

REPORT ISSUED BY THE BOARD OF ADMINISTRATION

2016



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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 2016

Report date: 17 March 2017

Company name: The National Gas Transmission Company TRANSGAZ SA

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

VAT Number: RO13068733

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

Subscribed and paid up capital: 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. Moaş Square, Sibiu County, 551130;
- Exploitation and Maintenance Department: Mediaş, str. George Enescu no. 11, Sibiu County, zip code 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;
- **Mediaş Regional Office**, 29 George Coşbuc Street, Mediaş, Sibiu County, zip code 551027;
- **Constanţa Regional Office**, 2bis Caraiman Street, Constanţa, Constanţa County, zip code 900117;
- **Mediaş Subsidiary**, 59 Sibiului Street, Mediaş, Sibiu County.

1.4 Shareholders

Following GEO no 55/19.11.2015 on setting reorganization measures at the level of the central public administration and for the amendment of some legal documents the Ministry of Economy, Trade and Business Environment was set up by the reorganization and taking over of the activities of the Ministry of Economy, Commerce and Tourism. Therefore, on 29.01.2016 the amendment of the identification data of the account holder The Romanian State by the Ministry of Economy, Commerce and Tourism in The Romanian State by the Ministry of Economy Trade and Relations with the Business Environment was recorded with SC Depozitarul Central S.A.

At the end of 2016 Transgaz' shareholding structure 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:
 - 7,4887% natural persons – 881.712 shares;
 - 34,0016% legal persons – 4.003.292 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 31.12.2016

The number of shareholders of Transgaz registered with SC Depozitarul Central S.A. at the end of 2016 is 7.619, which is lower by 4,33% (345 shareholders) compared to the end of 2015, when there were 7.964 registered shareholders.

The share capital of Transgaz on 31 December 2016 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 2016 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 2016 as compared to 2015 is as follows:

Indicator	MU	2016	2015	2014	2013	+/-	%
0	1	2	3	4	5	6=2-3	7=2/3*100-1
Circulated gas	thousand cm	12.201.157	12.383.825	13.082.740	13.696.258	-182.668	-1%
Transmitted gas	thousand cm	12.074.677	12.294.693	11.883.713	11.258.941	-220.016	-2%
Technological consumption	thousand cm	108.874	88.103	96.940	160.140	20.771	24%
Share technological consumption/circulated gas	%	0,89%	0,71%	0,74%	1,17%		

Table 2 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption in 2016 vs. 2015

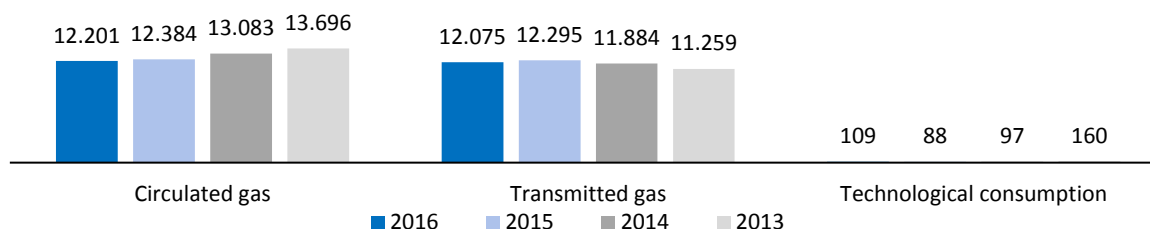
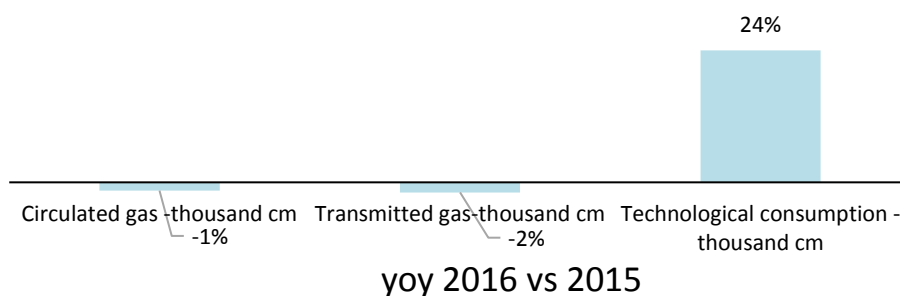


Chart 1 - Quantities of circulated and transmitted natural gas and of the technological consumption in 2016 vs 2015



Grafic 2 - Quantities of circulated and transmitted natural gas and of the technological consumption in 2016 vs 2015

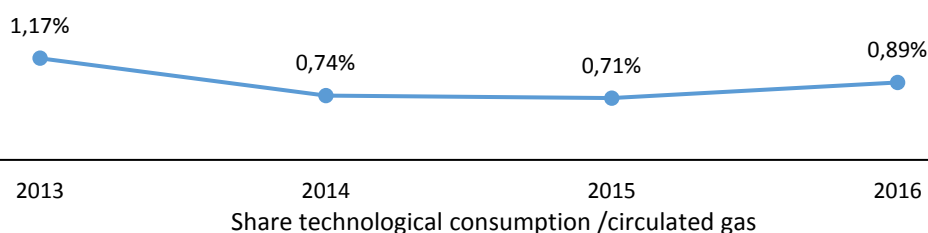


Chart 3 – Share of technological consumption of the total gas circulated between 2013 - 2016

	2013	2014	2015	2016
Planned technological consumption – thousand cm	296.290	197.600	173.036	119.823
Achieved technological consumption – thousand cm	160.140	96.940	88.103	108.874

Table 3 – Technological consumption gas volumes achieved vs. planned between 2013 - 2016

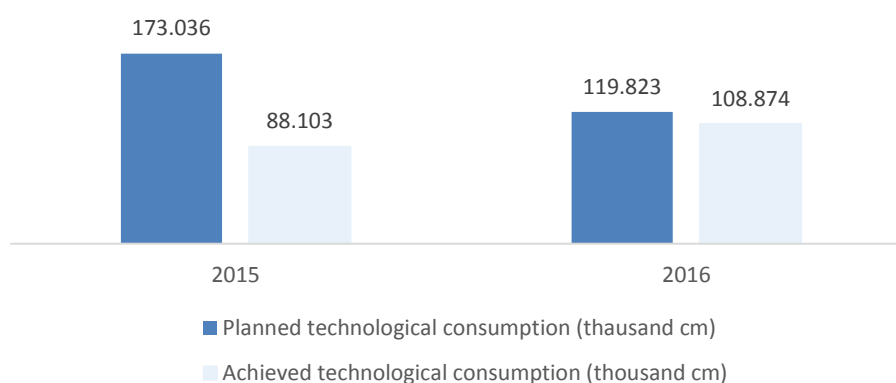


Chart 4 – Evolution of achieved vs. planned technological gas for 2016vs.2015

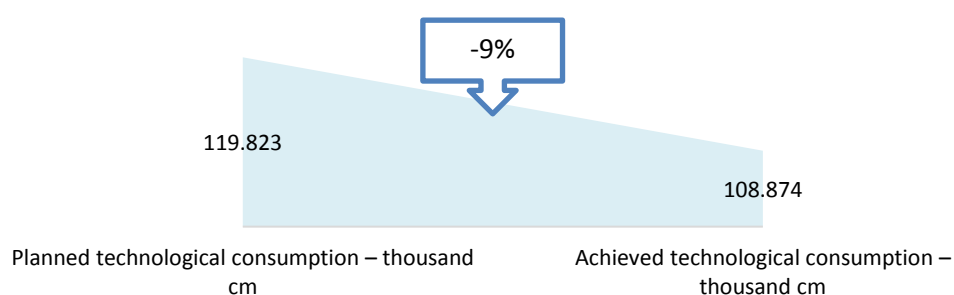


Chart 5– Level of reduction of technological consumption –total achieved vs. total planned in 2016

(Thousand cm)

Technological consumption gas volumes transmitted in 2016 compared to planned (monthly)						
	January	February	March	April	May	June
PLANED	13.419	11.763	10.218	7.955	5.085	4.421
ACHIEVED	18.656	11.428	10.346	6.481	7.186	11.277

(Thousand cm)

Technological consumption gas volumes transmitted in 2016 compared to planned (monthly)							
	July	August	September	October	November	December	TOTAL (year)
PLANED	7.649	9.530	10.844	8.321	19.132	11.486	119.823
ACHIEVED	6.417	6.849	5.75	6.808	8.125	9.627	108.874

Table 4 – Technological consumption gas volumes achieved vs planned monthly in 2016

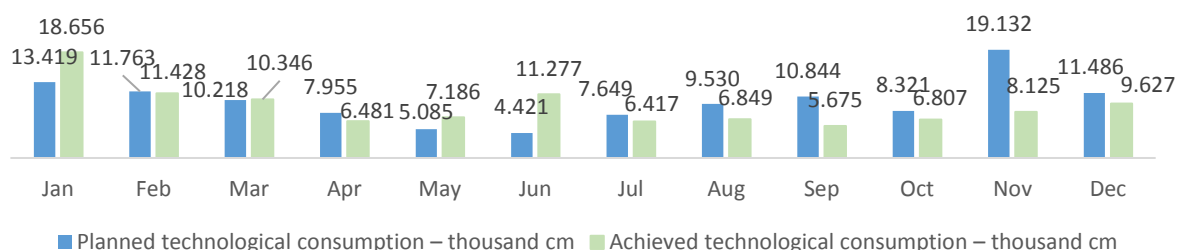


Chart 6 – Evolution of achieved vs. planned technological consumption monthly in 2016

Thus, as we can see, in 2016, compared to the previous year, the evolution of the technological consumption in the NTS had a pronounced upward trend, higher by 24% compared to 2015 and lower by 9% compared to the planned level.

(Million cm)

Gas circulated in 2016 compared to planned													
	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
ROMGAZ	490	434	435	328	262	226	261	291	278	330	381	461	4.177
PETROM	342	328	357	355	377	365	371	370	350	339	346	346	4.247
OTHERS	55	48	47	44	52	49	47	46	46	56	55	54	598
CURRENT IMPORT	96	45	16	38	44	37	54	64	79	297	319	387	1.475
STORAGE WITHDRAWAL	661	233	187	1	0	0	0	0	0	5	194	424	1.705
ACHIEVED	1.644	1.089	1.041	765	735	677	733	771	753	1.028	1.294	1.671	12.201
PLANNED	1.491	1.307	1.135	765	718	726	818	807	787	920	1.039	1.294	11.806

Table 5 – 2015 NTS gas circulated compared to planned in 2016 (mil cm)

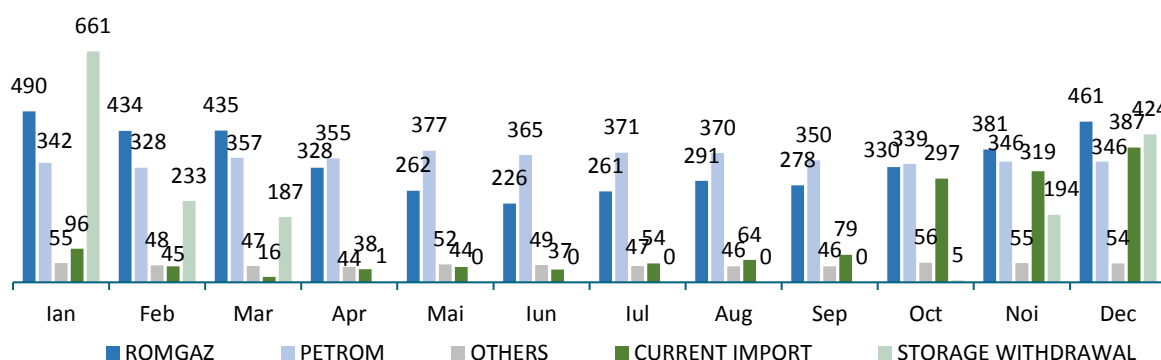


Chart 7 – 2016 NTS gas circulated, by source (mil cm)

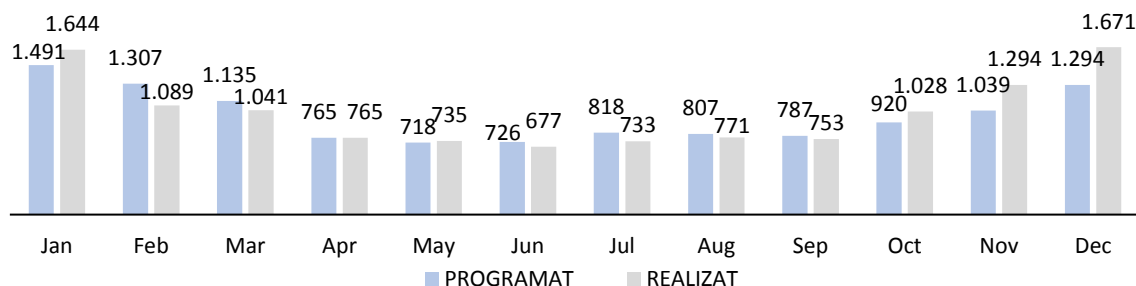


Chart 8- 2016 NTS gas circulated – achieved vs. planned (mil. cm)

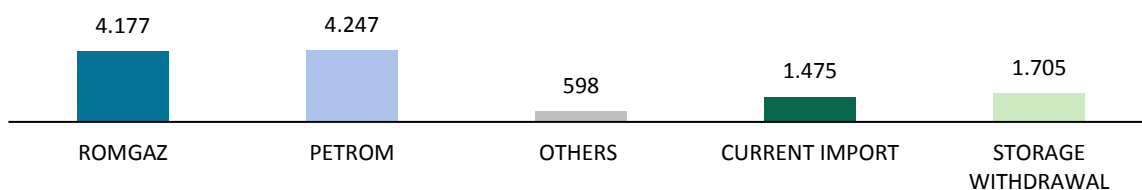


Chart 9- 2016 NTS gas circulated, by source (mil cm)

(thousand cm)

2016 gas transmitted/planned						
	January	February	March	April	May	June
PLANNED	1.477.623	1.295.217	1.125.071	875.963	713.052	721.271
ACHIEVED	1.624.019	1.073.166	1.028.315	756.549	724.148	666.841

(thousand cm)

2016 gas transmitted/planned							
	July	August	September	October	November	December	TOTAL 2015
PLANNED	810.138	787.015	776.166	911.399	1.019.619	1.282.807	11.795.342
ACHIEVED	726.243	766.455	745.647	1.017.551	1.286.697	1.659.046	12.074.677

Table 6- Gas transmitted to direct consumers and distribution in the NTS in 2016 - achieved (includes the amount for the injection) vs planned (thousand cm)

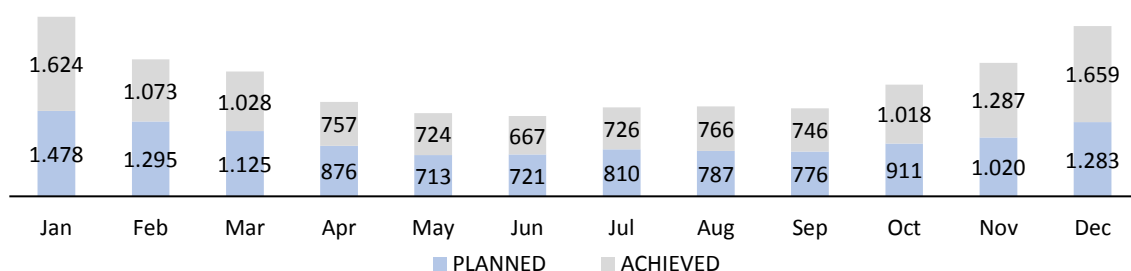


Chart 10- Gas transmitted to direct consumers and distribution in the NTS achieved vs planned in 2016 (mil. cm)

As shown above in 2016 the amount of gas transmitted was of 12.07 bcm, which is higher by 0.28 bcm than the planned amount.

(thousand cm)

2016 achieved / planned gas for storage													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL 2016
PLANNED	-	-	-	122.966	271.563	271.563	271.563	271.563	271.564	123.053	0	0	1.603.835
ACHIEVED	-	-	-	209.359	223.654	249.440	243.046	307.748	222.599	98.528	186	0	1.554.560

Table 7- 2016 achieved / planned gas for storage (thousand cm)

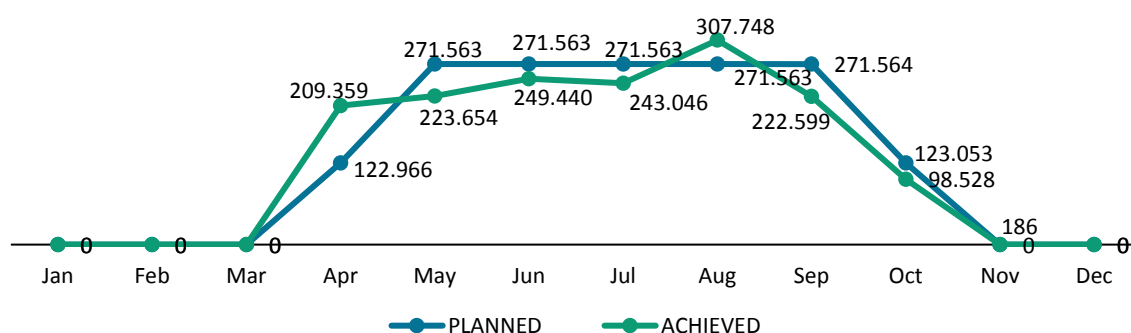


Chart 11- 2016 achieved / planned gas for storage (thousand cm)

The quantity of gas stored in 2016 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 2016 vs 2015 is as follows:

No.	Specifications	Achieved 31 December				Dynamics (%)
		2016	2015	2014	2013	
0	1	2	3	4	5	$6=2/3*100$
1.	Revenue from the transmission activity					
	- thousand RON	1.360.355	1.259.788	1.340.853	1.210.480	107,98
	- MWh	129.786.374	131.259.673	126.703.188	119.741.363	98,88
	- RON/MWh	10,48	9,60	10,58	10,11	109,21
	- thousand RON	12.074.677	12.294.693	11.883.713	11.258.941	98,21
	- RON/1000 cm	112,66	102,47	112,83	107,51	109,95
2.	Revenue from the international transmission activity					
	- thousand RON	328.571	318.752	273.760	268.537	103,08
3.	Other operating revenue					
	- thousand RON	126.459	84.858	40.706	37.623	149,02
	TOTAL OPERATING REVENUE before balancing and the construction activity acc. to IFRIC12					
	thousand RON	1.815.385	1.663.398	1.655.319	1.516.640	109,14

Table 8 - 2013 / 2016 evolution of operating revenue

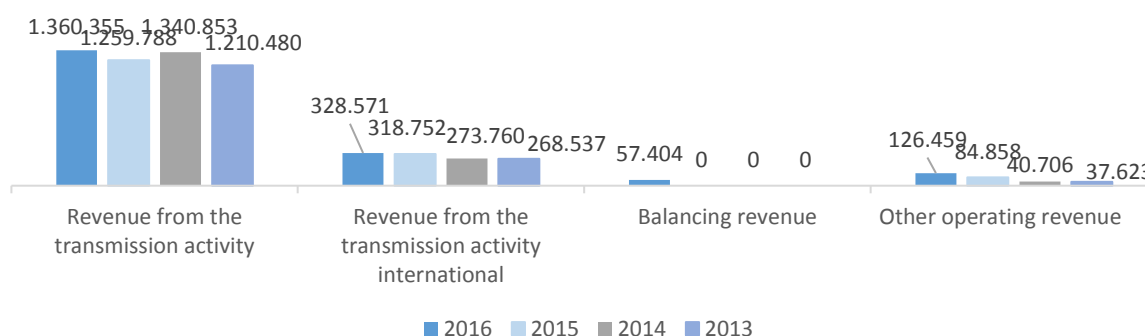


Chart 12 – Structure of operating revenue between 2013 -2016

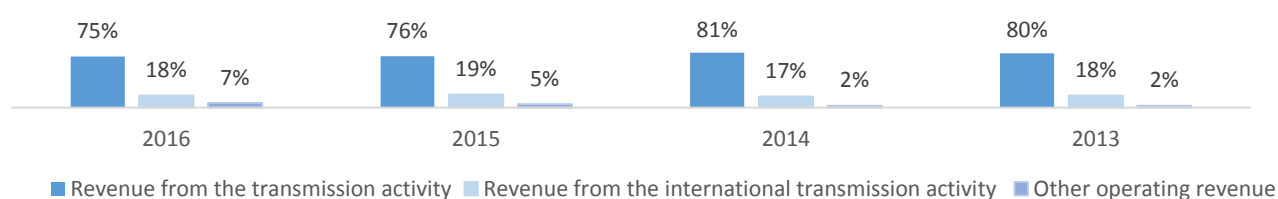
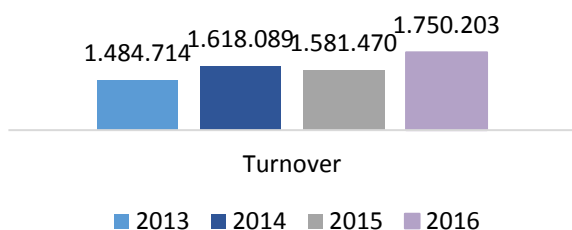


Chart 13 – Share of activities in the total operating revenue 2013 -2016

No.	Indicator	Achieved at 31 December				Dynamics (%)
		2016	2015	2014	2013	
0	1	2	3	4	5	$6=2/3*100$
1	Turnover	1.750.203	1.581.470	1.618.089	1.484.714	110,67
2	Operating revenue before balancing and the construction activity acc. to IFRIC12	1.815.385	1.663.398	1.655.319	1.516.640	109,14
3	Operating cost before balancing and the construction activity acc. to IFRIC12	1.125.268	1.077.219	1.063.751	981.647	104,46
4	Operating profit before balancing and the construction activity acc. to IFRIC12	690.117	586.179	591.568	534.994	117,73
5	Balancing activity revenue	57.404	x	x	x	x
6	Expenses with balancing gas	56.093	x	x	x	x
7	Revenue from the construction activity acc. to IFRIC12	118.504	211.125	136.635	161.741	56,13
8	Cost of assets built acc. to IFRIC12	118.504	211.125	136.635	161.741	56,13
9	Operating profit	691.427	586.179	591.568	534.994	118,33
10	Financial profit	22.548	20.922	19.019	-108.236	107,77
11	Tax on profit	119.410	118.372	108.071	95.350	107,50
12	Net profit	594.565	488.729	502.516	331.408	120,50
13	Total comprehensive revenue of the period	593.539	498.940	486.385	335.240	117,83
14	Gross dividend/share	46,33	21,24	21,80	17,58	218,13

Table 9 – Evolution of operational performance indicators between 2013 – 2016

Turnover



Net profit

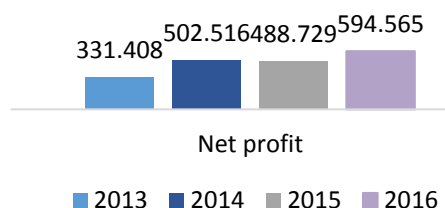


Chart 14–Turnover between 2013 - 2016 - RON thousand

Chart 15–Net profit between 2013 -2016 –RON thousand

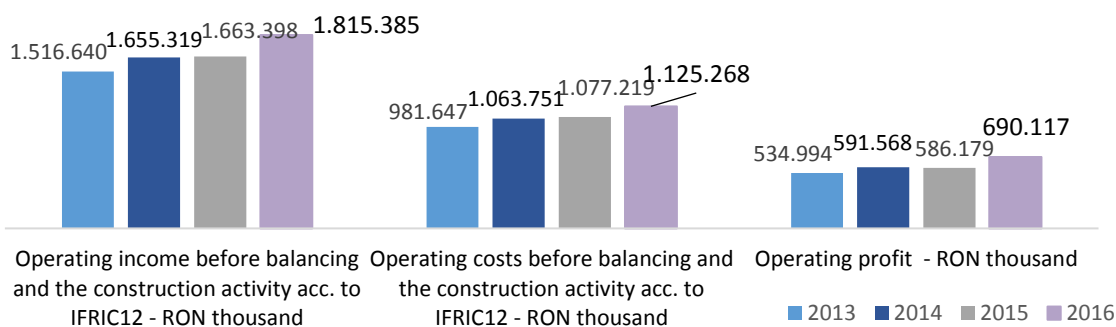


Chart 16– Evolution of operating income, expense and profit between 2013 -2016

2.2 Indicators of financial results

The economic and financial activity of SNTGN Transgaz SA was conducted in 2016 based on the indicators included in the annual revenue and expenses budget approved OGMS Resolution 1/21.03.2016.

The main economic and financial indicators achieved in 2016 compared to 2015, 2014 and 2013 are presented as follows:

No.	Indicator	Achieved at 31 December				Dynamic s (%)
		2016	2015	2014	2013	
	0	1	2	3	4	5=1/2*100
1	Turnover	1.750.203	1.581.470	1.618.089	1.484.714	110,67
2	Operating revenue before balancing and the construction activity acc. to IFRIC12	1.815.385	1.663.398	1.655.319	1.516.640	109,14
3	Balancing activity revenue	57.404	x	x	x	x
4	Revenue from the construction activity acc. to IFRIC12	118.504	211.125	136.635	161.741	56,13
5	Financial income	32.231	43.237	33.375	40.721	74,54
6	Operating revenue before balancing and the construction activity acc. to IFRIC12	1.125.268	1.077.219	1.063.751	981.647	104,46
7	Expenses with balancing gas	56.093	x	x	x	x
8	Cost of assets built acc. to IFRIC12	118.504	211.125	136.635	161.741	56,13
9	Financial expenses	9.683	22.315	14.356	148.957	43,39
10	Gross profit	713.975	607.101	610.587	426.758	117,97
11	Tax on profit	125.079	120.772	115.377	99.954	103,57
12	Revenue from deferred tax on profit	5.669	2.350	7.306	4.604	241,23
13	Net profit	594.565	488.729	502.516	331.408	121,66
14	Total comprehensive revenue of the period	593.539	498.940	486.385	335.240	118,96
15	Gas transmitted	12.074.677	12.294.693	11.883.713	11.258.941	98,21
16	Investment costs	140.179	239.554	151.776	203.763	58,52
17	Rehabilitation costs	16.547	20.020	51.752	61.176	82,65
18	Technological consumption	84.406	83.146	92.124	95.500	101,52
19	Technological consumption	108.874	88.103	96.940	160.140	123,58

Table 10 – Evolution of the main economic and financial indicators for the period 2013-2016

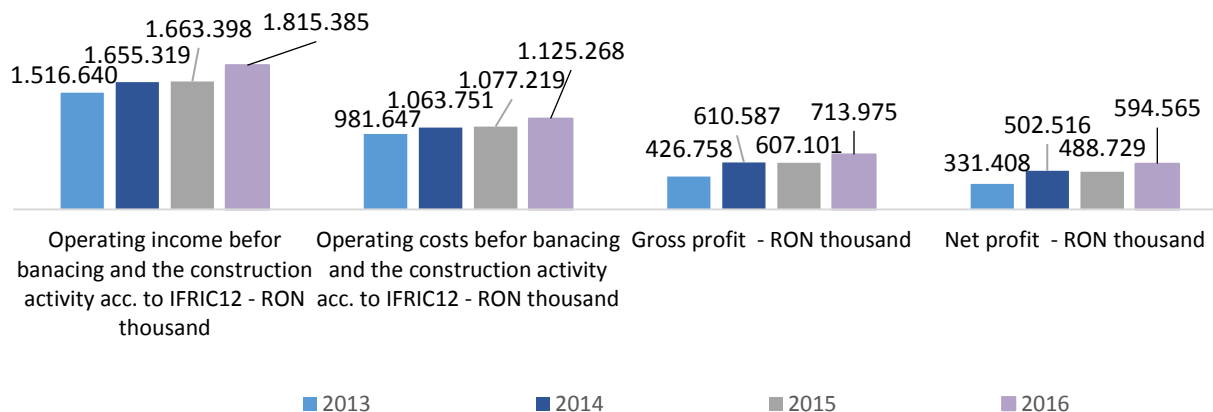


Chart 17- Evolution of the main economic and financial indicators for the period 2013-2016 – RON thousand

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 2016 approximately 17,25% are in foreign currency and are achieved from the international gas transmission activity.

At 31 December 2016, the company's cash and cash equivalents amounted to RON 949.293.236, out of which 17,12% are liquid assets denominated in foreign currency, most of it in EUR.

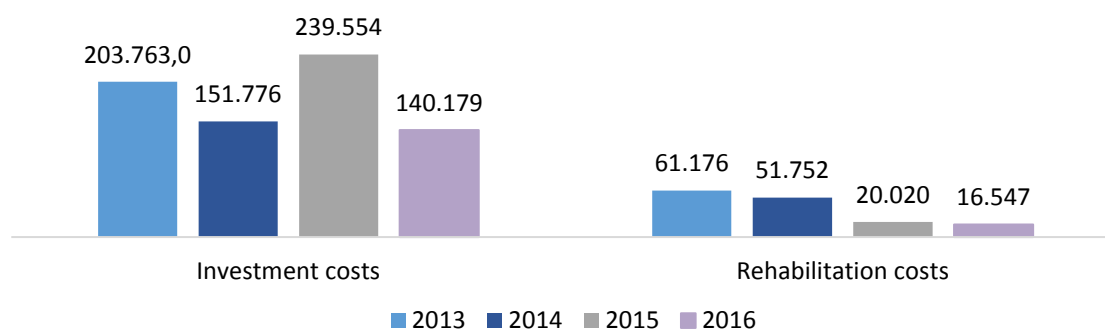


Chart 18- The evolution of the investments and rehabilitation costs for the period 2013-2016 – RON thousand

Transgaz' performance in 2013 - 2016 is also reflected by the evolution of the following indicators:

No.	Indicators	Calculation formula	2013	2014	2015	2016
1.	Profitability indicators					
	EBITDA in total sales	<u>EBITDA</u>	48,22%	48,01%	49,29%	51,43%
		Turnover				
	EBITDA in equity	<u>EBITDA</u>	23,49%	23,35%	21,84%	23,45%
		Equity				
	Gross profit share	<u>Gross profit</u>	28,74%	37,74%	38,39%	40,79%
		Turnover				
	Capital rate of return	<u>Net profit</u>	10,87%	15,10%	13,69%	15,49%
		Equity				
2.	Liquidity indicators					
	Current liquidity indicator	<u>Circulating assets</u>	2,17	3,09	4,10	5,10
		Short-term debts				
	Immediate liquidity indicator	<u>Circulating assets - Stocks</u>	2,06	2,98	3,83	4,82
		Short-term debts				
3.	Risk indicators					
	Degree of indebtedness indicator	<u>Borrowed capita</u>	0,79%	0,00%	0,00%	0,00%
		Equity				
	Interest coverage ratio	<u>EBIT</u>	187,73	616,54	1.903,61	0
		Interest expenses				
4.	Accountancy indicators					
	Days sales outstanding - clients	<u>Average balance - clients x 365 days</u>	97,57	94,18	99,56	125,88
		Turnover				
	Days payable outstanding - suppliers	<u>Average balance - suppliers x 365 days</u>	22,41	17,61	19,32	17,64
		Turnover				

Table 11 – Evolution of profitability, liquidity, risk and management indicators for the period 2013 – 2016

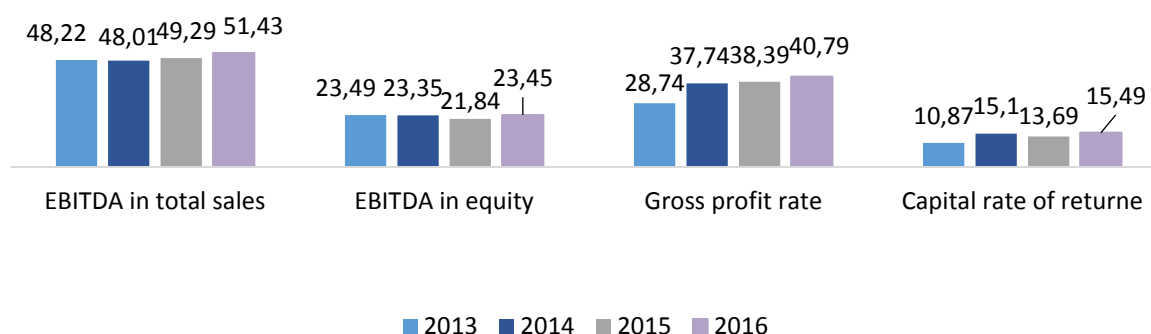


Chart 19 – Evolution of profitability indicators for the period 2013 – 2016

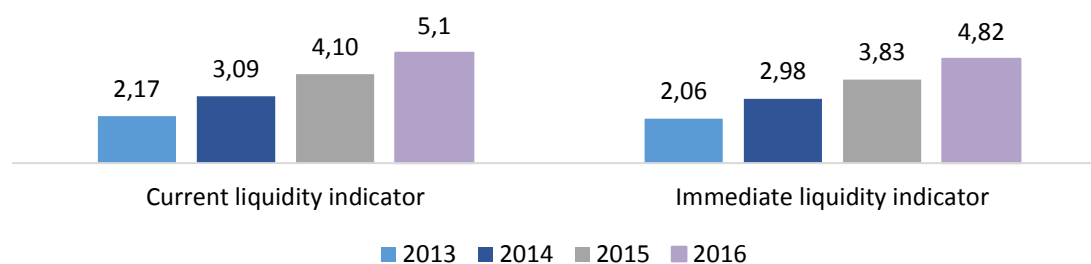


Chart 20- Evolution of liquidity indicators for the period 2013 - 2016

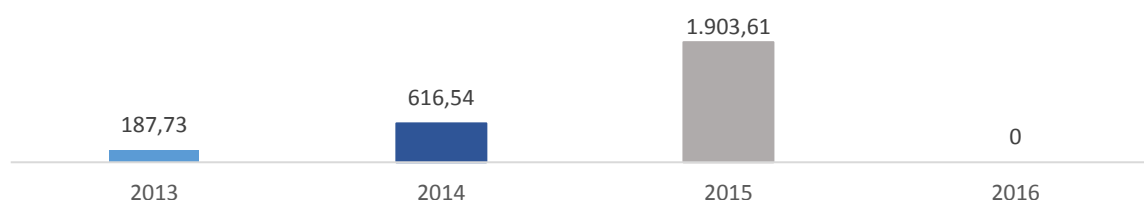


Chart 21- Evolution of risk indicators for the period 2013 - 2016

2.3 Indicators of the investment activity

The investment activity in 2016 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 2016 NTS Repairs, Rehabilitation and Maintenance Programme compared to the 2016 planned level is as follows:

No.	Chapter name	2016 plan	2016 Achievements	%
0	1	2	3	4=3/2*100
Chap. A. NTS REPAIR AND REHABILITATION WORKS (RON)				
1	Scheduled repairs of main pipelines	57.303.444	7.566.291	13,20%
2	Rehabilitation of Regulating and Metering Stations (MRS)	1.000.000	653.782	65,38%
3	Rehabilitation of Technological Nodes	-	-	0,00%
4	Rehabilitation of Compressor Stations	-	-	0,00%
5	Repairs of special facilities of the SRMs and SCVs	-	-	0,00%
6	Rehabilitation of cathodic protection systems (CPS)	340.260	-	0,00%
7	Repairs of TC equipment	15.000	-	0,00%
8	Repairs of buildings	3.191.398	276.691	8,67%
TOTAL WORKS		61.850.102	8.496.764	13,74%
Cap. B. NTS MAINTENANCE SERVICES (RON)				
TOTAL SERVICES		31.997.781	10.605.140	33,14%
TOTAL WORKS + SERVICES (third parties) PRRASM		93.847.883	19.101.904	20,35%
Transfers from OVERHAULKS in investments			(2.555.397)	
TOTAL REPAIRS, UPGRADING, SERVICES		93.847.883	16.546.507	17,63%

Table 12- Implementation of the 2016 NTS Repairs, Rehabilitation and Maintenance Programme

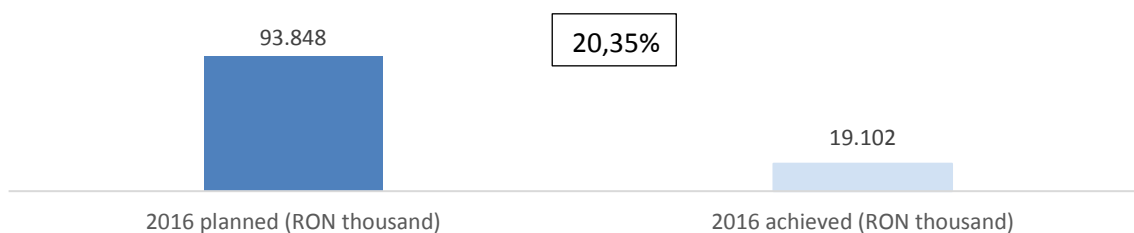


Chart 22 - PRRASM Achieved vs PRRASM Planned - 2016

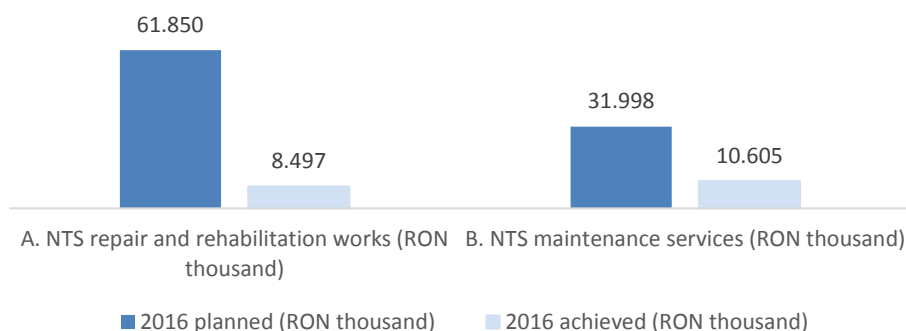


Chart 23- PRRASM Achieved vs PRRASM Planned - 2016

The 2016 NTS Repairs, Rehabilitation and Maintenance Programme with an allocated value of RON **93.847.883** records a level of budgetary execution for 2016 of RON **19.101.904** which represents the achievement of the plan up to **20,35%**.

