



**SOCIETATEA NAȚIONALĂ DE TRANSPORT
GAZE NATURALE "TRANSGAZ" SA MEDIAȘ**
Capital social: 117 738 440,00 LEI
ORC: J32/301/2000; C.I.F.: RO13068733
P-ța C. I. Moțaș nr. 1, cod: 551130, Mediaș, Jud. Sibiu
Tel.: 0040 269 803333, 803334; Fax: 0040 269 839029
http://www.transgaz.ro; E-mail: cabinet@transgaz.ro



No. DEC 6.074/9 February 2016
Submitted for approval in the GMS of 21 March 2016

REPORT

regarding the approval of the revenue and expense budget for 2016 and of the estimations for 2017 - 2018

SUMMARY

The draft revenue and expense budget for 2016 and the estimations for 2017-2018 were approved in the Board of Administration meeting of 11 February 2016.

The substantiation of the draft was based on the programmes for NTS design, maintenance, rehabilitation, modernization and development, supply of materials and spare parts; programmes for the provision of services; the provisions of the Collective Labour Contract; the legislation in force; based on the quantities of gas estimated to be transported and the expected capacity bookings.

* thousand RON *

No.	ITEM	2015 REB	Estimated in 2015	2016 REB
0	1	2	3	4
1.	TOTAL REVENUE , of which:	1.694.948	1.691.489	1.752.011
	<i>2015 REB comparison</i>		-0,20%	3,37%
	<i>Estimated in 2015 comparison</i>			3,58%
1.1.	Operating revenue	1.685.161	1.663.905	1.723.159
1.2.	Financial revenue	9.788	27.584	28.852
2.	TOTAL COST	1.250.854	1.108.498	1.282.386
	<i>2015 REB comparison</i>		-11,38%	2,52%
	<i>Estimated in 2015 comparison</i>			15,69%
2.1.	Operating costs	1.247.238	1.100.479	1.278.581
2.2.	Financial costs	3.616	8.019	3.805
3.	GROSS PROFIT	444.095	582.991	469.625
	<i>2015 REB comparison</i>		31,28%	5,75%
	<i>Estimated in 2015 comparison</i>			-19,45%
4.	Tax on profit	72.683	107.733	72.149
5.	NET PROFIT	371.412	475.258	397.476
	<i>2015 REB comparison</i>		27,96%	7,02%
	<i>Estimated in 2015 comparison</i>			-16,37%

PROPOSAL:

The approval of the draft revenue and expense budget for 2016 and of the estimations for 2017 - 2018, according to the applicable Articles of Incorporation of Transgaz, Chapter IV, Art.15, paragraph 3, letter c).

General considerations regarding REB preparation

Considering GO 26/21 August 2013, as further amended and supplemented, *'on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly'*, regulating:

- Art. 6, paragraph (1¹) *The economic operators under Art.4, paragraph (1), letter d), whose shares are accepted to trade on a regulated market, as well as their affiliates submit to the General Meeting of the Shareholders, according to the law, for approval, following the prior consulting of the trade unions, the revenue and expense budget and the substantiation annexes, prepared according to the applicable laws, within 60 days from the entering into force of the annual law on the state budget or from the date of approval of the village, town, Bucharest district, County, Bucharest local budgets, as appropriate. According to paragraph (2) of Art. II of GO 11/27 January 2016 'amending and supplementing GO 26/2013 on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly', the terms under Art.6, paragraph (1¹), for financial year 2016, shall begin as of the date of entry into force of GO 11/2016.*
- Art. 7, paragraph (1) *annually, the state budget law establishes salary policy objectives on which economic operators base revenue and expense budget indicators.*
- Art. 9, paragraph (1) *Economic operators consider, without limitation the following when substantiating the revenue and expense budget:*
 - a) compliance with the Government's and administrative-territorial units policy on improving the economic and financial performance of the operators;*
 - b) compliance with the salary policy objectives set by the annual state budget law;*

regarding the substantiation of the Revenue and Expense Budget of SNTGN Transgaz SA it is necessary to comply with the policy of the Government on enhancing the economic and financial performance and of the salary policy objectives approved under the State Budget Law.

The Revenue and Expense Budget for 2016 is substantiated compliant with the provisions:

- Law 339/2015 of the state budget for year 2016;
- GO 26/21 August 2013, as further amended and supplemented, *'on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly'*;
- GO 11/27 January 2016 *'amending and supplementing GO 26/2013 on strengthening the financial discipline at the level of the economic operators where the state or the territorial administrative units are unique or majority shareholders or hold a majority directly or indirectly'*;

- Ministry of Public Finance Order 20/8 January 2016 *`on the form and structure of the revenue and expense budget and of the annexes for the substantiation of the budget;*
- ANRE Order 32/21 May 2014 *on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariff Setting Methodology;*
- Regulation EU 312/2014 *establishing a Network Code on Gas Balancing of Transmission Networks;*
- ANRE Order 160/2015 *amending and supplementing the Network Code for the National Gas Transmission System, approved by ANRE President Order 16/2013;*
- Government Emergency Order 57/2015 *on salaries of the personnel paid from public funds in 2016, the prorogation of terms, and fiscal and budgetary measures;*
- Companies' Law 31/1990, *republished, as further amended and supplemented.*

The draft revenue and expense budget for 2016 was submitted for consultation to the trade unions and the financial management control according to Government Resolution 1.151/2012 approving the Methodological rules on the organization and exercise of the financial management control.

