556	313.521	298.188	123.053	-	-	1.978.386
ACHIEVED	-	-	11.220	89.102	286.701	351.803	337.841	291.691	287.060	132.680	-	-	1.788.098

Table 39- Gas amounts for storage in 2017 – achieved vs. planned

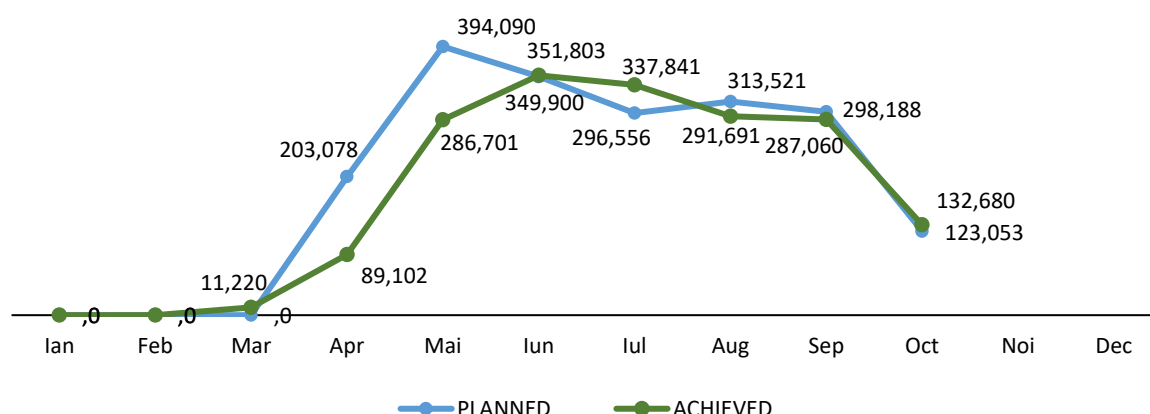
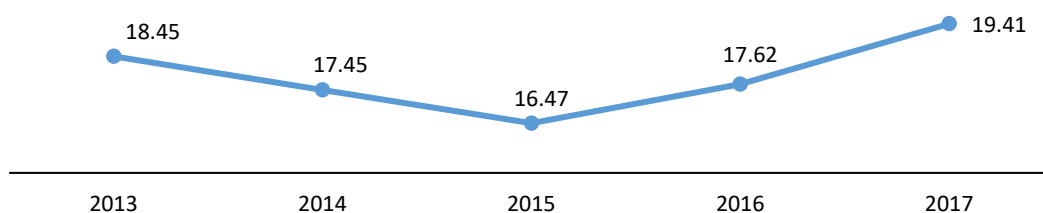


Chart 37- Gas amounts for storage in 2017 - achieved vs. planned (thousand cm)

The domestic gas transmission activity is performed for the Romanian gas market clients while the international gas transmission activity is currently performed for two foreign clients, i.e. Bulgargaz EAD and OOO"Gazprom Export".

**The gas amounts transported by the three international gas transmission pipelines during 2013–2017:**

	2013	2014	2015	2016	2017
Total transited gas	18,45	17,45	16,47	17,62	19,41

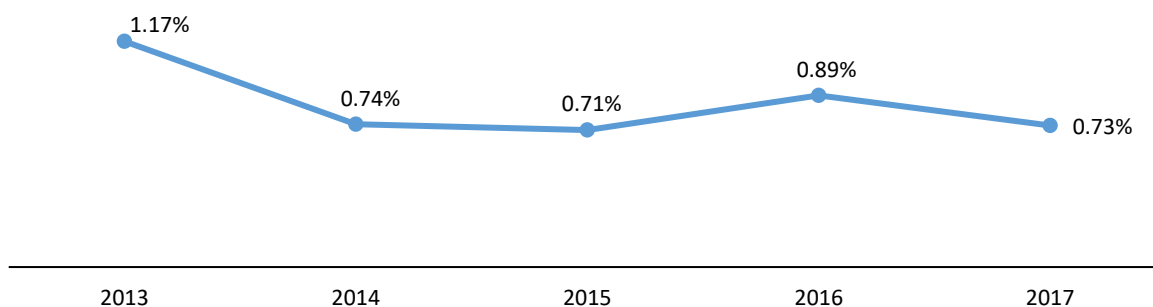


Total transited gas - bcma

**Chart 38– Total gas amount for storage in 2017 – achieved vs. planned (thousand cm)**

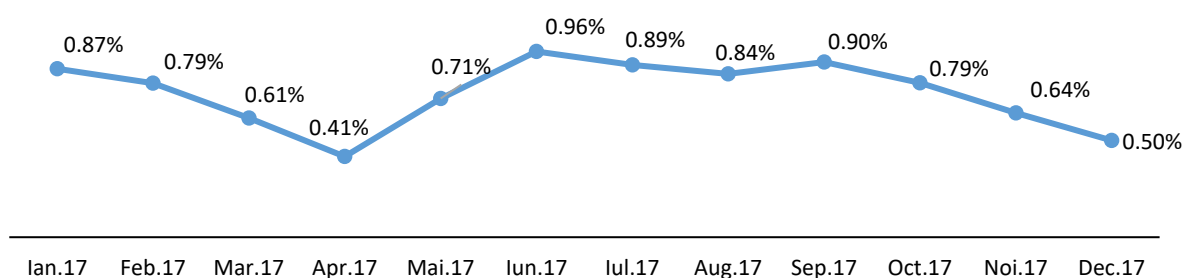
The decrease in the share of the technological consumption in total gas circulated through the NTS, from 1,17% in 2013 to 0,89% in 2016 and 0,73% in 2017 resulted from the coordinated efforts of the Operation and Maintenance Divisions and from proper technical measures.

The evolution of the technological consumption share in the total circulated gas for the period **2013–2017** is as follows:

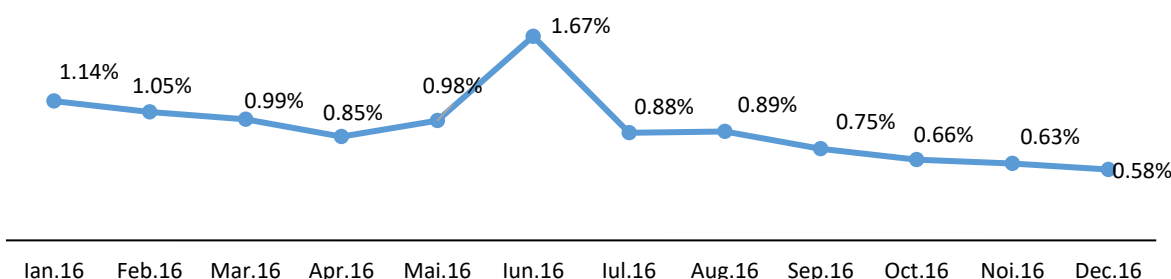


**Chart 39-** The evolution of the technological consumption share in the total circulated gas for the period **2013-2017**

The evolution of the technological consumption share in the total circulated gas for **2017** as opposed to **2016** is as follows:



**Chart 16-** The technological consumption share in the total circulated gas for **-2017**



**Chart 41-** The technological consumption share in the total circulated gas for -2016

### 7.1.2 International natural gas transmission

The international gas transmission activity is performed by Transgaz based on gas transmission system operation licence no. 1933/20.12.2013, issued by the National Energy Regulatory Authority (ANRE), valid until 08.07.2032..

At present, the international gas transmission activity is performed in the south-east of the country (Dobrogea) where the Romanian section of pipelines existing between Isaccea and Negru Vodă is included in the Balkan corridor for international gas transmission from the Russian Federation to Bulgaria, Turkey, Greece and Macedonia .

Along the mentioned corridor, in the North of Isaccea, there are 3 interconnections with the international gas transmission pipelines from Ukraine and in the South of Negru Vodă - 3 interconnections with the international gas transmission pipelines from Bulgaria.



**Fig. 12-** International gas transmission pipelines

The international gas transmission is performed by dedicated pipelines which are not connected to the National Transmission System:

- The international gas transmission pipeline in the UA-RO-BG (LINE I) direction, with the following features: DN 1000, L = 183,5 km and technical capacity = 6,1 bcm/year;
- Two international gas transmission pipelines in the UA-RO-BG-TK-GR direction (LINE II and LINE III) each having the following features: DN 1200, L = 186 km and technical capacity = 9,6 bscm/year (LINE II) and DN 1200, L=183,5 km and 9,7 bscm/year (LINE III).

As of the gas year 2016 – 2017, the allocation of the T1 pipeline capacity is performed by auction, according to the applicable European regulations, the transmission contracts being according to ANRE Order 34/2016. Transmission through the T2 and T3 pipelines is not compliant with the European

regulations on third party access, but with government agreements and contracts concluded with Gazprom Export.

The regulation of this situation is a complex process mainly because of some factors outside of Transgaz' control. Nevertheless, our Company intends to solve all issues and to comply with the provisions of the European regulatory framework.

### 7.1.3 The dispatching activity

In 2017, as a result of the actions taken in the field of the operation activity within the **National Gas Dispatching Centre** a series of steps were taken, as follows:

- the analysis of 52 solutions for third party power supplying from the NTS in terms of available transmission capacity and the pressure regime to be achieved without jeopardizing the NTS integrity;
- preparation of 38 access files to NTS for capacity requests for which the access conditions to NTS were met;
- checking of 21 design themes and technical sheets prepared by the Maintenance Operation Division;
- checking and approving 616 manoeuvre sheets prepared by the regional offices;
- checking and approving 21 work programmes regarding the internal cleaning and inspection of the main pipelines, prepared by the Maintenance Operation Division;
- continuous updating of NTS topology and NTS's SIMONE model, taking into account changes in the transmission infrastructure in order to preserve the accuracy of LP-NTS calculations; 66 topology update requests were received, and all of them were completed;
- keeping records of third party works regarding the NTS for pipeline relocations/deviations;
- publishing on the TRANSGAZ website of the limitation and interruption of the transmission services and informing the network users about such limitation and interruption by electronic mail, in accordance with the requirements of the Network Code, of the Performance Standard;
- determining and reporting the performance indicators for the gas year 2016-2017, according to the requirements of ANRE Order 161/26.11.2015 on the approval of the performance standard;
- updating the calculation of the N-1 formula for Romania;
- determining and analyzing the necessary transmission regime to ensure a safe and economic operation of NTS transmission directions during the cold season and warm season using the SIMONE program;
- participation in meetings of the interdisciplinary working group for the implementation of Black Sea PMU projects and analysis of the relevant problems within its competence;
- participation in the joint working groups of ANRE-TRANSGAZ for the preparation of the reference tariff methodology based on the distance weighted capacity, preparation of the working method for determining the matrix of the relevant gas flows;
- weekly participation, during November-March, in the meetings of the Winter energy headquarters organized by the General Energy Division within the Ministry of Energy where the situation to date of the National Energy System and of the National Gas Transmission System;
- managing the database (electronically) including the technological schemes of the NTS and its related facilities, as well as checking the updating of these schemes by the regional offices;
- organization and monitoring together with DTIC of the personnel training within the Regional offices for the redrawing in a unitary format of the technological schemes;
- analysis of the calculation of natural gas loss related to scheduled and unscheduled works (including technical accidents caused by third parties) regarding the NTS and checking the records of the technological consumption determined on the basis of the reports drawn up by the regional offices; for a more efficient verification the harmonization of these reports is in progress;

- unitary use of the <Determination Methodology and the software for calculating the technological consumptions and natural gas loss related to the execution of the works and the technical damages regarding the NTS> at Transgaz level;
- daily determination of the LP on the SNT, at even hours, by the SIMONE hydraulic calculation program, based on the pressures and temperatures of the NTS gas for the evaluation of NTS compliance with the set operating limits, including the LP at 06 hour used to close the balancing commercial equation of NTS); publishing of LP on Transgaz' website; as of 1 October 2017 the calculation and the publication of the LP on Transgaz' website is performed on hourly basis;
- the preparation of the table for the calculation of the daily operative balance in the NTS areas which are delimited by the ultrasonic meters mounted in the technological nodes;
- analysis of the functionalities of the weather portal and its improval in cooperation with DTIC;
- preparation and completion of the working instruction on the monitoring of the status of the valves from the NTS;
- preparation of the flow diagram and of the procedure for the determination of the LP in the NTS; both documents were sent for verification in order for them to be endorsed;
- preparation of the NTS dispatching procedure, sending it for verification and approval to the Quality Management Department;
- NTS dispatching under safety and efficiency conditions;
- Submission of operative daily information of the NTS condition: NTS state report, Operative information including the consumption forecast per 3 days; short term forecasts, 2, respectively 4 days of gas consumption ensured through the NTS;
- Hourly monitoring of the gas quality parameters at the main commercial panels for the entry/exit in/out of the NTS and the information of Transgaz' management.
- Monitoring the development of the NTS maintenance works according to the maneouvers report;
- Coordination of the activity performed within the Regional Dispatching Centres within the Regional Offices;
- Updating the documents of the internal/managerial control system;
- Preparing the monthly report for the management BOARD;
- Weekly information of Transgaz' management.

The gas quantity transmitted through the international transmission pipelines during 01.01-31.12.2017 is of **19,412,881.243 thousand cm (207.683.953,894 MWh)**.

The activity of the Natural Gas Market Operator Division is presented in **Annex 5**.

## 7.2 Analysis of the development, repairs and rehabilitation activity

### 7.2.1 The main components of the NTS infrastructure

The main components of the National Gas Transmission System as at 31.12.2017 are:

Name of NTS objective/component	U.M.	Value
Transmission pipelines and connections of gas supply, of which international transmission pipelines	km	13.350 553
Metering regulating stations (MRS) in operation	pc	1.126 (1.233 metering directions)
Valve control stations (VCS, NT)	pc	58
Import gas measuring stations (GMS)	pc	6
Metering stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	3
Cathode protection stations (CPS)	pc	1.042
Gas odorization stations (GOS)	pc	872

Table 40-Main NTS components as at 31.12.2017

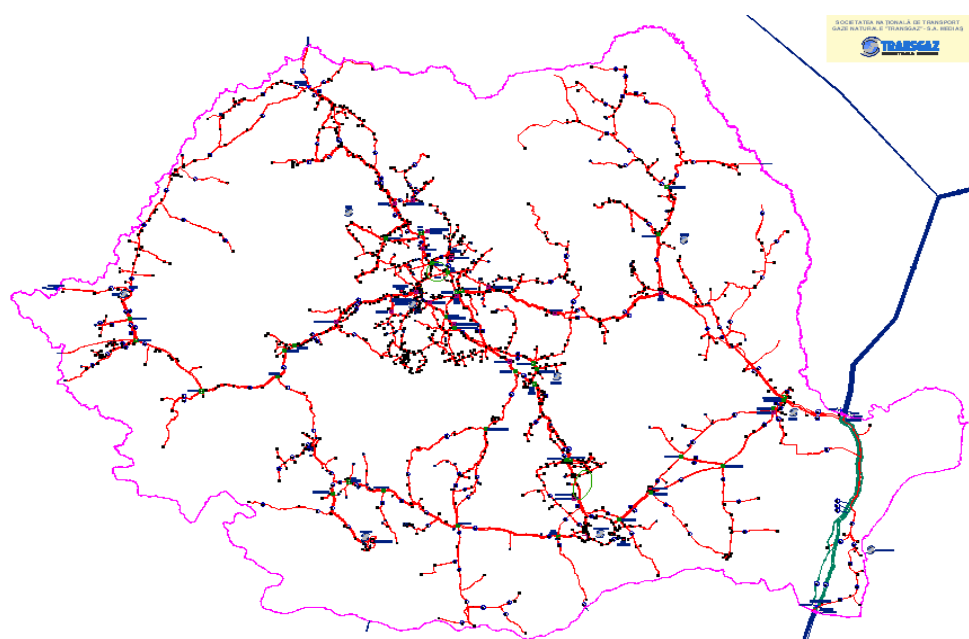


Fig. 13- Map of the Natural Gas Transmission System

The National Transmission System (NTS) has coverage across the entire national territory and has a radial-ring structure.

The gas transmission and transit capacity is provided through a network of pipelines and supply connections with diameters between 50 mm and 1200 mm at pressures between 6 bar and 40 bar, with the exception of international transmission (63 bar).

## Description and analysis of the degree of wear of the NTS components

An analysis of the main objectives belonging to the NTS in terms of service life is shown in the table below:

Service life	Transmission pipelines (km)	Supply fittings (km)	Number of Directions for Metering Regulating Stations
> 40 years	6.397	339	141
Between 30 and 40 years	1.996	133	61
Between 20 and 30 years	689	220	164
Between 10 and 20 years	1.723	931	610
< 10 years	757	165	257
TOTAL	11.562	1.788	1.126 MRSs (1.233 metering directions)
	13.350		

Table 41- Main components of the NTS as at 31.12.2017, in terms of service life

It may be noticed that out of the **13.350 km** gas transmission pipelines in operation, about **72% have an effective service life higher than 20 years**, close to their normal service life.

The inspections performed until 2017 by intelligent PIG for about **2,495 km (3.808 km** taking into account multiple inspections) reveal high levels of pipe material defects, mainly due to the great duration of the operation of the pipelines.

In 2017 intelligent PIG inspections were performed for 218 km pipelines. Pipe cleaning was performed to **1.943 km**.

79,5% of the gas transmission pipelines are insulated according to a system based on bitumen which is currently outdated and leads to the increase of the power consumption registered in the **1.042** cathode protection stations of the pipelines.

Approximately **96%** of the pipelines and fittings that are in use have cathodic protection. In 2017 intensive metering were performed for **220,6 km** of pipelines.

The gas delivery to the distributors and end users is performed by the **1.233 MRSs** (metering directions), **45 MRSs** (metering directions) being temporarily inactive /in preservation.

MRSs are included in the upgrading/rehabilitation programs to be integrated into the SCADA automatic control and monitoring system. Of the **1.233 MRSs** (consumption directions) in operation in the first stage, a total of **948** are considered for the implementation of the SCADA system.

The *compression capability* is provided by 3 gas compressor stations, placed on the main transmission directions. In 2017 repair works to the compressors, checking of the vibrations, valves regulation and revisions to the air instruments at the Sinca TCS. The Technical Specifications were submitted to the Sectoral procurement Division for the promotion of the repairs services foreseen in the PRRASM.

For the Siliştea TCS the service contract was completed for the revision and repair works at the vibration monitoring systems from the compressor groups Solar 1 și 2. Checks and calibrations to automation systems at all compression stations were performed.

*Gas dispatching* in the NTS is performed by manoeuvres carried out in the interconnection nodes of the main transmission pipelines. Most nodes are equipped mainly with manually operated manoeuvre valves and equipment for tracking parameters, most of which are out-dated in terms of performance and operation safety.

From the existing technological nodes about 20% are new or rehabilitated.

During the implementation of the SCADA system, the process of upgrading the technological nodes will continue.

*Gas odorization* is ensured by a number of **872** odorization facilities of which **546** systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas. Of the **546** modern systems, a total of **28** are centralized - serving several delivery points. The other **326** 'evaporation/drip' type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or overodorization and thus to an increased consumption of odorant. Out of these **15** facilities are centralized.