The low values recorded at chapter A. “**Repair/rehabilitation works**” are included due to the following:

- During the cold season period (November-March) maintenance works are not planned nor executed and neither current works or connection works requiring the interruption of gas supply for a continuous period surpassing 12 working hours stipulated also by Law no 346/2007 art 12(2). Therefore all the works requiring the cesing of the supply thourgh the pipelines were stopped in order to offer transmission capacity and safety in the operation of the NTS;
- Difficulties encountered in the preparation of the documentations for the promotion of the procurement procedures;
- Difficulties in obtaining construction permits and approvals from institutions and authorities;
- Termination of some contracts terminated because of the constructors’ fault;
- Problems related to the access in the filed in the relationship with the land owners.

Part of the values of the achievements related to the maintenance program come from the area of **maintenance services** to ensure corrective actions (repairs) and from ensuring the necessary materials and equipments for the contracted works. These are services which are difficult to predict, the budget for them being allocated only whenever necessary.

The 2016 modernization and investment development programme is as follows:

Chapter	Work category	Programme 2016	Achieved 2016	%
		Value (RON thousand)	Value (RON thousand)	
0	1	2	3	4=3/2*100
Chap. A	NTS modernization and development works	642.362	90.987	14,16
1.	Modernization and retrofitting of the National Gas Transmission System	42.559	11.378	26,73
1.1.	<i>Modernization of the technological installations afferent to the National Gas Transmission System (MRS, VCS, MP, TN)</i>	31.500	9.088	28,85
1.2.	<i>Data acquisition and control system</i>	11.059	2.290	20,71
2	Development of the National Gas Transmission System and related facilities	599.803	79.609	13,27
2.1.	<i>Gas transmission pipelines</i>	136.845	26.536	19,39
2.2.	<i>Interconnection pipelines</i>	49.000	45.384	92,62
2.3.	<i>Transmission capacity increasing</i>	248.010	853	0,34
2.4.	<i>Surface construction and installation works for MRS</i>	37.485	1.449	3,87
2.5.	<i>Cathodic protection stations</i>	785	5	0,64
2.6.	<i>Information technology and telecommunications installations</i>	121.978	4.543	3,72
2.7.	<i>Surface installation and construction works for odorization</i>	4.700	589	12,53
2.8.	<i>Electric installations and networks</i>	1.000	250	25,00
Chap. B	Own assets modernization and development works	73.540	16.933	23,03
1.	Other works	22.786	2.812	12,34
2.	List of units, equipment and installations	50.254	14.037	27,93
3.	Land procurement	500	84	16,80
Chap. C	NTS access works	6.000	7.273	121,22
	Works not included in the plan (transfers from PRRASM +previous years)	0	4.629	
TOTAL PMDI		721.902	119.822	16,60
TOTAL PMDI without BRUA and MOLDOVA		473.892	119.822	25,28
Expenses related to studies and projects		30.038	12.951	43,12
Other investment costs			7.406	
TOTAL INVESTMENTS		751.940	140.179	18,64

Table 13- Achievement of 2016 Investment Programme

As compared to the total value of the upgrading and development programme amounting to RON **721.902.260**, the total value of the achievements is of RON **119.822.424**, which represents a **16,60%** achievement degree.

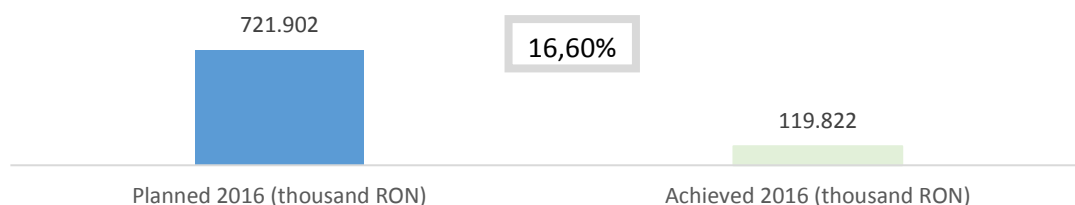


Chart 24- 2016 investment achievement vs 2016 Investment Programme

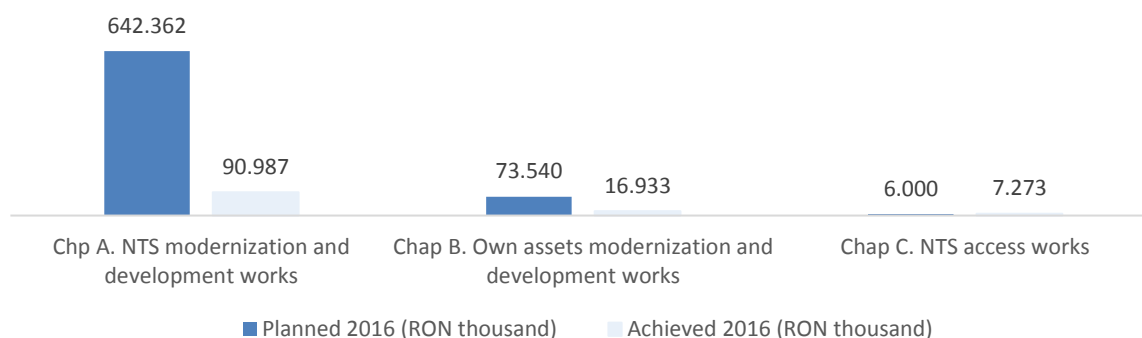


Chart 25- 2016 achievements vs 2016 PMDI programme by chapters

The value of the investment fund for 2016, approved in the revenue and expense budget for 2016 is RON 721.902.260. The value of the achievements of RON 119.822.424 includes also the amount of RON 7.273.216 representing the works related to the connection to the NTS of new consumers of which RON 2.861.236 achieved based on the NTS access regulation approved by GD no 1043/2004 and RON 4.411.979 achieved from the funds allocated by the investment program for 2016.

It is worth mentioning that the financing sources for the initiation of the **BRUA Project and the Development of the NTS in the North-Eastern area of Romania** were also included in the PMDI as well as the assurance of the transmission capacity towards the Republic of Moldova, amounting to **RON 248.010** which is 34% of the total program, but such projects will be implemented as of 2017, after the construction permits are obtained. At the same time the Information Technology and Communication Division requested the inclusion in the PMDI of the investment related to information technology and telecommunications (Annex 5 of the PMDI) summing up **RON 121.978 thousand** representing 17% of the total amount of the program, but in the end the amount of the achievements was only of RON 4.542,81 thousand of the allocated amount.

To sum up, the amounts allocated for BRUA, Moldova and Annex 5 (out of which the achievements were deducted) sum up over 50% of the total program.

The causes that led to a fulfilment of the investment Programme in a percentage of only 16,60% 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 2016 investment modernization and development programme in a percentage of only 16,60%, 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 Mediaș was the implementation of the Data control and acquisition System (SCADA), which was also 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.

Considering:

- The completion of the implementation of the SCADA project;
- The warranty/maintenance period following the end of the Grant Agreement 17095/2009;
- The durability period arising as a result of the end of the Grant Contract 5 T/2012;
- The necessity to thoroughly monitor from a technological point of view the interaction of the industrial systems implemented at the level of the NTS (SCADA system, automation and control systems, etc.);

The company's management decided by the Decision of the Board of Administration HCA 29/2016 to establish within the Operation Division of the Automations and SCADA Unit. The main activities of the SCADA PMU/ Automations and SCADA Unit in 2016 were the implementation of the provisions of the contracts:

Supply contract no. 17095/2009 – „SCADA System for the national gas transmission system”:

- On 15.01.2016 the Report on the Commissioning of the „SCADA System for the national gas transmission system” was successfully concluded following the examination of the submitted documentation, of the technological probes and the examination in the field of the executed works;
- According to the provisions of the Supply contract no. 17095/2009, during 2016, to be continued until the end of 2018, the Consortium carries out under the direct surveillance of the representatives of SCADA PMU /Automations and SCADA Unit specific maintenance/guarantee activities related to the „SCADA System for the national gas transmission system”.

Grant Agreement 5T/2012 – „Implementation of a surveillance and automated data procurement system in the entire gas transmission system – SCADA”:

- In quarter I 2016 the documents related to the Application for Reimbursement no 3 – Final for the amount of RON 7.754.616,84 according to the specifications of the Grant agreement 5T/2012;
- In line with the reimbursement schedule, on 26.02.2016 the documents related to the Application for Reimbursement no 3 – Final for the amount of RON 7.754.616,84 were sent to the intermediate body for energy in view of analysis and approval for payment.

Reimbursement schedule:

Application for reimbursement no.	Requested amount for reimbursement (lei)	Submission date
1.	39.146.126,25	-until 31.03.2013
2.	10.385.059,02	-until la 31.12.2014
3.	7.754.616,84	-until la 29.02.2016
TOTAL	57.285.802,11	

According to the Grant agreement no 5T/2012 SNTGN TRANSGAZ SA has to monitor and annually report the **result indicators** provided in art. 7 A(2) during a 5 years durability period since the commissioning of the SCADA system.

Therefore in the end of 2016 the following result indicators were identified and ready to be reported in line with the undertaken commitments, the quantified indicators fall within the values set under the contract :

Result indicators	The value at the end of the project implementing period	The value at the end of the period related to the mandatory maintenance of the investment
The reduction of the losses from technical incidents by the reduction of duration for the intervention in view of their elimination (reported to the annual average in the reference period 2008-2011; a reduction by 49% is estimated)	51%	51%
The reduction of the losses from non-sealing and pores (reported to the annual average in the reference period 2008-2011; a reduction by 5% is estimated)	95%	67,44%
Elimination of the penalties from legal provisions related to SCADA: - Gas law no. 351/2004; - The transmission license no. 40/2001.	0 lei	0 lei
SCADA integrated system	1	1

Tabel 14- the level of the result indicators on 31.12.2016

Services contract no 408/2014 „Services related to the passing of 76 metering lines from unidirectional metering to bi-directional metering”:

- In May 2016 the procedures related to the Acceptance upon the completion of the works related to the first lot of 38 bi-directional metering lines related to the Services Contract no 408/2014 (stage III of the payment schedule) were executed and completed;
- In December 2016 the procedures related to the Acceptance upon the completion of the works related to the last 38 bi-directional metering lines related to the Services Contract no 408/2014 (stage IV of the payment schedule) were executed and completed;

Participation of the specialized personnel to the implementing and acceptance of the automation systems of the technological nodes:

- Contract 87/23.02.2016 „Upgrading Technological node Ceanu Mare, power supply of the actuation, automation and monitoring of the components”;
- Contract 224/29.04.2016 „Upgrading Technological node Moșu, automation, anti-intrusion and video surveillance”

Participation of the specialized personnel in project teams on the implementation of the system for data transmission at the location:

- Technological node Lețcani (data transmission related to the transmission pipeline Iași-Ungheni) ;
- Giurgiu GMS (data transmission related to the transmission Giurgiu-Ruse) ;
- SMG Negru Vodă Transit 1 (data transmission related to the Transit 1 pipeline).

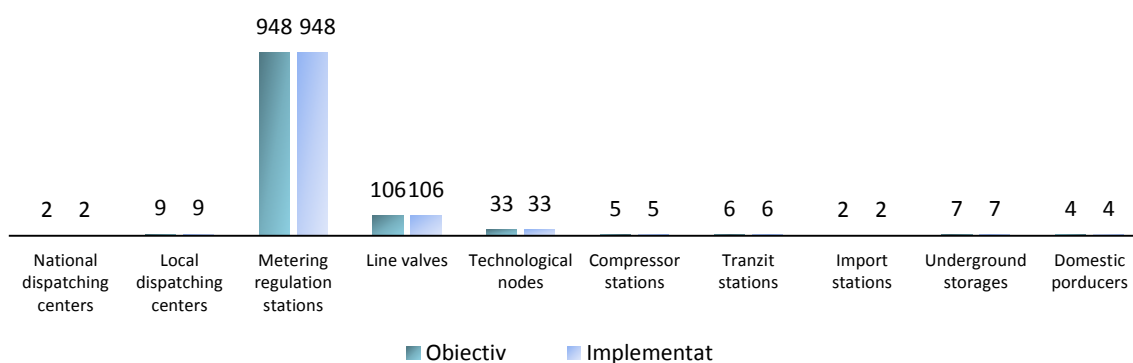
Transmission system	Allocated value (lei)	Settled value (lei)	Percentage Completion
SMG Giurgiu	90.000	90.000	100%
NT Lețcani	45.960	45.960	100%
SMG Negru Vodă	42.960	42.960	100%

Main measures implemented for the fulfillment of the goals of the unit in 2016:

- SCADA PMU/The Automation and SCADA Unit participated in the commissioning of the SCADA system for the National Gas Transmission System Transgaz S.A. making available tests and the necessary documentation;
- SCADA PMU/The Automation and SCADA Unit made available the technical specialized personnel for the surveillance and the appropriate conduct of the maintenance – guarantee of the implemented SCADA system;
- The Automation and SCADA Unit ensured the maintenance of the software applications related to the SCADA system, the updating of the technological schemes HIGH-LEIT, reparameterization of the new equipment in the system, the definition of some new types of reports requested by the users, operators of the SCADA system;
- The Automation and SCADA Unit initiated in quarter IV of 2016 an action for the concentration of all the necessities, development requirements, integration of new equipment in SCADA expressed at the Regional Offices;
- In order to observe the legal provisions and the obligations and commitments/ agreements to which Transgaz SA, as the Operator of the National Transmission System, is a signatory (ANRE orders, intergovernmental agreements, European directives, etc.) the division / department / company conducted a series of technical analysis aimed at identifying possibilities for development/ upgrading of the transmission infrastructure for the purpose and benefit of a modern natural gas market;
- The Automation and SCADA Unit participated as of 2016 in the analysis and identification of the technical methods for development/upgrading of the interconnection points of the NTS with other transmission systems for the integration of the automation systems and SCADA;
- The Automation and SCADA Unit procured spare parts and accessories necessary for the maintenance within the normal operating parameters of the SCADA equipments which are no longer covered by the warranty period.

Main achievements specific to the field of activity of the unit during the period 2013-2016

- All the executed works, all the provided services and the accepted and commissioned products all the technological equipment related to the SCADA System implementation which are monitored and represent the main activity of the SCADA PMU/The Automation and SCADA Unit are reported in the period 2013-2016 as executed and completed based on the following two contracts:
 - Supply Contract no. 17095/2009 „SCADA System for the national gas transmission system”:



- Services contract 408/2014 „Services related to the transformation of 76 metering lines from unidirectional metering to bi-directional metering”:

Payment schedule Services Contract no. 408/2014	
Payment description	Amount (Euro – VAT excluded)
Advance	388.566,60
Submittal of the documentation	388.566,60
Delivery 38 metering lines	259.044,40
Delivery 38 metering lines	259.044,40
TOTAL	1.295.222,00

- In view of the implementation of the „SCADA System for the National Gas Transmission System” Transgaz concluded a grant agreement with the Intermediary Body for Energy – Grant agreement no 5T/2012 „Implementing a supervisory and automatic data procurement within the entire gas transmission system – SCADA” providing the fulfilment of some achievement and result indicators;
- The implementation of the Project/SCADA system Transgaz in line with the Grant Agreement no 5T/2012 was reported as completed on 15.01.2016 the date of the commissioning of the „SCADA system for the National Gas Transmission system” according to the Supply Contract no. 17095/2009. Please find in the table below a detailing of the reported degree of implementation according to the achievement indicators undertaken by the grant agreement:

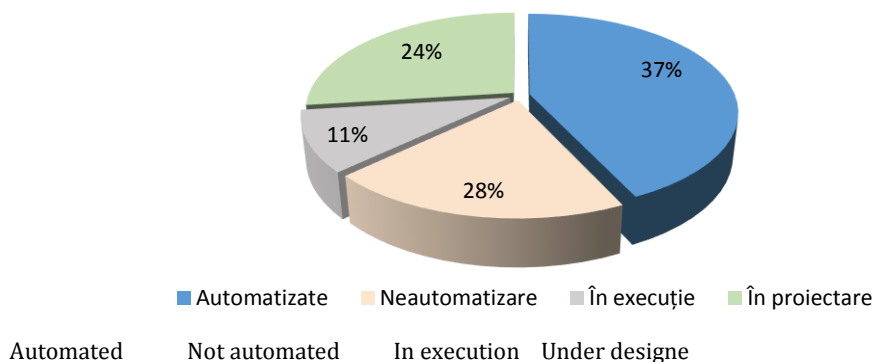
Type of achievement indicator	In the contract	Achieved
National dispatching centre Medias	1	1
Natural gas dispatching centre Bucharest	1	1
Regional offices dispatching centres	9	9
Metering regulation Stations (MRS)	948	948
Line valves	106	106
Technological nodes	33	33
Compressor Stations	5	5
International transit stations	6	6
Import stations	2	2
Underground storages	7	7
Domestic producers	4	4
TOTAL	1.122	1.122

- Participation in project teams related to the NTS objectives which were upgraded or which are undergoing upgrading;

Out of the total 39 Technological Nodes initially provided to be implemented in the SCADA system the works for the upgrading/refurbishment of the following was achieved:

- Technological Node Podișor;
- Technological Node Sâmbotin;
- Technological Node Paltin;
- Technological Node Stâlp 89;
- Technological Node Sărmășel;
- Technological Node Band;
- Technological Node Medieșul Aurit;

Re-furbished Technological Nodes



The stage of the achievement of the actions/projects related to the automation of the National Transmission System:

No.	Action	Stage
1.	FEED preparation on "Power supply and automation" 3 compressor stations for the corridor (BRUA).	Automation and SCADA Unit representatives participate as team members of the team for approval of documentation received from the Contractor. (Deadline according to the Design Contract)
2.	Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor (BRUA - FEED LOT 4 – Pipeline Automation and securing)	Automation and SCADA Unit representatives participated as team members of the design team Completed stage.
3.	Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria corridor- RECAȘ-HORIA section Pipeline Automation and securing)	Automation and SCADA Unit representatives participated as team members of the design team Completed stage.

No.	Action	Stage
4.	Automation and power supply the Technological Node Mosu.	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completion deadline: 26.02.2017
5.	Automation and power supply the Technological Node Ceanu Mare	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Initial completion deadline: 21.11.2016 The completion deadline was extended. The new estimated deadline: 31.03.2017. Completion in progress.
6.	Automation and power supply the Technological Node Sâmbotin	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completion in progress.
7.	Preparation of the Gas Metering Station Giurgiu in view of its commissioning - Power supply installations and automation	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completed: 14.09.2016
8.	Data transmission system and integration in SCADA of the equipment in the Gas Metering Station Giurgiu	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completion deadline: 2017 Acceptance performed. The planning of the commissioning follows. Completion in progress.
9.	Upgrading of the supervisory system Gas Metering Station Negru Voda Transit 1	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completed: 31.10.2016
10.	Completion of the integration of the gas metering supervision system at the Gas Metering Station Ungheni	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completed: 23.09.2016
11.	Adaptation of the Metering Regulating Station Oradea I to the ground - Power supply installations and automation.	Automation and SCADA Unit representatives participate as team members of the team for the monitoring of the design and execution works. Completion deadline: March 2017
12.	Participation to the acceptance for the commissioning of the automation and power supply installations related to the Technological nodes: Band, Sărmașel and the Gas Import Station Medieșu Aurit.	Completion deadline: 2016/2017

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

	Programme 2016	Achieved 2016
Investments, of which:	751.940	140.179
-NTS access works	6.000	7.273
TOTAL INVESTMENT COSTS	751.940	140.179

Table 15-Total investment costs (RON thousand)- 2016

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

	Programme 2016	Achieved 2015
Net profit allocated for own financing	192.689	31.604
Amortization and depreciation	164.920	160.745
Non-cash charges		102.825
EU funds	282.364	135.509
Surplus previous year	613.724	594.534
TOTAL FINANCING SOURCES	1.253.697	1.025.217

Table 16- 2016 investment financing sources (RON thousand)

European funds absorption activity

The activity of absorbing European funds in 2016 was developed mainly for:

- Identifying the financing possibilities from the future period, based on the programs promoted directly by the European Committee and by the funding programs managed by the Management Authorities in Romania;
- Supporting TRANSGAZ' projects with financing potential from Structural Funds;
- 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;
- Preparation of the financing requests and of the related documentations; Preparation of the documents related to the intermediary/final payment requests;
- Surveillance/monitoring of the investments benefiting from community financing;
- Cooperation between the institutions with the domain ministries (Ministry of Economy, Trade and Relations with Business Environment, Ministry of Energy, Funds Ministry) and the financing institutions.

The documents related to the application prepared by EUSTREAM for the Action "Feasibility Study for the Eastring project" were analysed. The action is introduced and coordinated by Eustream as single promoter, 100% shareholder of Eastring B.V., based on mutual agreement and with the full support of the other three project promoters in question: FGSZ Zrt. (HU), SNTGN Transgaz SA (RO) and Bulgartransgaz EAD (BG).

Among the main achievements obtained in 2016 (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 sensitive issues found and the implications of possible 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

The Interconnection Bulgaria – Romania Project is the only project ensuring the transmission of gas from the Southern Gas Corridor Azerbaijan – Turkey – Greece to Austria across Bulgaria and Romania through the section Gas Pipeline from Bulgaria to Austria via Romania and Hungary (BRUA – PCI 7.1.5. 1st PCI list) and is extremely important, at regional level, as after its commissioning, it facilitates the integration of the Southern Corridor gas resources with the Central and Western European Gas Markets.

The works for the construction of the DN 500 Main Danube Undercrossing Pipeline (2,100 m) – based on the contract signed with SC HABAU PPS – (including drilling, pipeline pulling, pressure tests, coupling and commissioning) were completed by 4th November 2016, precisely earlier than the deadline under the Funding Agreement, i.e. 31.12.2016 due to the Constructor’s use of state-of-the-art technologies, of technical solutions perfectly adapted to the Danube undercrossing soil characteristics.

The Back-up Danube Undercrossing Pipeline was completed, tested, accepted and commissioned on 22 December 2016 and thus, the technical conditions for bidirectional gas flows (maximum flow – 1.5 bcma) between Romania and Bulgaria were created. The Gas Metering Stations (GMSs) related both to the Romanian and to the Bulgarian territory were built so as to allow for bidirectional metering so that as soon as the Interconnection Agreement has been signed and the capacity allocation methodology has been endorsed, import and export activities will be possible. The actual length of each Danube undercrossing pipeline is 2.1 km from the valve assembly in Comasca to the one in Marten (Bulgaria).

The Interconnection Bulgaria-Romania estimated aggregate eligible costs amount to Euro 23 mil., out of which Euro 10.9 mil. is allocated to the works on the Romanian territory and Euro 12.8 mil. to the Bulgarian territory. The allocated EEPR grant related to the entire project amounts to Euro 8.9 mil. The Interconnection Bulgaria-Romania is the longest interconnection project in Romania and Europe.

Preparation of the FEED for three Compressor Stations in the corridor PCI 7.1.5 Project

On 19 August 2014, TRANSGAZ submitted an application to the funding entity, i.e. the Innovation and Networks Executive Agency (INEA) - Brussels, Belgium for a grant related to the Preparation of The FEED for three Compressor Stations in the corridor PCI 7.1.5 Project.

On 13 May 2015, TRANSGAZ signed the Grant Agreement no. INEA/ CEF/ ENER/ M2014/ 0025 with INEA with an extended validity term (subject of the funder’s approval) by 30.06.2017.

Based on the provisions of the Grant Agreement, an advance payment of 30% (Euro 455,802.60) of the 50% grant value (Euro 1,519,342.00) which is calculated according to the relevant estimated eligible value, was transferred to Transgaz.

The procedure for the procurement of services for the preparation of the FEED for three Compressor Stations in the corridor PCI 7.1.5 Project was launched on 18.07.2015 and published onto the Romanian Electronic System for Public Procurement. As a result of

the tendering process, the contract was awarded to GBP PANGAZ Sp. zo.o – Poland and signed on 5 May 2016.

Considering GBP PANGAZ' delays in the implementation of the services, TRANSGAZ prepared and submitted the documents required for the extension of the FEED services cost eligibility period to INEA.

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

BRUA Phase I was included in the CESEC list of priority projects, coded as PCI 6.24.2 (under the 2nd PCI list). This phase was defined as ***Development of the National Gas Transmission System on the Romanian Territory on the Bulgaria-Romania-Hungary-Austria route, Podișor - GMS Horia and 3 new compressor stations (Jupa, Bibești and Podișor)***. Following the implementation of Stage 1, a capacity of 1.75 bcma will be enabled towards Hungary (through the interconnection Romania-Hungary) and 1.5 bcma will be enabled towards Bulgaria.

In the context of the Connecting Europe Facility 2015 Programme (CEF 2015, CALL II), on 12 October 2016, TRANSGAZ submitted an application to INEA for grants to fund the eligibility costs related to the first phase construction works.

On 09.09.2016, TRANSGAZ signed the Grant Agreement no. INEA / CEF / ENER / M2015 / 1119593 with INEA. The European Commission, through INEA, allocated Transgaz a grant amounting to Euro 179,320,400.00 for the implementation of **BRUA Phase I**.

By Transgaz Board Decision no. 38/30.09.2016, the BRUA Project Management Unit was approved to be established under the management of the Deputy Director General – coordinator of development and maintenance activities.

The members of the various structures under the Division for EU Funds and International Relations have been actively involved in preparatory actions related to BRUA project implementation: public consultation organization and attendance, active contribution to the work of the team designated to conclude agreements with the relevant impacted land owners.

The Upgrading TCS Șinca and the related installations Project

The project is currently going through the post-implementation monitoring stage. Considering the importance of this stage in order to maintain the relevant funding under the Sectoral Operational Programme "Increase in Economic Competitiveness 2007-2013", the outcome indicators are monitored for a five years' period since the investment completion. The Report on the investment durability for the reference period 01.01.2016 – 30.12.2016 was submitted to the Interim Entity thereby confirming the following:

The project **did not undergo any significant modification**, according to Art. 57 of Regulation (CE) no. 1083/2006 – durability of operations, as far as the following are concerned:

affecting its nature or its implementation conditions or giving to a firm or public body an undue advantage; and

resulting either from a change in the nature of ownership of an item of infrastructure or the cessation of a productive activity.

The investment is maintained in the beneficiary area.

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;
 - The final reimbursement request was submitted in 26 February 2016;
 - The acceptance of the payment was sent in 8 Aprilie 2016 and the financial correction of 5% was rejected;
 - Collaboration in the preparation of the Report for the sustainability of the project;
 - To settle, as for the amendments/relocations of equipments related to the SCADA system, following the discussions with the OIE representatives, that together with the annual report notifications to be sent if there are modifications in the SCADA system.

The Automation, monitoring, data transmission – the Iasi-Ungheni pipeline Project Consultancy granted by TRANSGAZ to the National Agency for Mineral Resources (ANRM) based on the Association Protocol.

- 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.
 - Performance of the preparatory tests in view of the final acceptance;
 - The execution of the 72 hours tests and the final acceptance of the works;
 - The integration of the automation in the SCADA system.

In order to absorb 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;

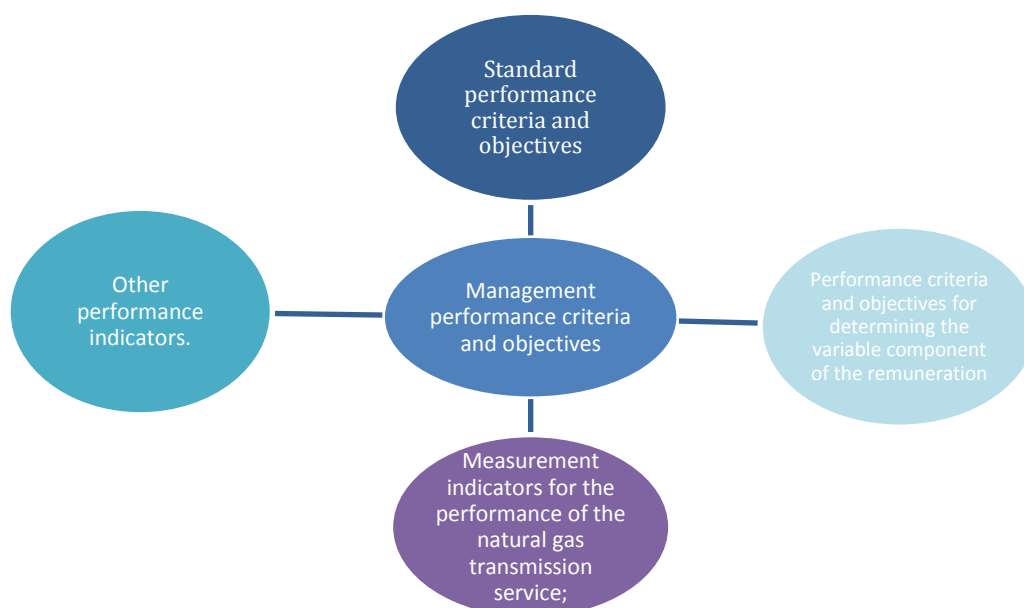
- Analysis of compliance with the eligibility criteria of potential TRANSGAZ projects, according to the 2014 – 2020 Financing Programmes as follows:

The promotion of the funding of some potential TRANSGAZ projects are considered, aiming mainly:

- *The use of the kinetic energy of gas flow in order to obtain electricity;*
- *The possibility to develop facilities to allow (in collaboration with other companies) production and transmission of synthetic natural gas;*
- *The possibility to refurbish the Bățani CS, the first turbocompressor station in Europe, and to record it as historic monument.*
- *The cooperation with firms within the EU in view of the development of some research topic to allow the accession of European funds through the ORIZONT 2020 program.*
- *The increase of the capacity of the company to absorb state of the art technology and to adapt this technology to the needs of the target markets by industrial research activities, feasibility studies, innovation activities;*
- *Sustaining intelligent specialization processes by research activities, feasibility studies, innovation activities;*
- *Increase the competitiveness of the Research – Design Division by attracting external funding, through specific CD projects and support;*
- *Development of the human resources and of the specific infrastructure of the Research-Design Division by CDI projects;*
- *Professional preparation by exchanging experiences or specialty courses within the Operational Program Human Capital – POCU.*

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 2016	Achieved 2016	Achievement degree
Implemented investments –thousand RON	Achieving the programmed level	141.000	143.281	101,62%
EBITDA –thousands RON	Increasing EBITDA	675.539	900.091	133,24%
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel number);	372.217	375.177	100,80%
Overdue payments-thousand RON	Making payments according to contract terms (in current prices)	0	0	100,00%
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	65.075	268.410	24,24%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100%	37%	267,71%
Operating expenses for 1000 RON operating income RON	Decreasing operating expenses for 1000 RON operating income	735,09	630,80	116,53%

Table 17- Degree of fulfilment of standard performance indicators at 31 December 2016

The evolution of the standard performance indicators in the period 2013-2016:

Performance criteria	Performance objective	2013		2014		2015		2016	
		Management Plan	Achieved	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	141.000	143.281
EBITDA – thousand RON	Increasing EBITDA	589.084	715.873	583.753	776.861	619.625	779.579	675.539	900.091
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	372.217	375.177
Overdue payments thousand RON	Making payments according to contract terms (in	0	0	0	0	0	0	0	0

Performance criteria	Performance objective	2013		2014		2015		2016	
		Management Plan	Achieved	Management Plan	Achieved	Management Plan	Achieved	Management Plan	Achieved
	current prices)								
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	65.075	268.410
Technological consumption-%	Meeting the quantities of natural gas representing technological consumption	100 %	62%	100 %	41%	100 %	38%	100 %	37%
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	735,09	630,80

Table 18 – Evolution of performance indicators in the period 2013 – 2016

Performance criteria	Performance objective	Weighting coefficient %	Achievement degree 2016 %	Achievement level in 2016 according to the weighting coefficient
Commissioned investments – thousand RON	Achieving the programmed level	15	101,62%	15,24
EBITDA –thousand RON	Increasing EBITDA	15	133,24%	19,99
Work productivity –RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	100,80%	15,12
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	24,24%	2,42
Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	267,71%	40,16
Operating expenses at 1000 RON operating revenue RON	Decreasing operating expenses for 1000 RON operating income	15	117%	17,48
TOTAL		100%		125,41

Table 19– Level of fulfilment of standard performance indicators in 2016

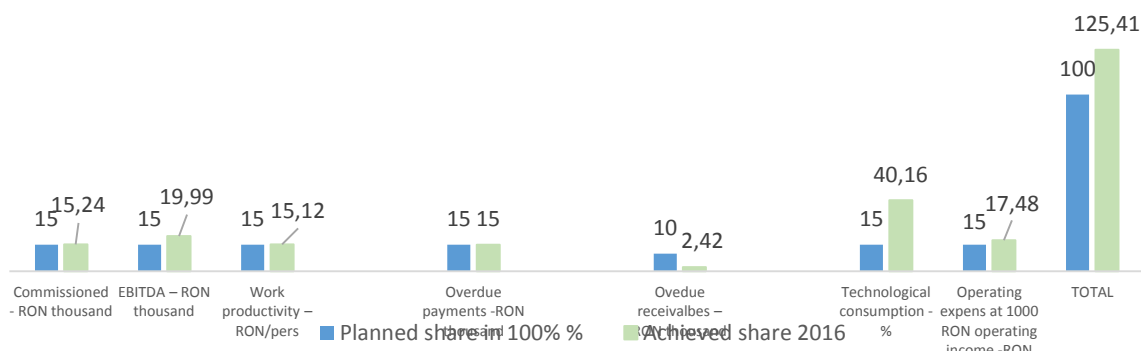


Chart 26- Aggregate level of fulfilment of standard performance indicators in 2016

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

Performance criterion	Performance objective	Management Plan 2016	Achieved 2016	Percent
EBITDA	Fulfilment of the EBITDA target undertaken in the Management Plan	675.539	900.091	133%
Operating expense (without amortisation RON thousand)	Reducing the level of operating expenses (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	1.126.733	972.697	116%
Investments - RON thousand	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	369.200	140.179	38%

Table 20- Degree of fulfilment of performance indicators for determining the variable component of the remuneration in 2016

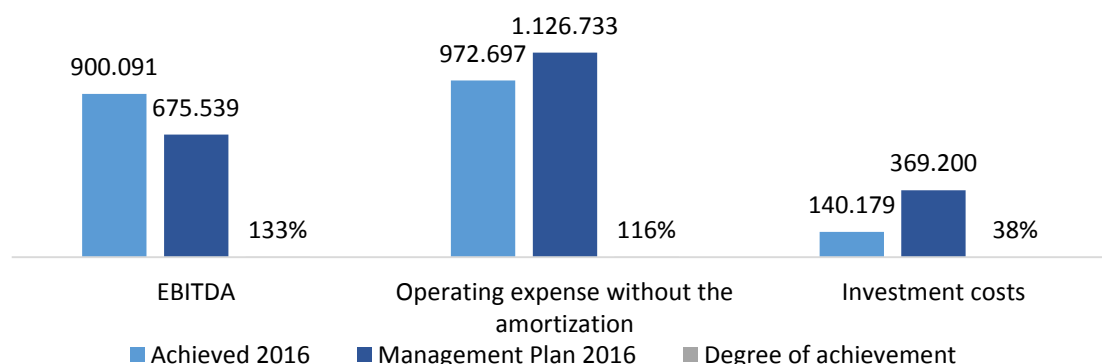


Chart 27 - Level of fulfilment of performance indicators for determining the variable component of the remuneration at 31 December 2016

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 Journal 27 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).