Expense substantiation was based on the following:

- estimated inflation ratios and/or exchange rates projected according to the ***Medium-term forecast for the period 2015-2019 - the autumn forecast of the National Commission for Prognosis***, for those costs which by their nature have an approximately linear evolution;
- technical regulations in force;
- programme for NTS modernization and development (Investments), design, maintenance and rehabilitation, supply of materials and spare parts;
- service providing programmes (security and safety, training, consulting, etc.);
- normative acts that are in force regarding legislated costs (contribution to social insurance, health insurance, unemployment benefit, transmission licence fee, royalty for the concession of the transmission system, tax on special constructions, etc.);
- costs of social activities under the Collective Labour Contract.

Under Art. 1 of GEO 8/2009 on granting holiday vouchers approved as amended and supplemented by Law 94/2014, stipulating that *`As of the entering into force of this emergency ordinance, for the recovery and maintenance of the working capacity of the employees, the employers hiring personnel under an individual labour contract may legally grant vouchers, hereinafter referred to as holiday vouchers`* correlated with the provisions of the CLC in force, regarding the substantiation of the 2016 REB and of the estimations for 2017-2018, no holiday voucher costs were considered and were taken into account the rights of the employees to the partial settlement regarding tickets for rest and treatment.

For 2016, the granting of holiday vouchers up to the maximum limit according to Art. 1, paragraph (4) of GEO 8/2009 on granting holiday vouchers approved as amended and supplemented by Law 94/2014, *`The maximum limit of the amounts which may be granted to employees as holiday vouchers represent the value of 6 gross national minimum base salaries guaranteed for an employee, in a fiscal year`*, would lead to costs about three times higher than the expenditure provided for the partial settlement of the tickets for rest and treatment according to the CLC.

- technological consumption costs were established based on:
 - an estimate of the specific consumption in the gas compressor stations, technological loss due to discharge as a result of new pipe couplings and planned repairs, differences due to measurement errors, etc.;
 - a purchase price of gas from domestic production for the technological consumption under the gas selling-buying contract no. 173/2 October 2015 (price of contract: RON 80/MWh), to which it was added the estimated unitary excise duty;
- costs of purchase of gas for NTS balancing according to ANRE Order 160/2015 amending and supplementing the Network Code for the National Gas Transmission System, approved by ANRE President Order 16/2013;
- the tax on constructions was established under Law 227/2015 on the Tax Code and the regulation of financial and tax measures;
- the tax on the monopoly was foreseen in 2016 - according to Art. 27 of GEO 57/2015 on salaries of the personnel paid from public funds in 2016, the prorogation of terms, and fiscal and budgetary measures *'The period under Art. 6 of Government Order 5/2013 on the establishment of special tax measures of the natural monopoly activities in the electricity and natural gas domains, as further amended, shall be extended until 31 December 2016'*;
- The following were considered at the substantiation of the personnel costs:
 - compliance with the Collective Labour Contract in force in the Company and the individual labour contract applicable;
 - a basic salary indexation by 3% starting from October 2016. Please note that in 2015 the indexation was negotiated at 2,2% and applied in the last quarter of last year. This indexation was below the minimum indexation of 10% applied in the budgetary sector in the same period of reference;
 - the continuation of the organizational redesigning process of the company's activities and the correlation the duties and responsibilities of the personnel in parallel with the redistribution of duties and responsibilities for some positions whose holders will be retiring in 2016. In this respect it is intended to supplement with specialists the structures performing SCADA and Black Sea project implementation activities, the Transgaz representative offices in Brussels and Chişinău, and the priority EU funds activities. Also, in order to develop the IT systems and the software serving the Company's activities, it is necessary to supplement the number of IT specialists. For the positions above the company's employees and external specialists will be selected. Employment of personnel in 2016 is part of the Company's human resources policy;
 - fixed-term employment of personnel on 50 positions in 2016. Such positions will be occupied mainly by experts and advisers needed for the operating and analysis activities regarding the structure of the gas market consumptions and of the European funds granting necessary for the implementation of the projects for the upgrading of the NTS and related facilities. For these 50 position having an employment duration of 7 months in 2016 salary cost funds amounting to RON 1.475,8 thousand were foreseen;
 - the amounts necessary for the granting of the vouchers in nominal value of RON 9,41, according to Law 142/1998 on the granting of vouchers, as further amended and supplemented;

