

THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ SA

REPORT ISSUED BY THE BOARD OF ADMINISTRATION

2015



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MESSAGE OF THE CHAIRMAN OF THE BOARD OF ADMINISTRATION

Dear shareholders,
Dear investors,

The National Natural Gas Transmission Company 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.

TRANSGAZ is a joint stock company, listed at the Bucharest Stock Exchange and it is administered by the Board of Directors using a unitary system. In compliance with the current legislation on corporate governance, the Board of Directors was appointed by the General Meeting of Shareholders by cumulative vote on 10.07.2013, and it ensures the administration of the company in line with the **Management plan of the company between 2013 and 2017**, a plan unanimously approved by the company's shareholders by the Decision No. 9/23.09.2013 of the General Ordinary Assembly of the Shareholders.

In compliance with the legal provisions, the Board of Directors has delegated the management of the company to the general manager, Mr **Petru Ion Vaduva** who, together with the executive management, ensures through the management plan, the operationalization of strategic directions approved by the Management Plan of the company.

The management plan of SNTGN Transgaz SA Medias 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 European natural gas market.

Making the company's importance more responsible both as an engine of the national economy and as a vector of the country's economic growth, through its role in the development of the energy sector and transformation of Romania into a European energy power, the company administrators are currently on the verge of starting one of the largest and most important development programs of natural gas transmission infrastructure of Romania in the last 20 years, having investment projects **estimated at EUR 1.5 billion**.

In the context of profiling two major new sources of natural gas supply, **the natural gases 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 Transmission System of natural gases over the next 10 years**, plan approved by the NREA 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.

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 gases 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 complex and extensive investment programme, Transgaz envisages, in addition to its own sources of funding, the use of additional external funding under advantageous conditions. Thus, the company has a professional department for accessing European funds and for International Relations, having the role of accessing European funds and of developing international cooperation relations. At the same time, Transgaz developed a Financing Committee having the role of attracting funding from international financial institutions, from other banking and financial institutions as well as from the capital market by issuing bonds.

The strategic vision of those who today bear the responsibility of this company's destiny focuses on professional and efficient management, on being able to face challenges and constraints, on the development and modernization of the national transmission infrastructure of natural gases, on competitiveness and capitalizing on existing and future opportunities, so as TRANSGAZ shall become a recognized carrier of natural gases on the international market of natural gases, a leader on the energy market in the region, an important link in the national and European energy chain.

Pursuing our proposed objectives on operational effectiveness, performance optimization and sustainable development of society, and observing the principles of good corporate governance, the company administrators shall fulfil their mandate responsibly, efficiently, transparently and professionally towards all stakeholders.

Yours sincerely,

ION STERIAN

Chairman of the Board of Administration

1. ISSUER IDENTIFICATION DATA

1.1 Report and issuer identification data

Half year report according to the provisions of Article 227 of Law no. 297/June 28, 2004, regarding the capital market, as amended and supplemented

For the year concluded on: 31 December 2015

Report date: 15 March 2016

Company name: The National Gas Transmission Company TRANSGAZ SA

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

VAT Number: R013068733

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

Subscribed and paid up capital: RON 117,738,440

Regulated market for the trading of issued securities: Bucharest Stock Exchange

Main characteristics of the securities issued by Transgaz: 11,773,844 ordinary, registered, indivisible, freely tradable shares as of 24 January 2008, with a face value of RON 10/share.

The financial and economic indicators presented in this report are calculated based on the financial statements prepared according to the International Financial Reporting Standards adopted by the European Union (IFRS-EU), according to the Order of the Minister of Public Finance no. 881/June 25, 2012 and the accounting regulations approved by Order of the Minister of Public Finance no. 1286/October 1, 2012 – updated.

1.2 Main activities

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

SNTGN TRANSGAZ SA Mediaș is the technical operator of the National Transmission System (NTS) of natural gas and ensures the fulfilment in conditions of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy established for domestic and international transmission of natural gas, natural gas dispatching, research and design in the field of natural gas transmission, in compliance with the national and European laws and standards of quality, performance, environment and sustainable development.

1.3 Structure

Transgaz was set up in 2000, based on the GD no. 334/ April 28, 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 aforementioned reorganisation, 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 on the approval of the certification of the National Gas Transmission Company Transgaz SA Mediaş as transmission and system operator of the National gas transmission 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 provisions of Law no. 346/2007 regarding 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, 551130;
- Exploitation and Maintenance Department: Mediaş, str. George Enescu no. 11, Sibiu County, 551018;
- Research and Design Department: Mediaş, 6 Unirii Street, Sibiu County, 550173;
- Bucharest Gas Market Operator Division: Bucharest, 30 Dorobanţi Blvd., District 1, 010573;
- Transgaz Romania Representative Office: Bucharest, 55 Primaverii Bvd.;
- Transgaz Representative Office at Brussels – Belgium: Brussels, 23 Luxembourg Street;
- European Funds and International Relations Division: Bucharest 155 Victoriei Blvd., District 1, 010073.

Transgaz has 9 regional offices and a subsidiary:

- Arad Regional Office, 56 Poetului Street, Arad, Arad County, 310369;
- Bacău Regional Office, 63 George Bacovia Street, Bacău, Bacău County, 600238;
- Brăila Regional Office, 5 Ion Ghica Street, Brăila, Brăila County, 810089;
- Braşov Regional Office, 12A Grigore Ureche Street, Braşov, Braşov County, 500449;
- Bucharest Regional Office, 24 Lacul Ursului Street, District 6, Bucharest, 060594;
- Cluj Regional Office, 12 Crişului Street 12, Cluj-Napoca, Cluj County, 400597;
- Craiova Regional Office, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, 200011;

- Mediaș Regional Office, 29 George Coșbuc Street, Mediaș, Sibiu County, zip code 551027;
- Constanța Regional Office, 2bis Caraiman Street, Constanța, Constanța County, zip code 900117;
- Mediaș Subsidiary, 59 Sibiului Street, Mediaș, Sibiu County.

1.4 Shareholders

According to GEO no. 86/17.12.2014 on the establishment of measures for the reorganization of the central public administration and for the amendment of regulations, the exercise of rights and the fulfilment of obligations arising from the Romanian state's capacity as shareholder in Transgaz is ensured by the Ministry of Economy, Trade and Relations with Business Environment.

At the end of 2015 the shareholding structure of Transgaz was as follows:

- 58.5097% - The Romanian State represented by the Ministry of Economy, Trade and Relations with Business Environment – 6,888,840 shares;
- 41.4903% - Free float – 4,885,004 shares of which:
 - 8.0191% natural persons – 944,157 shares;
 - 33.4712% legal persons – 3,940,847 shares.

Shareholder's name	Number of shares	Percentage
The Romanian State represented by the Ministry of Economy, Trade and Relations with Business Environment	6,888,840	58.5097%
Free float - Other shareholders (natural and legal persons)	4,885,004	41.4903%
Total	11,773,844	100%

Table 1 – Shareholding Structure of Transgaz on 31.12.2015

Following GEO 55/19.11.2015 on the establishment of measures for the reorganization of the central public administration and for the amendment of regulations, it was established the Ministry of Economy, Trade and Relations with Business Environment by the reorganizing and taking over of the activities of the Ministry of Economy, Trade and Tourism.

The number of shareholders of Transgaz registered with SC Depozitarul Central S.A. at the end of 2015 was 7,964, which is lower by 3.19% (262 shareholders) compared to the end of 2014, when there were 8,226 registered shareholders.

The share capital of Transgaz on 31 December 2015 is of RON 117,738,440 and is divided into 11,773,844 registered shares, each share having a face value of RON 10.

Transgaz did not carry out transactions with its own shares and, consequently, at the end of 2015 the company does not hold any of its own shares.

2. EXECUTIVE SUMMARY

2.1 Indicators of the operational activity

The evolution of the natural gas quantities circulated and transmitted through the National Natural Gas Transmission System (NTS), as well as of the technological consumption in 2015 as compared to 2014 is as follows:

Indicator	2015	2014	+/-	%
1	2	3	5=2-3	6=2/3-1
Circulated gas - thousand cm	12,383,825	13,082,740	-698,915	-5%
Transmitted gas - thousand cm	12,294,693	11,883,713	410,980	3%
Technological consumption - thousand cm	88,103	96,940	-8,837	-9%
Share technological consumption/circulated gas	0.71%	0.74%		

Table 2 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption in 2015 vs. 2014

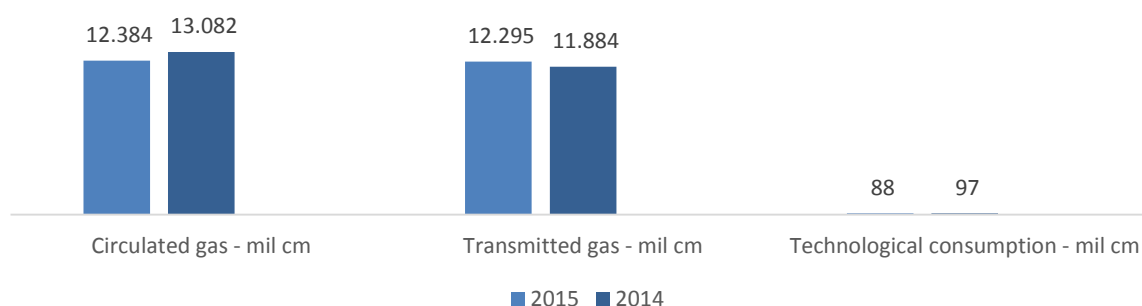
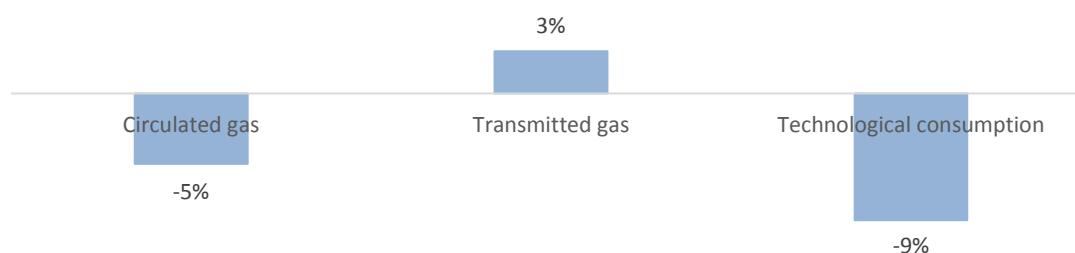


Chart 1 - Quantities of circulated and transmitted natural gas and of the technological consumption in 2015 vs 2014



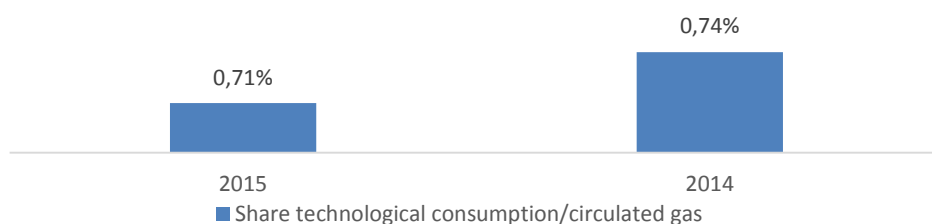


Chart 3 – Share of technological consumption of the total gas circulated in 2015 vs 2014

	2015	2014
Planned technological consumption – thousand cm	173,036	197,600
Achieved technological consumption – thousand cm	88,103	96,940

Table 4 – 2015 vs. 2014 achieved vs. planned technological consumption gas

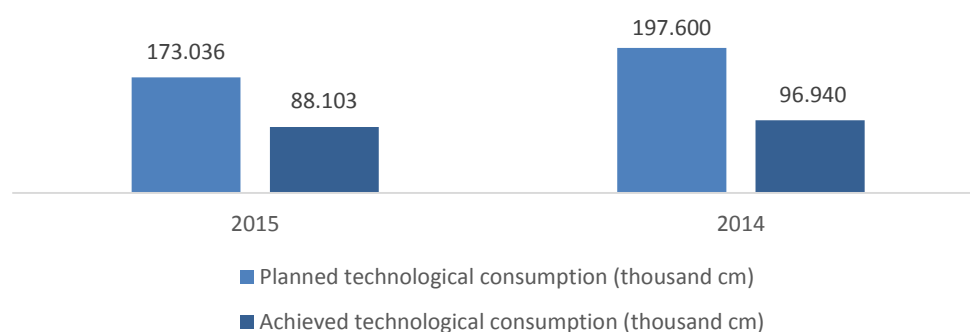


Chart 4 – Evolution of achieved vs. planned technological gas for 2015vs.2014

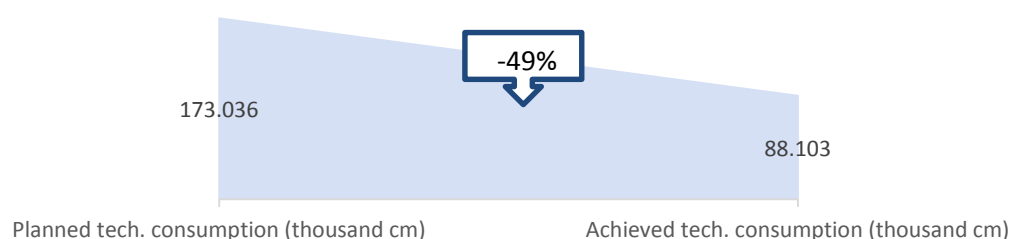


Chart 5– Level of reduction of technological gas –total achieved vs. total planned in 2015

The accentuated decrease of the technological consumption and of the technological losses against the planned level was due to the management involvement in the controlled sizing of the natural gas purchasing for the technological consumption and for the implementing of a **Programme of very important measures for the reduction of the measurable and immeasurable consumptions.**

Thus, as we can see, in 2015, compared to the previous year, the evolution of the technological consumption in the NTS has shown a pronounced downward trend, this being lower by 9% compared to 2014 and by 49% compared to the planned level.

(mil. cm)

Gas circulated/planned in 2015													
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
ROMGAZ	487	443	489	447	446	434	453	453	438	474	458	479	5,501
PETROM	363	333	371	360	363	337	342	350	331	367	359	352	4,227
OTHERS	38	39	42	38	40	43	57	55	54	55	53	57	571
CURRENT IMPORT	45	21	16	0,9	0,2	0,2	0,2	0,3	0,2	10	58	50	202
STORAGE WITHDRAWAL	568	477	222	39	0	0	0	0	0	39	141	397	1,883
ACHIEVED	1,501	1,313	1,140	885	849	814	852	858	823	945	1,069	1,335	12,384
PLANNED	1,606	1,367	1,171	1,016	1,030	994	929	839	707	804	1,128	1,542	13,134

Table 4 – 2015 NTS gas circulated/planned in 2015 (mil cm)

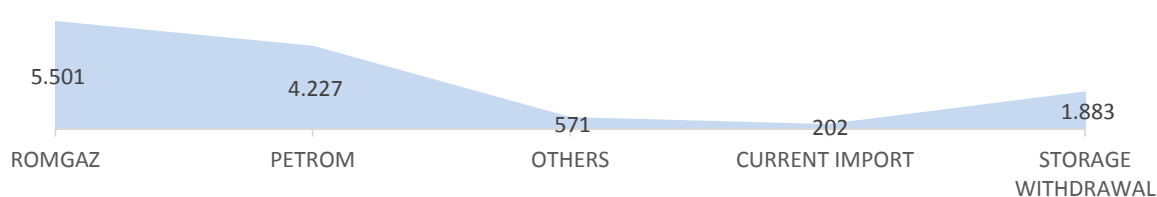


Chart 6 – 2015 NTS gas circulated, by source (mil cm)

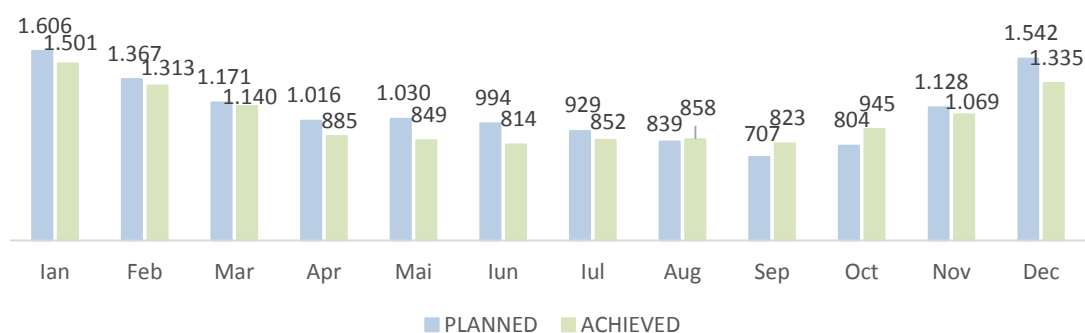


Chart 7- 2015 NTS gas circulated – achieved vs. planned (mil. cm)

(thousand cm)

2015 gas transmitted/planned						
	January	February	March	April	May	June
PLANNED	1,583,937	1,347,951	1,154,774	1,002,511	1,019,243	984,302
ACHIEVED	1,492,548	1,308,300	1,136,436	884,811	847,767	810,430

2015 gas transmitted/planned							
	July	August	September	October	November	December	TOTAL 2015
PLANNED	918,889	830,469	696,950	793,910	1,110,800	1,517,281	12,961,018
ACHIEVED	844,303	848,669	812,013	935,781	1,051,154	1,322,482	12,294,693

Table 5- Gas transmitted to direct consumers and distribution in the NTS in 2015 - achieved (includes the amount for the injection) vs planned (thousand cm)

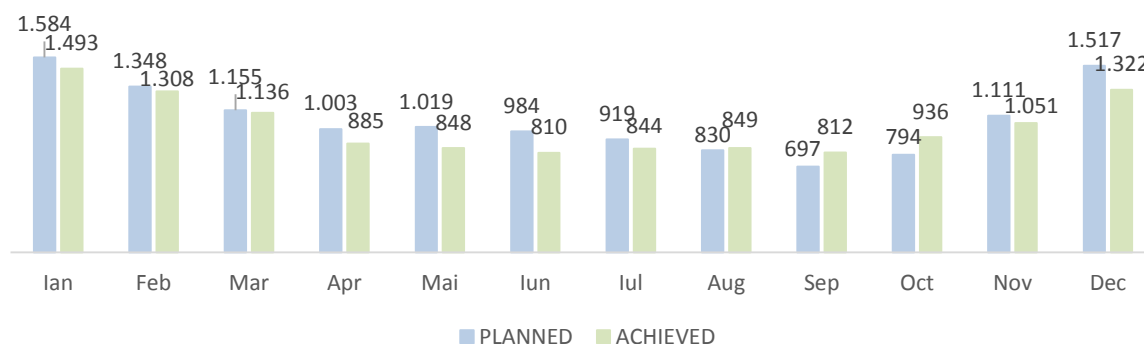


Chart 8- Gas transmitted to direct consumers and distribution in the NTS achieved vs planned in 2015 (mil. cm)

As shown above in 2015 the amount of gas transmitted was of 12.29 bcm, which is lower by 0.66 bcm than the planned amount.

(thousand cm)

2015 achieved / planned gas for storage											
	Q1	April	May	June	July	August	September	October	Nov	Dec	TOTAL
PLANNED	0	178.000	422.000	450.000	390.000	360.000	170.000	30.000	0	0	2.000.000
ACHIEVED	0	122.483	406.279	360.722	305.728	323.217	307.411	123.053	0	0	1.948.892

Table 6- 2015 achieved / planned gas for storage (thousand cm)

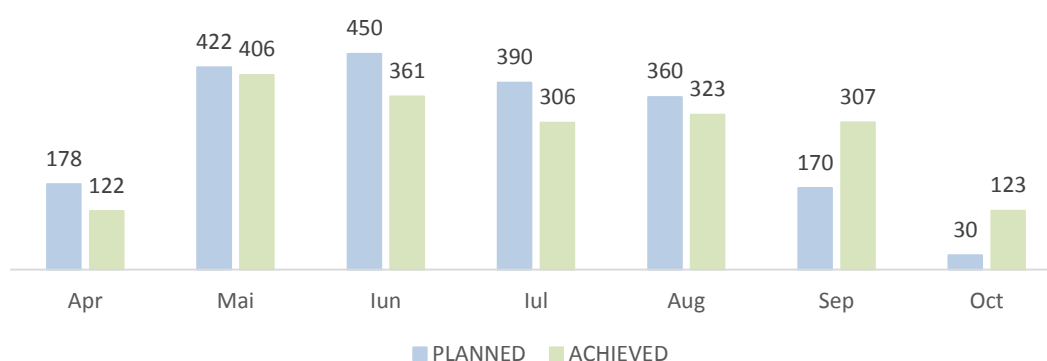


Chart 9- 2015 achieved / planned gas for storage (thousand cm)

The quantity of gas stored in 2015 amounted to approximately 97% of the planned level.

The comparative evolution of the operating revenue before the construction activity according to IFRIC12, obtained by the Company in 2015 is as follows:

No.	Specifications	Achieved 31 December			Dynamics (%)		
		2013	2014	2015			
0	1	2	3	4	5=4/3*100	6=3/2*100	5=4/2*100
1.	Revenue from the transmission activity						
	- thousand RON	1.210.480	1.340.853	1.259.788	93,95	110,77	104,07
	- MWh	119.741.363	126.703.188	131.259.673	103,60	105,81	109,62
	- RON/MWh	10,11	10,58	9,60	90,69	104,65	94,95
	- thousand RON	11.258.941	11.883.713	12.294.693	103,46	105,55	109,20
	- RON/1000 cm	107,51	112,83	102,47	90,81	104,95	95,31
2.	Revenue from the international transmission activity						
	- thousand RON	268.537	273.760	318.752	116,43	101,95	118,70
3.	Other operating revenue						
	- thousand RON	37.623	40.706	84.858	208,46	108,19	225,55
	TOTAL OPERATING REVENUE before the construction activity acc. to IFRIC12						
	thousand RON	1.516.640	1.655.319	1.663.398	100,49	109,14	109,68

Table 7 – 2015 / 2014 evolution of operating revenue

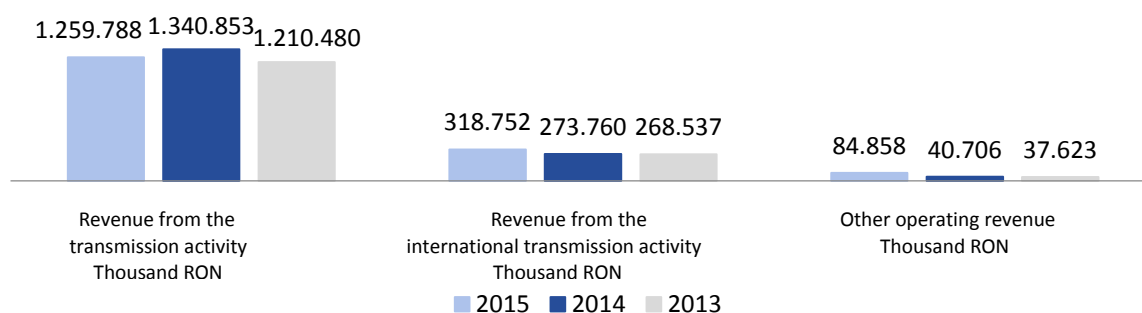


Chart 10 – Structure of operating revenue between 2013 -2015

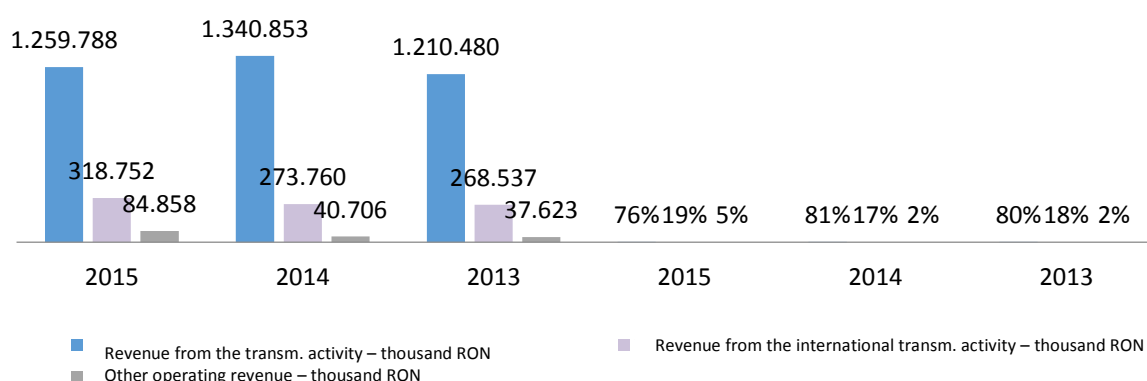


Chart 11 – Share of activities in the total operating revenue 2013 -2015

No.	Indicator	Achieved at 31 December			Dynamics (%)		
		2013	2014	2015			
0	1	2	3	4	$5=4/3*100$	$6=3/2*100$	$5=4/2*100$
1	Turnover	1.484.714	1.618.089	1.581.470	97,74	108,98	106,52
2	Operating revenue before the construction activity acc. to IFRIC12	1.516.640	1.655.319	1.663.398	100,49	109,14	109,68
3	Operating cost before the construction activity acc. to IFRIC12	981.647	1.063.751	1.077.219	101,27	108,36	109,74
4	Operating profit before the construction activity acc. to IFRIC12	534.994	591.568	586.179	99,09	110,57	109,57
5	Revenue from the construction activity acc. to IFRIC12	161.741	136.635	211.125	154,52	84,48	130,53
6	Cost of assets built acc. to IFRIC12	161.741	136.635	211.125	154,52	84,48	130,53
7	Operating profit	534.994	591.568	586.179	99,09	110,57	109,57
8	Financial profit	-108.236	19.019	20.922	110,01	X	X
9	Tax on profit	95.350	108.071	118.372	109,53	113,34	124,14
10	Net profit	331.408	502.516	488.729	97,26	151,63	147,47
11	Total comprehensive revenue of the period	335.240	486.385	498.940	102,58	145,09	148,83
12	Gross dividend/share	17,58	21,80	21,24	97,39	124,00	120,77

Table 8 – Evolution of operational performance indicators between 2013 - 2015

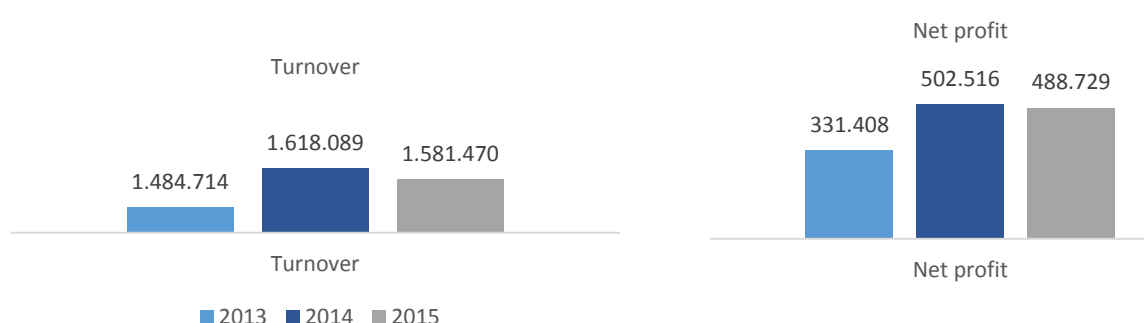


Chart 12–Turnover between 2013 - 2015 – RON thousand

Chart 13–Net profit between 2013 -2015 –RON thousand

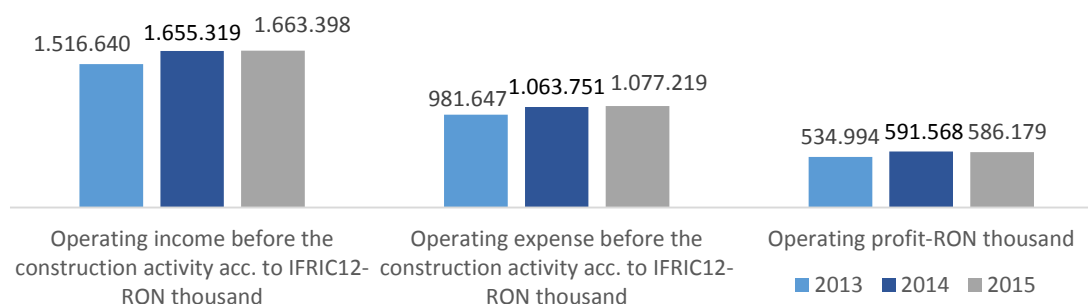


Chart 14– Evolution of operating income, expense and profit between 2013 -2015

2.2 Indicators of financial results

The economic and financial activity of SNTGN Transgaz SA was conducted based on the indicators included in the annual revenue and expenses budget approved by GR 237/07.04.2015 and OGMS Resolution 1/27.04.2015.

The main economic and financial indicators achieved in 2015 compared to 2013 and 2014 are presented as follows:

No.	Indicator	U.M.	Achieved at 31 December			Dynamics (%)		
			2013	2014	2015	5=4/3 *100	6=3/2 *100	5=4/2 *100
			2	3	4			
1	Turnover	RON thousand	1.484.714	1.618.089	1.581.470	97,74	108,98	106,52
2	Operating revenue before the construction activity acc. to IFRIC12	RON thousand	1.516.640	1.655.319	1.663.398	100,49	109,14	109,68
3	Revenue from the construction activity acc. to IFRIC12	RON thousand	161.741	136.635	211.125	154,52	84,48	130,53
4	Financial income	RON thousand	40.721	33.375	43.237	129,55	81,96	106,18
5	Operating revenue before the construction activity acc. to IFRIC12	RON thousand	981.647	1.063.751	1.077.219	101,27	108,36	109,74
6	Cost of assets built acc. to IFRIC12	RON thousand	161.741	136.635	211.125	154,52	84,48	130,53
7	Financial expenses	RON thousand	148.957	14.356	22.315	155,44	9,64	14,98
8	Gross profit	RON thousand	426.758	610.587	239.554	157,83	143,08	142,26
9	Tax on profit	RON thousand	99.954	115.377	120.772	104,63	115,43	120,78
10	Revenue from deferred tax on profit	RON thousand	4.604	7.306	2.350	32,17	158,69	51,05
11	Net profit	RON thousand	331.408	502.516	488.729	97,26	151,63	147,47
12	Total comprehensive revenue of the period	RON thousand	335.240	486.385	498.940	102,58	145,09	148,83
13	Gas transmitted	thousand cm	11.258.941	11.883.713	12.294.693	103,46	105,55	109,20
14	Investment costs	RON thousand	203.763	151.776	240.377	158,38	74,49	117,97
15	Rehabilitation costs	RON thousand	61.176	51.752	20.020	38,69	84,60	32,73
16	Technological consumption	RON thousand	95.500	92.124	83.146	90,25	96,47	87,06
17	Technological consumption	thousand cm	60.140	96.940	88.103	90,88	60,53	55,02

Table 9 – Evolution of the main economic and financial indicators for the period 2013-2015

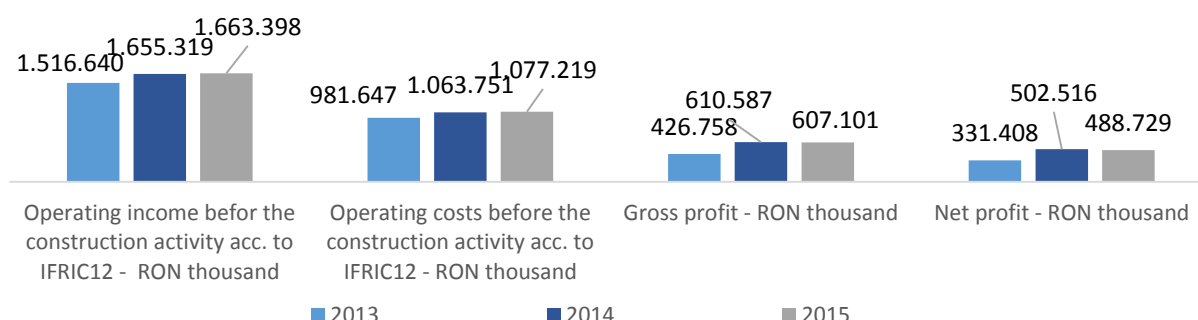


Chart 15- Evolution of the main economic and financial indicators for the period 2013-2015 - RON thousand

Transgaz holds the monopoly status in Romania in terms of natural gas transmission and circulates around 90% of the total consumed natural gas. Of the total revenue achieved in 2015 approximately 18.68% are in foreign currency and are achieved from the international gas transmission activity.

At 31 December 2015, the company's cash and cash equivalents amounted to RON 700,797,781, out of which 8.5% are liquid assets denominated in foreign currency, most of it in EUR.

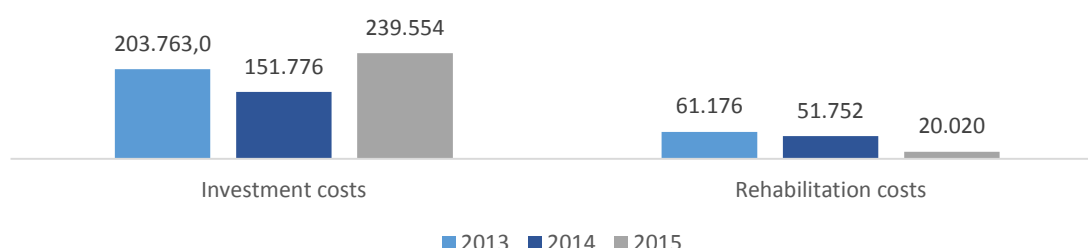


Chart 16- The evolution of the investments and rehabilitation costs for the period 2013-2015 - RON thousand

The Transgaz performance in 2013 - 2015 is also reflected by the evolution of the following indicators:

No.	Indicators	Calculation formula	2013	2014	2015
1.	Profitability indicators				
	EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	48,22%	48,01%	49,29%
	EBITDA in equity	$\frac{\text{EBITDA}}{\text{Equity}}$	23,49%	23,35%	21,84%
	Gross profit share	$\frac{\text{Gross profit}}{\text{Turnover}}$	28,74%	37,74%	38,39%
	Capital rate of return	$\frac{\text{Net profit}}{\text{Equity}}$	10,87%	15,10%	13,69%
2.	Liquidity indicators				
	Current liquidity indicator	$\frac{\text{Circulating assets}}{\text{Short-term debts}}$	2,17	3,09	4,10
	Immediate liquidity indicator	$\frac{\text{Circulating assets} - \text{Stocks}}{\text{Short-term debts}}$	2,06	2,98	3,83

No.	Indicators	Calculation formula	2013	2014	2015
3.	Risk indicators				
	Degree of indebtedness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	0,79%	0,00%	0,00%
	Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expenses}}$	187,73	616,54	1.903,61
4.	Accountancy indicators				
	Days sales outstanding - clients	$\frac{\text{Average balance - clients} \times 365 \text{ days}}{\text{Turnover}}$	97,57	94,18	99,56
	Days payable outstanding - suppliers	$\frac{\text{Average balance - suppliers} \times 365 \text{ days}}{\text{Turnover}}$	22,41	17,61	19,32

Table 10 – Evolution of profitability, liquidity, risk and management indicators for the period 2013 – 2015

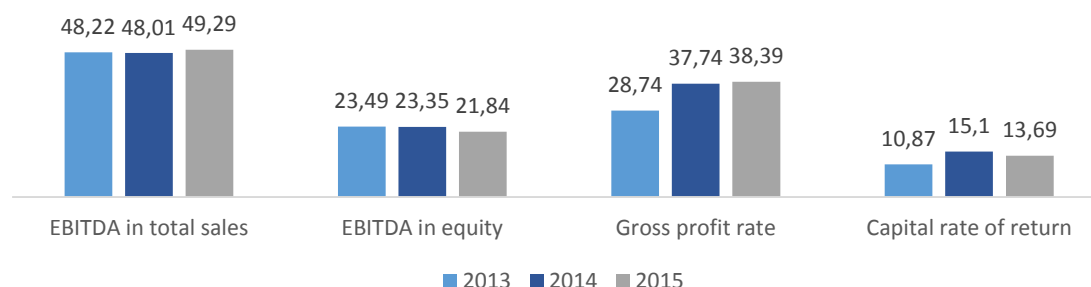


Chart 17–Evolution of profitability indicators for the period 2013 – 2015

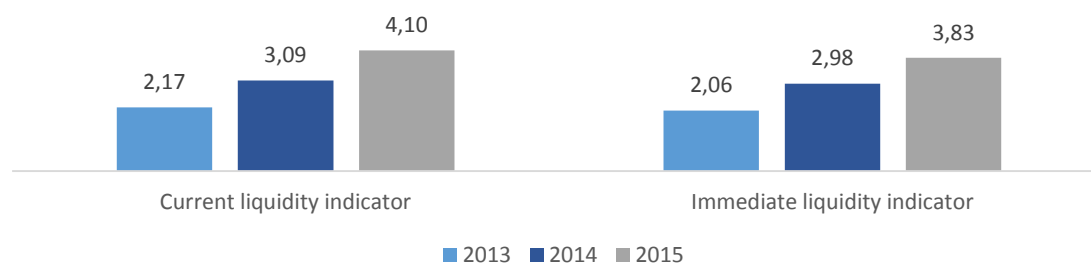


Chart 18– Evolution of liquidity indicators for the period 2013 - 2015

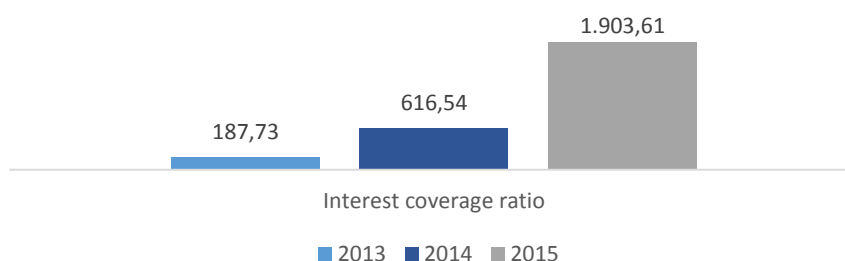


Chart 19– Evolution of risk indicators for the period 2013 – 2015

2.3 Indicators of the investment activity

The investment activity in 2015 was directed mainly towards the upgrading and development of the NTS in order to improve its efficiency, increase its capacity and develop new consumption areas.