By ANRE Order 161/26.11.2015 The **Performance standard for the gas transmission service** was amended. The new standard setting the obligations of the gas transmission system operator in his relationship with the users of the NTS, with the entities requesting access to the NTS and with ANRE, entered into force on **1 October 2016**.

According to this standard a report on the 9 months period was requested and until 1 November 2017 the report related to the period 1 October 2016 – 30 September 2017 should be submitted.

Performance indicator (no. article)	Objective	Achievements 9 months 2016
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	maximum 8.3%	7.6%
(art.15 (1) letter (b)) NAP	0.8	0.01
(art.15 (1) letter (c)) NAP _T	0.1	0.00

Table 21 –Achievement of the performance indicators related to the gas transmission service for 2016

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

Total number of calls received in 9 months **2016** -105 calls

Content of the calls:

- Request for information on the method to obtain the opinions for the construction permits - 35 calls;
- Request for the phone number of E-ON Gaz Mediaș/GDF SUEZ - 7 calls;
- Request for information connection to the gas transmission system – 11 calls;
- Request for information related to the route of a gas transmission pipeline on a private property – 11 calls;
- By mistake – 1 call;
- Notification of an event - 1 call;

- Resuming the supply – 9 calls;
- Other issues – 26 calls.

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

Other performance indicators

In 2016, 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.

Transgaz formulated legislative proposals (amendments) to the following regulations:

- Law no. 50 / 1991 on authorizing the execution of construction works; amendments were made to the Chamber of Deputies under no. 4C11 / 654 / 30.09.2014;
- Law no. 297/2004 on the capital market - amendments sent to the Ministry of Public Finance by letter no. 37904 / 15.10.2014, no. 49095 / 12.22.2015;
- Law no. 53/2003 Labour Code; amendments were sent to the Senate and the Ministry of Labour, Family, and Social Protection by letter no. 38070 / 10.16.2014.

In 2016, 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. **Order A.N.R.E. no. 1/18.01.2016** regarding the establishment of interim measures relating to the implementation of Network Code for the National natural gas Transmission System, approved by Order of the President of the National Energy Regulatory Authority no. 16/2013, published in the Official Gazette of Romania, Part I, no. 43/20.01.2016;
2. **Government Ordinance no. 11/27.01. 2016** amending and supplementing the Government Ordinance no. 26/2013 on strengthening the financial discipline at the level of economic operators where the state or administrative-territorial units are majority or sole shareholders or hold directly or indirectly a majority interest published in the Official Gazette of Romania, Part I, no. 68/29.01.2016;
3. **Government Decision no. 66/10.02.2016** amending and supplementing Government Decision no. 925/2006 approving the rules for implementing the provisions concerning the award of public procurement contracts from the Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, public works concession contracts and service concession published in the Official Gazette of Romania, Part I, no. 115 / 02.15.2016;
4. **Competition Law. 21/1996, republished in the Official Gazette of Romania, Part I, no. 153 / 29.02.2016;**
5. **Law no. 20 / 04.03.2016** amending Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, public works concession contracts and service concession published in the Official Gazette of Romania, Part I, no. 171/ 07. 03.2016;
6. **Law no. 21/04.03.2016** regarding the approval of Government Ordinance no. 30/2015 amending and supplementing certain acts in the field of external grants, published in the Official Gazette of Romania, Part I, no. 171/07.03.2016;
7. **A.N.A.P. Instruction no. 1/02.03.2016** on amending the public contract during its validity and compliance with these changes as substantial or insubstantial, published in the Official Gazette of Romania, Part I, no. 171/07. 03.2016;

8. **Order A.N.R.E. no. 7/09.03.2016** on the supplementing of the annex to the Order of the President of the National Energy Regulatory no. 22/2012 for the approval of the Methodology for the approval of prices and regulated tariffs setting in the field of gas, published in the Official Gazette of Romania, Part I, no. 199/17.03.2016;
9. **Government Emergency Ordinance no. 7/16.03.2016** on measures to accelerate implementation of trans-European transmission infrastructure projects and amending and supplementing certain acts, published in the Official Gazette of Romania, Part I, no. 204/18.03.2016;
10. **Government Decision no. 166/16.03.2016** approving the Agreement between the Romanian Government and the European Bank for Reconstruction and Development on the assistance for the implementation of projects financed by EU structural instruments, signed on 2 February 2016 published in the Official Gazette of Romania, Part I, no. 206/21.03.2016;
11. **A.N.R.E. Order no. 9/23.03.2016** to extend the duration of the Order of the President of the National Energy Regulatory Authority no. 58/2015 on the establishment of the regulated tariff for the service of underground storage of natural gas by the National Company for Natural Gas "Romgaz" - S.A. Medias, published in the Official Gazette of Romania, Part I, no. 229/29.03.2016;
12. **Order of the Minister of Environment, Water and Forestry no. 617/25.03.2016** amending and supplementing the Order of the Minister of Environment and Water no. 594/2006 approving the Certificate providing the obligations to the Environment Fund, published in the Official Gazette of Romania, Part I, no. 305 / 04.21.2016.
13. **Order A.N.R.E. no. 14/30.03.2016** regarding the establishment of interim measures relating to the implementation of a Network Code for the National Gas Transmission System, approved by the Order of the National Regulatory Authority for Energy no. 16/2013, published in the Official Gazette of Romania, Part I, no. 239/31.03.2016;
14. **Law no. 53/30.03.2016** amending Law no. 50/1991 on authorizing the execution of construction works, published in the Official Gazette of Romania, Part I, no. 245/01.04.2016;
15. **A.N.A.P. Instruction no. 2/31.03.2016** issued in application of Art. 188 par. (1) a) para. (2) a) and para. (3) a) Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, public works concession contracts and service concession contracts published in the Official Gazette of Romania, Part I, no. 272/ 11.04.2016;
16. **General Secretariate of the Government Order No. 200/02.26.2016** amending and supplementing the Order of the Secretary General of the Government no. 400/2015 approving the Internal Control/managerial Code of the public entities, published in the Official Gazette of Romania, Part I, no. 275/12.04.2016;
17. **General Secretariate of the Government Order No. 201/02.26.2016** approving the Methodological Norms on the coordination, methodological guidance and supervision of the implementation stage of the internal control system development and management of public entities, published in the Official Gazette of Romania, Part I, no. 276/12.04.2016;
18. **Government Emergency Ordinance no. 11/06.04.2016** regarding the establishment of reorganization measures at central government level, published in the Official Gazette of Romania, Part I, no. 285/14.04.2016;
19. **Order of the Minister of European Funds no. 181/04.02.2016** and the Minister of Public Finance no. 473/05.04.2016 approving the Methodological Norms for the application of art. I and VI of the Emergency Government Ordinance no. 34/2015 regulating certain measures to stimulate the absorption of external grants, published in the Official Gazette of Romania, Part I, no. 291/04.18.2016;
20. **Order A.N.R.E. no. 15/20.04.2016** establishing measures for the transmission capacity booking in the interconnection point of the national gas transmission system in Romania with the gas transmission system from Hungary at Csanadpalota published in the Official Gazette of Romania, Part I no. 322/27.04.2016;
21. **Law no. 69/25.04.2016** on green public procurement, published in the Official Gazette of Romania, Part I, no. 323 / 27.04.2016;

22. **Senate Decision no. 63/25.04. 2016** on the proposal for a Regulation of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Regulation (EU) no. 994/2010 - COM (2016) 52 final, published in the Official Gazette of Romania, Part I, no. 325/27.04. 2016;
23. **Law no. 98/19.05.2016** related to public procurement, published in the Official Gazette of Romania, Part I, no. 390/23.05.2016.
24. **Law no. 99/19.05.2016** related to public procurement, published in the Official Gazette of Romania, Part I, no. 391/23.05.2016;
25. **Law no. 100/19.05.2016** on works concessions and services concessions, published in the Official Gazette of Romania, Part I, no. 392/23.05.2016;
26. **Law no. 101/19.05.2016** on remedies and appeals concerning the award of public procurement contracts, sectoral contracts and works concession contracts and service concession, and for the organization and functioning of the National Council for Solving Complaints, published in the Official Gazette of Romania, Part I, no. 393/23.05.2016;
27. **General Secretariate of the Government Order No. 530/20.05.2016** amending and supplementing the Order of the Secretary General of the Government no. 400/2015 approving the Internal Control/managerial Code of public entities, published in the Official Gazette of Romania, Part I, no. 401/26.05.2016;
28. **Law no. 111/27.05.2016** approving Government Emergency Ordinance no. 109/2011 regarding corporate governance of public enterprises, published in the Official Gazette of Romania, Part I, no. 415 / 01.06.2016;
29. **Government Decision no. 394/02.06.2016** approving the Methodological Norms for applying the provisions relating to the award of sectoral/framework agreements of Law. 99/2016 on sectoral procurement, published in the Official Gazette of Romania, Part I, no. 422/06.06.2016;
30. **Government Decision no. 395/02.06.2016** approving the Methodological Norms for the application of provisions concerning the award of public procurement contract / framework agreement of Law. 98/2016 on public procurement, published in the Official Gazette of Romania, Part I, no. 423/06.06.2016;
31. **A.N.A.P. Order no. 264/08.06.2016** establishing the selection methodology for ex-ante evaluation of tender documentation related to contracts/framework agreements covered by art. 23 para. (2) of the Annex to the Government Decision no. 395/2016 approving the Methodological Norms for the application of provisions concerning the award of public procurement contracts/framework agreements of Law. 98/2016 on public procurement, ie sectoral contracts/framework agreements falling within Article sector. 25 para. (2) of the Annex to the Government Decision no. 394/2016 approving the Methodological Norms for applying the provisions relating to awarding sectoral contracts/ framework agreements of Law. 99/2016 on sectoral procurement and to define their interaction with audited contracting authorities/entities, published in the Official Gazette of Romania, Part I, no. 432/09.06.2016;
32. **Government Decision no. 448/02.06.2016** amending and supplementing Government Decision no. 957/2015 on the organization and functioning of the Ministry of Economy, Trade and Relations with the Business environment, and amending other laws, published in the Official Gazette of Romania, Part I, no. 474/ 24.06.2016;
33. **Government Emergency Ordinance no. 28/28.06.2016** amending and supplementing the Law on electricity and natural gas no. 123/2012 published in the Official Gazette of Romania, Part I, no. 487/30.06.2016.
34. **GD no. 448** amending and supplementing Government Decision no. 957/2015 on the organization and functioning of the Ministry of Economy, Trade and Relations with the Business environment, and amending other laws, published in the Official Gazette no. 448/24 June 2016 Part I.
35. **Decision no. 461 of 28 June 2016** amending the Annex to the Government Decision no. 488/2015 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 to produce thermal energy Used in Cogeneration plants and heating plants for household

- consumption, and between 1 July 2015 and 30 June 2016 Published in Official Journal no. 487/30 June 2016, Part I;
36. **Government Emergency Ordinance no. 28** Amending the Law for electricity and natural gas no. 123/2012 published in the Official Gazette no. 487/30 June 2016, Part I.
 37. **ANRE Order no. 31** amending and supplementing the methodology for establishing the regulated revenue, total revenue and tariffs for gas transmission approved by Order of the President of the National Energy Regulatory no. 32/2014, published in Official Gazette no. 511/7 July 2016, Part I.
 38. **GD no. 478** amending and supplementing the Methodological Norms of Law no. 544/2001 on free access to public information approved by Government Decision no. 123/2002 published in Official Gazette no. 516/8 July 2016, Part I.
 39. **Law no. 148/12.07.2016** amending and supplementing Law no. 50/1991 on authorizing the execution of construction works, published in the Official Gazette of Romania, Part I, no. 534/15.07.2016.
 40. **Law no. 154/15.07.2016** regarding the approval of Government Ordinance no. 11/2016 amending and supplementing Government Ordinance no. 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are majority or sole shareholders or hold directly or indirectly a majority shareholding, published in the Official Gazette of Romania, Part I, no. 540/19.07.2016.
 41. **Order of the President of the National Energy Regulatory Authority no. 36/19.07.2016** regarding the modality of determining the annual minimum stock level of natural gas for licensees operating gas transmission systems, published in the Official Gazette of Romania, Part I, no. 551/21.07.2016.
 42. **Order of the President of the National Energy Regulatory no. 35/19.07.2016** approving the methodology for determining the annual minimum gas stock level for licensees of natural gas supply, published in the Official Gazette of Romania, Part I, no. 552/21.07.2016.
 43. **Order of the President of the National Energy Regulatory Authority no. 34/07.19.2016** approving the Methodology for transmission capacity booking and the tariff setting for the gas transmission services through the Isaccea - Negru Voda, published in the Official Gazette of Romania, Part I, no. 560/25.07.2016.
 44. **Order no. 1072 of the Minister of Public Finance** on the establishment of the specialized directorate for overseeing the implementation of the provisions of GEO 109/2011 on corporate governance of public enterprises, published in the Official Gazette no. 575/28.07.2016, Part I.
 45. **ANRE Order no. 38** concerning the scheduling of the transmission capacity booking in the entry/exit points in/out of the national gas transmission system for the gas year 2016-2017, published in the Official Gazette no. 599/05.08.2016, Part I.
 46. **ANRE Order no. 39** on the approval of the regulated revenue, total revenue and transmission tariffs for natural gas transmission activity through the National Transmission System, published in Official Gazette no. 617/11 August 2016 Part I.
 47. **ANRE Order no. 40** approving the total income and transmission tariffs for the gas transmission through the gas transmission pipelines Isaccea 1 - Negru Voda 1 published in the Official Gazette no. 617/11 August 2016 Part I.
 48. **Government Decision no. 571** for the approval of the building and construction categories which are subject to approval and/or authorization related to fire safety, published in the Official Gazette no. 628/16.08.2016, Part I.
 49. **ANRE Order no. 43/2016** amending ANRE Order no. 40/2016 approving the total income and transmission tariffs for the gas transmission through the gas transmission pipelines Isaccea 1 - Negru Voda 1 published in the Official Gazette no. 654/25.08.2016, Part I.
 50. **ANRE Order no. 44/2016** for the extension of the period referred to in Art. 1-4 Article 10 and 11 of the ANRE President Order no. 14/2016 on the establishment of provisional measures on implementation of the Network Code related to the national gas

transmission network, approved by ANRE Order no. 16/2013, published in Official Gazette no. 662/29.08.2016, Part I.

51. **ANRE Decision no. 1423** on the designation of SC Development Networking Group S.A. to operate the natural gas distribution system in the area Zimnicea, belonging to the Mayorality Zimnicea, Teleorman County, published in the Official Gazette no. 667 /30.08.2016, Part I.
52. **Government Emergency Ordinance no. 53/2016** amending and supplementing art. 14 of G. Ordinance no. 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative - territorial units are majority or sole shareholders or hold directly or indirectly a majority shareholding, published in the Official Gazette no. 725/20.09.2016, Part I.
53. **Government Emergency Ordinance no. 58** amending and supplementing certain acts impacting the public procurement field published in the Official Gazette no. 738/ 22.09.2016, Part I.
54. **ANRE Order no. 45/2016** approving the Regulation for undertakings certification to design, construct and verify electrical installations, published in the Official Gazette no. 730/21.09.2016, Part I.
55. **Law no. 10/1995** regarding quality in constructions, republished, published in the Official Gazette no. 765/30.09.2016, Part I.
56. **GD no. 683/2016** on the designation of European Critical Infrastructure and amending GD no.301 / 2012 approving the Methodological Norms for the application of Law no. 333/2003 on the protection of objectives, goods, values and persons, published in the Official Gazette no. 764/30.09.2016, Part I.
57. **Government Emergency Ordinance no. 64/2016** amending and supplementing the Law on electricity and natural gas no. 123/2012, published in Official Gazette no. 801 / 11.10.2016, Part I.
58. **GD no. 722/2016** approving the Methodological Norms for the application of certain provisions of GEO no. 109/2011 regarding corporate governance of public enterprises, published in the Official Gazette no. 803/12.10.2016, Part I.
59. **Government Emergency Ordinance no. 68/2016** amending and supplementing Law no. 211/2011 on waste regime, published in Official Gazette no. 823/ 18.10.2016, Part I.
60. **Law no. 184/2016** on the establishment of a mechanism to prevent conflicts of interest in the award of public procurement contracts published in the Official Gazette no. 831/20.10.2016, Part I.
61. **Law no. 185/2016** on certain measures necessary for the implementation of projects of national importance in the natural gas sector, published in the Official Gazette no. 848 / 10.25.2016, Part I (Law BRUA)
62. **ANRE Order no. 75/2016** amending and supplementing the NTS Network Code, approved by ANRE Order no. 16/2013, published in the Official Gazette no. 866/ 10.31.2016, Part I.
63. **Law no. 197/2016** approving Government Emergency Ordinance no. 22/2014 amending and supplementing Law no. 50/1991 on authorizing the execution of construction works, published in the Official Gazette no. 874 / 01.11.2016, Part I.
64. **GD no. 844/2016** on the approval of measures for achieving safety stocks of the national power system in relation to fuels for the cold season and volume of water in reservoirs called winter energy program to ensure safe operation and stability of the national power system in the period 15 November 2016-15 March 2017 and other measures regarding the safe and secure operation of the NES, published in Official Gazette no. 919/15.11.2016, Part I.
65. **Government Emergency Ordinance no. 77/2016** amending and supplementing Government Emergency Ordinance no. 40/2015 on the financial management of EU funds for the programming period 2014-2020, published in Official Gazette no. 920/11.16.2016, Part I.

66. **ANRE Order no. 86/2016** approving the Framework Convention concluded between transmission system operator and natural gas trading participants to enter the NTS, published in the Official Gazette no. 933 / 21.11.2016, Part I.
67. **ANRE Order no. 88/2016** establishing measures for capacity booking transport interconnection points NTS in Romania natural gas transportation systems in the Member States of the European Union neighboring Romania, published in the Official Gazette no. 948 / 11.24.2016, Part I.
68. **Law no. 224/2016** amending and supplementing Law no. 213/1998 on public property goods, published in Official Gazette no. 936 / 22.11.2016, Part I.
69. **Law no. 233/2016** on public - private partnership, published in Official Gazette no. 954 / 11.25.2016, Part I.
70. **GD no. 877/2016** amending and supplementing Government Decision no. 500/2011 on general registry of employees and for uniform application of legal provisions, published in the Official Gazette no. 963/28.11.2016, Part I.
71. **Order no. 2844/2016 MFP** approving Accounting Regulations compliant with IFRS Tax, published in the Official Gazette no. 1020/19.12.2016, Part I.
72. **Order no. 202/2016 of the Minister of Internal Affairs** for the approval of the Framework Structure of the regulation for the management of emergency situations, published in the Official Gazette no. 1033/22.12.2016, Part I.
73. **Order no. 103 of December 7, 2016** amending and supplementing Regulation for authorizing the economic operators active in the natural gas sector, approved by Order of the President of the National Energy Regulatory Authority no. 98/2015, published in the Official Gazette no. 1033/2016, Part I.
74. **Emergency Ordinance no. 100 of 15 December 2016** amending and supplementing Law no. 350/2001 on regional planning and the Law no. 50/1991 on authorizing the execution of construction works, published in the Official Gazette no. 1052/27.12.2016, Part I.
75. **Decision no. 907 of November 29, 2016** on the stages of design and the framework content of technical and economic documents related to the objectives/investment projects financed from public funds, published in the Official Gazette no. 1061/29.12.2016, Part I.

The situation of the amendments/legal proposals formulated in 2016 relevant for the activity of Transgaz:

Primary legislation:

1. The „BRUA” bill (law)
Status: it turned into Law no. 185/25 October 2016 on required measures for the implementation of gas projects of national importance
2. Proposed amendments to GEO no. 22/2014 for the amendment of Law no. 50/1991 on the licensing for construction works implementation, as republished
Status: approved by Law no. 197/2016
3. Amendments to Power and Gas Law no. 123/2012
Status: the proposals were aggregated and submitted to the Commission for Industry and Services (the Chamber of Deputies).
4. Opinion for Draft emergency ordinance on measures for streamlining the implementation of trans-European infrastructure projects as well as for the amendment of various laws
Status: It became GEO 7/2016 on measures for streamlining the implementation of trans-European infrastructure projects as well as for the amendment of various legislative acts to Law no. 50/1991 on the licensing of construction works and Order 47/2003 on the approval of the procedure for the issuance of the permit authorizing works for constructions located in the vicinity of oil and gas objectives/systems and it was endorsed by Law no. 241/29 November 2016.

5. Draft legislative act on the arrangement of the maritime space for the transposition of Directive 2014/89/EU

Status: it became Ordinance no. 18 dated 29 August 2016 on the arrangement of the maritime space.

6. Point of view on the emergency ordinance for the amendment of art. 5 and art. 51 of Government Ordinance no. 36/2006 on measures for the operation of centralized systems for the supply of thermal energy to population

Status: it became Emergency Ordinance no. 67/2016 for the amendment of art. 51 of Governmental Ordinance no. 36/2006 on measures for the operation of centralized systems for the supply of thermal energy to population

7. Notes and proposals for the amendment of the Manual on the authorization procedure applicable to Projects of Common Interest

Status: the final form of the manual was perfected.

8. Protocol of the National Agency for Cadastre and Land Registration according to Law no. 185/2016 on required measures for the implementation of gas projects of national importance

Status: the final form of the protocol was negotiated and signed

9. Proposals for the amendment of the Order for the approval of the simplified procedure for archaeological research and for the issuance of the relevant required licenses as well as for the issuance of the archaeological discharge certificate upon the implementation of national importance projects, issued by the Ministry of Culture

Status: Transgaz submitted proposals in this respect.

Secondary legislation (Orders of the President of the National Energy Regulatory Authority)

Opinions and proposals for amendments were submitted within the public consultation procedure for the following legislative acts:

1. Order on the establishment of measures for the implementation of Regulation (EU) no. 984/2013 of the Commission dated 14 October 2013 for the establishment of a network code on capacity allocation mechanisms for gas transmission systems, amending Regulation (EC) no. 715/2009 of the European Parliament and of the Council;

2. Order for the establishment of additional measures for capacity booking on the Isaccea-Negru Voda pipelines and for the approval of the tariff setting methodology for gas transmission services;

3. Order no. 34/19.07.2016 on the approval of the Methodology for capacity booking and for setting gas transmission tariffs related to Isaccea-Negru Voda pipelines;

4. Order for the approval of the Regulation on capacity booking in relation to National Gas Transmission System future entry/exit points;

5. Order for the approval of technical standards for design, construction and operation of gas supply systems;

6. Order for the approval of means of allocating production-resulted gas amounts necessary for covering the consumption of household consumers and of the thermal energy producers, only for the gas quantities used for the production of thermal energy within co-generation plants and thermal power plants, intended for population for the period 1 November 2016 – 31 March 2017;

7. Order for the approval of the Regulation on the connections to the gas transmission system;

8. Order for capacity booking related to entry/exit points;

9. Order for the approval of the procedure for the change in the gas supplier by the end consumer;

10. Order on the regulation for the authorization of the economic operators conducting business in the gas sector and of the framework conditions for license validity, as approved by Order no. 98/2015 of the President of the National Energy Regulatory Authority;
11. Order for the approval of the regulation for the accreditation of project proofers and technical experts for gas objectives/systems, as amended.
12. Order for the approval of the regulation for the metering of the gas quantities circulated across Romania;
13. Order for the establishment of measures for capacity booking for the points of interconnection between the Romanian National Gas Transmission System and other EU gas transmission systems.

Activity related to the compliance with the requirements of the European regulations and to the improvement of the national regulatory framework

Harmonization with European regulations and enhancement of national regulations

I. Harmonization with European regulations

Between 2013 and 2015 three new European regulations became applicable, completing the Third Energy Package:

1. Regulation (EU) No. 984/2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems.

The Regulation is applicable as of 1 November 2015 and refers to the EU Member States cross-border interconnection points.

For the Csanadpalota (RO-HU) interconnection point Transgaz implemented the requirements of the Regulation from December 2014 within a pilot project on the early implementation of this regulation.

For the Negru Vodă 1, 2 and 3 interconnection points the Regulation implementation process will be coordinated with the existing transmission contracts valid for the transit pipelines. Thus at the moment steps are taken for the implementation of the regulation with regard to the Negru Vodă 1 and 2 points starting with the next gas year (2016 – 2017).

2. Regulation (EU) No. 312/2014 establishing a Network Code on Gas Balancing of Transmission Networks.

For implementing this Regulation, Transgaz prepared the Report on the application of the interim measures according to the Regulation. The Report was approved by ANRE by Decision 2296/11.11.2015 of the ANRE President.

The Report on the application of the interim measures will be updated and sent for analysis to ANRE in June 2016, following to be applied in the following gas year.

3. Regulation (EU) No. 2015/703 establishing a network code on interoperability and data exchange rules.

This Regulation will be applied as of 1 May 2016 at the EU Member States cross-border interconnection points.

At the Csanadpalota (RO-HU) point the Regulation is applied since December 2015 at the same time with the conclusion of the Interconnection Agreement between Transgaz and FGSZ, the Hungarian transmission system operator.

For the Negru Vodă 1 and 2 (RO-BG) points it is planned the negotiation and conclusion of the interconnection agreements until 1 May 2016.

II. Enhancement of national regulations

1. Revision of the Network Code

- ✓ Between 31.12.2015 and 14.01.2016 proposals and comments were sent to ANRE regarding the draft order establishing interim measures on the implementation of the Network Code.
- ✓ By Letter DG.4638/01.02.2016 it was sent the detailed plan of measures and the related calendar to be implemented by Transgaz until 1 April 2016 to adapt the informational platform to the requirements of the Network Code.
- ✓ By Letter DEc. 5345/05.02.2016 Transgaz submitted to ANRE the Methodology for the allocation to the network users of the difference between the costs and revenue from balancing.
- ✓ By Letter FAX/DG/DRL.5726/08.02.2016 Transgaz sent to the regulatory authority the procedures for the determination of the following parameters:
 - a) Energy of technological consumption gas localised - established;
 - b) Energy of technological consumption unlocalised - estimated;
 - c) Energy of gas related to NTS loss;
 - d) Variation of energy of linepack.
- ✓ By Letter FAX/DG/DRL.7487/17.02.2016 Transgaz sent to the regulator a summary of the main/general aspects and of the specific provisions of the Network Code raising implementation issues.
- ✓ By Letter FAX/DG/DRL. 1049/07.03.2016 Transgaz sent:
 - a) A summary of the problems identified at the analysis for the implementation of the Network Code;
 - b) A proposal for the amending of the Network Code;
 - c) A proposal for the amending of Order 1/2016 of the ANRE President.
- ✓ By Letter FAX/DG/DRL. 11422/11.03.2016 Transgaz sent additional reasons for the proposal to amend Order 1/2016 of the ANRE President.
- ✓ On 14.03.2016 Transgaz held a market information session regarding the proposal to amend the Network Code and Order 1/2016 of the ANRE President.
- ✓ Following the opinions of the ANRE representatives and of market company representatives, Transgaz requested ANRE by Letter FAX/DG/DRL.12485/17.03.2016, the withdrawal from the public debate of the proposal to revise the Network Code.
- ✓ Between April and June 2016 discussions were held with the producers and operators of the underground storages, especially on the allocation of gas quantities metered by NTS entry points from the production facilities and from underground storages, and on nomination matching.
- ✓ Participation in the Trilateral Work Group, the Ministry of Energy-ANRE-TRANSGAZ, starting with April 2016. The aim of this work group is to create a gas market model by revising Law 123/2012 and the Network Code.
- ✓ By Letter FAX/DG/DRL.27898/16.06.2016 it was requested the postponing of the 15.06.2016 deadline for submission of updated version of the Report on the implementation of the interim measures according to Regulation (EU) 312/2014. The new deadline requested is the end of QIII of gas year 2016-2017;
- ✓ Participation on 17.08.2016 to the bilateral meeting between ANRE and SNTGN Transgaz SA to identify the next necessary steps, ensuring appropriate performance of nomination, matching and allocation.
- ✓ Following discussions on 22.07.2016, the management of the company decided to prepare a proposal containing three revision versions regarding the Network

Code. The proposal was prepared within the OWG and was sent to ANRE by letter FAX/DG/DRL.34715/27.07.2016.

- ✓ By Letter FAX/DG/DRL.39554/29.08.2016 SNTGN Transgaz SA sent to ANRE an updated version of the third revision version of the Network Code, sent by Letter FAX/DG/DRL. 34715/27.07.2016.
- ✓ By Letter FAX/DG/DRL 44.446/27.09.2016 SNTGN Transgaz SA sent to ANRE a proposal for the amending of the Network Code regarding gas allocation at the entrance points from production facilities (Art. 66 and Art. 67).
- ✓ By Letter FAX/DG/DRL 45.109/30.09.2016 SNTGN Transgaz SA sent to ANRE a revised proposal for the amending of the Network Code regarding gas allocation at the entrance points from production facilities (Art. 66 and Art. 67).
- ✓ Following the public consultation of the draft order for the amending and supplementation of the Network Code by Letter FAX/DG/DRL 47.790/17.10.2016 SNTGN Transgaz SA sent to ANRE proposals and comments and requested a bilateral meeting with ANRE.
- ✓ Participation in ANRE-SNTGN Transgaz SA bilateral meeting on 19.10.2016 for the analysis and clarification of the proposals regarding the draft order.
- ✓ By Letter FAX/DG/DRL 48.623/21.10.2016, SNTGN Transgaz SA sent to ANRE a new proposal for the amending and supplementing the draft order. The principles agreed within the ANRE-Transgaz bilateral meeting of 19.10.2016 were considered at the preparation of these proposals:
 - NTS entry points gas allocation principle – identical at all points;
 - the principles of receiving, processing and gathering information for approving nominations remain unchanged.
- ✓ Participation in the 24.10.2016 meeting held by ANRE following the public consultation regarding the draft order for amending and supplementing the Network Code.
- ✓ By Letter DO/49892/28.10.2016, SNTGN Transgaz SA sent to ANRE the draft agreement to be concluded between SNTGN Transgaz SA as a TSO and the participants in the gas trade which are not network users.
- ✓ By Letter DO.53321/18.11.2016, SNTGN Transgaz SA sent to ANRE a proposal to re-assess the calculation of the average weighted price for selling/buying gas making the object of daily imbalances recorded by network users.
- ✓ By Letter FAX/DG/DRL.55659/05.12.2016 SNTGN Transgaz SA sent to ANRE:
 - a proposal to revise the Network Code on allocation NTS exit points to distribution systems and underground storages, considering the chain principle for those quantities not allocated by distributors, by following trades from the distributor to the NTS;
 - additional comments on the proposal to re-assess the calculation of the average weighted price for selling/buying gas making the object of daily imbalances recorded by network users.

2. Management of internal consultations for the preparation of the opinion of the company on the draft normative acts initiated by ANRE and other relevant authorities for the improvement of the national regulatory framework

- ✓ Review of the Regulation on natural gas supply to final customers - 2nd phase of public consultation.

The document was sent to public consultation on ANRE website between 03.02 and 19.02.2016. Transgaz submitted proposals and comments on 19.2.2016.

The regulation was published in the Official Journal (ANRE Order no. 29 / 06.28.2016).

- ✓ The draft 2016-2018 ANRE Regulatory Multiannual Plan.
The document was sent to public consultation on ANRE website between 26.02-11.03.2016.
Transgaz sent proposals and comments on 10.3.2016.
The 2016-2018 ANRE Regulatory Multiannual Plan was sent to public consultation on ANRE website on 01.04.2016.
- ✓ The draft Regulation on capacity booking at future entry/exit points.
The preparation of this project was within the TRANSGAZ – EXXON – OMV PETROM joint working group.
The draft Regulation was submitted to ANRE in December 2015. Following Transgaz Letter FAX / DG / DRL. 10749 /08.03.2016 whereby we asked for support for starting in March 2016 the public consultation on the draft regulation, it was sent to public consultation on ANRE website between 30.03.2016 – 29.04.2016. By Letter FAX/DG / DRL. 50 096 / 31. 10.2016 it was sent a new version of the draft Regulation (version that includes ANRE`s request communicated by Letter no. 69.791/30.09.2016 and the requests resulting from the discussions that took place during the debate held on 18.08.2016). Transgaz, by Letter no. FAX.DG/DRL. 56.897/12.12.2016 referred to the letter above, by which it requested ANRE to communicate the approving stage for the submitted documents. Up to now no response was received from ANRE. The Regulation has not been published in the Official Journal.
- ✓ The draft methodology for allocation of gas quantities resulting from the production activity needed to cover domestic consumption and thermal energy producers, only for the amount of natural gas used to produce heat in cogeneration plants and heating plants, intended for household consumption
The document was sent to public consultation on ANRE website between 07.06.2016 – 16.06.2016.
Transgaz made proposals and comments on 16.6.2016. The regulation has not yet been published in the Official Journal.
- ✓ Rules on NTS access and connection
Transgaz prepared at its own initiative the draft rules to review existing regulation by considering Law 123/2012.
The draft was submitted to ANRE on 23.11.2015.
In 2016 the draft regulation was sent to public consultation in 2 stages (13.10.2016-12.11.2016 and 29.11.2016-09.12.2016).
Transgaz made proposals and comments by Letters FAX/DG/DRL. 52.691/14.11.2016 și nr. FAX/DG/DRL. 56.722/09.12.2016. Additionally, by Letter FAX/DG/DRL. 58.015/19.12.2016 several new proposals / comments to amend the regulation (which were received after the public consultation, from the Operating department) were sent. The regulation has not yet been published in the Official Journal.
- ✓ Draft GR repealing Regulation on NTS access
The document was sent to public consultation on the website of the Ministry of Energy between 14.06 – 24.06.2016.
On 24.06.2016 Transgaz sent a letter to the Ministry of Energy recommending consideration matching of regulation repealing calendar with the calendar for the approval of a new regulation;
- ✓ By Letter FAX/DG/DRL.34388/25.07.2016 SNTGN Transgaz SA sent to the Ministry of Energy and ANRE the proposal on a minimum set of principles according to which the amending of Law 123/2012 should be configured in order to implement in Romania the VTP entry-exit market model.