In 2017 a number of 7 old odorisation facilities were replaced with automatic machines and the procedure for the procurement of another **121** automatic odorization facilities was finalized, of which 37 were delivered, the rest of them are planned to be delivered in the first quarter of 2018.

It should be stressed however that although the infrastructure is quite out-dated, the technical condition of the NTS is maintained at an appropriate level due to the fact that the operation is carried out based on a predominantly preventive planned and corrective maintenance system and based on some upgrading programs.

These programs are based on the Technical Rules on the maintenance of the NTS as they are carried out on a longer period of time due to their high levels.

### **Cross-border interconnection points**

Currently, the import/export of natural gas to/from Romania is achieved by 5 cross-border interconnection pipelines:

Cross-border interconnection pipeline features	
UKRAINE	Orlovka (UA)–Isaccea (RO) - DN 1000, Capacity 8.6 bcma, P <sub>max</sub> =55 bar
	Tekovo (UA)–Medieşu Aurit (RO) - DN 700, Capacity =4.0 bcma, P <sub>max</sub> =70 bar
HUNGARY	Szeged (HU)–Arad(RO)–Csanadpalota - DN 700, Capacity =1.75 bcma, P <sub>max</sub> = 63 bar
REPUBLIC OF MOLDOVA	Ungheni (MO) – Iași (RO) - DN 500, Capacity =1.5 bcma, P <sub>max</sub> =50 bar
BULGARIA	Ruse (BG)–Giurgiu (RO) - DN 500, Capacity =1.5 bcma P <sub>max</sub> =40 bar

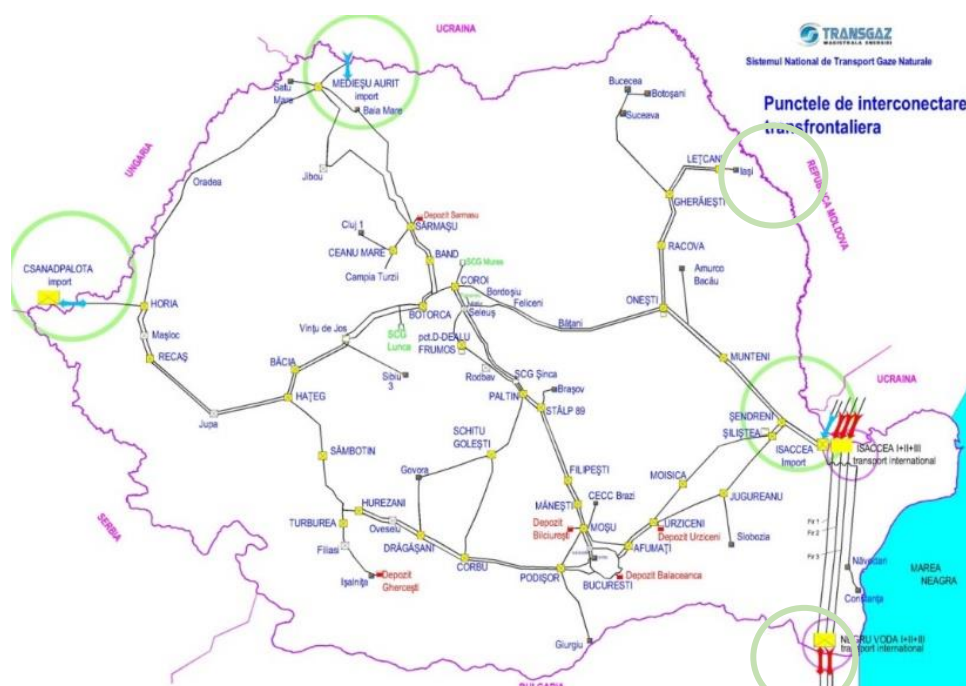


Fig. 14-Punctele de interconectare transfrontaliară ale SNT

## 7.2.2 Investments made in 2017 versus Scheduled Investments in 2017

### Modernization and Investment Development Program

For the year 2017 the evolution of PMDI achievements is:

(K LEI)						
PMDI (K LEI)	Budget 2017	Achieved 3 months 2017	Achieved 6 months 2017	Achieved 9 months 2017	Achieved 2017	%
Pipeline investments	291.797	1.648	4.227	6.285	27.817	9,53%
Other investments (SC,SRM,SPC,NT,etc)	207.523	6.401	10.096	16.971	38.329	18,5%
NTS access works	6.000	45	1.057	2.428	4.084	68%
<b>TOTAL</b>	<b>505.320</b>	<b>8.094</b>	<b>15.380</b>	<b>25.684</b>	<b>70.231</b>	<b>13,9%</b>

Table 42- Status of PMDI achievements in 2017

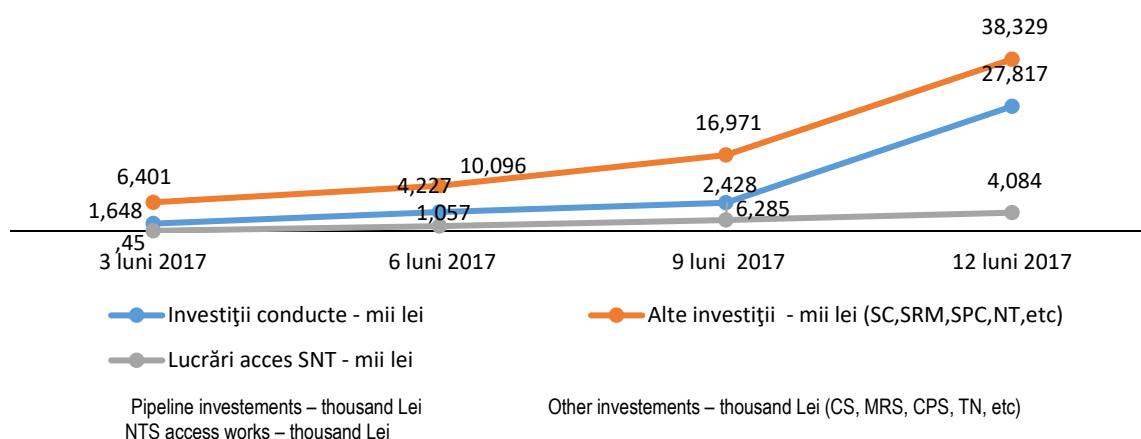


Chart 42-The evolution of investments in 2017 by categories

The investment activity in 2017 was mainly directed towards the modernization and development of the NTS in order to improve the efficiency and increase its capacity, and to develop new consumption areas.

The value of the Investment Program for 2017, approved in the 2017 income and expenditure budget, is **LEI 505,320,705**.

The value of the achievements at the end of 2017 is of **LEI 70.230.814**, which also includes the sum of **LEI 4,084,159**, representing the value of the works for connection to NTS of new consumers, made on the basis of the NTS access regulation approved by GD no.1043/2004, out of which **LEI 3,628,725** from the funds allocated through the modernization and development program and **LEI 455,434** representing the tariff for connection to NTS.

The level of achievement of the modernization and investment development program at the end of 2017 is shown in the table below:

Chap.	Work category	Plan 2017	Achieved 2017	%
		Value (thousand lei)	Value (thousand lei)	
0	1	2	3	4=3/2*100
<b>Chap. A</b>	<b>NTS Modernization and development works</b>	<b>394.246</b>	<b>45.095</b>	<b>11,3%</b>
<b>1.</b>	<b>Modernization and upgrading of the National Gas Transmission System</b>	<b>15.748</b>	<b>-1.685</b>	<b>-10,70%</b>
1.1.	Modernization of technological installations related to the National Gas Transmission System (SRM, SCV, PM, NT)	13.733	-1.827	-13.30%
1.2.	Data Order Acquisition System	2.015	142	7,05%
<b>2.</b>	<b>Development of the National Gas Transmission System and associated facilities</b>	<b>378.498</b>	<b>46.517</b>	<b>12,29%</b>
2.1.	Natural gas pipelines	95.380	20.122	21,10%
2.2.	Increasing transport capacity	193.557	7.695	3,98%
2.3.	Construction and surface installations works for adjustment and measuring stations	46.337	3.811	8,22%
2.4.	Cathodic protection stations	152	125	82,24%

2.5.	Information technology and telecommunication installations	29.874	13.505	45,21%
2.6.	Construction and surface installations works for odorization stations	4.460	138	3,09%
2.7.	Works on natural gas pipelines in operation located in incident risk areas	7.738	954	12,33%
2.8.	Electrical installations and networks	1.000	167	16,7%
<b>Chap. B</b>	<b>Modernization and development works of its own assets</b>	<b>105.074</b>	<b>21.051</b>	<b>20,03%</b>
1.	Other works	42.558	191	0,45%
2.	List of machinery, equipment and endowments	62.016	20.837	33,6%
3.	Land purchases	500	23	4,6%
<b>Cap. C</b>	<b>NTS access works</b>	<b>6.000</b>	<b>4.084</b>	<b>68,07%</b>
-	Works from previous years or transferred from PRRASM	0	263	
<b>PMDI TOTAL</b>		<b>505.321</b>	<b>70.231</b>	<b>13,9%</b>
Expenditure on studies and projects		26.706	10.578	39,6%
Supply Plan – Products for Investment Works		172.114	0	0%
Other investment costs (intangible assets in execution)			14.790	
<b>TOTAL INVESTMENTS</b>		<b>704.364</b>	<b>95.599</b>	<b>13,57%</b>

Table 43-Achievement of the Investment Program in 2017

Compared to the total value of the modernization and investment development program of **LEI 505,321 K**, the total value of the achievements is of **LEI 70,443 K**, which is a **13.94%** achievement of the program.

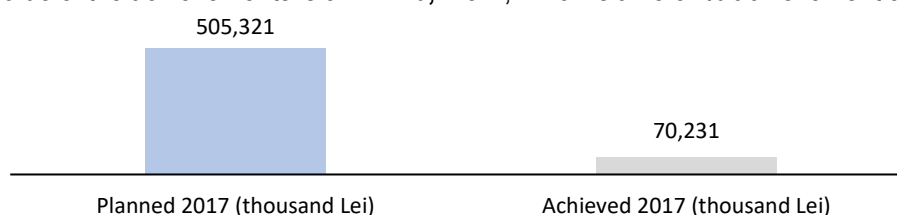


Chart 43-PMDI achievements in 2017 vs. 2017 PMDI Program

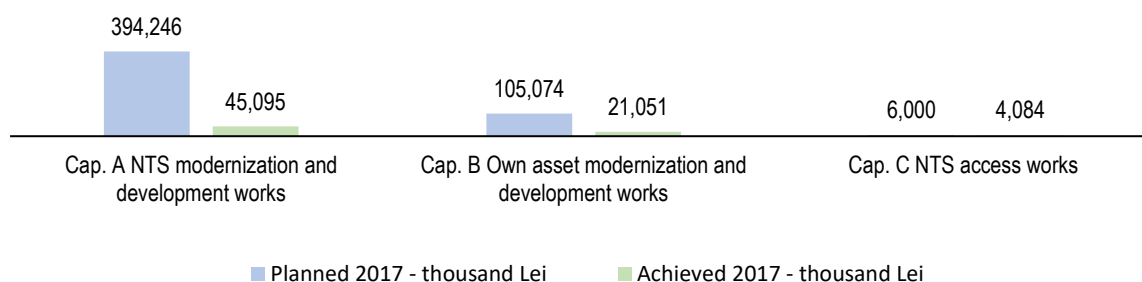


Chart 44-Achievements vs. PMDI program per chapter -2017

We mention that in PMDI 2017, funding sources were allocated for the start of projects *The development on the territory of Romania of the NTS on the BRUA corridor and the development of the NTS in the North-East of Romania in order to supply the area with natural gas, as well as the provision of transport capacities to the Republic of Moldova* in the amount of LEI 200,610 K representing 39.7% of the total program, but these projects will actually run from 2018, after the conclusion of the execution contracts.

We mention that the achievements of 2017 for these objectives represent project management expenditure.

**In order to solve the problems that occurred during the execution of the works and the achievement of the scheduled objectives, the following measures were taken:**

- for owners who have not given their consent to the access of constructors on the land, court proceedings have been initiated; in cases where no consensus was reached by court proceedings, steps were taken to start the expropriation procedures;
- in some more difficult areas, from the standpoint of obtaining consent from landowners or at the request of local governments, the decision was made to redesign the pipeline route or technical solutions to achieve the construction;
- with regard to the forest areas for which the ROMSILVA approval has not been obtained, following the modification of the legislation in the field, discussions will be resumed in order to solve the divergences that have arisen during the crossing of these areas.

The status of the investment objectives is presented in Annex 6.

### 7.2.3 Repairs made in 2017 versus Scheduled in 2017

For the year 2017 the evolution of PRRASM achievements is as follows:

PRRASM (K LEI)	Budget 2017	Achieved 3 months 2017	Achieved 6 months 2017	Achieved 9 months 2017	Achieved 12 months 2017	%
Pipeline repair and rehabilitation works	44.997	980	3.699	6.971	7.706	17 %
Other repairs and rehabilitation works (SC, SRM, SPC, NT, etc.)	4.288	39	170	394	1.135	27 %
NTS maintenance services	28.573	2.310	3.950	6.196	11.271	39,5%
<b>TOTAL</b>	<b>77.858</b>	<b>3.329</b>	<b>7.819</b>	<b>13.561</b>	<b>20.112</b>	<b>26 %</b>

Table 44- Evolution of PRRASM achievements in 2017

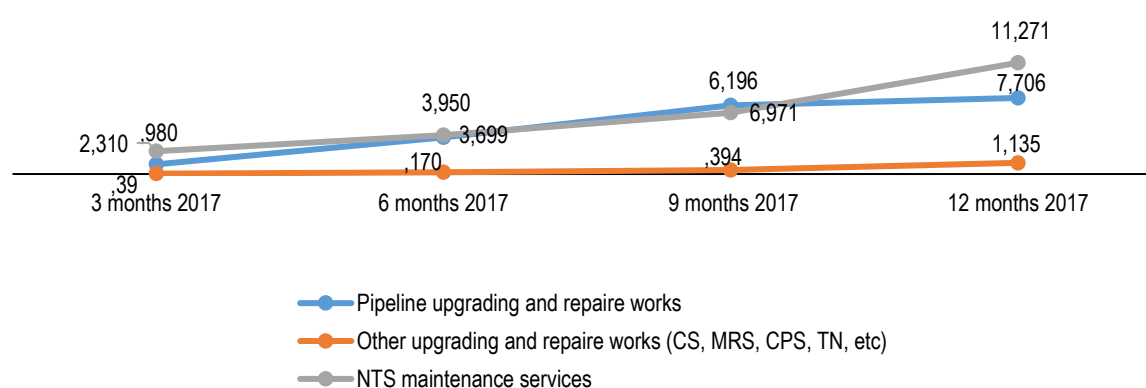


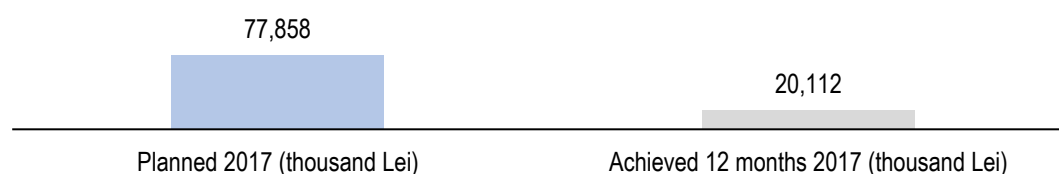
Chart 45-Evolution of repairs in 2017 by category

**Achievement of the repair, rehabilitations and NTS maintenance program in 2017 compared to the level scheduled for 2017 is as follows:**

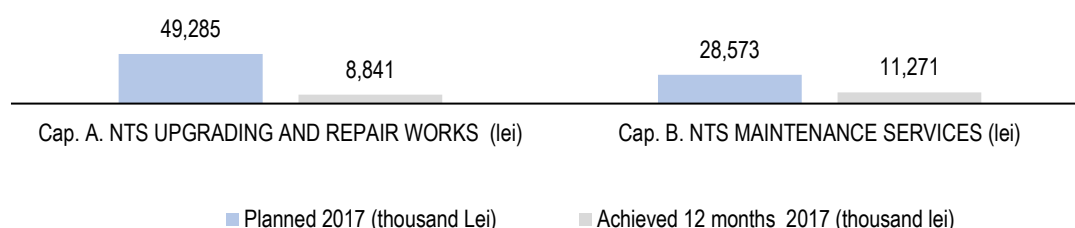
No.	Chapter title	2017 Program (lei thousand)	Achievements 2017 (lei thousand)	%
0	1	2	3	4=3/2*100
<b>Ch. A. NTS REPAIR AND REHABILITATION WORKS (LEI)</b>				
1	Scheduled main pipeline repairs	44.997	7.706	17 %
2	Rehabilitation of Adjustment and Measuring Stations (S.R.M.)	75	-	0 %
3	Rehabilitation of Technological Nodes	3	-	0 %
4	Rehabilitation of Compressor Stations	-	-	0 %
5	Special construction repairs for SRMs and SCVs	-	-	0 %
6	Rehabilitation Cathodic Protection Systems (SPC)	-	-	0 %
7	Repairs to TC installations and equipment	-	-	0 %
8	Building repairs	4.210	1.135	27 %
<b>TOTAL WORKS</b>		<b>49,285</b>	<b>8.841</b>	<b>8.841</b>
<b>Ch. B. NTS MAINTENANCE SERVICES (LEI)</b>				
<b>TOTAL SERVICES</b>		<b>28.573</b>	<b>11.271</b>	<b>39,5 %</b>
<b>TOTAL WORKS + SERVICES (third parties) PRRASM</b>		<b>77.858</b>	<b>20.112</b>	<b>26 %</b>

NOTE: The difference between the value of the repair plan and the maintenance and accounting records comes from the transfer of RK works in the investment plan, the return of material at the end of the works and the recording of some categories of expenditure in other accounts.

**Table 45-Achievement of the Repair, Rehabilitation and NTS Maintenance Program in 2017**



**Chart 46- PRRASM achievements vs PRRASM Program –2017**



**Chart 17- Achievements vs. PRRASM Program by chapters–2017**

The Repair, Rehabilitation and NTS Maintenance Program for 2017 has an allocated value of **LEI 77,858,333**, at the end of 2017 there were recorded expenditures in the amount of **LEI 20.111.797**,

representing a fulfilment of the program in a proportion of 26% which, distributed by chapters, has a percentage value of 18% for repairs and rehabilitation works and 39.5% for maintenance services.

The low values of Chapter A. "Works" are caused by the following:

- difficulties encountered in developing documentation for the promotion of procurement procedures caused by the delay in design and obtaining approvals, permits;
- difficulties in obtaining building permits from institutions and authorities;
- stagnation / termination of contracted and initiated works;
- cancellation of procurement procedures.