- expenses incurred on behalf of an employee related to voluntary pension schemes, up to an amount representing the RON equivalent of 400 EUR in a fiscal year, for each participant, compared with the equivalent of 250 EUR/employee/year in 2015;
- cost of voluntary health insurance premia up to an amount representing the RON equivalent of EUR 400 in a fiscal year, for each participant, from the quarter II 2016. The amendments of the Tax Code entering into force as of 01.01.2016 stipulate the increasing of the deductibility ceiling to EUR 400/employee/fiscal year;
- expenses representing the participation of employees in the Company's profit under G.O. 64/2001 on profit distribution in national companies, companies publicly owned or controlled and the autonomous regies, as further amended and supplemented;
- a fund of RON 5.143 thousand for compensations regarding the continuation of employee redundancy on some positions which will be eliminated as a result of the organizational redesigning of some of the Company's activities. This fund was calculated for an estimated number of 100 employees, according to Art. 47 of the CLC. The provision of these funds represents an increase in the cost of personnel in the short term, but in the long term it is intended the obtaining of advantages by reducing the costs with the relevant employees, employed under individual labour contracts for an indefinite period of time.

Revenue substantiation was determined considering:

- the gas quantities estimated to be transmitted (including the quantities transmitted for storage) and the capacity booking estimated for 2016 – 2018;
- the gas quantities estimated to be procures for the physical balancing of the National Transmission System;
- The regulated transmission tariffs approved by the ANRE under Order 136/14 August 2015 on the approval of the regulated revenue, total revenue and transmission tariffs for the transmission of gas through the National Transmission System for the period 1 January 2016 - 30 September 2016, and for the period 1 October 2016 - 31 December 2018 based on the methodology approved by ANRE Order 32/2014;
- The value of the international gas transmission service was estimated according to the existing contracts concluded with Gazprom Export Ltd and Bulgargaz EAD.

The assumptions at the basis of the substantiation of the economic and financial indicators for the period 2016-2018 are as follows:

No.	Item	MU	2016	2017	2018
1.	Annual inflation ratio	%	0,5	2,7	2,5
2.	Rate of exchange	RON/EUR	4,44	4,42	4,40
3.	Rate of exchange	RON/USD	3,93	3,88	3,83
4.	Gas quantity transmitted (including storage injection)	MWh	131.953.793	131.178.873	130.411.703
5.	Average transmission tariff	RON/MWh	9,41	9,54	8,44
6.	Technological consumption procurement price	RON/MWh	82,11	82,11	82,11

Based on these assumptions the following economic and financial indicators resulted:

thousand RON

No.	Indicators	2016 REB	Estimated for 2017	Estimated for 2018
1.	TOTAL REVENUE, of which:	1.752.011	1.764.377	1.619.833
1.1	Operating revenue	1.723.159	1.735.592	1.587.815
1.2	Financial revenue	28.852	28.785	32.018
2.	TOTAL COST, of which:	1.282.386	1.283.063	1.301.193
2.1	Operating cost	1.278.581	1.275.525	1.293.671
2.2	Financial cost	3.805	7.538	7.522
3.	GROSS PROFIT	469.625	481.314	318.640
4.	TAX ON PROFIT	72.149	76.846	50.798
5.	NET PROFIT	397.476	404.468	267.842

The evolution of the economic and financial indicators during the estimated period is influence by:

- the commissioning of investment objectives;
- the progress National Transmission System rehabilitation and maintenance works;
- the evolution of the costs regarding procurement of gas for technological consumption;
- the National Transmission System balancing activity.

Profit distribution was determined taking into account the provisions of G.O. 64/2001 on profit distribution in national companies, companies publicly owned or controlled and the autonomous regies, as further amended and supplemented and of the specifications approved by MPF Order 144/2005 approving the Specifications for the determination of the amounts subject to profit distribution according to G.O. 64/2001 on profit distribution in national companies, companies publicly owned or controlled and the autonomous regies, approved as amended by Law 769/2001, as further amended and supplemented as follows:

- no amounts were distributed to legal reserves as they are currently constituted under the quota of 20% of the share capital, according to Art.183, paragraphs (1) and (2) of the Law 31/1990, as further amended and supplemented, and the share capital is not expected to change;
- employees participation in the profit was determined within the limit of the monthly average base salary estimated per employee in the year for which the participation is granted, per average number of employees, obtained in the ended financial year;
- dividends to shareholders were determined according to MPF Order 144/2005, by applying 50% to remaining net profit after its recompletion with the amount of the cost representing the participation in profit, with which it was affected the gross profit before taxation;
- retained earnings for setting up own financing sources, was determined as the difference between the net profit to be distributed and the profit proposed to be allocated according to GO 64 / 2001.