- ✓ Technical rules for the design and implementation of natural gas transmission pipelines (review).
The document was sent to public consultation on ANRE website between 12.07.2016 – 11.08.2016. Transgaz submitted proposals and comments on 11.08.2016. The regulation has not yet been published in the Official Journal
- ✓ Draft order approving the validity conditions for the operating licence of the gas transmission system – phase 2
The document was sent to public consultation on ANRE website between 30.09.2016 – 30.10.2016.
The opinion of Transgaz was sent by Letter FAX/DG/DRL. 50.007/31.10.2016. The regulation has not yet been published in the Official Journal.
- ✓ The order for approval of allocation of gas quantities resulting from the production activity needed to cover domestic consumption and thermal energy producers, only for the amount of natural gas used to produce heat in cogeneration plants and heating plants, intended for household consumption for 1 November 2016 – 31 March 2017
The document was sent to public consultation on ANRE website between 12.10.2016 – 21.10.2016.
The opinion of Transgaz was sent by Letter FAX/DG/DRL. 48.596/21.10.2016. The regulation was published in the Official Journal (Order 74/2016 of the ANRE President).
- ✓ Order approving the Regulation for measuring the quantities of gas circulating in Romania
The document was sent to public consultation on ANRE website between 27.10.2016 – 26.11.2016.
Transgaz submitted proposals and comments on 25.11.2016. The regulation has not yet been published in the Official Journal.
- ✓ Draft order amending Order 162/19.12.2014 of the ANRE President on the approval of NTS relevant points.
The document was sent to public consultation on ANRE website between 09.11.2016 – 09.12.2016.
Transgaz submitted proposals and comments on 06.12.2016.

3. Management of authorization / re-authorization of the technical staff of the company that owns/will own the status of authorized installer for natural gas:

- ✓ Preparation and submission to ANRE of 78 files for authorized installer examination to obtain 79 cards.
- ✓ Preparation and submission to ANRE of 117 files for equivalence/extension of 144 de cards.
- ✓ Receiving 85 authorized installer cards for 2013-2015.
- ✓ Permanent update of authorized installers' database at the company level.

4. Authorization and licensing in the gas field

- ✓ Granting PDSB and PDIB authorizations:
 - ✗ The authorizations were granted by Decision no. 82/22.01.2016 of the ANRE President and are valid until 22.01.2021.
- ✓ Granting ET authorization:
 - ✗ The authorization was granted by Decision no. 1558/30.09.2016 of the ANRE President and is valid until 29.09.2021.
- ✓ Request to grant PPI and PT authorizations:
 - ✗ On 08.12.2016 the file for the granting of the authorizations was sent to ANRE.

- ✗ By Letter 91.316/30.12.2016 ANRE requested the documentation submitted to be supplemented.
- ✗ On 06.01.2016 the supplementations requested by the authority were submitted.
- ✓ Request to change Licence 1933/2013 regarding the updating of the technical features of the facilities at 31.12.2015:
 - ✗ On 02.11.2016 the file for the changing of the authorizations was sent to ANRE.
 - ✗ By Letter 83.083/23.11.2016 ANRE requested the documentation submitted to be supplemented.
 - ✗ On 15.12.2016 the supplementations requested by the authority were submitted.

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:

- Participating in activities concerning the revision of the Network Code;
- Manage internal consultations in order to prepare the opinion of the company on the draft normative acts initiated by ANRE and other relevant authorities to improve the national regulatory framework;
- Manage the authorization/re-authorization of the technical staff of the company that owns/will own the status of authorized gas installer;
- Authorization and licensing in the gas domain;
- Draft order on the approval of the methodology for transmission capacity booking and tariff setting for the gas transmission services through the Isaccea - Negru Voda pipelines;
- Negotiation of the interconnection agreements with Ukrtransgaz for the interconnection points between the Romanian and Ukrainian transmission systems;
- Negotiation of interconnection agreements with Bulgartansgaz for the interconnection points between the Romanian and the Bulgarian systems.
- Preparation of regulatory framework for trading the transmission capacities of the Tranzit 1 and Tranzit 2 pipelines, according to the European regulatory framework, starting with gas year 2016/2017;
- Supplementation of RBP services vprocured based on the TSO membership Agreement no. 570/09.11.2015 concluded between Transgaz and FGSZ Zrt, Hungary;
- Proposal on the harmonization of the secondary laws for complete harmonization of capacity allocation processes at all interconnection points with Member States.
- Implementation of Regulation (EU) No. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) No. 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011, in cooperation with the Operating Division, ITC Division and SCADA;
- Actions connected with cooperation with ENTSOG.

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

- **Draft order for the approval of the Methodology for transmission capacity booking and tariff setting for natural gas transmission services through the Isaccea – Negru Vodă gas transmission pipelines**

- The draft order was prepared by Transgaz and sent to ANRE on 07.06.2016.
- The document was sent to public consultation on the ANRE website between 24.06 – 04.07.2016.
- The Order was published in the Official Journal (Order 34/July 2016 of the ANRE President).

- **Negotiation of the interconnection agreements with Ukrtransgaz for the interconnection points between the Romanian and the Ukrainian gas transmission systems**
 - ✓ Transgaz prepared the draft IAs for Isaccea 1 and Isaccea 2, 3, which are at present under analysis at Ukrtransgaz.
 - ✓ A series of Isaccea 1 draft IA provisions were agreed within video calls.
 - ✓ The Parties completed agreement of Isaccea 1 IA provisions.
 - ✓ The IA of the Isaccea 1 IP was signed on 9 July 2017. The IA for the Isaccea 1 IP was later amended by Addendum 1 concluded on 26.09.2016.
 - ✓ Considering the necessity to match the provisions of the Interconnection Agreement for Isaccea 2,3 IP with the existing contract concluded with Gazprom Export for the Transit 3 pipeline and the correspondence with Gazprom Export by which we were notified on their non-acceptance of changing of current arrangements at Isaccea, we sent to Ukrtransgaz an interconnection agreement version that takes into account the contract signed with Gazprom.
 - ✓ This version was rejected. The negotiations failed for objective reasons. Therefore, the European Commission agreed to extend the existing contract signed with Gazprom Export for the Transit 2 pipeline for another year.

- **Negotiation of the interconnection agreements with Bulgartransgaz for the interconnection points between the Romanian and the Bulgarian gas transmission systems**
 - ✓ The parties concluded the Interconnection Agreement for the Negru Vodă 1 IP on 19.05.2016. The Interconnection Agreement for the Negru Vodă 1 was later amended by Addendum 1 in force since 1.10.2016.
 - ✓ The parties concluded the Interconnection Agreement for the Ruse – Giurgiu IP on 22.12.2017;
 - ✓ The Interconnection Agreement for Negru Vodă 2,3 cannot be concluded as long as there is no corresponding agreement related to the Isaccea 2,3 IP.

- **Preparation of regulatory framework for trading the transmission capacities of the Transit 1 and Transit 2 pipelines, according to the European regulatory framework, starting with gas year 2016/2017**

The following were achieved:

- ✓ Meeting with Bulgargaz EAD for shortening the transit contract for the T1 pipeline. Considering the efforts to ensure the regulatory framework for trading capacities starting with the new gas year, that is from 01.10.2016, the parties agreed to shorten the validity of the contract by the conclusion of an addendum in this respect.
- ✓ It was prepared joint approach solution regarding the T2 and T3 transit pipelines.

- ✓ Discussions with Gazprom Export for matching the interconnection agreements with the transit contract for T3 pipeline.
 - ✓ For trading capacity, Transgaz promoted to ANRE the draft Order approving the Methodology for transmission capacity booking and the tariff setting for gas transmission through the Isaccea - Negru Voda gas transmission pipelines, representing the national regulatory framework necessary for the application of CAM –NC for the Isaccea - Negru Voda IPs;
 - ✓ The Order was published in the Official Journal (Order 34/July 2016 of the ANRE President).
- Supplementation of RBP services procured based on the TSO membership Agreement no. 570/09.11.2015 concluded between Transgaz and FGSZ Zrt., Hungary
- ✓ Transgaz asked questions regarding capacity allocation for the Isaccea – Negru Vodă transmission pipelines entry/exit points.
 - ✓ FGSZ analyzed the possibility to provide the requested services and presented a technical solution for their feasibility.
 - ✓ Transgaz accepted the technical solution proposed by FGSZ and requested its taking over in the RBP production environment until 28 August 2016, the latest.
 - ✓ In this respect in August it was concluded an addendum;
- **Proposal on the harmonization of the secondary laws for complete harmonization of capacity allocation processes at all interconnection points with Member States.**
- ✓ The RLU, in collaboration with representatives of the legal, economic and operating divisions prepared a draft order to replace the capacity allocation order at the Csanádpalota point and to be applicable to all interconnection points with EU Member States.
 - ✓ The Order was published in the Official Journal (Order 88/22.11.2016 of the ANRE President).
- **Implementation of Regulation (EU) No. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) No. 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011, in cooperation with the Operating Division, ITC Division and SCADA;**

3.1.2 Domestic gas transmission

As of 1 October 2015 and until 30 September 2016 the NTS gas transmission regulated tariffs were set based on **ANRE Order 136/14 August 2015** on the approval of regulated revenue, total revenue and transmission tariffs for gas transmission through the National Transmission System.

Between October 1, 2016 - December 31, 2016 the regulated tariffs for the supply of natural gas transmission through the NTS were established on the basis of ANRE Order no. 39/10 August 2016, on the approval of regulated revenue, total revenue and transmission tariffs for gas transmission through the national transmission system.

The natural gas transmission service ensures the fulfilment of Transgaz's obligations under its own programme, namely to provide the network users NTS access services based on equivalent, non-discriminatory and transparent conditions and according to the contractual terms.

The transmission contracts concluded with the beneficiaries of the services are consistent with the regulated framework contract and provide the legal framework for the provision of firm and interruptible transmission services. 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 NTS entry commercial delivery/receipt points to the NTS exit commercial delivery/receipt points, *natural gas volumes required to cover NTS loss being the responsibility of Transgaz.*

Through the transmission services contracted in 2016 the total amount of **129.786.374 MWh** (12.074.676 thousand cm) was transmitted to:

distributions:	76.439.715 MWh (7.105.851 thousand cm);	-54,26%
direct consumers:	36.480.825 MWh (3.414.266 thousand cm);	-27,60%
storage:	16.865.834 MWh (1.554.560 thousand cm);	-18,14%
reverse flow (Csanadpalota):	0 MWh (0 thousand cm)	- 0%

The main beneficiaries of the domestic gas transmission service in 2016 are as follows:

Main users 2016	Invoiced value without the VAT 2016 (RON)	%
GDF SUEZ ENERGY (ENGIE)	405.696.158,10	29,82%
E.ON ENERGIE ROMANIA	340.361.979,62	25,02%
OMV PETROM GAS BUCURESTI	162.534.377,54	11,95%
ROMGAZ SA. MEDIAS	114.327.656,23	8,40%
ELECTROCENTRALE BUCURESTI	114.301.252,51	8,40%
AZOMURES TG.MURES	68.898.024,03	5,06%
C-GAZ & ENERGY DISTRIBUTIE	20.624.138,82	1,52%
CONEF GAZ BUCURESTI	19.735.796,77	1,45%
WIEE ROMANIA SRL	12.749.663,43	0,94%
CHEMGAS HOLDING	9.487.638,82	0,70%
Alții	91.608.749,53	6,73%
Total	1.360.325.435,39	100,00%

Table 22- The share of the main users of the NTS in 2016

In order to cover NTS loss and for the own technological consumption in 2016 Transgaz purchased 1.184.300 MWh (108.874 thousands cm) gas.

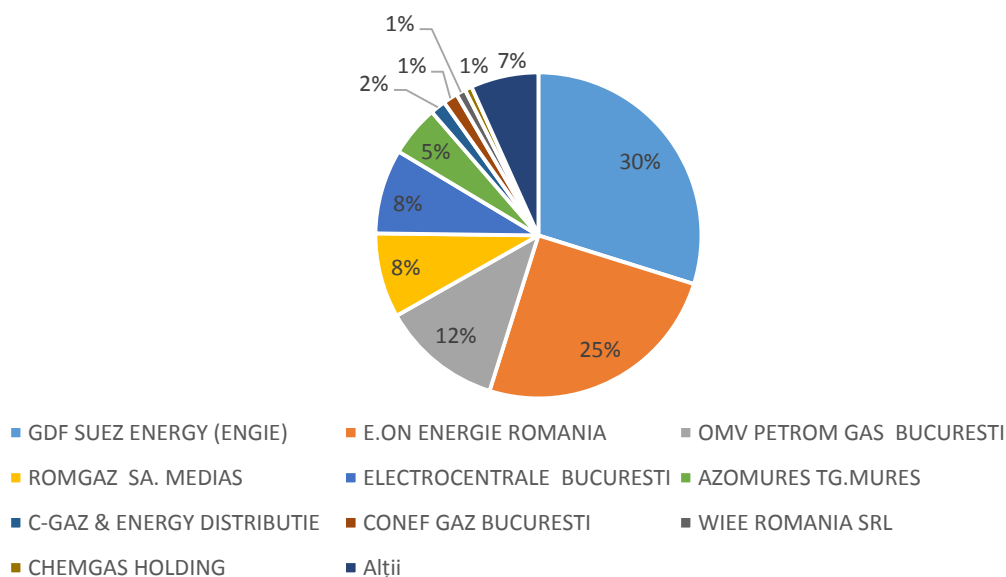


Chart 28 - The share of the main users of the NTS in 2016

Based on Report DO 1156/15.04.2016, approved by the Board of Administration by Resolution 14/2016 underground storage capacity booking services amounting to **372.750 MWh** were contracted both for maintaining on stock of gas from the previous cycle and for storing additional gas quantities necessary for NTS balancing activities performed by TRANSGAZ and its safe operation.

In 2016, 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 underlied 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 – the last version was finalized in December 2015;
- 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 to be done by DTICSCADA. Subsequently the Electronic Registers for each Regional Office will be implemented;
- 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. Currently NTS LP is calculated every 2 hours, meaning tht the entire DNGN is controlling this activity;
- Completion of a web application for online monitoring of the NTS valves with the IT& SCADA Department. The application was implemented. The personnel at the regional offices ensuring SIMONE simulator LP calculation support by using the application was also trained ;

- 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) That means that the calibration of the LP calculation was initiated;
- Reference values of the linepack were established in wintertime and subsequently for summertime;
- Preparation of regional balances analyses to detect the sources of error and non-conclusion of balances in those areas;
- Cooperation with the IT services for the implementation of 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 is in progress ;
- 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 2016:

- 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 amending/supplementation of intermediate Draft **Network Code for the NTS** and amending of Code sections as agreed in the public consultation organized by ANRE together with the economic operators in the gas market and following ANRE's decisions.

The modifications regarded mainly:

- ✎ Offering the NU the possibility to submit nominations exceeding the capacity booked with the possibility to buy additional capacity at the daily product price;
- ✎ Elimination of daily GTF and increasing GTF term at the end of the month (from 24 to 72 hours);
- ✎ Changing of daily imbalance and capacity exceeding allowed tolerances from 2 % to 3%;
- ✎ Changing the allocation methods at entry points from production facilities and at the entry/exit points from storages;
- ✎ Changing of the Report on the implementation of interim measures compliant with Regulation (EU) No. 312/2014 accordingly.

The debates on the text of the Code were not ended by the end of September 2015;

- Analysis of using the transmission capacities in 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 NTS entry/exit physical points technological parameters agreements with the producers, distribution operators, underground storage operators, direct clients or their suppliers, according to Order 79/30.10.2014 of the ANRE President, at the basis of the transmission contracts concluded with the network users, in a proportion of up to approximately 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;
- **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 Order 16/2013 of the ANRE President.

The quantity of gas transmitted through the transit pipelines in 2016 is **187.973.080,340 MWh** (17.628.562,775 thousand cm):

3.1.3 International gas transmission

The international gas transmission activity is performed by Transgaz based on gas transmission system operation licence no. 1933/20.12.2013, issued by the National Energy Regulatory Authority (ANRE), valid until 08.07.2032.

The current international gas transmission activity is performed in the south-east of the country (Dobrogea) where the Romanian section of pipelines existing between Isaccea and Negru Vodă is included in the Balcan corridor for international gas transmission from the Russian Federation to Bulgaria, Turkey, Greece and Macedonia .

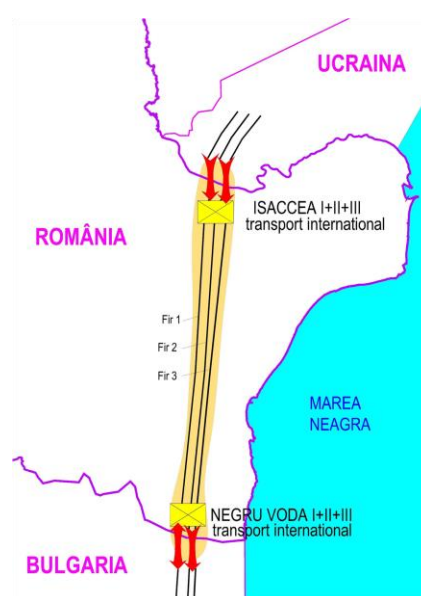


Fig.1- International gas transmission pipelines

Along the corridor mentioned there are 3 interconnections with the similar Ukraine international gas transmission pipelines, north of Isaccea, and 3 interconnections with the international gas transmission pipelines in Bulgaria south of Negru Vodă.

International gas transmission is performed by dedicated pipelines which are not connected to the National Transmission System:

- The international gas transmission pipeline is in the UA-RO-BG (LINE I) direction, with the following features: DN 1000, L = 182 km and technical capacity = 6,1 bscm/year;
- Two international gas transmission pipelines in the UA-RO-BG-TK-GR direction (LINE II and LINE III) each having the following features: DN 1200, L = 181 km and technical capacity = 9,6 bscm/year (LINE II) and 9,7 bscm/year (LINE III).

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

- *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, (line I)** valid until 31 December 2011 and extended by two addenda until **30 September 2016. From 1 October 2016, T1 pipeline capacity allocation is by auction, according to the applicable European regulations, the transmission contracts being according to ANRE Order 34/2016.**;
- Contract no. 2102-06 of 3 June 1987 concluded with **Gazprom Export (T2)**, valid until 31 December 2011, extended by four addenda until **1 October 2017**;
- Contract no. 643/00157629/210247 of 24 September 1999, concluded with **Gazprom Export (T3)**, valid until **31 December 2023**.

In 2016, regarding the infringement procedure, Transgaz atook the following actions to provide the regulatory framework for trading the capacities of the Isaccea – Negru Vodă pipelines:

- Conclusion of the Interconnection Agreement for the Isaccea 1 IP with Ukrtransgaz. Initiation of agreement on the IA for the Isaccea 2,3 IP.
- Conclusion of the Interconnection Agreement for the Negru Vodă 1 IP with Bulgartransgaz EAD. Initiation of agreement on the IA for the Negru Vodă 2,3 IP.
- Setting national regulatory framework necessary for applying the CAM-NC for the Isaccea – Negru Vodă gas transmission pipelines IPs by Order 34/2016 of the ANRE President for the approval of the Methodology for transmission capacity booking and tariff setting for natural gas transmission services through the Isaccea – Negru Vodă gas transmission pipelines.
- Amending of TSO Membership Agreement concluded with FGSZ Zrt. to provide RBP access and use services for allocation of Isaccea – Negru Vodă transmission pipelines capacities according to the CAM-NC and to the national regulatory framework.
- Amending the validity of the Gas Transmission Contract concluded with Bulgargaz EAD for T1 până until 30.09.2016 to ensure the conditions regarding the trading of capacity available starting with 1.10.2016, according to the new national regulatory framework.
- Regarding T2 and T3, due to a complex situation generated by the disputes between Ukrtransgaz and Gazprom Export, the interconnection agreements could not be concluded. The existing contract for T2 was extended by an addendum until

the beginning of gas year 2017-2018 (1.10.2017) with the approval of the European Commission.

Starting with gas year 2016 – 2017 the transmission capacity of the Transit 1 pipeline is traded by auctions, according to the CAM-NC at cross-border IPs and to ANRE Order 34/2016.

Transmission through the T2 and T3 pipelines is not compliant with the European regulations on third party access, but with government agreements and contracts concluded with Gazprom Export. Setting the national regulatory framework for the T2 and T3 pipelines is a complex process, mainly because of factors beyond Transgaz.

Nevertheless, our Company intends to solve in 2017 all issues raised by the infringement procedure with the support of the European Commission and conformation of the national framework regarding third party access to the transmission capacity with the European regulations.

In this respect, by the support of the European Commission, the discussions for agreeing on interconnection agreements for interconnection points Isaccea 2,3 and Negru Voda 2,3 will be resumed during 2017.

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. The table below shows the evolution of the domestic and international gas transmission services for the period 2013 - 2016.

No.	Specification	Achieved at 31 December				Dynamics (%)
		2016	2015	2014	2013	
0	1	2	3	4	5	6=2/3*100
1.	Revenue from the transmission activity					
	- thousand RON	1.360.355	1.259.788	1.340.853	1.210.480	107,98
	- MWh	129.786.374	131.259.673	126.703.188	119.741.363	98,88
	- RON/MWh	10,48	9,60	10,58	10,11	109,21
	- thousand cm	12.074.677	12.294.693	11.883.713	11.258.941	98,21
	- RON/1000 mc	112,66	102,47	112,83	107,51	109,95
2.	Revenue from the international gas transmission activity					
	- thousand RON	328.571	318.752	273.760	268.537	103,08
3.	Other operating revenue					
	- thousand RON	126.459	84.858	40.706	37.623	149,02
	TOTAL OPERATING REVENUE before balancing and the construction activity according to IFRIC12					
	Thousand RON	1.815.385	1.663.398	1.655.319	1.516.640	109,14

Table 23- Evolution of revenue from domestic and international natural gas transmission in the period 2013-2016

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;
- is not significantly dependent on a client/group of clients in its portfolio.

Results in 2016 versus results in 2015

The situation of the financial results at 31 December 2016 as compared to results achieved in the same period of year 2015 is presented in the table below:

<i>Thousand RON</i>			
Name	Achieved 2016	Achieved 2015	Modifications
1	2	3	$4=2/3 \times 100 - 100$
Operating revenue before balancing and the construction activity acc. to IFRIC12	1.815.385	1.663.398	9%
Balancing activity revenue	57.404	x	x
Revenue from the construction activity acc. to IFRIC12	118.504	211.125	-44%
Financial income	32.231	43.237	-25%
Operating expense before balancing and the construction activity acc. to IFRIC12	1.125.268	1.077.219	4%
Expenses with balancing gas	56.093	x	x
Cost of assets acc. to IFRIC12	118.504	211.125	-44%
Financial cost	9.683	22.315	-57%
GROSS PROFIT -total, of which:	713.975	607.101	18%
· from operation	691.427	586.179	18%
· from the financial activity	22.547	20.922	8%
Tax on profit	119.410	118.372	1%
NET PROFIT	594.565	488.729	22%
Other items of the comprehensive result	-1.026	10.211	X
Total comprehensive result for the period	593.539	498.940	19%

Table 24- Financial results in 2016 vs financial results 2015

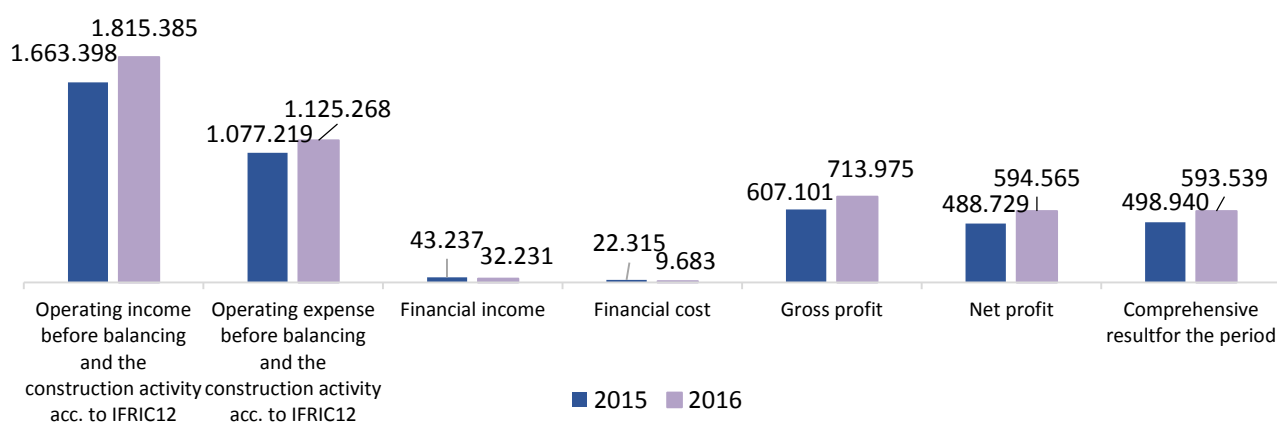


Chart 29 – Financial results in 2016 vs financial results in 2015 (thousand RON)

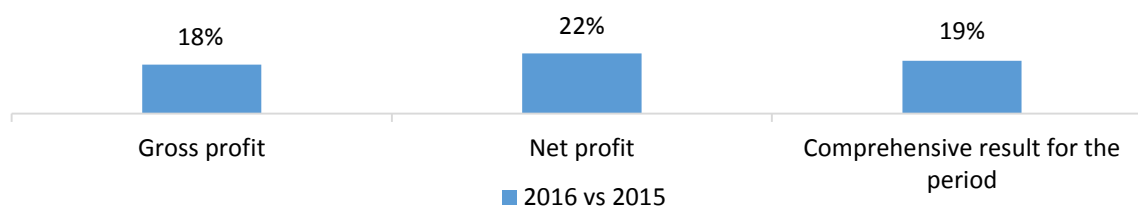


Chart 30 – Financial results 2016 vs financial results 2015 (%)

The operating revenue before balancing and the construction activity acc. to IFRIC12 increased by 9% as compared to the results obtained in 2015, which is higher by de RON 151.987 thousands.

Revenue was influenced mainly by the following factors:

- *Capacity booking revenue* higher by **RON 247.771 thousand** due to:
 - the increasing of the fixed component share in the total revenue to 60%;
 - the invoicing of the amount of the surplus capacity for the year 2016 amounting to 143.132 thousand according to ANRE Order No. 1 / 01.18.2016, ANRE Order no.14 / March 30, 2016 and ANRE Order no.160 / November 26, 2015;
- *volumetric component revenue* lower by **RON 147.204 thousand** due to:
 - the decreasing of the variable component share in the total revenue to 40%;
 - the decreasing of the quantity of invoiced gas by 1.473.299 MWh (220.016 thousand m³), detailed by categories of consumers as follows:

		12 months 2016	months 2015	Differences
Quantity transmitted for direct consumers	MWh	53.346.659	58.206.285	-4.859.626
	thousand m ³	4.968.826	5.472.877	-504.051
Quantity transmitted for distribution	MWh	76.439.715	73.053.388	3.386.327
	thousand m ³	7.105.851	6.821.816	284.035
Total	MWh	129.786.374	131.259.673	-1.473.299
	thousand m ³	12.074.677	12.294.693	-220.016

Table 25- Gas quantity invoices - 2016 vs. 2015

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 9.819 thousand** due to the changes in the foreign currency of the contracts and to the application of the provisions of ANRE Order no 34/19 July 2016;
- *other operating revenue* higher by **RON 41,601 thousand**, mainly due to the prescription of the delayed increases of dividends paid in delay from the period 200-2003 amounting to RON 51.718 thousand, the reduction in the revenue from penalties

by RON 4.999 thousand and the reduction in the revenues from recovered materials by RON15.795 thousand.

- *Revenues from the construction activity* lower by **RON 92,622 thousand**, recorded in accordance with IFRIC 12, under which revenues and costs relating to construction or improvement of the transmission network, in return for which the intangible asset is recorded, shall be recognized in accordance with IAS 11, Construction Contracts;
- *Financial revenues* with a negative influence of **RON 11.006**

The operating expenses before balancing and the construction activity acc. to IFRIC 12 increased by 4% as compared to 2015, they are higher by **RON 48.048 thousand**.

The company recorded savings amounting to **RON 6.250 thousand**, particularly in the following expense elements:

- 👉 Maintenance and transmission: RON 3.611 thousand;
- 👉 Tax and other amounts due to the state: RON 2.639 thousand, mainly on account of the reduction of the monopoly tax by RON 3.792 thousand;

Overruns amounting to RON 54.298 thousand were recorded, mainly in relation to the following cost elements:

- 👉 transmission system technological gas consumption increased by **RON 1.260 thousand** due to the following factors:
 - gas amount for technological consumption higher by 218.381 MWh/20.770 thousand cubic meters (▼23%) with a negative influence of RON 18.798 thousand;
 - average purchase price for 2016 lower by RON 14,81/MWh as compared to 2016, with a positive effect of RON 17.538 thousand;
- 👉 expense provision for risks and charges: RON 2,625 thousand, mainly against the provision for the tax decision on the additional tax payment obligations issued by ANAF;
- 👉 expenses with the depreciation of fixed assets: RON 15.263 thousand;
- 👉 personnel expenses: RON 11.767 thousand;
- 👉 royalty expenses: RON 11.039 thousand;
- 👉 other operating expenses: RON 10.559 thousand;
- 👉 expenses with auxiliary materials and other materials: RON 1.786 thousand;

The financial costs decreased by **RON 12.631 thousand** based on the foreign currency exchange differences.

Compared to the achievements during 2015 the gross profit achieved for 2016 is lower by 18%, meaning by RON 106.874 thousand.

2016 achievements versus 2016 budget

The main economic and financial indicators achieved in 2016, as compared to the provisions of the Revenue and Expense Budget (REB) approved by OGMS Resolution 1/21 March 2016 are presented in the table below:

thousands RON

Name	REB 2016	Achieved 2016	Modification
1	2	3	$4=3/2 \times 100 - 100$
Operating revenue from balancing and the construction activity acc. to IFRIC12	1.630.216	1.815.385	11%
Revenue from the balancing activity	92.943	57.404	-38%
Revenue from the building activity acc. to IFRIC12	0	118.504	X
Financial revenue	28.852	32.231	12%
Operating expense before balancing and the construction activity acc. to IFRIC12	1.185.639	1.125.268	-5%
Expenses with the balancing gas	92.943	56.093	-40%
Cost of assets acc. to IFRIC12	0	118.504	X
Financial costs	3.805	9.683	154%
GROSS RESULT, of which:	469.625	713.975	52%
<i>From operation</i>	444.578	691.427	56%
<i>From the financial activity</i>	25.047	22.547	-10%
Tax on profit	72.149	119.410	66%
NET PROFIT	397.476	594.565	50%

Table 26- Financial Results 2016 vs Budget 2016

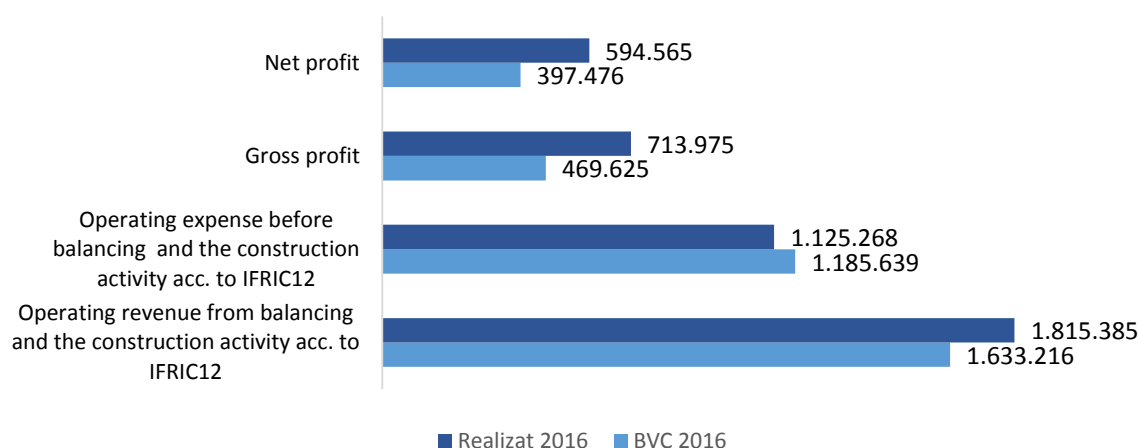


Chart 31 - 2016 Achieved vs Budget -thousand RON

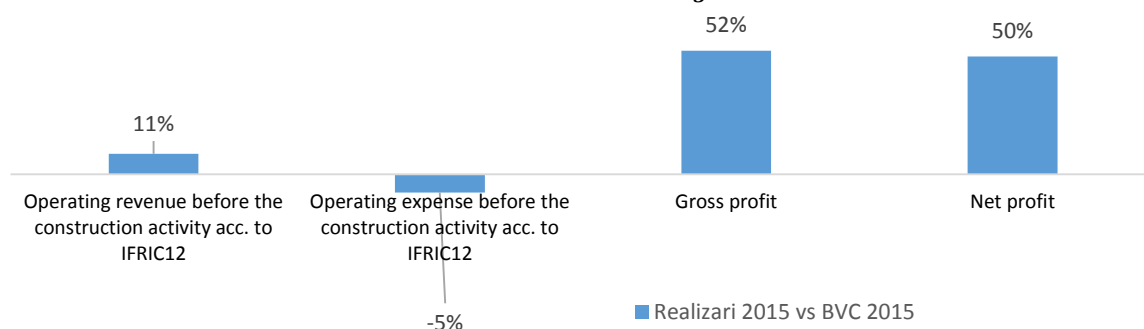


Chart 32 - 2016 Achieved vs Budget (%)

The operating revenue before balancing and the construction activity acc. to IFRIC 12 increased by **RON 185.168 thousand** compared thousand the ones provided in the REB.