Some of the achievement values for the maintenance program come from the maintenance services, corrective services (repairs) and from the provision of materials and equipment for contracted works. These are services with low predictability, the budget for which is an insurer for cases of necessity. Lack of repair service requests are budget savings. The non-achievement of the Program may also be due to situations in which the contracts were concluded at lower values than those provided in the budget.

### **7.3 Economic and financial activity**

The Economic Division fulfilled its tasks, according to the Statute and the Administration Plan of the National Gas Transmission Company "TRANSGAZ" SA, regarding the preparation of the Revenue and Expense Budget (REB) in a unitary design based on the company's medium and long-term strategy and programs, on the data and information received from the Commission for the analysis of the annual draft programs, from the other departments and its own analyses and studies, as well as the substantiation of: fees for the activities performed, expenditure items and financing sources of the investment program and for the operation, maintenance, repair and rehabilitation activities. It has also provided specialized consultancy in the negotiation and conclusion of commercial contracts, agreements/conventions/contracts/agreements with foreign partners, and it participated in the negotiation of prices and tariffs for products, works and services with suppliers and beneficiaries, as a representative of the company.

The Economic Division achieved the following specific tasks and responsibilities:

- Preparation of the draft revenue and expense budget for 2018 and of the estimates for the years 2019 - 2020 according to the legal provisions in force and it submitted them to the GMS for approval;
- Substantiation of the regulated tariffs for natural gas transmission according to the regulations in force and submitted them to the National Regulatory Authority for Natural Gas for approval;
- Substantiation of the total income and of the transmission tariffs on the Isaccea - Negru Voda pipelines and its transmission for approval by the National Regulatory Authority for Natural Gas;
- Preparation, in cooperation with the other specialty departments and divisions, of estimations and financial forecasts;
- Organization and management of the accounting activity related to the monetary and asset values and of the exchange operations in lei and currency;
- Preparation of the financial statements in line with the accounting regulations in force;
- Calculation of the payment entitlements of employees in line with the provisions of the Collective Labour Agreement;

- Performance of regular analyses regarding the situation of the company's financial-economic indicators;
- Preparation of the accounting methodologies related to the activity carried out;
- Ensuring the chronological and systematic recording, processing, publication and storage of the information related to the financial standing, financial performance and cash flows both for their internal requirements and in the relations with the current and potential investors, financial and commercial creditors, clients, public institutions and other users;
- Preparation and submission within the deadline of the declarations provided for in the laws in force on tax and duties to the state budget or special funds;
- Coordination of the financial-accounting activity of the regional offices and Medias Subsidiary;
- Negotiation, conclusion and monitoring of the loan agreements;
- Preparation and submission within the deadline of the specific declarations related to duties and local tax;
- Preparation of the documentation for the binding Open season procedure carried out in the interconnection point Csanadpalota;
- Preparation of the documentation for the ongoing incremental capacity procedures in the projected entry points Vadu and Tuzla;
- In view of the fulfilment of the company's tax burdens subsequent to the establishment of Transgaz' representative office in Brussels (Representative office) it took the necessary steps for the conclusion, with KPMG Brussels, of a contract for support in the process related to the submission, by the Representative office, of the mandatory declarations, according to the Belgian law, ensuring the permanent monitoring of the tax declaration obligation of Transgaz Representative Office in Brussels

## 7.4 Support activities

### 7.4.1 Design-research activity

In 2017 design and research workshops in collaboration with the electrical design workshop and the construction-specific design workshop participated mainly in the elaboration of the strategic projects as follows:

- Technical design for: **Development on the territory of Romania of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria Corridor (BRUA) Phase 1 + Phase 2;**
- feasibility study (Revision 2) and Technical design for: **Natural gas transmission pipeline Black Sea-Podîşor;**
- feasibility study and technical design for: **Interconnection of the national gas transmission system with the T1 natural gas international transmission pipeline and Isaccea reverse flow;**
- feasibility study (Revision 2) and Technical design for: **NTS developments in the Northeast Area of Romania in order to improve the natural gas supply of the area and to ensure the transport capacity to the Republic of Moldova;**
- technical design related to the **Gas Compressor Stations in Oneşti, Bacău County and Gherăeşti, Neamţ County within the objective of NTS developments in the Northeast Area**

of Romania in order to improve the natural gas supply of the area and to ensure the transport capacity to the Republic of Moldova;

- feasibility study and technical design for: **NTS extension through the gas transmission pipeline from the Black Sea gas supply point (Vadu locality area) to the transit pipeline 1 (Grădina locality area);**
- pre-feasibility study for: **Interconnection of the national gas transmission system with the similar natural gas transmission system in Serbia;**
- Technical design for: **Modernization of SMG Isaccea 1 and SMG Negru Voda 1;**
- Technical design for: **Interconnection pipeline of the National Gas Transmission System of Romania with the Gas Transmission System of the Republic of Moldova in the direction of s. Todirești, Ungheni district–Chișinău municipality.**

Also during the year 2017, the staff from the Design-Research Workshops, Study Workshop and Electrical Installations Projects and Building Design Workshop participated in all procurement procedures and works related to the BRUA project.

The research activity was carried out according to the Annual Scientific Research, Technological Innovation and Standardization Programs approved by the decisions of the Board of Administration.

Among the completed research works we mention:

- ✓ Methodology for determining the chemical composition and calculating the physical dimensions (PCS, PCI and Wobbe figure for weighted average quality areas);
- ✓ methodology of determination and software for calculating the technological consumption and natural gas losses related to the execution of the works and the technical damages produced in the NTS;
- ✓ methodology for determination of water content in natural gas pipelines;
- ✓ a guide for establishing classes and categories of importance for NTS pipelines and components in accordance with the current legislation;
- ✓ research study on the location of natural gas pipelines in areas with possible subsidence phenomena;
- ✓ risk analysis when establishing safety distances for objectives in the vicinity of natural gas pipelines;
- ✓ check of the behavior of natural gas pipelines at seismic stresses;
- ✓ ASRO-Adoption of European and international standards and revision of original national standards;
- ✓ determination of professional effort, assessment of work capacity and professional fatigue during physical, neuro-psychological and sensory stress; the expertise of the workplaces and of persons who work under difficult, dangerous, harmful or noxious conditions.

Evolution of the number of design works approached and approved in the TEC during 2013-2017:

	2013	2014	2015	2016	2017
No. of projects approved by the TEC	80	165	161	77	49
No. of ongoing projects	113	132	218	218	204
Total no. of projects	193	297	379	295	253

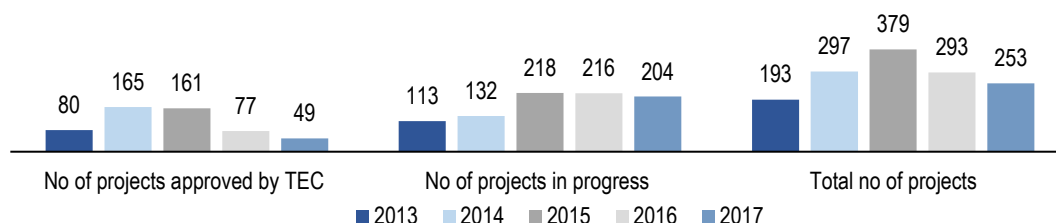


Chart 48-Evolution of the number of design works approached and approved in the Transgaz TEC during 2013-2017:

### Scientific research activity

It was conducted according to the **Scientific Research, Technological Innovation and Standardization Program for 2017**. It comprises 10 research themes, of which 9 themes will continue in 2016.

In 2017, the last three stages of a research work were approved in the TEC, with a total value of LEI 128,918.67.

### Implementation of the design program and research program

For the **Design Program of S.N.T.G.N. Transgaz S.A.** in 2017, a value of **LEI 36,542,799** was budgeted, out of which an actual projection of **LEI 28,749,299**. The difference between the total and the actual design, are guarantees for removing the affected plots from the agricultural circuit.

The actual design **achievement rate** in 2017 was **36.33%**.

The **research program of S.N.T.G.N. Transgaz S.A.** in 2017 has a budgeted value of **LEI 3,427,300**. The **degree of achievement** of this program over the period Jan 01, .2017- Dec 31, 2017 was **3.82%**.

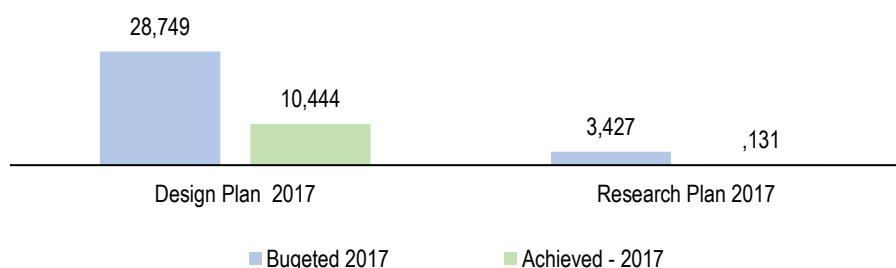


Chart 49-Design and Research Program achievements in 2017

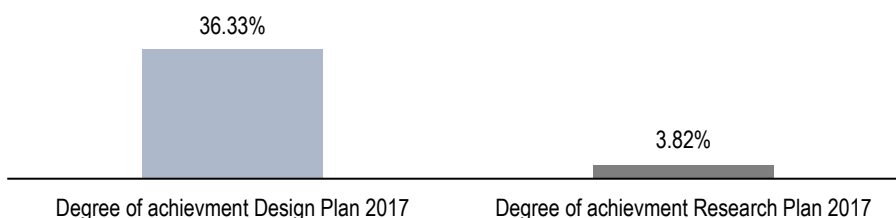


Chart 50-Degree of achievement of the Design and Research Programs in 2017

#### Other activities carried out by the staff of the department:

- elaboration of technical specifications for the conclusion of framework agreements, subcontracts and other contracts necessary for the design activity such as geotechnical studies, hydrological studies, railway subcrossing, OSPA studies, archeology services and others;
- participation in the evaluation of offers for the purchase of services and works both for the projects developed within the department and for those elaborated by third parties;
- participation in the BRUA project with staff within the department for the evaluation of offers for the purchase of tubular and curved material, taps, insulating joints and purchase of compressor groups for the three compressor stations;
- verifying / issuing viewpoints for projects developed by third-party companies;
- providing technical assistance for work in progress;
- drawing up 8 risk analyses for projects under development by third-party companies;
- drawing up and tracking the achievements of the design and research programs of SNTGN Transgaz;
- participation in progress meetings on the elaboration of the Easting Feasibility Study.

#### 7.4.2 Purchasing and contracting activity

The procurement for ensuring the technical-material basis is based on firm contracts or orders, in compliance with the legislation in force, both on the domestic and import markets.

The evolution of purchases over the period 2013-2017 is presented in the following table:

Schedule (physical)	2013	2014	2015	2016	2017
<b>PROCEDURES</b>					
<b>Total pos. out of which:</b>		<b>304</b>	<b>347</b>	<b>473</b>	<b>549</b>
- started (published)		37	43	77	92
- achieved	192	154	180	166	228
- not started (under preparation at DASC)		6	26	30	54
- not requested		107	98	200	175
<b>DIRECT PURCHASES</b>					
<b>Total pos. out of which:</b>		<b>655</b>	<b>690</b>	<b>551</b>	<b>443</b>
- started		3	14	12	30
- achieved	369	457	510	440	330
- not started		0	6	4	7
- not requested		195	160	95	76

Schedule (values) - LEI	2013	2014	2015	2016	2017
<b>PROCEDURES</b>					
<b>Total LEI out of which:</b>		1,251,347,414	1,202,731,589	1,379,050,096.77	1,380,851,483.19
- started		174,095,153	144,056,994	158,056,964.14	88,194,149.52
- achieved	215,583,989	252,251,647	328,665,098	276,805,571.68	360,788,377.73
- not started		3,500,687	134,633,996	77,909,472.90	425,697,724.35
- not requested		644,616,305	520,819,792	739,526,728.13	426,637,284.91
<b>DIRECT PURCHASES</b>					
<b>Total LEI out of which:</b>		26,500,329.00	26,514,121	29,518,061.69	23,482,170.64
- started		97,200.00	602,237	997,647.68	2,179,399.85
- achieved	7,474,059	9,839,700.98	13,222,877	11,142,638.76	7,740,644.98
- not started		0.00	309,180	388,037.26	466,310.00
- not requested		9,817,045.00	6,117,103	6,637,653.78	9,864,940.91

Upon the **substantiation of PAAS 2017** the works, products and services needed were taken into account as included in the **Repair, Rehabilitation and Maintenance Service Program, the Design Program, the Research Program, and the Program on Other Services Performed by Third Parties** in the form approved by Board of Administration Decision no. 49/20.12.2016, respectively the **Modernization, Investment Development Program and Supply Program**-programs approved by Board of Administration Decision no. 1/12.01.2017.

The program includes **all the contracts / framework agreements** that SNTGN Transgaz S.A. Mediaș intends to **award / conclude in 2017**. Also, **procedures started in 2016**, which were **not granted / not completed** by the end of the year, were taken over in the 2017 program, with the indication that they have been **in progress since the previous years**.

The total value of the **Sectoral Procurement Annual Program for 2017**, originally approved on January 30, 2017, was **LEI 3,060,351,866.56** out of which **LEI 1,887,726,368.00** related to the investment **DEVELOPMENT ON THE TERRITORY OF ROMANIA OF THE NTS ON THE BULGARIA-ROMANIA-HUNGARY -AUSTRIA CORRIDOR (PHASE 1) - (PASS 2017 for BRUA-PHASE 1)**.

Following the 13 revisions / updates of the **Sectoral Procurement Annual Program for 2017**, which became necessary as a result of the revision of the execution programs underlying the B.V.C. substantiation, the total value of the **Sectoral Procurement Annual Program for 2017** was **LEI 3,289,410,379.83** out of which **LEI 1,404,333,653.83** for the **Sectoral Procurement Annual Program (PAAS 2017)** and **LEI 1,885,076,726.00** for the **Sectoral Procurement Annual Program for the DEVELOPMENT ON THE TERRITORY OF ROMANIA OF THE NTS ON THE BULGARIA-ROMANIA-HUNGARY -AUSTRIA CORRIDOR (PHASE 1) - (PASS 2017 for BRUA-PHASE 1)**.

## PROCUREMENT PROCEDURES:

Based on those provided in P.A.A.S. 2017 (updated procedures), respectively **549 active positions**, following the requests of the departments / directorates / services concerned, 320 procedures were initiated, out of which 228 were completed, and 92 procedures are ongoing, at different stages.

In addition, a total of 54 procedures are currently not started, with documentations submitted to DASC, and up to the total of the active positions in the program **175 positions are not requested by interested departments / directorates/ services** (representing **31,38%**).

**From the physical standpoint** of the total number of procedures provided in the updated P.A.A.S. the **percentage of achievement is 41.53%** and from a value standpoint, the achievement is 26,13% (value achieved relative to the total estimated value). Regarding the percentage, the 54 non-started procedures are 9.84% of the total positions in the plan.

Schematically, the status of the procurement procedures is as follows:

Procedure Schedule (physical)		
Total pos. on Dec. 31, 2017 out of which:	<b>549</b>	% achievement of PAAS (Procedures section)
- started	92	16.76%
- achieved	228	41.53%
- not started	54	9.84%
- not requested	175	31.88%

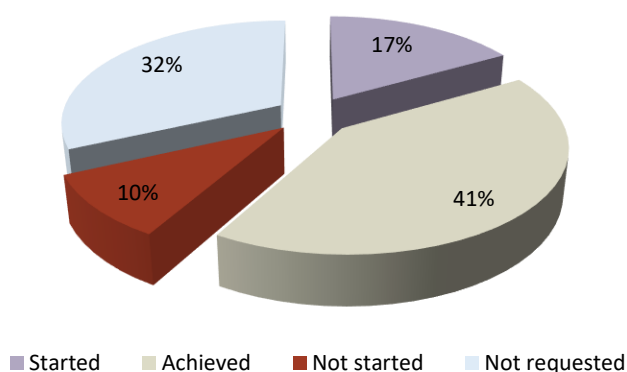


Chart 51-Status of procurement procedures-2017

Procedure Schedule (values) - LEI		
Total value on Dec. 31, 2017 out of which:	1,380,851,483.19	% achievement of PAAS (Procedures section)
- started	88,194,149.52	6.39%
- achieved	360,788,377.73	26.13%
- not started (under preparation at DASC)	425,697,724.35	30.83%
- not requested	426,637,284.91	30.90%

NOTE: The percentage for the achieved procedures is the final value achieved in relation to the total estimated value; and for the ones started but not finished and for the non-started ones their estimated value is based on the total estimated value (therefore the sum of the percentages is less than 100% for the value differences from the estimated values to the adjudicated values).

For the 228 positions in the PAAS, procedure section, the status of the achievements against the estimated values only is presented according to the following table:

No. of positions in PAAS	Estimated value	Achieved value	%
228	440,822,324.41	360,788,377.73	81.84

The **total status of contracts concluded** (including the subsequent contracts awarded under the framework agreements) is presented schematically in the following table:

Contract type	Total contract value (LEI excluding VAT)	Number of contracts / framework agreements awarded	Of which number of subsequent contracts	Value of subsequent contracts (LEI excluding VAT)	Values of achievements in PAAS (LEI excluding VAT)
Works contracts	86,249,578.91	30	0	0.00	86,249,578.91
Service contracts	146,044,022.09	179	80	33,781,142.35	112,262,879.74
Product contracts	166,354,891.38	112	9	4,078,972.30	162,275,919.08
<b>TOTAL CONTRACTS</b>	<b>398,648,492.38</b>	<b>321</b>	<b>89</b>	<b>37,860,114.65</b>	<b>360,788,377.73</b>

Table 46-Status of contracts concluded by procurement procedures in 2017

## **DIRECT PURCHASES**

Based on those provided in the updated P.A.A.S. out **443 active positions**, **360 direct purchases** were initiated following the requests of the departments / directorates / services concerned, of which **330 direct purchases were completed** and up to the total number of active positions in the program **76 positions are not requested by the departments / directorates / services concerned** (representing 17.16%).

From the **physical standpoint** of the total number of direct purchases in the approved program, the percentage of achievement of the direct purchases is 74.49% and the value is 32.96% (value achieved in relation to the total estimated value).