The implementation of the 2015 NTS Repairs, Rehabilitation and Maintenance Programme compared to the planned level is as follows:

No.	Chapter name	2015 plan (August revision)	2015 Achievements	%
0	1	2	3	4=3/2*100
Chap. A. NTS REPAIR AND REHABILITATION WORKS (RON)				
1	Scheduled repairs of main pipelines	98.804.613	16.343.466	16,54%
2	Rehabilitation of Regulating and Metering Stations (MRS)	500.000	-	-
3	Rehabilitation of Technological Nodes	-	-	-
4	Rehabilitation of Compressor Stations	200.000	-	-
5	Repairs of special facilities of the SRMs and SCVs	-	-	-
6	Rehabilitation of cathodic protection systems (CPS)	610.240	58,824	9,64%
7	Repairs of TC equipment	-	-	-
8	Repairs of buildings	2.909.240	479.701	16,49%
TOTAL WORKS		103.024.093	16.881.991	16,39%
Cap. B. NTS MAINTENANCE SERVICES (RON)				
TOTAL SERVICES		26.091.519	11.955.505	45,82%
TOTAL WORKS + SERVICES (third parties) PRRASM		129.115.612	28.837.496	22,33%
Reclassified repair works			8.817.033	
TOTAL REPAIR WORKS			20.020.463	

Table 11- Implementation of the 2015 NTS Repairs, Rehabilitation and Maintenance Programme

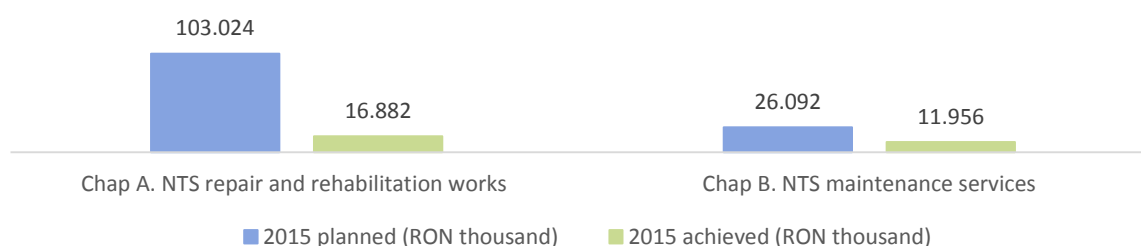


Chart 20 – Achievement of the NTS Repairs, Rehabilitation and Maintenance Programme in 2015 by chapters



Chart 21- Achievement of the 2015 NTS Repairs, Rehabilitation and Maintenance Programme by chapters

The 2015 NTS Repairs, Rehabilitation and Maintenance Programme with an allocated value of RON **129,115,612** records a level of budgetary execution for 12 months of **RON 28,837,496 (22.33%)**, of which **RON 11,955,505** represents third party services for completing the NTS maintenance necessary, and the difference of **RON 16,881,991** represents amounts recorded as achievements at the work contracts executed with third parties of the total allocated RON 103,024,093.

The low values recorded as **repair/rehabilitation works** with an achievement percent of 16.39% of the programme is mainly due to the following:

- **Out of the 26 positions** with contracted works amounting to RON 37,307 thousand (2015 budgeted) five works were terminated because of the insolvency (or bankruptcy) of the constructors, two works are suspended because of problems with the landowners or lacking permits, the remaining works being in progress or being completed;
- **8 positions are in a procurement procedure** at the Public Procurement Unit, with values estimated to a total RON 14,893 thousand;
- **25 positions are in a design phase**. Their total value amounts to RON 43,697 thousands;
- **1 position** was allocated for interventions in emergency cases (results of floods, high water flow, land slide) in an amount of RON 2,000,000, amount remaining not used;
- **1 position** `Protection left bank of Provița river, the Măgureni zone` amounting to RON 907,630 was transferred into the Modernization and Development Programme.

NTS maintenance services

The value recorded for in 2015 for the chapter Services is of **RON 11,955,505** and represents the cost of the repairs of some STGN facilities. The positions not achieved and mentioned at this chapter are budget savings.

Investment Programme

The implementation of the 2015 modernization and investment development programme is as follows:

Chapter	Work category	Programme 2015	Achieved Estimated 2015	%
		Value (RON thousand)	Value (RON thousand)	
0	1	2	3	$4=3/2*100$
Chap. A	NTS modernization and development works	477.956	187.208	39,17
1.	Modernization and retrofitting of the National Gas Transmission System	135.050	77.481	57,37
1.1.	<i>Modernization of the technological installations afferent to the National Gas Transmission System (MRS, VCS, MP, TN)</i>	69.532	41.286	59,38
1.2.	<i>Data acquisition and control system</i>	65.518	36.195	55,24
2	Development of the National Gas Transmission System and related facilities	342.906	109.727	31,99
2.1.	<i>Gas transmission pipelines</i>	83.745	21.648	25,85
2.2.	<i>Interconnection pipelines</i>	18.180	-5.570	-30,64
2.3.	<i>Transmission capacity increasing</i>	133.404	85.342	63,97
2.4.	<i>Surface construction and installation works for MRS</i>	22.314	1.049	4,70
2.5.	<i>Cathodic protection stations</i>	508	55	10,83
2.6.	<i>Information technology and telecommunications installations</i>	73.298	2.169	2,96
2.7.	<i>Surface installation and construction works for odorization</i>	6.442	1.684	26,14
2.8.	<i>Hydrotechnical works</i>	4.515	3.037	67,26
2.9.	<i>Electric installations and networks</i>	500	313	62,60
Chap. B	Own assets modernization and development works	42.335	22.253	52,54
1.	Other works	13.422	3.537	26,35
2.	List of units, equipment and installations	28.433	18.716	65,82
3.	Land procurement	500	0	0,00
Chap. C	NTS access works	5.000	4.991	99,82
TOTAL		525.311	214.452	40,82
Pipe procurement		49.789	0	0,00
Expenses related to studies and projects		24.705	12.268	49,66
Other investment costs			12.834	
Capitalized interest		7.301	0	0,00
TOTAL INVESTMENTS		607.106	239.554	39,46

Table 12- Achievement of 2015 Investment Programme

As compared to the total value of the programme amounting to RON 525,311 thousand, the total value of the achievements is of RON 214,452 thousand, which represents a **40.82%** achievement degree.

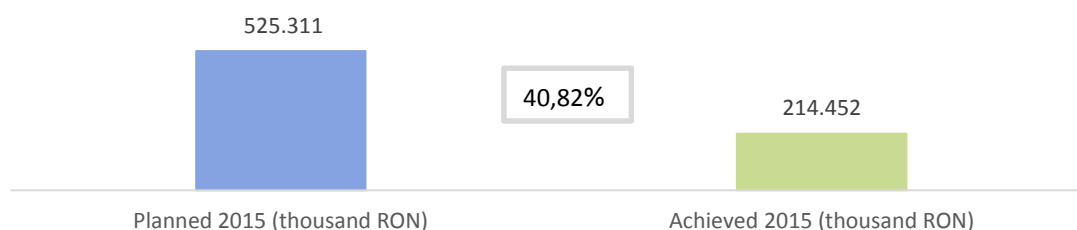


Chart 22– 2015 investment achievement vs 2015 Investment Programme

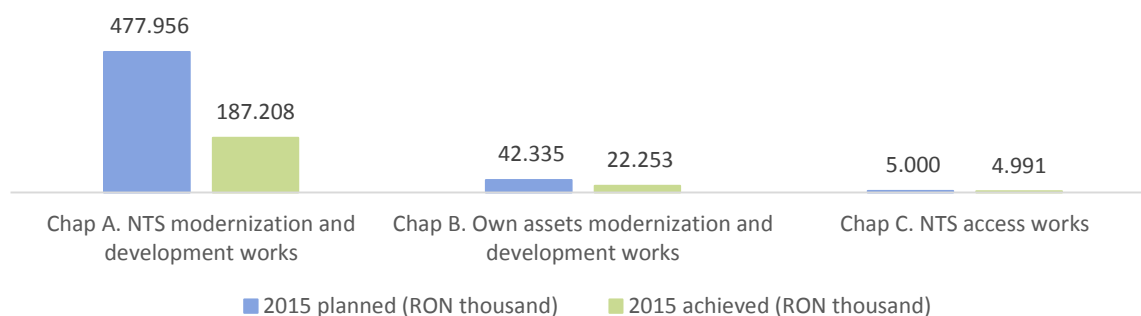


Chart 23– 2015 achievements vs programme by chapters

The causes that led to a fulfilment of the investment Programme in a percentage of only 41% mainly consist of legal matters related to land access, permits which were not obtained in due time, changes by NAPP in the tender validation procedures, etc.

The causes that led to the fulfilment of the 2015 investment modernization and development programme in a percentage of only 41% are presented in detail in Chapter 3.2.2.

SCADA

An important direction for the improvement of the quality of the execution and the efficiency of the operational activity of SNTGN Transgaz SA Mediaş is the implementation of the Data control and acquisition System (SCADA), which is a legal obligation, provided initially in Art 25 of Gas Law no. 351/2004 and reiterated in Art. 130, point c, of Natural gas and Electricity Law no. 123/2012.

As the technical operator of the NTS, the company has to increase the security of natural gas supply. In this respect, SNTGN Transgaz SA initiated the procedure for the implementation, maintenance and development of a monitoring, control and acquisition of the SCADA data system.

The completion of the implementation of the SCADA Project was reported on 30.11.2015, and the detailed implementation/achievement by type of objective is presented below:

Type of indicator	In the contract	Connected
National Dispatching Centre Medias	1	1
Gas Dispatching Centre Bucharest	1	1
Regional Offices Dispatching Centres	9	9
Metering regulating stations	948	948
Line valves	106	106
Technological nodes	33	33
Compressor stations	5	2
International gas transit stations	6	6
Import gas stations	2	2
Underground storages	7	7
Domestic producers	4	4
TOTAL	1.122	1.122

In 2015 works were executed at the following locations:

- Metering and regulating stations –works were executed and finalized at 25 MRS;
- Technological nodes – works were executed and finalized at 29 TN;
- Underground storages – works were executed and finalized at 7 underground storages;
- Compressor stations – works were executed and finalized at 4 compressor stations;
- Data re taken over from all of the 4 domestic producers.

The SCADA information system enables:

- enables 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 rapidly and efficiently to any potential risk to interrupt the activity contributing to the increase of the security of the operation of the national gas transmission system;
- ensures the necessary conditions to provide short term natural gas transmission services in/out of the national gas transmission system and to execute the contacts related to this type of services, according to the requirements of Regulation (EC) no. 715/2009.

The situation of the total investment costs (RON thousand):

	Programme 2015	Achieved 2015
Investments, of which:	607.106	239.554
-NTS access works	5.000	4.991
Repayment of loan for investments	24.000	24.000
TOTAL INVESTMENT COSTS	631.106	263.554

Table 13-Total investment costs (RON thousand)- 2015

The investments achieved were financed from the following sources (RON thousand):

	Programme 2015	Achieved 2015
Net profit allocated for own financing	180.172	222.151
Amortization and depreciation	172.141	144.092
NTS connection tariff	-	3.725
Non-cash charges	-	105.179
EU funds	64.008	31.876
Bond issue	500.000	-
Surplus previous year	379.492	426.064
TOTAL FINANCING SOURCES	1.295.814	933.087

Table 14- 2015 investment financing sources (RON thousand)

European funds obtaining activity

The activity of obtaining European funds in 2014 was developed mainly for:

- Identifying the financing possibilities from the future period, based on the programs promoted by the European Committee;
- Supporting TRANSGAZ' projects with financing potential from Structural Funds;
- The tracking / monitoring of the execution contracts that benefit of communitarian financing;
- Preparation of the financing requests and of the related documentations;
- Inter-department collaboration in order to issue the necessary documentation for the financing requests and information transmission in order to know the granting mechanisms of the European finances;
- Cooperation between the institutions with the domain ministries (Ministry of Economy, Ministry of Energy, Funds Ministry) and the financing institutions.

Among the main achievements obtained in 2015 (some of them in cooperation with other departments of the Company) we mention the following:

The following activities were performed for the projects under implementation which obtained EU funds:

- Drawing up reports, letters, documents which were sent regularly (under the financing contract) to the funding bodies, the European Commission and to the Management Authority/Intermediary Body for Energy for the management of the Transgaz' projects which benefitting from European grants, according to the provisions of the financing decisions/contracts;
- Preparation of notes on the nonconformities found and the implications of work execution contracts amendments, correlated with the provisions of the financing decisions/contracts;
- Ensuring assistance, cooperation, provision of additional information for various assessment/verification forms regarding the EU grant projects.

The Interconnection Bulgaria – Romania Project

- Monitoring the eligible expenses related to the implementation of the Giurgiu – Ruse project, resulted from the contracts related to the execution of the works on the land and undercrossing sections of the Danube river;
- Preparation of notes on the disfunctionalities occurred at the implementation of the execution contract, from the perspective of the financing decision;
- The preparation and assimilation of the cost eligibility period extension decision until 31.12.2016;
- Participation in work meetings on the preparation of documents regarding the procurement procedures for the execution works regarding the Danube river undercrossing with the main pipeline, from the perspective of the financing decision.

The FEED for three Compressor Stations in the corridor PCI 7.1.5 Project

- Preparation of documents requested by INEA – C.E. for the rectification of the coordinated of the approved financing contract;
- Analysis and preparation of the documentation regarding the procurement of the FEED preparation services.

The BRHA Project – Gas pipeline from Bulgaria to Austria via Romania and Hungary

- Permanent monitorization of the laws, activities and decisions of the European Commission regarding the PCIs;
- Managing the correspondence with the European and Romanian relevant institutions, and managing the correspondence preceding preparation of the grant request;
- Preparation of grant request documents for Stage 1 of the Project according to the provisions of the European Commission on the second appeal in 2015;
- Filling-in the grant request forms and uploading to the INEA web site, for obtaining European financing.

The Upgrading TCS Șinca and the related installations Project

- Preparation of documents regarding the for the design services and execution works procurement formalities for the project *Upgrading TCS Șinca and the related installations* for the auditing of these formalities by the Management Authority, according to the provisions of the related financing contract;
- Participation in work meetings twice a month at the TCS Șinca;
- Preparation of replies for clarification requests during the procurement procedure;
- Notifying OIE through notes and progress reports on project implementation;
- Preparation and submitting at OIE of the intermediate reimbursement request (CR1) regarding the eligible costs;
- Preparation of documentation requested by OIE, supplementing the reimbursing request;
- Initiation of completion of documentation regarding the final reimbursement request referring to the eligible costs.

The reverse flow on the Bulgaria dedicated transit pipeline Project

- Following notification from the European Commission regarding the suspending of the financing for the project Reverse flow on the Bulgaria dedicated transit pipeline the supporting documents were prepared and submitted to DG-ENERGY within the

European Commission, for partial settlement, as approved by the European Commission;

- The management of the procedures for receiving/returning the eligible/non-eligible amounts regarding the project;
- The preparation of the documents regarding the project auditing by the representative of the European Commission;
- The participation to the audit procedure finalized with a positive audit report.

The SCADA Project

- Cooperation with the SCADA PMU for the preparation of the documents necessary to be submitted at the balance final payment request;
- Consultancy regarding the provisions of the financing contract;
- Participation in the meetings of the Consortium with mentions regarding the provisions of the financing contract and solutions to the issues debated;
- Preparation of the documents regarding public procurement of the audit services and performance monitorization.

The Automation, monitoring, data transmission – the Iași-Ungheni pipeline Project

- Participation in the project management team from Transgaz;
- Monitoring preparation of technical project of the investment;
- ANRM (the beneficiary of the investment) project management team technical and specialist assistance;
- Actual monitoring of invest implementation with permanent presence at the site during the execution of the works.

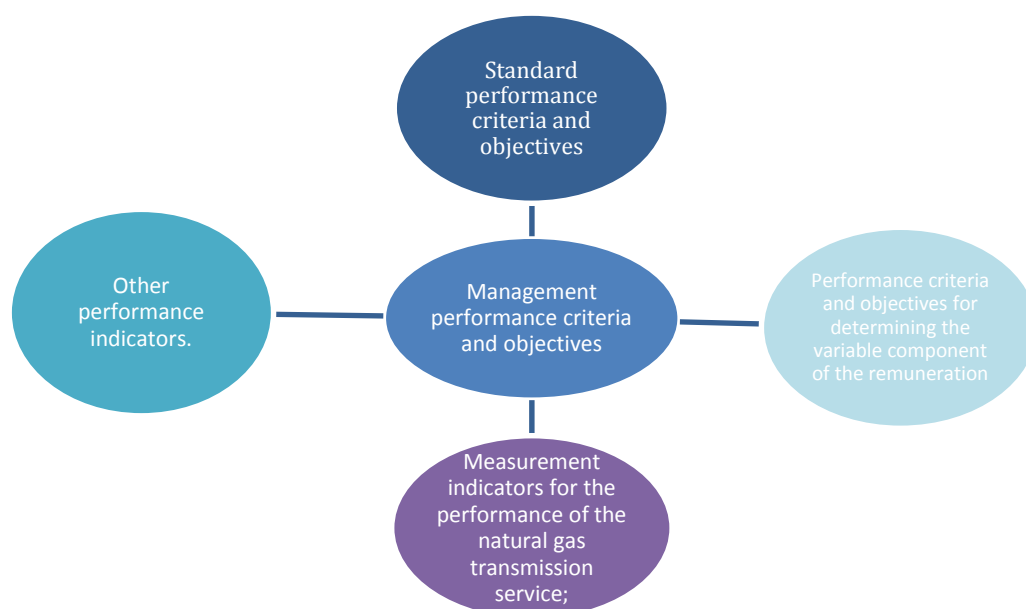
In order to obtain new funding for TRANSGAZ' projects, the following activities were performed:

- Identification of the priority axis in the Financing programs 2014 – 2020, for which TRANSGAZ could submit Financing Requests and which will be achieved after the opening of these programs and the publication of the Applicants' Guides;
- Submitting to the Ministry of the European Funds of the proposals for the completion of the applicants' guide referring to the LIOP Large Infrastructure Operational Programme (during the public consultation);
- Submitting information to the TRANSGAZ division/unit management on the financing opportunities through the Competitiveness Operational Programme, for correlating its provisions with the Development and Research Programme of TRANSGAZ and promoting own investment objectives;
- Initiation of actions regarding additional allocation of funds in the financial years 2014–2020, for the gas transmission sector through the LIOP;
- Supporting and promoting the project regarding the NTS developments in North East Romania for enhancing gas supply to the region and ensuring transmission capacities to Moldavia, for financing through LIOP;
- Preparation of notifications for all TRANSGAZ departments regarding European grant obtaining conditions and criteria, enabling identification and communication to the EU Funds Department of the potentially financeable projects;
- Cooperation with the parties involved in supplying information, documents, forms necessary for the preparation of the grant requests;

- Analysis of compliance with the eligibility criteria of potential TRANSGAZ projects, according to the 2014 – 2020 Financing Programmes as follows:
 - use of the kinetic energy of gas flow in order to obtain electricity;
 - possibility to develop facilities to allow (in collaboration with other companies) production and transmission of synthetic natural gas;
 - possibility to refurbish the Bățani CS, the first turbocompressor station in Europe, and to record it as historic monument.

2.4 Indicators of management performance

In compliance with Chapter 6 of the Management Plan of SNTGN Transgaz SA Mediaș for 2013-2017, named 'Performance Criteria and Objectives', the performance criteria and objectives are defined and set as follows



Standard performance criteria and objectives

Performance criteria	Performance objective	Management Plan 2015	Achieved 2015	Achievement degree
Implemented investments –thousand RON	Achieving the programmed level	254.000	289.763	114,08%
EBITDA –thousands RON	Increasing EBITDA	619.625	779.579	125,81%
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel number);	344.627	331.000	96,05%
Overdue payments- thousand RON	Making payments according to contract terms (in current prices)	0	0	100%
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	68.590	186.479	36,78%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100%	38%	263,24%
Operating expenses for 1000 RON operating income RON	Decreasing operating expenses for 1000 RON operating income	748,64	647,60	115,60%

Table 15– Degree of fulfilment of standard performance indicators at 31 December 2015

The evolution of the standard performance indicators between 2013-2015:

Performance criteria	Performance objective	2013		2014		2015	
		Management Plan	Achieved	Management Plan	Achieved	Management Plan	Achieved
Commissioned investments thousand RON	Achieving the programmed level	219.028	212.367	195.400	118.843	254.000	289.763
EBITDA – thousand RON	Increasing EBITDA	589.084	715.873	583.753	776.861	619.625	779.579
Work productivity –RON/pers.	Increasing work productivity in value units (turnover / average personnel number);	303.621	300.610	327.472	332.567	344.627	331.000

Performance criteria	Performance objective	2013		2014		2015	
		Management Plan	Achieved	Management Plan	Achieved	Management Plan	Achieved
Overdue payments thousand RON	Making payments according to contract terms (in current prices)	0	0	0	0	0	0
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	76.000	79.424	72.200	99.724	68.590	186.479
Technological consumption-%	Meeting the quantities of natural gas representing technological consumption	100,00%	62%	100,00%	41%	100,00%	38%
Operating expenses la 1000 RON operating revenue RON	Decreasing operating expenses for 1000 RON operating income	737,27	647,25	759,24	642,63	748,64	647,60

Table 16 – Evolution of performance indicators between 2013 – 2015

Performance criteria	Performance objective	Weighting coefficient %	Achievement degree 2015 %	Achievement level in 2015 according to the weighting coefficient
Commissioned investments – thousand RON	Achieving the programmed level	15	114,08%	17,11
EBITDA –thousand RON	Increasing EBITDA	15	125,81%	18,87
Work productivity –RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	96,05%	14,41
Overdue payments -thousand RON	Making payments according to contract terms (in current prices)	15	100,00%	15,00
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	10	36,78%	3,68
Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	263,24%	39,49
Operating expenses at 1000 RON operating revenue RON	Decreasing operating expenses for 1000 RON operating income	15	115,60%	17,34
TOTAL		100%		125,90

Table 17– Level of fulfilment of standard performance indicators in 2015

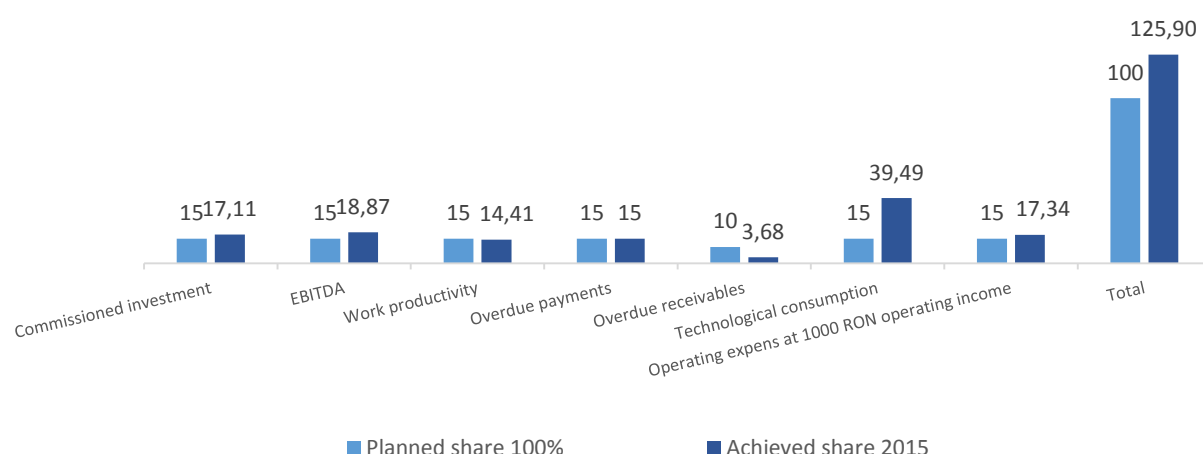


Chart 24– Aggregate level of fulfilment of standard performance indicators in 2015

Performance criteria and objectives for determining the variable component of the remuneration

No.	Performance criterion	Performance objective	U.M.	2015			
				Management Plan	Achieved	Percent	Difference
1.	EBITDA	Fulfilment of the EBITDA target undertaken in the Management Plan	Thousand RON	619.625	779.579	126%	159.954
2.	Operating expense (without amortisation)	Reducing the level of operating expenses (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	Thousand RON	1.077.002	883.818	122%	193.184
3.	Investments	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	Thousand RON	352.200	239.554	68%	-112.646

Table 18– Degree of fulfilment of performance indicators for determining the variable component of the remuneration in 2015

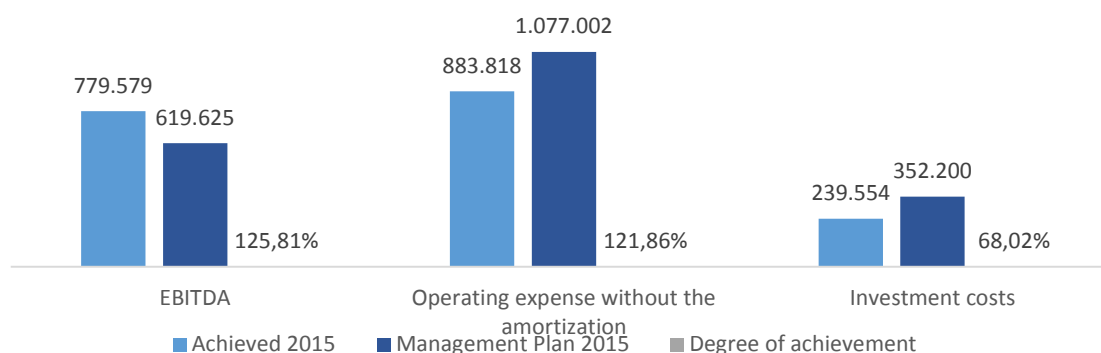


Chart 25 – Level of fulfilment of performance indicators for determining the variable component of the remuneration at 31 December 2015

Gas transmission service performance indicators

The performance standard for the gas transmission service, approved by the Decision of the president of the National Energy Regulatory Authority in the field of natural gas no. 1.361/13.12.2006 and published in the Official Journal²⁷ bis in 16 January 2007, as amended and completed by the Order of the ANRE President no. 45/24.04.2008, regulates the commercial quality criteria, defined by the performance indicators in order to ensure the natural gas transmission services and the ancillary services performed by the transmission system operator (TSO).

Performance indicator (no. article)	Objective	Achievements 2015
IP1 –Solve the access requests for the connection to the NTS (art.5)	98%	100%
IP2 –Execute the NTS connection installation related to the access requests (art.6 lit(a) and (b))	98%	100%
IP4 – Notification on the resumption of the service provision (art.8 (1) letter (a) and (b))	95%	100%
IP5 – Notification on the planned interruptions in the service provision and its resumption (art.9 (1))	100%	100%
IP6 –Solve the complaints of the NTS users on natural gas metering (art.10 (1) letter (a) and (b))	98%	100%
IP7 –Solve the referrals related to the integrity and NTS operation under safety conditions (art.11 par. (2))	95%	100%
IP8 –The obligations of the TSO to inform the applicants/users, according to other regulations of the National Regulatory Authority on natural gas (ANRGN) (art.12)	95%	100%
IP11 – Safety indicators (art.15 (1) letter (a)) RCA (art.15 (1) letter (b)) NAP (art.15 (1) letter (c)) NAP _T	maximum 8.3%	7.5%
	0.8	0.01
	0.1	0.00

Table 19 –Achievement of the performance indicators related to the gas transmission service for 2015

IP10-Tel Verde: 0800872674 is mentioned on the web page of the company www.transgaz.ro

Total number of calls received in **2015** -73 calls

Content of the calls:

- Request for information on dividends– 5 calls;
- Request for information on permits– 20 calls;
- Request for information on the GMOIS platform – 1 call;
- Request for information on pipeline route – 2 calls;
- mistakes - 10 calls;
- other issues – 35 calls.

The reported issues solving – all the calls were effectively addressed.

Other performance indicators

In 2015, the company's management has undertaken a number of technical organizational and economic measures that allowed optimization of both the image and reputation capital of the company in relation to stakeholders and development of a more efficient, more accountable and more transparent organizational climate in terms of activity and management of employed resources, consistent with the requirements of European and national regulations on natural gas transmission.

3. ANALYSIS OF THE COMPANY'S ACTIVITY

3.1 Analysis of the operational activity

3.1.1 Regulatory framework

The main object of activity of Transgaz - **NACE Code 4950 –Transport via pipeline** – 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 Gas Transmission System, approved by Order no. 16/27 March 2013 of the President of ANRE, as further amended and supplemented.

Another important legislation for Transgaz' activity is the ANRE Order no.34/2013 on the approval of the Regulation for granting permits for establishment and licensing in the natural gas sector.

In 2015, Transgaz has managed together with its specialists the specific regulation projects launched in a public debate 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.

Regarding the legislation relevant for Transgaz's activity the following regulations became applicable:

- 1. GR no. 5/07.01.2015** on establishing the purchase price of natural gas from domestic production for domestic customers and producers of thermal energy, only for the quantities of natural gas used to produce thermal energy in cogeneration plants and heating plants for household consumption, until 30 June 2015, published in Official Journal no. 15/01.08.2015;
- 2. Law no. 10 / 08.01.2015** approving GEO no. 32/2001 on the undertakings for collective investment in transferable securities and investment management firms, amending and supplementing Law no. 297/2004 on the capital market, amending and supplementing certain regulations, published in OJ no. 22/12.01.2015;
- 3. Law no. 12/01.20.2015** amending and supplementing Law no. 53/2003 – The Labour Code, published in OJ no. 52/01.22.2015;
- 4. GR no. 41/01.21.2015** amending and supplementing GR no. 47/2013 on the organization and functioning of the Ministry of Economy, published in OJ no. 73/28.01.2015;
- 5. A.N.R.E. Order no. 1/21.01.2015** on the establishment of the National Register of Wholesale Energy Market Participants and on the approval of the procedure for registration of participants in the wholesale energy market, published in OJ No. 80/01.30.2015;
- 6. Order no. 150/02.11.2015** amending and supplementing the Accounting Regulations compliant with the International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, approved by Order no. 1286/2012, published in OJ no. 136/02.23.2015;
- 7. GR no. 122/02.25.2015** approving the National Action Plan for Energy Efficiency, published in OJ169 / 03.11.2015;
- 8. Order No. 14/11.03.2015** approving the methodology for determining the annual level of the minimum gas stock for the holders of gas supply licences and for the holders of the gas transmission system operation licences, published in OJ no. 181/03.17.2015;
- 9. Order no. 16/18.03.2015** approving the Frame Procedure on the obligation of the electricity and natural gas providers to settle the final customers' complaints, published in OJ no. 193/23.03.2015;
- 10. Regulation no. 3/03.25.2015** amending and supplementing Regulation no. 1/2006 on the issuers and operations with securities and Regulation no. 6/2000 on the exercise of certain rights of the shareholders in the general meetings of the shareholders of the companies, published in OJ no. 206/27.03.2015;
- 11. GR no. 237 / 04.07.2015** on the approval of the 2015 revenue and expense for S.N.T.G.N. Transgaz - S.A. Medias under the authority of the Ministry of Economy, Trade and Tourism, published in OJ no. 239/04.08.2015;
- 12. GR no. 359 / 20.05.2015** amending and supplementing certain work safety and health normative acts, published in OJ no. 374/05.28.2015;
- 13. Law no. 123 05.29.2015** approving GEO no. 20/2014 on the establishment of the Department for the Privatization and Management of the State Shares, establishing measures to streamline the privatization activity for development of business in terms of profitability of state-owned operators, to exercise the rights and obligations arising from the quality of shareholder of the State in certain economic operators, amending and supplementing certain normative acts, published in OJ no. 386 / 03.06.2015;

- 14. Law no. 133/06.08.2015** amending and supplementing Law 46/2008 - The Forest Code, published in OJ no. 411/06.10.2015;
- 15. Order no. 86/10.06.2015** amending and supplementing the Rules for the organized frame for trading on the centralized gas market managed by OPCOM - S.A., approved by A.N.R.E. Order no. 52/2013, published in OJ no. 424/06.15.2015.
- 16. H. G. no. 488/01.07.2015** establishing the purchase price of natural gas from domestic production for domestic customers and producers of thermal energy, only for the quantities of natural gas used to produce heat in cogeneration plants and heating plants for household consumption between 1 July 2015 - 30 June 2021, published in OJ no.481/07.01.2015;
- 17. Law no. 177/06.30.2015** amending and supplementing Law no. 10/1995 on quality in constructions, published in OJ no. 484/07.02.2015;
- 18. Order no. 98/06.25.2015** approving the Rules for the authorization of the economic operators performing activities in the domain of natural gas and for conditions on the validity of authorizations, published in OJ no. 493/07.06.2015;
- 19. Order no. 96/06.25.2015** approving the Rules for the notification of the final customers of electricity and gas, published in OJ no. 492/06.07.2015;
- 20. Order no. 104/2015** approving the Procedure for the preparation of the technical and economic study in order to achieve the objectives in the domain of natural gas, published in OJ no. 507/09.07.2015;
- 21. Law no. 152/06.18.2015** amending and supplementing certain acts in the field of registration in the trade register, published in OJ 519/07.13.2015;
- 22. Law no. 207 / 07.20.2015** on the Fiscal Procedure Code, published in OJ no. 47/07.03.2015.
- 23. Order no. 131/08.12.2015** on the establishing of the National gas Transmission System entry/exit points transmission capacity booking calendar for gas year 2015-2016, published in OJ no. 617/13.08.2015;
- 24. Order no. 136/08.14.2015** on the approval of the regulated revenue, total revenue and transmission tariffs for the gas transmission activity through the National Transmission System, published in OJ no. 632/19.08.2015;
- 25. Law no. 227/2015** on the Fiscal Code, published in OJ no. 688/10.09.2015;
- 26. Order no. 157/2015** issued by the ANRE president on developing the methodology for the evaluation of investments in projects of common interest in gas infrastructure, including the related risks, published in OJ no. 828/11.05.2015;
- 27. Law no. 258/2015** amending and supplementing GO no. 80/2001 on the establishment of rules regarding expense limits for public administration authorities and public institutions, published in OJ no. 826/05.11.2015;
- 28. GR no. 901/2015** on the approval of the national strategy in the field of public procurement, published in OJ no. 881/25.11.2015;
- 29. Order no. 160/2015** issued by the A.N.R.E. president on amending and supplementing the Network Code for the National Gas Transmission System, approved by ANRE Order no. 16/2013, published in OJ no. 893/27.11.2015;
- 30. Order no. 159/2015** issued by ANRE president approving the Isaccea III - Negru Voda II gas pipeline methodology for capacity allocation and tariff setting, published in OJ no. 892/11.27.2015;
- 31. Order no. 161/2015** issued by ANRE president, approving the performance standard for the transmission service and natural gas system, published in OJ no. 919/12.11.2015;

- 32. GR no. 957/2015** on the organization and functioning of the Ministry of Economy, Trade and Relationship with Business Environment, published in OJ no. 917/12.10.2015;
- 33. GEO no. 59/2015** amending and supplementing certain normative acts regarding the financial management of EU funds, published in OJ no. 925/12.14.2015;
- 34. Law on the 2016 State Budget for no. 339/2015**, published in OJ no. 941/19.12.2015;
- 35. Law on 2016 social insurance state budget no. 340/2015**, published in OJ no. 942/19.12.2015;
- 36. Law no. 344/2015** amending Government Emergency Ordinance no. 98/2010 on the identification, designation and protection of the critical infrastructure, published in OJ no. 970/28.12.2015;
- 37. GR no. 1.017/2015** on setting the minimum gross salary guaranteed payment, published in OJ no. 987/31.12.2015.

In 2015 Transgaz SA formulated amendments/proposals to the following normative acts:

1. Draft law on approving GEO no. 22/2014, amending and supplementing Law no. 50/1991 on authorizing the execution of construction works (PL-x no. 318/2014)

Stage: following approval of the amendment proposed by Transgaz in the Commission for Public Management and Planning, the project has been submitted to public consultation at the Commission consisting of the Legal Commission and the Administration Commission within the Chamber of Deputies;

2. Draft law for the approval of GEO no. 50/2014, amending and supplementing the Oil Law no. 238/201 (PL-x no. 578/2014)

Status: Following the vote in Parliament and promulgation by the President, this draft law became Law no. 228/2015 for the approval of GEO. no. 50/2014, amending and supplementing Oil Law no. 238/2004, published in OJ no. 755/10.09.2015;

3. Draft law on amending and supplementing GO no. 80/2001 on the establishment of rules regarding expenditure limits for the government and public institutions (PL-x no. 356/2015)

Status: Following the vote in Parliament and promulgation by the President, this draft law became Law no. 258/2015, amending and supplementing GO no. 80/2001 on the establishment of rules regarding expenditure limits for public administration authorities and public institutions, published in OJ no. 826/05.11.2015;

4. GEO amending GO no. 26/2013 on strengthening the financial discipline at the level of the economic operators where the state or territorial administrative units are sole or majority shareholders or hold directly or indirectly a majority share.

Status: Letter DG / DRL / 43 632 / 14.09.2015 was transmitted to the Ministry of Energy, Small and Medium Enterprises and Business Environment;

5. Draft on developing new Rules for the access and connection to the NTS, currently regulated by GR no. 1043/2004.

Status: By Letter no. DRL 56 827 / 11.23.2015 Transgaz sent to ANRE the proposal to revise the rules on the access to the NTS;

6. Draft on amending and supplementing the Network Code

Status: This project was materialized by the publication in OJ no. 893/27.11.2015 of A.N.R.E. Order no. 160/11.26.2015, amending and supplementing the Network Code for the National Gas Transmission System, approved by A.N.R.E. Order no. 16/2013.