The revenue was influenced by the following factors:

- The gas transmission services recorded an increase of **RON 118.107 thousands** mainly due to:
 - *The booked capacity* higher by 6.066.134 MWh with a positive influence of **154.654 thousand**, growth driven mainly by the invoicing of the surplus capacity booked for the year 2016 amounting to **RON 143.132 thousand**, according to ANRE Order No. 1/18.01 .2016, ANRE Order no.14 / March 30, 2016 and ANRE Order no.160 / November 26, 2015;
 - *the lower gas quantity transmitted* compared to the planned one by 2.167.419 MWh/373.794 thousand cm (▼9%) with a negative influence of RON 36.547 thousand;
- The revenue from international gas transmission services recorded an increase of **RON 14.496 thousands** due to the variation of the exchange rates of the currencies under the contracts and to the application of the provisions of ANRE Order no 34/19 July 2016;
- Other operating revenue recorded an increase by **RON 52.565 thousand** compared to the REB mainly due to the prescription of the delay penalties increase related to some dividends paid in delay from the period 2000-2003;
- The revenues from the balancing activity decreased by **RON 35.539 thousand** on account of the following factors:
 - Trading price lower by 9,473 lei/MWh with a negative influence of RON 6.990 thousand;
 - Lower quantity by 327.137 MWh with an unfavourable influence of RON 28.549 thousand;

The financial revenue increased as compared to the REB by **RON 3.379 thousand** due to the increase of the revenue from the currency exchange rate gains.

The operating expense before balancing and the construction activity acc. to IFRIC12 are **8% lower** as compared to the approved program, which is lower by **RON 60.371 thousand** than the REB.

Savings amounting to RON 178.555 thousand were recorded, mainly regarding the following cost items:

- ✎ consumption and technological loss of natural gas in the transmission system of **RON 14.403 thousand**, due to the following:
 - the average procurement price achieved lower as the one provided in the REB by 10,84 lei/MWh with a positive influence of RON 12.839 thousand;
 - technological consumption gas lower than the one provided in the programme by 19.042 MWh/4.649 thousand cm (▼2%), with a positive influence of RON 1.564 thousand;
- ✎ maintenance and transmission: RON 81.042 thousand;
- ✎ cost of balancing activity: RON 36.849 thousand;
- ✎ cost of auxiliary materials and other material expenses: RON 37.324 thousand;
- ✎ cost of personnel: RON 20.955 thousand;
- ✎ depreciation: RON 11.692 thousand;
- ✎ taxes and duties: RON 10.126 thousand;

✎ cost of provision for risk and expenses: RON 3.013 thousand;

Exceedings amounting to RON 118.184 thousands were recorded, mainly to the following cost elements:

- royalty for the NTS concession: RON 13.260 thousand;
- other operating expense RON 104.924 thousand is mainly due to the establishing in 2016 of the additional provision for the impairment of receivables with Electrocentrale Bucharest.

Expense from the balancing activity decreased by **RON 36.849 thousand** due to the following:

- trading price lower by RON 5,62/MWh, having a negative influence of RON 3.862 thousand;
- a quantity lower by 377.995 MWh, having a negative influence of RON 32.988 thousand.

The Company recorded at 31 December 2016 the **Cost of assets built acc. to IFRIC12 in amount of RON 118.504 thousand**, according to which 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 5.878 thousand** as compared to the REB based on the foreign exchange loss.

As compared to the REB the gross profit increased by 52%, which is higher by RON 244.350 thousand, and the net profit increased by 50%, which is higher by RON 197.089 thousand.

Achievements 2016 versus Management Plan 2016

The main economic and financial indicators achieved in 2016, as compared to the management plan of SNTGN Transgaz SA for 2016, approved by OGMS Resolution no. 9/23 September 2013 are presented in the table below:

thousand RON

No.	Name	Management Plan 2016	Achieved 2016	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before balancing and the construction activity acc. to IFRIC12	1.802.272	1.815.385	1%
2.		-	57.404	x
3.	Revenue from the construction activity acc. to IFRIC12	-	118.504	x
	Financial revenue	20.612	32.231	56%
4.				
5.	Operating cost before the construction activity acc. to IFRIC12	1.324.835	1.125.268	-15%
6.	Expenses with balancing activity	-	56.093	x
7.	Cost of assets built acc. to IFRIC12	-	118.504	X
8.	Financial cost	7.772	9.683	25%
9.	GROSS PROFIT (rd.3.- rd.6.), of which:	490.277	713.975	46%
	from operation	477.437	691.427	45%
	from the financial activity	12.840	22.547	76%
10.	Tax on profit	77.871	119.410	53%
11.	NET PROFITUL	412.406	594.565	44%

Table 27- Results 2016 vs Management Plan 2016

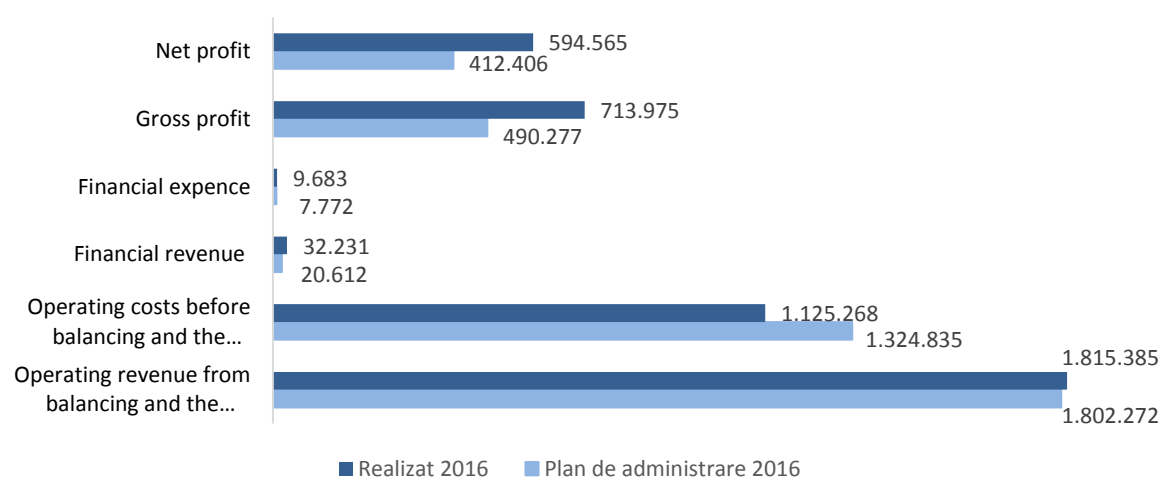


Chart 33 - Results 2016 vs Management plan 2016

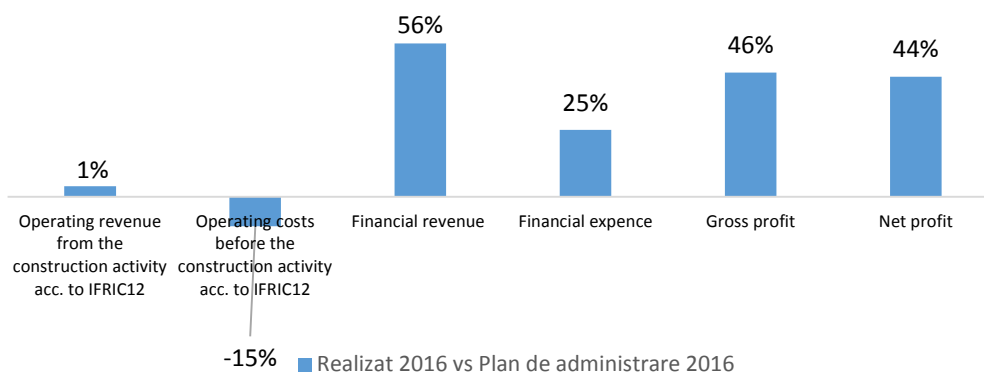


Chart 34- Achieved 2016vs Management plan 2016 (%)

The operating revenue before balancing and the construction activity acc. to IFRIC12 increased by 1% as compared to the management plan, which is higher by RON 13.113 thousand.

The revenue was influenced mainly by the following factors:

- *capacity booking revenue* higher by **RON 331.960 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 167.329.147 MWh due to the introduction of the entry/exit capacity booking from 1 August 2014;
- *volumetric component revenue* lower by **RON 453.217 thousand** due to:
 - the decreasing of the variable component share in the total revenue from 65% to 40%;
 - the decrease in the transmission tariff by 4,187 lei/MWh;
 - the increasing of the quantity of invoiced gas by 11.136.472 MWh (888.677 thousand m³);
- The revenue from international gas transmission services recorded an increase of **RON 57.042 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 77.329 thousand**;
- The financial revenue increased as compared to the Management Plan by **RON 11.619 thousand** mainly 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.

The operating expense before balancing and the construction activity acc. to IFRIC12 are 15% lower as compared to the approved management plan, recording a reduction of RON 160.654 thousand

Savings amounting to RON 350.294 thousand were recorded, mainly regarding the following cost items:

- ✎ consumption and technological loss of natural gas in the transmission system of **RON 217.179 thousand**, due to the following:
 - technological consumption gas lower than planned by 1, 350.034 MWh with a positive influence of RON 160.654 thousand;
 - the average purchase price lower by 47,73 RON/MWh with a positive influence of RON 56.525 thousand;
- ✎ third party works and services: RON 103.906 thousand;
- ✎ cost of personnel: RON 12.807 thousand;

- ✂ other material costs: RON 9.981 thousand;
- ✂ cost of royalty: RON 6.422 thousand.

*Exceedings amounting to **RON 150.727 thousand** were recorded, mainly under the following cost items:*

- ✂ taxes and duties: RON 53.246 thousand, mainly based on the cost of tax on monopoly;
- ✂ cost of provision for risks and expenses: RON 1.140 thousand;
- ✂ other operating costs: RON 85.780 thousand, mainly due to cost of provisions for impairment on receivables.

The financial costs increased by RON 1.912 thousand based on the foreign exchange loss. **The gross profit** is **46%** higher than the one provided in the management plan, its level being higher by **RON 223.698 thousand**, and the **net profit by 44%**, namely by **RON 182.159 thousand**.

	Achieved 2016/ Achieved 2015	Achieved 2016/ REB 2016	Achieved 2016/ Management Pan 2016
Operating revenue before balancing and the construction activity acc. to IFRIC12	9%	11%	1%
Operating cost before balancing and the construction activity acc. to IFRIC12	4%	-5%	-15%
Financial revenue	-25%	12%	56%
Financial cost	-57%	154%	25%
GROSS RESULT	18%	52%	46%
Tax on profit	1%	66%	53%
NET PROFIT	22%	50%	44%

Table 28- Achieved 2016 vs achieved level in 2015, REB 2015 and, Management Plan 2016 (%)

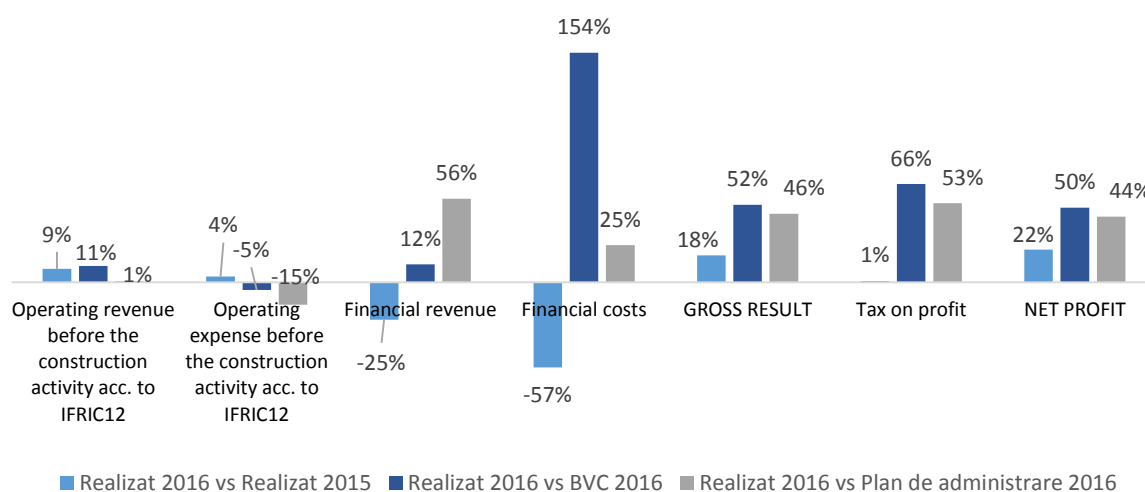


Chart 35- Achieved 2016 vs achieved level in 2015, REB 2016 and, Management Plan 2016 (%)

3.1.6 Evaluation of the research and design activity

The activity of the research and design division was carried out in 2016 on two directions: design and scientific research.

A. The design activity

Preparation of design works within the Design and Research Department

In 2016, 179 design works were performed within the division, out of which: 53 works approved within the TEC Transgaz, with a total value of the investment amounting to RON 2.248.999.086, as follows:

- 9 pre-feasibility studies, feasibility studies, solution studies with a value of RON 2.201.526.336;
 - 29 investment works with a value of RON 26.380.300;
 - 6 maintenance works with a value of RON 11.736.919 ;
 - 9 works for access granting to the NTS with a value of RON 9.355.531,
- and the remaining 126 works are in different preparation stages.

In 2016 the following were prepared and approved within the TEC Transgaz:

- 19 building site order for works in execution, generated from the necessity to change from objective reasons the designed solutions.
- 25 projects for locating odorization installations of a total of 128 projects for locating odorization installations in progress, within the division without investment value.

Important works undertaken in this period:

- Pre-Feasibility study for: Compressor group at the Podișor technological Node to ensure reverse flow through the Giurgiu – Ruse interconnector.
- Pre-Feasibility study regarding NTS- the transit system interconnection;
- Pre-Feasibility study regarding the replacement of the Transit II pipeline gas measuring systems/metering stations;
- Pre-Feasibility study regarding: NTS extension by the building of a gas transmission pipeline in the Vadu – Transit 1 zone.
- Feasibility study: Black Sea shore – Podișor 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 Moldova;
- Feasibility study: Modernization of MRG Cerghid, Cerghid locality, the town of Ungheni, Mureș county;
- Feasibility study: of SNTGN Transgaz S.A. Mediaș cathodic protection system data acquisition and control system;
- Modernization of TN Drăgășani – Power supply of actuators, automation and surveillance of the facility;
- Mounting receiving trap (temporarily) Dn 800 on the 32” Batani – Onești pipeline in the Bogdănești – Oituz area;
- Undercrossing of the Mureș river with the Fântânele – MRS Arad gas transmission pipeline, the Fântânele area;
- FEED: the Ø 12” Negru Vodă - Techirghiol - Constanța (the Pecineaga – Techirghiol section) gas transmission pipeline;

Important works in preparation:

- FEED for: The Development of the Romanian gas transmission System along the Bulgaria-Romania-Hungary-Austria Route;
- FEED for: Development of the NTS in the North East of Romania for increasing gas supply to the area and ensuring transmission capacity to Moldova;
- FEED for: Black Sea shore – Podișor gas transmission pipeline;
- FEED for: Reverse flow Ukraine – Changes necessary to be implemented at the GMS Isaccea II to deliver gas to Ukraine;
- NTS extension by building gas transmission pipeline from Black Sea taking over point (the Vadu area) to the Transit 1 pipeline (the Gradina zone);
- Interconnection between the national gas transmission system and the gas transit system;
- FEED for: gas transmission pipeline to supply gas to the northern region of Prahoc county;
- FEED for: repair of the Ø20" Albești-Urziceni pipeline following pig inspection;
- FEED for: Modernization of MRS Cerghid , Mureș county;
- FEED for: Repair of Dn 1200 mm Isaccea - Negru Vodă pipeline, Transit 3, following pig inspection;
- FEED for: Mounting receiving trap and preparation of the Ø 20" Sărmășel Ceanu Mare Cluj I pipeline for pig inspection.

Of the 8 design units, 3 design – research units (APC): APC1, APC3, APC4 in cooperation with the electric and construction design units prepares and are preparing the stages of the strategic projects:

- Development on the territory of Romania of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria corridor (BRUA);
- Black Sea shore – Podișor 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 Moldova.
- NTS extension by building gas transmission pipeline from Black Sea taking over point (the Vadu area) to the Transit 1 pipeline (the Gradina zone);
- NTS interconnection with the gas transit system.

Surveillance of the design works developed by third parties after the service contracts concluded

Out of 116 design works in progress in 2016, 24 design works were approved within the TEC with an investment value of RON 125.982.045 as follows:

- 22 investment works amounting to RON 98.906.626;
- 2 repair works amounting to RON 27.075.419

Due to changes of the initial project in this period a design work prepared in 2015 was approved within the TEC.

In total, in 2016 (without the projects for locating odorization installations) 295 design works (179 within the division and 116 with third parties), 77 works approved within the TEC with a total investment value of RON 2.374.981.131 were developed.

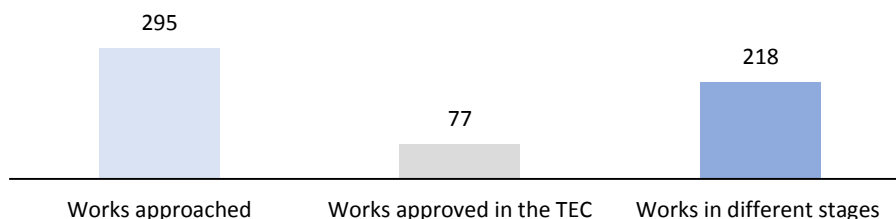


Chart 36- Number of design works approached and endorsed within the TEC in 2016

Design works approached and approved within the TEC between 2013-2016:

	2016	2015	2014	2013
No. of works approved within the TEC	77	161	165	80
No. of works in progress	218	218	132	113
Total no. of works	295	379	297	193

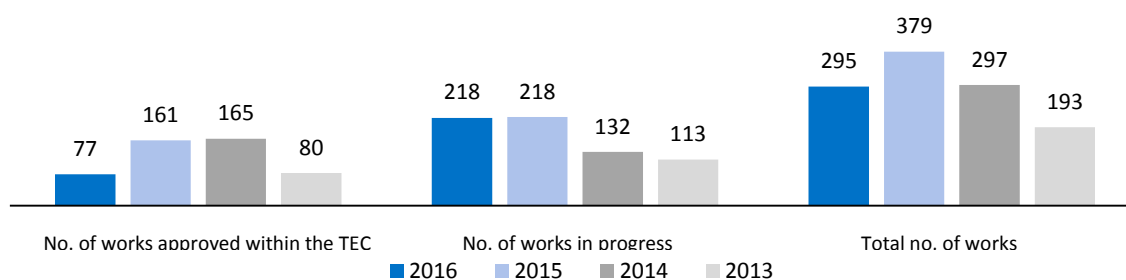


Chart 37- No. of design works approved and endorsed within the TEC of Transgaz between 2013- 2016

B. The scientific research activity

The scientific research activity was carried out according to the **Scientific Research, Technological Innovation and Standardization Plan for 2016**. It includes 12 research themes, out of which one was carried out in 2015, and the other 11 are new themes for 2016.

In 2016 stages of 2 research works were approved within the TEC, being recorded achievements amounting to RON **255.055**.

C. Other activities within the department:

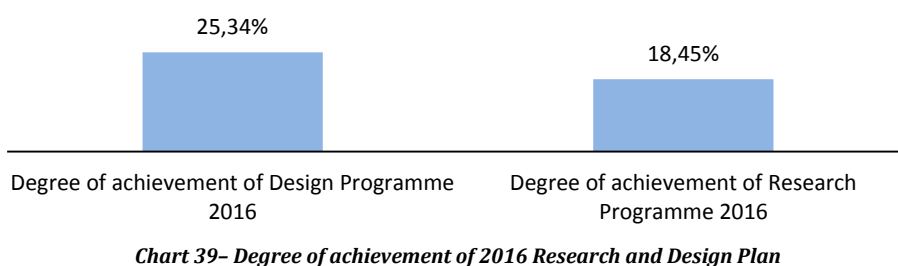
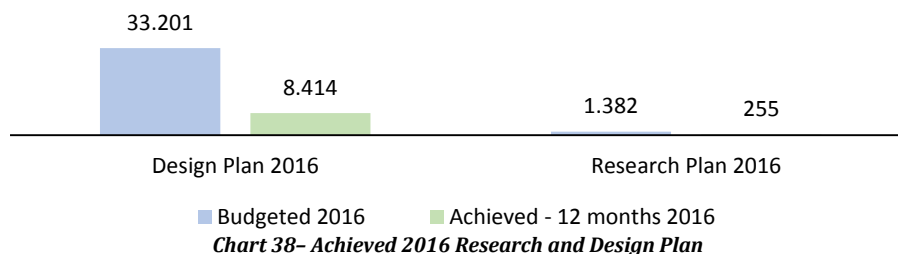
- preparation of the technical specifications necessary for concluding framework agreements, subsequent contracts and other contracts for design work such as: connection and MRS designing, environmental impact studies, geotechnical, hydrological studies, railway undercrossing, OSPA studies and others;
- participation in evaluation of bids for the procurement of services and works for projects developed within the department and for those developed by third parties;
- verification/issuing of point of view for projects developed by third companies;
- technical assistance for the works under execution;
- performance of verification activities of the quality of the pipe material, equipment and other accessories;

- ensuring of technical assistance in implementing the project on the supply of electricity, automation at the TN Lețcani, data acquisition, monitoring of unauthorized access and fire (NTS interconnection pipeline from Romania with the Moldova gas transmission system in the Iasi - Ungheni direction). The beneficiary of the project is ANRM;
- preparation of 27 risk analyses for the projects in progress by the DPD and of 2 risk analyses for projects prepared by third party companie;
- participation of staff in the department to monitor the contract on FEED for 3 compressor stations in the corridor PCI 7.1.5 – Romanian section;
- participation of division staff at preformance of USTDA agreement on the verification of feasibility studies regarding BRUA and the Black Sea shore – Podișor;
- participation of division staff at the preparation of specifications for the acquisition of pipe material, bents, valves, electroinsulating sleeves necessary fot the BRUA pipeline;
- preparation and monitoring of achievement of design and research programmes of Transgaz.

D. Achievement of the designs and research plan

For the **2016 Transgaz Design Plan** it was budgeted the amount of **RON 120.182.784**, of which the actual design amounts to **RON 33.200.784**. 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 in 2016 was **25,34%**



For the 2016 SNTGN Transgaz S.A. Research Plan it was budgeted the value of RON 1.382.000. The degree of achievement of the plan in 2016 was **18,45 %**.

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 Sectoral Procurement 2016 (P.A.A.S. 2016) 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 **Supply Programme, the Research Programme and the Design Programme** in the form approved through the Board of Administration Resolution no. 39/17.12.2015 **and Programme regarding other services executed by third parties** approved through the Board of Administration Resolution no. 1/18.01.2016.

The programme contains **the contracts/frame agreements** that SNTGN Transgaz SA Medias intends to **award/conclude in 2016. The procedures started in 2015**, which by the end of the year **were not awarded/not finalized**, were kept in the programme for year 2016 with the mention that they are **under development**.

The total value of the **Annual Programme of the Sectoral Procurement for year 2016**, approved by **BAR no. 4/2016** was of **RON 3.096.697.432,68 (Euro 697.454.376,71)** out of which **the estimated value of the contracts to be awarded through procurement procedures** based on the P.A.A.S. 2016 was of **RON 3.071.788.679,68 (Euro 691.844.297,23)**, and the estimated value of **the direct procurement** was of **RON 24.908.753,00 (Euro 5.610.079,48)**.

Following the 19 revisions/updates of the Annual Programme of the Sectoral Procurement for year 2016 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 Sectoral Procurement for year 2016** amounted to **RON 1.408.568.158,51 (the euro equivalent of 317.245.080,75, 4,44 RON/Euro average exchange rate)**.

PROCUREMENT PROCEDURES:

Based on the provisions of the P.A.A.S. 2016 (procedures section, updated) respectively from **473 active positions** (less the relocated ones, but including the new entries), upon the requests of the interested departments/directions/services **243 procedures were initiated out of which 166 were finalized**, 77 procedures are in progress, in different stages.

Additionally 30 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 200 positions are not requested by divisions/units/services** (representing **42,28%**).

From a physical point of view of the total number of procedures stipulated in the updated P.A.A.S., **the execution percentage is of 35,10%%**, and **from the value point of view the execution degree is of 20,07%** (achieved value reported to the total

estimated value). In percentage, the 30 procedures not initiated and under development represent 6,34 % 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 31.12.2016, of which:	473	% achievement from P.A.A.S (procedures sections)
- started	77	16,28%
- executed	166	35,10%
- not started	30	6,34%
- not requested	200	42,28%

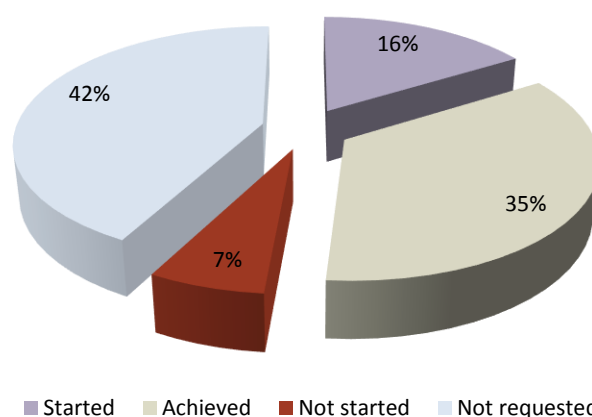


Chart 40 – Procurement procedures status - 2016

Procedures summary (value)-RON		
Total value at 31.12.2016, of which:	1.379.050.096,77	P.A.A.S % achievement (procedures sections)
- started	158.056.964,14	11,46%
- achieved	276.805.571,68	20,07%
- not started (under development DAPC)	77.909.472,90	5,65%
- not requested	739.526.728,13	53,63%

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% related to the value differences between the estimated values and the awarded ones)

For the 166 positions from PAAS, procedures section, the situation of the achievements as compared to the estimated ones is as follows:

No. of PAAS positions	Estimated value	Achieved value	%
166	403.556.931,60	276.805.571,68	68,59

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	PAAS results value
	(RON without VAT)			(RON without VAT)	(RON without VAT)	(RON without VAT)
Works contracts	47.141.546,52	25	1	280.398,29	0,00	46.861.148,23
Services contracts*	97.171.142,58	190	86	26.434.584,13	0,00	70.736.558,45
Products contracts	168.188.332,96	88	4	8.790.882,96	189.585,00	159.207.865,00
TOTAL CONTRACTS	312.501.022,06	303	91	35.505.865,38	189.585,00	276.805.571,68

Table 29- Situation of the contracts concluded by procurement procedure in 2016

DIRECT PROCUREMENTS:

Based on the provisions in P.A.A.S. updated, namely out of **551 active positions** (less the relocated ones, but including the new entries) and upon the requests of the interested divisions/units/department **452 direct procurements were initiated** of which **440 direct procurements were finalized**, and up to the total active positions in the programme, a number of **95 positions are not requested by the concerned divisions/units/department** (representing 17,24%).

From the physical point of view of the total number of direct procurements from the approved programme **the execution percentage of the direct purchases is of 79,85%**, and **the value is of 37,75%** (achieved value vs. total estimated value).

Direct purchases summary (physical)		
Total positions at 31.12.2016, of which:	551	% achieved direct purchases
- started	12	2,18%
- achieved	440	79,85%
- not started	4	0,73%
- not requested	95	17,24%

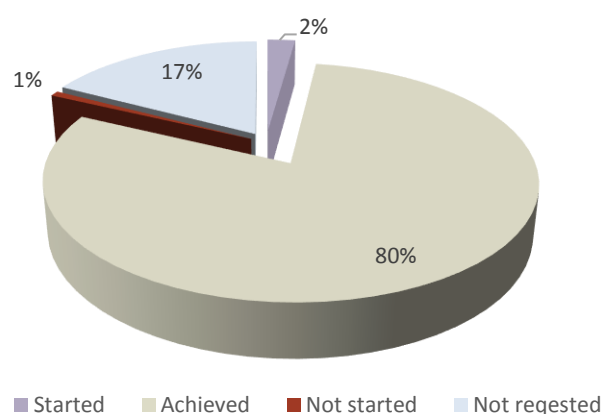


Chart 41- Direct procurement status on 31.12.2016

Direct purchases summary (value)		
Total value at 31.12.2016, of which:	29.518.061,69	% achieved direct purchases
- started	997.647,68	3,38%
- partly achieved	11.142.638,76	37,75%
- not started	388.037,26	1,31%
- not requested	6.637.653,78	22,49%

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 440 positions in PAAS Direct Procurements, the situation of the achievements as compared to the estimated values is as follows:

No. of PAAS positions	Estimated value	Achieved value	%
440	21.494.723,02	11.142.638,76	51,84

The summary of the direct procurements

Based on the provisions in P.A.A.S. updated, and upon the requests of the interested departments/directions/services in the period 04.01-31.12.2016 is briefly presented in the next table:

Contract type	Total value contracts/ Orders	Number of public procurement contracts	Value of direct procurement contract	No. of direct proc. orders	Value of direct procurement contract	Proc. value not included in Annex 1-AD	No. of orders in the Supply Programme	Value in the Supply Programme	Value of achievements in Annex 1-AD
	(RON without the VAT)		(RON without the VAT)		(RON without the VAT)			(RON without the VAT)	(RON without the VAT)
Works	3.480.336,71	31	3.479.002,61	1	1.334,10	0,00	0	0,00	3.480.336,71
Services	3.549.024,53	73	3.120.938,91	69	428.085,62	675.733,00	0	0,00	2.873.291,53
Products	4.789.010,52	2	169.517,00	174	2.447.741,88	0,00	268	2.171.751,64	4.789.010,52
TOTAL CONTRACTS	11.818.371,76	106	6.769.458,52	244	2.877.161,60	675.733,00	268	2.171.751,64	11.142.638,76

Table 30 - Situation of the contracts concluded through direct procurement between 04.01 - 31.12.2016

Direct Procurements reported by the Supply Department in amount of **RON 2.171.751,64** for 268 positions in PAAS 2016 were achieved under the delegation of powers to regional offices approved with Report 2019/18.01.2016 and Decision 91/10.02.2016 valid until 26.05.2016 and with Report 29766/30.06.2016 and Decision 600/11.08.2016 amended by Decision 661/26.08.2016 and by Decision 688/11.10.2016.

3.1.8 Procurement and disposals of assets

Except for the procurement 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 2016.

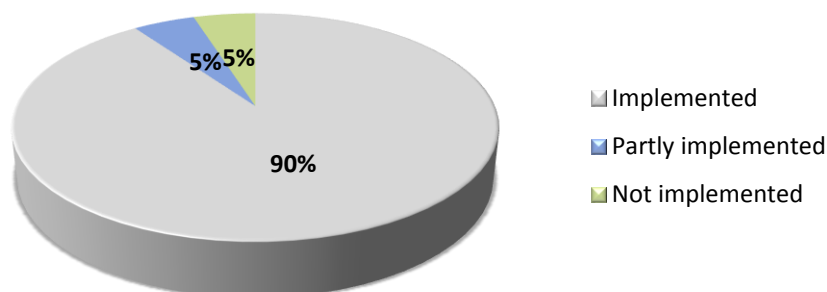
3.1.9 Internal and external audit of the Company's activity

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 internal audit activity **in 2016** was carried out under the Annual Plan approved by the Director - General of Transgaz SA, the tasks contained in it being both to insurance and informal counseling.

In 2016 a total of **10 public internal audit assignments** were carried out, within them **114 recommendations**.

The Internal Audit Department through the Information and Recommendations Tracking Office, continuously monitors the implementation status of the recommendations formulated within the public internal audit. The situation regarding implementation of recommendations at the end of 2016, including from missions executed in the previous years is as follows:



Ghart 42 - Implementation of recommendations monitored in 2016

The audit of the financial situations was performed by the Deloitte Audit SRL auditors.

3.1.10 Evaluation of the human resources and social dialogue activity

On **31 December 2016**, SNTGN Transgaz SA recorded 4.607 employees with individual employment contracts, of which 4.549 for an indefinite period and 58 for a definite period.

In 2016 the number of employees at 31 December 2016 is lower by 93 than at 31 December 2015, the policy of reducing the number of personnel in line with the retirements being continued in 2016, following the reorganizing of some activities.

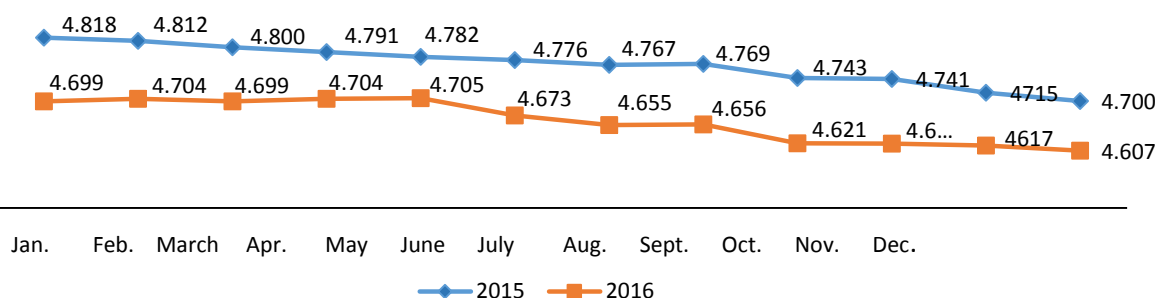


Chart 43- Evolution of no. of employees in 2016 vs 2015

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 prepared the Plan for the norming of technical works within S.N.T.G.N. TRANSGAZ, which was prepared in two stages in 2016:

- stage I – technical works identified to be normed with priority;
- stage II – the other technical works identified.

The situation timed technical work to date is presented in the following table:

2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL 2016
R.O. ARAD		9	16	5		21	6	13	7	7			79
R.O. BACĂU				9	2	6	5	11	2	9	7		56
R.O. BRAȘOV			4		13	22	6	1	5		2		53
R.O. BRĂILA			13	9	3	25	7	7	13	10			87
R.O. BUCUREȘTI		3		2			4	0	0				9
R.O. CLUJ		6		5	4	23	13	16	14	24	31	21	157
R.O. CONSTANȚA	1		1	5	1	2	2	12	1	9	3		37
R.O. CRAIOVA			1	1	8	16	17	13	5	3	1	2	67
R.O. MEDIAȘ			6	5	6	11	4	24	23	17	3	1	100
G.C.S.							26	0	0				28
SUBSIDIARY MEDIAS		1	1		2		2	5	0	1			112
Total of standardised works	1	19	42	41	41	126	92	102	70	80	47	24	685

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, general education and internal training is obvious:

No.	Category	2013	2014	2015	2016
1	Higher education graduates	1.096	1.169	1.237	1.291
2	High school graduates	1.565	1.521	1.446	1.414
3	Vocational education graduates	896	877	834	792
4	General education graduates + training course	1.344	1.253	1.183	1.110
*	TOTAL employees	4.901	4.820	4.700	4.607

Table 31 - The evolution of the personnel per education category between 2013- 2016

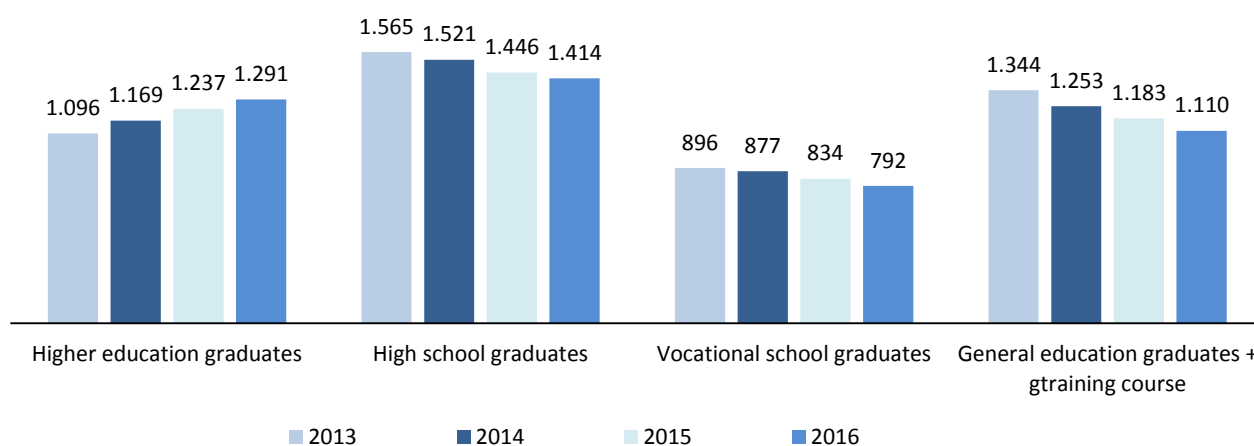


Chart 44- The evolution of staff per category of study between 2013- 2016

Within the Company the training of 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: a professional one (technical, economic and other specialties) necessary to perform job duties and a general one in various fields.