Direct purchases schedule (physical)		
Total pos. on Dec. 31, 2017 out of which:	<b>443</b>	% achievement of direct procurement;
- started	30	6.77%
- achieved	330	74.49%
- not started	7	1.58%
- not requested	76	17.16%

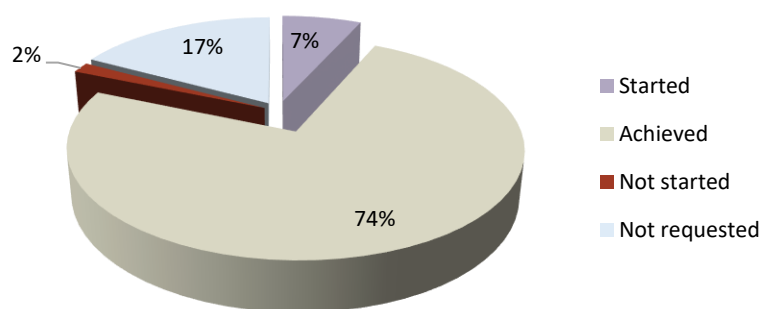


Chart 52-Status of direct purchases on Dec. 31, 2017

Direct purchases schedule (value)		
Total value on Dec. 31, 2017 out of which:	23,482,170.64	% achievement of direct procurement;
- started	2,179,399.85	9.28%
- partially achieved	7,740,644.98	32.96%
- not started	466,310.00	1.99%
- not requested	9,864,940.91	42.01%

NOTE: The percentage for the achieved direct purchases is the final value achieved in relation to the total estimated value; and for the ones started but not finished and for the non-started ones their estimated value is based on the total estimated value (therefore the sum of the percentages is less than 100% for the value differences from the estimated values to the adjudicated values).

For the 320 positions in P.A.A.S. Direct Purchases the achievement status against the estimated values only is presented according to the following table:

No. of positions in PAAS	Estimated value	Achieved value	%
330	10,971,519.99	7,740,644.98	70.55

### Status schedule of direct purchases

Based on those provided in the updated P.A.A.S. and following the requests of the departments / directorates / services concerned between Jan 04 and Dec 31, 2017 they are presented schematically in the following table:

Type Contract	Total value of contracts/ Orders	No. of direct purchase contracts	Value of direct purchase contracts	No. of direct purchase orders	Value of direct purchase orders	Value of purchases that are not included in Appendix 1-AD	No. of orders in supply program	Value of supply program	Values of achievements in Appendix 1-AD
	(LEI excluding VAT)		(LEI excluding VAT)		(LEI excluding VAT)	(LEI excluding VAT)		(LEI excluding VAT)	(LEI excluding VAT)
Works	2,307,002.92	19	2,290,948.13	4	16,054.79	0.00	0	0.00	2,307,002.92
Services	2,580,782.17	77	2,359,953.45	40	206,033.55	417.60	3	14,795.17	2,580,364.57
Products	2,858,781.05	11	82,353.56	104	1,159,199.62	5,503.56	93	1,617,227.87	2,853,277.49
TOTAL CONTRACTS	7,746,566.14	107	4,733,255.14	148	1,381,287.96	5,921.16	96	1,632,023.04	7,740,644.98

Table 47-Status of contracts concluded by direct purchases during the period Jan 04-Dec 31, 2017

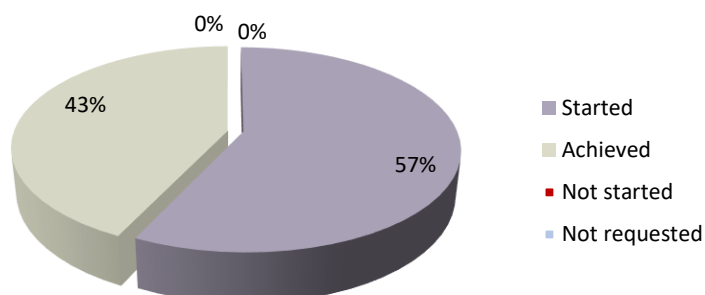
## **PROCUREMENT PROCEDURES-PAAS 2017 (for BRUA-PHASE1)**

Based on those provided in P.A.A.S. 2017 (for BRUA-PHASE 1) - procedure section, updated - respectively **7 active positions**, following the requests of the departments/directorates/services concerned, 7 procedures were initiated, out of which 3 were completed, and 4 procedures are being started, ongoing, or at different stages. From PAAS 2017 (for BRUA-PHASE 1) there are no unrequested positions.

From a physical standpoint, the total number of procedures provided in P.A.A.S. 2017 (for BRUA-PHASE 1) - the actual percentage is 42.86%, and from a value standpoint the achievement degree is 32.10% (value achieved relative to the total estimated value) - according to the details contained in this information.

Schematically, the status of the procurement procedures is as follows:

<b>Procedure schedule PAAS - for BRUA - PHASE 1 (physical)</b>		
<b>Total pos. on Dec. 31, 2017 out of which:</b>	<b>7</b>	<b>% achievement of procedures</b>
- started	4	57.14%
- achieved	3	42.86%
- not started	0	0.00%
- not requested	0	0.00%



*Chart 53-Status of PAAS procedures for BRUA - PHASE 1 on Dec. 31, 2017*

<b>Procedure schedule PAAS - for BRUA - PHASE 1 (value)</b>		
<b>Total value on Dec. 31, 2017 out of which:</b>	<b>1,885,076,726.00</b>	<b>% achievement of procedures</b>
- started	1,652,325,726.00	87.65%
- partially achieved	605,069,874.62	32.10%
- not started	0.00	0.00%
- not requested	0.00	0.00%

NOTE- The percentage for the achieved procedures is the final value achieved in relation to the total estimated value; and for the ones started but not finished and for the non-started ones their estimated value is based on the total estimated value (therefore the sum of the percentages is less than 100% for the value differences from the estimated values to the adjudicated values).

For the 3 positions in the PAAS, for BRUA-PHASE 1, the status of the achievements against the estimated values only is presented according to the following table:

No. of positions in PAAS for BRUA Phase 1	Estimated value	Achieved value	%
3	734,043,000	605,069,874.62	82.43

The total status of contracts concluded for for PAAS 2017 (for BRUA-PHASE 1) is presented schematically in the following table:

BRUA Contract type	BRUA Total value contracts/Orders	BRUA Number of contracts / framework agreements awarded	BRUA Value of achievements in PAAS 2017 for BRUA-PHASE 1
	(LEI excluding VAT)		(LEI excluding VAT)
Works	429,048,197.66	1	429,048,198
Services	0.00	-	0
Products	176,021,676.96	2	176,021,676.96
<b>TOTAL CONTRACTS</b>	<b>605,069,874.62</b>	<b>2</b>	<b>605,069,874.62</b>

Table 48-Status of contracts concluded for the BRUA project during the period Jan 04-Dec 31, 2017

### 7.4.3 Acquisitions and disposals of assets

With the exception of the acquisition of assets necessary for the development and conduct of the activity, as well as of those decommissioned under the law, the company did not register other operations of this kind in 2017.

### 7.4.4 Legal activity

The evolution of the number of favourable, unfavourable and ongoing litigations in the period 2013-2017:

Litigations	2013	2014	2015	2016	2017
Favourable*	32	40	25	12	13
Unfavourable*	11	12	3	5	7
Ongoing	30	48	61	129	96

\*The litigations mentioned in the situation with favourable / unfavourable decisions include both completed files and cases still pending in the appeal / recourse courts.

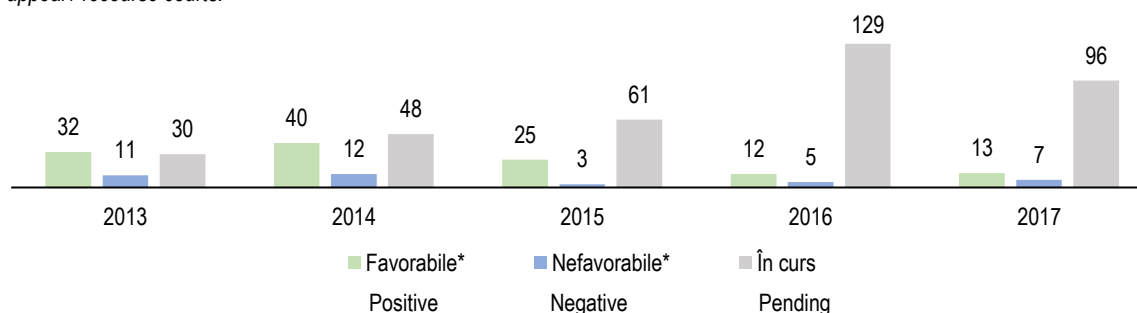


Chart 54-Evolution of number of litigations according to decisions during 2013-2017

Total litigations registered at SNTGN Transgaz SA Mediaș during 2013-2017:

Litigations	2013	2014	2015	2016	2017
<b>TOTAL</b>	73	100	89	146	116

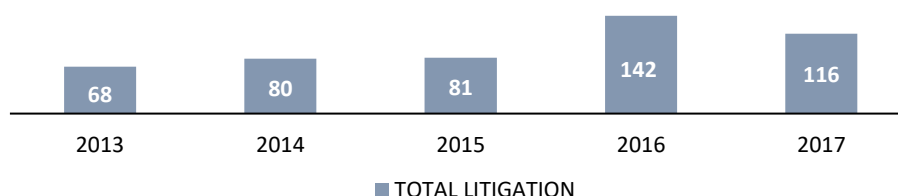


Chart 55-Development of the number of litigations in 2013-2017

According to the record of litigations kept by the Legal and Contentious Service, in 2017 **116 litigations** were registered in which Transgaz was both plaintiff and defendant:

- **70 litigations** as plaintiff;
- **46 litigations** as defendant.

#### Decisions:

- **13 decisions favourable to Transgaz** (definitive court decisions)
- **7 decisions unfavourable to Transgaz (one definitive court decision)**
- **96 ongoing litigations.**

#### Values:

- Value of litigations where Transgaz is the plaintiff: **LEI 27,172,987.51**
- Value of litigations where Transgaz is the defendant: **LEI 12,119,830.35 and EUR 551,507.26**



Chart 56-Structure and number of litigation cases in which the company was involved in 2017

The detailed legal activity for 2017 is presented in **Appendix 7**.

## 7.4.5 Regulatory activity

### Regulatory framework

The main object of activity of Transgaz - **NACE Code 4950 –Transport via pipelines** – is defined by law as the activity organized for the circulation of natural gas through the National Natural Gas Transmission System (NTS) or through other transmission systems.

In addition, Transgaz also carries out related/secondary activities supporting its main object of activity, according to the legislation in force and the company's updated Articles of Incorporation.

According to the regulatory framework applicable to the natural gas sector, Transgaz conducts the natural gas transmission activity based on the specific field legislation and the Concession Agreement concluded with the National Agency for Mineral Resources approved by GD no. 668/2002, as amended and supplemented, and on the Licence to Operate the Natural Gas Transmission System no. 1933 granted by Decision no. 3911/20.12.2013 for the development of the natural gas transmission system operation issued by the National Energy Regulatory Authority (ANRE).

The natural gas transmission activity is a public service of national interest and it is included in the regulated segment of the domestic natural gas market. The transmission service has a natural monopoly status and is carried out based on a tariff regulated by ANRE.

The contracts for the provision of natural gas transmission services are usually concluded for a period of 1 gas year, based on the Framework Contract appendix to the Network Code for the National Natural Gas Transmission System, approved by Order no. 16/27 March 2013 of the ANRE President, as further amended and supplemented.

Another important normative act for Transgaz's activity is ANRE Order no. 34/2013 on the approval of the Rules for the issuing of establishment authorisations and licensing in the natural gas sector.

In 2017 Transgaz has managed together with its specialists the specific regulation projects launched in a public debate by ANRE and has participated both at the revision activities of the Network Code provisions within the different joint committees and working groups with ANRE and other involved institutions (*The Coordination/supervising committee of the activities regarding the provisions of the Network Code; the Working group for the revision of the Network Code coordinated by ANRE; the Operative working group for the modification of the Network Code; the Joint working group TRANSGAZ-OMV PETROM-EXXON*) and to the revision activity of the concession agreement.

#### **The main actions in the field of European regulations and licenses were:**

- The preparation of a concept paper for the development of an entry/exit system on the gas market in Romania and the implementation of European network codes within the WG DG ENER/ACER/ENTSOG/ANRE/TRANSGAZ;
- Managing the internal consultations in order to develop the point of view of the Company on the draft normative acts initiated by ANRE and other relevant authorities to improve the national regulatory framework;
- Managing the work authorisation/re-authorisation of the technical staff of the Company that owns/will own the status of authorized installer for natural gas;
- Authorization and licensing in the natural gas field;
- Participation in the activities of the internal staff managing the incremental capacity process for the future NTS entry points Vadu and Tuzla;
- Cooperation with Ukrtransgaz on the subject of the interconnection agreement related to the interconnection points between the Romanian and Ukrainian gas transmission systems;
- Cooperation with Bulgartransgaz on the subject of the interconnection agreements related to the interconnection points between the Romanian and Bulgarian gas transmission systems;
- The preparation of an analysis of the commercial contract no 643/00157629/210247 related to the transmission of the Russian gas on the territory of Romania towards Turkey, Greece and other countries concluded with Gazprom Export on 24.09.1999.

- Implementing Regulation (EU) no. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) no. 1348/2014 on data reporting, for the implementation of Article 8 (2) and (6) of Regulation (EU) no. 1227/2011, in cooperation with the Operating, ITC and SCADA divisions;
- Implementation of the provisions of Regulation (EU) 2017/460 establishing a network code for harmonized tariff structures for gas transmission (TAR-NC);
- Implementation of guidelines on the management procedures for capacity congestions in case of contractual congestion at the interconnection points (CMP GL);
- Initiation of the legal actions regarding the cooperation with ENTSG.

## **Interconnection Agreements 2017**

### **Negotiation of the interconnection agreements with Ukrtransgaz for the interconnection points between the Romanian and Ukrainian transmission systems;**

In 2017, the following legal actions were initiated in connection with the interconnection agreements with Ukrtransgaz:

- Conclusion of Addendum no. 2 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;
- Conclusion of Addendum no. 3 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;
- Conclusion of Addendum no. 4 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;
- Establishment by Decision 568/14.06.2017 of the Transgaz Working Group for the negotiation of the interconnection agreements for Medieșu Aurit, Isaccea, Isaccea 2, 3 and Negru Vodă 2, 3 interconnection points and ensuring the conditions for capacity trading and allocation in accordance with the applicable European regulatory framework;
- Conduct of the public consultations related to the trading rules and communication procedures in case of exceptional events for the preparation and negotiation by the Working group nominated by Decision no 568/14.06.2017 of the Interconnection Agreement for the IP Medieșu Aurit–Tekovo;
- Transgaz și Ukrtransgaz published a joint declaration on the results of the public consultations related to the commercial rules and communication procedures in case of exceptional events to the draft Interconnection Agreement for IP Medieșu Aurit–Tekovo, conducted during 01.07-01.09.2017;
- Taking the relevant steps for the organization of the public consultation process related to the draft Interconnection Agreement for the VIP Isaccea 2-3;
- Conclusion of the Addendum no 5 on the extension of the deadline for the non-application of the commercial rules in the interconnection point Isaccea 1;
- Conduct of the public consultations related to the commercial rules and communication procedures in case of exceptional events for the preparation and negotiation by the Working group appointed by Decision no 568/14.06.2017 of the Interconnection agreement for the VIP Isaccea 2, 3. Transgaz și Ukrtransgaz will agree on a joint statement on the results of the public consultations to the commercial rules and communication procedures in case of exceptional events to the draft Interconnection Agreement for the VIP Isaccea 2,3, conducted in the period 16.10.2017 and 15.12.2017;

- Conclusion of the Addendum no 6 on the extension of the deadline for the non application of the commercial rules in the interconnection point Isaccea 1.

▪ **Negotiation of the Interconnection Agreement with Bulgartransgaz for the interconnection points between the Romanian and the Bulgarian system**

In 2017, the following actions were taken in connection with the interconnections agreements with Bulgartransgaz:

- Conclusion of the Addendum no 2 on the extension of the gas day (6:00-6:00 UTC of the following day for the winter period and 5:00-5:00 UTC of the following day when daylight saving is applied) in the interconnection point Negru Vodă 1;
- Taking the necessary steps to organize the public consultation process related to the draft Interconnection agreement for the VIP Negru Vodă 2-3.

A more detailed presentation of the regulatory activity is included in **Annex 8**.

#### **7.4.6 IT activity**

In 2017, the Information Technology and Communications Division updated the division's development strategy aligned with the company's strategy, aimed at implementing good practices and standards for IT service management and IT security management.

The strategy of the department focuses on providing services to all internal and external clients of the company in order to support the strategic and general objectives of the company.

The functional entities within the department are engaged in the consulting, implementation and administration of information systems and communications across the company. The activities carried out in 2017 within the Department of Information Technology and Communications supported the achievement of the strategic objectives of the company in line with them and with the requirements of the business environment.

Part of the activities of the Information Technology and Communications Division in 2017 are prerequisites for the implementation of future projects and the development of IT platforms connected to existing ones that provide IT & C services with competitive and performing advantages for the business environment.

The relevant activities of the department in 2017 are:

- finalizing the analysis of the submitted technical offers and starting the implementation of a unified server infrastructure consisting of servers, data storage solutions and communication equipment that will allow the development of future IT platforms, their connection to the existing platforms and their parallel operation;
- Finalizing the e-mail solution implementation that provides important benefits for company employees and migration of user email boxes; the new email solution allows users to access their mailbox, calendars and contacts on any device, share their own calendar with another user, and set up out-of-office messages, including the ability to redirect emails to another address;
- completing the analysis of technical offers, concluding the contract and finalizing the implementation of the centralized backup solution by installing hardware and software components for backup server operations;
- obtaining the favourable opinion from the inter-ministerial TEC for the modernization and extension of the ERP MAIS IT system, finalizing the procurement documentation for SEAP promotion and

permanent collaboration with the Contracting and Sectoral Procurement Division after the launching onto SEAP;

- completing the implementation of a new digital certificate management authority for GMOIS users, issuing digital certificates and distributing them to external users of the GMOIS platform;
- permanent monitoring and protection against ransomware cyber attacks and email-based malware transmissions; in the second quarter of 2017, the number and magnitude of these attacks increased substantially, and DTIC quickly reacted and engaged in blocking and protection activities to protect Transgaz users and systems against data extraction or data corruption by encrypting them;
- completing the conclusion of framework agreements for business and industrial communications services, excluding communication services for SCADA.