The analysis of the 2016 REB economic and financial indicators as compared to the 2015 estimations

The 2016 REB indicators compared to the 2015 estimations are as follow:

thousand RON

No.	Item	Estimated in 2015	2016 REB	Variation
0	1	2	3	4=3/2-1
1.	TOTAL REVENUE, of which:	1.691.489	1.752.011	3,58%
1.1.	Operating revenue	1.663.905	1.723.159	3,56%
1.2.	Financial revenue	27.584	28.852	4,60%
2.	TOTAL COST, of which:	1.108.498	1.282.386	15,69%
2.1.	Operating cost	1.100.479	1.278.581	16,18%
2.2.	Financial cost	8.019	3.805	-52,55%
3.	GROSS PROFIT	582.991	469.625	-19,45%
4.	Tax on profit	107.733	72.149	-33,03%
5.	NET PROFIT	475.258	397.476	-16,37%

I. **The total revenue** amounting to **RON 1.752.011 thousand** is higher by **RON 60.522 thousand** as compared to the 2015 estimated revenue, which is higher 3,58%, mainly due to:

- the revenue from NTS balancing amounting to **RON 92.943 thousand** – the balancing activity being a mandatory obligation for Transgaz under ANRE Order 16/2013 on the approval of the Network Code for the Natural Gas Transmission System, amended by ANRE Order 160/2015;
- the decreasing of the revenue from gas transmission by **RON 13.641 thousand**, based on the decreasing of the volumetric component by **RON 112.503 thousand** and the increasing of the capacity booking component by **RON 98.862 thousand**;
- the decreasing of other operating revenue by **RON 19.528 thousand** mainly due to revenue from sales of raw materials and materials obtained from dismantling and sales of assets in 2015, which are not found in the revenue of the following years.

The decreasing of the revenue from the transmission activity was mainly due to **the decreasing of the income approved by ANRE Order 136/14 August 2015, in comparable conditions, by 11,80% (RON 148.209,43 thousand)** as compared to the revenue approved for the period 1 July 2014-30 September 2015 by ANRE Order 70/22 July 2014, and by the modification of the transmission activity revenue structure, stating from the third regulatory period determined by:

- the increasing of the fixed component share in the regulated revenue from 50% la 60%;
- the decreasing of the volumetric component from 50% to 40%.

Regarding the annual evolution of revenue from gas transmission:

Gas transmission is regulated by the National Energy Regulatory Authority (ANRE). According to the methodology for setting the regulating revenue, the costs savings of the transmission operator in a gas year and the additional revenue obtained in a gas year diminish the regulated revenue approved in the following gas years.

According to ANRE Order 32/21 May 2014 on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariff Setting Methodology the following are also considered at the determination of the annual regulated revenue:

- the correction component of the total revenue for the previous years;
- the correction component of the technological consumption for the previous years;
- the efficiency gain redistribution component obtained by the transmission operator in the first year of the regulatory period by the transmission system users in the first year of the following period (the savings obtained by the transmission operator regarding some cost items as compared to the levels approved by ANRE must be kept by the transmission operator over a period of 5 years; then they are redistributed to users by the diminishing of the annual regulated revenue with these savings).

All these provisions of the methodology may determine the reduction of the revenues from the transmission activity and hence the charges related to them with beneficial effects upon the users of the transmission system.

The application of the provisions of the methodology mentioned above determined, to a large extent, the decrease in revenues from gas transmission in 2016 compared to 2015.

Thus the regulated revenue approved for the period 1 October 2015-30 September 2016 recorded decreases mainly on account of savings on gas purchase costs related to technological consumption in the second and the third years of the third regulatory period (1 July 2013-30 September 2015) in the amount of RON 97 776 thousand and the recalculation of the total income for the year 3 based on the performed inflation.

The estimated revenue from the gas transmission activity for 2016, according to the tariffs approved by ANRE for the period 1 October 2015-30 September 2016 the estimated charges based on existing regulations for the fourth quarter of 2016 is RON 1,242,248 thousand, by RON 13 641 thousand less compared with 2015 preliminary.

Considering the above, we believe that the provisions of the Instructions for completing the REB approved by the Order no. 20 / 08.01.2016 of the Ministry of Finance, Annex 6 par.II.6 that 'the total income and expenses is estimated, so the index related to the increase in total expenses usually does not exceed the total income growth index " cannot be applied in the situation of Transgaz whose activity is regulated at a rate of approx. 80%.

Regarding the revenues from the gas balancing activity we would like to mention that: EU Regulation 312/2014 establishing a network code on the gas transmission networks balancing provides uniform balancing rules at European level, reflecting the specific needs of the transmission system and take into account the levers of the operators for balancing the transmission systems. According to the Regulation mentioned above the role of the system operator is to perform balancing activities based on non-discriminatory market principles through the purchase/sale of natural gas quantities required for balancing. The system operator does not record gains or losses as a result of conducting the balancing activity.

The provisions of the Regulation mentioned above are taken over in the ANRE Order no.16/2013 on the approval of the Network Code for the National Gas Transmission System modified by ANRE Order no.160 /2015, which states in Article 83 (2) that *"to ensure the safe operation of the NTS, the TSO should have enough gas for system balancing as natural gas stored in pipelines and/or as balancing gas stored in underground storages, and to take NTS balancing actions including by conducting sales and/or purchasing transactions for the natural gas quantities required to balance the system in a transparent, non-discriminatory manner, by using market mechanisms"*.