Regarding the European laws and regulations in 2015 such actions were developed:

European laws and regulations

Action	Deadline	Status
I. Commercial regulations		
Regulation for the interruptible clients	-	<p>The issue of the safety interruptible client, as defined at point 30 of Art. 100 of Law 123/2012 was initiated by MECMA in February 2013 by the draft <i>Rules for the interruptible services in the domain of gas</i>. At the end of 2013, the Energy Department (DE) initiated the draft <i>Rules regarding the safety interruptible client</i>. In August 2014 DE launched the public consultation procedure for the draft <i>Rules for the establishing of the safety interruptible client and its activation in emergency situations</i>. In October 2014 DE launched the public consultation procedure for the <i>Rules for the identification of the safety interruptible clients and the protected consumers</i>. Transgaz participated in each of the stages above, making proposals and comments regarding the successive projects initiated by the mentioned institutions. Until now this action within the responsibility of the Ministry of Energy (ME), as competent authority for the application of Regulation (EU) 994/2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC – no regulation was adopted.</p>
Regulation for planning, operating and dispatching gas underground storages	-	<p>The document was submitted for public consultation on the ANRE web site between 29.06 – 31.07.2015. Transgaz submitted proposals and comments until 29.07.2015. The regulation was not published yet in the OJ.</p>
Regulation on the organized frame for trading on the centralized gas markets managed by the Societatea Bursa Română de Mărfuri (Romanian Commodities Exchange) S.A. – revision	March 2015	Approved by Order 18/18.03.2015 of the ANRE President, as further amended and supplemented.
Methodology for determining the annual level of the minimum gas stock for the holders of gas supply licences and for the holders of the gas transmission system operation licences	March 2015	Approved by Order 14/11.03.2015 of the ANRE President
Rules for the organized frame for trading on the centralized gas market managed by OPCOM – revision	June 2015	Approved by Order 86/10.06.2015 of the ANRE President, as further amended and supplemented.
Order on establishing of the National gas Transmission System entry/exit	August 2015	Order 131/12.08.2015 of the ANRE President.

Action	Deadline	Status
points transmission capacity booking calendar for gas year 2015-2016		
Decision on the approval of SNTGN Transgaz SA Report regarding the application of interim measures, according to Regulation (EU) 312/2014	November 2015	Decision 2.296/11.11.2015 of the ANRE President.
The Isaccea III - Negru Voda II gas pipeline methodology for capacity allocation and tariff setting	November 2015	Approved by Order 159/26.11.2015 of the ANRE President.
Order on the amending and supplementation of the Network Code	November 2015	Approved by Order 160/26.11.2015 of the ANRE President.
II. Technical regulations		
Methodology for the calculation of the technological consumption in the gas transmission system	-	In 2015 the draft methodology was submitted to public consultation in 2 stages (March-April and July - August). Considering the importance of the project for the activity of the Company, Transgaz sent to ANRE proposals and comments on 29.04.2015, 22.07.2015 and 21.08.2015. Until now there is no feedback from the ANRE.
Rules for measuring gas quantities traded in Romania – revision Procedure for settling complaints and divergences regarding gas metering	-	Following the ANRE Letter 77.239/27.10.2015, on 12.11.2015 Transgaz sent: - a proposal for the revision of the rules and - a proposal for a procedure. The documents were not launched for public consultation by ANRE until now.
III. Regulations on authorization and licensing		
Conditions for the validity of the gas transmission system operation licence	-	The document was launched for public consultation by ANRE between 29.06 – 31.07.2015. Transgaz made proposals and comments on 29.07.2015. The regulation was not published yet in the OJ.
Rules for the authorization of the economic operators performing activity in the domain of gas and for the validity conditions regarding the authorizations – revision.	June 2015	Approved by Order 98/25.06.2015 of the ANRE President.
IV. Economic regulations		
V. Other regulation		
Procedure for the preparation of the investment plans in the gas domain	-	The document was launched for public consultation by ANRE between 30.03 – 30.04 2015. Transgaz made proposals and comments on 20.05.2015. The procedure was not published yet in the OJ.

Action	Deadline	Status
Technical code of gas	-	The document was launched for public consultation by ANRE between 30.03 – 30.04 2015. Transgaz made proposals and comments on 20.05.2015. The technical code was not published yet in the OJ.
Rules regarding the access and connection to the NTS	-	Transgaz prepared from its own initiative the draft rules for the revision of the existing regulation under Law 123/2012. The draft was transmitted to ANRE on 23.11.2015. The documents were not launched for public consultation by ANRE until now.
Procedure for the preparation of the technical and economic study for achieving the objectives in the gas domain	July 2015	Approved by Order 104/01.07.2015 of the ANRE President.
Methodology for the evaluation of investments in projects of common interest in gas infrastructure, including the related risks	November 2015	Approved by Order 157/04.11.2015 of the ANRE President.
Performance standard for the gas transmission service	November 2015	Approved by Order 161/26.11.2015 of the ANRE President.

Authorization and licensing in the gas domain

Action	Deadline	Status
Request for authorisation type PDSB and PDIB	-	On 08.12.2015 the documentations for granting the authorizations was submitted to ANRE. ANRE requested by Letter 772/07.01.2016 the supplementation of the documents submitted. On 20.01.2016 the supplementation requested was transmitted to the authority.
Change of Licence 1933/2013 with updating the technical characteristics of the objectives at the date of 31.12.2013.	July 2015	The change of licence was approved by Decision 1408/01.07.2015 of the ANRE president .
Change of Licence 1933/2013 with updating the technical characteristics of the objectives at the date of 31.12.2014.	December 2015	The change of licence was approved by Decision 2482/09.12.2015 the ANRE president.
Management of the activity of authorization/ re-authorization of the technical personnel of the Company, which is/will be authorized installer for gas	As programmed by ANRE	Details regarding this activity are presented below at Chapter II.25 ² .

In accordance with the rules of organization and operation of the Company, the Licences and Regulations Unit from its establishing in July 2015 and to date has focused its efforts towards achieving the objectives set out in the 2013-2017 Management Plan of Transgaz.

The main directions of action of the Licences and Regulations Unit were:

- To develop the Report on the implementation of interim measures established by Regulation (EU) no. 312/2014 establishing a network code on gas balancing of transmission networks;
- To develop and promote a proposal for an intermediate review of the Network Code, harmonized with the Report;
- To develop a new methodology for transit 2 pipeline capacity trading in the conditions of the expiration of the transmission contract with Gazprom Export, contract not compliant with the European laws in force;
- To implement for the Csanadpalota point the provisions of Regulation (EU) no. 984/2013 on capacity allocation mechanisms in cross-border interconnection points;
- To conclude interconnection agreements with Ukrtransgaz for the interconnection points between the Romanian and Ukrainian transmission systems;
- To conclude interconnection agreements with Bulgartansgaz for the interconnection points between the Romanian and the Bulgarian systems.

Other relevant actions carried out by the Licences and Regulations Unit:

- Completion of draft Regulation on future entry/exit points capacity booking (carried out under the Joint Working Group TRANSGAZ - EXXON - OMV Petrom) and submission to the ANRE. According to the discussions with the representatives of the authority, it is estimated that the public consultation will be initiated in January 2016.
- Management of internal consultations and preparing of observations for 13 draft laws initiated by ANRE, some of which are particularly relevant for the Company, namely:
 - ✓ Regulation authorizes the economic operators active in natural gas (review);
 - ✓ performance standard for the transportation of natural gas (review);
 - ✓ Conditions valid operating license;
 - ✓ Methodology for evaluating investments in projects of common interest in gas infrastructure, including risks related thereto;
 - ✓ Rules for measuring the quantities of natural gas traded in Romania (review)
- Participation in the preparation of the rules for NTS access and connection (carried out in the working group constituted for this purpose).
- Activities related to authorization:
 - ✓ Preparation of documents for granting the authorization for the designing of the gas distribution systems, including closed distribution systems and installations for the production activity/storage of biogas/bio methane, of the PDSB type and authorization of design installations using natural gas/biogas/bio methane with a medium, low and low pressure regime, of the PDIB type.
 - ✓ Transmission to ANRE of 3 notifications about changing the initial conditions for authorization of the Company.
- Activities related to licensing:

- ✓ Issuing by ANRE of Decision no. 1408/07.01.2015 on the amendment of License no. 1933/2013 on the operation of the gas transmission system for updating its technical characteristics on 31.12.2013.
- ✓ Issuing by ANRE of Decision no. 2482/12.09.2015 on the amendment of License no. 1933/2013 on the operation of the gas transmission system for updating its technical characteristics on 31.12.2014.
- Actions required for authorization of installers:
 - ✓ Preparation and submission to ANRE of 103 files for equivalence/extension of validity of 119 authorized installer cards.
 - ✓ Preparation and submission to ANRE of 63 files for obtaining 74 authorized installer cards.
 - ✓ Permanent update of the general database on the authorized installers at the Company level.
- Actions related to the collaboration with ENTSOG:
 - ✓ Participation in the meetings of the TSO cooperation initiative in the CEE region to agree representation in the board of ENTSOG.
 - ✓ The signing of an addendum to the Memorandum of Understanding that sets the framework for cooperation of the TSOs in the CEE region in the ENTSOG.
 - ✓ Under this Addendum, Transgaz took over a portfolio in the steering committee for a period of three years.
 - ✓ Participation in the first meeting of the TSOs on regional investment plans for the region of Central - Eastern Europe.
 - ✓ Preparation of a note on the status of activities performed in each work group of the organization. This document will be the basis for updating the Transgaz internal work groups and adopting a work procedure on the ENTSOG activities.
 - ✓ Active involvement in sending the following information:
 - primary input for the preparation of the next edition of the European TYNDP.
 - completion of survey on the early implementation of the interoperability code.

3.1.2 The activity of natural gas transmission

In 2015 the regulated tariffs for the provision of natural gas transmission services via NTS were set based on the following regulations:

- **ANRE Order No.70/22 July 2014** on the approval of the regulated revenue, total revenue and transmission tariffs for natural gas transmission through the national transmission system for the period 1 July 2014-30 September 2015;
- **ANRE Order No. 80/14 August 2014** amending Annex No. 1 to the Order of the National Regulatory Authority for Energy No.70 / 2014 on the approval of regulated revenue, total revenue and transmission tariffs for natural gas transmission through the national transmission system for the period July 1, 2014 - September 30, 2015;
- **ANRE Order No. 136/14 August 2015** on the approval of the regulated revenue, total revenue and transmission tariffs for the gas transmission activity through the National Transmission System – for the period 1 October 2015 – 30 September 2016.

On 21 May 2014 was published the ANRE Order No. 32 on the approval of the Methodology for the establishment of the regulated income, the total revenue and the regulated tariffs in the natural gas sector.

The main modifications to setting the revenue related to the transmission activity, performed by the ANRE Order no. 32 versus the ANRE Order no.22/2013 are the following:

- Setting the annual increase rate of the economic efficiency for the natural gas transmission activity at the value of 3.5% for each year of the third regulation period, in the interval July 2014 – September 2017.
- From the fourth year of the regulation period (2012-2017) the starting date of the year within the periods is 1 October. Until the third year (2014-2015), the regulation year was starting at 1 July.
- Introduction of the following terms within the formula for the determination of the income:
 - $\Delta VA(i)$** – the amount allowed to be recovered in the year (i) from the amount approved by the Regulation Committee of ANRE, determined according to the legal in force provisions by compensating the unrealized incomes recognized by ANRE for the second regulation period with the cumulated amount of the efficiency bonuses obtained from the development of the natural gas transmission activity determined for each year of the second regulation period;
 - $\Delta CT(i)$** – the correction component of the technological consumption for the previous years.
- OPEX, including the technological consumption, is adjusted through the Order 22 with the inflation diminished with the annual increase rate of the economic efficiency; Through the Order 32, OPEX is similarly adjusted the without the technological consumption, and the technological consumption **$CT(i)$** – is determined as the product between the quantity of natural gas afferent to the technological consumption established according to the legal in force provisions for the year (i-1) and the estimated purchase cost for the year (i).
- At setting the RAB (x) at the beginning of the regulation period, in Order 32 the RAB (x-1) values from the previous period are not inflated with the cumulated rate of the inflation from the (x-1) regulation period, as it was stipulated in the Order 22/2012.

Modifications related to tariffs setting

The setting of **tariffs for capacity booking** by entry/exit points / groups of points grouped based on the `adjacent system type` criterion, respectively:

- The group of the entry points from the production fields, from the LNG terminals and from the biogas or other gases generation installations that comply with the quality conditions in order to be delivered / transmitted in / through the NTS;
- The entry points from the interconnection with other natural gas transmission systems;
- The group of the entry points from the underground storages;
- The group of the exit points to the distribution systems, the upstream pipelines and the final clients directly connected to the transmission system;

- The group of the exit points to the underground storages;
- The group of the exit points from the interconnection with other natural gas transmission systems.

Setting the types of services related to gas transmission for which capacity booking tariffs are set, that is:

- **Long-term** natural gas transmission services:
 - Firm transmission services contracted for a natural gas year or multiple natural gas years;
 - Uninterruptible transmission services contracted for a natural gas year;
- **Short-term** natural gas transmission services:
 - Firm/uninterruptible transmission services contracted for a quarter or multiple quarters, within the natural gas year;
 - Firm/uninterruptible transmission services contracted for a month or multiple months, within the quarter;
 - Firm/uninterruptible transmission services contracted for a natural gas day or multiple natural gas days, within a month.

The natural gas transmission service ensures the fulfilment of Transgaz' obligations under its own programme, namely to provide the network users access services 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 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 from the entry in the NTS to the commercial delivery/receipt points from the exit from the NTS, *natural gas volumes required to cover losses in the NTS being the responsibility of Transgaz.*

Through the transmission services contracted in 2015 the total amount of **131,259,673 MWh** (12,294,693 thousand cm) was transmitted out of which to:

distributions:	73,053,388 MWh (6,821,816 thousand cm); -55.66%		
direct consumers:	37,410,538 MWh (3,523,985 thousand cm); -28.50%		
storage:	20,795,747 MWh (1,948,892 thousand cm); -15.84%		
reverse flow (Csanadpalota):	0 MWh	(0 thousand cm)	- 0%

The main beneficiaries of the internal gas transmission service in 2015 are as follows:

Main users 2015	Invoiced value without the VAT 2015 (RON)	%
GDF SUEZ ENERGY	338.767.553	27%
E.ON ENERGIE ROMANIA	301.889.640	24%
OMV PETROM GAS BUCHAREST	145.759.662	12%
ROMGAZ SA. MEDIAŞ	109.140.887	9%
ELECTROCENTRALE BUCHAREST	105.313.844	8%
AZOMURES TG.MUREŞ	80.864.251	6%
INTERAGRO BUC.	33.053.049	3%
WIEE ROMÂNIA SRL - AV	21.057.754	2%
CONEF GAZ BUCHAREST	20.895.314	2%
ELECTROCENTRALE CONSTANŢA	13.070.497	1%

Table 20- The share of the main users of the NTS in 2015

In order to cover the NTS loss and for the own technological consumption in 2015 Transgaz purchased 965,920 MWh (88,102 thousands cm) gas.

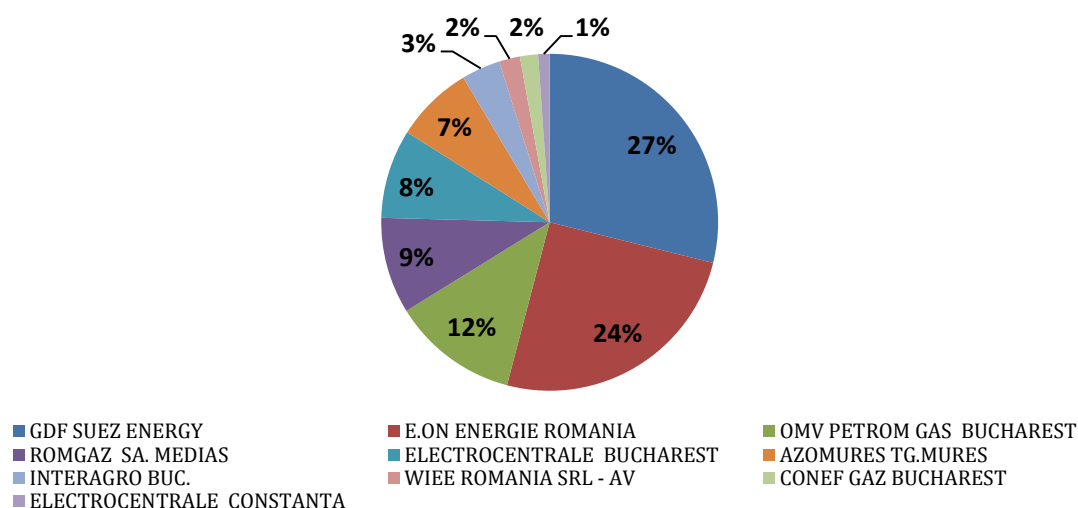


Chart 26 - The share of the main users of the NTS in 2015

Based on Report DO 16988/16.04.2015, approved by the Board of Administration by Resolution 14/2015 there were contracted services for capacity booking in the underground storage facilities for maintaining on stock **212,000 MWh** of gas to ensure the balancing of the system and its safe operation.

In 2015, following the measures taken with regard to the operation activity at the level of the **National Gas Dispatching Centre** a series of activities were carried out. Thus:

- NTS topology which will underlie the implementation, through the SIMONE programme, of the hydraulic calculation model for the NTS, which involved drawing in AUTOCAD of over 13,000 km of pipeline (divided into approx. 6,000 sections), a total of approximately 8,800 points of topology, 3,262 isolation valve and 124 control valves, 1,111 NTS delivery points, 150 NTS entry points plus 40 simplified operating schemes for VCS, technological nodes and interconnections;

- Completion of mapping SCADA instrumentation codes with the codes of the topology points and valves status register for the preparation of running the SIMONE simulator for calculating the NTS line-pack (LP) and its use in forecasting gas demand in the NTS for the next day for the preparation of the transmission programmes for the following day, etc.;
- Completion of preparatory works that will lead to the implementation of the Electronic Register of NTS parameters with data from SCADA;
- NTS LP calculation with the SIMONE simulator for the first time since 7 July this year, as a result of the actions of the DNGN Medias team. After this date this has become a routine activity within DNGN Medias.
- Training of all personnel of the System Analysis Department for calculation the NTS LP with SIMONE;
- Completion of a web application for online monitoring of the NTS valves with the IT& SCADA Department. The application was implemented;
- Training the personnel in the territory that will provide support for the calculation of the NTS LP with the SIMONE simulator using the application;
- Continued action to improve the calculation of the NTS LP by updating the topology and the calculation scheme (regional calibration activities, depending on available SCADA data);
- Establishing reference values for the line pack necessary for the assessment of the daily imbalances;
- Preparation of regional balances analyses to detect the sources of error and non-conclusion of balances on those areas;
- Cooperation with the IT department to implement a web application for validation and correction (if there is information available) of the SCADA data which are used at calculating the NTS to increase the efficiency of the calculation (decreasing the time required for calculation) by involving regional offices personnel in the validation of the data;
- Cooperation with the research and design department to prepare a hydraulic for the entire NTS using SIMONE, generating gas transmission solutions for major development projects (such as gas transmission on the central corridor);
- Implementation of the new methodology for calculating technological gas consumption for NTS works executed at filling and emptying the pipeline, failures, accidents, etc

Other actions related to the operation activity in 2015:

- Daily/monthly determination and monitoring of the **technological consumption in the NTS** and regional offices and maintaining it within the approved percentage limit;
- Participation in the work group for the modification/supplementation of Draft intermediate of the **Network Code for the NTS**, and in the amending of some of the Code's sections as agreed within the public consultations organized by ANRE together with the economic operators in the gas market and following ANRE's decisions.

The modifications regarded mainly:

- ✎ The amending of the allocation methods at the entry points from production, the entry/exit points from storages and exit points from the NTS to the distribution operators and direct consumers;

- ✎ The calculation of the exceeding capacity of the NU and ensuring the capacity booked based on the monthly allocation by types of points where a the tariff may be applied;
- ✎ The possibility for the NU to balance its portfolio by achieving the GTF within the limits of the monthly imbalance determined.
- Analysis of using the transmission capacities on the Transit II and III pipelines for substantiating tariffs for the Isaccea II and Negru-Vodă II interconnection points for the future contracting of Transit II pipeline capacity, by auction, starting from 1 January 2016;
- Performing **bundled capacity auctions** at the Csanádpalota interconnection point in the first 3 quarters of 2015, according to the Auction Calendar agreed with FGSZ Zrt. under the TSO Cooperation and Membership Agreement;
- The conclusion of the Capacity allocation agreement for the interconnection point Negru Vodă I and of the Capacity allocation agreement for the interconnection point Giurgiu – Ruse with Bulgartransgaz EAD from Bulgaria;
- Establishing the technical capacities on the physical entry/exit points NTS offered to the network users in order to book the capacity for the natural gas year 2014-2015 ;
- Definition and publishing of the transportation services offered by types of entry/exit points in the NTS;
- Completion of the **Convention on setting the technological parameters related to the physical entry/exit points in the National natural gas transmission system** with the producers, distribution operators, storage operators, direct clients or their suppliers, according to the ANRE President Order no. 79/30.10.2014 underlying the transmission contracts with the network users, in a 98%;
- Actions regarding the **fulfilment of the transparency requirements stipulated in Regulation (EC) no. 715 /2009**
 - ✎ implementation of new requirements regarding the publishing of the technical capacities booked and available according to the modifications under Decision (EU) 2015/30.04.2015, by increasing the time horizon from 18 to 24 months, both on Transgaz's and on ENTSOG's web sites;
 - ✎ publication of daily commercial information by relevant points regarding the Transit II and III pipelines;
 - ✎ publication of the Csanadpalota IP Commercial Operation Rules according to the Interconnection Agreement (IA) concluded between *FGSZ and TRANSGAZ*.
- the daily calculation of the imbalances and the monitoring of the main NU according to the provisions of art. 64 (4) of the Network Code, approved by ANRE President Order no. 54/26.06.2014.

The quantity of gas transmitted through the transit pipelines in 2015 is as follows:

- I half 2015 - **7,325,660.721 thousand cm (77,803,235.251 MWh);**
- Q III 2015 - **4,047,247.82 thousand cm (43,378,300 MWh);**
- Q IV 2015 - **5,100,105.806 thousand cm (53,864,274.143 MWh)**
- TOTAL 2015 - 16,473,104.347 thousand cm (175,045,809.394 MWh)**

3.1.3 International natural gas transmission

The international natural gas transmission is performed using dedicated pipelines which are not interconnected to the national transmission system (NTS) and, therefore, it is not considered a regulated activity and the tariffs were commercially set by negotiations between the parties.

The international natural gas transmission ensures the transit of natural gas from the Russian Federation to Bulgaria, Turkey, Greece and other countries, through three gas pipelines, between Isaccea and Negru-Vodă.

This activity is conducted based on the three contracts concluded between Transgaz and Bulgargaz EAD (Bulgaria), respectively Gazprom Export (Russian Federation). The legal framework for the conclusion of the contracts is represented by the following intergovernmental agreements:

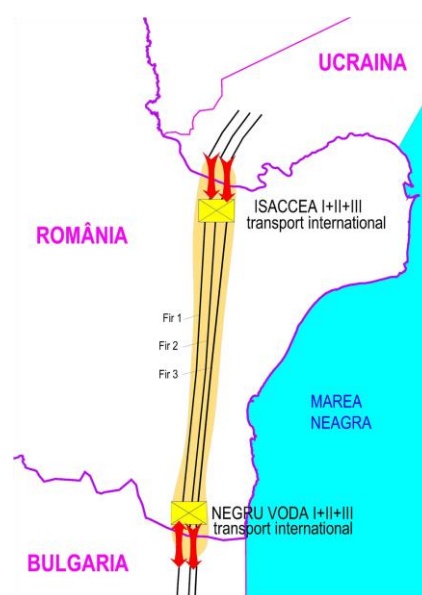


Fig.1- International natural gas transmission pipelines

- ✎ The Convention regarding the construction of a pipeline on the territory of the Socialist Republic of Romania (SRS) to ensure the gas transit from U.S.S.R. to the People's Republic of Bulgaria, signed on 29 November 1970;
- ✎ The Convention between the governments of S.R.R. and U.S.S.R. regarding the transit on the territory of S.R.R. of natural gas from U.S.S.R. to Turkey, Greece and other countries, signed on 29 December 1986;
- ✎ The Convention between the governments of Romania and the Russian Federation regarding the extension of the capacity of the natural gas transit pipelines on the territory of Romania, for increasing the supplies of natural gas from the Russian Federation to third party countries and to Romania, signed on 25 October 1996;
- ✎ The cooperation agreement in the energy sector concluded on 29 October 2002 between the Ministry of Energy and Energy Resources of Bulgaria and the Ministry of Industry and Resources of Romania.

The conventions concluded with the Russian side were denounced by the GD no. 1278/27 December 2011, based on the provisions of article 351, paragraph 2 of the Treaty regarding the functioning of the European Union. The validity period of the three contracts is as follows:

- Contract no. 10.726 of 19 October 2005, concluded with **Bulgargaz EAD Bulgaria, (section I)** valid until 31 December 2016;
- Contract no. 2102-06 of 3 June 1987 valid until 31 December 2011, extended by 3 addendums until **30 September 2016**;
- Contract no. 643/00157629/210247 of September 24th, 1999, valid until **31 December 2023**.

Considering that the contracts for Transit I and II expire on 31 December 2016 and on 30 September 2016, Transgaz took the necessary steps to ensure the regulatory frame for the continuation of transmission capacity trading regarding the two pipelines,

compliant with the applicable European codes, and for the conclusion of interconnection agreements with the neighbouring transmission operators.

3.1.4 Other activities

Other activities with a marginal contribution to the turnover of the company are mainly the sales of assets, rents and royalties.

3.1.5 Evaluation of the provision of natural gas transmission service

Transgaz is the only transmission system operator in Romania. In the table below is presented the evolution of the provision of domestic and international natural gas transmission services for the period 2013 - 2015.

No.	Specification	Achieved at 31 December			Dynamics (%)		
		2013	2014	2015			
0	1	2	3	4	5=4/3*100	6=3/2*100	5=4/2*100
1.	Revenue from the transmission activity						
	- thousand RON	1.210.480	1.340.853	1.259.788	93,95	110,77	104,07
	- MWh	119.741.363	126.703.188	131.259.673	103,60	105,81	109,62
	- RON/MWh	10,11	10,58	9,60	90,69	104,68	94,94
	- thousand cm	11.258.941	11.883.713	12.294.693	103,46	105,55	109,20
	- RON/1000 mc	107,51	112,83	102,47	90,81	104,95	95,31
2.	Revenue from the international gas transmission activity						
	- thousand RON	268.537	273.760	318.752	116,43	101,95	118,70
3.	Other operating income						
	- thousand RON	37.623	40.706	84.858	208,46	108,19	225,55
	TOTAL OPERATING REVENUE before the construction activity according to IFRIC12						
	Thousand RON	1.516.640	1.655.319	1.663.398	100,49	109,14	109,68

Table 21- Evolution of revenue from domestic and international natural gas transmission in the period 2013-2015

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

- does not deal with competition situations in the field;
- it is not significantly dependent on a client/group of clients in its portfolio.

Results in 2015 versus results in 2014

The situation of the financial results as at 31 December 2015 as compared to results achieved in the similar period of the year 2014 is presented in the table below:

Thousand RON			
Name	Achieved 2015	Achieved 2014	Modifications
1	2	3	4=2/3x100-100
Operating revenue before the construction activity acc. to IFRIC12	1.663.398	1.655.319	0%
Revenue from the construction activity acc. to IFRIC12	211.125	136.635	55%
Financial income	43.237	33.375	30%
Operating expense before the construction activity acc. to IFRIC12	1.077.219	1.063.751	1%
Cost of assets acc. to IFRIC12	211.125	136.635	55%
Financial cost	22.315	14.356	55%
GROSS PROFIT -total, of which:	607.101	610.587	-1%
· from operation	586.179	591.568	-1%
· from the financial activity	20.922	19.019	10%
Tax on profit	118.372	108.071	10%
NET PROFIT	488.729	502.516	-3%
Other items of the comprehensive result	10.211	-16.131	X
Total comprehensive result for the period	498.940	486.385	3%

Table 22- Financial results in 2015 vs financial results 2014

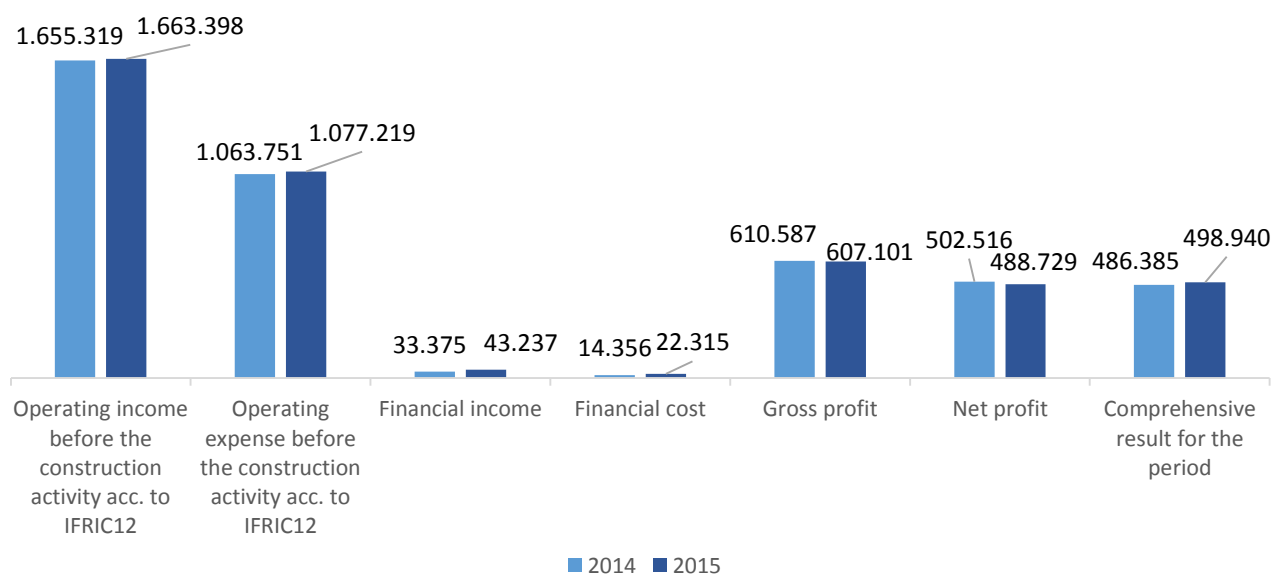


Chart 29 – Financial results in 2015 vs financial results in 2014(thousand RON)

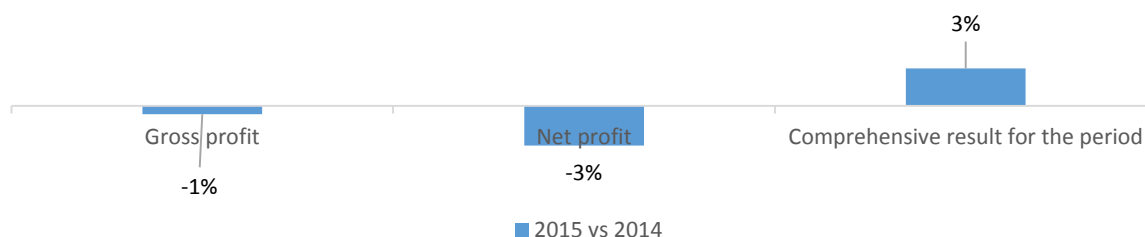


Chart 28 – Financial results 2015 vs financial results 2014 (%)

The operating revenue before the construction activity acc. to IFRIC12 registered in at 31 December 2015 are almost equal to the results obtained at 31 December 2014, which is higher by de **RON 8,079 thousands**.

Revenue was influenced mainly by the following factors:

- *capacity booking revenue* higher by **RON 107,677 thousand** due to:
 - the increasing of the fixed component share in the total revenue to 60%;
 - the increasing of the capacity booked by 96,881,027 MWh due to the introduction of the entry/exit capacity booking from 1 August 2014;
- *volumetric component revenue* lower by **RON 188,742 thousand** due to:
 - the decreasing of the variable component share in the total revenue to 40%;
 - the increasing of the quantity of invoiced gas by 4,556,484 MWh (410,979 thousand m³), detailed by categories of consumers as follows:

		12 months 2015	months 2014	Differences
Quantity transmitted for direct consumers	MWh	58.206.285	55.957.573	2.248.712
	thousand m ³	5.472.877	5.254.118	218.759
Quantity transmitted for distribution	MWh	73.053.388	70.745.615	2.307.773
	thousand m ³	6.821.816	6.629.595	192.221
Total	MWh	131.259.673	126.703.188	4.556.484
	thousand m ³	12.294.693	11.883.713	410.979

Table 23- Gas quantity invoices - 2015 vs. 2014

Starting with the fourth of the third regulatory period (2015–2016), the total revenue at the basis of the tariff setting for the transmission activity is allocated 60% for the fixed component and 40% for the volumetric component, which results in the redistribution of the transmission revenues 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 44,992 thousand** due to the changes in the foreign currency of the contracts;
- *other operating revenue* higher by **RON 44,152 thousand**, mainly due to recording of the amounts related to the reversal of the deferred revenue acknowledged Transgaz considering the right to receive the remaining value of the NTS investments at the end of the Concession Agreement;

- revenue from the construction activity amounting **RON 211,125 thousand** according to IFRIC12, according to which transmission network construction or upgrade revenue and costs, in exchange to which it is recorded the intangible asset, must be recognized according to IAS 11, Construction contracts;
- *the financial revenue* with a positive influence of **RON 9,861 thousand**.

The operating expenses before the construction activity acc. to IFRIC 12 increased by **RON 13,469 thousand**, which is higher by **1%** as compared to 2014.

Overruns amounting to RON 65,013 thousand was recorded, mainly in relation to the following cost elements:

- 👉 other operating expenses increased by RON 48,072 thousand, mainly due to the 2015 provisions for impairment on Interagro and Electrocentrale Bucharest receivables. On 31 December 2015 the Interagro SA and Interagro SRL accounts receivable balance is of RON 82,777 thousand, amount fully provisioned, and the Electrocentrale Bucharest accounts receivables balance is of RON 79,915 thousand, with a provision amounting to RON 57,091 thousand;
- 👉 tangible and intangible assets amortization: RON 8,108 thousand;
- 👉 personnel expenses: RON 3,917 thousand;
- 👉 auxiliary materials expenses: RON 2,774 thousand;
- 👉 tax on monopoly: RON 2,142 thousand;

The Company managed to compensate part of the negative impact by savings of RON 51,544 thousand in relation to the following cost items:

- 👉 transmission system technological gas consumption and loss decreased by **RON 8,978 thousand** due to the following factors:
 - gas amount for technological consumption lower by 80,561 MWh/8,836 thousand cubic meters (▼8%) as compared to the same period of 2014 with a positive effect of RON 7,092 thousand;
 - average purchase price for 2015 lower by RON 1.95/MWh as compared to 2014, with a positive effect of RON 1,886 thousand;
- 👉 works and services provided by third parties: RON 29,126 thousand;
- 👉 NTS concession royalty: RON 3,607 thousand;
- 👉 licence fee: RON 7,647 thousand;
- 👉 other expenses: RON 2,186 thousand.

The Company registered on 31 December 2015 the **Cost of assets built in acc. to IFRIC12 amounting to RON 211,125 thousand**, according to which the revenue and expense for the transmission network building or upgrading services, for which the intangible asset is recorded, must be recognized according to IAS 11, Construction

Contracts. Such revenue and expense were not presented previously since their impact was considered insignificant. Transgaz has no profit from the construction activity, the value of the revenue being equal to the value of the expense from this activity.

The financial costs increased by **RON 7,958 thousand** based on the foreign exchange loss.

Compared to 31 December 2014 the gross profit achieved for 2015 is lower by 1%, meaning by RON 3,487 thousand.