Also, the main activities of the Information Technology and Communications Division for 2017 with a major impact on the activity of the departments of the company are:

- making the required changes so that business processes can be run on the GMOIS platform; the GMOIS Information Platform offers network users the ability to transmit requests for capacity transfers online at points of entry/exit to/from the National Gas Transmission System;
- the participation of representatives of the Working Group for reviewing the Network Code;
- implementing functionalities for the reporting flow of transport contracts and basic data (nominations) in the productive environment of the ARIS platform for the REMIT project;
- Modifying the ServiceDesk interface, the unique point of recording incidents and IT issues and communications;
- updating of legislative software packages, calculating currency, design software, engineering calculations;
- promoting BPMN Business Process Modelling Principles and Standard for Quality Management Service in order to provide support in the process of transition of the quality management system to the requirements of SR EN ISO 9001:2015;
- active participation in the tender evaluation committee for the procurement procedure of the automation equipment for the BRUA project;
- developing a pilot project to automate the computation process at other benchmarking conditions for time parameters of transit stations in order to ensure the publication of time parameters;
- technical assistance in the field of information technology and communications for technical projects and feasibility studies for works prepared by Transgaz;
- the launch of the catalogue of services provided by DTIC in the electronic version;
- providing the 2<sup>nd</sup> level of support and maintenance for IT systems (GMOIS, MAIS, Meteo, MAXIMO, Gaz Management, Weather, GIS), development of new reports, modification of existing reports for ERP MAIS and GMOIS modules, development of an automated solution that allows the transmission of emails to the company's employees including information about the salary rights for a certain month;
- Technical assistance to the business environment on IT issues with regard to European Regulations (REMIT, Transparency, Interoperability);
- extension of the access control application (Pontaj) for employees from several locations (Mediaș offices, Mediaș Branch, ET Cluj);
- maintenance of data extraction interfaces from computer systems at the request of the business environment;
- preparing computing and operating system software packages for new employees;
- monitoring and managing the capacity of communications systems;

- user relationship management, by scheduled or on-demand meetings where IT&C needs are taken up, and discussing the opportunities that DTIC could offer to the business environment.
- managing security risks and vulnerabilities of the IT system;
- data center equipment and event management, processing and storage capability management, including maintenance of the data center equipment, monitoring and maintenance of the BMS system at the Motaş location;
- UPS maintenance from Transgaz data center locations;
- monitoring of power and climate conditioning for the data center infrastructure;
- granting, withdrawing and modifying employee access to the Transgaz Intranet;
- managing changes in the IT environment and managing implementation projects;
- performing backup operations by applications (MAIS, GMOIS, Gaz Management, Meteo, Maximo) and databases (Oracle, SQL Server, PostgreSQL);
- administration and maintenance of application servers for computer systems used in Transgaz (MAIS, GMOIS, Gaz Management, Meteo, Maximo, GIS);
- database maintenance, administration and optimization of databases;
- provision and maintenance of fixed and mobile phone services;
- creating and managing consumer profiles for mobile phone services in order to optimize consumption;
- support and technical assistance to external partners using the GMOIS platform;
- resolving all requests for editing and publishing content on Transgaz' site received from Transgaz users, including support and maintenance of the Transgaz website;
- updating the status of the Microsoft licenses used in the company, preparing the technical specifications, obtaining the inter-ministerial TEC approval and finalizing the procurement documentation for promotion in the SEAP of the conclusion of an Enterprise Agreement for 2018-2021;
- taking over and solving the incidents reported by the company's IT & C users, providing technical support for computer users;
- ensuring the service of the computing equipment, identifying the defects and sending them for remediation either to the supplier if they are under warranty or to the service company.

### **Specific Goals and Actions regarding the development of the IT activity**

The stage of implementation of the actions proposed for 2017 regarding the contribution of the Information and Communication Technology Division to the strategic objectives of the company foreseen in the Management Plan for the period 2017 - 2021 is presented in the following table:

No.	Action	Stage
1	Documentation for defining a Microsoft Project Server Project de proiect de tip Microsoft Server Project	Partial preparation of technical specifications for the project management system. Estimated deadline for start of procurement: semester II - 2018.
2	End of framework agreement for communications services	Conclusion of framework agreements for communications services - Internet access, VPN MPLS services and leased circuits for the primary and redundant communications and industrial communications services.

3	Performing preventive, adaptive and corrective maintenance of DTIC systems	The preventive, adaptive and corrective maintenance of Transgaz's information and communication systems was carried out in 2017 either with its own resources or through the conclusion of maintenance contracts.
4	Monitoring existing data exchange solutions in a secure way	Existing data exchange solutions with partners were secured.
5	Definition of a videoconference system	The specifications were completed, endorsed within the TEC of DTIC and the procurement was initiated.
6	Implementing an e-mail solution	Implementation of the e-mail solution completed in 2017. Approximately 75% of users' mailboxes were migrated.
7	Documentation to Define a Standard Reporting Environment to beneficiaries (of the SharePoint type)	Partial elaboration of the technical specifications for the project management system. Estimated deadline for start of procurement: semester II -2018.
8	Adaptation of www.transgaz.ro as the main means of external communication	The website www.transgaz.ro was adapted according to the requirements.
9	Implementing backup systems for data and services in the main data center	Implementation of backup system was completed in 2017

#### 7.4.7 International cooperation and relations' activity

In the current context, in which new gas transmission corridors or new alternative solutions are needed to diversify supply sources and to enhance energy security of the EU Member States, the achievement as soon as possible of the Development Plan of the National Gas Transmission System - by implementing projects to develop future transmission routes having significant regional impact - is very important for the strategic role of Romania in the energy field.

Meeting strategic objectives requires close a collaboration between Transgaz and the national (ministries, agencies, intermediate bodies, competent authorities, etc.) and European institutions, with the European Commission Directorate General for Energy, the neighbouring gas transmission system operators (Bulgaria, Hungary, Moldova, Ukraine, Serbia), but also with gas companies and other European Union gas transmission system operators (Spain, France, Belgium, Greece, the Central Eastern European countries) and non-EU countries, but especially impacting the Balkans and the Southern Corridor for gas transmission (Turkey, Azerbaijan, Turkmenistan, Georgia and Iran).

**Cooperation with the Gas Transmission System Operators from the neighbouring countries (Bulgaria, Hungary, Ukraine, Moldova, Serbia) in order to implement and jointly operate the cross-border interconnections, as follows:**

***BULGARTRANSGAZ EAD (Bulgaria):***

*Regarding the joint operation of the Giurgiu-Ruse cross-border IP, and Negru Vodă I, II and III cross-border IPs;*

The contact with Bulgartransgaz' representatives was maintained as far as the operation of the cross-border interconnection points (IPs) Ruse/Giurgiu and Negru Voda I, II and III and the related capacity trading are concerned pursuant to the applicable regulatory framework.

To this effect, the parties concluded Interconnection Agreements for IPs Ruse/Giurgiu and Negru Voda I, within the course of last year. Such agreements contemplating the procedures for nomination, matching and allocation of gas quantities to be circulated through the interconnections and establishing the technical details regarding the operation of the gas metering stations related to the two points are governed by the provisions of Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules.

As far as IP Negru Voda 2+3/Kardam is concerned, considering that on the territory of Bulgaria the international gas transmission pipelines Transit 2 and 3 are converging into one pipeline, Transgaz and Bulgartransgaz agreed to prepare only one interconnection agreement for a virtual interconnection point, i.e. IP Negru Voda 2+3/Kardam. In this respect, a public consultation of the relevant business rules to be integral part thereof will be launched.

***FGSZ Ltd. (Hungary):***

- *The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:*
  - The parties together with the national regulatory authorities – ANRE (Romania) and HEA (Hungary) – prepared the regulatory framework necessary for the conduct of a binding open season procedure for booking incremental capacities at the Romanian-Ukrainean borders;
  - After a new round of consultations with the network users, the open season timeline was revised and the Rule Book as amended was approved by Decision no. 1397/26.09.2017 of the ANRE President; all documents subject of public consultations as well as the requests for clarification and the responses thereto were published on the websites of Transgaz and FGSZ; according to the Rule Book the applicants' registration period was 16.10.2017 – 03.11.2017. The common report on the first bidding round was published on the websites of Transgaz and FGSZ on 29.12.2017 in compliance with the relevant timeline; pursuant to the report, the first bidding round was successfully completed. The bidders declared successful were informed accordingly.
- *Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT)*
  - According to the Interconnection Agreement for the Csanadpalota IP, according to Regulation (EU) 2015/703;
  - According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the bundled and unbundled capacity of the cross-border IPs with Hungary and Bulgaria, according to Regulation (EU) 459/2017 establishing a network code regarding the capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No. 984/2013.

***UKRTRANSGAZ (Ukraine):***

- *Joint operation of the Isaccea 1 Cross-Border Interconnection Point under the Interconnection Agreement in accordance with applicable European regulations.*

- Operation of the Virtual Interconnection Point Isaccea 2,3/Orlovka. The parties are to agree the documents necessary for launching public consultations of the business rules which are integral part of the future agreement. As a first step, the public consultation of the business rules and communication procedures in case of exceptional events related to the draft Interconnection Agreement for the VIP Isaccea 2,3 / Orlovka were conducted during 16.10-15.12.2017, according to art. 4 of Reg. 703/2015.
- *As regards the operation of the Medieșu-Aurit-Tekovo Cross-Border Interconnection Point*, the parties are in the process of negotiating an Interconnection Agreement. In this respect, the public consultations of the business rules and communication procedures in case of exceptional events related to the draft Interconnection Agreement for IP Medieșu Aurit/Tekovo were conducted during 01.07 – 01.09. 2017, according to art. 4 of Reg. 703/2015.
- *As regards the modernization of the Gas Metering Station Isaccea 1* as a commercial metering station, Isaccea 1 GMS is part of a project for the upgrading of the stations along Transit 1 pipeline for enabling bidirectional gas flows through IP Isaccea 1 and IP Negru Voda 1 / Kardam.

#### **VESTMOLDTRANSGAZ (Moldova):**

- TRANSGAZ evaluated / audited, including with the participation of DAFERI experts, the company Vestmoldtransgaz and prepared a Report on the technical, economic and financial situation of this company.
- The technical discussions between the representatives of MEPIU within the Ministry of Economy of the Republic of Moldova, Vestmoldtransgaz, SNTGN Transgaz SA and ICPT Energoproiect Chișinău continue for the development of the project (development on the north-eastern side of Romania and construction of the Ungheni-Chișinău pipeline).
- Considering the offering for sale of the gas transmission system operator managing the interconnection Iasi-Ungheni on the Moldavian side, taking into account the objectives of the company and of the Romanian State as its main shareholder, on 1 November 2017, Transgaz notified the Government of the Republic of Moldavia of its interest in taking part in investment contest procedure pursuant to the applicable laws and, upon a further request, it was granted an extension of the deadline for the submission of firm bids by 28 December 2017, at the latest.
- By Decision no. 10 adopted in the meeting dated 12.12.2017, Transgaz' Extraordinary General Shareholders' Meeting (EGSM) approved a company to be established on the territory of Romania considering the requirements under the Moldavian applicable laws. Based on the EGSM resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfillment of its core business, Eurotransgaz S.R.L. notified the privatisation authorities in Chisinau of its intention to participate in the investment contest for Vestmoldtransgaz.

#### **SRBIJAGAS (Serbia):**

- On the sidelines of the meeting held on 19 July 2017 between the gas transmission system operators of the states involved in the projects related to the Vertical Gas Corridor, Transgaz and Srbijagas announce the completion of the necessary internal procedures and the enactment of the Memorandum of Understanding on the development of the cooperation between the two companies.
- The document is part of a set of actions for strengthening the bilateral cooperation in fields of activities pertaining to the gas transmission system operators of Romania and Serbia and establishes a framework for promoting projects of mutual interest.

- By creating the infrastructure necessary for the interconnection of the gas transmission systems, Transgaz and Srbijagas aim at contributing to the increase in the predictability of energy supply to the region, by alternatives which are more effective than the gas supply solutions provided by other options.
- The parties are cooperating for the implementation of the project "Interconnection between the National Gas Transmission Systems of Romania and Serbia" which envisages the construction of a new gas transmission pipeline ensuring the connection of the main gas transmission pipeline BRUA and the Technological Node Mokrin, of Serbia.
- Transgaz and Srbijagas are preparing the Pre-Feasibility studies for the objectives related to each countries, the necessary data and the required solutions for the completion thereof was agreed within the joint meetings.

#### **Cooperation with other companies of the gas sector:**

- **Regional Shipperi:**

#### **GAZPROM EXPORT (the Russian Federation):**

The bilateral contractual relations with respect to Transit II and Transit III pipelines are ongoing.

#### **BULGARGAZ (Bulgaria):**

After the historical gas transmission contract between Transgaz and Bulgargaz regarding the international gas transmission pipeline Transit 1 expired on 1 October 2016, the EU regulatory framework was enacted to govern capacity booking operations related to Transit 1 pipeline such as the procedures for the nomination, matching and allocation of capacities pursuant to *Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules* and to *Regulation (EU) 984/2015 establishing a network code on the capacity allocation mechanisms*.

Such regulations also provide rules for the access of all network users to the gas transmission systems to ensure the proper functioning of the domestic gas market - rules contemplating the application of a transparent and non-discriminatory treatment in the relationship between the operators and all potential network users.

Starting with October 2016, Bulgargaz constantly participated in the annual, quarterly and monthly capacity auctions organized by Transgaz, on a transparent basis, by means of the RBP (Regional Booking Platform) platform.

- **European and non-European gas transmission system operators**

Discussions and meetings for identifying new business opportunities were held with:

Eustream AS (Slovakia), ENAGAS (Spain), SNAM (Italy), Fluxys (Belgium), GRTGaz (France), DESFA (Greece), SOCAR (Azerbaijan), EGAS (Egypt), DEFA (Cyprus).

Transgaz General Shareholders's Assembly approved the company's association with Regasificadora del Noroeste S.A. (Spain) for the submission of a binding offer within DESFA's privatisation procedure.

The cooperation with GRTGaz consisted in the organization of workshops on the preparation of the new network code and the assessment of the possibility to develop projects in the field of research and design, investments and joint national and international projects.

*As part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative, Transgaz together with other Gas Transmission System Operators signed the following cooperation documents:*

### **Memorandum of Understanding on a joint approach and action plan to address bi-directional natural gas transportation via the Trans-Balkan pipelines to cope diversification and security of supply challenges (MoU on the Trans-Balkan Corridor).**

On the sidelines of the CESEC High Level Group meeting held in Budapest, 8-9 September 2016, the MoU on the Trans-Balkan Corridor was concluded between the TSOs of Greece, Bulgaria, Romania and Ukraine (i.e. DESFA, Bulgartransgaz, Transgaz and Ukrtransgaz), under the patronage of the European Commission and in the presence of high officials from Brussels and of Ministers of Energy from the CESEC countries.

This MoU defines the common intention of the Trans-Balkan TSOs to ensure, by coordinated actions (infrastructure projects included), physical reverse flows in the direction Greece-Bulgaria-Romania-Ukraine by means of the Trans-Balkan pipelines beyond 2019 and allows for the increase in the regional gas supply.

The kick-off meeting on the MoU was hosted by Transgaz in Bucharest, on 28 September 2017, in the margins of the CESEC High-Level Group Meeting, under the patronage of the European Commission and under the coordination of DG ENER. The Moldavian company Moldovagaz that operates a gas transmission system integrated with the Trans-Balkan Corridor was also invited to attend the meeting chaired by Mr. Klaus-Dieter Borchardt (Director DG ENER).

### **The Memorandum of Understanding on the Vertical Corridor**

On the occasion of the CESEC High Level Group meeting held in Budapest, on 8 September 2016, the Ministers of Energy from Greece, Bulgaria, Romania and Hungary signed a Joint Statement on the development of the "Vertical Corridor" and the representatives of the relevant TSOs (DESFA, Bulgartransgaz, Transgaz and FGSZ) also signed a Joint Statement expressing their openness towards the initiative promoted at ministerial level as well as their intention to agree upon a Memorandum of Understanding (MoU). The MoU between DESFA, Bulgartransgaz, Transgaz and FGSZ was signed in Bucharest, in 19 July 2017.

At Transgaz' initiative, the kick-off meeting on the MoU was also held in Bucharest, on 28 September 2017, in the margins of the CESEC High-Level Group Meeting, under the coordination of DG ENER and was meant to allow for the establishment of dedicated working groups and for deciding upon the next steps for the project development. This meeting, also chaired by Mr. Klaus-Dieter Borchardt (Director DG ENER), gathered together the signatories of the MoU on the Vertical Corridor and representatives of the following companies operating gas transmission systems relevant for the Vertical Corridor: Eustream, Srbijagas, Ukrtransgaz and Vestmoldtransgaz.

- ***International natural gas exploitation and production companies (OMV, ExxonMobil)***

### **Coooperation with national and international bodies, the European Commission and other institutional relations**

SNTGN Transgaz S.A. became member or kept its quality of member within gas national and international bodies. The advantages and benefits of such membership are mainly: promoting the company and its objectives and interests, access to the updated information in the gas regulatory, policy,

innovation, standards and products domain, and the participation in national and international events (conferences, seminars, forums, symposiums, etc.).

The EU Funds and International Relations Division manages most of the cooperation relations with the bodies where Transgaz is a member. Between 01.01.2017 – 31.12.2017, the cooperation relationship with the following associations was managed within the EU Funds and International Relations Division:

- International associations: Gas Infrastructure Europe (GIE), Pipping Products and Services Association (PP&SA) of UK.
- National associations: CNR- CME, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, Romanian Fracture Mechanics Association ARME, the Romanian Energy Centre (CRE), American Chamber (AmCham), the ICC National Committee Romania.

We consider it important to mention that, during January – December 2017, the management of the Division for EU Funds and International Relations (DAFERI), i.e. the Division Director, the Director of International Relations, the Director of European Funds and the heads of the DAFERI structure, attended a series of meetings with various external partners and European organizations in the field, as well as national and international events dedicated to the gas sector that have a significant impact on the work and objectives of the Company (see **Annex 10**).

The European Funds and International Relations Division was actively involved in the Company's Strategic Development Committee (CDS) through the work of the European Funds and International Relations Division Director as a CDS member and by ensuring by the Head of International Relations of the Secretariat of this Committee, including by preparing discussion reports and action plans further to CDS meetings.

At the same time, the DAFERI representatives provided the necessary methodological assistance to solve the administrative, technical and procedural problems associated with the Transgaz representation offices in Brussels and Chişinău, which, based on decision of the Board of Administration no. 4/2016 of 28.01.2016 was transferred to DAFERI.

### **Transgaz Representative Office in Brussels**

Sustained efforts have been made to identify and capitalize on new opportunities for strengthening, developing and diversifying the direct and constructive dialogue with both the EU institutions, major energy players and our partners in order to promote the mission and vision of the Company within the community and internationally, as well as to support the achievement of the main strategic objectives of TRANSGAZ.

Synthetically, the work of TRANSGAZ Brussels was carried out on the following coordinates:

- Transgaz representation in formal events/activities organized in Brussels;
- Information/documentation/networking events/actions/activities of potential interest organized in Brussels and signalled by DAFERI;
- Contributions to the Reports/Information for the company's management/Board of Administration;
- Documentation and information activity;
- Organizational issues.

The activity of Transgaz Representative office in Brussels is detailed in **Annex 11**.