Professional training of employees aims at:

- 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, reorganizing or retrofitting;
- preventing the risk of unemployment.

The training, re-training 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.

No.	Category	2013	2014	2015	2016
1	No. of courses with internal trainers	11	13	11	8
2	No. of courses with external trainers	106	124	135	147
	TOTAL	117	137	146	155

Through the Professional Training Centre there were conducted programmes for the training of the employees as operators for gas extraction, processing, transmission and distribution, locksmith and welder, for which we have CNFPA authorizations.

The no. of employees completing training courses during 2013 – 2016 is as follows:

No.	Category	2013	2014	2015	2016
1	No. of personnel trained through courses with internal trainers	1.180	1.097	1.206	155
2	No. of personnel trained through courses with external trainers	833	1.213	912	953
	TOTAL	2.013	2.310	2.118	1.108

On **31 December 2016**, the degree of unionization of the workforce was 97.50% of the total 4.607 employees 4.492 being union members.

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 (c) and therefore it represents 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 Company Collective Labour Contract has a validity of 24 months.

The relations between employer and employees fall under the legal provisions in force in 2016 with no conflicting elements in relation to these relations.

3.1.11 Evaluation of the activity of HSSEQ

In 2016 the environmental quality, protection and security actions 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 rules for operation and functioning and the legal provisions specific to the areas of activity.

The activity of the Environmental Quality, Protection and Security Department comprises aspects regarding:

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

Occupational security and health activities	In 2016, 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 occupational 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 2016, 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 2016 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 2016 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 (before the change in the structure) 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, Legal Endorsemen and Litigation Unit – Legal Division in 2016 a number of 146 cases were recorded, cases in which Transgaz acted both as plaintiff and defendant of which:

- 69 cases – as plaintiff;
- 77 cases – as defendant;

Resolutions:

- 12 cases with favourable resolutions for Transgaz (the issued solutions are final) ;
- 5 unfavourable (the issued solutions are final);
- 129 cases pending resolution.

Values:

- Values of cases in which Transgaz acts as plaintiff: RON **484.635.996, 89**.
- Values of causes in which Transgaz acts as defendant: RON **5.383.069,63** and **135.505,63** euro



Chart 45 – Structure and no. of cases involving our Company in 2016

3.1.13 Development of the Internal / Management Control system

1. Background data

Definition of the Internal/Management Control

The etymology of the term `control` is derived from the Latin phrase `contra rolus` which checking a duplicate of the original act.

The semantic meaning of control refers to a permanent or periodic analysis of an activity or situation in order to monitor its development and enable improvement actions.

The reference literature contemplates several meanings for the term `control`:

- **The French meaning of `control`:** a careful inspection of a document in terms of accuracy
- **The Anglo-Saxon meaning of `control`:** the control is the action meant to supervise or thoroughly examine somebody or something for the purpose of getting acquainted with or of regulating the operation of a mechanism.

Under the Romanian laws, **the internal/management control is defined as the assembly of control means exercised at public entity level, including the internal audit, established by the entity's management pursuant to the legal provisions in order to ensure the economic effectiveness of public funds administration; it also includes organizational structures, methods and procedures.**

According to the International Audit Standards issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), the internal control is defined as 'the process designed, implemented and maintained by the persons responsible with governance, management and other personnel with the aim of providing reasonable assurance regarding the achievement of entity objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations'.

2. Legal framework

The process for the implementation, development and monitoring of the Internal/Management Control System is based on the following legislative acts:

- **Order no. 946/2005 of the Ministry of Public Finance** on the approval of the Internal/Management Control Code comprising the Internal / Management Control Standards at public entities' level and for the development of Internal/Management Control Systems, as republished;
- **Order no. 1423 dated 30/10/2012** on the amendment of **Order no. 946/2005 of the Ministry of Public Finance** on the approval of the Internal/Management Control Code comprising the Internal / Management Control Standards at public entities' level and for the development of Internal/Management Control Systems
- **Order no. 1649/2011 of the Ministry of Public Finance** for the amendment of Order no. 946/2005 of the Ministry of Public Finance consists of information on the Programmes for the implementation of the internal / management control at public entities' level, the self-assessment of the internal / management control system and the report on the status of its implementation, at public entities' level;
- **Order no. 1423 dated 30/10/2012** on the amendment of Order no. 946/2005 of the Ministry of Public Finance on the approval of the Internal / Management Control Code comprising Internal / Management Control Standards, at public entities' level and for the development of Internal/Management Control Systems
- In 2015, the repeal of Order no. 946/2005 of the Ministry of Public Finance was approved by Order no 808/2015 comprising Internal / Management Control Standards, at public entities' level and for the development of Internal/Management Control Systems, as republished

In 2015, by Order no. 808/2015 the repeal of **Order no. 946/2005 of the Ministry of Public Finance**, as republished, together with the related legislation on the Internal / Management Control Code comprising Management Control Standards, at public entities' level and for the development of Internal/Management Control Systems was approved by **Order no. 400/2015 of the General Secretariat of the Government for the approval of the Internal / Management Control Code of the public entities**, as amended and supplemented by **Order no. 200/2016 of the General Secretariat of the Government**.

3. History of Transgaz's Internal/Management Control System

The implementation and development of Transgaz's Internal / Management Control System started in 2009, but considering the changes in the relevant laws and in the company's structure, there was a permanent need to re-assess the implementation programme.

STAGE I

The consultancy services on the Assessment, Design, Documentation, and Implementation of a set of procedures according to Order no. 946/2005 for the preparation of the programme for the development of the company's management control system were awarded to AJA Sibiu SRL (representative of AJA Registrars Romania) – Contract no. AJAS 0029/10.04.2009.

The project for the definition of the internal / management control system development programme consisted of the following stages:

- Assessment of the internal control general instruments
- Assessment of internal control specific instruments, by activity
- Preparation of the final "List" of internal control instruments (general and specific) which puts in place the new internal control system to be implemented
- Preparation and approval of the programme for the implementation of the public entity's new internal/ management control system
- Preparation of operational procedures for the activities which otherwise would entail risks. Notifying all employees involved in the achievement of documented activities of the prepared operational procedures.

The conclusion of the internal auditors, as written down in the Audit Report prepared in October 2011, following the audit mission ***Assessment of the management control system process and status*** reflects that the management control system implementation and development process should be resumed and approached in a logical and structured manner, setting precise objectives and measurable terms. The company's achievements which had been made in this respect by the audit date, reached 40%, i.e. a minimum value ***the partly implemented*** threshold.

STAGE II

Given the changes in the relevant laws as well as in the company's structure, it was impossible to have the system perfected and therefore the re-assessment of the status of Transgaz' internal / management control system implementation and development was deemed necessary, under the coordination of an entity accredited to certify management systems.

Therefore, **Service Contract no. 141/20.05.2013** for the assessment of the current status of the internal / management control system according to the provisions of Order no. 946/2005 of the Ministry of Public Finance, as republished, was concluded with the association **The Romanian Movement for Quality (RMQ)**, association accredited by **RENAR** (The National Accrediting Entity) in terms of management system certification.

In its **Final Report** on the assessment of Transgaz's Internal Management Control System, the contractor, i.e. the Romanian Movement for Quality included recommendations in order to complete the implementation of the Internal/Management Control System.

New measures were taken and some of the previous ones were resumed:

- The **Decision** on the establishment of the *Commission for Transgaz' Internal / Management Control System monitoring, coordination and methodological guidance*
- **The programme for the internal/management control system implementation and development** was approved

- The procedure *the Functions of the Commission for Transgaz's Internal / Management Control System monitoring, coordination and methodological guidance* was approved
- Actions to update **the general and specific objects as well as Transgaz related activities** were taken
- **Analytical sheets comprising internal/management control questionnaires** specific to each standard for the self-assessment of the Internal / Management Control System for 2012 were re-edited and circulated to Transgaz structures
- The Procedure *Risk Management* was prepared
- The **common work platform (Transgaz on intranet - MOTAS - implementation of the Internal / Management Control System)**, with limited access of the Commission members as appointed under the above-mentioned Decision and of the relevant persons representing each Transgaz structure was created to comprise all the documents presented in the meeting dated 23 January 2012, including current objectives (see STAGE I AND STAGE II) to be updated.
- The relevant steps to be taken in relation with the 25 standards were established - Internal / Management Control System Programme.

Annually, between September and November, the process for the self-assessment of the Internal / Management Control System implementation is conducted.

Development and implementation of the Internal/Management Control system between 2013 and 2016 is as follows:

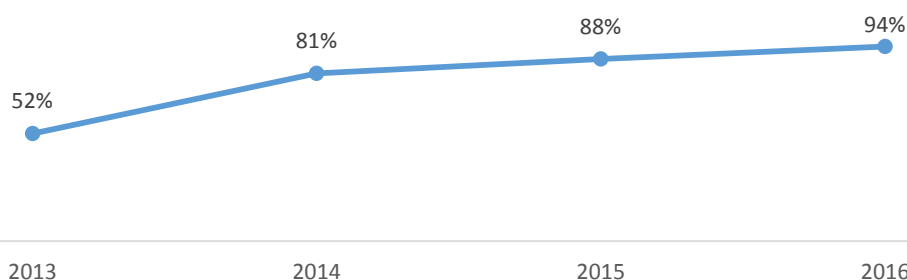


Chart 46 - Internal/Management Control system implementation

Since the implementation of the Internal/Management Control system should be extended to the regional offices and to the Medias Subsidiary in **5 October 2015** the responsible persons within the regional offices and the Medias Subsidiary were summoned to training for starting implementing the Internal/Management Control system at Transgaz.

The training topic was:

- presentation of laws on implementation of the internal/management control system (Order 400/2015 on the approval of the Internal/Management Control Code of public entities);
- presentation of Plan of implementation of standards under Order 400/2015 for the development Internal / Managerial Control System within Transgaz SA;
- presentation of analytical sheets and synthetic sheets explaining how to fill for the department/office/regional offices;
- presentation of self-assessment questionnaire for the stage of implementation of internal / managerial control standards and explaining how to fill in (PP - 162 `Self-assessment of Transgaz internal/management control system`);

- Presentation of list of control instruments and explaining modality to fill;
- Inventory of information and information flow;
- Preparation of List of procedural activities;
- Training in risk management - PP- 91 `Preparation/Update of Risk Register`.

4. Internal/management control standards

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

The internal/managerial control standards set according to **Order 400/2015 of the General Secretariat of the Government** on the approval of the Internal/Management Control Code of public entities, as further amended and supplemented by **Order 200/2016 of the General Secretariat of the Government**, define minimum management rules that all public entities must follow and are a relative reference system, according to which the internal /managerial control systems are assessed.

The standards are grouped into five categories called key elements:

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

5. Stage of implementation and development of the internal/management control system within SNTGN Transgaz SA at 31.12.2016

The Strategy and Corporate Management Division through the Budget Strategy Unit, also has according to the Rules of Procedure and Organization SNTGN Transgaz SA responsibilities regarding the ensuring of the secretariat of the Committee for monitoring, coordination and methodological guidance for the implementation and development of internal/management control within the company.

According to **Order 946/2005 of the Ministry of Public Finance** approving the Internal/Management Control Code, including the Internal/Management Control of the public entities and for the development of internal/management control systems, re-published and amended by **Order 1423 of 30.10.2012**, internal/management control system (SCI/M) implementation and development in Transgaz began in 2009 - no service contract. AJAS0029 / 10.04.2009 SC AJA SRL Sibiu and resumed in 2013 - service contract no. 141/20.05.2013 with the company MIȘCAREA ROMÂNĂ PENTRU CALITATE Craiova, but due to legal and company structure changes the reassessment of the implementation program and evaluation of existing stage of implementation of the internal/management control system permanently at TRANSGAZ.

Order 946/2005 of the Ministry of Public Finance approving the Internal/Management Control Code, including the Internal/Management Control of the public entities and for the development of internal/management control systems, referring to the implementation of a series of 25 standards was repealed by **Order 400/2015 of the GSG** on the approval of the the Internal/Management Control Code of public entities, amended and supplemented by Order nr. 200/2016, which reduced to 16 the number of standards.

Annually, between September and October the implementation of the Internal/Management Control System (SCIM) is self-assessed within the company.

In 2016 the self-assessment was based on the organizational structure approved by the Rules of Procedure and Organization 2016 that is 151 organizational entities. Rules of Organization and Operation of 2016, respectively 151 organizational entities. The self-assessment questionnaire completed in accordance with the legal requirements is set out in Annex 11.

The conclusion resulting from the analysis and centralization of the data in the self-assessment questionnaires submitted by organizational entities is that within the company the internal/management control system is partly compliant, 15 standards of the 16 standards in Order 400/2015 of the GSG on the approval of the Internal/Management Control Code of public entities, amended and supplemented by Order nr. 200/2016 being implemented.

Standard	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
No. of departments where the standard is applicable	151	151	151	151	151	151	151	151	151	151	151	151	151	17	151	3
Implemented I	151	151	151	150	148	137	144	128	136	148	144	151	150	17	150	3
Partly implemented PI				1	2	14	2	18	15	3	7		1		1	
Not implemented NI					1		5	5								
At the level of th company	I	I	I	I	I	I	I	PI	I	I	I	I	I	I	I	I

Table 32- Implementation of standards at 31.12.2015

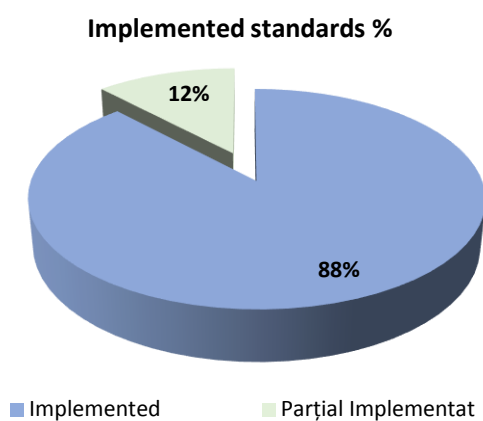


Chart 47- Implemented standards at la 31.12.2016

The following actions are foreseen for the implementation of all specific Internal/Management Control System standards in 2017:

Standard	At the level of the company		
	I	PI	Measures
0	1	2	3
I. CONTROL ENVIRONMENT			
Standard 1 - Ethics and integrity	YES		
Standard 2 - Responsibilities, positions and tasks	YES		
Standard 3 - Competence, performance	YES		
Standard 4 - Organizational structure	YES		
II.PERFORMANCE AND RISK MANAGEMENT			
Standard 5 - Targets	YES		
Standard 6 - Planning	YES		
Standard 7 - Monitoring performance	YES		
Standard 8 - Risk management		YES	Preparation of system procedure, according to SR EN ISO 9001:2015 and PS 01 SMI.
III.CONTROL ACTIVITIES			
Standard 9 - Procedures	YES		
Standard 10 - Surveillance	YES		
Standard 11 - Continuity of activity	YES		
IV.INFORMATION AND COMMUNICATION			
Standard 12 - Information and communication	YES		
Standard 13 - Documentation management	YES		
Standardul 14 - Accounting and financial reporting	YES		
V.AUDIT AND ASSESSMENT			
Standardul 15 - Internal/management control assessment	YES		
Standardul 16 - Internal audit	YES		

Table 33- Measures set to implement the PI standards

In 2016 the following actions were taken to comply with **GSG Order 200/2016 supplementing GSG Order 400/2015**:

- it was updated and developed Decision 519/19.07.2016 on the establishment of the Committee for monitoring, coordination and methodological guidance for the implementation and development of internal/management control of Transgaz SA;
- it was developed Decision 518/19.07.2016 on the establishment of Risk Management Team within Transgaz SA, according to GSG Order 400/2015 of 12.06.2015 amended and supplemented by GSG Order 200/2016;
- It was developed Decision 548 of 26.07.2016 on the appointment of SCI/M responsible persons within Transgaz SA;
- It was approved the 2016 Plan for the implementation of the standards set by GSG Order 400/2015 on the approval of the Internal/Management Control Code of public entities for the development of SCIM within SNTGN Transgaz SA;

- It was updated the 2016 Plan for the implementation of the standards set by GSG Order 400/2015, as further amended and supplemented by GSG Order 200/2016 on SCI/M development in Transgaz SA;
- The procedure PP-106 Risk Management is under preparation according to SR EN ISO 9001:2015 and PS 01 SMI;
- It was updated the Common Zone **(transgaz on intranet - ZoneInterDep - ControlIntern Managerial)**, with limited access of members of the Commission appointed by decision and of the responsible persons by division/unit/subsidiary/regional office. This area was created to achieve a rapid and efficient communication on developing all necessary supporting documents demonstrating SCIM implementation in all company sectors;
- The procedural activities – 184 - and the system and process procedures – 158 - developed at 31.12.2016- within Transgaz were inventoried on 31.12.2016,;
- The performance indicators associated to activities and specific targets were set by division, units the Black Sea PMU, less IT and Communication Division;
- It was developed and updated the Company Risk Register and the Plan of Measures for Minimizing Risks for escalated risks.
- It was held the meeting of the SCI/M monitoring and implementation Commission, with the following agenda:
 - information on the status of implementation and development of SCI/M in Transgaz SA on 30.06.2016;
 - presentation Transgaz SCI/M structure in accordance with GSG Order 400/2015, as further amended and supplemented by GSG Order 200/2016 on Internal Control Code, and approval of SCI/M Transgaz organisational chart;
 - Transgaz SA monitoring and operational risk management report;
 - approval of letter on the 2016 SCI / M self-assessment process for completion of Self-assessment Questionnaire for 2016;
 - presentation of the key element - Control Environment - and related standards: Standard 1 - Ethics and integrity, Standard 2 – Responsibilities, positions and tasks, Standard 3 – Competence, performance and Standard 4 – Organizational structure și Standardul 4
 - others.
- The Self-assessment Questionnaire for 2016 was sent to all organisational structures within starting the process of self-assessment of the implementation stage of SCI/M in the Company;
- The results of evaluation questionnaires were centralized from 151 departments/offices and 15 standards are `implemented` and a standard is `partly implemented`. The implementation of the internal/management control standards at company level is 96.90%;
- The SCI/M implementation within the regional offices was started:
 - regional offices SCI/M responsible persons were appointed and ensured access to the database in the Common zone **(transgaz on intranet - ZoneInterDep - “ControlInternManagerial”)**;
 - Ethics responsible persons were appointed by decision at the level of each regional office;
 - Five binders were completed on the key elements of the regional offices, with standard files related, according to List of internal management/control standards of GSG Order 400/2015 as further amended and supplemented by GSG 200/2016;

- the analytical sheets for the 16 standards were completed with the explanation underlying the response regarding the progress of standard implementation and the documentation related;
- for Standard 5 – Targets it was prepared the List of specific targets and performance indicators by territorial office;
- for Standard 8 - Risk Management it was prepared the List of specific targets, risks and control instruments by territorial office and it was prepared the Risk Register by territorial office, according to Annex 6 of PP-91-Preparation/update of Transgaz Risk Register.

6. Organisational structure of the Internal/Management Control System

The organisational structure of the Internal/Management Control System of SNTGN Transgaz SA, according to GSG Order **200/2016**, is as follows:

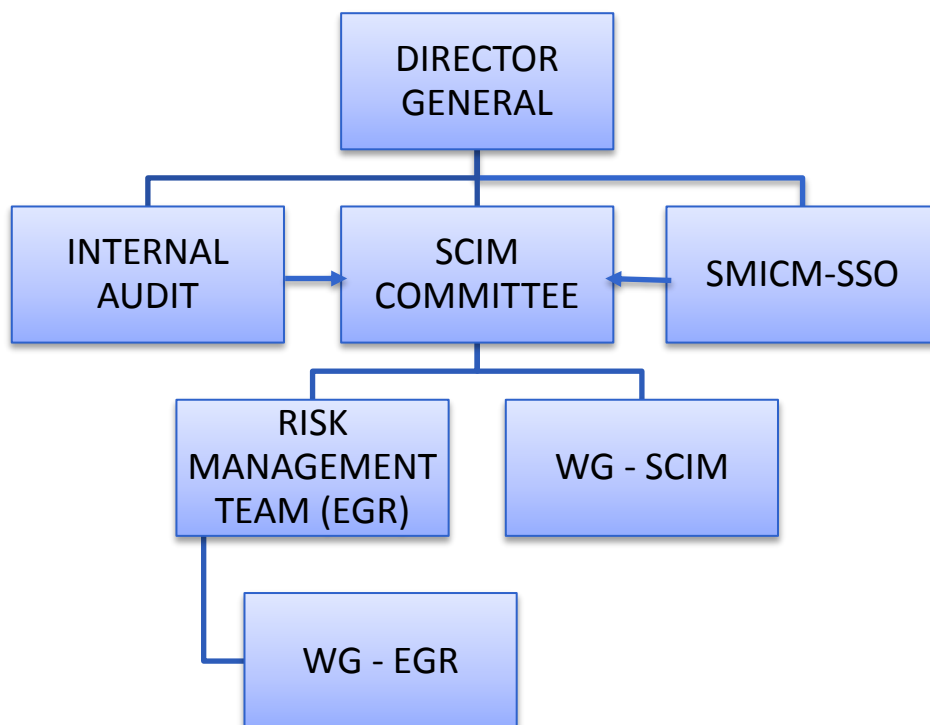


Fig. 2 - Organizational structure of the internal/management control system of SNTGN Transgaz SA

NOTE:

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

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

For the monitoring, coordination and methodological guidance for the implementation and development of internal/management control, the director general of SNTGN Transgaz SA established the **Monitoring Committee** under **Decision 519/19.07.2016**.

The organizing and working of the *Monitoring Committee* according to procedure PP - 105 `Conducting meetings of the Committee for monitoring, coordination and methodological guidance for the implementation and development of

internal/management control is the responsibility of its chairperson and is set depending on the volume and complexity of processes and activities.

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

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

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

The **Secretary** of the *Monitoring Committee* is the Budgeting Strategy Unit Director. The *Monitoring Committee* Secretariat is provided by the Strategic Analysis and Information Office - Budgeting Strategy and Performance Indicators within the Budgeting Strategy Unit, the Strategy and Corporate Management Department.

The *Monitoring Committee* has the following main responsibilities:

- coordinates the process of updating the company's overall objectives, specific objectives and performance or outcome indicators activities for their evaluation;
- monitors and evaluates annually the overall objectives of the company;
- annually analyze and prioritizes significant risks that may affect the overall goals, setting risk tolerance limits, which must be approved by the company management and are mandatory for all departments and submitted application;
- analyzes and approves procedures and forwards them for approval to the director-general of (members involved in the activities having procedures submitted for review and approval);
- analyzes for approval the information on conducting the risk management process developed by the Risk Management Team;
- analyzes for approval the monitoring performance information at the entity level, prepared by the secretary of the Monitoring Committee, based on annual reports regarding annual performance monitoring at the level of the departments;
- prepares/updates/monitors annually the implementation and development plan of the of internal/management control system of the company, including objectives, actions, responsibilities, deadlines;
- submits for the approval of the director-general the implementation and development plan of the of internal/management control system of the company;
- guides the company departments for the implementation and development of the internal/management control system;
- presents to the director-general, whenever deemed necessary, but at least once a year, information on progress of implementation and development of internal/management control system, in relation to the company plan, monitoring coordination and methodological guidance actions undertaken and other issues arising in connection with this area;
- performs annually the self-assessment of the development of internal/management control system of the company;
- prepares and submits annual reports on the progress of implementation of internal/management control system based on GSG Order 400/2015 amended

and supplemented by Order 200/2016 on approval of Internal Management Control Code, of the public entities at the close of the financial year of the previous year together with the annual financial statement, to the Ministry of Economy, Trade and Relations with the Business Environment;

- prepares and submits to Ministry of Economy, Trade and Relations with the Business Environment at the dates set by it, but not later than 15 March each year, the plans of measures prepared and updated for the implementation and development of the internal/management control system, including the administrative documents establishing a structure dealing with internal/management control system development.

In order to manage company risks, the general – director of Transgaz SA, by **Decision 518/19.06.2016 established the Transgaz risk management and risk management teams** divisions/units/departments/Medias Subsidiary/regional offices.

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

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

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

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

The organizing and working of the Risk Management Team is the responsibility of the President and is set by process procedure PP-106 Risk Management.

The secretary of the company Risk Management Team prepares the company Risk Register by centralizing risk registers by division/unit/department/Medias Subsidiary/regional office.

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

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

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

The Risk Management Team of the company has the following main responsibilities:

- coordinates **risk management teams** established by division/unit/department/Medias Subsidiary/regional office represented;
- analyzes and prioritizes significant risks that may affect the achievement of specific objectives of division/unit/department/Medias Subsidiary/regional office represented;
- validates or invalidates the escalating risks;
- proposes risk appetite for the current year;
- proposes risk tolerance limits;
- sends until the deadlines set in team meetings reports regarding the conduct of the company risk management process;
- analyzes and validates the company Plan of Measures for Minimizing Risks for escalated risks;
- analyzes progress of implementation of control measures to minimize risks and establish the necessary corrections, reviews risk exposure and validates the residual risks;
- until the deadlines set in team meetings receives from the risk management teams established by division/unit/department/Medias Subsidiary/regional office reports on the conduct of the risk management process;
- analyzes the report on the conduct of the risk management process prepared by the Risk Management Team Secretary, based on annual reports from the division/unit/department/Medias Subsidiary/regional office;
- presents to the Committee for monitoring, coordination and methodological guidance for the implementation and development of internal/management control, whenever deemed necessary, but at least once a year, information on progress of company risk management;
- The risk management teams established by division/unit/department/Medias Subsidiary/regional office have the following main responsibilities:
 - identify, evaluate and prioritize risks that may affect the achievement of goals;
 - inform the relevant structures of their findings in order to maintain the identified risks within acceptable limits;
 - prepare the risk register of the division/unit/department/Medias Subsidiary/regional office represented according to process procedure PP- 106 Risk Management;
 - validate or invalidate the classifying solution for the risks proposed;
 - approve proposed escalation risks;
 - rank the risks and develop risk profile;
 - analyze and adopt the retained risk control measures and appoint the person responsible for implementing actions/measures for keeping risks under control;
 - debate the progress of implementation of control measures, establish the necessary corrections, review and sets the exposure to residual risk which is assessed;
 - set closure of risk resolved.

The company Risk Management Team Secretary (his/her deputy) has the following main responsibilities:

- centralizes Risk Registers by division/unit/department/Medias Subsidiary/regional office for all inherent risks identified and escalated and prepares the company Risk Register for escalated risks and updates it annually;
- summarizes the Report for monitoring the progress of implementation of measures to minimize risks by division/unit/department/Medias Subsidiary/regional office;

- summarizes the Plan of Measures for Minimizing Risks by division/unit/department/Medias Subsidiary/regional office;
- prepares the company Plan of Measures for Minimizing Risks for escalated risks;
- prepares the annual report regarding the risk management process at the company level.

3.1.14 Risk Management

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

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

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

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

- preparation of procedure **PP- 91 Preparation/updating of risk register**;
- establishing specific objectives and performance indicators associated with specific work and objectives by divisions and units – **Annex 1** – Specific objectives and performance indicators by division/unit/department/Medias Subsidiary/regional office in PP-91 Preparation/updating of risk register;
- establishing performance indicators associated with specific activities and targets by divisions, units, the Black sea PMU;

- establishing activities specific to the department/office within the division/unit/independent department to meet specific targets and the performance indicators and inherent risks by activities –Annex 1a – Department/office targets, activities, performance indicators, risks, risk level and control instruments in PP-91 Preparation/updating of risk register;
- preparation of Plans to minimize identified (inherent) risks for the risks identified by division/unit and until the department/office level;
- preparation and undating of the company Risk Register for escalating risks and and the Plan of Measures to Minimize Risks for escalated risks for the top management.

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

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

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

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

3.1.15 Other aspects of the company's activity

In order to implement the strategy of the Management Plan between 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 natural gas reserves 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 teke 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 Transgaz continued the cooperation with ExxonMobil nd OMV Petrom, the exchnage of technical,

economic, financial and legal information aiming at the coordination of NTS necessary developments and offshore developments in the Black Sea blocks.

✓ ***Cooperation with Black Sea Oil&Gas S.R.L./Petro Ventures Europe B.V./Gas Plus International B.V.***

Under the Cooperation Agreement signed in 2015 with Black Sea Oil & Gas S.R.L., Petro Ventures Europe B.V. and Gas Plus International B.V., Transgaz cooperated with the representatives of the parties involved to mutually inform each other on the progress made and on the harmonisation of the development and implementation schedules of the two projects.

▪ **Obtaining grants in order to finance projects**

✓ ***Grant under the CEF***

The Black Sea PMU provided support to the EU Funds and International Relations Division to formulate answers for clarification and additional information requested by Innovation & Networks Executive Agency (INEA) to prepare the Grant Agreement for the execution works under the BRUA Project Phase 1, contract which was signed at Budapest in 09.09.2016.

✓ ***Financing from international bank institutions***

The Black Sea PMU provided support in the discussions and meetings between Transgaz and international bank institutions to obtain funds for the BRUA Project.

✓ **Cooperation with the USTDA**

The cooperation with the United States Trade Development Agency was continued based on the Grant Agreement concluded with Transgaz in September 2015. USTDA approved the contractor selected by Transgaz in charge with 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 draft Agreement agreed by the parties was sent to USTDA for approval. Following draft clarifications and supplementation, the agreement on the feasibility study for the implementation of the Transgaz project for NTS extension in Romania was approved by USTDA and signed by Transgaz and Granherne Inc.

On 31.12.2016 this contract was in progress, and The Black Sea PMU made available for the contractor the entire information requested by it regarding the financial model, the cost-benefit analysis, etc. for the BRUA Project.

Reports requested by ACER and CESEC

For loading on ACER website, according to the annual reporting obligation of Transgaz as a promoter of projects of common interest, the Black Sea PMU was involved in filling in the forms Monitoring the implementation of projects of common interest in 2016 - Gas transmission pipelines - Progress Report for PCI project implementation according to Article 5 (4) of Regulation EU 347/2013 for the projects:

- 6.24.2 Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor — transmission pipeline Podișor — Horia GMS and 3 new compressor stations (Jupa, Bibești and Podișor) (1st phase) ;
- 6.24.7 Expansion of the transmission capacity in Romania towards Hungary up to 4.4 bcm/year (2nd phase)
- 6.24.8 Black Sea shore — Podișor (RO) pipeline for taking over the Black sea gas;
- 6.25.3 Further enlargement of the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor [currently known as "ROHUAT/BRUA", phase 3].

The Black Sea PMU provided support to the International relations Unit to complete information requested by the European Commission - DG Energy - by different forms, regarding the projects managed by the Black Sea PMU. We mention the questionnaire 'Financial screening of projects in the framework of the Central and South-Eastern European Gas Connectivity (CESEC) initiative' sent by Grant Thornton Greece, the consultant of the European Commission. Based on this questionnaire the European Commission is carrying out a financial analysis of the projects on the CESEC list.

The process of obtaining the Environmental permit for the BRUA Project

The environmental consultant completed the Environmental Impact Report and Appropriate Assessment Study (SEA). The documentation was submitted on 08.03.2016 at the National Agency for Environment Protection Agency (NEPA). Following the submission of environmental documentation in March, NEPA informed Transgaz that the SEA stage will be carried out in the first phase. NEPA sent comments on SEA at the end of March. These were implemented and the SEA prepared again was submitted to NEPA on 7 April. Subsequently NEPA requested new additions to the SEA that were submitted between April and June 2016.

As part of the procedure for obtaining an Environmental Permit NEPA requested the custodians of the Natura 2000 sites crossed by the project their opinion. Also, between 30 May and 3 June Technical Analysis Committee meetings took place at the environmental protection agencies of the counties where the BRUA pipeline route crosses or is in the proximity of the Natura 2000 sites, namely Giurgiu, Ilt, Valcea, Gorj, Hunedoare, Caras-Severin and Timis counties.

On 15.06.2016 the environmental impact report was submitted to NEPA integrating also the conclusions of the SEA.

According to Letter DPC no. 30.496/05.07.2016 and Decision 541/25.07.2016, starting with the second half of July, the PMU no longer manages environmental issues, which are undertaken by Environment and Archaeology Office.

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

Transgaz, together with the transmission system operators FGSZ Hungary and Gas Connect Austria made a market test on the Capacity Allocation Concepts in the Open Season regarding the RO-HU-AT corridor.

Voluntary liquidation of the Nabucco Gas Pipeline International GmbH Company

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

It was finalized the draft cancellation agreement (of the JVA) and asset distribution (NIC) (TADA), agreement regulating the possibility and method of distribution between the shareholders of the remaining NIC assets. The final draft of the agreement will be approved internally by each shareholder. Regarding Transgaz TADA was approved in May according to the EGMS Resolution 3/29 April 2016. TADA was signed by all Nabucco associates and became applicable as of 15.09.2016.

Relation with the Competent Authority for projects of common interest (ACPIC)

Within the authorization procedure cooperation relations are carried out with ACPIC for PCI 6.24.2 Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor — transmission pipeline Podișor — Horia GMS and 3 new compressor stations (Jupa, Bibești and Podișor) (1st phase), hereinafter referred to as the BRUA Project, Phase 1, to meet the obligations and responsibilities of each party in accordance with Art. 10 of Regulation (EU) 347/2013.

The Black Sea PMU prepared the notification to initiate proceedings before application for the project of common interest BRUA Phase 1. The notification was submitted to and approved by ACPIC this by issuing the notification letter of approval for initiation of proceedings before application.

In accordance with Regulation 347/2013 it was also prepared the "Concept on public participation" for the BRUA Project Phase 1 Concept which was approved by ACPIC in September 2016

Transgaz, by the Black Sea PMU and other units of the Company, maintain permanent contact to develop, review and finalize the documents required by Regulation 347/2013: Information Brochure, Non - Technical Summary, Manual for authorization procedure applicable to projects of common interest, etc.