2015 achievements versus 2015 budget

The main economic-financial indicators achieved in 2015, as compared to the provisions of the Revenue and Expense Budget (REB) are presented in the table below:

thousands RON

Name	REB 2015	Achieved 2015	Modification
1	2	3	$4=3/2 \times 100 - 100$
Operating revenue from the construction activity acc. to IFRIC12	1.685.161	1.663.398	-1%
Revenue from the building activity acc. to IFRIC12	-	211.125	x
Financial revenue	9.788	43.237	342%
Operating expense before the construction activity acc. to IFRIC12	1.247.238	1.077.219	-14%
Cost of assets acc. to IFRIC12	-	211.125	x
Financial costs	3.616	22.315	517%
GROSS RESULT, of which:	444.095	607.101	37%
<i>From operation</i>	437.923	586.179	34%
<i>From the financial activity</i>	6.172	20.922	239%
Tax on profit	72.683	118.372	63%
NET PROFIT	371.412	488.729	32%

Table 24- Financial Results 2015 vs Budget 2015

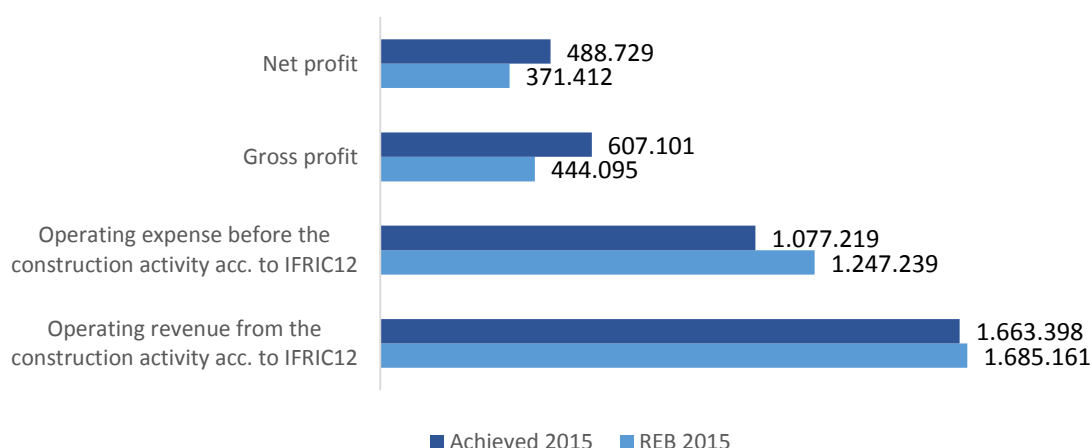


Chart 29 – 2015 Achieved vs Budget -thousand RON

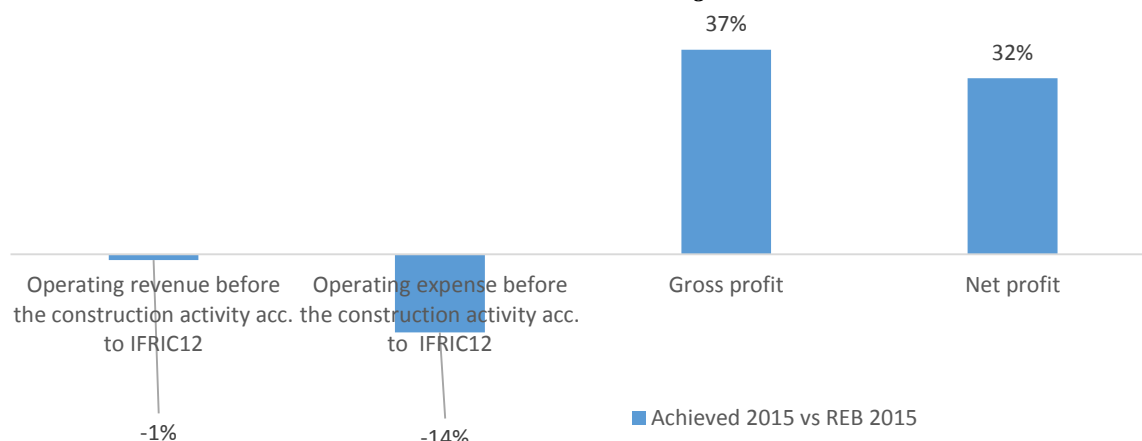


Chart 30 – 2015 Achieved vs Budget (%)

The operating revenues before the construction activity acc. to IFRIC 12 are almost equal to the ones provided in the REB, recording a decrease of **RON 21,763 thousand**.

The revenues was influenced by the following factors:

- The gas transmission services recorded a decrease of **RON 107.693 thousands** mainly due to:
 - *the lower gas quantity transmitted* compared to the planned one by 6,127,114 MWh/666,325 thousand cm (▼4.5%) with a negative influence of **RON 40,193 thousand**;
 - *average volumetric transmission tariff* lower than the planned one by 0.429 RON/MWh, with a negative influence of **RON 49,344 thousand**;
 - *average booked capacity* higher by 0.013 RON/MWh/h with a positive influence of **RON 6,410 thousand**;
 - *booked capacity* lower by 19,846,177 MWh with a negative influence of **RON 24,566 thousand**.
- The revenue from international gas transmission services recorded an increase of **RON 41,343 thousands** due to the variation of the exchange rates of the currencies provided in the contracts;
- Other financial revenue recorded an increase by **RON 44,587 thousand** compared to the REB, due to reversal of the deferred revenue acknowledged by Transgaz considering the right to receive the remaining value of the NTS investments at the end of the Concession Agreement (RON 26,391 thousand);
- Revenue from the construction activity amounting to **RON 211,125 thousand** recording acc. to IFRIC12, according to which the transmission network construction and upgrading service revenue and expense, for which it is recorded the intangible asset, must be recognized acc. to IAS 11, Construction contract;
- The financial revenue increased as compared to the REB by **RON 33,449 thousand** due to the revenue from interest recorded as an effect of the of discounting the liabilities for the regulated value of the regulated asset base remaining undepreciated at the end of the Concession Agreement (RON 16,502 thousand) and of the exchange rate gains.

The operating expense before the construction activity acc. to IFRIC12 are **14% lower** as compared to the approved REB, which is lower by **RON 170,018 thousand**.

Savings amounting to RON 257,651 thousand were recorded, mainly regarding the following cost items:

- ✂ consumption and technological loss of natural gas in the transmission system of **RON 85,508 thousand**, due to the following:
 - technological consumption gas lower than the one provided in the programme by 868,257 MWh/84.933 thousand cm (▼47%), with a positive influence of RON 79,837 thousand;
 - the average purchase price lower by 5.87 RON/MWh than the one provided in REB with a positive influence of RON 5,671 thousand;
- ✂ third party works and services: RON 111,714 thousand;
- ✂ cost of personnel: RON 11,233 thousand;
- ✂ cost of auxiliary material: RON 22,940 thousands;
- ✂ taxes and duties: RON 14,695 thousand;
- ✂ cost of provision for risk and expenses: RON 4,926 thousand;
- ✂ cost of royalty: RON 6,635 thousand

Exceedings amounting to RON 87,632 thousands were recorded, mainly due to cost of depreciation (▲RON 4,360 thousand) and other operating expense (▲RON 83,272 thousand). The increase in other operating expense is due to the establishing in 2015 of the additional provision for with Interagro and Electrocentrale Bucharest.

The Company recorded at 31 December 2015 the **Cost of assets built acc. to IFRIC12 in amount of RON 211,125 thousand**, according to which transmission network construction or upgrade revenue and costs, in exchange to which it is recorded the intangible asset, must be recognized according to IAS 11, Construction contracts. Such revenue and expense were not presented previously since their impact was considered insignificant. Transgaz has no profit from the construction activity, the value of the revenue being equal to the value of the expense from this activity.

The financial costs increased by **RON 18,699 thousand** as compared to the REB based on the foreign exchange loss.

As compared to the REB **the gross profit** increased by 37%, which is higher by **RON 163,005 thousand**, and the **net profit** increased by 32%, which is higher by **RON 117,317 thousand**.

Achievements 2015 versus Management Plan 2015

The main economic and financial indicators achieved in 2015, as compared to the management plan of SNTGN Transgaz SA for 2015 approved by Resolution of the OGMS 9/23 September 2013 are presented in the table below:

thousands RON

No.	Name	Management Plan	Achieved 2015	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the construction activity acc. to IFRIC12	1.696.628	1.663.398	-2%
2.	Revenue from the construction activity acc. to IFRIC12	-	211.125	x
3.	Financial income	20.548	43.237	110%
4.	Operating expense before the construction activity acc. to IFRIC12	1.270.167	1.077.219	-15%
5.	Cost of assets acc. to IFRIC12	-	211.125	x
6.	Financial cost	8.647	22.315	158%
7.	GROSS PROFIT (rd.3.- rd.6.), din care:	438.362	607.101	38%
	from operation	426.461	586.179	37%
	from the financial activity	11.901	20.922	76%
8.	Tax on profit	68.058	118.372	74%
9.	NET PROFITUL	370.304	488.729	32%

Table 25 - Results 2015 vs Management Plan 2015

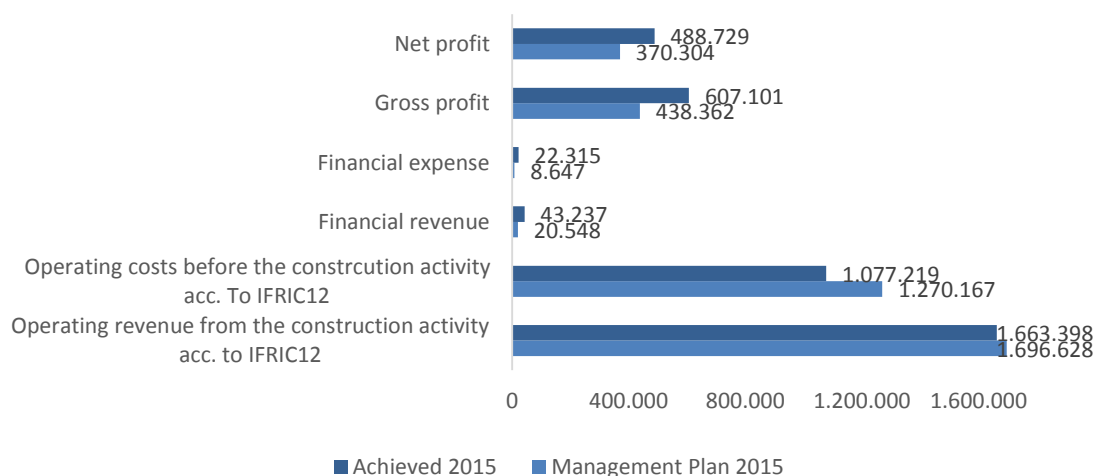


Chart 31 - Results 2015 vs Management plan 2015

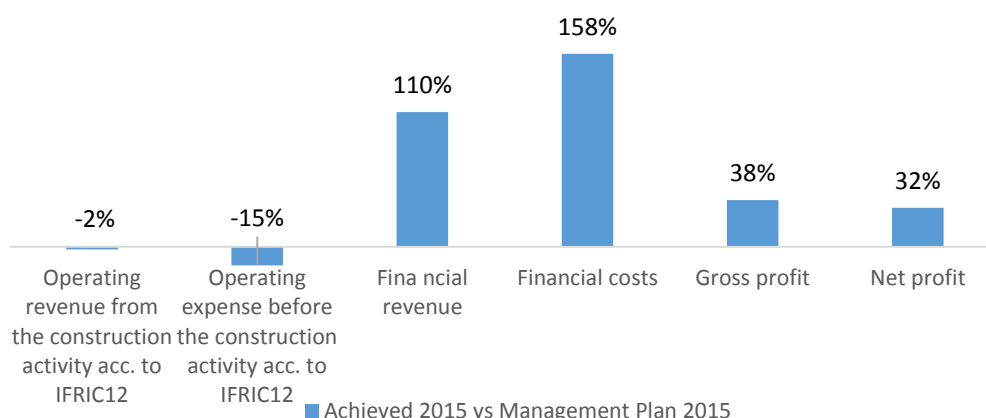


Chart 32– Achieved 2015vs Management plan 2015 (%)

The operating revenue before the construction activity acc. to IFRIC12 decreased by 2% as compared to the management plan, which is lower by RON 33,230 thousand.

The revenue was influenced mainly by the following factors:

- *capacity booking revenue* higher by **RON 125,183 thousand** due to:
 - the increasing of the fixed component share in the total revenue from 35% to 60%;
 - the increasing of the capacity booked by 208,063,416 MWh due to the introduction of the entry/exit capacity booking from 1 August 2014;
- *volumetric component revenue* lower by **RON 244,188 thousand** due to:
 - the decreasing of the variable component share in the total revenue from 65% to 40%;
 - the increasing of the quantity of invoiced gas by 11,400,573 MWh (994,693 thousand m³), detailed by categories of consumers as follows:
- The revenue from international gas transmission services recorded an increase of **RON 48,850 thousands** due to the variation of the exchange rates of the currencies provided in the contracts;
- Other operating revenue recorded a positive difference of **RON 36,926 thousand**;
- Revenue from the construction activity amounting to RON 211,125 thousand recording acc. to IFRIC12, according to which the transmission network construction and upgrading service revenue and expense, for which it is recorded the intangible asset, must be recognized acc. to IAS 11, Construction contract;
- The financial revenue increased as compared to the Management Plan by **RON 22,688 thousand** mainly due to the revenue from interest recorded as an effect of the discounting the liabilities for the regulated value of the regulated asset base remaining undepreciated at the end of the Concession Agreement.

The operating expense before the construction activity acc. to IFRIC12 are 15% lower as compared to the approved management plan, which is lower by RON 192,948 thousand.

Savings amounting to RON 345,852 thousand were recorded, mainly regarding the following cost items:

- ✎ consumption and technological loss of natural gas in the transmission system of **RON 197,670 thousand**, due to the following:
 - technological consumption gas lower than the one provided in the programme by 1,576,799 MWh, with a positive influence of RON 174.141 thousand;
 - the average purchase price lower by 24,36 RON/MWh with a positive influence of RON 23,529 thousand;
- ✎ third party works and services: RON 109,632 thousand;
- ✎ cost of personnel: RON 19,879 thousand;
- ✎ other material costs: RON 11,655 thousands;
- ✎ cost of royalty: RON 7,016 thousand

*Exceedings amounting to **RON 152,905 thousand** were recorded, mainly under the following cost items:*

- ✎ taxes and duties: RON 56,203 thousand, mainly based on the cost of tax on monopoly;
- ✎ cost of provision for risks and expenses: RON 8,697 thousand;
- ✎ other operating costs: RON 88,005 thousand, mainly due to cost of provisions for impairment on receivables.

The Company registered on 31 December 2015 the **Cost of assets built in acc. to IFRIC12 amounting to RON 211,125 thousand**, according to which the revenue and expense for the transmission network building or upgrading services, for which the intangible asset is recorded, must be recognized according to IAS 11, Construction Contracts. Such revenue and expense were not presented previously since their impact was considered insignificant. Transgaz has no profit from the construction activity, the value of the revenue being equal to the value of the expense from this activity.

The financial costs increased by RON 13,668 thousand based on the foreign exchange loss.

The gross profit is **38%** higher than the one provided in the management plan, its level being higher by **RON 168,739 thousand**, and the **net profit by 32%**, namely by **RON 118,425 thousand**.

	Achieved 2015/ Achieved 2014	Achieved 2015/ REB 2015	Achieved 2015/ Management Plan 2015
Operating revenue before the construction activity acc. to IFRIC12	0%	-1%	-2%
Operating cost before the construction activity acc. to IFRIC12	1%	-14%	-15%
Financial revenue	30%	342%	110%
Financial cost	55%	517%	158%
GROSS RESULT	-1%	37%	38%
Tax on profit	10%	63%	74%
NET PROFIT	-3%	32%	32%

Table 26– Achieved 2015 vs achieved level in 2014, REB 2015 and, Management Plan 2015 (%)

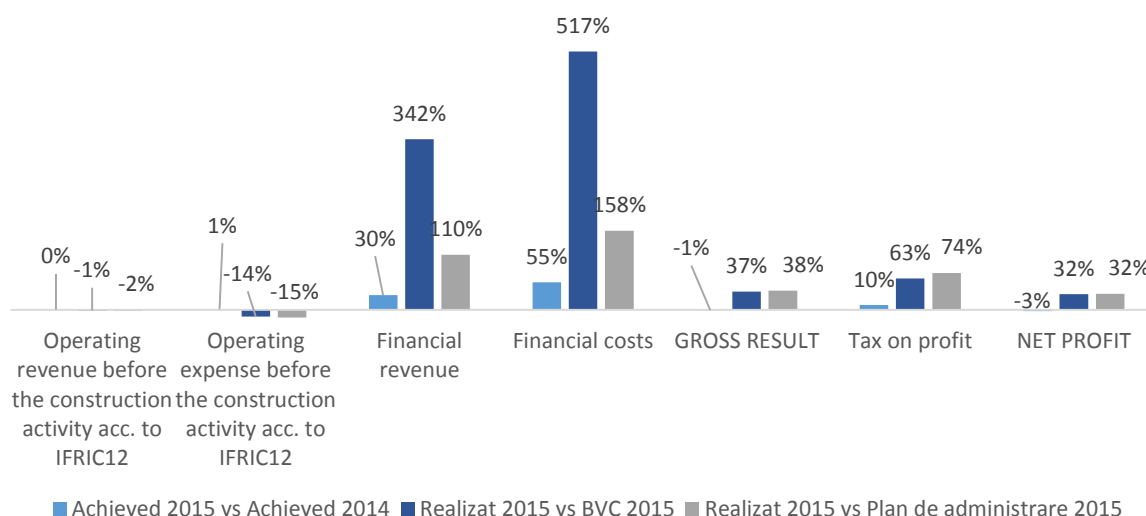


Chart 33– Achieved 2015 vs achieved level in 2014, REB 2015 and, Management Plan 2015 (%)

3.1.6 Evaluation of the research and design activity

The activity of the research and design division was carried out in 2015 on two directions: design and scientific research.

A. Design activity

▪ Drawing up design works within the Research and Design Department

In 2015, 266 design works were performed within the division, out of which: approved within the TEC Transgaz, 125 works, with a total value of the investment amounting to RON 2,710,019,849, as follows:

- 4 Solution Studies with a value of 2.609.564.202 lei;
- 109 investment works with a value of 83.034.444 lei;
- 6 maintenance works with a value of 8.562.247 lei;
- 6 works for access granting to the NTS with a value of 8.858.956 lei.

In 2015 22 building site order were prepared and approved within the TEC Transgaz for works in execution, generated from the necessity to change from objective reasons the designed solutions.

Important works undertaken in this period:

- Feasibility study for: The development on the territory of Romania of the National natural gas transmission system on the route Bulgaria-Romania-Hungary-Austria.
- Feasibility study regarding the gas transmission pipeline Gherăiești-Lețcani;
- Reverse flow Ukraine – necessary modifications to be executed in GMS Isaccea I and GMS Isaccea II in order to deliver gas to Ukraine;
- Feasibility study and technical project regarding Fiscal system for parameters at the NTS entry/exit points;
- Design theme for the preparation of the Technical Project for 3 compressor stations for the PCI 7.4.5. corridor – the Romanian sector;

- Modernization of TN Ceanu Mare – Supply of energy of the actuators, automation and monitoring;
- Preparation of 28" Seleuş - Cristur – Băţani pipeline for pigging – Stage I;
- Technical Project: Building Turburea- Aninoasa pipeline, Gorj County;
- Repair crossing above the Argeşel river with the Ø20" Schitu Goleşti – Slătioarele gas transmission pipeline, the Pişcani zone;
- Works on securing 28" Platou Izvor Sinaia – Filipeşti pipeline, the Talea – Breaza zone.

The remaining 141 works are in different development stages.

Important works in preparation:

- Feasibility study: Black Sea shore – Podişor gas transmission pipeline;
- Feasibility study: Development of the NTS in the North East of Romania for increasing gas supply to the area and ensuring transmission capacity to Moldavia;
- Pre-feasibility study for the replacing of the Transit II gas pipeline metering systems/metering stations;
- Feasibility study: system for control and acquisition of data from the cathodic protection system of SNTGN Transgaz S.A. Mediaş;
- Technical Project: Development on the territory of Romania of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria corridor;
- Repair of the Ø20" Albeşti-Urziceni pipeline following intelligent pigging.

Of the 8 design units (6 design and research (APC), one for electricity and one for constructions) 3 units - APC1, APC3, APC4 – prepare strategic projects:

- Development on the territory of Romania of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria corridor (BRHA);
- Black Sea shore – Podişor gas transmission pipeline;
- Development of the NTS in the North East of Romania for increasing gas supply to the area and ensuring transmission capacity to Moldavia.

➤ ***Surveillance of the design works developed by third parties after the subsequent contracts concluded.***

Out of 113 design works in progress in 2015, 36 works prepared by third parties were approved within the TEC with an investment value of 174.839.796 lei:

- 13 studies, in value of 77.592.868 lei;
- 12 investment works amounting to 71.957.577 lei;
- 7 maintenance works amounting to 20.413.199 lei;
- 4 NTS access works amounting to 4.876.152 lei

and the remaining 77 works are in different development stages.

In total in 2015 379 design works, 161 works approved within the TEC with a total investment value of 2.884.859.645 lei were developed.

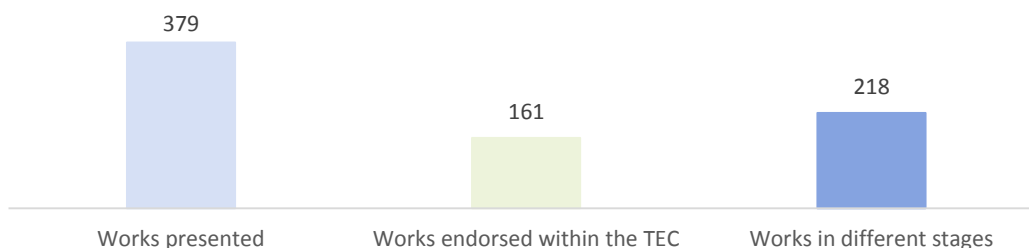


Chart 34– Number of design works approached and endorsed within the TEC in 2015

B. The scientific research activity

The scientific research activity was carried out according to the ***Scientific Research, Technological Innovation and Standardization Programme for 2015***. It includes 14 research themes, out of which 4 were carried out in the period 2013-2014, and the other 10 were new themes for 2015.

During 2015 the department worked on 5 research works, of which 4 were endorsed within the TEC and one partly endorsed (stages 1 and 2) in the amount of 294.846 lei.

One of the finalized research themes with direct applicability regarding NTS objectives achievement is *The risk analysis when establishing the safety distances for the objectives nearby the natural gas transportation pipelines*.

C. Other activities within the department:

- development in collaboration with other departments of the technical specifications necessary for concluding framework agreements for design work such as geotechnical, hydrological studies, pipeline design and others;
- evaluation of bids for the procurement of services and works for projects developed within the department and for those developed by third parties;
- analysis and preparing point of view for projects developed by third companies;
- technical assistance for the works under execution;
- verification of the quality of the pipe material, equipment and other accessories;
- participation of personnel from the department to the project *Modernization of the Şinca Turbochargers Station* and related facilities throughout its development period;
- participation in the development of the specification, procurement procedure works and technical assistance in implementing the project on the supply of electricity, automation at the TN Leţcani, data acquisition, monitoring of unauthorized access and fire (NTS interconnection pipeline from Romania with the Moldova gas transmission system in the direction Iasi - Ungheni). The beneficiary of the project ANRM;
- preparation and monitoring of design and research programmes of Transgaz.

D. Achievement of the designs and research programmes

For the Transgaz 2015 Design the program it was budgeted the amount of 175.458.082 lei, of which actual design of 30.243.582 lei. The difference between total and the actual design is guarantees for removal of land from farm-use classification.

The degree of achievement of the actual designing at the end of 2015 was 33,16%

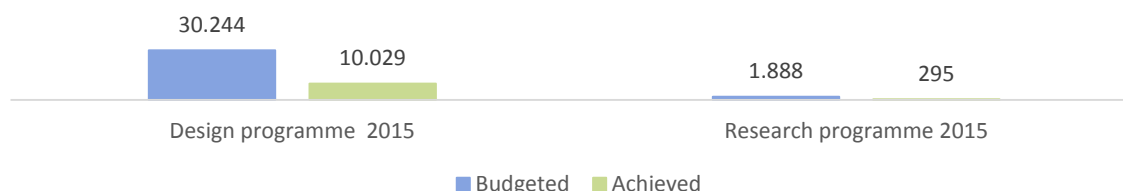


Chart 35- Achieved Research and Design Programme 2015



Chart 36- Degree of achievement of Research and Design Programme 2015

The non-achievement of the entire the Design Program is due to factors independent of the department. Thus:

- Due to the extension of the design services award procedure the compression stations were not addressed: Podisor, Bibești, Jupa within the Project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRHA);
- The Onesti, Gheraiesti Compressor Stations are part of the Development of the NTS in the North East of Romania for increasing gas supply to the area and ensuring transmission capacity to Moldavia, a project which will benefit from European funds under the LIOP programme. The design works for the compressor stations were not initiated because the costs of these services are eligible, and to date the session for application submitting has not been opened;
- Failure to obtain the building permit because of the legal situation unsolved on access to farmland or forest land.

The Transgaz 2015 Research Programme had a budgeted value of 1.887.500 million lei. The degree of achievement of programme at the end of 2015 was 15,62%.

3.1.7 Evaluation of the procurement activity

The purchases for ensuring the technical and material resources are made under firm contracts or orders, concluded by observing the applicable laws, both from the domestic market and imports.

At the substantiation of the **Annual Programme of the Public Procurement 2015 (P.A.A.P. 2014)** the necessary of works, products and services, were calculated as they are contained in the **Programme for Upgrading, Investments Development, Repairs, Rehabilitation and Maintenance** as well as in the **Programme regarding other services executed by third parties** and the **Supply Programme**, the **Research Programme** and the **Design Programme** in the form they have been approved through the BAR no. 45/08.12.2014.

The programme contains **the totality of the contracts/frame agreements** that SNTGN Transgaz SA Medias intends to **attribute/conclude during the year 2015**. As well as **the procedures started in 2014**, which, until the end of the year, **have not been attributed/not finalized** have been kept in the programme for the year 2015 with the mention that they are **under development**.

The total value of the **Annual Programme of the Public Acquisitions for the year 2015**, approved by **BAR no. 2/2015** was of **1.032.159.414,66 lei** (equivalent of 233.520.229,56 mill. Euro) out of which **the estimated value of the contracts that will be attributed through acquisition procedures** based on the P.A.A.P. 2014 was of **1,07 bln lei** (equivalent of 237,1 mill. euro), and the estimated value of **the direct Procurement** was of **19.711.613,93 lei** (4.459.641,16 euro).

Upon the 25 rectifications/updates of the Annual Programme of the Public Procurement for the year 2015 that became necessary due to the revision of the execution programs on which is based the foundation of R.E.B, **the total value of the Annual Programme of the Public Procurement for the year 2015** has become **1.229.254.710,10 lei** (equivalent of 278.109.889,16 Euro). From the total value mentioned for the section **acquisition procedures** the estimated value is of **1.202.731.588,96 Lei** (equivalent of 272.111.219,22 euro), and the estimated value of the **direct Procurement** is of **26.514.121,14 Lei** (equivalent of 5.98.669,94 euro).

PROCUREMENT PROCEDURES:

Based on the provisions of the P.A.A.P. 2015 (procedures section, updated) respectively from **347 active positions** (less the relocated ones, but including the new entries), upon the requests of the interested departments/directions/services **223 procedures have been initiated out of which 180 were finalized**, 43 procedures are under development, in different stages. Additionally 26 procedure have not been initiated and have documentation at DAPC, **and up to the total of the active positions in the programme a number of 98 positions are not requested by divisions/units/services** (representing **28,24%**).

From a physical point of view of the total number of procedures stipulated in the updated P.A.A.P., **the execution percentage is of 51,87%%**, and **from the value point of view the execution degree is of 27,33%** (achieved value reported to the total estimated value). In percentage, the 26 procedures not initiated and under development represent **7,49 %** from the total positions in the plan.

The situation of the execution of the procurement procedures is as follows:

Procedures summary (physical)		
Total positions at 31.12.2015, of which:	347	% achievement from P.A.A.P (procedures sections)
- started	43	12,39%
- executed	180	51,87%
- not started	26	7,49%
- not requested	98	28,24%

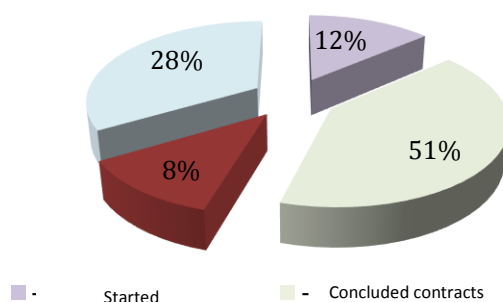


Chart 37a - Procurement procedures status - 2015

Procedures summary (value)-lei		
Total value at 31.12.2015, of which:	1.202.731.588,96	P.A.A.P % achievement (procedures sections)
- started	144.056.994,17	11,98%
- achieved	328.665.098,23	27,33%
- not started (under development DAPC)	134.633.995,68	11,19%
- not requested	520.819.792,94	43,30%

NOTE: The percentage for the executed procedures represents the final realized value reported to the total estimated value; and for the started, but not finished ones and for the not started ones represents their estimated value reported to the total estimated value (this is why the amount of the percentages is less than 100% afferent to the value differences between the estimated values and the awarded ones)

For the 180 positions from PAAP, procedures section, the situation of the achievements as compared to the estimated ones is as follows:

No. of PAAP positions	Estimated value	Achieved value	%
180	403.220.803,17	328.665.098,23	81,51

The total situation of the concluded contracts (including, as well, the subsequent contracts granted based on the frame agreements) is briefly presented in the next table:

Contract type	Total value of the contracts	Number of granted contracts/ frame agreements	Of which, no. of subsequent contracts	Value of the subsequent contracts	Value procurement not included in the PAAP	PAAP results value
	(lei without VAT)			(lei without VAT)	(lei without VAT)	(lei without VAT)
Works contracts	155.863.457,59	37	2	782.241,51		155.081.216,08
Services contracts*	68.072.216,96	208	94	14.161.362,8 ₂	203.320,00	53.707.534,14
Products contracts	139.884.568,73	101	17	20.008.220,7 ₂		119.876.348,01
TOTAL CONTRACTS	363.820.243,28	346,00	113,00	34.951.825,05	203.320,00	328.665.098,23

Table 27- Situation of the contracts concluded by procurement procedure in 2015

DIRECT PROCUREMENTS:

Based on the provisions in Appendix 1 to the P.A.A.P. updated, namely out of **690 active positions** (less the relocated ones, but including the new entries) and upon the requests of the interested divisions/units/department **524 direct procurements were initiated** of which **510 direct procurements were finalized**, and up to the total active positions in the programme, a number of **160 positions** are not requested by the concerned divisions/units/department (representing 23,19%).

From the physical point of view of the total number of direct Procurement from the approved programme **the execution percentage of the direct purchases is of 73,91%**, and **the value is of 49,87%** (achieved value vs. total estimated value).

Direct purchases summary (physical)		
Total positions at 31.12.2015, of which:	690	% achieved direct purchases
- started	14	2,03%
- achieved	510	73,91%
- not started	6	0,87%
- not requested	160	23,19%

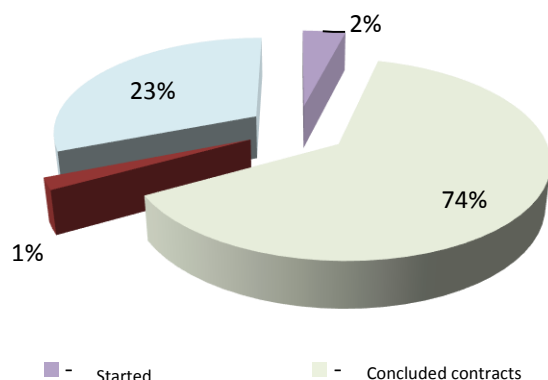


Chart 37b- Direct procurement status-2015

Direct purchases summary (value)		
Total value at 31.12.2015, of which:	26.514.121,14	% achieved direct purchases
- started	602.237	2,27%
- partly achieved	13.222.872,66	49,87%
- not started	309.180,00	1,17%
- not requested	6.117.102,85	23,07%

NOTE. The percentage of direct purchases is the final value related to the total estimated value; and for the initiated but not completed ones their estimated value reported to the total estimated value (therefore the sum of percentages is less than 100% related to the differences in values from estimated to awarded)

For the 510 positions in PAAP Direct Procurements, the situation of the achievements as compared to the estimated values is as follows:

No. of PAAP positions	Estimated value	Achieved value	%
510	19,485.601,02	13.222.873,26	67,86

The summary of the direct procurements

Based on the provisions in Appendix 1 to the P.A.A.P. updated, and upon the requests of the interested departments/directions/services in the period 05.01-31.12.2015 is briefly presented in the next table:

Contract type	Total value contracts/ Orders (lei without the VAT)	Number of public procurement contracts	Value of direct procurement contract (lei without the VAT)	No. of direct proc. orders	Value of direct procurement contract (lei without the VAT)	Proc. value not included in Annex 1-AD (lei without the VAT)	No. of orders in the Supply Programme	Value in the Supply Programme (lei without the VAT)	Value of achievements in Annex 1-AD (lei without the VAT)
Works	4.663.747,16	42	4.639.018,91	2	24.728,25	0,00	0		4.663.747,16
Services	2.552.318,18	72	2.153.091,15	44	399.227,03	16.600,91	0		2.535.717,27
Products	6.192.096,91	3	174.520,84	198	3.123.635,85	168.688,08	330	2.893.940,22	6.023.408,83
TOTAL CONTRACTS	13.408.162,25	117	6.966.630,90	244	3.547.591,13	185.288,99	330	2.893.940,22	13.222.873,26

Table 28 - Situation of the contracts concluded through direct procurement between 01.01 - 31.12.2014

Direct Procurements reported by the Supply Department in amount of **2.893.940,22** lei for 330 positions in PAAP 2015 were achieved under the delegation of powers to regional offices approved with Report 798/08.01.2015 and Decision 159/10.03.2015.

3.1.8 Procurement and disposals of assets

Except for the acquisition of assets necessary to carry out and develop the activity, as well as for the assets taken out of service under the law, the Company recorded no other similar operations in 2015.

3.1.9 Internal and external audit of the Company's activity

The internal public Audit Activity was set up at the level of Transgaz at the end of 2007, by the creation of the Internal Audit Office.

The first Internal Audit Plan was implemented in 2008. Since then, annual audit plans have been developed for each financial year.

In addition to the annual plans, the internal audit structure develops multiannual plans, for 3 calendar years, according to the Law no.672 / 2002, art.13.let.b. The analysis of the risks related to the entity's activities are carried out at the end of each calendar year by the structure internal audit, as provided by Law no.672 / 2002, Article 16, paragraph 1.

The audit of the financial situations was performed by the auditors at `Pricewaterhouse Coopers Audit SRL` (PwC).

3.1.10 Evaluation of the human resources and social dialogue activity

On 31 December 2015, SNTGN Transgaz SA recorded 4.700 employees with individual employment contracts, of which 4.655 for an indefinite period and 45 for a definite period.

In 2015 the number of employees at 31 December 2015 is lower by 120 than at 31 December 2014, the policy of reducing the number of personnel in line with the retirements being continued in 2015, following the reorganizing of some activities.

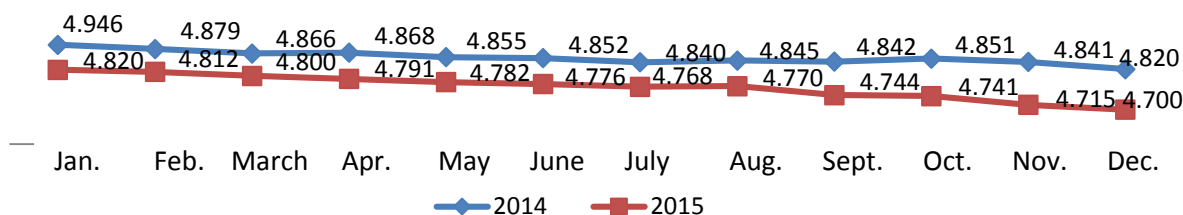


Chart 38- Evolution of no. of employees in 2015 vs 2014

In order to improve the use of qualified personnel for performing the duties entirely in the new working conditions, according to the Management Plan of SNTGN TRANSGAZ S.A. 2013-2017, it was concluded service contract no. 283/08.06.2015 between Transgaz and Deloitte Consultanță SRL for the preparation of the normative with the time rules and the standardization of the personnel for the operation, interventions and maintenance of the NTS and the related facilities.

Under the contract finalized in November 112 technical works were normated, such works being performed at the NTS and related facilities operation, overhaul, repair and interventions .

The evolution of the staff structure per education category reveals the company's interest to cover staffing needs by employing highly qualified specialists and by the continuous improvement of the existing staff, the trend towards increasing the number of employees with higher education in parallel with the decrease of employees with high school education and the number of employees with general education and training courses is obvious:

No.	Category	2013	2014	2015
1	Higher education graduates	1.096	1.169	1.237
2	High school graduates	1.565	1.521	1.446
3	Vocational education graduates	896	877	834
4	General education graduates + training course	1.344	1.253	1.183
*	TOTAL employees	4.901	4.820	4.700

Table 29 - The evolution of the personnel per education category between 2013- 2015

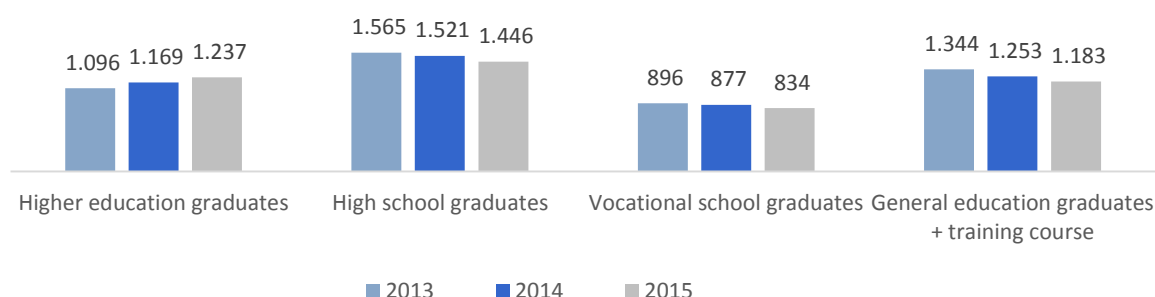


Chart 39 - The evolution of staff per category of study between 2011- 2014

Within the training of the Company personnel is performed continuously and planned by courses with external trainers in the country or abroad or with internal trainers through the Professional Training Centre.

The training has two components: one professional (technical, economic and other specialties) necessary to perform job duties and a general one in various fields.

Professional training of employees follows:

- employee adaptation to job requirements by updating knowledge and skills specific to the job;
- professional training for basic occupation;
- acquiring advanced knowledge, modern methods and processes needed to achieve the higher level of professional activities;
- retraining determined by socio-economic restructuring, reorganization or retrofitting;
- preventing the risk of unemployment.

The training, retraining and professional development of the employees within the Company is based on the Training plan developed at company level, in line with the provisions of the Collective Labour Contract in force at this level.

The situation of the no. of training courses for the Company's employees between 2013 – 2015 is as follows:

No.	Category	2013	2014	2015
1	No. of courses with internal trainers	11	13	11
2	No. of courses with external trainers	106	124	135
	TOTAL	117	137	146

Through the Professional Training Centre there were conducted programmes for the training of the employees as operators in the domain of gas extraction, processing, transmission and distribution, locksmith and welder, for which we have CNFPA authorizations. Also a large number of employees were trained annually by the specialist personnel of the Centre.