## Transgaz' representative office in Chisinau

The **Transgaz Representative Office** in Chisinau was established to develop infrastructure projects in the gas field in cooperation with Moldova. In cooperation with other entities within the company, it carried out intensive activities in collaboration with Vestmoldtransgaz, especially in the project of developing the Ungheni-Chisinau gas pipeline project in Moldova and the impact of Transgaz on this project:

- **22 February 2017**-Chisinau, meeting held between the representatives of TRANSGAZ, Vestmoldtransgaz, Energoproiect, the Consolidated Unit for the Implementation of Energy Projects at the head office of the Moldavian Ministry of Economy.
- **27 April 2017**-Ploiesti, meeting held between the Vice-prime Minister Mr. Octavian CAMIC, the Moldavian Minister of Economy and Mr. Mihai TUDOSE, Minister of Economy within the Romanian Government at the head office of the Prahova County Council, on the occasion of the event "Made in the Republic of Moldova". At the same time, updates to the established bilateral Working Groups were agreed upon.
- **5 May 2017**-Chisinau For the application of the aspects agreed within the meeting held in Ploiesti, the meeting of the Joint Working Group (Romania-Republic of Moldova) on the implementation of the Romanian-Moldavian energy projects was held in Chisinau.
- **27 July 2017**-the meeting of the joint working group on energy was held in Bucharest, at the head office of the Ministry of Economy and was intended to allow for an assessment of the status of the projects necessary for the interconnection of the gas and power network of Romania and the Republic of Moldavia.
- **23 August 2017**- a meeting was held at the head office of the Directorate General for Architecture, Town Planning and Land Registry relations within the Town Hall Chisinau for the clarification of the discrepancies signalled in view of the issue of the Town Planning Certificate.
- **14 September 2017**- the commission established to initiate delivery-taking over of the FEED documentation related to the pipeline Ungheni-Chisinau was convened at the head office of ÎS Vestmoldtransgaz, Chisinau. The commission comprised representatives of Transgaz (having delivered) and representatives of ÎS Vestmoldtransgaz and of the Moldavian Ministry of Economy (having received). The procedure consisted in several delivery and checking stages.
- **27 October 2017** - the Moldavian Government announced that a new stage was launched in the privatisation of assets owned by the Moldavian state out of which Î.S. Vestmoldtransgaz.
- The relevance of Transgaz' involvement in the procurement of Î.S. Vestmoldtransgaz is connected to the functioning of Iasi-Ungheni interconnection on a predictable and safe basis, to the construction and operation of the Ungheni-Chisinau pipeline and of the related facilities, but also to the safeguarding of a range of consumers (Romanian citizens residing in the Republic of Moldova) which might become vulnerable beyond 2019, time horizon when amendments to the export strategies of the main gas supplier for the Central and South-Eastern European region are foreseen.
- **1 November 2017** – Transgaz notified the Government of the Republic of Moldova of its interest in participating in the investment contest procedure pursuant to the laws and, upon a later

request, it was granted an extension of the deadline for the submission of a binding offer by 28.12.2017, at the latest. Simultaneously, the procedure for convening a General Shareholders' Agreement during 11-12.12.2017 to make decisions on relevant related issues was followed.

- **12 December 2017-** By Decision no. 10 adopted in the meeting dated 12.12.2017, Transgaz' Extraordinary General Shareholders' Meeting (EGSM) approved a company to be established on the territory of Romania considering the requirements under the Moldavian applicable laws. Based on the EGSM resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfillment of its core business, Eurotransgaz S.R.L. notified the privatisation authorities in Chisinau of its intention to participate in the investment contest for Vestmoldtransgaz.
- **28 December 2017** – according to the entrusted mandate, considering the sole shareholder's interests and the outcomes of the assessments of the sole patrimony and the investment plans of Vestmoldtransgaz, Eurotransgaz S.R.L. submitted a binding offer on 28.12.2018 as part of the investment contest for the privatisation of Î.S. Vestmoldtransgaz.

DAFERI also manages the cooperation with **the relevant ministries**. In semester I 2017 information on the status of strategic projects undertaken by Transgaz, on the regional gas transmission projects impacting Romania and on the cooperation relationships with external partners was sent to the Ministry of Economy, Ministry of Energy, Ministry of Foreign Affairs and Romanian Government.

By means of the Department for Cooperation with National and International Bodies, DAFERI manages the relationship with the Competent Authority for Projects of Common Interest (ACPIC) to implement projects of common interest (PCI) included in EU list of PCIs and promoted by Transgaz, according to EU Regulation 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure repealing Decision No. 1364/2006/EC and amending Regulation (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009. In this respect, during the period 1 January 2017 – 30 June 2017 the activity was carried out for:

- Acceptance of the application file for the project Development on the territory of Romania of the National Gas Transmission System on the corridor Bulgaria - Romania - Hungary - Austria, Podișor - Horia GMS and three compressor stations (Jupa, Bibesti and Podișor), Phase 1";
- Approval of the Notification to initiate the procedure preceding the submission of the application for the project Extension of transmission capacity from Romania to Hungary up to 4.4 billion m<sup>3</sup> / year, Phase 2;
- Approval of the Notification to initiate the procedure for the submission of the application for the project Black Sea Shore - Podișor Pipeline for the Black Sea gas supply.
- Approval of the Concept regarding Public Participation for the project Black Sea Shore - Podișor Pipeline for the Black Sea gas supply;
- Submission to the ACPIC of the Public Participation Concept for the project Extension of gas transmission capacity from Romania to Hungary up to 4.4 billion m<sup>3</sup> / year, Phase 2.

## 7.4.8 European funds

### Absorbition of community funds

The activity of absorbing European funds was conducted mainly for:

- Assessment of the reference documents issued at national/international level, monitoring and identification of the financing opportunities, sources and instruments promoted by the EU and the Management Authorities of Romania in view of selecting Transgaz projects which might be funded by grants;
- Supporting TRANSGAZ's projects which could be financed by grants in front of the national Managing Authorities, of the European Commission and of its structures managing such funds;
- Inter-department collaboration in order to finalize the documentation necessary for the preparation of the funding requests, of the interim/final balance payment requests and of the information requests in order to acquire knowledge on EU funding granting mechanisms;
- The preparation of the funding requests and of the related documents;
- The preparation of the interim/final balance payment requests and of the related documents;
- Monitoring the implementation/post-implementation of the projects which received European grants in the light of the financing contract;
- Cooperation with the relevant ministries (Ministry of Economy, Ministry of Energy, Ministry of European Funds) and with the financing institutions;
- Attendance at meetings relevant for the management EU funds, of operational programmes and for the implementation of EU funded projects;
- Monitoring the relevant laws and the amendments thereof with an impact on the funds absorbition and implementation activity.

In addition, by the EU Funds Department, the EU Funds Division, the company was represented in the working meetings on the progress made in the preparation of the Feasibility Study for the **Eastring Project – PCI 6.25.1**, which is part of energy priority corridor 6, North-South Gas Interconnections in the Central and South-Eastern Europe - "Pipeline system from Bulgaria via Romania and Hungary to Slovakia" (envisaging the development of a bidirectional gas transmission system interconnecting the gas transmission systems of Slovakia, Hungary, Romania and Bulgaria) held in October, November and December 2017, at the head office of Eustream, Slovakia.

The execution of the contract on the preparation of the Feasibility Study for the Eastring project brought about discussions regarding the route definition and selection, environmental aspects, business information, supply sources, market study, the influence of the regional projects and the concluded Memoranda as well as information about the business plan, way of functioning, financing, tariff calculation and the need to have a joint agreement concluded between the project partners on the pipeline operation means.

During the contract execution period, monthly meetings with the project partners will be held in order for the Feasibility Study to be perfected and for all relevant data and information to be analysed and agreed by all partners before being delivered to "EUROIL" Hungary – the contractor of the Feasibility Study preparation services.

Out of the main activities conducted during 01.01-31.12.2017 (some of which in cooperation with other company's compartments) the following are worth mentioning:

In respect of **the ongoing projects which obtained EU grants**, the following overall/precise actions were taken:

- Preparation of draft applications, progress reports, sustainability reports and letters regarding the management of Transgaz projects provided with EU grants – documents which were delivered to the Financing Entities, according to the provisions of the Financing Contracts/Decisions;
- Preparation of reports regarding the opinions on the identified sensitive issues and the consequences of potential changes in the conditions of the Works Contracts, in correlation with the Financing Decision/Contracts;
- Provision of support, cooperation, additional information as requested as a result of various verifications/checks of the projects funded by EU grants;
- Supporting the audits of the activity related to the EU Funds Unit in terms of the compliance with the quality rules and the provisions of the Process Procedure;
- Supporting the activity related to the EU funds management within the internal audit mission conducted during 24.04.2017 – 3.06.2017 and intended for:
  - Assessing the implementation of the internal/managerial control;
  - Assessing the EU funds absorption;
  - Monitoring and implementation of projects funded by EU grants.

The scope of the mission was to scrutinize the responsibilities assumed by the EU Funds Unit during 01.01.2014-31.03.2017.

- Support for the surveillance audit session assessing:
  - The way the obligations resulting from the quality-management system are fulfilled within the division, in terms of the compliance with and the effectiveness of the applicable reference standard requirements;
  - The abilities of the management system to fulfil the regulated legal requirements;
  - Management system improvement potential.

### ***The Project "Interconnection Romania-Bulgaria"***

- The monitoring of the eligible expenditures related to the project Giurgiu-Ruse resulted from the Contracts on the works both to the land section and to the Danube undercrossing section;
- Preparation of the Technical Implementation Summary no. 8 which was coordinated with Bulgartransgaz and delivered to DG ENER within the European Commission, in compliance with the deadline under the Financing Decision;
- Assessment of the project implementation deliverables and preparation of the Final Technical Implementation Summary and Financial Statement;
- Preparation of the Tender Book, launching / completion of the procedures for the procurement of the financial audit services for obtaining the Audit Certificate, a document necessary for the preparation of the Final Payment Request, according to the Funding Decision;
- Preparation of the entire documentation subject to the audit;
- As a result of the independent audit, obtaining the Audit Report and the issuance of the External Audit Certificate – document to be mandatorily attached to the final balance payment request;
- Preparation and submission to the Ministry of Economy, for approval, of the following documents: Certification by the Member State of the expenses applied for by the beneficiary and Validation by the Member State of the Financial Technical Report;
- Submission to Bulgartransgaz of the documents related to the Final Payment Request required to be jointly submitted for coordination purposes;
- Submission of the documents related to the Final balance payment request to the European Commission in order for the latter to check and approve the settlement of eligible costs related to the RO-BG Interconnection;

- Management of the response to the EC's requests for clarification on the Final payment request;
- Taking over and internalizing the document under which the EC approved the Final Technical Report and the bank statement contemplating the value of the eligible expenses approved and transferred by the EC to Transgaz' account.

### **The project "FEED for 3 Compressor Stations along PCI 7.1.5"**

- Preparation, together with the project management unit, of the documents requested by INEA (entity within the EC – DG ENER by which grants are provided) for adjusting the coordinates of the approved Financing Contract;
- Maintaining a permanent contact with INEA for clarifying all aspects necessary for the approval of the documentation on the extension of the Funding Contract by 30.06.2017;
- Preparation of the entire documentation for the procurement of the financial audit service (Tender Book, Necessity report);
- Submitting the documentation to the project manager for validation and to the project management unit for filling in the financial-accounting data;
- Completing the assessment of the submitted bids regarding the financial audit service in view of obtaining the documents related to the Certificate on the financial statements precisely:
  - The terms of reference for the Independent Report on the Main Findings regarding the costs stated under the Financing Agreement within Connecting Europe Facility (CEF);
  - The factual conclusions independent report on the costs stated within CEF.
- Checking the documents issued by the independent external auditor which are integral part of the Certificate on the financial statements;
- Attending the meeting with the INEA representatives for the clarification of the aspects specific for the preparation of the Final Technical Report and of the details regarding the way the costs related to the Action's implementation will be requested to be settled;
- Provision of consultancy upon the preparation of Final payment request (Final Report, individual financial sheet, Sheet on eligible cost details, Sheet on the presentation of the costs stated by the beneficiary, Justification of the personnel costs) and upon the preparation and submission to the Ministry of EU Funds of the document by which the Certification of the Financial Statement by the Member State was requested.

### **The project "Development on the Romanian territory of the National Gas Transmission System along the Bulgaria-Romania-Hungary-Austria" (BRUA)**

- Permanent monitoring of the laws, activities and decisions of the European Commission concerning Projects of Common Interest;
- Management of the correspondence with the relevant EU and Romanian institutions with competence in the management of PCIs and provision of constant assistance to the BRUA Project Management Unit on the provisions of the Grant Agreement and whether/how such provisions influence the costs resulted from the project implementation activities in terms of eligibility;
- Provision of constant assistance to the BRUA Project Management Unit regarding aspects under the Grant Agreement mainly regarding cost eligibility/non-eligibility;
- Presentation of the Action implementation status and of the road map for the following period within the meeting with INEA.

***The project “Modernization of Turbocompressor station Sinca and of the related facilities”***

- Preparation of the Sustainability Report related to the first year of operation after the project start-up and the submission thereof to the Energy Interim Body;
  - Notification, by means of a Findings Note, that a financial adjustment of 5% to the value of the grant provided by the Ministry of EU Funds was maintained as a result of the Court of Account's audit of the project implementation works procurement procedures;
  - Provision of assistance to the Legal Division, based on the previously submitted documents, on the initiation of the legal actions to challenge the financial adjustment in order for the relevant arguments necessary for proving its being groundless to be established;
  - Assessment of all documents underlying the Payment requests, the documents related to this project being the subject of the internal audit mission; provision of additional information / answers to the audit questionnaires, for the purpose of clarifying aspects in order to facilitate an accurate image on the project.
- 
- Preparation / submission to the Maintenance Division of the letters contemplating the requests for documents providing for data substantiating the values of the outcome indicators (reports on the metering of air pollutants and fuel gas, costs related to the compressor groups' overhauling and oil consumption considering 150 operating days/year);
  - Preparation of the Sustainability Report for 2017 and its submission to the Energy Interim Body;
  - Providing the necessary conditions and assistance to the Energy Interim Body monitoring team during the control visit to the Compressor Station.

***SCADA Project***

- Preparation of the Annual Sustainability Report together with the Automation and SCADA Unit and its submission to the Energy Interim Body by the due date, i.e. 15 January 2017, pursuant to the Financing Agreement;
- Analysis / completion of the documents relevant for proving that the Outcome indicators have been maintained after the first year of the project operation.

**In order to obtain new funding related to TRANSGAZ projects, the following activities were performed:**

- Constant monitoring of the funding programmes managed by the relevant structures of the European Commission, of their webpages for the notifications regarding the opening of the Calls for applications and of the webpage of the Ministry of EU Funds for processing of updated information and instructions related to grants;
- the connection with the Large Infrastructure Programme Management Authority was maintained in order to identify possibilities to promote Transgaz' "energy efficiency" projects so as to meet the eligibility criteria under the Priority Axis 6 and 7;
- updating the letters by which data was submitted to the management of Transgaz' divisions/units on the financing opportunities offered by the Financing Programs managed by the European Commission and the National Funding Bodies contemplating the conditions and criteria for absorbing structural funds, for correlating the provisions thereof with Transgaz' Programme for Development and Research and promoting own investment objectives and projects with funding potential;
- Actions were taken regarding additional allocation of funds related to the financial years 2014–2020, for the gas transmission sector through the Large Infrastructure Operational Program;

- In accordance with the suggestions of the consultant of the Ministry of European Funds - JASPERS, the Feasibility Study related to the project regarding the NTS developments in North East Romania for enhancing gas supply to the region and ensuring transmission capacities to Moldavia was completed, in order to prepare the documents necessary for the submission of the application for grant approval through LIOP;
- Cooperate with the parties involved (Research and Design Division and Project Management Unit) in supplying the information, documentation, necessary forms for drawing up the Financing Requests;
- Preparation of the draft Funding Request and attendance at the working meetings with the representatives of the Ministry of EU Funds in charge with LIOP;
- Preparation of the table comprising the value of the outcome indicators, precisely the "Capacity of the National Gas Transmission System at interconnection points" in the context of LIOP funded projects' implementation and for the application of the overall conditionality on the Statistics System and the Outcome Indicators, based on the Cooperation Protocol concluded between Transgaz and the Ministry of EU Funds;
- Assessing the compliance of Transgaz' potential projects with eligibility criteria according to the requirements of the Financing Programms 2014-2020;

Transgaz' potential projects aimed at the following are envisaged to be promoted for obtaining funding:

- *use of the kinetic energy of pipeline gas flow in order to obtain electricity;*
- *control and data acquisition system from the cathodic protection system of S.N.T.G.N. TRANSGAZ*
- *possibility to refurbish the Bățani CS, the first turbocompressor station in Europe, and its designation as historic monument;*
- *cooperation with EU companies (in France, Belgium, Italy) for the development of research themes enabling the obtaining of European funds through the Horizon 2020 programme;*
- *professional training by exchanging experience or by training courses within the Operational Program Human Capital – POCU, including in a potential partnership with the trade union organization in the branch.*
- Promotion of the following investment objectives, appraisal of the LIOP funding possibilities in respect thereof and preparation of relevant Project Sheets:
  - Black Sea shore – Podisor (Ro) to accommodate the Black Sea gas – PCI no. 6.24.8. (information re-updating);
  - Interconnection between the National Gas Transmission System and reverse flow at Isaccea – PCI no. 6.15;
  - Interconnection between the Gas Transmission Systems of Romania and Serbia – project contemplated in Transgaz' Network Development Plan for 2017-2026.
- Coordination and verification of the data under the Project Sheets according to the Feasibility Study and the Cost-Benefit Analysis and their compliance with the requirements of the financing programs.

#### **7.4.9 Internal and external audit of the company's activity**

The Internal Public Audit activity is organized at Transgaz level by the establishment of the Internal Audit Department in 2007.







In 2017, the internal audit activity at SNTGN TRANSGAZ SA was carried out through the Internal Audit Department (IAD), which is twice subordinated, functionally to the General Manager, and to the Board of Administration, having the obligation to report to it, thus ensuring the principle of independence.

From a methodological and procedural standpoint, IAD operates on the basis of its own Methodological Norms, the Internal Audit Charter and the four approved operational procedures. We mention that both the Procedures and the Methodological Norms and the Internal Audit Charter were updated in the reporting year, obtaining the favourable opinion of the hierarchically superior body.

#### ■ Internal audit missions conducted in 2017

The Annual Plan for 2017 approved by the General Director and submitted to the Board of Administration through the Audit and Rating Committee was updated mainly due to ad-hoc mission requests.

In 2017 the following missions were carried out according to the table:

No.	Audited Activity	Overall assessment result	Degree of implementation	Mission type
1.	Assessment of project verification and approval activity		100%	Planned
2.	Assessment of compliance between technical designs and the works carried out by third parties		95%	Planned
3.	Assessment of how local taxes and duties are managed		100%	Planned
4.	Assessment of how European funds are managed		86%	Planned
5.	Assessment of repair works, interventions and special operations		0%	Planned
6.	Assessment of the application and implementation of regulatory references related to the guarding of objectives, assets, values and protection of individuals.		0%	Ad-hoc
7.	Assessment of the use of the amounts received by the Sports Club Gaz Metan Mediaș as sponsorship	Counselling mission		Ad-hoc

High insurance degree  Medium insurance degree  Low insurance degree 

In addition, the management has asked for four points of view on concrete issues, finalizing them by informing the applicants as follows:

- information on the Internal Audit's point of view regarding the legality of the current reporting to the Audit and Rating Advisory Committee and to the Board of Administration;
- information on the Internal Audit and General Inspection (formerly Control Body) relationship;
- information on Internal Audit versus Internal Quality Audit;
- point of view on the Audit Report no. 11/20 version 2 on the audit of the Monitoring and Measurement Process SSO Performance, report prepared by the Quality Management Service.