When estimating the quantity of gas destined for NTS balancing the maximum quantities of gas to be purchased for the physical balancing of the NTS were considered. This gas will be purchased according to the needs in order to balance fluctuations in gas flow and to maintain the pressure values in order to enable the safe and efficient operation of the NTS.

II. Total expenses amounting to **RON 1.282.385 thousand** are by **RON 173.891 thousand** higher than the preliminary ones related to 2015, which represents their increase by 15,69%, determined mainly by:

1.the cost of gas procurement for NTS balancing amounting to **RON 92.943 thousand** according to ANRE Order no.16/2013 approving the Network Code for the National Gas Transmission System modified by ANRE Order no.160/2015. Because according to the provisions of EU Regulation 312/2014 the system operator does not record gains or losses as a result of conducting balancing activities the revenues and expenses related to such activities were grounded in the draft of the revenue and expenses budget in the same amount.

2. the cost related to the technological consumption is higher by **RON 11.872 thousand**, because of the following factors:

- The higher gas quantity as compared to 2015 by 20,70% (206.443 MWh), with a negative influence of **RON 18.003 thousand**;
- The average estimated purchase price is lower than the preliminary one for 2015 by RON 5,095/MWh, with a positive influence of **RON 6.131 thousand**;

3. the monopoly tax expense higher by **RON 3.942 thousand**, calculated according to Government Ordinance no. 5/2013 establishing special tax measures of the activities of natural monopolies in the electricity and natural gas sector. According to Article 27 of GEO no.57/2015 on the remuneration of the personnel paid from public funds in 2016, the extension of deadlines, and some fiscal measures - budget *"The deadline laid down in Article 6 of Government Ordinance No.5 / 2013 on setting special tax measures related to the activities of natural monopolies in the electricity and natural gas sector, as amended, shall be extended until 31 December 2016"*;

4. other material expenses amounting to **RON 12.124 thousand**.

Economies were provided especially in the following expense elements:

1. Other operation related expenses lower by **RON 103.622 thousand**, mainly due to the adjustment of the provisions for the depreciation of current assets (-RON 99.650 thousand);
2. The financial expenses lower by **RON 4.214 thousand** (-53%) because of the decrease of the expenses related to the interests due to reimbursements of the undertaken loans.

III. The gross result estimated for 2016 is of **RON 469.625 thousand**, by RON 113.369 thousand (-19,45%) lower than the preliminary one for 2015.

IV. The tax on profit was calculated taking into account:

- ☞ The influence of the provisions for risks and expenses and of the provisions for the depreciation of current assets;
- ☞ The influence of the expenses related to the participation of the employees to the profit related to 2015 and of the rights related to the mandate contract to be paid in the following year;
- ☞ The social expenses exceeding the legal deductibility legal limit (Law 227/2015 - Tax Code Art. 25 (3) b) of 5% applied on the value of the wage bill;
- ☞ Sponsorship expenses granted within the legal limit (Law 227/2015 - Tax Code Art. 25 (4) let. i) of 0,5% of the turnover, but not more than 20% of the tax on profit.

Planning the investment financial effort related to 2016-2018

The total expenses for investment include funds for NTS development and modernization works, the amounts necessary for the repayment rates on loans employed by the company to finance the investments which were not covered from own sources and the amounts required for the payment of guarantees related to the removal from the statute of agricultural land.

The sources for financing investment expenses are:

- Own sources including the amortization and the amounts distributed from the net profit to finance investments according G.O. no. 64/2001 regarding profit distribution to national societies, national companies and companies owned or majority state owned, as well as the autonomous administrations, as amended and supplemented;
- Amounts resulting from the absorption of European funds;
- Unused own resources from previous years and other sources.

The investment expenses were determined based on:

- The modernization and development investment program for 2016 and estimates for the period 2017-2018;
- design software for investment works for 2016;
- the 10 years national transmission system development program.

A sustainable development of the transmission infrastructure in Romania requires an extensive investment program to enable the compliance of the National Transmission System (NTS) with the transmission and operating requirements of the European gas transmission network.

Through the 10 years national transmission system development program, Transgaz presents its strategic directions of action and proposes major investment projects for the strategic and sustainable development of natural gas transmission infrastructure in Romania and its compliance with European regulatory requirements in the field. The strategic planning was based on the investment projects proposed and the latest developments and trends in gas transmission routes at European level and the profiling of two new sources of gas supply: natural gas from the Caspian region and those recently discovered in the Black Sea, so as for the company to be prepared to face the challenges related to exploiting these opportunities.

The financing of total investment costs was provided to be ensure from own sources (amounts from the net profit and depreciation), European funds and bank loans.

The development of the National Gas Transmission System in Romania on the corridor Bulgaria-Romania -Hungary-Austria - execution works Stage 1 is part of the project - "Gas pipeline from Bulgaria to Austria via Romania and Hungary" (PCI - 7.1.5 – on the first PCI list).