The situation of the no. of employees completing training courses between 2013–2015 is as follows:

No.	Category	2013	2014	2015
1	No. of personnel trained through courses with internal trainers	1.180	1.097	1.206
2	No. of personnel trained through courses with external trainers	833	1.213	912
	TOTAL	2.013	2.310	2.118

On 31 December 2015, the degree of unionization of the workforce was 98.12% of the total 4.700 employees 4.612 being union members (compared to the end of 2014, when the degree of unionization of the workforce was 98.21%).

There are four trade unions in which Transgaz employees are enrolled namely:

- The `Transport Gaz Medias` Trade Union;
- The Free SNTGN TRANSGAZ SA Medias Trade Union;
- The `CERTEH` Medias Technological Research Trade Union;
- The `Metan` Medias Professional Trade Union.

The `Transport Gaz Medias` Trade Union is the union representative at the unit level, according to Law no.62 / 2011 on the Social Dialogue, art .51, letter c. and therefore it represented the employees at the conclusion and performance of the Collective labour contract concluded by Transgaz.

The relations between employer and employees are covered by the Collective labour contract at Company level, registered at the Regional Labour Inspectorate Sibiu under no. 112/23.06.2015 in the Collective Contracts Register, as well as by the individual employment contracts of the employees. The Collective Labour Contract of the Company has a validity duration of 24 months.

The relations between employer and employees fall under the legal provisions in force during 2015, with no conflicting elements in relation to these relations.

3.1.11 Evaluation of the activity of HSSEQ

In 2015, the actions of the Control Body, Environmental Quality, Protection and Security Department, mainly targeted the implementation of the measures included in the Management plan, in the Policy Statement, the annual programs approved by the Board of Directors and/or Director - General of SNTGN TRANSGAZ SA and the fulfilment of the responsibilities set by ROF and the legislative provisions specific to the areas of activity.

The Activity of the Control Body, Environmental Quality, Protection and Security Department comprises aspects regarding:

- Labour security and health activities;
- Environmental protection activities;
- Environmental quality management activities;
- Security and protection activities;
- Documents administration activities;
- Controlling body activities.

Labour security and health activities	In 2015, the labour security and health activity regarded mainly compliance with the laws, taking all measures to ensure the safety and health of workers, in particular on the performance of the Prevention and Protection Plan. In order to reduce and/or eliminate the risk of on-site occupation accidents and illnesses, the company organized specific actions which contributed to the materialization of the planned measures, with a priority set on technical, organizational and sanitary-medical activities.
Environmental protection activities	The Environmental protection activity regarded mainly compliance with the laws and regulations of the environment and water management permits. The Company has <i>17 environmental permits</i> and <i>130 water management permits</i> . In 2015, following the inspections of the National Environmental Guard, no contraventional sanctions were applied to the Company for environmental protection provisions.
Environmental quality management activities	In 2015 the Audit Process of the Integrated Management System for Quality, Environment and Occupational Health and Safety was performed as approved.

Security and protection activities	The activity of the Protection, Security and Emergency Situations Department (SPPSU) is based on assuring the security of the values and assets of Transgaz, the prevention and limitation of the emergency situations which might affect the integrity of the NTS, the record of actions for mobilization of employees at the workplace and their application, and the situation of the assets and vehicles.
Documents administration activities	In 2015 the documents administration activity regarded mainly compliance with the laws and the effort to improve registration, correspondence and archiving procedures regarding the documents created and held by the Company.
Controlling body activities	<p>The Control Body Service missions were focused on providing an approach to minimize the risk of errors and non-conformities, aimed at achieving performance at all levels of the company. The focus was mainly on:</p> <ul style="list-style-type: none"> identifying the potential factors that could affect the achievement of the management plan; suggesting viable solutions during the performance of projects, primarily those with European funding.

The evaluation of this activity is presented in detail in **Annex No. 2** to the Report issued by the Board of Administrators for 2015 and is part thereof.

3.1.12 Disputes

According to the Register of cases kept by the Legal and Litigation Division, in 2015 a number of 81 cases were recorded, cases in which Transgaz acted both as plaintiff and defendant of which:

- 37 cases – as plaintiff;
- 44 cases – as defendant (one suspended);

Resolutions:

- 25 cases with resolutions favourable for Transgaz (19 final) ;
- 3 unfavourable (1 final);
- 61 cases pending resolution.

Values:

- Values of cases in which Transgaz acts as plaintiff: RON 96.161.291,53.
- Values of causes in which Transgaz acts as defendant: RON 10.424.673,20 and 140.150 euro



Chart 40 – Structure and no. of cases involving our Company in 2015

3.1.13 Other aspects of the company's activity

In order to implement the strategy of the Management Plan during the period 2013-2017 SNTGN Transgaz SA, given the EU's requirements regarding the development of the NTS interconnection with the similar transmission systems in neighbouring countries and the discovery of significant reserves of natural gas in the Black Sea in December 2013 *the Black Sea Project Management Unit* was established within Transgaz.

The main activity of Black Sea PMU is to ensure the integrated management of the infrastructure development projects of the Romania's National Transmission System for Gas (NTS) to retrieve gas from the Black Sea in accordance with the NTS Development Plan 2014-2023.

A series of activities and discussions of technical, legal, economic, financial and regulatory nature were started in this regard with the stakeholders for the successful implementation of the necessary infrastructure projects.

- **Cooperation with companies holding development licenses for blocks in the Black Sea**

- ✓ ***Cooperation with ExxonMobil and OMV Petrom***

Under the Cooperation Agreement signed in 2014 by ExxonMobil and OMV Petrom., Transgaz has conducted an ongoing collaboration with the representatives of parties involved, collaboration materialized by the carrying out of specific actions and activities to implement the terms of the Agreement above. Steps were taken to align projects development and implementation charts by preparing an implementation schedule regarding NTS developments and the offshore developments in the Neptun Deepwater Block in the Black Sea.

- ✓ ***Cooperation with Midia Resources /Sterling Resources LTD/Petro Ventures Europe B.V./Gas Plus International B.V.***

The meetings and discussions in 2015 with Midia Resources /Sterling Resources LTD/Petro Ventures Europe B.V./Gas Plus International B.V. resulted in the negotiation, drafting and signing of a Confidentiality Agreement and in the negotiation and signing of a Transgaz/ Black Sea Oil&Gas S.R.L/ Petro Ventures Europe B.V./Gas Plus International B.V. Cooperation Agreement.

Note: Since August 2015 Midia Resources S.R.L changed its shareholders and its name in Black Sea Oil and Gas S.R.L.

- **Obtaining grants in order to finance the projects**

- ✓ ***Grant under the CEF***

The process for obtaining grants for works was continued through the Connecting Europe Facility (CEF) mechanism for the project of common interest 7.1.5. '*Gas pipeline from Bulgaria to Austria via Romania and Hungary*'.

In this regard it was agreed with FGSZ (the Hungarian TSO) the final form of joint investment request, including the coordinated cross-border cost allocation proposal. It was submitted to the relevant regulatory authorities in Romania and Hungary in April 2015 for the issuing of a cross-border cost allocation decision - a prerequisite for obtaining a grant through the CEF mechanism.

The coordinated decision of the regulatory authorities in Romania and Hungary (ANRE and HEA) was issued on 06.10.2015.

In order to obtain the grant for the works of the project "Development on the territory of Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria (BRHA) Corridor - Phase 1 the necessary steps to prepare the grant application were initiated: filling out forms, preparation of the cost-benefit analysis based on new data from the feasibility study, etc. The Black Sea PMU representatives were part of the team assigned in this regard, along with colleagues from the research and Design Department and the EU Funds Division.

The grant request application was submitted on the Innovation and Networks Executive Agency (INEA) portal on 12.10.2015, the proposed works having real chances to obtain financing.

For the FEED of the three compression stations located in the Romanian segment of the BRHA project was signed with Innovation and Networks Executive Agency (INEA), Department C - Connecting Europe Facility (CEF), the financing contract for the grant in the amount of EUR **1.519.342** representing 50% of the total FEED compression stations cost.

✓ **Cooperation with the USTDA**

The collaboration with the United States Trade Development Agency was continues for obtaining a grant in order to validate the feasibility studies for the southern corridor and the central corridor for gas transmission. It was fulfilled the due diligence procedure required by USTDA and the requested additional information was been provided through the USTDA consultant responsible for preparing the report on the projects: oil and gas sector in Romania.

In September 2015 Transgaz and U.S.T.D.A signed the financing agreement for an amount of \$ 956.000. The funding is intended to cover the costs of the assessment, validation and improvement of the feasibility studies for the projects Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria (BRUA) Corridor and the Black Sea shore – Podisor Gas Transmission Pipeline.

The Black Sea PMU was involved in the procedure for the selection of the winner which will make the feasibility study. The activities included completion of the tender requests, completion of specifications, further clarifications of potential bidders, technical evaluation of the 7 bids received based on the selection criteria mentioned in the call for tenders and designation of the winning bid.

As soon as the approval of the USTDA is obtained for the contractor selected by Transgaz, the contract will be concluded, the completion deadline being 6 months from the date of

signature.

Steps to include the Transgaz projects on the second list of projects of common interest

The European Commission started the second round of selection of projects of common interest (PCIs) under Regulation 347/2013.

In collaboration with FGSZ Hungary and Gas Connect Austria the cost benefit analyses groups of projects in which Transgaz was involved were developed compliant with the new methodology Energy System Cost Wide Benefit Analysis issued by ENTSOG in August 2014. The analyses were submitted on 13.05.2015 to the European Commission, ACER and the relevant regulatory authorities in Romania, Austria and Hungary and were the basis for assessing the projects proposed for inclusion on the second list of projects of common interest.

The projects of common interest promoted by Transgaz were included in the updated list published on the Commission's website on 18.11.2015.

▪ **Cooperation with ENTSOG**

Since edition 2015, the Ten-Year Network Development Plan (TYNDP) developed by ENTSOG will be particularly important as it will provide a basis for selecting projects of common interest (PCI) at European level.

Transgaz, through the Black Sea PMU representatives contributed to the completion of this plan through data collecting at the internal level and third loading on the electronic platform of ENTSOG for the preparation of the European gas consumption outlook (Summer Outlook Scenario) for April – September 2015, the European gas system development map (infrastructure and capacity) and the completion of ENTSOG's TYNDP.

BRHA feasibility study

The feasibility study was completed by the Research and Design Department, revised with the support of the Black Sea PMU and endorsed within the TEC of October 2015. The feasibility study activities refer mainly to: selection and viewing of the entire pipeline route, the selection of the location for the 3 compressor stations, obtaining the town planning certificates for the entire pipeline route and for the 3 compressor stations, topographical studies, geotechnical studies and hydrological studies.

FEED for compressor stations

The Black Sea PMU was involved in the procurement procedure for the selection of the general engineer for the three compressor stations, almost completed at present, The bids received were evaluated and the next step is the awarding of the contract .

Obtaining the environment permit

The procedure for the procurement of the environmental impact assessment according to the national requirements (EIA) and for the obtaining of the environmental permit for

the BRHA project started in 26.06.2015. After the completion of the procurement procedure it was selected the firm Unitatea de Suport pentru Integrare Cluj-Napoca, and the contract with the selected environmental consultant was signed on 13.08.2015.

The National Environmental Protection Agency issued the Guide setting the requirements to be treated in the environmental studies and currently the Environmental Impact Report is prepared under the coordination of the Black Sea PMU.

Cooperation with the TSOs and the national regulators on the Romania, Hungary and Austria corridor

Meetings took place with national regulatory authorities in Romania, Hungary and Austria and with the transmission system operators in the relevant countries , FGSZ and Gas Connect to establish the concepts for the BRHA corridor capacity allocation, the details on the capacity booking platforms, the details on the status of the projects of common interest promoted, capacity allocation calendar as required by CAM and open season which could be organized by Transgaz SA, FGSZ and Gas Connect in cooperation with regulators in the three countries

Currently the parties agreed on the performance of a market test for obtaining feedback from the market regarding the preferred method for allocating capacity. The related documents are in their final draft form. The market research will take place in early February 2016.

Contracting a consultant for the preparation of the project and cost management procurement documentation

The Black Sea PMU was involved together with other Transgaz structures into the preparation of the awarding documentation for the procurement of the project and cost management services. The participation notice was published on 01.01.2016.

▪ Various other actions

Transgaz through representatives appointed from the Black Sea PMU continue to participate along with other Nabucco partners in the voluntary liquidation process of the company Nabucco Gas Pipeline International.

Currently there are ongoing negotiations regarding the possibility and method of distribution between the shareholders of the remaining assets of the Project Company as well as the recovery of additional amounts. Most probably the distribution will be according to the JVA Termination and NIC Asset Distribution Agreement in an advanced completion stage. The final draft of the agreement will be approved internally by each shareholder. For Transgaz approval will be within the EGMS.

Following the action taken the amount of 4,9 mil. euro representing the VAT in Turkey was recovered, of which Transgaz receives a share of 17,93% meaning 878.657,37 euro. Since any anticipated distribution of monetary assets represents from the viewpoint of a

liquidator a loan to the shareholders for which it is calculated an interest, Transgaz chose to keep the amount in an escrow account and to take it at the completion of the liquidation.

Elements regarding the activity of Transgaz at international level

In order to implement the strategic objectives of transforming into a European-sized company, Transgaz needs to strengthen its status conferred both by the geographic location and the monopoly on the operation of the national transmission system for gas, asserting its regional importance by participation and active involvement in forums, organizations and European authorities in the field, by participation in projects of regional and European interest and by establishing active partnerships with companies in the field.

The interface between the Company and the external partners is provided through the EU Funds and International Relations Division, which is constantly monitoring the development of joint projects and thus contribute to achieving the EU objectives for increased interconnectivity and the creation of an integrated single market to ensure the security of gas supply.

The EU Funds and International Relations Division also facilitates cooperation with European bodies and institutions and with all participants in the process of creating the internal energy market of the European Union and will represent the Company and promote its image and international projects both within international conferences and summits, and before investors interested in the Company.

Cooperation with the Gas Transmission System Operators from the neighbouring countries (Bulgaria, Hungary, Ukraine) in order to implement and jointly operate the cross-border interconnections, as follows:

Cooperation with BULGARTRANSGAZ EAD, Bulgaria:

1. Regarding the Bulgaria-Romania interconnection project, in the direction Giurgiu-Ruse;

Meetings and telephone conferences were held and correspondence was exchanged with the representatives of Bulgartransgaz for the initiation of the procurement procedures for the execution works regarding the two Danube river undercrossing pipelines for the interconnection of the Romanian and Bulgarian transmission systems for:

- The auction for the contracting of works for the execution of the main pipeline – carried out with Bulgartransgaz according to the Bulgarian laws applicable;
- The auction for the contracting of works for the execution of the backup pipeline – carried out by Transgaz according to the Romanian laws.

2. Regarding the joint operation of cross-border interconnection point Negru Voda I

The parties are to conclude Interconnection Agreements according to Regulation (EU) 2015/703 establishing a Network Code on Interoperability and Data Exchange Rules.

Cooperation with FGSZ Ltd.:

1. Regarding the project „Development on the Romanian territory of the Bulgaria-Romania-Hungary-Austria corridor”

- The Parties cooperated for the harmonization of the input data related to the Cost-Benefit Analysis specific to PCI 7.1.5: „Gas Pipeline from Bulgaria to Austria via Romania and Hungary (BRUA)” as well as for the preparation of the new investment request under CEF mechanism.

2. Regarding the implementation of the network codes (CAM, BAL, INT)

- As neighbouring TSOs, Transgaz and FGSZ, according to Regulation (EU) 2015/703, concluded an Interconnection Agreement for the Csanadpalota interconnection point.
- For compliance with Regulation (EU) 2013/984, the parties signed a new TSO Cooperation and Membership Agreement for trading capacity at the cross border interconnection point through the Regional Booking Platform (RBP).

Cooperation with UKRTRANSGAZ:

- The conclusion of an interconnection agreement between the parties for the cross border interconnection points according to the applicable European regulations is in progress.

Cooperation with other gas companies:


Discussions and meetings for identifying new business opportunities took place with:

- **European and non-European gas transmission system operators such as:** Eustream AS (Slovakia), DESFA (Greece), National Grid (UK), Fluxys(Belgium), Plinacro(Croatia), LNG Croatia LLC, Srbijagas(Serbia), Socar(Azerbaijan)
- **International suppliers of service and equipment for the gas industry** (Techint E&C, Hungarian Gas Storage, etc.)

Cooperation 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, summits, etc.).

The EU Funds and International Relations Division manages most of the cooperation relations with the bodies where Transgaz is a member. In 2015, the EU Funds and International Relations Division the cooperation relationship with the following associations was managed:

-  International associations: Gas Infrastructure Europe (GIE), Piggings Products and Services Association (PP&SA) of UK, ENTSOG (in the first half of the year).

- ✚ National associations: CNR- CME, Petroleum Club of Romania, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, ARME, the Romanian Energy Centre, American Chamber.
 - ✚ In the first half of 2015, before the reorganizing of the division, the EU Funds and International Relations Division managed the activity of documentation and notification on European regulations and the relation with ENTSO-G.
3. In 2015, the representatives of the EU Funds and International Relations Division participated in meetings with different external partners, with an important impact on the activity and objectives of the Company

Of these, the most relevant are the following:

- Meetings with the European Commission to promote the Romanian system development projects needed for the taking over and capitalization on the Romanian and regional market of the Black Sea gas;
- Meeting of the Regional Groups on the Southern Gas Corridor and NSI East organized by the European Commission for the selection of the projects of common interest;
- Meeting of the Regional Groups on the Southern Gas Corridor, organized by the European Commission for the presentation of the TYNDP and for the presentation of results of the cost – benefit analysis modelling process;
- Meeting of the work group for the Vertical Gas Corridor;
- Meeting of the work group Central East South Europe Connectivity (CESEC);
- Ministerial meeting of the High Level Group of Central East South Europe Connectivity (CESEC) for the signing of a Memorandum of Understanding and agreement on an Action Plan;
- Trilateral meeting with the European Commission and the Energy Community;
- Meeting with the representatives of the European Commission on the launching of the funding programme through Connecting Europe Facility - CEF Info Day 2015;
- ENTSO-G general meeting;
- Meetings with the ENTSO-G group for the Central East Europe
- Gas Infrastructure Europe conference;
- Management meetings with other European and non-European gas transmission system operators for identifying new regional projects and cooperation and achievement of these;
- Meetings with external business partners for the finalization of the projects in progress;
- Meetings with representatives of the Ministry of European Funds and of the Energy Intermediary Body to identify funding opportunities for the company's priority projects.
- The Economic Mission in Greece, initiated by the Ministry of Economy, Trade and Tourism;
- The 5th session of the Romania / Turkmenistan Mixed Intergovernmental Commission on economic, scientific-technical cooperation Turkmenistan, Ashgabat;
- Ministerial meeting of the CESEC High Level Group;

- Meeting of CESEC work group for defining a group of priority projects in South East Europe and of the actions required for their implementation;
- Meeting with the European Commission for the Bulgaria – Romania – Hungary – Austria (BRHA) pipeline in the perspective of the submitting of the grant request through Connecting Europe Facility;
- Trilateral meeting between the State Secretariat of the Ministry of Mines and Energy in Serbia, the representatives of Srbjagas and the representatives of Transgaz;
- The first meeting on the implementation of the CESEC projects involving Romania;
- Meeting of Southern Gas Corridor Regional Group and NSI East Gas Regional Group for the selection of the projects of common interest;
- The first meeting of the work group coordinated by the European Commission on the impact analysis of LNG Krk Croatia on the member states.

The EU Funds and International Relations Division representatives promoted and supported the Company's interests within the international events, meetings with European organizations in the domain or with foreign partners, identifying at the same time the potential development of the new and beneficial cooperation relations meeting Transgaz's goals.

The external delegations of the representatives of the Company were organized and conducted compliant with the applicable laws by the Ancillary Activities Office within the EU Funds and International Relations Division.

The representatives of the EU Funds and International Relations Division provided methodological assistance for solving administrative, technical and procedural issues associated to the establishing of the Transgaz Representative Office in Brussels.

3.2 Analysis of the development activity

3.2.1 The main components of the NTS infrastructure

The main components of the National Gas Transmission System on 31 December 2015 are as follows:

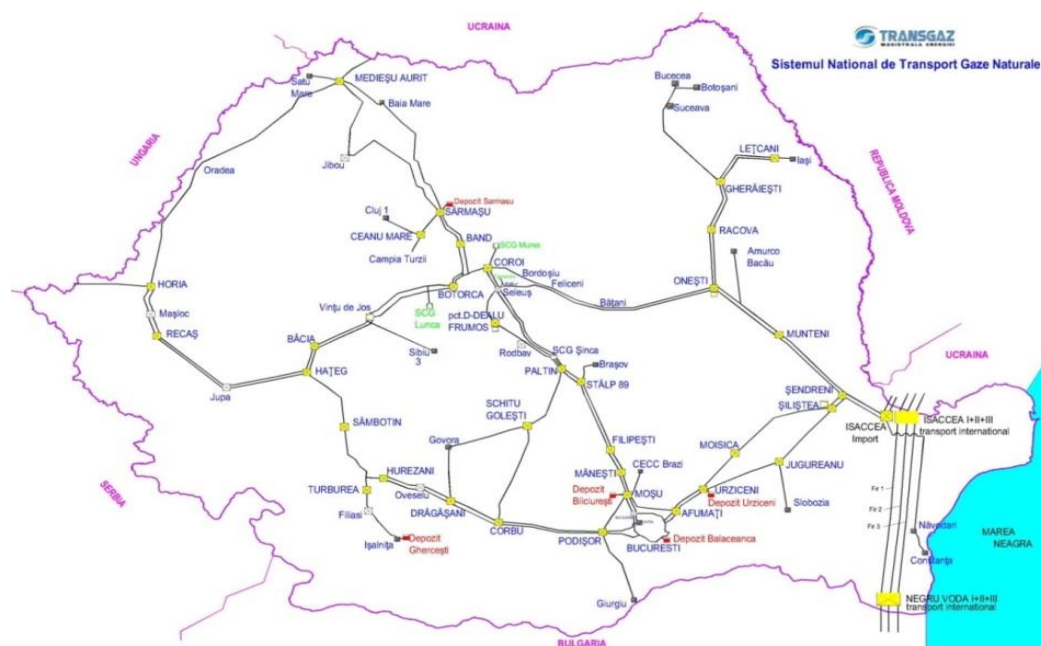
Name of NTS objective/component	U.M.	
Transmission pipelines and connections of gas supply, of which transit pipelines	km	13,306 553
Measurement regulating stations (MRS) in operation	pc	1,122 (1,235 measurement directions)
Valve control stations (VCS, NT)	pc	51
Import gas measuring stations (GMS)	pc	6
Measuring stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	4
Cathode protection stations (CPS)	pc	1,039
Gas odorization stations (GOS)	pc	846

Table 30 – Main components of the NTS on 31.12.2015

The National Transmission System (NTS) has coverage across the entire national territory and has a radial-ring structure.

The transmission and gas transit capacity is ensured through a network of pipelines and supply fittings with diameters between 50 mm and 1200 mm at pressures between 6 bar and 40 bar, with the exception of international transmission (63 bar).

The operation of the NTS is performed via 9 regional transmission operations, which comprise 44 sectors. From a technological point of view the NTS consists of 9 regional gas transmission sub-systems.



Map of the Natural Gas Transmission System

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 indicated in the table below:

Service life	Transport pipelines (km)	Supply fittings (km)	Number of Directions for Metering Regulating Stations
> 40 years	5,974	308	131
Between 30 and 40 years	2,191	106	50
Between 20 and 30 years	742	211	103
Between 10 and 20 years	1,227	753	520
< 10 years	1,364	430	430
TOTAL	11,498	1,808	1,122 MRSs (1.234 metering directions)
	13,306		

Table 31–Main components of the NTS on 31.12.2015 in terms of service life

To be noted that in terms of the gas transmission pipelines out of the 13,306 km in operation, about 72% have an effective service life higher than 20 years, close to their normal service life.

The diagnostics performed, out of which by intelligent PIG for about 2,281km (3,310 km taking into account multiple inspections) reveal high levels of tubular material defects, mainly due to the technical state of the active insulation, made for about 79.5% of the pipelines of the system based on bitumen currently aged and damaged, which may increase the electricity consumption recorded in the 1,039 pipeline cathode protection stations.

Approximately 96% of the pipelines and fittings that are in use have cathode protection. Potential intensive metering were performed for 214 km of pipelines.

The gas delivery to the distributors and end users is performed by the 1,234 MRSs (metering directions) that are included in the upgrading / rehabilitation programs to be integrated into a SCADA automatic control and monitoring system. Of the 1,234 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 four gas compression stations, placed on the main transmission directions. During 2015 rehabilitation/upgrading works were conducted to the TCS Sinca 2 and TCS Onesti – automation installations, piping, SCADA.

As for the Silistea and Vintu stations, they are equipped with installations performed in the 70s which are dated and considered for rehabilitation/upgrading.

Also, scheduled rehabilitation works - technical revisions were carried out for the compression groups as well as repairs of parts with third parties. Checks and calibrations were carried out for the automation systems, rehabilitation works at the facilities inside the Sinca GCS..

The *gas dispatching* in the NTS is performed by manoeuvres also carried out in the interconnection nodes of the main 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 modernizing the technological nodes will continue.

Gas odorization is ensured by a number of 846 odorization facilities of which 536 systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas. Of the 536 modern systems, a total of 29 are centralized - serving several delivery points. The other 310 "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 14 facilities are centralized.

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 founded 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 of natural gas to Romania is achieved by 3 cross-border interconnection points:

UKRAINE	HUNGARY
Orlovka (UA) – Isaccea (RO) DN 1000, Capacity = 8.6 bcm/year $P_{\max} = 55$ bar	Szeged (HU) – Arad(RO)- Csanadpalota DN 700, Capacity = 1.75 bcm/year $P_{\max} = 63$ bar
Tekovo (UA) – Medieșu Aurit (RO) DN 700 Capacity = 4.0 bcm/year $P_{\max} = 70$ bar	

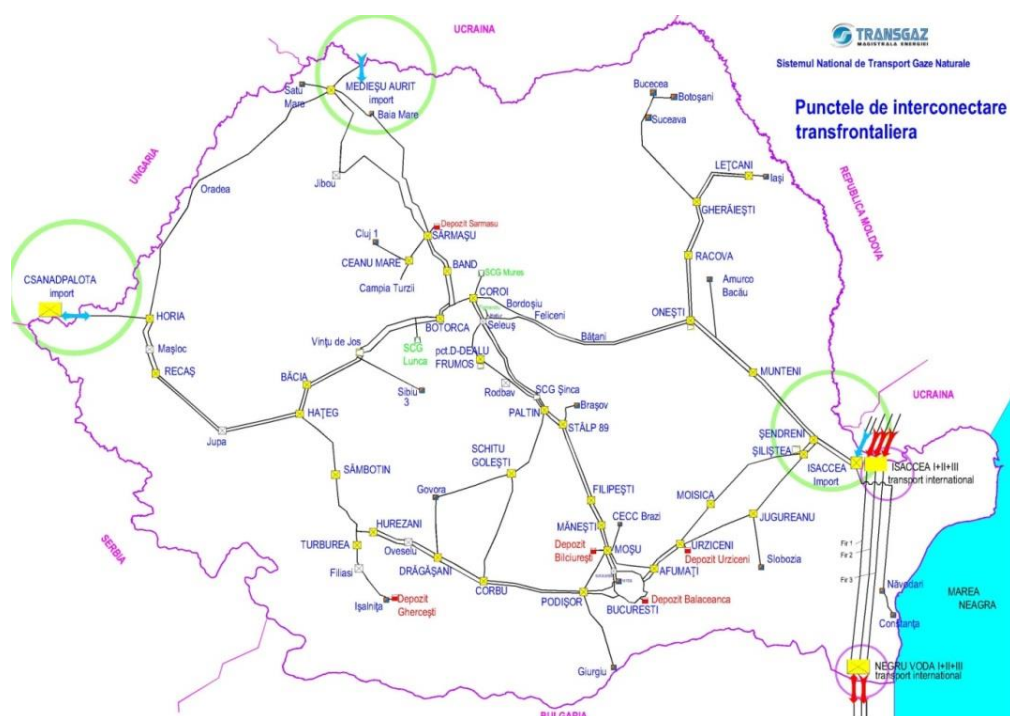


Illustration 3 – Cross-border interconnection points of the NTS

3.2.2 Investments made in 2015 versus Investments scheduled in 2015

Compared to the estimated value of the Investment Development and Upgrading Plan for 2015 of RON 525,311 thousand, the total value of the achievements for 2015 is RON 214,015 thousand, which is a fulfilment of the program at a rate of 40.82%.

The status of the achievements related to the ongoing objectives of the upgrading and development plan at the end of 2015 are as follows:

Modernization of the fixed gas and flame detection system and fire extinction at TCS Siliştea and TCS Oneşti
The works are finalized and scheduled for acceptance and commissioning for the end of January. At the same time the training of the maintenance and operation personnel was performed.
Modernization and automation of the technological nodes
<p>The status of the works for the 34 technological nodes included in annex 1 is as follows:</p> <ul style="list-style-type: none"> ▪ 13 nodes were in execution at the Mediaş Subsidiary (Afumaţi, Hurezani, Turburea, Isaccea, Codlea, Lăzăreşti, Feliceni, Schitu Goleşti, Bogata 3, Drăgăşani, Munteni, Horea, Ungheni), the works are finalized and accepted; ▪ 10 nodes had execution contracts concluded with third party companies (Moşu, Gherăieşti, Moisica, Podişorul, Sâmbotin, Medieşu Aurit, Sărmăşel, Band, Oneşti, Paltin), the works are finalized and accepted; ▪ 3 nodes (Măneşti, Jugureanu, Dealu Frumos) are contracted, but suspended, due to the unfavourable weather conditions, they are to be finalized in 2016. ▪ 2 nodes (Racova and Filipeşti) are contracted but due to the lack of the Building Permit (because of some problems related to the legal status of the lands), the works were not initiated the achievements represent the equipment purchase; ▪ 3 nodes (Ceanu Mare, Băcia, Recaş) are under the bidding procedure for the automation and electrical installations; ▪ 2 nodes (Botorca and Haţeg) the execution contracts were suspended because of the insolvency of the constructor, they are rescheduled for 2016; ▪ 1 node (Corbu) the automation and electrical installations are under design.
Modernization of TCS Oneşti
The modernization works are finalized and under acceptance.
The gas transmission pipeline Ø10" Câmpulung Moldovenesc – Vatra Dornei
<p>The pipeline section Dn 250 mm Câmpulung Moldovenesc – Vatra Dornei, 35,67 km long is executed in two stages:</p> <ul style="list-style-type: none"> ▪ Stage I – the Câmpulung Moldovenesc - Pojorâta section with a length of 9,2 km, was to be finalized in 2014, but only 8,2 km were achieved. There were problems with the land owners who did not allow the construction of the pipeline on their lands and the works were suspended. ▪ Stage II - Pojorâta - Vatra Dornei section with a length of 26,47 km, crosses the land belonging to Direcția Silvica Iași, who did not issue until now the ROMSILVA permit, necessary for the issue of the Building Permit, that is why the works were rescheduled for 2016 after the permit is issued.
The gas transmission pipeline Ø16" Vaslui - Leţcani (Mogoşeşti – Leţcani)
The works are under development and are to be finalized in 2016.

The gas transmission pipeline Ø32" Crevedia– Moșu Technological Node
The works are finalized and are to be accepted.
The gas transmission pipeline Ø16" Vaslui – Iași (Vaslui – Mogoșești section)
The works are suspended at the moment as the ROMSILVA permit was not issued for the crossing of the forest area with a luength of 1.700 m.
The gas transmission pipeline Ø24" PM Ghercești – SDE Craiova
The execution works of the pipeline were finalized and accepted.
The gas transmission pipeline Ø28" Gănești – Idrifaia – Coroi
The works are under performance and are to be finalized in 2016.
The gas transmission pipeline Ø32" Crevedia – Podișor
The works are performed for the consolidation of the pipeline in the area of the Apostolache owner for a length of approximately 300 m. At present the pipe material was ordered by the Purchasing department and the works are to be executed by by the Medias subsidiary. We estimate to finalize them in 2016, after the problems with the land owner are solved.
The gas transmission pipeline Ø12" Turda - Cluj, Turda - Copăceni – Vâlcele area
The works are contracted from 2012, out of the 4 areas proposed to be replaced, an area was executed because the Building permit was issued for it. Because of the fact that for the other 3 areas the agreement of the affected land owners was not obtained, those executions were suspended.
The deviation of the connection pipeline Ø10"- Ø8" Bucecea - Siret, in the area of the Vârful Câmpului lake.
The works are finalized and accepted.
The deviation of the gas transmission pipeline Ø10"- Ø6" Fântânele - Bistrița pipe section I and II, PM Fântânele area
The works are finalized and accepted.
The deviation of the gas transmission pipeline Ø20" Band - Sărmășel, Pusta area
The works are finalized and accepted.
The gas transmission pipeline Ø 20" Sărmășel-Baia Mare-Satu Mare, Sucutard area
The execution works were contracted by SC CONDMAG Brașov, but due to some problems of the constructor, the contract was terminated and the bidding will be reperformed. The execution works were rescheduled for 2016.
Sistematization of the gas supply in the area Fundulea – Brănești
The works are finalized and accepted.
The gas transmission pipeline Ø 12" Cămăraș - Lunca Câțcăului, Țaga area
The works are in progress but some problems occurred wit the land owners related to the amount of the damages claimed.
The gas transmission pipeline Ø 12" Turnu Măgurele – Corabia
The works are finalized and accepted.
The gas transmission pipeline Ø12" Negru Vodă – Techirghiol – Constanța (Pecineaga – Techirghiol section)
This pipeline section is continuing the pipeline executed in the Negru Vodă – Pecineaga – Mangalia direction. At present the technical documentation is under elaboration and the submission deadline is 2016.

The gas transmission pipeline Ø24" Maşloc – Recaş
The execution works of the pipeline with a length of 21, 5 km, started in 2013, until at present 15, 5 km pipe section were achieved and accepted. The execution works in the forest section with a length of 6 km were not contracted as the ROMSILVA permit was not issued, this permit is necessary for the issue of the Building permit.
The gas transmission pipeline Ø 24" Coroi - Paltin, tr. Seleuş - Bărcuţ, Retiş area
The execution works contracted are under performance and are to be finalized in 2016.
The gas transmission pipeline Ø 12" Turburea – Aninoasa
The execution works are finalized and accepted.
Gas supply in the localities in the North area of the county of Prahova (Ø 10" pipeline Buda - Slănic Prahova)
The technical documentation is under elaboration and has the submission deadline in 2016.
The technical solution in order to avoid the surpassing of the 6 Bar pressure in the Ø 20" pipeline MRS FORTUS Iaşi connection.
During the execution of the works it was deemed necessary to suspend some works and the execution of supplementary works and this objective was rescheduled for 2016.
The Ø 10" pipeline connection MRS Luduş
The procurement procedure is under development, the execution and finalization of the scheduled works will be achieved in 2016.
The pipeline connection MRS Sebeş
The procurement procedure is under development, the execution and finalization of the scheduled works will be achieved in 2016.
The deviation of the Ø12" pipeline Moineşti - Dărmăneşti, Dărmăneasca area
The execution works contracted are under development and will be achieved in 2016.
Mounting of the pig receiving trap (temporary) Dn 800 mm on the Ø 32" pipeline Băţani - Oneşti, Bogdăneşti area
The technical documentation is under elaboration and must be delivered in 2016.
The preparation of the Ø28" pipeline Seleuş - Cristur – Băţani for the transformation in pigable pipeline
The execution works contracted are under development and will be achieved in 2016.
The gas transmission pipeline Ø20" Plătăreşti – Bălăceanca
The procurement procedure is under development, the execution and finalization of the scheduled works will be achieved in 2016.
The crossing of the Argeşel river with the Ø20" pipeline Schitu Goleşti - Slătioarele, in the Pişcani area
The execution works contracted are under development and will be achieved in 2016.
The gas transmission pipeline Ø28" Gherăieşti – Leţcani

We gave up the initial design solution, this pipeline will be part of a greater project providing for the NTS development in the North – East area of the country for the improvement of the gas supply in the area, as well as to ensure the transmission capacities to the Republic of Moldova. The new project is under elaboration and endorsement in the Technical Economic Commission of Transgaz.

The interconnection of the Ø10" pipeline Gănești - Ungheni with the Ø24" pipeline VEST III (Band - Băcia) at Gănești, the county of Mureș

The execution works contracted may be initiated only after the finalization of the gas Ø28 transmission pipeline Gănești – Idrifaia – Coroi, this objective was rescheduled for 2016.

The interconnection pipeline Giurgiu – Ruse

The initial bidding procedure for the second pipeline, launched in January, was cancelled in the beginning of April as, according to the provisions of GEO 34/2006, the bids submitted did not comply with the requirements. At the same time after the termination of the execution contract with the S.C. CALA S.A. company, some damages interests were identified which are to be collected from this company as a result of not fulfilling their contractual obligations and the related notifications were sent.

The minus amount related to the achievement represents the damage owed to Transgaz by SC CALA SA as a result of the contract termination.

TCS Șinca upgrading and the related installations

The upgrading works were finalized and accepted.

The surface construction works and installations for the metering regulating stations.

- MRS Ișalnița – the technical design was endorsed in the TEC Transgaz, the bidding procedure is to be initiated;
- MRS Craiova East – works under design;
- MRS Fântânele (Mureș) – the works are under execution, to be completed in 2016;
- MRS Sângeorgiu de Mureș – the works are under execution, to be completed in 2016;
- MRS Sângeorgiu de Pădure – the works are completed and accepted;
- MRS Boboc – the works are completed and accepted;
- MRS Sâncrăieni – the works are under execution at the Mediaș subsidiary;
- MRS Lot 1,2 and 3 – the contracts are under development for the procurement of the MRSs;
- MRS Jijila – Măcin – the execution works were accepted;
- MRS Brazi – under development, to be completed in 2016;
- MRS Câmpina (PETROUTILAJ) – the procurement procedure under development, to be executed in 2016;
- MRS ISCIP Orăștie – under development, to be completed in 2016;
- MRS Timișoara I – the procurement procedure under development, to be executed in 2016;
- MRS Izvin – the works related to adapting to the land conditions are in the design stage, the objective is rescheduled for contracting and execution in 2016;

- MRS Hărănglab – the execution works were performed and completed with own resources;
- MRS Buciumeni – the execution works was performed and completed with own resources;
- Adaptare la teren MRS Oradea I – the procurement procedure under development, to be executed in 2016.