#### ■ Tracking the implementation of recommendations

This activity refers to the recommendations formulated by the internal audit structure within the assurance missions, including in previous years, and for which the internal audit structure has the obligation to follow the implementation mode.

The recommendations monitored in 2017, both in missions carried out in the reporting year and in previous years, are presented in the table below, highlighting their stage:

No.	Field	Number of recommendations implemented		Number of recommendations partially implemented		Number of recommendations not implemented	
		On time	After the deadline	For which the implementation deadline set has not been exceeded	With overdue implementation on deadline	For which the implementation on deadline set has not been exceeded	With overdue implementation on deadline
1.	Finance accounting	15			1		
2.	Public procurement	8			3		
3.	HR	2			2		
4.	Community funds	6				1	
5.	Entity-specific functions	45		1	10		1
<b>TOTAL I</b>		<b>76</b>		<b>1</b>	<b>16</b>	<b>1</b>	<b>1</b>
<b>TOTAL II</b>		<b>76</b>		<b>17</b>		<b>2</b>	

Table 49-Recommendations formulated by the internal audit structure in 2017

Status of the monitored recommendations in 2017

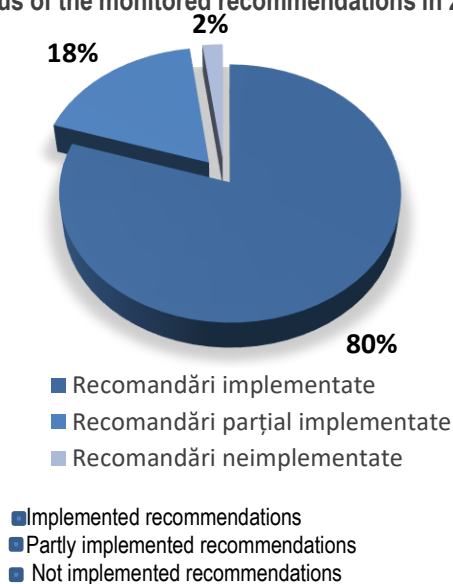


Chart 57-Status of recommendations-2017

We would like to mention that for the insurance audit mission no. 5, related to the entity-specific functions for which there is a validated report, the action plan and the implementation timetable were approved in January 2018, and for that reason they were not included in the previous table.

The recommendations will have deadlines in 2018, so they will be monitored this year.

The figure below shows the evolution of the implementation process of recommendations - the indicators presented are calculated / reported monthly.

### EVOLUȚIE IMPLEMENTARE RECOMANDĂRI 2017

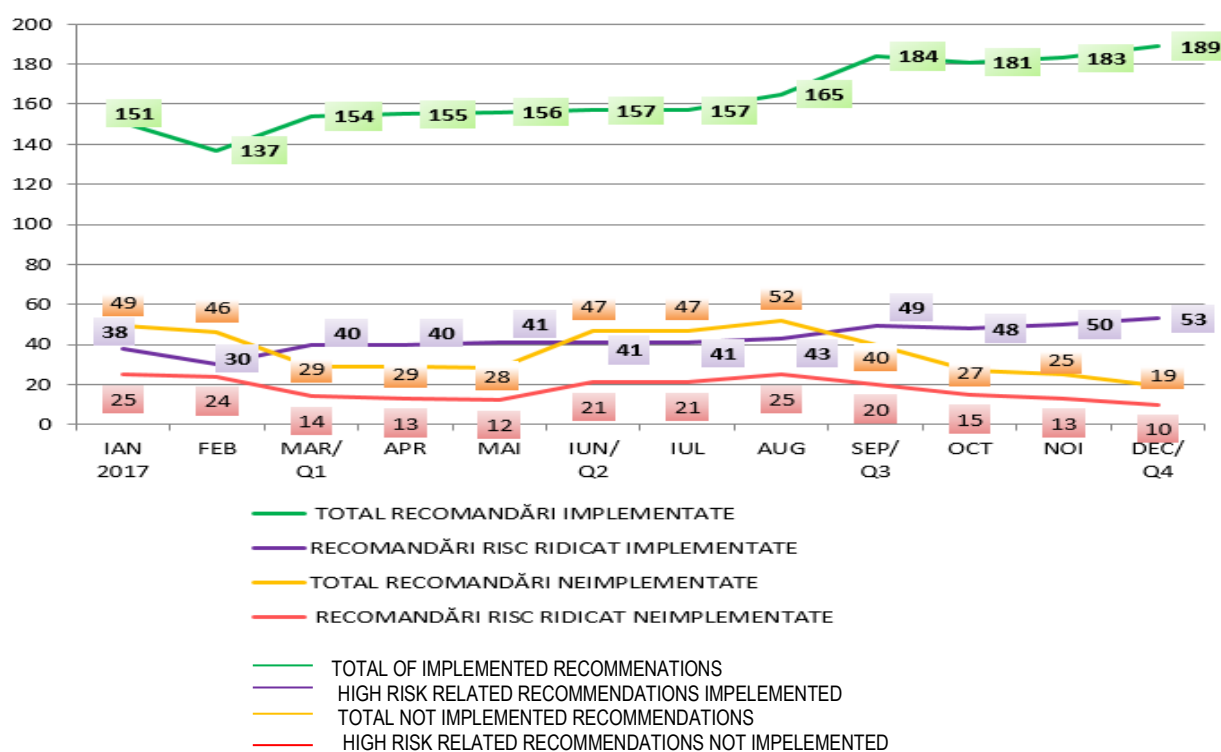


Chart 58-Implementation degree for the monitored recommendations in 2017

- The additional value of implementing the recommendations made in the internal audit reports and the result of monitoring the performance indicators of the audit activity set for 2017

As a result of the missions completed in 2017, 68 recommendations were developed to improve managerial internal control, focusing mainly on:

- compliance with laws, regulations/procedures and contracts in force;
- effectiveness and efficiency of operations;
- fund and asset management;
- veracity and integrity of operational and financial information.

On the basis of the results obtained in 2017, the performance indicators were calculated and analysed in order to establish the degree of achievement, as follows:

No.	Indicator	Indicator achievement	Remarks
1.	Implementation of the approved annual plan (No. of completed audit missions / planned missions) - 100%	100%	The annual plan has been updated according to the legislation in force.
2.	Achievement of ad-hoc missions (No. of ad-hoc missions / No. of ad-hoc missions requested) - 90%	100%	Two ad-hoc missions have been requested that have been completed within the required deadlines.
3.	Satisfaction level of audited structures - maximum 10% poor scores under 3	100%	The assessment sheets received from the planned audit missions had scores higher than 4.
4.	The qualitative increase of the auditing activity for each auditor, determined on the basis of the assessment sheets and the completion of a minimum of 7 days / auditor of training courses	86%	No. of days of professional training / auditor participation in courses organized with accredited trainers - 6 days - the difference of 9 being covered by an individual study on topics given by the chief of the structure.
5.	Implementation rate of recommendations at the end of the year - 80%	100%	Indicator computation for recommendations with due dates in 2017.
6.	Maintaining the level of implementation of the managerial internal control standards - 100%	100%	15 out of 16 standards are implemented, Standard 14 is not applicable.
7.	Preparation of Reports on the internal audit activity within the specified deadline	100%	Due dates for each type of reporting (monthly, quarterly, half-yearly, yearly) were met.

The audit of the financial statements was carried out by the auditors of "Deloitte Audit SRL" according to a contract concluded with them.

## 8. OTHER INFORMATION ON THE ACTIVITY OF THE COMPANY

### Project analysis, checking and approval activity

The Division for Analysis, Checking and Approval of Projects (DAVAP) was established following the Decision of the Board of Administration no. 11/14.04.2014, supplemented by Decisions of the Board of Administration no. 2/21.01.2015 and no. 14/27.4.2016.

The work carried out within DAVAP continues the work carried out within the Analysis, Checking and Approval of Projects Department in relation to the technical check of the documentation but complemented by the economic check of the projects.

The following basic activities are conducted in DAVAP:

- analysis and check of the technical and economic documentation to be endorsed in the TEC of TRANSGAZ;
- ensuring the TEC secretariat in accordance with the rules of procedure of TEC.

The main objectives are related to the achievement of the works included in the development-investment and repair-rehabilitation programs of TRANSGAZ. In this respect, it was intended that all projects within the Directorate be analysed, checked and approved within the TEC.

The evolution of the number of projects approved by TEC over the period 2013-2017 is as follows:

	2013	2014	2015	2016	2017
Projects approved by TEC	*	309	369	291	204

\*The Division for Analysis, Checking and Approval of Projects was set up in 2014

In 2017, a total of **253 documentations** were analyzed in the TEC of Transgaz:

- solution studies, feasibility studies, technical projects, etc. 134
- design themes 61
- site provisions 18
- miscellaneous 40

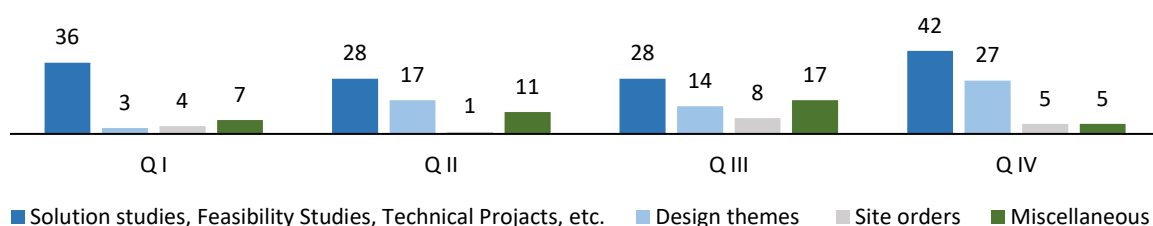


Chart 59-Status of the documentation analysed by TEC according to Quarters 2017

In 2017, the TRANSGAZ management issued and signed 204 TEC approvals as follows:

- Approvals for SS, SF and PT 112
- Approvals for design themes 56
- Approvals for site provisions 15
- Approvals for works analysed in 2017 21

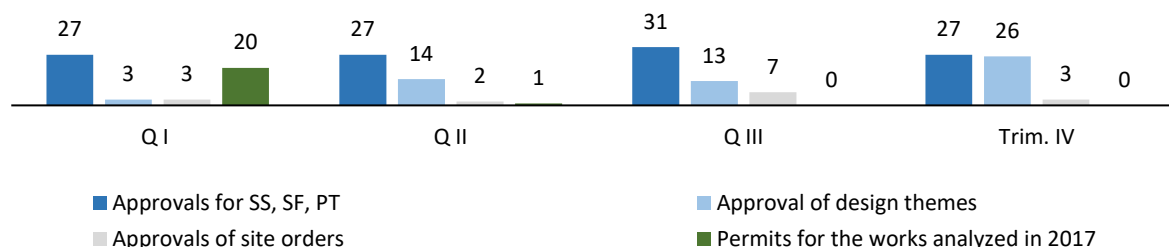


Chart 60-Status of TEC approvals issued in 2017 per quarters

TEC general status - 2017	Doc. no.	%
Documentation analysed in TEC (without Miscellaneous)	213	100%
Documents analysed in TEC in 2017 for which an approval was issued	183	86%
Unapproved documentations	10	5%
Documentations for which an approval is to be issued	20	9%

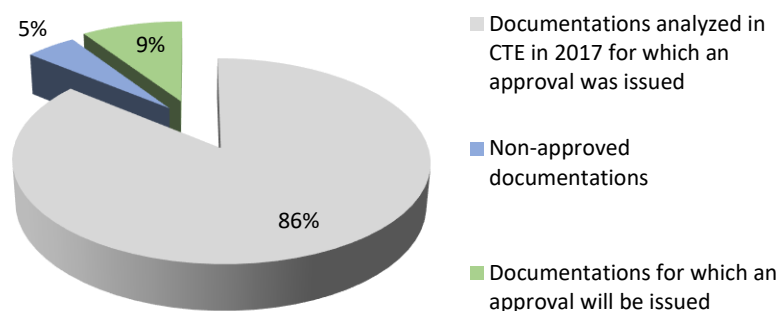


Chart 61-Degree of approvals in the TEC of documentations-2017

The documentation submitted for TEC-Transgaz approval in 2017 was verified by both DAVAP employees and the members of the Technical Support Group (GST) as follows:

No. of observations made by DAVAP for documentation posted in 2017, out of which:	Q I	Q II	Q III	Q IV	TOTAL 2017
	1,781	745	581	1,172	4,279
– observations for SS, SF and PT	1,380	720	533	1,149	3,782
– observations on design themes	51	20	18	9	98
– observations for site provisions	350	5	30	14	399

No. of observations made by GST for documentation posted in 2017, out of which:	Q I	Q II	Q III	Q IV	TOTAL 2017
	355	481	225	189	1,250
– observations for SS, SF and PT	352	478	197	176	1,203
– observations on design themes	1	3	26	12	42
– observations for site provisions	2	0	2	1	5

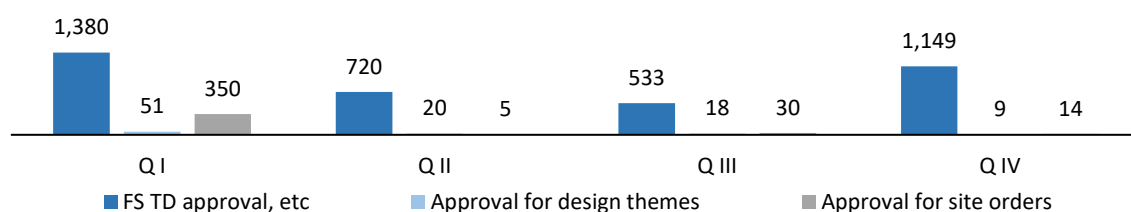


Chart 62-No. of observations made by DAVAP for documentation posted in 2017

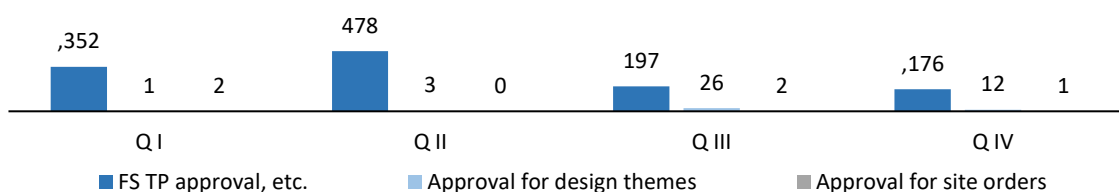


Chart 63-No. of observations made by GST for documentation posted in 2017

As a result of the work carried out by DAVAP and GST, a total of 612 revisions of documentation (an average of 2,65 revisions / documentation) were prepared from the time of submitting the documentation for verification to the time of issuance of TEC approvals.

#### The main measures undertaken in 2017 to achieve the objectives are:

- continuous analysis/assessment of the documentation that went through the TEC of Transgaz, including the most realistic estimation of the prices used in the documentation;
- finalizing the activity of elaborating the applicable Cost Standards at the company level;
- organizing the TEC Transgaz meetings and sending TEC approvals in a timely manner to the documentation developers.

#### The main achievements specific to the activity field of DAVAP during 2013-2017

- improving the checking and analysis activity of the documentation submitted for approval by the TEC by setting up the specialized structures of the DAVAP (Project Check and Analysis Service, Exchange and Economic Assessment Office, Price Estimation Office, TEC Secretariat Office) and the Technical Support Group;
- the updating of the Rules of procedure of TEC, in line with the changes, both in terms of documentation check and analysis, and according to the objectives and directions of action included in the management plan of SNTGN TRANSGAZ SA Mediaș;
- Extension of the check, analysis and approval activity to other documentation with impact on the activity of Transgaz, namely: design issues, site provisions, etc.

SUMMARY-documentation presented in TEC	2013	2014	2015	2016	2017	TOTAL 2013-2017
No. of documentations submitted within the TEC:	176	358	471	291	253	1,549
✓ solution studies, feasibility studies, technical projects, etc	167	118	223	156	134	798
✓ design themes	6	143	112	80	61	402
✓ site provisions	0	47	96	38	18	199
✓ miscellaneous	3	50	40	17	40	140

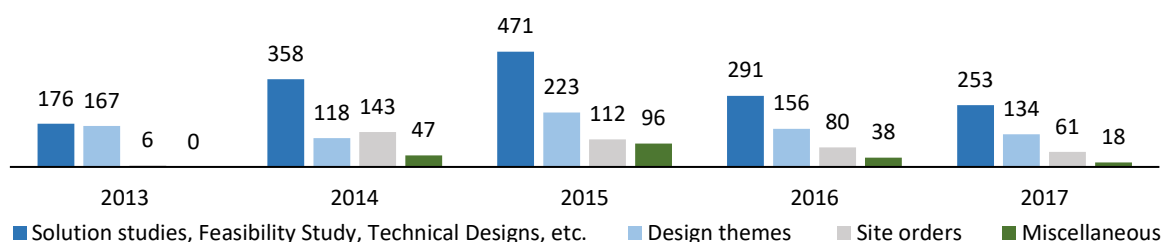


Chart 64-Status of the documentation submitted to TEC during 2013-2017

SUMMARY- TEC approvals	2013	2014	2015	2016	2017	TOTAL 2013-2017
No. of TEC approvals	160	354	374	269	204	1,361
✓ approvals for PT SF, etc.	157	71	187	137	112	664
✓ approvals for design themes	3	104	118	73	56	354
✓ approvals for site provisions	0	134	64	36	15	249
✓ approvals for works analysed in the previous year	n.a.	45	5	23	21	94

TEC GENERAL STATUS DURING 2013-2017	Doc. no.	%
Documentation analysed in TEC (without Miscellaneous)	213	100%
Documents analysed in TEC in 2017 for which an approval was issued	183	86%
Unapproved documentations	10	5%
Documentations for which an approval is to be issued	20	9%

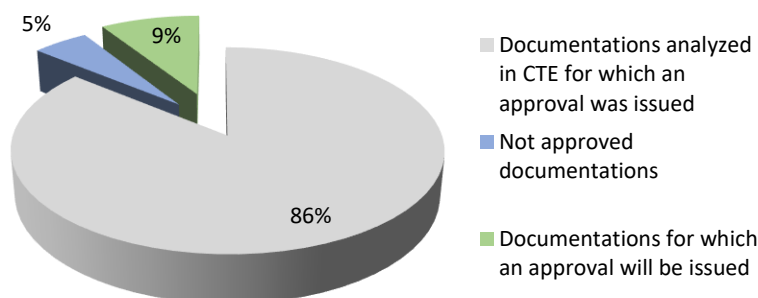


Chart 65-Degree of approval during 2013-2017

#### Lista tuturor entităților în care Transgaz deține participații

- **NABUCCO GAS PIPELINE INTERNATIONAL GmbH**, cu sediul în Viena, companie în care Transgaz deține părți sociale în procent de 17,93% din capitalul social și care are ca obiect de activitate dezvoltarea proiectului Nabucco.  
Lipsa de perspectivă a proiectului Nabucco în contextul deselectării acestuia de către Consorțiul Shah Deniz și a incertitudinii punerii în operă a unor zăcăminte noi de gaze în viitorul previzibil în zona Mării Caspice și a Orientului Mijlociu a determinat asociații Nabucco să ia decizia lichidării companiei de proiect și a Companiilor Naționale Nabucco (NNC-uri), lichidare voluntară și controlată de asociații NIC realizată prin intermediul unui lichidator. In September 2017, the Commercial Court of Vienna issued the resolution contemplating that Nabucco Gas Pipeline International GmbH (NIC) was disincorporated and, on 30 September 2017, the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenues the provision made-up in the previous years in the same amount.
- **SC MEBIS SA Bistrita**, cu sediul în Bistrița, (J06/150/1991) în care Transgaz deține 17,47% din capitalul social, având ca obiect de activitate realizarea de structuri metalice și ansamble sudate complexe, ansamble și produse hidraulice, se află în procedură de lichidare, motiv pentru care

participația în SC MEBIS SA a fost provizionată în întregime. Transgaz nu are nici un fel de obligații față de SC MEBIS SA;

- **SC Resial SA** cu sediul în Alba Iulia (J01/77/1991) în care Transgaz deține 68,16% din capitalul social, având ca obiect de activitate fabricarea și comercializarea produselor refractare silico aluminoase, a intrat în procedură de lichidare în anul 2006; procedura este desfășurată de un executor judecătoresc numit de instanța de judecată și este în afara controlului Transgaz, motiv pentru care, participația nu este consolidată și este înregistrată la cost mai puțin provizionul pentru depreciere constituit la 100% din cost.