The procedure was initiated also for the project 6.24.8 Black Sea shore — Podișor (RO) pipeline for taking over the Black sea gas

Miscellaneous

The Black Sea PMU is involved in activities performed within the working group ensuring the project management for design services for the compresor stations of the BRUA project and in other activities of the working group involved in the preparation of the specifications for the procurement of the pipe material, valves, electro-insulating sleeves for the BRUA project Phase 1 and the specifications for th execution of the BRUA pipeline Phase 1 (Lot 1, 2, 3, 4).

As of 01.10.2016 BRUA project related activities were taken over by the BRUA PMU.

Elements regarding the activity of Transgaz at international level

In order to implement the strategic objectives of a transformation into a European company, Transgaz needs to strengthen its status given both by the geographic location and the monopoly on the operation of the national gas transmission system, 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 were held and correspondence was exchanged with the representatives of Bulgartransgaz regarding the implementation of execution works for the Danube River undercrossing with the main pipeline and the backup pipeline, according to the relevant contracts:

- Works execution contract for the crossing of the Danube River with the main pipeline, between TRANSGAZ – BULGARTRANSGAZ and SC HABAU PPS PIPELINE SYSTEMS SRL Ploiești, Romania was signed at 06.04.2016.
The operations related to the building of the main pipeline were finalized, the Commissioning Report being signed at 4.11.2016.
- The contract between TRANSGAZ, BULGARTRANSGAZ and the winner of the procurement procedure for the contracting of the construction works for backup pipeline of the undercrossing of the Danube River – the INSPET SA association, with the leader – HABAU PPS Pipeline Systems SRL, associate, was signed at 30.05.2016.

All operations for the construction of the backup pipeline of the Danube undercrossing were completed and on 22.12.2016 the Commissioning Report was signed.

The interconnection - completed technically - will become operational after the auctions for the capacity allocation in accordance with Regulation (EU) 2013/984 establishing a Network Code on Capacity Allocation Mechanisms, most likely early next year.

In this regard, the parties signed an interconnection agreement – according to Regulation (EU) 2015/703 establishing a network code for interoperability and data exchange - which provides both aspects of the operation of the Ruse-Giurgiu interconnection point and issues related to the procedure of allocation of related capacity.

2. Regarding the joint operation of the Negru Vodă I, II and III cross-border IP.

- In July the parties signed the Interconnection Agreement for the Negru Vodă I IP, according to Regulation (EU) 2015/ 703 establishing a network code on interoperability and data exchange rules.
- For the Negru Vodă II and III IP, the parties are in the process of agreeing the provisions of an interconnection agreement.

Cooperation with FGSZ Ltd.:

1. The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:

- The parties cooperate for launching an Open Season for the capacity of the PCI nr. 7.1.5. Gas pipeline from Bulgaria to Austria, via Romania and Hungary (BRUA).

2. Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT)

- According to the Interconnection Agreement concluded at the end of 2015 for the Csanadpalota IP, according to Regulation (EU) 2015/703;
- According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the capacity of the cross-border IP, according to Regulation (EU) 2013/984.

Cooperation with UKRTRANSGAZ:

- The parties concluded in July the Interconnection Agreement for the Isaccea 1 cross-border interconnection point according to the applicable European regulations.
- The parties will analyse whether it is possible to conclude an interconnection agreement for the Medieșu Aurit/Tekovo IP.

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), LNG Croatia LLC, ENAGAS (Spain), SNAM RETE (Italy), Gaz-System (Poland), Srbijagas (Serbia), Fluxys (Belgium). Memorandum of understanding were signed with the following companies: DESFA (Greece), SOCAR (Azerbaijan), GRTgaz (France), Vestmoldtransgaz (R.Moldova), Petrovietnam (Vietnam);

The project Vertical Gas Corridor is in analysis, after the signing in the CESEC High Level Work Group meeting held in Budapest on 8 September 2016 of a Joint Declaration between the ministers of energy of the states impacted by this corridor.

Within the meeting of the CESEC High Level Work Group held in Budapest on 8 September 2016, it was signed a Memorandum of Understanding regarding the steps to be taken in the framework of a plan of action for the project to ensure idirectional capacity in the

international gas transmission corridor from the Balkan region, with Bulgartansgaz, DESFA and Ukrtransgaz.

- **International suppliers/distributors and shippers of natural gas ((Gazprom, Bulgargaz, ExxonMobil, OMV, ENGIE, etc.).**
- **Infrastructure and energy services and equipment for the gas industry**

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 domain of gas regulations, policy, innovation, standards and products, 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 2016, the cooperation relationship with the following associations was managed within the EU Funds and International Relations Division:

- ✚ International associations: Gas Infrastructure Europe (GIE), Piggings Products and Services Association (PP&SA) of UK.
- ✚ National associations: CNR- CME, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, ARME, the Romanian Energy Centre, American Chamber, the ICC National Committee Romania.

Steps were taken to re-adhere to Infrastructure Gas Association Europe (GIE) established to promote the interests of natural gas infrastructure operators and to provide a framework for cooperation to operators of infrastructures at the European level. Since 1 October 2016, Transgaz became a full member in this association.

The EU Funds and International Relations Division through the Cooperation with National and International Bodies department, manages also the collaborative relationship with the European Commission, mainly DG ENER. Since regional cooperation is a key element to enhancing energy security, Transgaz actively participates in the joint work of the European Commission's CESEC initiative. Also, Transgaz actively participates in the meetings coordinated by DG ENER Regional Groups and established under Regulation (EU) No. 347/2013 for evaluation and selection of infrastructure projects to the European list of projects of common interest.

Between January and December 2016, the management of the division, through the DAFERI director, Director of International Relations, Director of European Funds and the heads of the DAFERI structure, attended a series of meetings with various external partners and European organizations in the field, as well as national and international events dedicated to the gas sector that have a significant impact on the work and objectives of the Company.

The EU Funds and International Relations Division representatives promoted and supported the Company's interests within the international events, identifying at the same time the potential development of the new and beneficial cooperation relations meeting Transgaz's goals.

The Transgaz Representative Office in Brussels aims to create new opportunities for direct and constructive dialogue with both EU institutions, major players in the energy field and partners of our Company, to promote the mission and vision of the Company at EU level and generally to stimulate the achievement of the main strategic objectives of TRANSGAZ, aimed at transforming our Company into a gas transmitter internationally recognized, with a leading position on the regional energy market and a modern and integrated transmission system.

The Transgaz Representative Office in Chisinau was established to develop infrastructure projects in the gas field in cooperation with Moldova.

Within DAFERI the cooperation relationships with relevant ministries are managed. In 2016 information on the status of strategic projects undertaken by Transgaz, regional gas transmission projects impacting Romania and the cooperation relationships with external partners was sent to the Ministry of Economy, Trade and Relations with the Business Environment, Ministry of Energy and Ministry of Foreign Affairs. Also through the Cooperation with National and International Bodies Department within DAFERI it is managed the relationship with the Competent Authority for Projects of Common Interest (ACPIC) to implement projects of common interest (PCI) on the European list of PCI and promoted by Transgaz, according to EU Regulation 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure repealing Decision No. 1364/2006/EC and amending Regulation (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009.

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 2016 are as follows:

Name of NTS objective/component	U.M.	Value
Transmission pipelines and connections of gas supply, of which transit pipelines	km	13.303 553
Measurement regulating stations (MRS) in operation	pc	1.132 (1.244 measurement directions)
Valve control stations (VCS, NT)	pc	60
Import gas measuring stations (GMS)	pc	6
Measuring stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	3
Cathode protection stations (CPS)	pc	1.042
Gas odorization stations (GOS)	pc	871

Table 34 - Main components of the NTS on 31.12.2016

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 45 sectors. From a technological point of view the NTS consists of 9 regional gas transmission sub-systems.

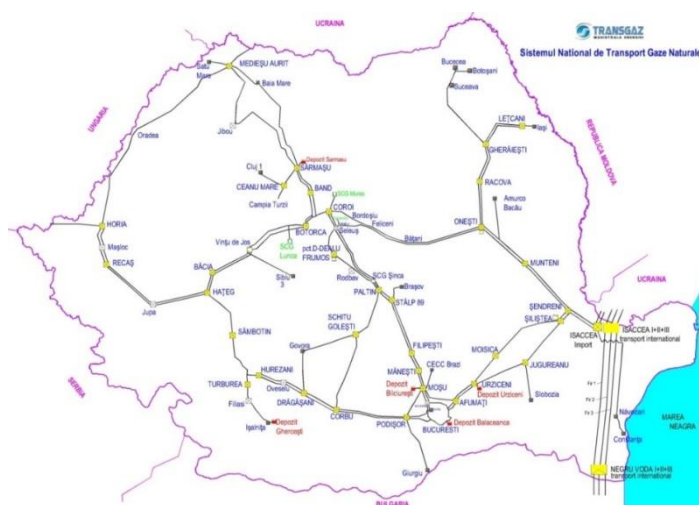


Fig. 3 - Map of the Natural Gas Transmission System

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	Transmission pipelines (km)	Supply fittings (km)	Number of Directions for Metering Regulating Stations
> 40 years	6.242	337	138
Between 30 and 40 years	2.037	128	53
Between 20 and 30 years	664	182	138
Between 10 and 20 years	1.468	826	539
< 10 years	1.096	323	376
TOTAL	11.507	1.796	1.132 MRSs (1.244 metering directions)
	13.303		

Table 35–Main components of the NTS on 31.12.2016 in terms of service life

Out of the **13,303 km** gas transmission pipelines in operation, about **72% have an effective service life higher than 20 years**, close to their normal service life.

The inspections performed, out of which by intelligent PIG for about **2,495 km** (3,590 km taking into account multiple inspections, 282 km in 2016) reveal high levels of pipe 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 1,042 pipeline cathode protection stations.

Approximately 96% of the pipelines and fittings that are in use have cathode protection. Potential intensive metering were performed in 2016 for 251 km of pipelines.

The gas delivery to the distributors and end users is performed by the **1.244 MRSs** (metering directions) that are included in the upgrading / rehabilitation programs to be integrated into the SCADA automatic control and monitoring system. Of the 1.244 MRSs (consumption directions) in operation in the first stage, a total of 948 are considered for the implementation of the SCADA system.

The compression capability is provided by 3 gas compression stations, placed on the main transmission directions. In 2016 modernization works regarding fix gas detection, flame and fire extinguishing monitory systems were performed at the Onesti TCS and Silistea TCS.

The Silistea station is equipped with installations performed in the 70s which are worn and torn, and modernization/rehabilitation strategies must be considered.

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 at all compressor stations.

The *gas dispatching* in the NTS is performed by manoeuvres also carried out at the interconnection nodes of the main pipelines. Most nodes are equipped mainly with manually operated manoeuvre valves and equipment for monitoring parameters, most of which are outdated in terms of performance and operation safety. Of the existing technological nodes about 20% are new or rehabilitated. During the including in the SCADA system, the process of modernizing the technological nodes will continue.

Gas odorization is ensured by a number of 871 odorization facilities of which 538 systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas. Of the 538 modern systems, a total of 28 are centralized - serving several delivery points. The other 333 `evaporation/drip` type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or overodorization and thus to an increased consumption of odorant. Out of these 15 facilities are centralized.

It should be stressed however that although the infrastructure is quite outdated, 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/export of natural gas to/from Romania is achieved by 5 cross-border interconnection pipelines:

Cross-border interconnection pipeline features	
UKRAINE	Orlovka (UA) – Isaccea (RO) - DN 1000, Capacity = 8.6 bcm/year, P _{max} = 55 bar
	Tekovo (UA) – Medieșu Aurit (RO) - DN 700, Capacity = 4.0 bcm/year, P _{max} = 70 bar
HUNGARY	Szeged (HU) – Arad(RO)- Csanadpalota -DN 700, Capacity = 1.75 bmc/an, P _{max} = 63 bar
REPUBLIC OF MOLDOVA	Ungheni (MO) – Iași (RO) - DN 500, Capacity = 1.5 bmc/an, P _{max} = 50 bar
BULGARIA	Ruse (BG) – Giurgiu (RO) - DN 500, Capacitate = 1.5 mld.mc/an, P _{max} = 40 bar

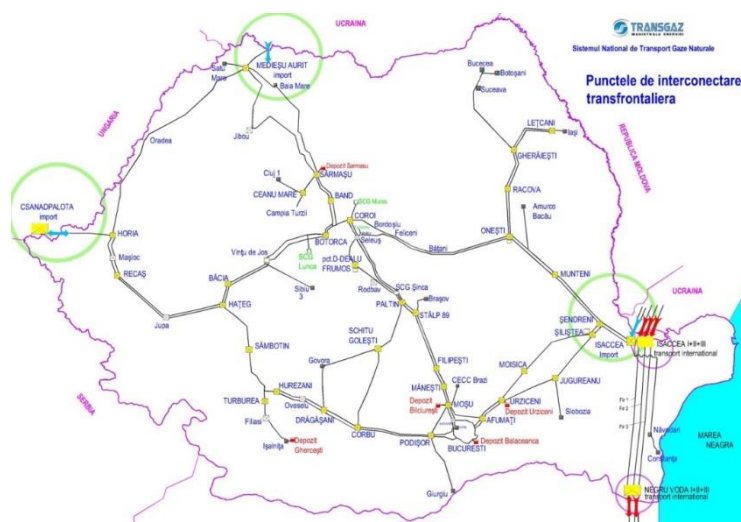


Fig. 4 – Cross-border interconnection points of the NTS

3.2.2 Investments made in 2016 versus Investments planned in 2016

Compared to the estimated value of the Investment Development and Upgrading Plan for 2016 of **RON 721.902 thousand**, the total value of the achievements for 2016 is **RON 119.822 thousand**, which is a fulfilment of the program at a rate of **16,60%**.

The status of the achievements related to the ongoing objectives of the Development and Upgrading Plan at the end of 2016 is as follows:

Modernization of the fixed gas and flame detection system and fire extinction at Siliștea TCS and Onești TCS

The works are completed and accepted.

Modernization and automation of the technological nodes

The status of the works for the 19 technological nodes included in Annex 1 of which at the Moisica TN are executed both technological installation modernization works and facility automation and surveillance electrical installations as follows:

- 6 technological nodes were completed (Gherăiești, Schitu Golești, Horea, Dealu Frumos, Jugureanu and technological instalations in Moisica);
- 4 technological nodes are in execution (Mănești and facility electrical actuation, automation and surveillance installations at Moșu, Ceanu Mare and Sâmbotin);
- 2 tehnological nodes are suspended for lacking building permit or legal status of land (Racova and Filipești);
- 4 tehnological nodes are in the site surveillance, automation and electrical installations procurement (Băcia, Receaș, Drăgășani and Moisica);
- 4 tehnological nodes are under design (Corbu, Botorca, Hațeg and Bogata 3). At the Hațeg TN there are problems regarding siting.

SCADA valves and technological nodes enclosures

The status of the works for the 6 enclosures of the SCADA valves:

- 4 works are accepted (at enclosures Lemniu, Câțcău, Pogăceaua and Cornești),
- 2 works are under design (at enclosures Lutița and Sarmisegetuza).

The status of the works for the 5 enclosures of the technological nodes is as follows:

<ul style="list-style-type: none"> ▪ 4 works are completed and accepted (at enclosures Munteni, Drăgășani, Lăzărești and Isaccea), ▪ 1 work under procurement procedure (at enclosure in Feliceni).
<p>Licences to take over SCADA-TRANSGAZ entry/exit signal</p>
<p>The procurement is abandoned.</p>
<p>Changing a series of metering lines within the technological nodes and which will be included in the SCADA project, from metering in a single direction to bidirectional metering</p>
<p>The 76 metering lines were completed and accepted.</p>
<p>The Ø 24" Coroi - Paltin gas transmission pipeline, the Seleuș – Bărcuț section, the Retiș zone</p>
<p>The execution works were completed and accepted.</p>
<p>The Ø 12" Turburea – Aninoasa gas transmission pipeline</p>
<p>The execution works planned were completed and accepted in 2015 by the Medias Subsidiary.</p>
<p>Deviation of pipeline Ø12" Moinești – Dărmănești, Dărmăneasca area</p>
<p>The execution works were completed and accepted. Due to problems with landowners, it was decided to move the pipeline coupling point 200 m downstream of the problem area, and for the 200 m of pipeline not replaced, lawsuits were initiated against the owners because of whom the technical documentation and building permit could not be complied with.</p>
<p>Gas transmission pipeline Ø32" Crevedia – Podișor</p>
<p>The work refers to butt weld in full line of the pipeline in the area of owner Apostolache over approx. 300 m. The pipe material has been supplied, following that the works be executed by the Medias Subsidiary. The litigation regarding the landowner is in progress.</p>
<p>The crossing of the Argeșel river with the Ø20" Schitu Golești - Slătioarele pipeline, in Pișcani area</p>
<p>The execution works were completed and accepted.</p>
<p>The interconnection of the Ø10" Gănești - Ungheni pipeline with the Ø24" VEST III (Band - Băcia) pipeline at Gănești, county of Mureș</p>
<p>The contract expired and the materials procured were taken over. It is considered the possibility of concluding a new contract.</p>
<p>The Ø10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline</p>
<p>The work is contracted in 2012. The total length of the pipeline is 35 km out of which 25.8 km are in the forest fund. The building permit was obtained for 9.2 km (the Câmpulung Moldovenesc – Pojorâta section) of which 8.2 kilometers were built. Because the leader of association INSCOMP Suceava became insolvent, the termination of the contract is in progress, following that for the difference of 1 km a new project be prepared, which will be subject to a new procurement procedure. Also, for the 25.8 kilometers pipeline crossing the forest fund, the project will be updated and enter a new procurement procedure</p>
<p>The Ø16" Vaslui - Lețcani gas transmission pipeline (Mogoșești – Lețcani)</p>
<p>The work has been suspended because of lacking the ROMSILVA permit to cross the forest area over 1,700 m.</p>
<p>The Ø28" Gănești – Idrifaia – Coroi gas transmission pipeline</p>

The work is in execution. Of the total 21 km pipeline 20 km were mounted and buried, remaining the execution of the road crossings, the pipeline but welding over the entire length and the pressure issues.

The Ø16" Vaslui – Iași gas transmission pipeline (Vaslui – Mogoșești section)

The execution works at the Mogoșești Bahlui section are completed, following to be accepted. The pipeline section Bahlui –Lețcani TN is under design, following to be initiated the auction procedure and the conclusion of a new execution contract.

The MRS Sebeș gas connection pipeline

The execution works were completed and accepted.

The preparation of the Ø28" Seleuș - Cristur - Bățani pipeline for becoming piggable

The execution works contracted are completed and accepted.

The Ø 12" Cămăraș - Lunca Câțcăului gas transmission pipeline, Țaga area

The execution works contracted are finalized and accepted.

Technical solution to avoid exceeding of 6 bar pressure in the Ø 20" FORTUS MRS Iași connection pipeline

The execution works are finalized and accepted.

The Ø12" Negru Vodă – Techirghiol – Constanța gas transmission pipeline (Pecineaga – Techirghiol section)

This pipeline section is continuing the pipeline executed in the Negru Vodă – Pecineaga – Mangalia direction. The FEED is finalized and submitted to OCPI Constanta, following that after obtaining their approval for removal from the agricultural circuit all documentation be submitted for issuing the Construction Permit.

The Ø24" Mașloc – Recaș gas transmission pipeline

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.

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 preparation. In cannot be estimated a delivery term for the FEED, since the agreements of the landowners are necessary.

The Ø12" Mintia – Brad – Ștei gas transmission pipeline

The technical documentation is under preparation.

Mounting of the pig receiving trap (temporary) Dn 800 mm on the Ø 32" Bățani - Onești pipeline, Bogdănești area

The procurement procedure is under development.

The Ø20" Plătărești – Bălăceanca gas transmission pipeline

The procurement procedure is under development.

The undercrossing of the Mures river with the Ø20" Fântânele – Arad pipeline, in the Fântânele area

The execution works are suspended at the moment due to the cold season, following to be resumed in 2017.

Works regarding the ensuring of the Ø28" Platou Izvor Sinaia – Filipești pipeline, Talea – Breaza zone

The execution works are suspended at the moment due to the cold season, following to be resumed in 2017.

The Ø 20" Sărmășel-Baia Mare-Satu Mare gas transmission pipeline, Sucutard area

The updating of the FEED is in progress.

Ø 10" MRS Luduș connection pipeline

The connection execution works are completed, remaining connection to the MRS, which cannot be performed due to the cold season, following to be executed in 2017.

Works for the ensuring of the gas supply connection of Răcăciuni MRS, Dumbrava tourist area

The technical documentation is under approval.

Works for the ensuring of the gas supply connection of Brăila MRS, the Agricultural Farm zone

The technical documentation is under preparation and approval.

Works for the ensuring of the gas supply connection of Vaslui MRS, the Râpa Albastră zone

The technical documentation is under preparation and approval

The Ø28" Moșu – Buciumeni gas transmission pipeline

The technical documentation is under preparation. The building permit is obtained for Dâmbovița County (based on notifications sent to landowners), but for obtaining the building permit in Ilfov County, the Buftea Municipality (mayor G. Pistol) requests the legalized agreement of the owner, because of disagreeing with text of the law establishing the issuing of the building permit based on the notifications to landowners, without another previous formality.

The Ø 28" MRS SIDEX Galați connection pipeline

The procurement procedure is under preparation, but it is necessary at the same time to update existing approvals and the issuing of a new building permit.

The pipeline for the butt welding over the entire length of the gas distribution system in Craiova

The technical documentation is under preparation.

Works for the ensuring of the gas supply connection of Ø 10" MRS Breaza

In December it was concluded the execution contract. Due to the cold season the Order to Commence the Works, following to be resumed in 2017.

The Ø12" Tr. Măgurele – Corabia gas transmission pipeline

This objective was completed in 2015, the expenses recorded this year representing the value of the materials used at the works executed by the Medias Subsidiary, sent after the acceptance of the objective and which increase the value of the fix asset.

Works for the ensuring of the DN 700 Izvor Sinaia Elevated Plain - Filipești gas pipeline, Talea – Breaza zone (ph.I)

This objective was completed in 2015, the expenses recorded this year representing the value of the materials used at the works executed by the Medias Subsidiary, sent after the acceptance of the objective and which increase the value of the fix asset.

Ploiești gas supply modernization

The procurement procedure is under preparation.
Works for the ensuring of the Ø20" Schitu Golești – Govora pipeline, Budești zone, Vâlcea county
In execution.
Works for the ensuring of the Ø20" Hurezani - București pipeline (line I), Momotești zone
The procurement procedure is under preparation.
Works for the ensuring of the crossing of the Ațintiș river with the Ø20" Ozd - Câmpia Turzii pipeline, Ațintiș zone
The execution contract was concluded, but due to the cold season the Order to Commence the Works, following to be resumed in 2017.
Noise reduction at the TITAN MRS București
The planned works were completed and accepted.
The undercrossing of the Ialomița river with the Ø20" Colibi - Stâlp 89 - București gas transmission pipeline, Cătunu area
The execution works are completed and accepted.
Works for the ensuring of the pipeline Ø28" Bărcuț - Șinca, Ø24" Bărcuț - Șinca CS, Ø20" Rotbav – Șinca CS, Șinca Veche area
The procurement procedure is under preparation
Replacement of railway undercrossing with Turburea - Ișalnița gas transmission pipeline, line III, Florești zone
In December it was concluded the execution contract. Due to the cold season the Order to Commence the Works, following to be resumed in 2017.
The Giurgiu – Ruse interconnection pipeline
The execution works are finalized and accepted.
The surface construction works and installations for the metering regulating stations.
<ul style="list-style-type: none"> ▪ MRS Ișalnița – under procurement procedure; ▪ MRS Craiova East – under design; ▪ MRS Fântânele (Mureș) – the execution works were completed following to execute the connection works after the cold season; ▪ MRS Sângeorgiu de Mureș – under the procurement procedure ▪ MRS Lot 3 – procurement of the MRS in progress ▪ Modernisation of MRS Drăgănești Olt, Olt county – under the procurement procedure; ▪ Replacement of technological installations at MRS Timișoara I – under the procurement procedure; ▪ Upgrading of MRS IZVIN – under design; ▪ Upgrading of MRS Chișineu Cris – under design; ▪ Re-location, re-sizing and adaptation to land of technological installation of MRS Cărămida Tg. Mureș at MRS Cristești – the execution works are finalized and accepted; ▪ MRS Oradea I – the execution works in progress; ▪ MRS adaptation to land lot 1 and 2 – MRS Dej II and Fălticeni adaptation to land under the procurement procedure; ▪ MRS Brazi – the execution works are finalized and accepted;

- MRS Câmpina (Petroutilaj P.Câmpina) – the contract concluded was cancelled following differences between the design subject and the FEED which will be prepared again;
- MRS ISCIP Orăștie (ROMOS) – the execution works are finalized and accepted;
- Re-location, re-sizing and adaptation to land of technological installation of MRS SUPERCOM Afumați la SRM Dragomirești – under the procurement procedure.
- MRS boxes – made by the personnel at the Mediaș Regional Office for the Boița and Venturelli MRSs;
- Modernisation and adaptation to land of the Suceava MRS – under procurement procedure;
- Upgrading of MRS Bârcea – under procurement procedure

Cathodic Protection Station

In 2015 the Laloșu CPS execution works were completed. At the Hârlești CPS the consent of the land owner was obtained and the obtaining of the building permit is in progress. The 5 remaining CPUs are under design.

The works related to the information technology and telecommunication

The annual achievements mainly represent the value of the procurement of softs and IT, video and telecommunication equipment. The modernization works of Cluj and Mediaș Regional Office IT/TC data network are in progress.

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 mounting works are in progress being mounted 90 new installations, and lot 2 is under the procurement procedure.

Connections, networks and thermal installations at the administrative offices and MRS

The works at the heating system at Aghireșu MRS, at the Slobozia MRS thermal installation and at the Bățani Sector thermal heating system are completed and accepted. The street sewerage connection works regarding the building of the Tg. Jiu Sector, the Chișcani MRS water supply works and the procurements of 20 thermal heating systems and 19 convectors which will be mounted at the MRS are under the procurement procedure. The other objectives planned are under design.

Regional Office administrative offices and production bases

The Siliștea CS insulation works, the rehabilitation works at the Transgaz offices in G Enescu street, the modernization of job flat in Medias, Feleac street, and the air conditioning installation cleaning works at the Transgaz Representative Office in Primăverii Blvd., Bucharest were completed. At the Transgaz office in Medias in 6 Carpati street, due to major delays in the execution of the works, the execution contract concluded with SC SEVENERG Brăila was terminated. The remaining objectives planned are under design.

Security and surveillance systems

The security and surveillance systems at Isaccea GMS are completed and accepted.

NTS acces works

Independența Galați MRS and Borzești MRS extension works and the execution of the connections and MRS at Bucovăț, Frumușica, Slobozia II, Ștefan Vodă, Turceni and SC VANBET Rebricea were completed and accepted. The connection and MRS for CRAMELE Recaș, SC SCANDINC DISTILLERIES Drăgănești, SC ARC PARC Dej and Banca, Vaslui county are in progress.

Difficulties are still encountered during the achievement of some investment objectives:

- At the **Ø 10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline**, the continuing of the works in the forest area on the section designed for Pojorâta at Vatra Dornei with a length of 25,8 km, depends upon the ROMSILVA permit, necessary for obtaining the building permit, not issued until now;
- At the **Ø16" Vaslui – Iași (Vaslui – Mogoșești section) gas transmission pipeline** – the execution works are suspended because of problems related to the ROMSILVA permit for the lands located in forested area, the permit being necessary in order to obtain the building permit;

The following steps were taken to solve the problems which occurred during the performance of the execution of the works and achievement of planned objectives:

- 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.

For the Câmpulung – Vatra Dornei pipeline a joint work group was established between the representatives of the local administration, of ROMSILVA and of TRANSGAZ, who work together to establish the actions to be taken to obtain the approval of ROMSILVA.

Most of the investment objectives 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, and with the Art. 125 par. (6) of Law 123/2012, 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, Plan approved by ANRE by Decision no. 2819/17.12.2014.**

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 2016 to 2030 with estimations for 2050 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.

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.

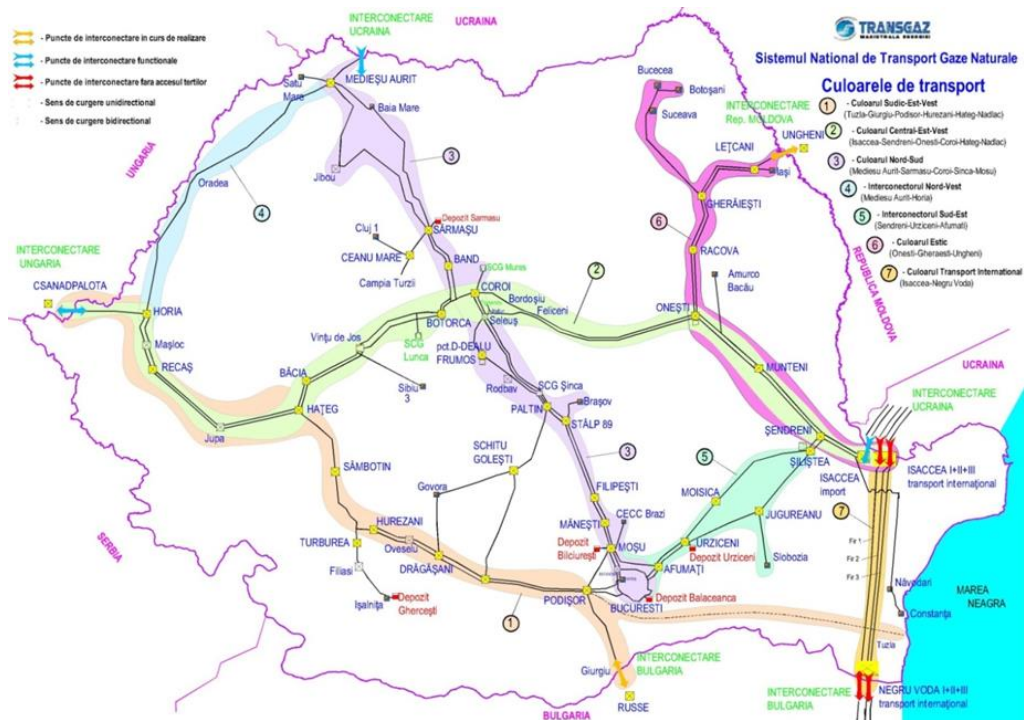


Fig. 5 - The natural gas transmission corridors of the NTS

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

The project aims to **develop transmission capacities in the system** between the interconnections of the Romanian natural gas transmission system and of the similar Bulgarian and Hungarian systems that is the building of a new gas transmission pipeline connecting the Podișor TN and Horia GMS.

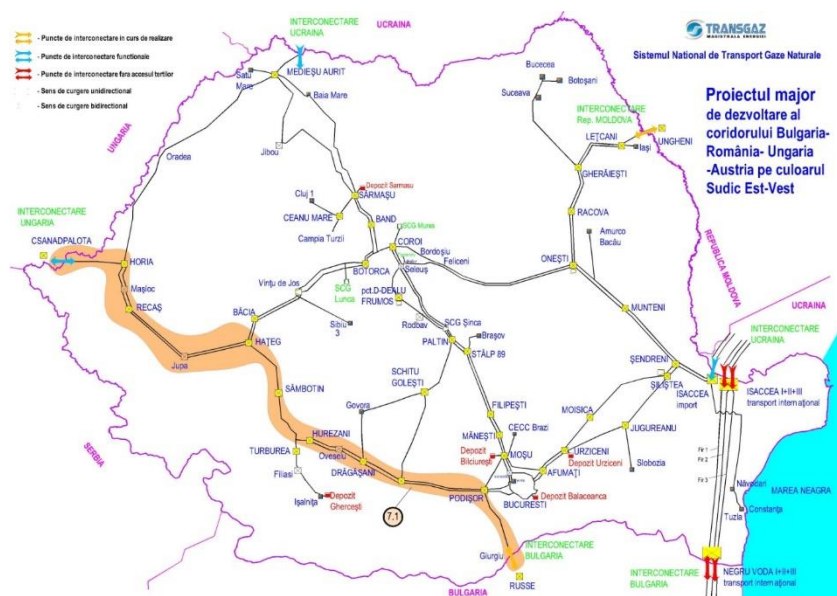


Fig. 6 - BRUA corridor

Transgaz considers the phased development of the BRUA Project:

Phase I

- Podișor-Recaș 32" x 63 bar gas transmission pipeline, approximately 479 km-long;
- 3 ga compressor stations (Podișor CS, Bibești CS and Jupa CS), each station having two compressor units (one operating and one backup), with the possibility to ensure gas bidirectional flow.

At the end of Phase I the following transmission capacities will be ensured

- In the Hungary direction: 1,75 bcm/year;
- In the Bulgaria direction: 1,5 bcm/year

Phase II

- Recaș-Horia 32" x 63 bar gas transmission pipeline, approximately 50 km-long;
- Extension of the 3 compressor stations (Podișor CS, Bibești CS and Jupa CS) by mounting an additional compressor unit in each station;
- Extension of Horia GMS.

At the end of Phase II the following transmission capacities will be ensured

- In the Hungary direction: 4,4 bcm/year;
- In the Bulgaria direction: 1,5 bcm/year.

The estimated total value of the investment is **547, 4 million euro** and **the estimated time for completion is 2019 for Phase 1 and 2020 for Phase 2.**

2. Development of the Southern Danube Corridor in Romania for extracting gas from the Black Sea

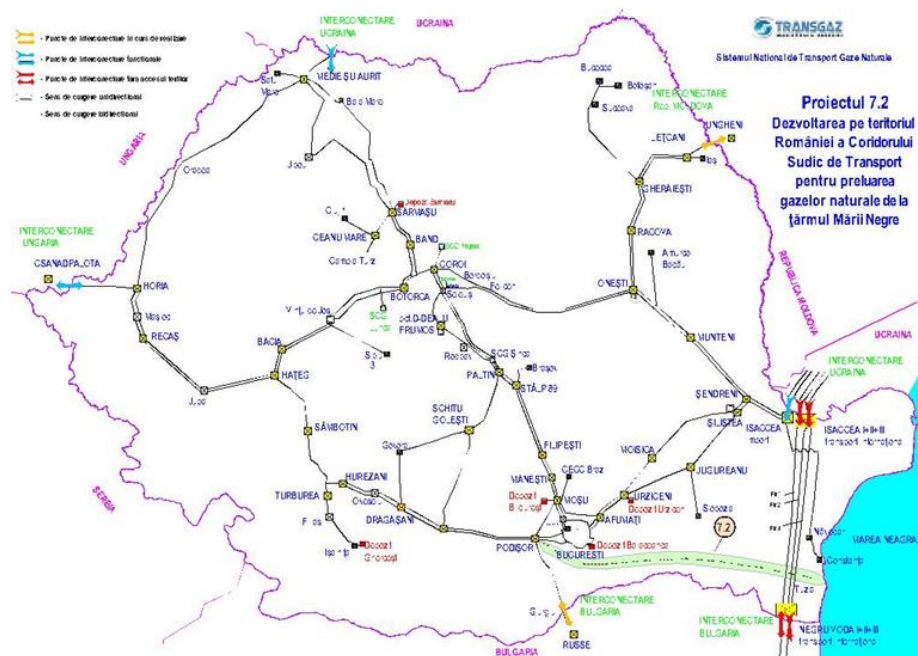


Fig. 7 - Southern corridor Black Sea - Podișor

The Project consist in 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). This pipeline will also interconnect the current international gas transmission pipeline T1.