Cathodic Protection Station

At the CPS Hârlești Connection the consent of the land owner was obtained the procedure for the issuance of the Building permit is under development and the CPSs Bușteni și Sângeorgiu de Mureș will no longer be completed according to the letter DEM no.27070/08.06.2015. The CPSs on the Ø16" pipeline Gura Șuții - MRS IVECO are under design, and PCS Laloș is executed and completed.

The works related to the information technology and telecommunication

The achievements represent the value of the procurement of softs and IT and telecommunication equipments.

Surface construction and installation works for the odorization installations.

For the 92 installations contracted with SC TOTAL GAZ Iași and SC SUDOCOR VMV – Făgăraș, the contracts are under development and for the lot 2 the procurement procedure is under development.

Hydrotechnical works

- Left bank protection Provița river in the Măgureni area – the works are finalized and accepted;
- Bottom part recovery at Vulcănița – the works are completed and accepted;
- Prahova river bank protection, down stream area MRS Poiana Campina – the works are completed and accepted;
- Oituz river bank protection at Poiana Sărată for the protection of the Moghioroș - Onești pipeline – the works are completed and accepted;
- Oituz river bank protection at Hârja for the protection of the Moghioroș - Onești pipeline, section I and II – the works are completed and accepted;
- Reinforcing the river bed and the Valea Cerbului river undercrossing by the 28" gas transmission pipeline Valea Cerbului-Platou Izvor Sinaia, the area Valea Cerbului – the works are completed and accepted;
- Posada – Bobolia pipeline repair and Prahova river bank defence, Poiana Campina area– the works are completed and accepted;
- Prahova river bank consolidation for the protection of the Ø 20" Colibi – Pct.D - Stâlp 89 – București pipeline, Comarnic Barăci pipeline – the works are completed and accepted;
- The repair of the gas transmission pipeline Ø10¾" Cristești-Târgu Neamț, Timișești area – the works related to the river bank consolidation were transferred in the upgrading and development program from the repair, rehabilitation and maintenance for 2015. They were finalized and accepted;
- The repair of the gas transmission pipeline Ø 20" Onești – Helegiu Fir II – Zona Helegiu – the works related to the river bank consolidation were transferred in the upgrading and development program from the repair, rehabilitation and maintenance for 2015. They were finalized and accepted;

<ul style="list-style-type: none"> ▪ The protection of the gas transmission pipeline Ø 20" Valea Călugăreasca - Teleajen, Teleajen river undercrossing – the works related to the river bank consolidation were transferred in the upgrading and development program from the repair, rehabilitation and maintenance for 2015. They were finalized and accepted.
The thermal stations and networks at the administrative premises and MRSs
<p>The thermal installations are under design at MRS Slobozia and at the industrial wastewater treatment plant at the Medias Subsidiary, and the heating installation at MRS Aghireșu under execution, to be completed in 2016. The water supply installation at MRS Aiud is completed and accepted. At the same time in the achievements are also included the expenses related to the installation of the thermal stations which were achieved with own resources.</p>
Administrative premises and production bases
<p>The execution works for the building of Transgaz headquarters in Mediaș str. Carpați 6 and the thermal insulation works at TCS Siliște will be completed in 2016.</p> <p>The works related to the equipment of the ALA accommodation and TEMPEST rooms at the Transgaz headquarters in Mediaș and the representative office in Bucharest were completed and accepted.</p> <p>The works proposed for the building of Transgaz premises in Mediaș str. Unirii no.11, are under design.</p>
NTS acces works
<p>The achievements represent the value of the execution works related to the connection and MRSs for: Corabia, S.C. EGGER Rădăuți, S.C. SAM MILLS Botiz, CET Oradea, CET Botoșani and SC RUSTRANS Bacău which are completed and accepted.</p> <p>The connections and MRSs for Frumuseșca, Turceni, CHIMCOMPLEX Borzești and Bucovăț are under execution and the works related to the connection and MRSs for Slobozia, Ștefan Vodă, SCANDIC DISTILLERIES Drăgănești and Rebricea are under the bidding procedure.</p>

Difficulties are still encountered during the achievement of some investment goals such as:

- At the **Ø 10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline**, the first stage of the pipe section with a length of 9,2 km is under execution between Câmpulung Moldovenesc and Pojorâta, out of this section 8,2 km pipeline is executed. Some problems with the land owners occurred as they do not allow the construction of the pipeline on their properties. At the same time the continuing of the works in the forest area on the section designed for Pojorâta at Vatra Dornei with a length of 26,47 km, depends upon the permit from ROMSILVA, necessary in order to obtain the Building permit, which was not issued until now;
- At the **Ø16" Vaslui – Iași (Vaslui – Mogoșești section) gas transmission pipeline** – the execution works are suspended because of the problems related to the ROMSILVA permit for the lands located on forested area, the permit being necessary in order to obtain the Building permit;
- At the **Ø 12" Cămăraș - Lunca Câtcăului, gas transmission pipeline Țaga** area– the works were suspended because of the disagreements with the land owners related to the amount of the compensations.

In order to solve the problems which occurred during the performance of the execution of the works related to the planned goals the following steps were taken:

- | |
|--|
| ▪ For the land owners who did not consent to the access of the constructors in the field cases were brought to justice. If the court of justice did not solve these situations steps were taken for the expropriation; |
| ▪ In the areas where the consent of the owners was not received either upon the request of the local administrations the decision to redesign the pipeline route was taken or some other technical solutions were envisaged. |
| ▪ For the areas located in forested areas where the ROMSILVA permit was not issued, as a result of the modification of the legislation in the field, discussions will be initiated in order to solve the divergences occurred when crossing these areas; |
| ▪ For the non-compliance with the contractual obligations penalties will be applied. |

We would like to mention that most of the investment goals which did not register achievements are under design or procurement.

At the same time, in case of a series of objectives which are under design some difficulties are encountered when obtaining the consent of the land owners which impede the issuance of the construction permits.

3.2.3 Development projects

In consideration of compliance with the European Directive EC/73/2009 Art. 22, on the obligation to draft the **Ten-year Development Plan** for all gas transmission system in the European Union, SNTGN TRANSGAZ SA Medias, as technical operator of the National Gas Transmission System in Romania drafted the **Development Plan of the national gas transmission system during the period 2014-2023**.

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 and the possibility of the actors on the market to be timely informed on the existing and planned transmission capacity so that by public consultations, the decisions on the investments in the gas transmission network to meet the market requirements.

The Development Plan of the National gas Transmission System (NTS) during the period from 2014 to 2023 prepared in accordance with **Art. 125 paragraph 6 of Law No.123/2012 of electricity and gas**, with the objectives set in the Romania's Energy Strategy for the period 2011 to 2035 and the Energy Pact of May 2013 meet 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;

- liberating the gas market;
- integrating the gas market in the European Union.

Being a transmission and system operator certified under the provisions of the third energy law package, TRANSGAZ is a member of ENTSOG (The European Network of Transmission System Operators for Gas), a body in which the company cooperates with all the transmission and system operators of the European Union to create a common regulatory framework and a common development vision and strategy at the level of the European Union in view of creating an integrated energy market.

In this context, the development plan of the national gas transmission system during the period 2014 - 2023 envisaged the coordination with the development plans envisaged by other operators in the region.

The development projects described in the development plan were identified following detailed analyses and evaluations carried out by the company in 2014 and consider the latest developments of trends and supply scenarios on the European gas market.

A sustainable development of the gas transmission infrastructure from Romania requires a large investment programme to allow the alignment of the NTS to the transmission and operating requirements of the European gas transmission network.

In the context of the geopolitical and geo strategic nature of the European energy routes, Romania benefits from the advantages of its geographical location on the major transmission corridors and access to major resources of natural gas recently discovered in the Black Sea, aspect leading to the need for the efficient use of these opportunities.

Through the **10 Year National gas transmission system development plan**, Transgaz, proposes major investment projects for the strategic and sustainable development of the gas transmission infrastructure in Romania and its compliance with the requirements of the relevant European regulations.

The orientation of the gas transmission system operators in the neighbouring countries to create new cross-border transmission capacities or amplify the existing ones clearly shows concern for a significant increase in the degree of interconnection in an area of Europe where there is still much to be done for a fully integrated market.

The 10 Year National gas transmission system development plan was approved by ANRE by Decision no. 2819/17.12.2014 and is posted on the company's website.

In all this picture, **Romania** is the country with the most developed market and, especially, with the lowest dependence on imported gas. Adding to this landscape, in addition to its favourable geostrategic position, the newly-revealed resources in the Black Sea and the future potential created by the shale gas, Romania could clearly play a defining role in the region.

In this context the natural gas transmission infrastructure is probably the most important factor, and **Transgaz** is currently facing a major challenge: **the development - in the shortest time possible - of gas transmission corridors that would ensure the required degree of interconnectivity at European level as well as enough gas**

transmission potential in harnessing the resources on the local and regional market.

Given the estimated potential of the natural gas reserves in the Black Sea, in order to provide transmission of the volumes retrieved from the off-shore production, needed for the domestic consumption and in case of excess volumes to ensure their export on the markets of the European Union and the Republic of Moldova, **SNTGN TRANSGAZ S.A.** intends to implement in the coming years, an ambitious plan for the development of the gas transmission infrastructure of about 1.5 billion euros, contributing to the development of a regional energy corridor.

Specifically, it is intended to develop two transport corridors in Romania (**a southern-Danubian one**, in a first step, and **a central one**, in a second step, in the event that the operation of the Black Sea exceeds the current estimates) that will ensure the connection between the gas reserves in the Black Sea area and the Central-Western European markets, while ensuring the backbone of the Romania's national transmission system for gas.

Thus the project proposed in the **10 Year National gas transmission system development plan 2014 - 2023** 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 retrieving the gas from the Black Sea shore
3. Project on the interconnection of the national transmission system with the international gas transmission pipelines;
4. Project on the development of the NTS in the North East of Romania in order to improve the gas supply to the area and to ensure the transmission capacity to Republic of Moldova;
5. Development in Romania of the Central Transmission Corridor for retrieving the gas from the Black Sea shore.

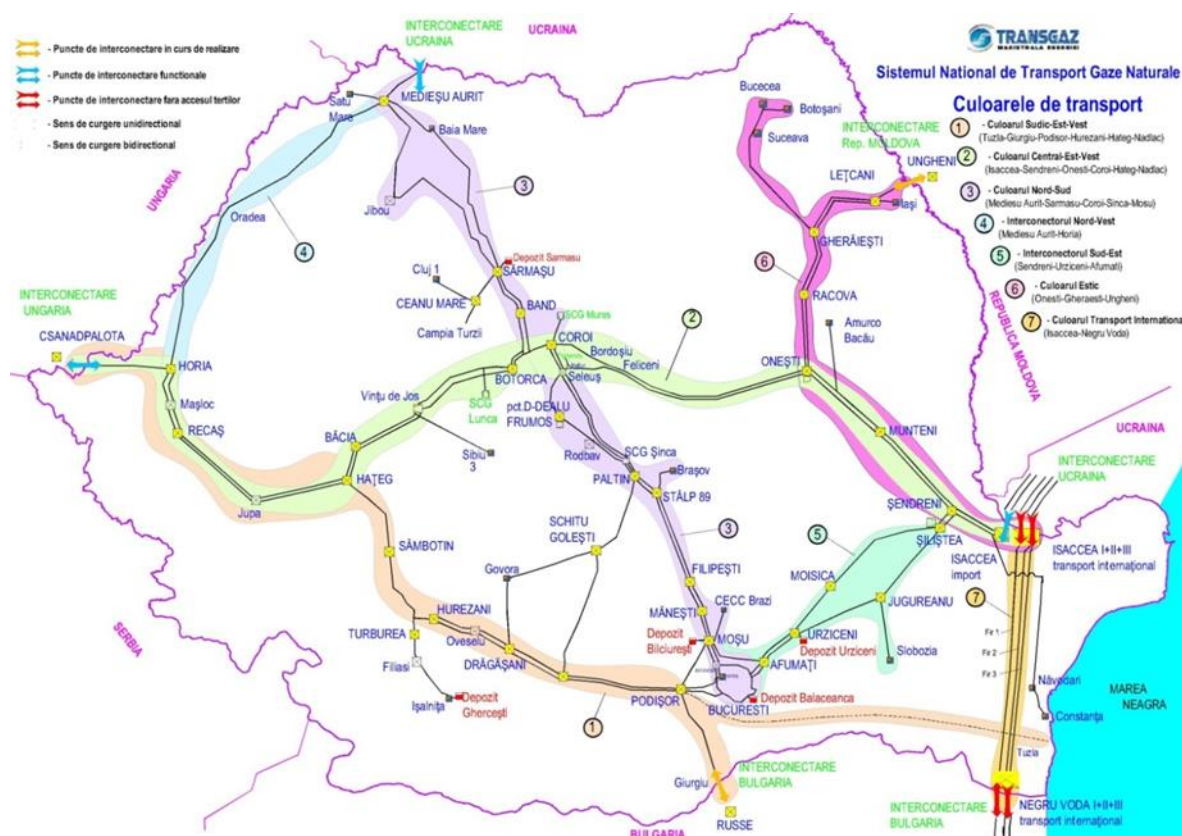


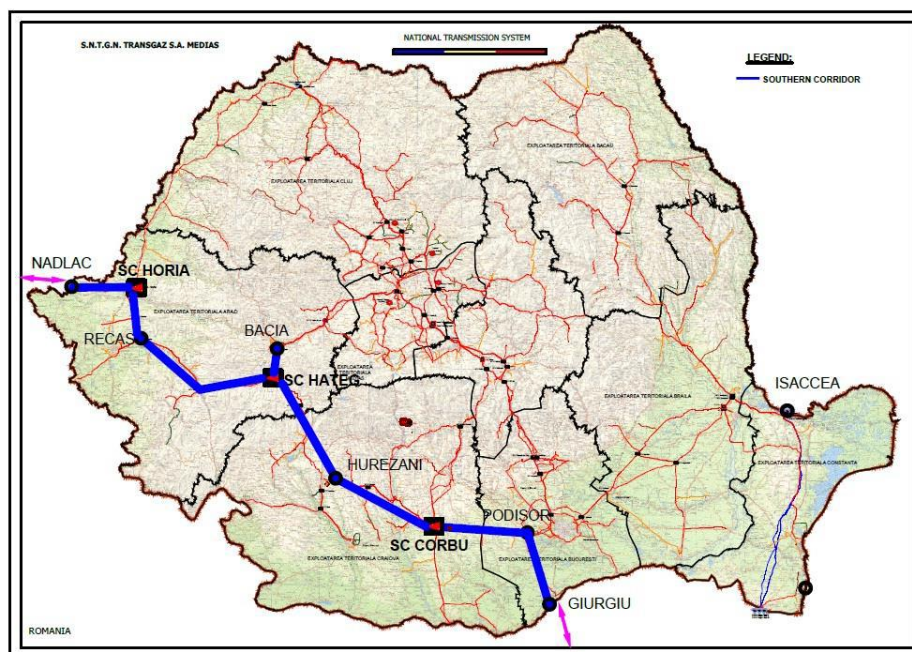
Illustration 4 - The natural gas transmission corridors of the NTS

1. Development on the Romanian territory of the national gas transmission system on the Bulgaria – Romania – Hungary – Austria corridor

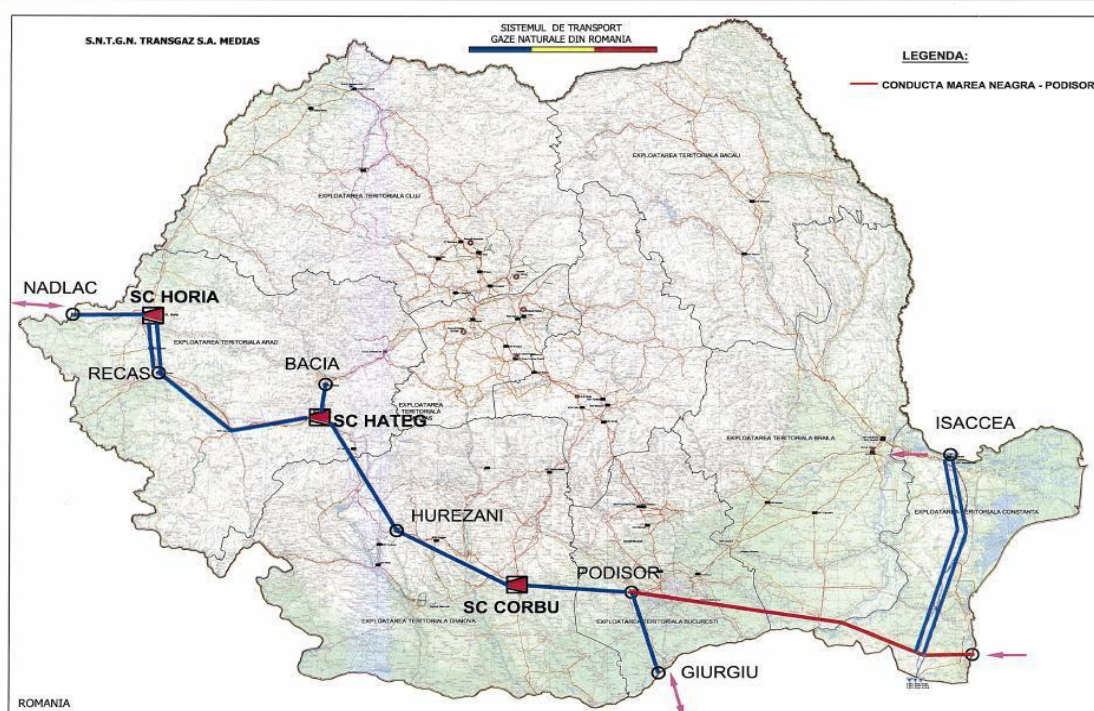
The project aims to create transmission capacity between the interconnection points of the Romanian and the Hungarian system, namely that of Bulgaria.

For this purpose it is necessary to build a pipeline with a length of approximately 528 km on the **Podisor - Corbu - Hateg - Horia** route and **3 new compression stations at Jupa, Bibesti, Podisor**.

The estimated total value of the investment is **547,4 million euros**, and **the estimated time for completion is 2020**.



2. Development of the Southern Danube Corridor in Romania for extracting gas from the Black Sea (the Tuzla - Podisor pipeline)



The major goal of this investment is the creation of a transmission infrastructure to connect the available gas at the Black Sea shore and the BULGARIA-ROMANIA-HUNGARY-

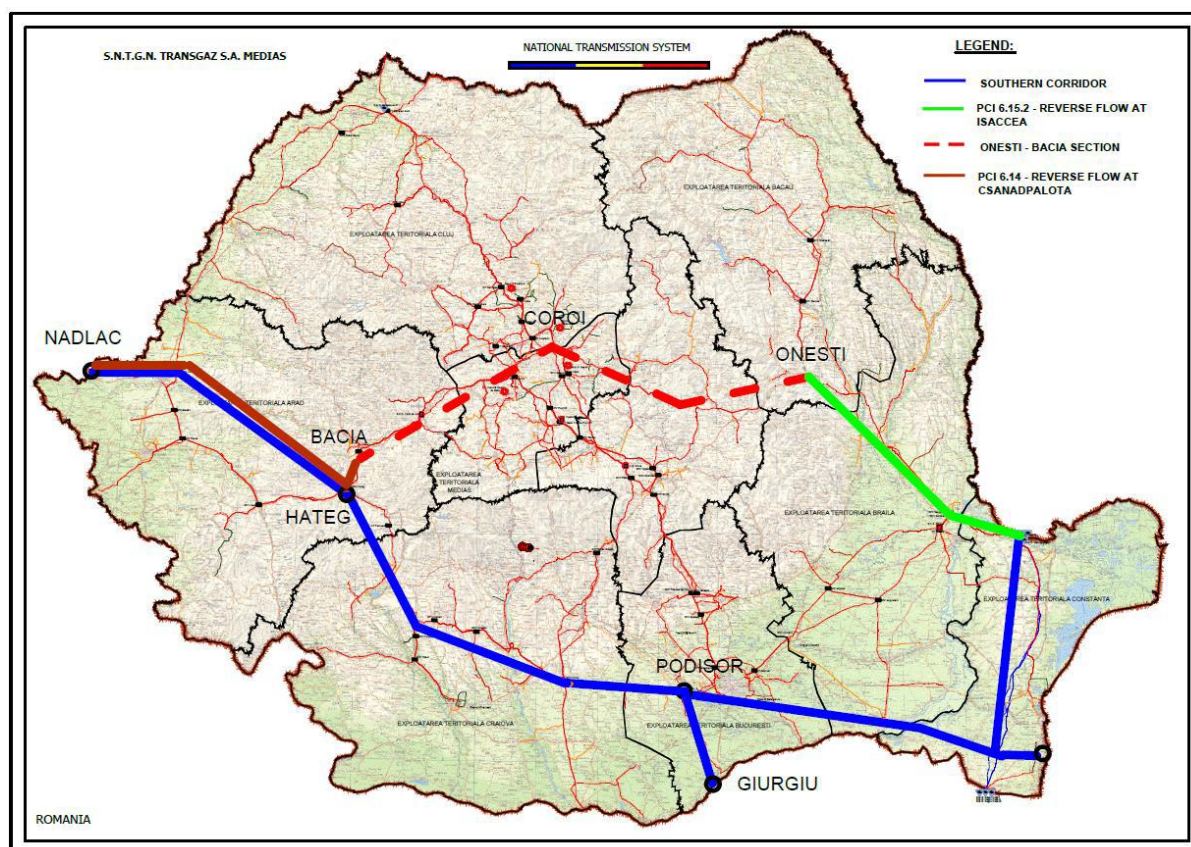
AUSTRIA corridor, enabling the possibility to transmit gas to Bulgaria and Hungary through the interconnections at Giurgiu-Ruse (with Bulgaria) and Nadlac-Szeged (with Hungary).

Thus, a new pipeline is necessary with a length of **285 km**. the cost of this project is approximately **Euro 278.3 million**, the estimated completion deadline is 2020.

II.2 The central corridor (Isaccea-Onesti-Coroi-Hateg-Horia)

Assuming that the transmission capacity needed for the capitalization of the Black Sea gas on the Central-Western European markets exceeds the transmission potential of the Southern Corridor, TRANSGAZ planned the development of the **central corridor** that practically follows the route of some pipelines in the current system but which currently operate at technical parameters that are unsuitable for a trunk pipeline.

The project consists in **the rehabilitation of some** pipeline sections of the current system, the **replacement of some pipeline sections by new pipelines** and the construction of one or two **compression stations** on the route of this corridor. The investment is estimated at **544 million euros**.



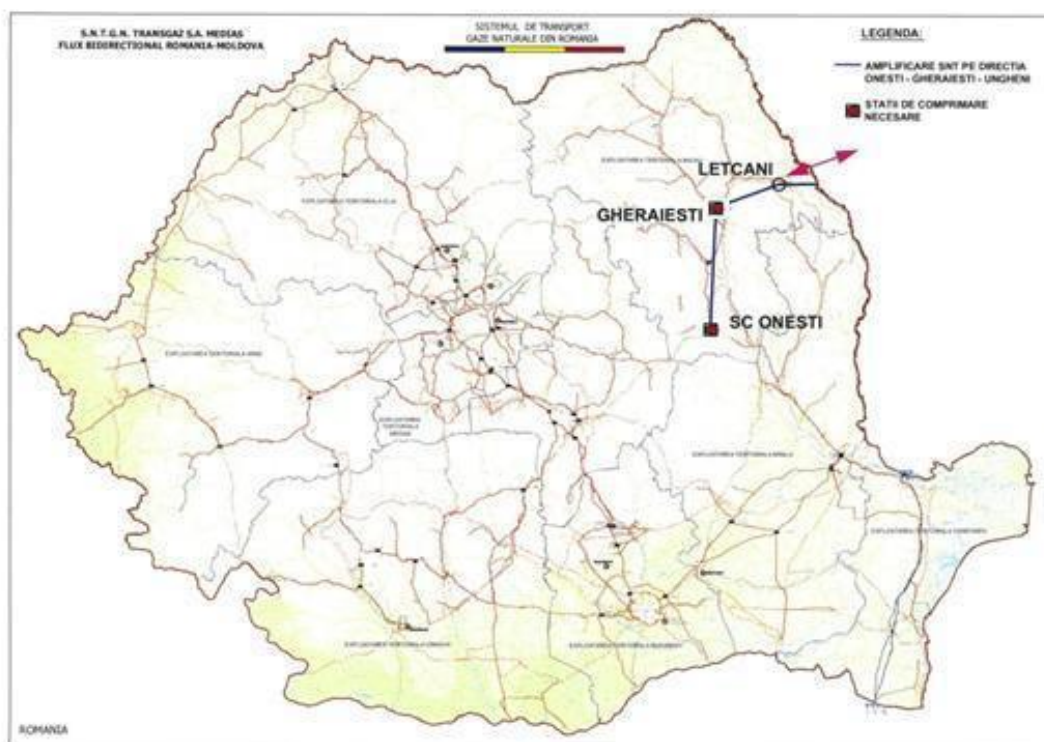
II.3 Development of the National Transmission System in view of increasing the transmission capacity in the North-Eastern region of the country and on the Romania – Republic of Moldova interconnector

Considering the necessity to improve the gas supply to the North-East region of Romania and the perspective offered by the new interconnection pipeline between Romania and

the Republic of Moldavia to provide transmission capacities towards the Republic of Moldova a series of developments are necessary in the Romanian gas transmission system so as to be able to ensure the proper technical parameters according to the abovementioned requirements.

The technical solution agreed to increase the transmission capacity of the interconnection (1.5 bn m³/year (171,000 m³/h) at a pressure of 38 bar at the border) is estimated at **Euro 119.1 million** and consists of building the following objectives:

- New compression station at Onesti
- New compression station at Gheraiesti
- New transmission pipeline Dn 700 Onesti – Gheraiesti with a length of 104 km
- New transmission pipeline Dn 700 Gheraiesti – Letcani with a length of 61 km



For the period **2014 - 2020** the most important European funding programme of energy infrastructure projects is the “**Connecting Europe Facility**” (CEF).

The programme provides the possibility of co-financing (50% non-refundable) for studies and works only for projects that have the status of **PROJECTS OF COMMON INTEREST (PCI)**, status conferred by document of delegation of the European Commission. The existence of projects promoted by TRANSGAZ with PCI status does not confer the certainty of the EU co-financing that depends on budget limitations, strict evaluation criteria and geo-strategic considerations.

From the projects described above, projects that make up **the two corridors on the Romanian territory, on the current list of projects of common interest** are the following:

1. Development on the Romanian territory of the national gas transmission system on the Bulgaria - Romania - Hungary - Austria corridor. (The Southern Danube Corridor) - PCI 6.24.7

2. Interconnection between the national transmission system with the international transmission system and ensuring the reversible flow at Isaccea - PCI 6.15 (part of the central corridor).

3. Developments needed in the transmission system to ensure reverse flows on the Romania - Hungary interconnection (part of the central corridor). PCI 6.25.3

Taking advantage of its status as **PCI promoter**, TRANSGAZ applied and received a grant of 1.5 million euros for designing compression stations on the Southern Danube Corridor.

The NTS development plan for the next 10 years is based on two fundamental initiatives undertaken by the **Romanian Government, respectively the Government Memorandum on the measures required for connecting the future gas production from the Romanian perimeters in the Black Sea to the National Transmission System (NTS) for gas**, document under which Transgaz concluded a cooperation agreement with Exxon and OMV Petrom and the **Memorandum of Understanding between the Ministry of Economy, Trade and Business Environment of Romania and the Ministry of Economy of the Republic of Moldova on the preparation of the conditions for the construction of the Iasi-Ungheni high pressure gas pipeline.**

These documents create a solid premise for the identification of the future development needs of the Romanian transmission system. In this respect, based on analyses of technical solutions and - for some of the projects - some pre-feasibility studies, Transgaz proposed the major projects listed above. As a result, these projects are in various stages of analysis and studies without final investment decisions. The final investment decision will be taken only when the elements underlying it will be known, namely the capacity committing application and the funding sources.

The ability of Transgaz to execute this investment programme depends significantly on the lines of action of the long-term national energy strategy and the support of the majority shareholder, the Romanian Government, especially when the programme aims on the one hand, at exploiting the economic resources essential to the Romania's welfare in the near and distant future and on the other hand at increasing the confidence of foreign investors in Romania's ability to create favourable development conditions and to attract foreign investments.

3.3 Analysis of the corporate activity

3.3.1 Activity on the capital market

SNTGN TRANSGAZ SA Mediaș, through the efficient use of the management instruments and responsible implementing of the measures employed to shareholders, investors, business environment managed **to occupy the 7th position in the Top companies listed on the Bucharest Stock Exchange, according to the amount traded** in 2015. Moreover, Transgaz is ranked 9 by market capitalization in the companies listed on the BSE, an increase of 283.7 million lei in market capitalization compared to the same period of 2014.

The TGN share is a portfolio, attractive share, because of the object of activity of the company, the status of monopoly held by Transgaz in the transmission of natural gas, the position of the company on the national and international energy market, the robust financial profile and the company's ability to generate performance, stable and predictable income, the attractive dividend policy and the quality of the administration act of the company management.

3.3.1.1 Features and evolution of the securities issued by Transgaz

In order to analyse the Transgaz capital market activity in 2015 as compared to 2014, the following grounds were taken into account:

- Registration of the transfer of a number of 6,888,840 shares from the account of the Romanian State through the General Secretariat of the Government in the account of the Romanian State represented by the Ministry of Economy, Trade and Tourism as a result of the implementation of the provisions of GEO no. 86/2014 on setting means to reorganize the central public administration and to amend and complete some legal documents;
- The approval by Resolution No. 1 of the Ordinary General Meeting of Shareholders dated 04.27.2015, published in the Official Journal of Romania, Part IV, no. 2365 / 12.05.2015 of a gross dividend for the financial year 2014 amounting to 21.80 lei / share. The gross dividend per share was determined based on Government Ordinance no. 64 of 30 August 2001 on the allocation of profits to national corporations, national companies and companies owned or majority state owned, and the RAs in terms of applying 50.00156% share to profit as dividends.

Thus:

- In 2015 the **closing price of the TGN share** evolved high above the level registered in 2014, increasing between 5% and 47%;
- In the international context of the impairment of the main external stock indexes **the volumes of the shares** used daily decreased, the transactions in July and August 2015 modestly exceeded the values of the same period of 2014, then registering negative variations from September until the end of the year.
- **Transaction values** have evolved similarly to traded volumes, exceeding in April the threshold as compared to the same period of 2014 and then registering

increases of between 30% and 60% in June, July and August. In the end of August TGN titles were placed fourth in the Liquidity rankings conducted by Ziarul Financiar on 1 September 2015. In September the value of transactions decreased by approximately 130% compared to 2014, amid the negative evolution of the market.

- **The main stock indicators** increased slightly in 2015, except for the P/BV indicator which went through a decline as well as the PER indicator, whose lower value indicated the tendency to appreciate and the efficiency of the TGN share.
- **The market capitalization of the company** at 31.12.2015 was of RON 3.26 billion (Euro 720 million) and RON 166 million (Euro ~30 million) over the level registered on 31.12.2014;
- As regards the **number of shareholders**, it fluctuated for the whole period from listing to the present, so therefore at the date of 31 December 2015, Transgaz had a number of 7.964 shareholders, 262 shareholders less than it had at the end of 2014.

TGN share

In January 2015 the closing price of the TGN share was 266.40 lei/share and after the presentation of the preliminary financial statements for 2014 it increased to 277.00 lei/share.

Transgaz share was appreciated by 3.36% against the euro during the period 7 to 14 August 2015, representing the best placement of the BET indices, in the context of a shrinking market, according to the analysis performed by the Stock Exchange newspaper in August 18, 2015.

The declines in foreign markets caused substantial depreciation of the domestic stock market indices and the most liquid shares on the Bucharest Stock Exchange reported decreases in August. In September also, the evolution of BSE was strongly influenced by the negative evolution of the foreign markets however, in the second half of 2015, Transgaz share recorded higher levels of TGN closing price.

In a graphic presentation, Transgaz share closing price development in 2015 compared to 2014 is as follows:

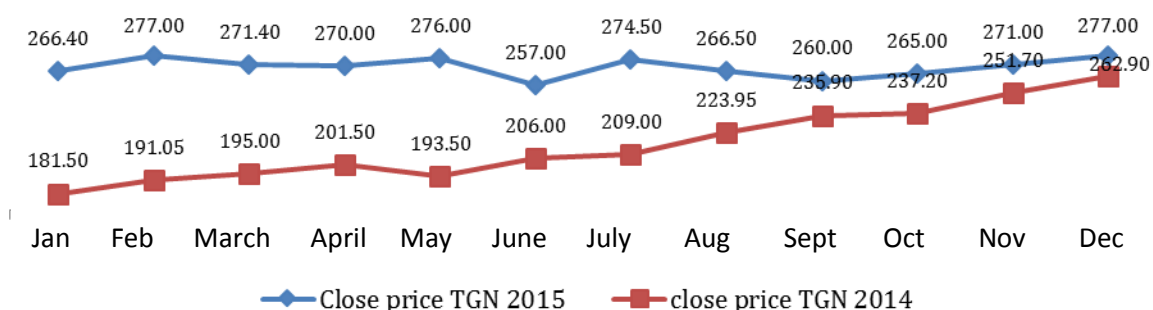


Chart 41 – The average closing price of the TGN share in 2015 vs 2014

The presented analysis shows that in 2015 the closing price of the TGN share registered a significant increase, higher than the values in the previous years comparable with the maximum registered in 2010.

Thus, in 2015, the closing price of TGN action has risen significantly as compared to those of 2014, fluctuating between the minimum of 259.00 lei / share and a maximum value of 277.00 lei / share.

The volumes traded in 2015 fluctuated below the level of the same period of 2014, reaching a similar value in April, followed by a slight positive oscillation in June (due to the high number of transactions close to the date for the payment of dividends, June 24, 2015)

In the international context of the impairment of the main external stock indexes, the volumes of the shares used daily were reduced, the transactions in July and August 2015 modestly exceeding the values of the same period of 2014, registering then a negative change in September.

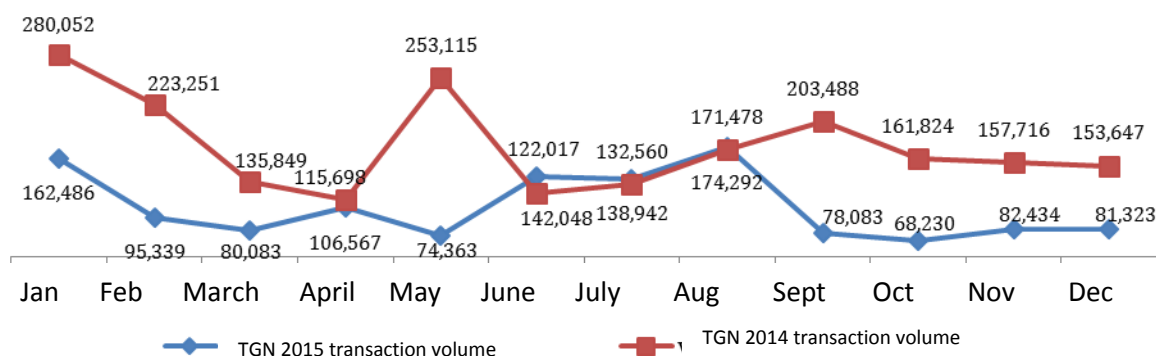


Chart 41 - Volume of TGN transactions in 2015 as compared with 2014

Transaction values have evolved similarly with the volumes traded, exceeding the threshold in the same period of 2014 and then registering increases between 30% and 60% in June, July and August. In the end of August TGN shares were placed fourth in the Liquidity rankings conducted by Ziarul Financiar on 1 September 2015. In September the value of transactions decreased by approximately 130% compared to 2014, amid the negative evolution of the market.

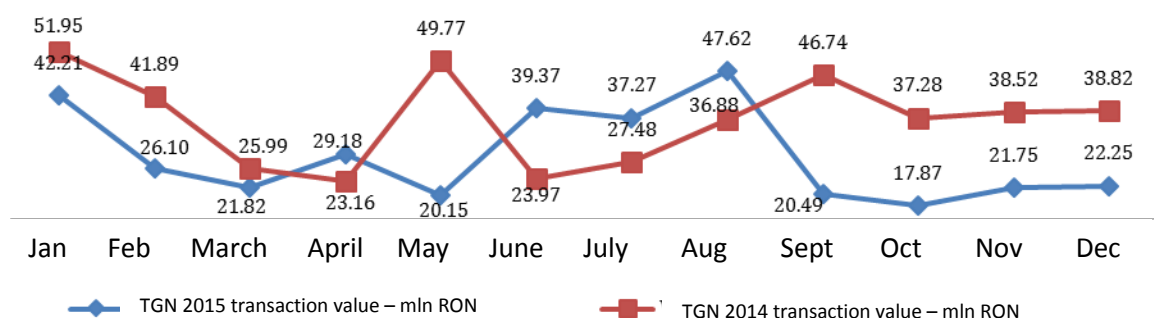


Chart 43 - value of TGN transactions in 2015 vs 2014

In 2015 the monthly average of the traded volumes evolved similarly with the monthly average of the transaction values.