For Stage 1, by the application form submitted to the European Commission on 10.12.2015, a financial aid was sought through the CEF mechanism, amounting to 50% of eligible investment costs.

In the meeting dated 19.01.2016 of the CEF-Energy Coordination Committee, the European Union allocated **179.3 million euros** for the execution of the first stage of the project proposed by Transgaz according to the first PCI List /2013 "Gas pipeline from Bulgaria to Austria via Romania and Hungary ", with the name - according to the Development Plan of the National Gas transmission System 2014 - 2023 (TYNDP) -"Development on the territory of Romania of the National Gas transmission Systems along the corridor of the transmission pipeline Bulgaria - Romania - Hungary - Austria "- (abbreviated BRUA) - the first stage. The contribution of up to 100% of the investment value is provided from own sources and borrowed sources, according to the financing policy of the company.

The progress in the implementation of major investment projects of Transgaz SA, requires the performance of parallel steps to ensure the financing of the 10-year National Transmission System development plan. In the years 2017-2018 the company aims at attracting funds from the banking system to complement the necessary financing.

The synthesis of the investment expenditure for the period 2016-2018 as well as their financing is indicated below:

** thousand RON **

No.	Item	2016	2017	2018	Total
					2016-2018
0	1	2	3	4	5=2+3+4
I.	Investment expenses, of which:	838.838	1.280.787	1.458.840	3.578.464
1.1.	Investments	751.940	1.238.496	1.383.822	3.374.258
1.2.	Capitalized interest	0	8.194	40.068	48.262
1.3	Guarantees for the lands	86.898	34.097	34.950	155.945
II.	Financing sources, of which:	1.253.697	1.280.787	1.458.840	3.578.464
2.1.	Own sources, of which:	357.609	358.512	292.444	1.008.565
	-amounts from the net profit	192.689	196.043	127.730	516.463
	- amortization	164.920	162.469	164.714	492.102
2.2.	European funds	282.364	246.145	236.702	765.212
2.3.	Bank loans	0	261.271	842.795	1.104.066
2.4.	Receipts from the guarantees for the lands			86.898	86.898
2.5.	Surplus/deficit from previous years	613.724	414.859	0	613.724
III.	SURPLUS/DEFICIT(II-I)	414.859	0	0	0

Other additional information

1. The substantiation of the remunerations related to the non-executive and executive members of the Board of Administration

The amounts related to the mandate contract of the director general/executive administrator were determined based on the remunerations set in the mandate contract and in the provisions of article 37, paragraph (5) of GEO no.109 / 30 November 2011 *on corporate governance of public enterprises, as amended and supplemented*, and it is a fixed monthly allowance and an annual variable remuneration component. The annual variable remuneration component to the mandate contract of the Director general /executive administrator consists of the annual bonus for the performance indicator on EBITDA + the annual bonus for the performance indicator on operating expenses excluding depreciation + the annual bonus for the performance indicator on investments.

The amounts related to the mandate contract of the non-executive administrators (a total of 4 contracts) were determined based on the remunerations set in the mandate contracts and the provisions of article 38, paragraph (3) of GEO 109/30 November 2011 *on corporate governance of public enterprises, as amended and supplemented*, and it is a fixed monthly allowance and an annual variable remuneration component. The annual variable remuneration component to the mandate contracts of non-executive administrators is made of the annual bonus for the performance indicator on EBITDA + the annual bonus for the performance indicator on operating expenses excluding depreciation + the annual bonus for the performance indicator on investment.

The variable remuneration of the Director General and of the Board of Administration was approved by the Resolution of the Ordinary General Meeting of Shareholders No. 9 of 23 September 2013, Article 2 respectively with the approval of the contract template that is to be concluded with the members of the Board of Administration of Transgaz SA, as approved by the majority shareholder Romanian State represented by the Ministry of Finance and published on the website of TRANSGAZ SA by address nr.5917 / 28.08.2013.

The payment of the Bonus for the performance indicator "EBITDA" is made in four equal instalments payable quarterly during the fiscal year and the adjustment shall be made according to the results actually achieved in that particular year within 30 days from the date of approval by GMS of the audited annual financial statements, the TRUSTEE will repay the full value of the bonus if the performance indicator in question is not fulfilled.

The payment of the bonuses for the performance indicator on "Operating expenses (excluding depreciation)" and for the performance indicator on "Investment" is made **within 30 days from the date of approval by the general meeting of shareholders** of the audited annual financial statements for the year for which those respective bonuses were determined.

According to article 37 paragraph 5 of O.U.G. no.109/2011 on corporate governance of public enterprises' *The level of the variable component is set according to the recommendations duly substantiated, made on the basis of a comparative study on the conditions of remuneration for similar positions in companies in the same business, partially or wholly owned by the State of Romania and other European countries by the nominating committee or, where appropriate, the human resources*

recruiting experts whose services were contracted for the procedure for selecting the members of the Board of administration/supervisory Board ".