Împrumutul acordat la SC RESIAL SA este provizionat în întregime. Conducerea nu se așteaptă ca Transgaz să recupereze vreo sumă din această participație și nu înregistrează nici un fel de obligații reziduale pentru SC RESIAL SA.

- **SC EUROTRANSGAZ SRL** with the headquarters in Chisinau, the Republic of Moldova, where Transgaz owns 100% of the share capital with the objective of producing, transmitting, distributing, storing and supplying natural gas, pipeline transmission, storage and business and management advisory services (the establishins of this subsidiary was approved by AGEA Resolution 10/12.12.2017). The purpose of the subsidiary was to participate in the privatization procedure of the Vestmoldtransgaz State Enterprise operating the Iasi -Ungheni pipeline on the territory of Moldova.

### Computer graphics monitoring of the news related to Transgaz' activity

Subsequent to the monitoring of the news related to Transgaz's activity which were broadcast in the media in 2017, we mention that this year their number was 243, of which:

Tag no	News category	12 months		%	Share	
		2017	2016		2017	2016
1.	Neutral news	165	161	2	68%	53%
2.	Positive news	52	130	-60	21%	42%
3.	Negative news	26	16	63	11%	5%
	<b>Total news</b>	<b>243</b>	<b>307</b>	<b>-21</b>	<b>100%</b>	<b>100%</b>

Table 50- Computer graphics monitoring of the news on Transgaz' activity in 2017

#### The share of the news on Transgaz' activity 12 months 2017

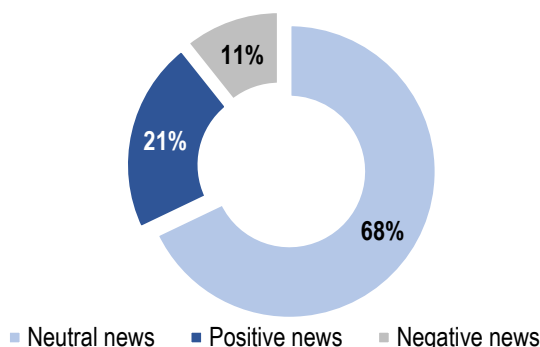


Chart 66-The share of the positive, neutral, negative news on Transgaz' activity in 2017

The distribution per months in 2017, of the positive, negative, neutral media references is as follows:

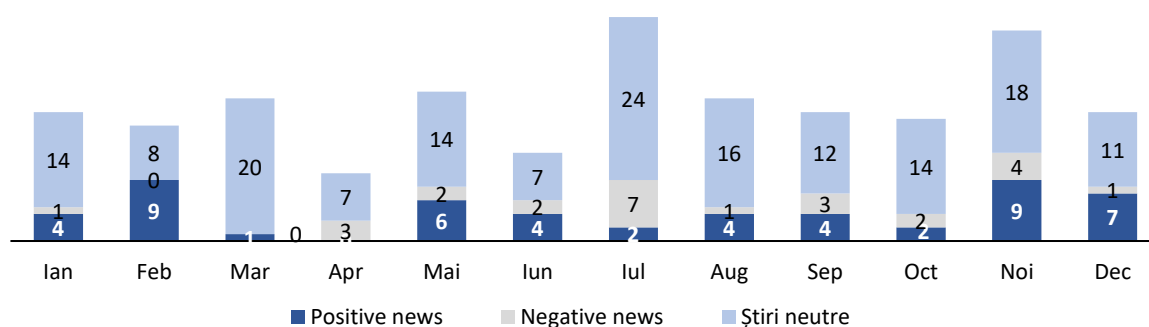


Chart 67-Distribution of the positive, neutral, negative news on Transgaz activity in 2017

The total distribution in 2017 of the references based on the theme, investments, financial results, European financing, capital market, development plan is as follows:

#### Monitoring the news according to the approached theme as at 31.12.2017

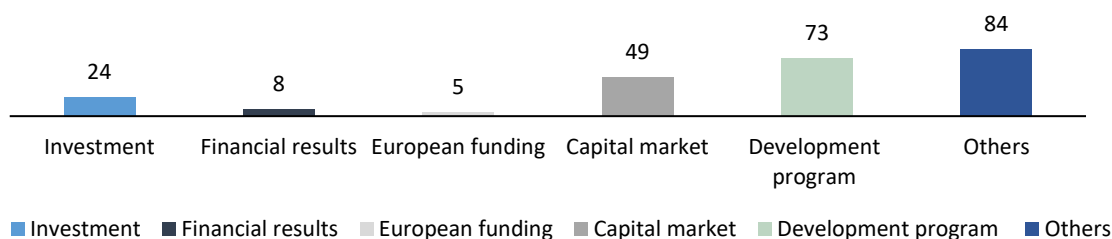


Chart 68-Monitoring the news according to the approached theme in 2017

Distribution per months in 2017 of the references appeared depending of the approached theme is as follows

#### Monitoring the news according to the approached theme per months

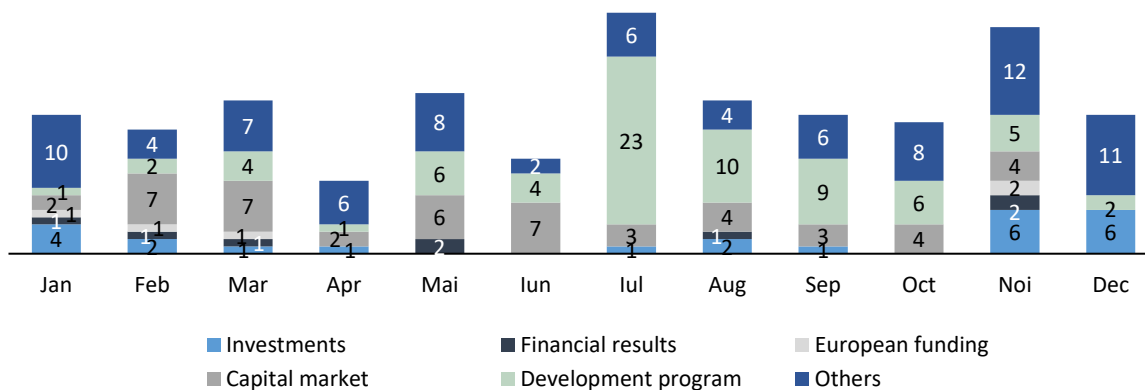


Chart 69-Monthly monitoring of the news according to the approached theme in 2017

The share of the references published in 2017 depending on the theme addressed is as follows:

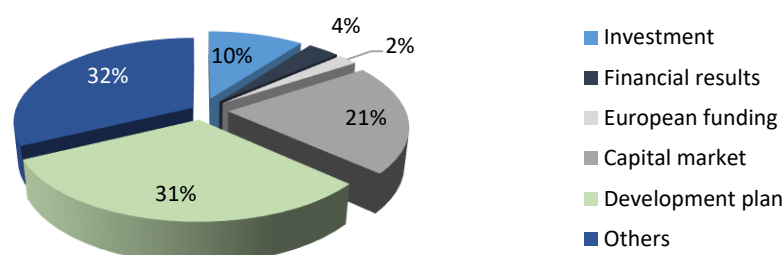


Chart 70-Share of the news according to the approached theme in 2017

Evolution of the number of news on Transgaz' activity during 2013-2017 is illustrated in the table below:

	2013	2014	2015	2016	2017
Neutral news	33	74	110	161	165
Positive news	44	108	48	130	52
Negativ news	19	32	29	16	26
<b>Total news</b>	<b>96</b>	<b>214</b>	<b>187</b>	<b>307</b>	<b>243</b>

Table 51- Computer graphic monitoring of the news on Transgaz' activity during 2013-2017

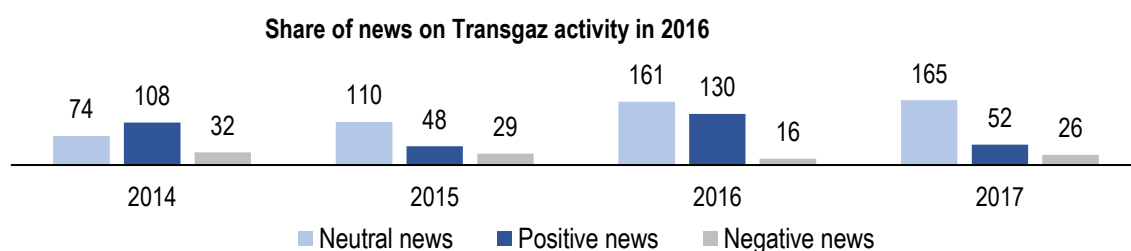


Chart 71-Evolution of the news, per categories during 2013-2017

## 9. THE MANAGEMENT OF THE COMPANY

### 9.1 The Board of Administration

**The administrators of the company as at 31.12.2017:**

- **STERIAN ION** – *executive administrator - Director General;*
- **VĂDUVA PETRU ION** – *non-executive administrator;*
- **ILIESCU BOGDAN-GEORGE** – *non-executive administrator;*
- **LĂPUȘAN REMUS GABRIEL** - *non-executive administrator;*
- **MINEA NICOLAE** - *non-executive administrator.*

**In 2017, the following changes in the componence of the Board of Administration took place:**

By Decision no. 1 of 27 April 2017 of the Ordinary General Meeting of the Shareholders, the renewal of the mandate of the following administrators was approved: Mr. Ion Sterian, Mr. Petru Ion Văduva and Bogdan George Ilescu and their appointment as members of the Board of Administration of SNTGN Transgaz SA .

At the meeting on 16 May 2017, the Board of Administration of SNTGN TRANSGAZ SA took note of the statement of resignation from the position of Director General of Mr. Petru Ion Văduva, and appointed Mr. Ion Sterian as Interim Director General, and decided to amend the Internal rules of procedure of the advisory committees set up at the level of the Board of Administration of SNTGN Transgaz SA, by the rectification of the componence of the Nomination and Remuneration Advisory Committee, so that from 17 May 2017 it consists of the following members:

- Mr. Petru Ion Văduva
- Mr. Radu Ștefan Cernov
- Mr. Bogdan George Ilescu.

By Decision no 13 of 28.12.2017 of the Ordinary General Meeting of the Shareholders the appointment of Mr Lăpușan Remus Gabriel and Mr. Minea Nicolae as administrators of SNTGN Transgaz SA was approved.

#### **The administrators' resumes**

The administrators' resumes may be found on Transgaz webpage at [www.transgaz.ro](http://www.transgaz.ro)

#### **Agreements/understandings or special family ties**

According to the information provided by administrators, there is no agreement or family tie between the respective person and another person due to which that person was appointed administrator.

#### **Administrators' participation to Transgaz capital**

The Company's administrators do not own shares in the share capital of the company

#### **Litigations or administrative procedures**

During the past 5 years, no litigations or administrative procedures were recorded in which the administrative or executive management was involved.

## 9.2 Executive Management

Members of the executive management have individual labour agreements concluded for indefinite periods. The management and execution staff within Transgaz is appointed, hired or laid off by the Director General.

According to the information available, there is no agreement, covenant or family tie between the mentioned persons and another person due to which they were appointed as members of the executive management. The table below indicates the members of the executive management holding shares in Transgaz:

Name and first name	Position	Number of shares as at 31.12.2017	Interest share (%)
Rusu Ioan	Director	2.508	0,021301
Lața Ilie	Director	46	0,000390
Tătaru Ion	Director	25	0,000212
Lupean Marius	Director	20	0,000169
Șai Alexandru	Director	10	0,000084
Comaniță Adela	Director	7	0,000059
Niță Viorel	Director	5	0,000042

*Table 52- Members of Transgaz' executive management owning shares in the company as at 31.12.2017*

The persons appointed as members of the executive management of the company are:

Tag no	Name and surname	Position	Division/Unit
1	Sterian Ion	Director General	
2	Gheorghe Hațegan	Deputy Director General	
3	Târsac Grigore	Deputy Director General	
4	Marius Lupean	Chief Financial officer	Economic Division
5	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
6	Stroia Marius	Director	Operation Division
7	Tătaru Ion	Director	Development Division
8	Cosma Florin	Director	Exploitation and Maintenance Division
9	Leahu Mihai	Director	Engineering and Research Division
10	Achim Viorel Ciprian	Director	HSQE Division
11	Alic Ciprian Octavian	Director	European Funds and International Relations Division
12	Vârdol Florian	Director	Legal Division
13	Luca Bogdan Avram	Director	Sectoral Procurement and Contracting Division
14	Gruia Daniel	Director	IT and Communication Division
15	Sârbu Ionel	Director	Land Regulation and Formalities Division
16	Idu Olga	Director	Legal Endorsement and Disputes Unit
17	Iancu Cristina Daniela	Director	Special Projects Legal Unit
18	Mateș Angela	Director	HR Unit
19	Niculescu Oana	Director	Budgeting Strategy Unit
20	Mareș Gabriela	Director	Regulations and Licence Unit
21	Fodor Mihai Iuliu	Director	Budgeting Finances Unit
22	Comănița Adela	Director	Accounting Unit

23	Deac Sorin Gabriel	Director	Works Preparation and Execution Unit
24	Rău Ioan	Director	Commercial Unit
25	Șai Alexandru	Director	Gas Metering, Gas Quality Unit
26	Bunea Florin	Director	The National Gas Dispatching Centre
27	Banu Larisa	Deputy Director	Gas Market Operator Unit Bucharest
28	Barbu Viorel	Director	NTS Rehabilitation Unit
29	Pânzar Adela	Director	Sectoral Procurement Unit
30	Petrescu Monica	Director	Special Projects Procurement Unit
31	Drusan Nicolae	Director	Security and Protection Unit
32	Drăghici Aurelian	Director	Projects Analysis, Checking and Endorsement Unit
33	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Unit
34	Bolchiș Sorin	Director	Automation and SCADA Unit
35	Tudor Adrian Ionuț	Deputy Director	Automation and SCADA Unit
36	Moldovan Sebastian	Deputy Director	Automation and SCADA Unit
37	Keszeg Sorin		BRUA PMU
38	Olteanu Mihai Antoniu	Manager Proiect	Black Sea PMU
39	Duțu Tudor Alexandru	Șef Reprezentantă	Transgaz Representative Office in Chișinău
40	Ilie Lața	Director	Mediaș Subsidiary
41	Rusu Ioan	Director	Regional Office Mediaș
42	Schmidt Hăineală Eduard	Director	Regional Office Bacău
43	Țandru Marcel	Director	Regional Office Cluj
44	Andrei Romeo	Delegated Director	Regional Office Constanța
45	Niță Viorel	Director	Regional Office Craiova
46	Dumitru Nicușor	Delegated Director	Regional Office Brăila
47	Cristoloveanu Gheorghe	Director	Regional Office Brașov
48	Gurgu Victorel	Director	Regional Office București
49	Alexandru Ionel	Delegated Director	Regional Office Arad

*Table 53-Transgaz' executive management*

## 10. ADMINISTRATORS' MANAGEMENT DISCHARGE

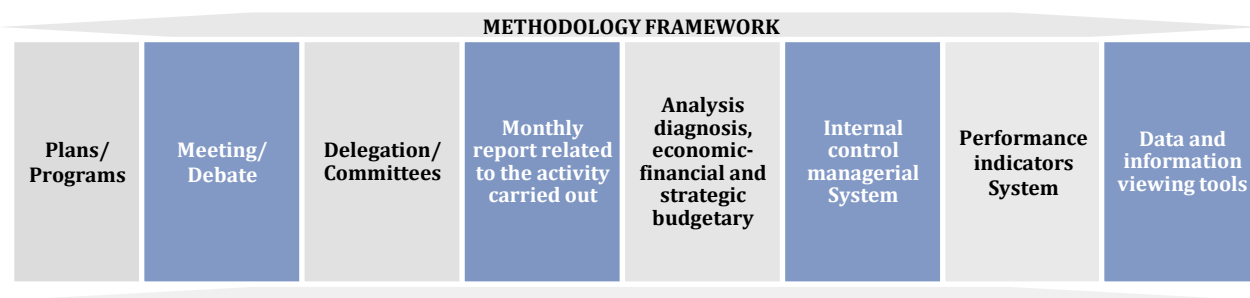
Based on art 55 and 56 of GEO 109/2011, as subsequently amended and supplemented, Transgaz' administrators submit to the General Meeting of the Shareholders for approval the Report of the administrators for 2017.

Based on the following legal provisions:

- Art. 111 para (2) point (d); Art. 155 and Art. 186 of Companies' Law no. 31/1990, republished as amended and supplemented;
- Art. 15 paragraph 3 letter (h) of Transgaz' Articles of Incorporation, updated on 29.04.2016;
- Art. 4.1 lit (h) of the Administrators' Mandate Contract concluded on 30.09.2013,

The company's administrators submit to the General Meeting of the Shareholders for approval the management discharge related to the activity performed in 2017, as presented in this report.

In view of optimizing the activity the company's management will act responsibly and will efficiently use modern and adequate management techniques and methods in order to optimize all the processes and activities carried out by the company as presented:



**Note: Annexes 1-11 are an integral part of this report**

**ION STERIAN – Executive Administrator - Director general**

**PETRU ION VĂDUVA – Non-executive Administrator**

**BOGDAN GEORGE ILIESCU – Non-executive Administrator**

**LĂPUȘAN REMUS GABRIEL – Non-executive Administrator**

**MINEA NICOLAE – Non-executive Administrator**