Stock 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

where

P/BV - (Price to book value) - The ratio between the markets price of the shares and their book value - a measure covering the book value of a share taking into account its quotation. (Equity / no. of shares) The **book value of TGN share on 30/09/2015 - 282.57 lei / share and the quotation TGN 09/30/2015 - 260.00 lei / share** led to a below par value of 0.92 the P / BV, **improved compared to that of 09/30/2014.**

PER - (Price to earnings ratio) P/E -The share price/profit per share - expresses the duration related to the recovery of an investment in a share (price paid per share) from the profits earned by the issuer (EPS). The lower the index is (and the recovery period is lower), the better it is for investors; thus, the lowering of the value of this indicator at 09/30/2015 compared to the same period last year, indicates an increase in the efficiency of the investment in the TGN action.

The dividend yield (DIVY) - The amount of the dividend / share price - has increased due to higher value of the gross dividend for the financial year 2014 of 21.80 lei / share, with payment starting date of July 15, 2015, compared to the value of the gross dividend related to the financial year 2013 of 17.58 lei / share, distributed starting with 29 July 2014.

EPS - Earnings per share - Profit per share (net profit/number of shares) - it measures the part of profit which returns for each share, it registered a significant increase due to the increase of the net profit.

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	15,40	2,70	11,70
SNAM Rete Gas	Italy	15,90	2,40	11,60
Fluxys	Belgium	36,31	2,60	11,70

Media		22,54	2,57	11,67
Transgaz	Romania	6,21	0,92	3,50
Premium /Discount		-72%	-65%	-70%

Table 32 - The value of stock indexes within Transgaz, compared to similar companies in Europe

TGN weight in the composition of stock indices (BET, BET-C, BET-NG, BET-XT)

NAME OF THE STOCK INDEX	31.12.2014	POSITION
BET (BSE reference indices, represents the most liquid 10 companies listed on the BSE)	5,82%	7
BET-TR (indices of the type total yield launched by the BSE in October 2014)	5,82%	7
BET-NG (sectorial indices/ energy – utilities)	12,90%	4
BET-XT (blue-chip indices, reflects the evolution of the prices of the most liquid 25 traded companies)	5,37%	7
BET-BK (a price index weighted by the free-float capitalization of the most traded listed companies)	4,75%	9
ROTX (a price index weighted by the free-float capitalization and it reflects in real time the move of the "blue chip" shares traded at the BSE)	4,34%	8

Market capitalization

The market capitalization of the company on 31.12.2015 was **3.26 billion lei** (720 mln. Euros) or 166 million (~ 30 million euro) more than the level on 31.12.2014.

Market capitalization	RON	Euro	Exchange rate
31.12.2008	1.436.408.968	360.435.855	3,9852
31.12.2009	1.848.493.508	437.182.136	4,2282
31.12.2010	3.296.676.320	769.388.611	4,2848
31.12.2011	2.629.688.057	608.766.363	4,3197
31.12.2012	2.638.518.440	595.777.190	4,4287
31.12.2013	2.181.104.601	486.343.479	4,4847
31.12.2014	3.095.343.588	690.400.943	4,4834
31.12.2015	3.261.354.788	720.184.341	4,5285

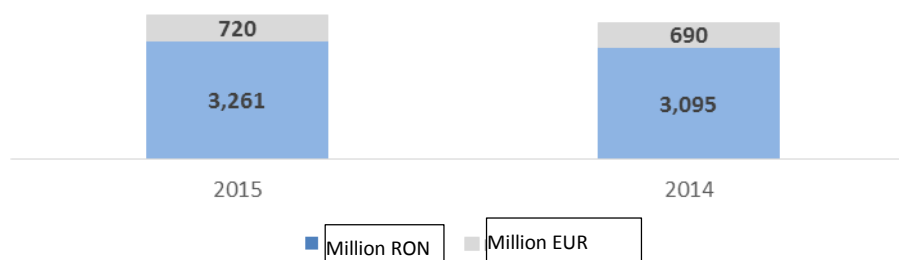


Chart 44– Evolution of Transgaz market capitalization in 2015 as compared with 2014

Following the market capitalization values recorded by the company, BSE ranked **Transgaz 9th in the Top 15 issuers by market capitalization**, ahead of energy companies such as Nuclearelectrica and Transelectrica.

Modifications in the shareholding structure

As a result of the enforcement of the provisions of **Government Emergency Ordinance no. 86/2014** in February 2015 the transfer of a number of 6.888.840 shares was registered, representing 58.5097% of the share capital, from the account of the Romanian State through the Government by the Government General Secretariat in the account of the Romanian State represented by the Ministry of Economy, Commerce and Tourism. Following the transfer, the consolidated synthetic structure of Transgaz shareholding starting with 20 February 2015 is as follows:

Shareholder name	Number of shares	Percentage %
The Romanian State represented by the Ministry of Economy, Trade and Tourism	6,888,840	58.5097
Free float – Other shareholders (natural and legal persons)	4,885,004	41.4903
Total	11,773,844	100.00

Table 33 – Transgaz shareholding on 31.12.2015

According to GEO no. 55/19.11.2015 on measures to reorganize the central public administration, amending and supplementing certain normative acts, **the Ministry of Economy, Trade and Business Environment** was created by the reorganization and taking over the activities of the Ministry of Economy, Commerce and Tourism.

Evolution of the number of shareholders:

As regards the number of shareholders, it oscillated throughout the period from listing until the present, therefore at the date of 31.12.2015, Transgaz had a number of 7,964 shareholders, 3,19% (262 shareholders) less as compared with the end of 2014 when 8,226 shareholders were registered.

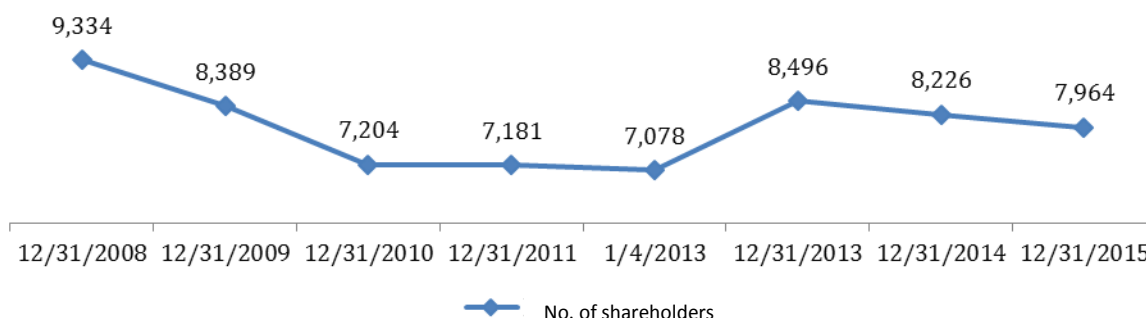


Chart 45- The evolution of the number of Transgaz shareholders from listing and until 31.12.2015

Stock performance, improved corporate image and strengthening credibility among financial analysts and actual and potential investors are certainly the result of the efforts of all company decision makers to optimize over the long term the activity outcomes and the management act quality in line with the strategic sustainable and competitive development of Transgaz.

As a result of these efforts, the number of invitations addressed to Transgaz to participate in national and international events tackling with specific core business themes or topics of general interest or related to capital market increased.

3.3.1.2 Dividend policy

The approval of the gross dividend per share for the fiscal year 2015 was determined based on the **Government Ordinance no.64** of 30 August 2001 on the allocation of profits to national corporations, national companies and companies owned or majority state owned, and the RAs under the conditions of applying 50.01877% to the share of profit as dividends. The share of employment provided in the revenue and expenditure for 2015 approved by Government Decision # 237 / 04.07.2015 is 50%.

The company registers and pays dividends awarded from the net profit only subsequent to the approval of the annual financial statements by the General assembly of the Shareholders.

Through Decision no. 1 of the Ordinary General Meeting of Shareholders from 27.04.2015 published in the Official Journal of Romania, part IV, no. 2365/12.05.2015 the payment of a gross dividend corresponding to the 2014 fiscal year was approved, amounting to 21.80 Ron/share.

Starting with the 15 of July 2015 for the shareholders registered in the Register of Transgaz shareholders on the registering date of 24 June 2015.

Following the new legal amendments, according to art 146 par (5¹), of Law no 297/2004 on the capital market, updated, the payment of the dividends due to shareholders is performed through the Depozitarul Central and through the participants to the settlement system and the designated payment agent – BRD GROUPE SOCIETE GENERALE.

Intention of Transgaz to purchase own shares

Not applicable

Number and face value of shares issued by the mother company owned by branches

Not applicable.

Bonds and/or other debt securities

By Decision No 4 of the Extraordinary General Meeting of Shareholders on June 16, 2015 the commencement of the proceedings on the issue of corporate bonds unsecured, non-convertible into shares was approved, in the amount not exceeding lei 500 million, fixed rate of maximum 4.5 % with maturity of at least five years to fund "The ten year development Plan of the National Gas Transmission System in the period 2014-2023".

3.3.2 Significant mergers or reorganizations during the financial year

In 2015 no mergers or reorganizations took place at the company level.

3.3.3 Corporate Governance

Corporate governance is a concept of very wide connotation, which includes elements such as: managers' responsibility for the accuracy of information contained in the financial statement, the existence of very tight deadlines for financial reporting, communication and full transparency on the financial results, the transparency of the internal audit, of processes and external audit.

In detail, corporate governance refers to how rights and responsibilities are divided between categories of participants to the company activity, such as the Board of Administration, managers, shareholders and other interest groups, while specifying how decisions are made as regards the company activity, how strategic objectives are defined, which are the means of attaining them and how is economic performance monitored.

Practice confirms the need to intensify efforts of accepting corporate governance, as it has been observed that organizations which are dedicated to the implementation of its principles have even managed to maximize performance.

The general and specific objectives of Transgaz activity are established in the context of alignment to the requirements of the new energy policy regarding energy safety and security, sustainable development and competitiveness.

In this context, the implementation and development of corporate governance principles, the development of responsible, transparent business practices becomes more and more

a necessity in the substantiation and application of strategies and business policies of companies.

Adhering to this goal, Transgaz pursues that through the effective application of the provisions of Rules of Corporate Governance it would ensure a rigorous framework of sizing and regulating the principles of corporate governance at the level of the company.

The rules of corporate governance of the company was endorsed by the Board of Administration through Decision n. 3/18.01.2011 and approved by the General Meeting of Shareholder in 2 March 2011, through GMS Decision no. 1/2011 (art. 4).

The document has a structure which complies with requirements in the field and comprises a number of **9 chapters**, as follows:

- | |
|--|
| - Chapter 1 – <i>Corporate governance structures</i> : the Board of Administration, Advisory Committees, Executive Management. The executive management responsibilities are established through the Rules of Organization and Operation of Transgaz and through the Code of Professional Conduct are regulated the ethical norms of conduct compulsory for all employees and are applied in all organizational and hierarchical structures of the company; |
| - Chapter 2 - <i>The rights of shares owners</i> : the rights of the share owners, the treatment of shares owners; |
| - Chapter 3 - <i>The Board of Administration</i> : 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 and the remuneration of the members of the Board of Administration; |
| - Chapter 4 – <i>Transparency, financial reporting, internal control and risk management</i> : transparency and financial reporting; |
| - Chapter 5 - <i>the conflict of interests and transactions with persons involved</i> : the conflict of interests; transactions with persons involved; |
| - Chapter 6 - <i>The regime of corporate information</i> ; |
| - Chapter 7 - <i>Social responsibility</i> ; |
| - Chapter 8 - <i>The management system</i> ; |
| - Chapter 9 – <i>Final provisions</i> . |

THE CORPORATE GOVERNANCE DECLARATION

I. THE DECLARATION RELATED TO THE COMPLIANCE WITH THE CODE II. ELEMENTS OF THE CORPORATE GOVERNANCE DECLARATION

- Section A – Information related to the componence, responsibilities and activities of the board and of the committees
- Section B – Information on the risks and internal control
- Section C – Information on the remuneration
- Section D – Information on shareholders

I. THE DECLARATION RELATED TO THE COMPLIANCE WITH THE CODE

SNTGN Transgaz SA as company listed on the Bucharest Stock Exchange in the Premium category, has voluntarily adopted the provisions of the CGC of the BSE and reports starting with 2010 the total or partial compliance by ***The declaration related to the compliance or non-compliance with the provisions of the Corporate Governance Code (the Declaration “apply or explain”)*** included in the Report of the Administrators.

In September 2015, a new **Corporate Governance Code of the BSE** was issued which applies to companies listed on the main market, applicable as of 4 January 2016. The new Code was conceived by BSE as part of a new corporate governance framework and has the purpose to promote some higher standards of governance and transparency of the companies listed.

The implementation of the new rules is based on the principle “apply or explain” which offers the market clear, concrete updated information on the way the listed companies should comply with the corporate governance rules.

Transgaz fully complies with most of the provisions of the new Code, and the provisions the company does not comply with yet were explicitly presented in a current report sent to the BSE in January 2016 which was published on the site of the company in the section: *Information on investors/Current reports/2016*.

Any subsequent compliance the company achieves in this respect will be reported to the capital market.

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

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
Section A - Responsibilities				
A.1	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A.	X		
A.2	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being		X	Provision included in the Rules of procedure and Organization of the BA, to be approved in the following period.

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.			
A.3	The Board of Directors or the Supervisory Board should have at least five members.	X		
A.4	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice and according to the following criteria:	X		
	A.4.1. Not to be the CEO/executive officer of the company or of a company controlled by it and not have been in such position for the previous five years;	X		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	A.4.2. Not to be an employee of the company or of a company controlled by it and not have been in such position for the previous five (5) years;	X		
	A.4.3. Not to receive and not have received additional remuneration or other advantages from the company or from a company controlled by it, apart from those corresponding to the quality of non-executive director;	X		
	A.4.4. Is not or has not been an employee of, or has not or had not any contractual relationship, during the previous year, with a significant shareholder of the company, controlling more than 10% of voting rights or with a company controlled by it;	X		
	A.4.5. Not to have and not have had during the previous year a business or professional relationship with the company or with a company controlled by it, either directly or as a customer, partner, shareholder, member of the Board/ Director, CEO/executive officer or employee of a company having such a relationship if, by its substantial character, this relationship could affect his/her objectivity;	X		
	A.4.6. Not to be and not have been in the last three years the external or internal auditor or a partner or salaried associate of the current external financial or internal auditor of the company or a company controlled by it;	X		
	A.4.7. Not to be a CEO/executive officer in another company where	X		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	another CEO/executive officer of the company is a non-executive director;			
	A.4.8. Not to have been a non-executive director of the company for more than twelve years;	X		
	A.4.9. Not to have family ties with a person in the situations referred to at points A.4.1 and A.4.4.	X		
A.5	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	X		
A.6	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.		X	The information will be requested to the members of the BA. Transgaz will send to the BSE a current report when complied with.
A.7	The company should appoint a Board secretary responsible for supporting the work of the Board.	X		
A.8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board		X	BA activity is evaluated based on performance criteria included in the management plan and the mandate contracts, the degree of their achievement is

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	containing the purpose, criteria and frequency of the evaluation process.			contained in the annual report of the BA. The Company has no policy / guidelines for evaluating the activity of the BA, evaluation is made based on the aforementioned criteria. TGN will report current compliance when developing this policy.
A.9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	X		
A.10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	X		
A.11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
Section B – RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM			
<p>B.1 The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or internal control system and the corporate governance practices. The Board of Directors or Supervisory Board, as the case may be, should set up an independent audit committee capable of ensuring the integrity of financial reporting and of the internal control system, including the internal and external audit processes.</p> <p>The company will ensure that all related party transactions are considered on their merits in a manner that ensures independence and the protection of the interests of the company, compliant with the restrictions set out in related legislation and fairly disclosed to shareholders and potential investors. The definition of related parties follows that of International Accounting Standard 24 accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.</p>	X		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
B.2	The audit committee should be chaired by an independent non-executive member.	X		
B.3	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	X		
B.4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	X		
B.5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	X		
B.6	The audit committee should evaluate the efficiency of the internal control system and risk management system.	X		
B.7	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	X		
B.8	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	X		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
B.9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	X		
B.10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.		X	This policy will be elaborated and approved according to the Rules of procedure and organization of the BA and to the Articles of Incorporation
B.11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	X		
B.12	To ensure the fulfillment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
Section C – FAIR REWARDS AND MOTIVATION			
<p>C.1</p> <p>The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.</p> <p>The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration).</p> <p>In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause.</p> <p>The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review.</p>		X	<p>Transgaz applies this provision partially according to the provisions of GEO 109/2011 and Article 39.55 (2).</p> <p>The remuneration policy on remuneration of directors and the General Manager of TGN to be approved in the near future.</p>

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.			
Section D – BUILDING VALUE THROUGH INVESTORS’ RELATIONS				
D.1	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	X		
	D.1.1. Principal corporate regulations: the articles of association, general shareholders’ meeting procedures;	X		
	D.1.2. Professional CVs of the members of its governing bodies, a Board member’s other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	X		
	D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;	X		
	D.1.4. Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board		X	The company applies this provision partly, in accordance with art. 29 of

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;			GEO 109/2011 on corporate governance of public enterprises, as amended and supplemented, the procedure for appointing the board members to be approved in the future.
	D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	X		
	D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request;	X		
	D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	X		
D.2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit.		X	The company's profit distribution shall be in accordance with the provisions of GEO 64/2001 regarding profit

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	The annual cash distribution or dividend policy principles should be published on the corporate website.			distribution to national societies, national companies and companies owned or majority state owned, and the RAs. Annual dividend distribution policy or other benefits to the shareholders of TGN to be approved in the future.
D.3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.		X	The company's activity is regulated by ANRE. Transgaz management plan includes the management strategy during the mandate. It is rigorously structured and it includes strategic action directions for the management of all resources, operational and management processes of the company in order to achieve with maximum efficiency the performance targets set.

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
D.4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	X		
D.5	The external auditors should attend the shareholders' meetings when their reports are presented there.	X		
D.6	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	X		This information is contained in the annual report of the Board and the management declaration prepared in accordance with art. 30 of the Accounting Law no. 82/1991
D.7	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of 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 semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial	X		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
	indicators, both on quarter-on-quarter and year-on-year terms.			
D.9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/conference calls.	X		
D.10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	X		

I. ELEMENTS OF THE CORPORATE GOVERNANCE DECLARATION

Section A – Information on the competences, responsibilities and activities of the board and of the committees

Administration system

The National Gas Transmission Company TRANSGAZ SA is administered by a Board of Administration, having general competence to accomplish all necessary acts to successfully fulfil the company's object of activity, except for the issues under the competence of the general assembly of the shareholders, according to the Articles of Incorporation updated on 28.04.2015 or to the applicable laws.

Transgaz is managed by a Board of Administration made up of non-executive independent administrators, in the sense of art.138² of Law no. 31/1990, republished, as amended and supplemented.

The Board of Administration consists of 5 members who guarantee the efficient supervision, analysis and assessment of the company's activity, and the equal treatment of the shareholders. The members of the Board of Administration are elected by the

General Assembly of the Shareholders for a period of four years, and may be revoked by the Ordinary General Assembly in case of failure to meet the main objectives.

A member of the Board of Administration may be a shareholder. The TRANSGAZ Board of Administration is presided over by a chairman elected by the General Assembly of the Shareholders from the members of the Board of Administration who ensure the optimum functioning of the company's units.

The members of the Board of Administration have the obligation to participate in all the general assemblies of the shareholders and to exercise their mandate in full knowledge and good faith, acting in the company's interests with due diligence, without disclosing the company's confidential information and trade secrets over the duration and following completion of their mandate. The Articles of Incorporation of the National Gas Transmission Company TRANSGAZ SA updated on 28.04.2015 sets the obligations, responsibilities and competences of the Board of Administration and the duties of the company administrators.

The Board operates under its own rules and regulations in force. Following the implementation of the New Corporate Governance Code of BSE the Board of Administration approved the amendment of the *Rules of Organization and Operation of the Board of Directors of Transgaz SA* in order to comply with its provisions and shall be submitted for approval to the Ordinary General Meeting of the Shareholders of Transgaz SA .

The structure of the Board of Administration of Transgaz ensures a balance between the executive and non- executive members, so that any person or group of persons cannot dominate the decision making process of the Board of Administration.

Decision-making within the company will remain a collective responsibility of the Board of Administration, which will be held jointly responsible for all decisions taken in the exercise of its powers. Waiving the mandate of independent directors will be accompanied by a detailed statement of the reasons for this waiver.

The members of the Board of Administration will permanently update their skills and will improve their knowledge of the company's activity and on the best practices of corporate governance to fulfil their role.

The members of the Board of Administration of Transgaz

STERIAN ION	Non-executive administrator – Chairman
PETRU ION VĂDUVA	Executive administrator– Director - General
BOGDAN GEORGE ILIESCU	Non-executive administrator, independent
ANDREI RIZOIU	Non-executive administrator, independent
RADU STEFAN CERNOV	Non-executive administrator, independent

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

Board of Administration obligations

SNTGN TRANSGAZ SA is administered by the Board of Administration, which meets at the headquarters of the company or in another established location, whenever necessary, but at least once every three months.

The Board of Administration is chaired by the President. If the president is temporarily unable to exercise his powers during the state of that impossibility, the Board may assign another administrator to serve as president.

The company's organizational structure established a BA and GSM Secretariat Department, with responsibilities in supporting the work of the Board of Administration.

Board meetings may be held by telephone or video conference or other means of communication, by means of which all persons participating in the meeting can hear each other and participation in such a meeting is considered participation in person in order to fulfil the quorum and the voting requirements.

In 2015 there were 41 meetings of the Board of Administration and the presence of the members of the BA is indicated in the table below:

Administrator	Participation to the meetings	
	In person	Absent (by representative)
STERIAN ION	40	1 by representative
PETRU ION VĂDUVA	41	-
BOGDAN GEORGE ILIESCU	39	1 by absence and 1 by representative
ANDREI RIZOIU	32	3 by absence and 6 by representative
RADU ȘTEFAN CERNOV	39	2 by representative

The debates are recorded in the minutes of the meeting, which will include the names of participants, deliberations, decisions, the number of votes received and the separate opinions. The minutes is signed by the Chairman and by at least one other administrator. Based on the minutes the secretary of the board drafts its decision, which is signed by the Chairman.

The Board of Administration delegates the management of the company to TRANSGAZ' Director - General which is not the Chairman of the Board. TRANSGAZ' Director - General represented the company in its relationship with third parties.

The Director shall draw up and present to the Board a management plan during his

mandate and for the first year in office, including the management strategy to achieve the objectives and performance criteria set out in the mandate contract.

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

The assessment of the activity of the Directors by the BA will cover both the execution of the contract of mandate and the management plan.

The Director - General shall develop and present to the Board the reports provided by law.

The Director-General submits for approval to the Board of Administration transactions concluded with managers or directors, employees or controlling shareholders of Transgaz or a company controlled by them, if the transaction has, individually or in a series of transactions, a value of at least the RON equivalent of EUR 50,000.

The executive directors and managers of branches are appointed by the Director - General and are subordinated to him, they are officials of Transgaz S.A., run its operations and are accountable to it to fulfil their duties under the same conditions as the members of the Board.

The responsibilities of the executive directors and directors of the branches are determined by the rules of procedure and operation of TRANSGAZ S.A.

The persons who are incompatible according to the Companies Law no. 31/1990 republished, with subsequent amendments cannot serve as executives or directors of those branches.

The Board of Administration informs in the first general meeting of the shareholders following the end of the legal act on: - any transactions with administrators or directors, employees, shareholders who hold control over the company or with a company controlled by them; - transactions concluded with spouses, relatives or in-laws up to the fourth degree, including the persons referred to above; - Any transaction between TRANSGAZ S.A. and another public enterprise or public authority guardianship, if the transaction has a value, individually or in a series of transactions, of at least the equivalent in RON of EUR 100,000

The Board of Administration must submit to the General Meeting of shareholders and financial auditors Transgaz documents and activity reports according to the law.

Administrators' liability

The liability of the administrators is covered by legal provisions regarding the mandate and the special provisions of the Companies Law no. 31/1990, republished, with subsequent amendments.

Incompatibilities

The persons referred to in the Companies Act no. 31/1990, republished, with subsequent amendments are incompatible with membership on the Board.

The person who is incompatible with the position of administrator, according to the Companies Act no. 31/1990, republished, as amended and supplemented cannot be Director - General of Transgaz S.A.

Competences of the Board of Administration

The main competences of the Board of Administration are:

- To set the company's main directions of activity and development;
- To set the accounting and financial control system, and to approve the financial planning;
- To approve TRANSGAZ SA's organizational structure and internal regulations;
- To appoint, suspend or revoke the director-general of TRANSGAZ SA, and to establish his remuneration;
- To supervise the activity of the director-general;
- To prepare the annual report, to organize the general assemblies of the shareholders in compliance with Law 31/1990, as further amended and supplemented, and to set their remuneration and to implement the General Assembly of the Shareholders' resolutions;
- To submit the application for the commencement of the TRANSGAZ's insolvency proceedings according to the applicable laws;
- To approve the level of the manager securities;
- To conclude legal acts for the acquirement, alienation, exchange or serving as collateral of the assets which are part of TRANSGAZ's patrimony, under the approval of the General Assembly of the Shareholders, according to the law;
- To approve the subsidiaries' competences by domain of activity (economic, commercial, technical, administrative, financial, legal, etc.) for the fulfilling of the company's object of activity;
- To approve the conclusion of any contract for which it has not delegated the competence to the company's director-general;
- To submit TRANSGAZ SA's activity report, balance sheet and profit and loss account for the previous year to the General Assembly of the Shareholders annually, at the closure of the financial year;
- To submit the activity programme and the draft income and expense budget for the following year to the General Assembly of the Shareholders;
- To convene the General Assembly of the Shareholders whenever necessary;
- To establish TRANSGAZ S.A.'s employees' rights, obligations and responsibilities, according to the approved organizational structures;
- To establish the competences and the contracting level of the current bank loans, short-term and medium-term commercial credits, and the approval of the issuing of guarantees;
- To approve the number of posts and the rules for the establishing of the operating and production units;
- To approve the production, research, development and investment programmes;
- To approve the environmental protection and labour security policies according to the applicable laws;
- To approve the modification of the income and expense budget structure, within limits of the budget approved by the General Assembly of the Shareholders and of the competences for which it is mandated;

- To negotiate the collective labour contract by mandating the director-general, and the approval of the staff regulations;
- To establish and approve the allowance of the Board of Administration's secretary;
- To ensure and to bear the responsibility for the carrying out of any other duties and obligations set by the General Assembly of the Shareholders or foreseen by the laws in force;
- To adopt any other decision regarding the activity of the company, except for those which fall under the competence of the General Assembly of the Shareholders.

Appointment of the Board of Administration members

The company has established a Nomination Committee which coordinates the process of appointment of Board members and makes recommendations both for the position of administrator and to fill vacancies in it, according to GEO 109/2011 on corporate governance in public enterprises. In order to comply with the new Corporate Governance Code of BSE, respectively provision D.1.4., the Board of Administration endorsed the *Procedure related to the appointment of members of the Board* and will be approved by the General Meeting of Shareholders of Transgaz.

In the event that a vacancy in the Board occurs, the election of a new member shall be made according to the law. The duration for which the new administrator is elected to fill the vacancy will be equal to the period remaining until the expiry of his predecessor's term.

Advisory Committees created within the Board of Administration

Starting with 27.05.2013 by BA Decision no. 7 on 27.05.2013 the Board of Administration approved the updating of the structure and composition of the advisory committees, consisting of three members, as follows:

- the Nomination and Remuneration Committee;
- the Audit and Rating Committee;
- the NTS Safety and Security Committee;
- the Strategy and Development Committee;
- the Regulatory and Public Authorities Relations Committee

The Internal Regulation on the operation of the Advisory Committees created within the Board of Administration of SNTGN Transgaz SA, updated on 17.12.2015, may be accessed on the company's website at the section Management/Board of Administration. The last update of the regulation aimed at the amendment of the responsibilities of the committees in order to comply with the provisions of the new corporate governance code of the BSE and the renaming of the report on the advisory committees to *Activity report of the advisory committees created within the Board of Administration*.

Obligations of the 5 advisory committees of the Board of Administration:

ADVISORY COMMITTEE	MENTIONS	POWERS
NOMINATION AND REMUNERATION COMMITTEE	<p>shall be composed of minimum two members of the Board of Administration;</p> <p>shall be made of non-executive administrators, and at least one of the members of the committee shall be a non-executive independent director;</p> <p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> ▪ to coordinate the process of appointment of the members of the Board of Administration; ▪ to make recommendations regarding both the position of director, and the filling of vacancies within the Board of Administration; ▪ to assess the accrual of professional competences, knowledge and experience within the Board of Administration; ▪ to establish the requirements for filling a certain position in the company's management; ▪ to apply the best practices of corporate governance by improving knowledge regarding the company's business and permanently updating the professional skills of the members of the Board of Administration; ▪ to draw up the remuneration policy for administrators and managers; ▪ to submit for approval of the General Meeting of Shareholders this remuneration policy; ▪ to inform about the remuneration policy in the Articles of Incorporation/Corporate Governance Rules of the company; ▪ to present in the Annual Report the total amount of direct and indirect remuneration of the administrators and managers, separated by fixed and variable components of such remuneration; ▪ in establishing the remuneration of the non-executive administrators, to comply with the principle of proportionality of such remuneration with the responsibility and time dedicated to the exercise of their roles; ▪ to draw up an annual report regarding the remuneration and other benefits granted to administrators and managers during the financial year, report which shall be submitted to the General Meeting of Shareholders and contain the information stipulated in article 55 paragraph (3) of the Government Emergency Ordinance No. 109/2011

ADVISORY COMMITTEE	MENTIONS	POWERS
		<p>regarding the corporate governance of public enterprises;</p> <ul style="list-style-type: none"> ▪ if necessary, it may resort to assistance from external experts to fulfil the required duties.
AUDIT AND RATING COMMITTEE	<p>shall be composed of minimum two members of the Board of Administration;</p> <p>shall be made of non-executive administrators, and at least one of the members of the committee shall be a non-executive independent director; will meet whenever necessary, but at least twice a year (at the end of the first semester and at the end of the year);</p> <p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> ▪ to assist and submit recommendations to the Board of Administration in order to establish the accounting and financial control system, the budget-financial planning; ▪ to assist the Board of Administration in fulfilling its duties in the field of financial reporting, internal control, risk management and Company's rating; ▪ to regularly examine the effectiveness of the financial reporting, internal control and risk management system adopted by the company; ▪ to meet whenever necessary, but at least twice a year when the annual and half-yearly results are drawn up, to ensure their dissemination to the shareholders and the general public; ▪ to verify the compliance of the audit reports drawn up with the audit plan approved at company level; ▪ to support the Board of Administration in monitoring the credibility and completeness of the financial information provided by the company, especially by reviewing the relevance and consistency of the accounting standards it has applied; ▪ to cooperate with the company's external financial auditor which provides a report describing all the relationships existing between the latter, on the one hand, and the company and the group to which it belongs, on the other hand; ▪ to make recommendations to the Board of Administration regarding the selection, appointment, re-appointment, replacement of the financial auditor and the terms and conditions of its remuneration; ▪ to monitor the independence and fairness of the financial auditor in particular by monitoring the rotation of the partners dedicated to the Issuer within the audit firm;

ADVISORY COMMITTEE	MENTIONS	POWERS
		<ul style="list-style-type: none"> to perform the duties stipulated in article 47 of the Government Emergency Ordinance No. 90/2008 as amended by law No. 278/2008, in accordance with article 34 paragraph (3) of Government Emergency Ordinance No. 109/2011.
NTS SAFETY AND SECURITY COMMITTEE	<p>shall be composed of minimum two members of the Board of Administration;</p> <p>at least one committee member must be an independent non-executive director;</p> <p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> to regularly analyse the list of critical infrastructure objectives of Transgaz and the established security measures; to ensure the conditions needed to implement the protection measures of all the critical infrastructure objectives of the company or under the authority/coordination of the company; to monitor/update its own programs for prevention and fight against terrorism through optimal measures of physical and organizational protection, making recommendations in this respect to the Board of Administration; to monitor the performance of the programs of maintenance and upgrading of the NTS, as well as the compliance with the technical normative documents of operation and maintenance of the production capacities.
STRATEGY AND DEVELOPMENT COMMITTEE	<p>shall be composed of minimum two members of the Board of Administration;</p> <p>at least one committee member must be an independent non-executive director;</p> <p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> to assist the Board of Administration in fulfilling its responsibilities regarding the elaboration and update of the Company's general development strategy; to analyse the identified business development opportunities, and make related recommendations to the Board of Administration; to analyse and assist the Board of Administration with regard to the Company's development and international cooperation guidelines; to monitor and analyse the fulfilment of strategic and action plans / programmes regarding the obligations of Transgaz as technical operator of NTS and stock exchange issuer; to develop proposals regarding the improving and making the strategic, development and collaboration activity more efficient;

ADVISORY COMMITTEE	MENTIONS	POWERS
		<ul style="list-style-type: none"> to submit recommendations to the Board of Administration regarding the efficient strategic and action plans/ programmes; to monitor and analyse the fulfilment of the performance indicators of the transport and economic-financial performance system of the company's activity.
REGULATORY AND PUBLIC AUTHORITIES RELATIONS COMMITTEE	<p>shall be composed of minimum two members of the Board of Administration;</p> <p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> to assist the Board of Administration in analysing the company's regulatory activity and legal obligations in this field; to monitor the company's observance of the obligations stipulated in the regulations referring to the pursued activity; to analyse and provide the Board of Administration with proposals regarding the regulatory framework; to monitor the collaboration relations with public authorities, and assist the Board of Administration in establishing and managing the collaboration policy.

Componence of the advisory committees created within the BA of the Company

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

The activity performed in 2015 by all the five advisory committees within the Board of Administration based on the provisions of:

- Art. 140² of Law no. 31/1990 on companies, as subsequently amended and supplemented, republished;
- The BSE Corporate Governance Code;
- Art. 4 of the Decision of the Board of Administration no. 7 on 27.05.2013;
- Art. 9 of the Decision of the Board of Administration no. 13 on 29.07.2013;
- Art. 4 of the Decision of the Board of Administration no. 2 on 10.02.2014;
- Art. 1 of the Decision of the Board of Administration no. 21 on 16.06.2014;
- Art.10.1 of the Decision of the Board of Administration no. 43 on 19.11.2014 and
- Art. 12 of the Decision of the Board of Administration no. 39 on 17.12.2015,

had the subject to monitor actions carried out by members of the advisory committees in accordance with the fields that have been designated and is embodied in the quarterly report of their activities, report outlining:

- The way the materials and documents of various organizational structures of Transgaz SA were consulted by the members of the Advisory Committees
- Analyses carried out by members of the Advisory Committees on the content of the submitted documents and materials;
- Proposals / actions / recommendations of the Advisory Committees members on the content of the materials and documents submitted for consideration and endorsement / approval of the Board and
- Documents by which the Board of Administration, in its plenum, decided on the content and issues addressed in the documents submitted for review / endorsement / approval.

The way the activity report of the advisory committees established within the CA 2015 has been designed in such a way as to reflect precisely and in a comprehensive manner all the activities concerning analysis, consulting and the decisions making process regarding the company's activity.

Tag no.	Description	Responsible	Componence of the Committee
1.	Report on monitoring and evaluating the activity of the Nomination and Remuneration Advisory Committee in the period January-June 2015	Nomination and Remuneration Advisory Committee	Sterian Ion Cernov Radu Ștefan Iliescu Bogdan George
2.	Report on monitoring and evaluation of the Advisory Committee for Strategy and Development in the period January-June 2015	Advisory Committee for Strategy and Development	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Rizoiu Andrei
3.	Report on monitoring and evaluating the activity of the Regulatory Advisory Committee and relations with public authorities in the period January-June 2015	Regulatory Advisory Committee and relations with public authorities	Sterian Ion Văduva Petru Ion Cernov Radu Ștefan
4.	Report on monitoring and evaluation of the Advisory Committee for NTS Safety and Security during January-June 2015	Advisory Committee for NTS Safety and Security	Sterian Ion Văduva Petru Ion Rizoiu Andrei
5.	Report on monitoring and evaluation of the Audit and Rating Advisory Committee during January-June 2015	Audit and Rating Advisory Committee	Iliescu Bogdan George Cernov Radu Ștefan Rizoiu Andrei

Tag no.	Description	Responsible	Componence of the Committee
6.	Activity report of the Nomination and Remuneration Committee during January-December 2015	Nomination and Remuneration Committee	Sterian Ion Cernov Radu Ștefan Iliescu Bogdan George
7.	Activity report of the Advisory Committee for Strategy and Development in the period January-December 2015	Advisory Committee for Strategy and Development	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Rizoiu Andrei
8.	Activity report of the Regulatory Advisory Committee and relations with public authorities in the period January-December 2015	Regulatory Advisory Committee and relations with public authorities	Sterian Ion Văduva Petru Ion Cernov Radu Ștefan
9.	Activity report of the Advisory Committee for NTS Safety and Security during January-December 2015	Advisory Committee for NTS Safety and Security	Sterian Ion Văduva Petru Ion Rizoiu Andrei
10.	Activity report of the Audit and Rating Advisory Committee during January-December 2015	Audit and Rating Advisory Committee	Iliescu Bogdan George Cernov Radu Ștefan Rizoiu Andrei

Section B - Information on risks and internal control

Within Transgaz an Audit Committee was initially established, but subsequent to the approval of the new structure of the Advisory Committees by BA decision No. 7 on 05.27.2013 the *Audit and Rating Committee* was established for the regular examining of the compliance of the Rating for financial reporting, control and internal risk management system and company rating. The audit committee must be composed of at least three members and a majority of members must be independent. The Chairman of the audit committee should be an independent non-executive member. Most members, including the chairman, must be proven to be suitably qualified for the positions and responsibilities of the committee.

The committee members assist and make recommendations to the Board of Administration regarding the establishment of the accounting and financial control and budgetary Financial planning.

The Audit Committee conducts audit analyses and develops based on their audit reports, while verifying the compliance of the audit reports prepared by the audit plan approved at company level within the company there exists an Internal Audit department, which is in direct subordination of the Board of Administration. It reports to the Audit and Rating Committee, quarterly, a summary of the internal audit work performed.