Upon setting the amount of the variable remuneration the compared Study recommendations were used for determining the variable remuneration component of the members of the Board of Administration and of the Director General, in accordance with the provisions of GEO no.109/ 2011 on corporate governance of public enterprises, as amended and supplemented, made in 2014. This study sought to identify conditions related to the remuneration of executive and non-executive administrators in 49 European companies working in the same field as SNTGN TRANSGAZ SA

2. The substantiation of the economic-financial indicators which are facing a significant increase as compared with the same period of the previous year

The expenses related to goods and services were forecasted by **108.88%** higher. The main causes which determine this increase are:

- The increase of the expenses related to goods by 120,56% as compared with 2015, is mainly due to:
 - The increase of the technological consumption expenditure caused by the increase of the natural gas amount for technological consumption. In estimating the amount of natural gas for technological consumption the limits of technological consumption of total gas circulating were taken into account which were mentioned in the "*Study on the substantiation of the technological consumption related to specific oil related operations carried out by TRANSGAZ*", endorsed by the National Agency for Mineral Resources (NAMR) by Opinion no.2 / 27 March 2012. The Scientific Economic and Technical Council of NAMR establishes by this study the following:
 - For the summer period the technological consumption varies between the limits of 1,1 – 1,9% of the total circulated gas volumes;
 - For the winter period the technological consumption varies between the limits of 2,6 – 3,5% of the total circulated gas volumes.

We would like to mention that in determining the gas quantities for technological consumption used in the substantiation of the draft for the revenue and expense budget for the years 2016 - 2018 we took into account a rate of 0.9% of the total volume of circulated gas, the percent was estimated based on the achievements of the past two years, lower than the one set based on the study mentioned above.

- Expenses related to the purchase of the gas required for NTS balancing according to ANRE Order no.16/2013 approving the Network Code for the National Gas Transmission System modified by ANRE Order no.160 / 2015. In estimating the quantity of gas necessary to balance the NTS the maximum quantities of gas to be purchased for NTS physical balancing were considered. These quantities of gas will be purchased according to the needs in order to balance the fluctuations in gas flow and pressure to maintain the values that enable safe and efficient operation of the NTS.
- The increase of the expenses related to consumables by 65.50% and of the expenditure related to materials and inventory objects by 255.77%. These expenses were set according to the schedule for supply of materials and spare parts needed for maintenance works, repairs, interventions and special operations and materials for the normal activity. At the substantiation of

this program the material stocks estimated for the end of 2015 and the procurement contracts in progress were considered;

- The increase of energy and water related expenses (16.79%) due to the increase in electricity consumption because of a connection to the power supply network of the new objectives that will be put into operation (technology nodes, SCADA system, metering regulating stations);
- The increase of the expenses related to the maintenance and repair by RON 70.507 thousand (283.82%).

The program for the scheduled repairs to pipelines for 2016 includes both the works started and unfinished provided in the works program of 2015 and the new works proposed as a result of events/anomalies /incidents occurred during 2015 need to be resolved in 2016. They were initiated on the basis of design themes or projects developed or evaluation reports related to pipes diagnostic methods (external or intelligent pigs). Out of the works proposed for the works program, most of them are substantiated by projects endorsed by the T.E.C of Transgaz;

- The increase of the commissions and fees related expenses by 197.98%. These expenses consist mainly of expenses for legal advice (RON 1,760 thousand), representing consultancy, assistance and the legal representation needed to implement the European regulations in force and future incidence in the company's business, the implementation of rules relating to the financing of energy infrastructure by CEF mechanism and providing legal expertise in international and European regulations, approved by the EGSM Decision no.2 / April 29, 2014;
- The increase of postal expenses and telecommunications fees (216.50%); starting with 2016 at the level of Transgaz will implement the company's strategic projects in IT, Security, Operations, Exploitation, Metering, Dispatching and interconnections with operators in neighbouring countries. The communications services (VPN service, internet access, connections radio-relay communications satellite SCADA) must be provided in a flexible manner so that there are no delays in the implementation schedule of future projects and for daily operational services not to be limited by communications while funds allocated for this purpose to be substantiated and the services to be contracted only from the moment and in the quantity needed.

We would like to mention that the programs for NTS upgrading and development (Investments) design, maintenance and NTS rehabilitation, other services performed by third parties, materials and spare parts supply which substantiated the abovementioned expenses were approved by the Board of Administration.

By the decision of the Board of Administration 36/2014 the contracting of a credit line facility was approved for a period of three years, in the amount of RON 200.000.000 in order to cover some temporary needs. In 2016 this facility may be used for issuing bank guarantees in order to provide guarantees for the gas transmission contracts and gas procurement contracts for the gas destined for technological consumption and the physical balancing of the national transmission system.

According to the provisions of Transgaz' Articles of Incorporation, in force, Chapter IV, art 15, par 3, letter c), **we would like to kindly ask the General Assembly of the Shareholders to approve the revenue and expense budget for 2016 and the estimates for 2017-2018**, according to the provisions of GO no. 26 on 21 August 2013, art. 4, par. 1, letter d).