The Committee supports the Board members in monitoring the reliability and completeness of the financial information provided by the company, in particular by reviewing the relevance and consistency of accounting standards applied by it.

The Committee cooperates with the external financial audit of the company who shall provide a report which will describe all the existing relations between the latter on the one hand and the company and the group to which it belongs, on the other hand.

The Audit Committee and Rating monitors the independence and fairness of the financial auditor, in particular by monitoring the rotation of partners committed to the company, in the audit firm and make recommendations to the Board on the selection, appointment, re-appointment, replacement of the financial auditor and the terms and conditions of its remuneration.

Conflict of interests

The members of the Board of Administration must take decisions in the company's exclusive interests and have the obligation to refrain from taking part in any deliberation or decision that creates a conflict between their personal interests and those of the company or any subsidiary controlled by the company. Thus, in the meeting of the BA the *Policy related to the management of conflicts of interests* was endorsed in order to comply to the art A.2 of the Corporate governance code of the BSE which will be submitted for approval to the General Shareholders' Meeting.

Trade with the parties involved

Each member of the Board of Administration must ensure that a direct or indirect conflict of interests with the company or a subsidiary controlled by the company is avoided, and in case such conflict arises, he/she has the obligation to refrain from deliberating or voting on the relevant issue, in accordance with the legal provisions.

For ensuring the procedural fairness of the transactions with the parties involved, the members of the Board of Administration must apply without limitation the following criteria:

- the maintaining of the Board of Administration's or General Assembly of the Shareholders' competence, as appropriate, for the approval of the most important transactions;
- the requiring of a prior opinion of the internal control body with regard to the most important transactions;
- the entrusting of the negotiations related to such transactions to one or several independent administrators or to the administrators who have no ties with the related parties;
- the recourse to independent experts.

Section C – Information on remuneration

The company has a Nomination and Remuneration Committee which elaborates the remuneration policy for the administrators and managers created by the decision of the BA no. 7 on 27.05.2013.

The Committee shall submit proposals to the Board of Administration proposals regarding the remuneration of directors and administrators, ensuring that these

proposals are consistent with the remuneration policy adopted by the company. In order to comply with the new BSE Corporate Governance Code, namely the provision C.1., the BA endorsed the Policy related to the Remuneration of the administrators and of the Director - General of Transgaz SA and will be approved by the General Assembly of Transgaz' Shareholders. Once it is approved, it will be published on the website of the company.

The remuneration of Board members consists of a fixed monthly allowance and a variable component based on performance indicators.

The remuneration and other benefits offered to administrators and directors are recorded in the annual financial statements and annual report of the Nomination and Remuneration Committee.

Section D – Information on shareholders

All of the holders of financial instruments of the same type and class, issued by SNTGN TRANSGAZ SA, are equally treated, and the company uses its best endeavours to achieve effective, active and transparent communication for the equitable exercising of rights

All of the TRANSGAZ shareholders are equally treated. All shares issued give their holders equal rights; any modification of such rights is submitted by the affected shareholders for approval in the special assemblies of the relevant shareholders.

SNTGN TRANSGAZ SA uses its best endeavours to facilitate the participation of the shareholders in the general assemblies of the shareholders, the dialogue between the shareholders and the members of the Board of Administration and/or the management, and the full exercising of their rights.

The participation of the shareholders in the general assemblies is fully encouraged. If shareholders are not able to participate, they have the possibility to cast an absentee vote based on a special power of attorney or by correspondence.

Considering the principles of transparency and fair information, the company has created a special link - Investor Relations - on its own website, where relevant information is made available and is permanently updated with regard to procedures on General Assembly of the Shareholders access and participation, convening, agenda supplementation, Board of Administration replies to shareholders' questions, current reports, financial statements of the company, the exercising of the voting rights in the General Assembly of the Shareholders, General Assembly agenda documents, special power of attorney templates, the financial calendar, the company's corporate governance, etc..

TRANSGAZ SA has established an organizational unit specialized in capital market activity administration, the *Investors Relations Department*, dealing with the relationship with the investors and the shareholders. The staff of the department is permanently prepared / trained / instructed with regard to the company – shareholders relationship, the corporate governance principles, the management and the relationship with the clients.

Transparency

SNTGN TRANSGAZ SA periodically and continuously provides to the media and on the company's website (www.transgaz.ro) reports on the important company events, including without limitation, the financial situation, the performance, the ownership and management.

The company prepares and makes available relevant information periodically and continuously, meeting the requirements of the national accounting standards, the International Financial Reporting Standards and the environmental, social and corporate governance standards. Information is offered both in Romanian and in English.

The company holds meetings with the financial analysts, brokers, market specialists and investors twice a year, on the occasion of the presentation of the annual and semestrial financial statements, documents which are important for the investment decision.

The general and specific strategic goals of SNTGN TRANSGAZ are aligned with the requirements of the new EU energy policy for a safe and secure energy supply, sustainable development and competitiveness.

Therefore, the implementation of the corporate governance principles and the development of the responsible and transparent business practices have become an increasing necessity in consolidating and applying the business strategies and policies of the companies.

Thus, by setting these rules, SNTGN TRANSGAZ SA intends to provide a sound company corporate governance framework.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility is an aspect of corporate governance, through which, a series of socially responsible actions were initiated at the company level that can be quantified in terms of sustainability and sustainable performance.

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

The crucial role that Transgaz has in the energy field in Romania and Europe, is completed naturally with the desire to support the real needs of all those who contribute permanently to the smooth running of its business.

Part of TRANSGAZ' strategy of sustainable development, *the social responsibility policy* aims to increase permanently the accountability of the company to employees, shareholders, partners, community and environment impact and make efficient the social responsibility programs initiated for this purpose.

The commitment undertaken by the management of the company by "*Policy Statement on integrated quality - environment management system*" is a clear proof that TRANSGAZ empowers the importance of ensuring an organizational climate in which all stakeholders: employees, shareholders, customers, suppliers, community and environment can interact effectively and responsibly both economically and socially

Company policy regarding social responsibility is based on a set of principles that define the interaction between the Company on the one hand and employees, shareholders, partners, community and environment on the other.

In full compliance with the principle of financial prudence and transparency, the communication actions and CSR proposed for 2015 have been rigorously designed in terms of structure and value and complied with the reporting requirements incumbent to Transgaz as issuer of securities and with the requirements related to the increase of the image and reputational capital of the company. Detailed information on social responsibility are available on Transgaz' website at:
<http://www.transgaz.ro/responsabilitate-sociala>.

3.4 Analysis of the financial activity

3.4.1 Financial standing

According to article 1 of the Order of the Ministry of Public Finance no. 881/25 June 2012 *on the application of the International Financial Reporting Standards by companies having securities admitted to trading on a regulated market*, starting with the 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.

As at 31.12.2015, the company's financial standing is as follows:

Name of indicator	31.12.2015	31.12.2014	31.12.2013	Dynamics (%)		
	Lei thousand	Lei thousand	Lei thousand			
0	1	2	3	4=3/2	5=2/1	6=3/1
Intangible assets	2.606.655	2.534.880	2.533.955	102,83	100,04	102,87
Tangible assets	627.740	654.840	694.971	95,86	94,23	90,33
Financial assets available for sale	0	0	5.953	100,00	0,00	0,00
Long term receivables	579.723	539.216	0	107,51	x	x
Fixed assets	3.814.118	3.728.936	3.234.879	102,28	115,27	117,91
inventories	73.992	36.645	34.054	201,92	107,61	217,27
Trade and other receivables	362.527	401.552	398.893	90,28	100,67	90,88
Cash and bank accounts	700.798	557.868	267.262	125,62	208,73	262,21

Current assets –TOTAL	1.137.316	996.065	700.209	114,18	142,25	162,43
Debt payable within one year	277.333	320.350	323.037	86,57	99,17	85,85
Long-term Debt	1.104.863	1.077.684	564.484	102,82	190,91	195,73
Total Debt	1.382.196	1.398.034	887.521	98,87	157,52	155,74
Equity						
Share capital	117.738	117.738	117.738	100,00	100,00	100,00
Hyperinflation adjusted share capital	441.418	441.418	441.418	100,00	100,00	100,00
Capital premiums	247.479	247.479	247.479	100,00	100,00	100,00
Other reserves	1.265.797	1.265.797	1.265.797	100,00	100,00	100,00
Reported result	1.496.805	1.254.535	975.134	119,31	128,65	153,50
Total equity and debt	4.951.434	4.725.001	3.935.088	104,79	120,07	125,83

Table 34- the company's financial standing during 2013-2015

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 pipeline 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 has changed in the way the company operated assets; cash flows have changed only with the payment of royalties), the intangible asset was measured at the remaining net value of derecognised assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12).

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

As they occur, costs of replacements are recorded as expenses, while the improvements of assets used within SCA are recognized at fair value. Intangible assets are depreciated to zero value during the remaining period of the concession agreement.

Intangible assets have increased by RON 71,775 thousand compared to 31.12.2014, mainly due to the developments of the national transmission system.

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. **The value of tangible assets has decreased** by RON **27.100** as compared to 2014, mainly due to the fact that the tangible assets inflow of RON 28.863 were lower than the depreciation cost for tangible assets amounting to RON 55.963.

Financial fixed assets

At the end of 2015 the value of the financial fixed assets in the company's balance sheet was zero, a value determined by the 100% provisioning of all shareholding interest.

The highest share of the financial fixed assets is represented by Transgaz' shareholding in Nabucco Gas Pipeline International GmbH Vienna (NIC) share capital, a company currently in liquidation following the shareholders decision to close out the company.

Although there is a chance the company may have an inflow of additional amounts from NIC liquidation, due to the high uncertainty of such inflow the company's investment of RON 138,544,435 in NIC has been fully provisioned as at December 31st, 2015.

Trade receivables and other receivables related to property

Increasing the claim to the NAMR 31 December 2015 to the amount of RON 40,507 thousand, calculated with the entry into force of Law 127 of 5 October 2014 which states that in case of termination of the concession agreement for any reason, or upon termination, the investment of national transmission system operator shall be transferred to the national transmission system owner or another conceding on payment of compensation equal to the regulated depreciated established by ANRE. The company recognized a receivable starting with 2014 and the principal amount remaining regulated revenue in advance. The advance income is recognized in the income statement over the remaining life of the concession agreement. The increase of 40,507 thousand compared to December 31, 2014 is primarily driven by updating the claim by changes made in the regulated asset base

Inventories

As at 31 December 2015 the inventories have shown an increase of RON 37.347 as compared to December 31st, 2014 due to the purchase of spare parts for the company's repair works and investment program.

Trade receivables and other receivables

As at 31 December 2014 the balance figure of the trade receivables and other receivables has decreased by RON 39.025 as compared to 2014, mainly due to the following factors:

- increase in the balance of accounts receivable by RON **24.876** thousand is mainly driven by the increase of claims resulting from the work of international transit (due to the indexation fee for international transmission and exchange rate fluctuations) and the increase of the balance of uncollectible accounts receivable in 2015 compared to 2014;
- **increase of the balance of various debtors amounting to 7.009 thousand lei;**
- **decrease in advances to suppliers 19.968 thousand lei;**
- **registration grants receivable amounted to 22.830 thousand lei** for the SCADA and TCS Șinca projects;
- **balances increased advance expenditure amounted to 8.410 thousand lei;**
- **recoverable VAT registration in the amount of 11 353 thousand lei;**
- **VAT increase due in balance with 584 thousand lei;**
- **higher provisions for impairment of trade receivables and other receivables by 104.406 thousand lei;**
- **Increase in the balance of other receivables by 10.287 thousand lei** mainly on account of guarantees granted for investment works and other contracts in progress.

Cash at bank and in hand

As at 31 December 2015 the company's cash increased by RON 142.930 as compared to the end of 2014, due to the fact that the holdings in bank accounts and cash increased by 143.164 thousands lei and the ones in the bank deposits decreased by 969 thousand lei in the equivalent cash accounts a decrease is also registered in the amount of 735 thousand lei.

Debts due in one year

In the structure of debts due in one year, the following changes have been noticed as compared to 31 December 2014:

- **A balance decrease in trade payables and other payables by RON 13.026 lei** mainly due to the increase of commercial debts for royalties by RON 14.566, to the decrease of debts for royalties by RON 4 129, to the decrease VAT to be paid by RON 21 646, by the increase of debts with other tax by RON 1359, the increase of employees' payments by RON 3 746, to the decrease of other debts by RON 6 922;
- **A decrease of the provisions for risk and charges by RON 1255**, due to a decrease of the provision for litigations by RON 1.775, an increase of the provision for employees' profit sharing by RON 429 thousand and the increase of the provision for the mandate contract by RON 91 thousand;
- **decrease in current income tax liability by the amount of RON 6,257 thousand** as a result of regularization of corporation tax to 31 December 2015;
- **decrease in the provision for employee benefits with the current RON 1,466 thousand;**

- **Reimbursement of RON 24,000 thousand of the** loan contracted from BRD Group Societe Generale in order to partly finance the investment program of the Company.

Long-term debts

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

- The increase of accrued income by RON 36.800 thousand, mainly caused by an accounting accrual due to the legislation changes according to which the Company is entitled to recover the remaining un-depreciated value of the goods afferent to the company's investments as titleholder of the National Gas Transmission System;
- The decrease in the provision for employee benefits in the part related to the long term debt by RON 4.283 thousand;
- The decrease of deferred tax liabilities by RON 2.350 thousand is mainly due to the decrease of the variation between the basis of accounting and the tax base for Transgaz' tangible and intangible assets.

As at 31 December 2015, the situation of medium and long term loans secured by Transgaz is as follows:

Financing bank	Loan currency	Loan value (thousand RON)	Balance on 31.12.2014 (thousand RON)
BRD GSG	RON	120.000,00	0,00

Table 35- Medium and long term loans as at 31.12.2015

Equity

The subscribed and paid up capital remained unchanged. The increase in retained earnings by RON 242.271 thousand is due to the profit for 2015 and to the distribution of the profit related to 2014.

3.4.2 Comprehensive income

The situation of the profit and loss account at 31.12.2015 is as follows:

Tag no.	Specification	Achieved on 31 December			Dynamics (%)		
		2013	2014	2015			
0	1	2	3	4	5=4/3*100	6=3/2*100	5=4/2*100
1.1	Revenues from exploitation before the construction activity according to IFRIC12	1.516.640	1.655.319	1.663.398	100,49	109,14	109,68
1.2	Revenues from the construction activity according to IFRIC12	161.741	136.635	211.125	154,52	84,48	130,53
1.3	Financial revenues	40.721	33.375	43.237	129,55	81,96	106,18
2.1	Expenses related to exploitation before the construction activity according to IFRIC12	981.647	1.063.751	1.077.219	101,27	108,36	109,74
2.2	Cost of the assets built according to IFRIC12	161.741	136.635	211.125	154,52	84,48	130,53
2.3	Financial expenses	148.957	14.356	22.315	155,43	9,64	14,98
3.	GROSS PROFIT, of which:	426.758	610.587	607.101	99,43	143,08	142,26
3.1	Exploitation Result before the construction activity according to IFRIC12	534.994	591.568	586.179	99,09	110,57	109,57
3.2	Exploitation Result	534.994	591.568	586.179	99,09	110,57	109,57
3.3	Financial Result	-108.236	19.019	20.922	110,01	X	X
4.	TAX ON PROFIT	99.954	108.071	118.372	109,53	113,34	124,14
5.	NET PROFIT	331.408	502.516	488.729	97,26	151,63	147,47
6.	Other items of the comprehensive income	3.832	-16.131	10.211	-63,30	-420,98	266,49

Tag no.	Specification	Achieved on 31 December			Dynamics (%)		
		2013	2014	2015			
0	1	2	3	4	$5=4/3*100$	$6=3/2*100$	$5=4/2*100$
7.	Total comprehensive income for the period	335.240	486.385	498.940	102,58	145,09	148,83

Table 36–Profit and loss account situation in the period 2013 - 2015

Operating income

The income from the operating activity achieved in 2015 is as follows:

Specifications	Achievements (thousand lei)		Dynamics (%)
	2015	2014	
1	2	3	$4=2/3*100$
Revenues from the domestic transmission activity			
- thousand lei	1.259.788	1.340.853	93,95
- MWh	131.259.673	126.703.188	103,60
- lei/MWh	9,6	10,58	90,69
- thousand cm	12.294.693	11.883.713	103,46
- lei/1000 cm	102,47	112,83	90,81
Revenues from the international transmission activity			
- thousand lei	318.752	273.760	116,43
Other operating revenues			
- thousand lei	84.858	40.706	208,46
REVENUES FROM THE OPERATING ACTIVITY before the construction activity according to IFRIC12	1.663.398	1.655.319	100,49

Table 37–Income from the operating activity achieved in 2015 vs 2014

Operating expenses

The expenses from the operating activity achieved in 2015 are:

Tag no.	SPECIFICATION	Achievements (thousand lei)		Dynamics (%)
		2015	2014	
0	1	2	3	$4=2/3*100$
1.	Depreciation	193.401	185.293	104,38
2.	Allowances, salaries, other salary related expenses and benefits granted to employees	357.731	351.858	101,67
3.	Technological consumption, materials and consumables used, of which:	106.966	113.169	94,52
	- Technological consumption, materials and consumables used	83.146	92.124	90,25
	Technological consumption quantity MWh	965.920	1.046.481	92,30
	Technological consumption quantity thousand cm	88.103	96.940	90,88
	- Auxiliary materials	19.511	17.092	114,15

	- Other material expenses	4.308	3.953	108,98
4.	Expenses with royalties	157.854	161.461	97,77
5.	Maintenance and transport, of which	33.181	62.306	53,25
	- Works, services executed by third parties	20.020	51.752	38,69
6.	Tax and other amounts owed to the state, of which:	70.183	77.874	90,12
	- Tax related to granting the gas transmission and international gas transit license	6.509	14.156	45,98
	- Tax on monopoly	56.781	54.639	103,92
	- Tax on special constructions	1.238	1.922	64,43
7.	Expenses with provisions for risks and expenses	-1.255	-4.646	27,02
8.	Other operating expenses	159.160	116.434	136,70
OPERATING EXPENSES before the constructions activity according to IFRIC12		1.077.219	1.063.751	101,27

Table 38- Operating Expenses achieved in 2015 vs 2014

3.4.3 Cash flow statement

The cash flow statement on 31 December 2015 is indicated below:

Indicator	The year ended on 31 December (thousand RON)	
	2015	2014
Profit before tax	607.101	610.587
Depreciation	193.401	185.293
Provision for impairment of intangible assets	-5.236	5.236
Profit/(loss) from the disposal of fixed assets	-170	76
Provision for risks and expenses	-1.255	-4.646
Revenue from connection fees, grants and goods taken free of charge	-17.628	-17.133
Provisions for guarantees	0	-4
Provisions for employees benefits	337	-1.618
Provisions for the impairment of financial assets	0	5.953
Provisions for the inventories impairment	1.691	567
Loss from claim	0	0
Provision from the impairment of claims	104.406	45.071
Expenses with interest	308	961
The effect of updating the provision for benefits granted to employees	4.125	4.774
Income from interests	-22.163	-15.030
The effect of the variation of the exchange rate upon other elements than those from operation	591	-111
Income from the claims from the regulated value which was undepreciated upon the termination of the concession agreement	-26.391	-6.517
Other revenues	-295	-1.967
Profit from operation before the modifications in the circulating capital	838.821	811.491
(Increase)/ decrease of the commercial claims and other claims	-80.533	-161.441
(Increase)/decrease of stocks	-39.037	-3.157
Increase/(decrease) of commercial debts and other debts	-10.340	81.828

Indicator	The year ended on 31 December (thousand RON)	
	2015	2014
Cash generated from operation	708.911	728.722
Paid interest	-308	-961
Received interest	6.392	10.257
Paid tax on profit	-126.979	-88.170
Net cash inflow generated from the operating activity	588.015	649.848
Cash flow from the investment activities		
Payments to acquire tangible and intangible assets	-221.141	-142.050
Proceeds from disposal of tangible assets	292	0
Cash flows from connection fees and grants	57.108	14.116
Net cash used in investment activities	-163.741	-127.934
Cash flow from financing activities		
Dividends paid	-257.344	-207.307
Repayments of long-term loans	-24.000	-24.000
Net cash used in financing activities	-281.344	-231.307
Net change in cash and cash equivalents	142.930	290.606
Cash and cash equivalent at beginning of year	557.868	267.262
Cash and cash equivalent at end of period	700.798	557.868

Table 39- Cash flow statement in 2015 vs 2014

From the cash flow analysis of **31 December 2015** we may note an increase of the budget resources of **142.930 lei thousand** compared to **31 December 2014**.

The modifications which occurred in the cash flow structure are:

- The cash flow generated from operation is 588.015 thousand lei by 61.833 thousand lei lower than the one related to 2014;
- The cash flow used in the investment activity is -163.741 thousand lei by 35.807 thousand lei higher than the one related to 2014;
- The cash flow used in the financing activity is -281.344 thousand lei by 50.037 thousand lei higher than the one related to 2014.

3.4.4 Evaluation of activity on financial risk management

Financial risk factors

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

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

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

Market risk

Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. The 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 the international gas transmission activity) 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 2015	31 December 2014
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	163.938	2.103.397
USD depreciation by 10%	(163.938)	(2.103.397)
EUR appreciation by 10%	5.600.361	6.838.279
EUR depreciation by 10%	(5.600.361)	(6.838.279)

Price risk

The Company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the first three quarters of 2015 would have been lower/higher by RON 3.087.911 lei (2014: 3.869.229 lei).

Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by its mostly variable rate long and short-term loans. Also, the Company is exposed to the interest rate risk by deposits with banks. The Company has not concluded any commitment to diminish the risk.

For the average exposure in 2015, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the semester and equity would have been by RON 2,471,548 lower/higher (2014: 2,241,617

lei), 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, through their application ensuring that sales of products and services are made to proper customers.

The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 69% of the trade receivable balances on December 31st 2015 (31 December 2014: 65%).

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 2015	31 December 2014
No rating	1.433.162	1.574.693
BB-	-	262.217.263
BB	252.046.000	-
BB+	1.910.084	730.107
BBB-	683.305	1.785.923
BBB	258.276.067	7.130.249
BBB+	35.232.715	284.236.404
A	150.919.196	-
A+		71.652
AA	167.844	
	<u>700.668.373</u>	<u>557.746.291</u>

Liquidity risk

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

The company projects cash flows. The financial position of the Company monitors continuously 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.

These projections take into account the Company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where

appropriate, external regulations or legal provisions - for example, restrictions on currency. The Financial Department of the Company invests extra cash in interest bearing current accounts and term deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide the appropriate framework, established under the provisions mentioned above.

The table below shows the obligations on 31 December 2015 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

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

	Total amount	less than 1 year	1-5 years	over 5 years
Trade payables and other payables	<u>151.408.923</u>	<u>151.408.923</u>	-	-
	<u>151.408.923</u>	<u>151.408.923</u>		-

Maturity analysis of financial liabilities on 31 December 2015 is the following:

	Total amount	less than 1 year	1-5 years	over 5 years
Loans	24.333.300	24.333.300	-	-
Trade payables and other payables	<u>146.207.860</u>	<u>146.207.860</u>	-	-
	<u>170.541.160</u>	<u>170.541.160</u>	-	-

Trade payables and other liabilities include trade payables, suppliers of fixed assets, dividends payable, payables to the Ministry of Economy Commerce and Business Environment and other payables.

Categories of financial instruments:

Financial assets	31.12.15	31.12.14
Cash and cash equivalent	168.364.078	24.465.196
Term bank deposits	532.433.704	533.402.809
Loans and receivables	931.218.691	932.193.845
Available-for-sale financial assets.	163.122.672	163.122.672
Available-for-sale financial assets provisions	<u>-163.122.672</u>	<u>-163.122.672</u>
	<u>1.632.016.473</u>	<u>1.497.061.849</u>

Financial liability	31.12.15	31.12.14
Financial liabilities evaluated at amortised cost.		

Loans	-	<u>24.000.000</u>
Financial liabilities evaluated at fair value	-	-
Financial securities for contracts	<u>4.116.283</u>	<u>3.866.036</u>
Commercial debts and other debts	<u>147.292.640</u>	<u>142.341.825</u>
	<u>151.408.923</u>	<u>170.207.861</u>

Capital risk management

Company's objectives related to capital management refer to keeping the Company's capacity to continue its activity in order to provide compensation to shareholders and benefits to the other stakeholders and maintain an optimal structure of the capital, as to reduce capital expenditure. There are no capital requirements imposed from outside.

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

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

In 2015 the Company's strategy which remained unchanged since 2014 was to keep the debt leverage degree as low as possible to keep a significant capacity to borrow funds for future investments.

The net indebtedness was null at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
Total loans	-	24.000.000
Loss: cash and cash equivalent	<u>(700.797.782)</u>	<u>(557.868.004)</u>
Net cash position	<u>(700.797.782)</u>	<u>(533.868.004)</u>

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.

It is considered that the book value less the impairment provision of trade receivables and payables 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. COMPANY MANAGEMENT

4.1 The Board of Administration

The company's administrators at the beginning of 2015:

- **STERIAN ION** – *non-executive administrator- Chairman of the Board of Administration;*
- **VĂDUVA PETRU ION** – *executive administrator - General Manager;*
- **ILIESCU BOGDAN-GEORGE** – *non-executive administrator*
- **CERNOV RADU ȘTEFAN** – *non-executive administrator;*
- **RIZOIU ANDREI** – *non-executive administrator*

In 2015 there were no changes in the structure of the Board of Administration:

The administrators' resumes

The administrators' resumes may be found on Transgaz webpage at www.transgaz.ro

Agreements/understandings or special family ties

According to 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.

Administrator's participation to Transgaz capital

The Company's directors do not own shares in the share capital of the company

4.2 Executive management

Members of the executive management have individual labour agreements concluded for indefinite periods. The management and execution staff in Transgaz is appointed, hired or laid off by the General Manager.

According to the information available, there is no agreement, covenant or family tie between the mentioned persons and another person due to which they have been appointed as members of the executive management. The table below shows the members of the executive management holding shares in Transgaz:

Name and first name	Position	Number of shares as at 31.12.2014	Interest share (%)
Hategan Gheorghe	Deputy Director - General	24	0,000203
Lupean Marius	Director	20	0,000169
Tătaru Ion	Director	25	0,000212
Comaniță Adela	Director	7	0,000059
Șai Alexandru	Director	10	0,000084
Pătărnice Mihai	Director	97	0,000823
Lața Ilie	Director	46	0,000390
Rusu Ioan	Director	2.508	0,021301
Nita Viorel	Director	5	0,000042

Table 40- Members of the executive management holding shares in Transgaz as at 31.12.2015

The following persons represent the Company's executive management:

No.	Name and first name	Position	Division/Unit
1	Petru Ion Văduva	Director - General	
2	Gheorghe Hațegan	Deputy Director - General	
3	Tarsac Grigore	Deputy Director - General	
4	Lupean Marius	Director	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	Gruia Daniel	Director	IT, Communication and SCADA Division
13	Luca Bogdan Avram	Director	Public procurement and contracting Division
14	Vardol Florian	Director	Legal Division
15	Idu Olga	Director	Legal Unit
16	Mateș Angela	Director	HR Unit
17	Niculescu Oana	Director	Budgeting Strategy Unit
18	Mareș Gabriela	Director	Cooperation and European Regulation Unit
19	Fodor Mihai Iuliu	Director	Budgeting Finances Unit
20	Comăniță Adela	Director	Accounting Unit
21	Deac Sorin Gabriel	Director	Works Preparation and Execution Unit
22	Rău Ioan	Director	Commercial Unit
23	Șai Alexandru	Director	Gas Metering, Gas Quality Unit
24	Pătărnice Mihai	Director	The National Gas Dispatching Centre
25	Bunea Florin	Deputy Director	Gas Market Operator Unit Bucharest
26	Barbu Viorel	Director	NTS Reconditioning Unit
27	Ilies Ovidiu	Director	European Funds Unit
28	Petrescu Monica Alexandra	Director	Special Projects Procurement Unit
29	Drusan Nicolae	Director	Protection and Security Unit
30	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Unit
31	Pânzar Adela	Deputy Director	Public Purchase and Procurement Unit
32	Draghici Aurelian	Director	Project Analysis Checking and Endorsement
33	Mihalache Eugen	Head of Representative Office	Transgaz Representative Office in Bruxelles
34	Ilie Lața	Director	Medias Subsidiary
35	Rusu Ioan	Director	Medias Territorial Offices
36	Schmidt Hăineală Eduard	Director	Bacău Territorial Offices
37	Țandru Marcel	Director	Cluj Territorial Offices
38	Gherghe Cristian	Director	Constanța Territorial Offices
39	Niță Viorel	Director	Craiova Territorial Offices
40	Dumitru Nicusor	Director	Brăila Territorial Offices
41	Cristoloveanu Gheorghe	Director	Brașov Territorial Offices
42	Gurgu Victor	Director	Bucharest Territorial Offices
43	Bachios Gheorghe	Director	Arad Territorial Offices

Table 41–SNTGN Transgaz SA Medias executive management

4.3. Potential litigation or administrative procedures

Reference: litigation or administrative proceedings in which it was involved in the past 5 years related to the administrative and executive management as well as those concerning their ability to perform their duties within Transgaz.

Not appropriate.

5. OTHER ASPECTS

The list of all entities in which Transgaz holds shares

- **NABUCCO GAS PIPELINE INTERNATIONAL GmbH**, based in Vienna, company in which Transgaz owns equity interests of 17.93% of the share capital and whose object of activity is the development of Nabucco project. The lack of perspective of Nabucco project in the context of failure to be selected by Shah Deniz Consortium and the uncertainty of commissioning new gas fields in the predictable future in the Caspian Sea and Middle East determined Nabucco shareholders to make the decision of liquidating the project company and the National Nabucco Companies (NNCs), voluntary liquidation controlled by NIC shareholders through a liquidator;
- **SC MEBIS SA Bistrița**, based in Bistrița, (J06/150/1991) in which Transgaz owns a 17.47% stake, whose object of activity is the development of metal structures and complex welded assemblies, assemblies and hydraulic products is in liquidation procedure, which is why its stake in SC MEBIS SA was fully provisioned. Transgaz does not have any obligations to SC MEBIS SA;
- **SC Resial SA** based in Alba Iulia (J01/77/1991) in which Transgaz owns a 68.16% stake, whose main activity is the manufacture and marketing of alumina silicate refractory products. The company is under bankruptcy proceedings, since 2006. The procedure is performed by a bailiff appointed by the court and is beyond the control of Transgaz, which is why the participation is not consolidated and is recorded at cost lower than the impairment provision amounted to 100% of cost.

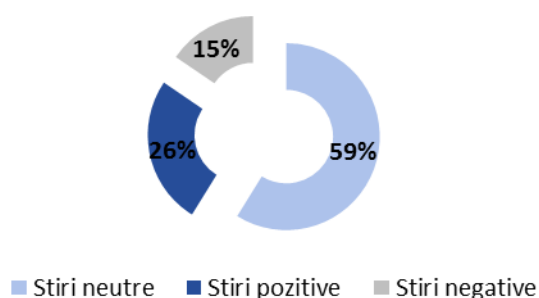
The loan granted to SC RESIAL SA is fully provisioned. Transgaz Management does not expect to recover any amount from this venture and does not record any residual obligations for SC RESIAL SA.

Infographic monitoring of Transgaz news in 2015

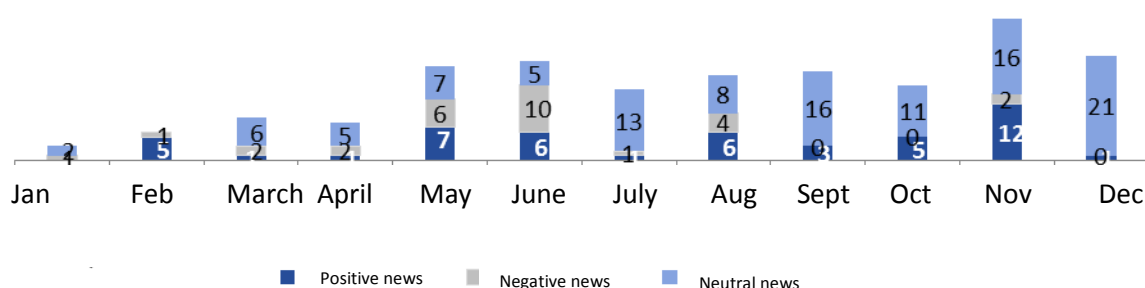
From the monitoring of the news on Transgaz activity on the media channels in 2015 we summed up a no. of 187, out of which:

Neutral news	110	59%
Positive news	48	26%
Negative news	29	15%
Total news	187	100%

Pondereea stirilor privind activitatea Transgaz în anul 2015

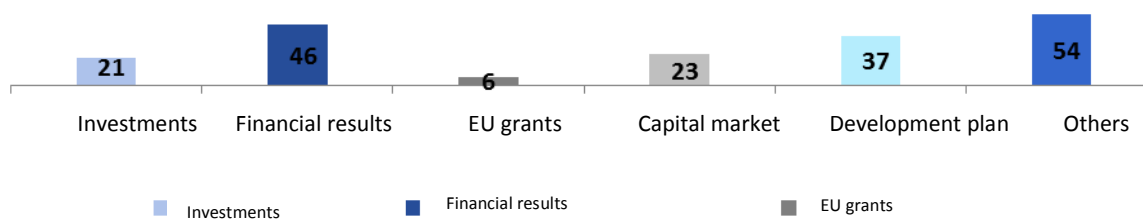


Monthly distribution of news in 2015 and classification by type: positive, neutral, negative.

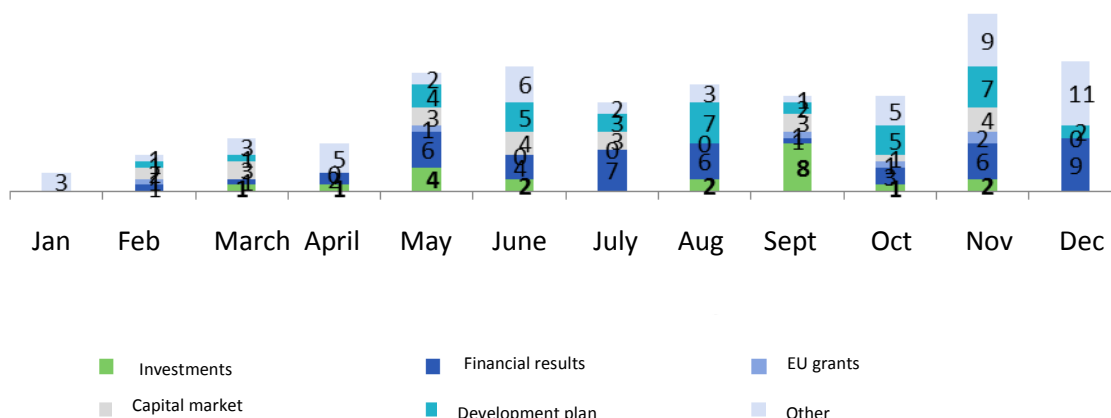


Monthly distribution of news in 2015 and per months and classification by subject: investment, financial results, European grants, capital market, development plan:

Monitorization of news by theme – on 31.12.2015

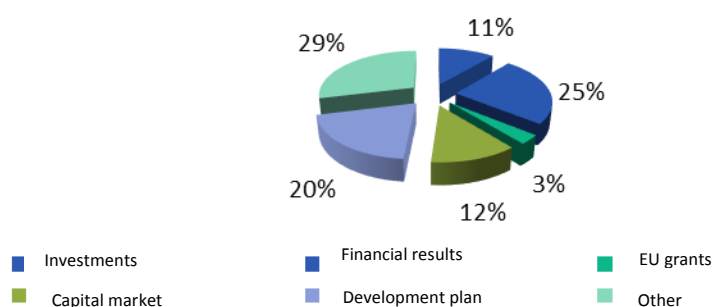


Monitorization of news by theme per months - 2015



The share of the references published in 2015 depending on the theme addressed is as follows:

News share by theme



Rating

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

The financial rating agency's decision to improve Transgaz rating recognizes the success of the efforts of the management team to improve and modernize the operational and institutional transparency, the investment program of the company.

At the same time, the rating agency recognized the progress made in the regulator and stabilizing the regulatory framework.

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

- improving the predictability and transparency of the regulatory activity related to the natural gas transmission services in Romania by maintaining unchanged the current framework until the end of the current regulatory period;
- cash-flow predictability at least until 2017, the end of the regulatory period;
- increasing the percentage of capacity booking charges to 50%;
- efficiency gains for five years and pay higher insurance for new investments due to the recognition of unrealized gains from the previous regulatory period;

- Increasing medium and long term investments starting with the second half of 2015.

The stable outlook reflects Standard & Poor's opinion that the regulatory framework was improved, it remains predictable and transparent and Transgaz will get strong financial and operational results in the next two or three years.

The report also notes that an increase in Romania's rating by two notches may result in an improvement in the company's rating as both the credit profile of the company and government support remain unchanged

6. ADMINISTRATORS' DISCHARGE

Based on Art. 55 and Art. 56 under GEO 109/2011, SNTGN Transgaz SA administrators will submit in the General Shareholders' Assembly the Administrators' Report for 2015 which is part of the financial statements for 2015.

Whereas the following legal provisions:

- Art.111 para (2) letter.(d) under Company Law no. 31/1990 as republished with further amendments and supplements;
- Art.15 para 3 letter (h) in the Articles of Association of SNTGN Transgaz SA as updated on 3 October 2014;
- Art.4.1 letter (h) in the Administrators' Mandate Contract concluded on 30 September 2013,

the company's administrators shall submit for approval of the General Shareholders' Assembly the discharge for the activity performed in 2015 as presented herein.

Note: Annexes 1 and 2 are part hereof.

ION STERIAN – Non-executive Administrator – Chairman of the Board of Administration

PETRU ION VĂDUVA – Executive Administrator –Director - General

RADU ȘTEFAN CERNOV – Non-executive Administrator

BOGDAN GEORGE ILIESCU - Non-executive Administrator

ANDREI RIZOIU - Non-executive Administrator