Enclosures:

- The revenue and expense budget for 2016 and the estimates for 2017-2018: Annex no.1*;
- The detailing of the economic-financial indicators provided in the revenue and expense budget and their split by quarters: Annex no 2*,
- The execution rate of the total revenues: Annex no.3*;
- The investment program and sourcing of investment funding: Annex no.4*;
- Means to improve the gross result and the reduction of outstanding payments: Annex no. 5*;
- The revenue and expense budget for 2016: Annex no. 6.

****Note: Annexes 1 – 5 will not be made public***

**Chairman of the Board of Administration
Ion Sterian**

Economic agent: S.N.T.G.N. Transgaz S.A. Medias
 Headquarters: Medias, C.I. Motas Square no.1
 VAT-registration code: RO 13068733

REVENUE AND EXPENSE BUDGET
 related to 2016

thousand lei

		INDICATORS	Row no.	REB 2016
0	1	2	3	4
I.		TOTAL REVENUES (Row1=Row2+Row5+Row6)	1	1,752,011
	1	Total operating revenues	2	1,723,159
		a) subsidies according to the legal provisions in force	3	
		b) Transfers according to the applicable laws	4	
	2	Financial revenues	5	28,852
	3	Extraordinary revenues	6	
II		TOTAL EXPENSE (Row7=Row8+Row20+Row21)	7	1,282,386
	1	Operating expenses, of which:	8	1,278,581
	A.	Expense with goods and services	9	447,835
	B.	Expenses with taxes, charges and similar	10	231,948
	C.	Expense with personnel, of which:	11	396,796
	C0	Salary-related costs (row 13 + row 14)	12	301,475
	C1	Salary costs	13	261,440
	C2	Bonuses	14	40,035
	C3	Other personnel expense, of which:	15	5,143
		Compensation expense related to employees layoffs	16	5,143
	C4	Expense on mandate contract and other governing and control bodies, commissions and committees	17	4,409
	C5	Insurance and social security, special funds and other legal obligations expense	18	85,770
	D.	Other operating costs	19	202,001
	2	Financial costs	20	3,805
	3	Extraordinary costs	21	
III		GROSS RESULT (profit/loss)	22	469,625
IV		TAX ON PROFIT	23	72,149
V		ACCOUNTING PROFIT REMAINING AFTER THE DEDUCTION OF THE TAX ON PROFIT, of which:	24	397,476
	1	Legal reserves	25	
	2	Other reserves representing tax incentives provided acc to the law	26	
	3	Covering accounting losses in the previous years	27	
	4	Establishment of its own financial sources for the projects cofinanced by foreign loans as well as establishment of the sources necessary for the capital repayments, interest payment and other costs related to these foreign loans	28	
	5	Other assignments provided by law	29	
	6	Accounting profit left after the deduction of the amounts in row 25, 26, 27, 28 and 29.	30	397,476

		INDICATORS	Row no.	REB 2016
0	1	2	3	4
	7	Employees share to the profit within the limit of 10% of the net profit, but no more than the level of an average monthly salary of the economic operator during the reference financial year	31	12,097
	8	Minim 50 % payments to the State or local budget, for the autonomous companies, or dividends for the national companies or the entirely or partially owned-by the state companies, of which:	32	204,787
	a)	- dividends to the state budget	33	119,820
	b)	- dividends to the local budget	33a	
	c)	- dividends to other shareholders	34	84,967
	9	Profit not assigned for the destinations provided at row 31 - row 32 is assigned to other reserves and it is an own financing source	35	192,689
VI		INCOME FROM EUROPEAN FUNDS	36	
VII		ELIGIBLE COSTS FROM EUROPEAN FUNDS, of which:	37	
	a)	material costs	38	
	b)	salary costs	39	
	c)	service supply costs	40	
	d)	publicity costs	41	
	e)	other costs	42	
VII		INVESTMENT FUNDING SOURCES, of which:	43	1,253,697
	1	Budget allocations	44	
		Budget allocations regarding payment of commitments from the previous years	45	
IX		INVESTMENT COSTS	46	751,940
X		SUBSTANTIATION DATA	47	
	1	No. of personnel estimated at the end of the year	48	4,705
	2	Total average no. of employees	49	4,767
	3	Average monthly income per employee (lei/person) determined based on the salary costs*)	50	4,835
	4	Average monthly income per employee (lei/person) determined based on the salary costs *) (Row13/Row49)/12*1000	51	4,570
	5	Labour productivity in units of value per total average personnel in current prices (RON/person) (row 2/row 49)	52	361
	6	Labour productivity in physical units per total average personnel (physical units/person)	53	0.0000
	7	Total costs at RON 1000 total income (row 7/row 1)x1000	54	732
	8	Outstanding payments, in current prices	55	0
	9	Outstanding debt, in current prices	56	150,000

DIRECTOR GENERAL,
Petru Ion Vaduva

ECONOMIC DIVISION DIRECTOR,
Marius Lupean