Thus, a new pipeline is necessary with a length of **307 km**. the cost of this project is approximately **Euro 278.3 million**, the estimated completion deadline is 2020.

3. Project for the interconnection of the NTS with the international gas transmission pipelines

This project is necessary since:

- By its implementation it is created a transmission corridor between the markets in Greece, Bulgaria, Romania and Ukraine, in the conditions in which the new interconnection between Greece and Bulgaria is achieved;
- The transmission contract for the capacity of the Transit 1 pipeline expires on 31 December 2016 and for making available to the market these transmission capacities by creating the connection between the Transit 1 pipeline and the national transport system, it is ensured the access of several shippers on the Romanian and regional market;
- Physical reverse flows could be ensured at the Negru Voda 1 point in accordance with Regulation (EU) 994/2010;
- The project is necessary also in the context of the taking over of the newly discovered gas in the Black Sea by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.

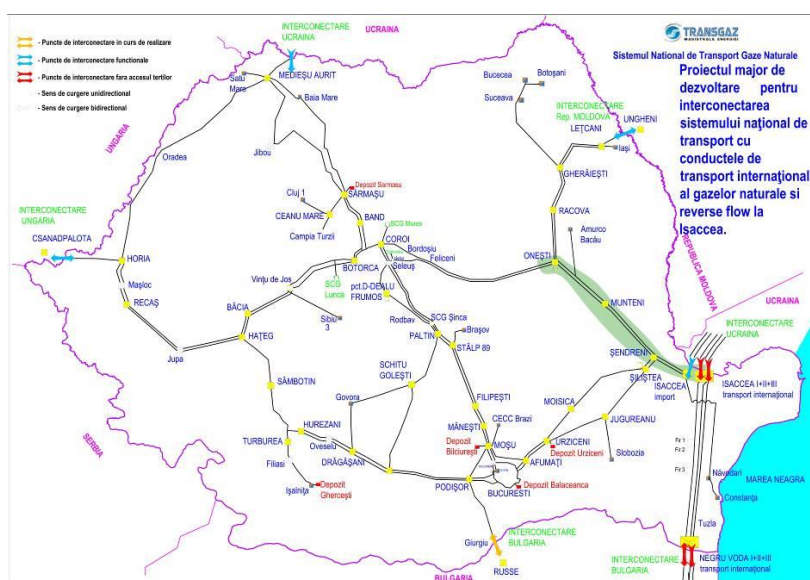


Fig. 8 - Interconect NTS - Transit 1 at Isaccea

The project will consist of the following:

- modernization and extension of the Siliștea compression station;
- modernization and extension of the Onești compression station;
- changes within the Isaccea metering station;
- Rehabilitation of the Cosmești - Onești (66.2 km) and Siliștea - Șendreni (11.3 km) pipeline sections.

The total investment is estimated at **EUR 65 million** and the **estimated completion deadline is 2019**.

4. NTS development in the North – East of Romania to improve gas supply to the region and ensuring transmission capacity to the Republic of Moldova

Romanian gas transmission system developments to improve gas supply to the region to the North-East of Romania and to increase transmission capacity in the conditions of the offered by the new interconnection pipeline between Romania and Moldova.

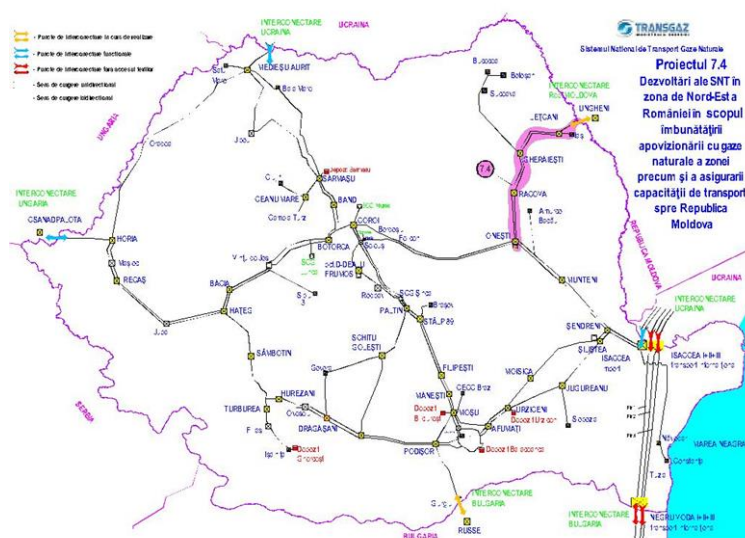


Fig. 9 - NTS developments in the North-east of Romania

The project was divided into sub-projects:

- Building of a new DN 700, Pn 55 bar 104 km gas transmission pipeline in the Onesti – Gherăești direction. The route of this pipeline will be mostly parallel with the existing DN 500 Onesti – Gherăești pipeline;
- Building of a new DN 700, Pn 55 bar 61km gas transmission pipeline in the Gherăești – Lețcani direction. The route of this pipeline will replace the existing DN 400 Gherăești – Iași pipeline on the Gherăești – Lețcani pipeline section;
- Building of a new gas compressor station at Onesti, having an installed power of 6 MW, 2 compressors of 3 MW each, one active and one as a backup;
- Building of a new gas compressor station at Gherăești, having an installed power of 4 MW, 2 compressors of 2 MW, each, one active and one as a backup.

The total estimated value of the investment is **EUR 131.7 million** and the **estimated time of completion is 2019**.

5. Development on the territory of Romania of the Central Corridor to take over gas from the Black Sea

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

The development of this gas transmission corridor includes the following:

- rehabilitation of NTS existing pipelines;
- replacement of NTS existing pipelines with new pipelines or building new pipelines installed in parallel to existing pipelines;
- development of 4 or 5 new compressor stations with a total installed power of approximately 66- 82,5MW.

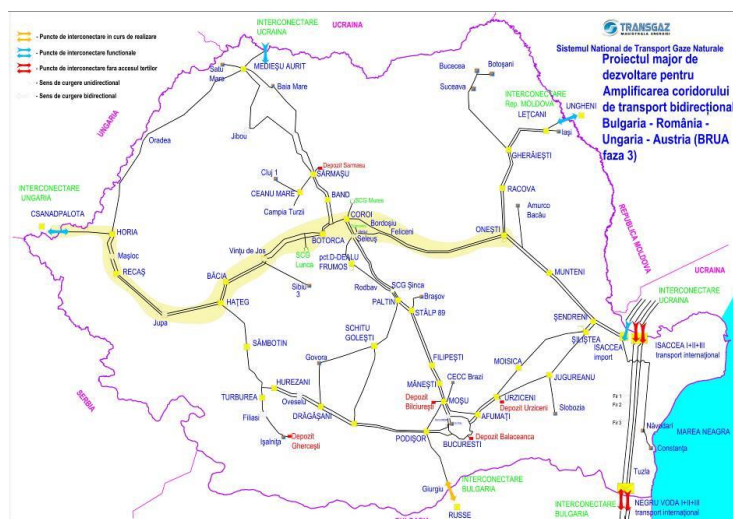


Fig. 10 - BRUA development - phase 3 (the Central Corridor)

The total value of the investment is of **EUR 530 million**, and the estimated completion deadline is **2023**.

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 Corridor and a Eur 173 million grant for the BRUA Project Phase 1.

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 at the end of 2016 the 6th position in the Top 15 companies listed, according to the amount traded.** Moreover, Transgaz is **ranked 9 by market capitalization in the Top 15 companies listed**, an increase of RON 200 million in market capitalization compared to the same period of 2015.

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. For 2015 it was approved in the meeting dated 04.29.2016 AGOA a gross dividend per share amounting to RON 27.61, applying the rate of 65.01977% of the accounting profit remaining after the deduction of the income tax, according to GO 64/2001 on profit distribution to national companies, companies owned by the state or state majority companies, and the autonomous regies, as further amended and supplemented, and the proposal of the majority shareholder, the

Romanian State represented by the Ministry of Economy, Trade and Relations with the Business Environment.

TGN share

In 2016 TGN share had an upward trend mainly with a slight decrease in the last quarter of the year. Thus, on 18 January 2016 TGN share recorded a year minimum reaching a value of RON 245 share. Since January TGN share followed an upward trend with higher values in April, based on the publication of the MECRMA proposal to increase the value for dividend to the shareholders for financial year 2015. On 21.06.2016, ex dividend date, TGN share recorded the value of RON 267/shar with a decrease of 8.87% as compared to the previous day. UK's Brexit at 24.06.2016 has a negative impact also on the Bucharest Stock Exchange, the TGN share recording a decrease of 2.27% as compared to the previous day, reaching the value of RON 258/share. After this date TGN share continued to increase, reaching on 08.09.2016 a historical maximum from the listing until the present of RON 310/share. Later until the end of 2016 TGN share followed a slightly descending trend as compared to the year maximum, recording on 30.12.2016 the value of RON 294 /share.

Compared with 2015, in 2016 Transgaz share recorded in the first part of the year values slightly lower as compared with the same period of the previous year, following that starting with May it was constantly appreciating, reaching in September that historical maximum, following that by the end of 2016, it continued to record higher values than in 2015.

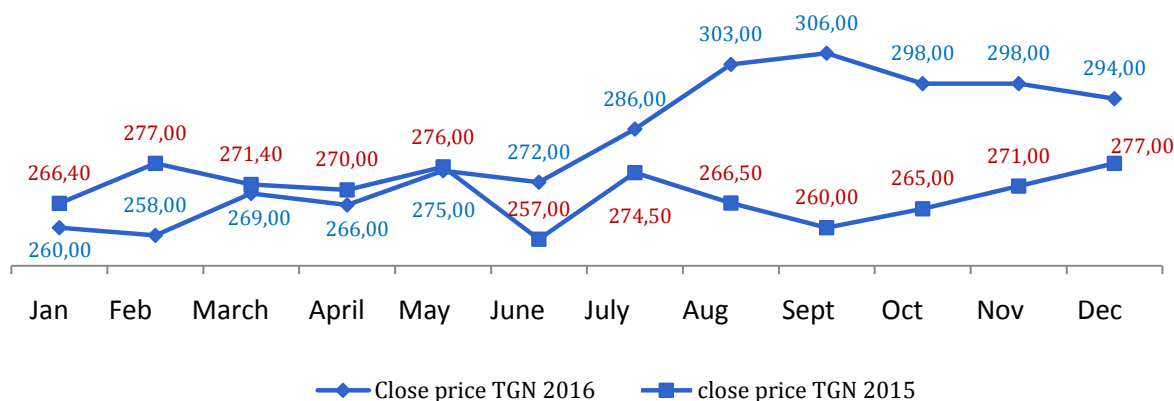


Chart 48 – The average closing price of the TGN share in 2016 vs 2015

Trading volumes and values of transactions recorded in 2016 oscillating values. In the first half of the year both the volume and values traded mainly recorded growths compared to the first semester of 2015, with the exception of March when traded volumes decreased by approximately 19% and transaction values by approximately 21%. Significant increases were due mainly to the publication of the MECRMA proposal to increase gross dividend value for shareholders for financial year 2015 to RON 21.24/share to RON 27, 61/share. After 22.06.2016, the dividend payment registration date, the volumes and value traded decreased to a significant degree of approximately 27%. In the second part of 2016, over the entire period, the transaction volume and the

value traded recorded lower values, lower than the values recorded in the same period of 2015.

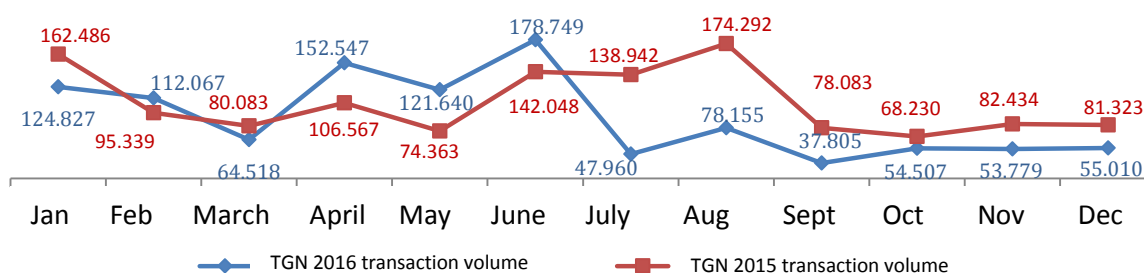


Chart 49 – Volume of TGN transactions in 2016 as compared with 2015

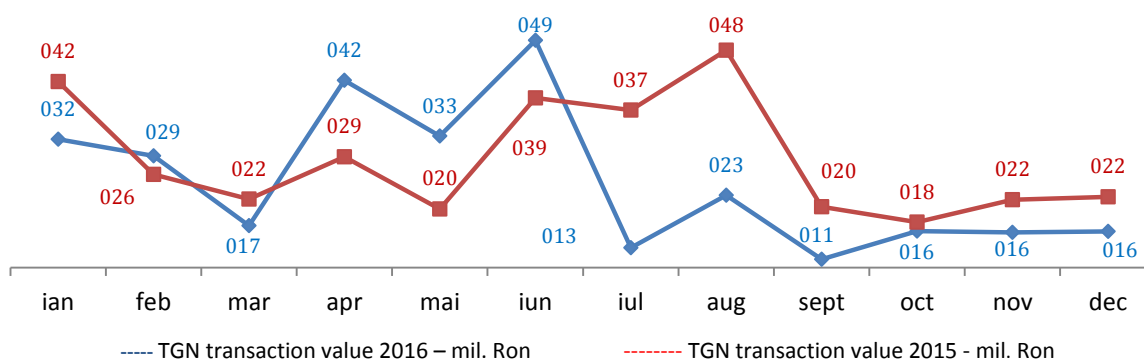


Chart 50 – Value of TGN transactions in 2016 vs 2015

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
2016	0,97	7,08	9,39	41,68

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 – RON**

282.57/share and the quotation TGN 09.30.2015 – RON 260.00/share led to a below par value of 0.92 the P/BV, **improved compared to that of 30.09.2014.**

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 30.09.2015 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 RON 21.80/share, with payment starting date of 15 July 2015, compared to the value of the gross dividend related to the financial year 2013 of RON 17.58/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.

In the period ending 31 December 2016 PER stock indicators (stock price/earnings per share) and dividend yield (DIVY) recorded increases compared to the same period of 2015. Increased dividend yield (DIVY) is due to increased distribution rate applied at the breaking down of the company's profits dividends, from 50,00156% in 2015 to 65,01977% of the accounting profit remaining after deduction of income tax in 2016.

Also P/BV the ratio price per book value of a share) in 2016 recorded a value close to the same period in 2015, while the indicator EPS (earnings per share TGN) recorded a value slightly lower than as compared to the same period of 2015.

Transgaz stock level indicators value compared with those of similar companies in Europe at the beginning of 2017 is as follows:

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	13,2	2,3	11,1
SNAM Rete Gas	Italy	14,5	1,8	13,8
Media		13,85	2,05	12,45
Transgaz	Romania	8,9	1,0	3,9
Premium /Discount		36%	51%	69%

Source: Bloomberg 18.01.2017

Table 36 - The value of stock indexes within Transgaz, compared to similar companies in Europe

Market capitalization

The market capitalization of the company on 31.12.2016 was **RON 3.46 billion** (760 mln. Euros) or 200 million (~ 42 million euro) more than the level on 31.12.2015.

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

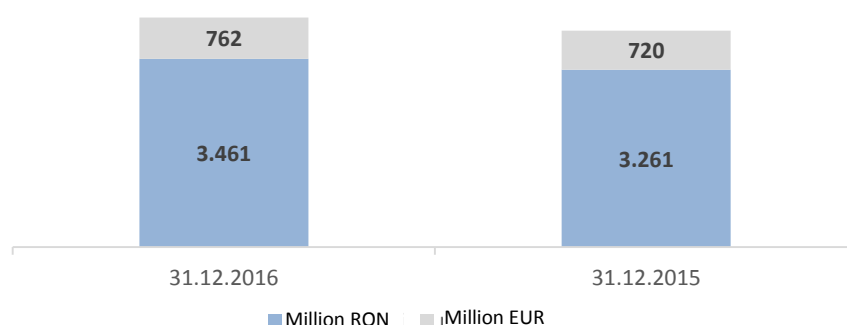


Chart 51- Evolution of Transgaz market capitalization in 2016 as compared with 2015

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.

Shareholding structure

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. On 29.01.2016 the amending of the identification data of the account holder the Romanian State through the Ministry of Economy, Trade and Tourism into the Ministry of Economy, Trade and relations with the Business Environment was registered at S.C. Depozitarul Central S.A..

On 31.12.2016 the SNTGN Transgaz SA shareholding 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 of wich:	4,885,004	41,4903
natural persons	881.712	7,4887
legal persons	4.003.292	34,0016
Total	11,773,844	100.00

Table 37 – Transgaz shareholding on 31.12.2016

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 31.12.2016, Transgaz had a number of 7,619 shareholders, 4,33% (345 shareholders) less as compared with the end of 2015 when 7.964 shareholders were registered.

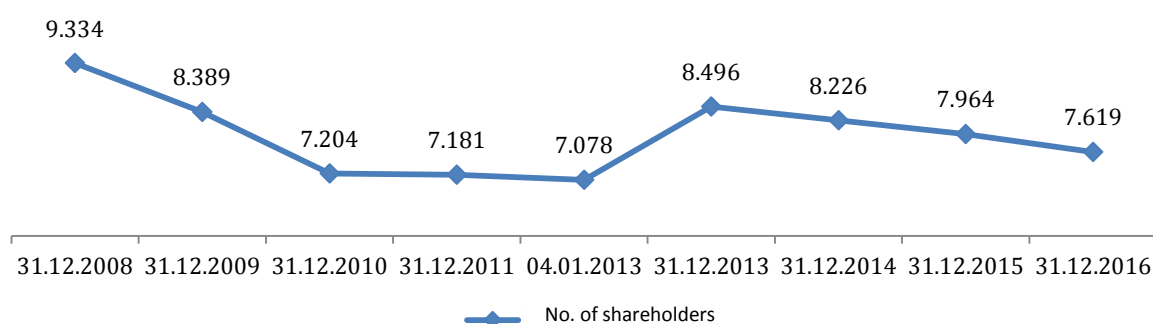


Chart 52- The evolution of the number of Transgaz shareholders from listing and until 31.12.2016

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.

Dividend policy

The value of the dividends is calculated based on **Government Ordinance 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 approved by Law *769/200*, as further amended and supplemented, which, according to Art. 1 (1)(f) stipulates that the

breaking down from the accounting profit remained after the deduction of the tax on profit of 'at least 50% dividends in State –owned or State majority national companies'.

In 2015 the value approved for the 2014 dividends was determined by applying the rate of 50.00156% of the net profit and the amount of the employees participation in the profit, and in 2016 the value of the 2015 dividends was determined by applying the rate of 65.01977% to the net profit and the amount of the employees participation in the profit.

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. Through Decision no. 2 of the Ordinary General Meeting of Shareholders from 29.04.2016 published in the Official Journal of Romania, part IV, no. 1973/23.05.2016 the payment of a **gross dividend corresponding to the 2015 fiscal year** was approved, amounting to **27,61 Ron/share**.

At the end of 2016 the Company paid 2015 financial year net dividends to the shareholders amounting to RON 318.905.280,31 for 11.715.227 shares.

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 RON 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 2016 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 – Corporate governance structures : 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 - The rights of shares owners : the rights of the share owners, the treatment of shares owners; |
| - Chapter 3 - The Board of Administration : 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 – Transparency, financial reporting, internal control and risk management : transparency and financial reporting; |
| - Chapter 5 - the conflict of interests and transactions with persons involved : the conflict of interests; transactions with persons involved; |
| - Chapter 6 - The regime of corporate information ; |
| - Chapter 7 - Social responsibility ; |
| - Chapter 8 - The management system ; |
| - Chapter 9 – Final provisions . |

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*.

On 12 October 2016 by a Current Report sent to the Bucharest Stock Exchange, SNTGN TRANSGAZ SA informed all those concerned on the new BSE Corporate Governance Code as follows:

Section	CGC provision	Clarifications regarding compliance
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 present where this does not render the meeting non-quate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	Provision included in the Rules of procedure of the Board of Administration in Art. 17, approved by Art. 1 of the OGMS Decision no. 4 dated 23.06.2016.

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 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.	X	
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	X	

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
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:			
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		
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	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
employee of a company having such a relationship if, by its substantial character, this relationship could affect his/her objectivity;			
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 another CEO/executive officer of the company is a non-executive director;	X		
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.

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
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 containing the purpose, criteria and frequency of the evaluation process.		X	BA activity is evaluated based on performance criteria included in the management plan and the mandate contracts, the degree of their achievement is 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	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
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		
Section B – RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM			
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. 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	X		

The provisions of the new code		Complies	Does not comply or partially	The reason for the non-compliance
	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.			
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		

The provisions of the new code		Complies	Does not comply or complies partially	The reason for the non-compliance
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		
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	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.			
Section C – FAIR REWARDS AND MOTIVATION			
C.1	<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</p>	X	Transgaz applies this provision partially according to the provisions of GEO 109/2011 and Article 39. 55 (2).

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
<p>remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.</p>			
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,
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. The annual cash distribution or dividend policy principles should be published on the corporate website.		X	The company's profit distribution shall be in accordance with the provisions of GEO 64/2001 regarding profit distribution to national societies, national companies and companies

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
			owned or majority state owned, and the RAs.
<p>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.</p>		X	<p>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.</p>
<p>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.</p>	X		
<p>D.5 The external auditors should attend the shareholders' meetings when their reports are presented there.</p>	X		
<p>D.6 The Board should present to the</p>	X		This information is contained in

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
<p>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.</p>			<p>the annual report of the Board and the management declaration prepared in accordance with art. 30 of the Accounting Law no. 82/1991</p>
<p>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.</p>	X		
<p>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 indicators, both on quarter-on-quarter and year-on-year terms.</p>	X		
<p>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.</p>	X		
<p>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</p>	X		

The provisions of the new code	Complies	Does not comply or complies partially	The reason for the non-compliance
part of its business mission and development strategy, it should publish the policy guiding its activity in this area.			

II. 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 29.04.2016 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.

The members of the Board of Administration may be a shareholders. 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 29.04.2016 and was approved by the Extraordinary General Meeting of the Shareholders by Resolution no. 3/29.04.2016, 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 was approved in Art. 1 of OGMS Resolution 4/23.06.2016.

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 Transgaz' Board of Administration

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_administrație)

Obligations of the Board of Administration

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 2016 there were 49 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	49	-
PETRU ION VĂDUVA	48	1 by representative
BOGDAN GEORGE ILIESCU	42	4 by absence and 3 by representative
ANDREI RIZOIU	46	3 by representative
RADU ȘTEFAN CERNOV	42	6 by representative and 1 by absence

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, according to Art. 8 of the Articles of Incorporation updated at 29.04.2016, 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 members of the Board of Administration

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 as subsequently amended and supplemented.

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 established 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 Transgaz' Board of Administration, 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 established within the Board of Administration:

ADVISORY COMMITTEE	MENTIONS	POWERS
<p>NOMINATION AND REMUNERATION COMMITTEE</p>	<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;

ADVISORY COMMITTEE	MENTIONS	POWERS
		<ul style="list-style-type: none"> ▪ 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 regarding the corporate governance of public enterprises; ▪ 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

ADVISORY COMMITTEE	MENTIONS	POWERS
		<p>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;</p> <ul style="list-style-type: none"> ▪ 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; ▪ 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.
<p>NTS SAFETY AND SECURITY COMMITTEE</p>	<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.
<p>STRATEGY AND DEVELOPMENT COMMITTEE</p>	<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>	<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;

ADVISORY COMMITTEE	MENTIONS	POWERS
	<p>the duties of this committee are established by the Corporate Governance Code.</p>	<ul style="list-style-type: none"> ▪ 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; ▪ 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.
<p>REGULATORY AND PUBLIC AUTHORITIES RELATIONS COMMITTEE</p>	<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 established 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 2016 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 2016 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.	Activity Report of the Nomination and Remuneration Advisory Committee in the period January-June 2016	Nomination and Remuneration Advisory Committee	Sterian Ion Cernov Radu Ștefan Iliescu Bogdan George
2.	Activity Report of the Advisory Committee for Strategy and Development in the period January-June 2016	Advisory Committee for Strategy and Development	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Rizoiu Andrei
3.	Activity Report of the Regulatory Advisory Committee and relations with public authorities in the period January-June 2016	Regulatory Advisory Committee and relations with public authorities	Sterian Ion Văduva Petru Ion Cernov Radu Ștefan
4.	Activity Report of the Advisory Committee for NTS Safety and Security during January-June 2016	Advisory Committee for NTS Safety and Security	Sterian Ion Văduva Petru Ion Rizoiu Andrei
5.	Activity Report of the Audit and Rating Advisory Committee during January-June 2016	Audit and Rating Advisory Committee	Iliescu Bogdan George Cernov Radu Ștefan Rizoiu Andrei
6.	Activity report of the Nomination and Remuneration Committee during January-December 2016	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 2016	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 2016	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 2016	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 and was approved at Art. 2 of OGMS Resolution 4/23.06.2016..

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.

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 2016 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 31.12.2016, the company's financial standing is as follows:

Name of indicator	31.12.2016	31.12.2015	31.12.2014	31.12.2013	Dinamica (%)			
	RON thousand	RON thousand	RON thousand	RON thousand				
0	1	2	3	4	5=1/2	6=2/3	7=3/4	8=1/4
Intangible assets	2.583.473	2.606.655	2.534.880	2.533.955	99,11	102,83	100,04	102,87
Tangible assets	588.078	627.740	654.840	694.971	93,68	95,86	94,23	90,33
Financial assets available for sale	0	0	0	5.953	0,00	0,00	0,00	0,00
Long term receivables	626.403	579.723	539.216	0	108,05	107,51	x	x
Fixed assets	3.797.954	3.814.118	3.728.936	3.234.879	99,58	102,28	115,27	117,91
inventories	83.715	73.992	36.645	34.054	113,14	201,92	107,61	217,27
Trade and other receivables	523.488	362.527	401.552	398.893	144,40	90,28	100,67	90,88
Cash and bank accounts	949.293	700.798	557.868	267.262	135,46	125,62	208,73	262,21
Current assets -TOTAL	1.556.496	1.137.316	996.065	700.209	136,86	114,18	142,25	162,43
Debt payable within one year	305.333	277.333	320.350	323.037	110,10	86,57	99,17	85,85
Long-term Debt	1.211.416	1.104.863	1.077.684	564.484	109,64	102,82	190,91	195,73
Total Debt	1.516.749	1.382.196	1.398.034	887.521	109,73	98,87	157,52	155,74
Equity								
Share capital	117.738	117.738	117.738	117.738	100,00	100,00	100,00	100,00
Hyperinflation adjusted share capital	441.418	441.418	441.418	441.418	100,00	100,00	100,00	100,00
Capital premiums	247.479	247.479	247.479	247.479	100,00	100,00	100,00	100,00
Other reserves	1.265.797	1.265.797	1.265.797	1.265.797	100,00	100,00	100,00	100,00
Reported result	1.765.269	1.496.805	1.254.535	975.134	117,94	119,31	128,65	153,50
Total equity and debt	5.354.450	4.951.434	4.725.001	3.935.088	108,14	104,79	120,07	125,83

Table 38- the company's financial standing during 2013-2016

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, but, on the other hand, the transmission tariff increased to cover the royalty), 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 decreased by RON 23.182 thousand compared to 31.12.2015, 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 39.662 thousand** as compared to 31.12. 2015, mainly due to the fact that the tangible assets inflow were lower than the depreciation cost for tangible assets.

Financial fixed assets

At the end of 2016 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 31 December 2015 remaining unchanged at 31 December 2015 and 31 December 2016.

Trade receivables and other receivables related to property

Increasing the claim to the NAMR 31 December 2016 to the amount of RON 46.680 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 46.680 thousand compared to December 31, 2015 is primarily driven by updating the claim by changes made in the regulated asset base

Inventories

As at December 31, 2016 stocks increased by **RON 9.723** thousand compared to 31 December 2015, mainly on account of the increase in the stock of natural gas used for balancing NTS. The balancing activity carried out from 1 December 2015 is regulated by ANRE Order no. 160/2015 "Amendment and supplementing of the Network Code of the National Gas Transmission System, approved by Order of the President of the National Energy Regulatory no. 16/2013", establishing the obligation of the company to ensure the balancing activity related to the national gas transmission system, as operator of the transmission system.

Trade receivables and other receivables

As at 31 December 2016 the balance figure of the trade receivables and other receivables **has increased by RON 160.961 thousand** as compared to 31 December 2015, mainly due to the following factors:

- increase in the balance of accounts receivable by **RON 319.838** thousand is mainly driven by the increase of claims resulting from the activity of international transit and transmission (due to the indexation fee for domestic and international transmission) and the increase of the balance of uncollectible accounts receivable in 2016 compared to 2015;
- **decrease of the balance of various debtors amounting to RON 115 thousand;**
- **decrease in advances to suppliers RON 915 thousand;**
- **distribution of grants receivable amounted to RON 19.703 thousand;**
- **balances decreased advance expenditure amounted to RON 2.558 thousand;**
- **Reduction of the recoverable VAT registration in the amount of RON 2.558 thousand;**
- **VAT decrease due in balance by RON 7.671 thousand;**
- **Registration of a claim to the state budget amounting to RON 25.409 thousand;**
- **higher provisions for impairment of trade receivables and other receivables by RON 99.420 thousand;**
- **decrease in the balance of fixed receivables by RON 51.646 thousand;**
- **Increase in the balance of other receivables by RON 2.259 thousand** mainly on account of guarantees granted for investment works and other contracts in progress.

Cash at bank and in hand

As at 31 December 2016 the company's cash increased by RON 248.495 thousand as compared to the end of 2016, due to the fact that the holdings in bank accounts and cash increased by RON 35.977 thousands and the ones in the bank deposits decreased by RON 212.524 thousand in the equivalent cash accounts a decrease is also registered in the amount of RON 6 thousand.

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 2015:

- **A balance increase in trade payables and other payables by RON 25.609 thousand** mainly due to the decrease of commercial debts by RON 12.733 thousand, of the decrease of the balance of the creditors by RON 50.799 thousand, the increase in debts for royalties by RON 15.547 thousand, to the increase VAT to be paid by RON 20.559 thousand, by the increase of the balance of the due VAT by RON 39.967 thousand, by the increase of debts with other tax by RON 220 thousand, the increase of employees' payments by RON 2.063 thousand, to the increase of other debts by RON 9.785;
- **An increase of the provisions for risk and charges by RON 270 thousand**, due to an increase of the provision for employees' profit sharing by RON 259 thousand and the increase of the provision for the mandate contract by RON 11 thousand;
- **increase in current income tax liability by the amount of RON 1.779 thousand** as a result of regularization of corporation tax to 31 December 2016;
- **increase in the provision for employee benefits with the current RON 321 thousand**;

Long-term debts

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

- The increase of accrued income by **RON 1.238 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 increase of investment subsidies amounting to **RON 104.804**, mainly due to the approval by the European Commission, of the Grant Agreement for the project "Development in Romania of the national gas transmission corridor Bulgaria-Romania-Hungary-Austria" - BRUA Phase 1;
- The increase in the provision for employee benefits in the part related to the long term debt by **RON 6.180 thousand**;
- The decrease of deferred tax liabilities by **RON 5.669 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.

Transgaz did no longer employ loans at December 31, 2016. The loan contracted in 2010 from GSC BRD to finance the investment program of the Company amounting to RON 120,000,000 was repaid in full on 31 December 2015.

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

Table 39- Medium and long term loans as at 31.12.2016

Equity

The subscribed and paid up capital remained unchanged. The increase in retained earnings by RON 268.464 is due to the profit for 2016 and to the distribution of the profit related to 2015.

3.4.2 Comprehensive income

The situation of the profit and loss account on 31.12.2016 is as follows:

Tag no.	Specification	Achieved on 31 December				Dynamics (%)			
		2016	2015	2014	2013	5=2/3	6=3/4	7=4/5	8=2/5
0	1	2	3	4	5	5=2/3	6=3/4	7=4/5	8=2/5
1	REVENUES								
1.1	Revenues from exploitation before balancing and the construction activity according to IFRIC12	1.815.385	1.663.398	1.655.319	1.516.640	112,59	100,49	109,14	109,68
1.2	Revenues from the construction activity according to IFRIC12	118.504	211.125	136.635	161.741	56,13	154,52	84,48	130,53
1.3	Revenues from balancing activity	57.404							
1.4	Financial revenues	32.231	43.237	33.375	40.721	74,54	129,55	81,96	106,18
2.	EXPENSES								
2.1	Expenses related to exploitation before balancing and the construction activity	1.125.268	1.077.219	1.063.751	981.647	109,67	101,27	108,36	109,74

Ta g no.	Specification	Achieved on 31 December				Dynamics (%)			
		2016	2015	2014	2013	5=2/3	6=3/4	7=4/5	8=2/5
0	1	2	3	4	5	5=2/3	6=3/4	7=4/5	8=2/5
	according to IFRIC12								
2.2	Cost of the assets built according to IFRIC12	118.504	211.125	136.635	161.741	56,13	154,52	84,48	130,53
2.3	Expenses with balancing gas	56.093							
2.4.	Financial expenses	9.683	22.315	14.356	148.957	43,39	155,43	9,64	14,98
3.	GROSS PROFIT, of which:	713.975	607.101	610.587	426.758	117,60	99,43	143,08	142,26
3.1	Exploitation Result before balancing and the construction activity according to IFRIC12	690.117	586.179	591.568	534.994	117,95	99,09	110,57	109,57
3.2	Balancing activity Result	1.311	X	X	X	X	X	X	X
3.3	Financial Result	22.547	20.922	19.019	-108.236	107,77	110,01	X	X
4.	TAX ON PROFIT	119.410	118.372	108.071	99.954	100,88	109,53	113,34	124,14
5.	NET PROFIT	594.565	488.729	502.516	331.408	121,66	97,26	151,63	147,47
6.	Other items of the comprehensive income	-1.026	10.211	-16.131	3.832	-10,04	-63,30	-420,98	266,49
7.	Total comprehensive income for the period	593.539	498.940	486.385	335.240	118,96	102,58	145,09	148,83

Table 40–Profit and loss account situation in the period 2013 - 2016

Operating income

The income from the operating activity achieved in 2016 is as follows:

No	Specifications	Achieved 31 December				Dynamics (%)
		2016	2015	2014	2013	
0	1	2	3	4	5	6=2/3*100
1.	Revenues from the domestic transmission activity					
	- thousand RON	1.360.355	1.259.788	1.340.853	1.210.480	107,98
	- MWh	129.786.374	131.259.673	126.703.188	119.741.363	98,88
	- RON/MWh	10,48	9,60	10,58	10,11	109,21
	- thousand cm	12.074.677	12.294.693	11.883.713	11.258.941	98,21
	- RON/1000 cm	112,66	102,47	112,83	107,51	109,95
2.	Revenues from the international transmission activity					
	- thousand RON	328.571	318.752	273.760	268.537	103,08
3.	Other operating revenues					
	- thousand RON	126.459	84.858	40.706	37.623	149,02
TOTAL REVENUES FROM THE OPERATING ACTIVITY before the balancing and the construction activity according to IFRIC12						
	- thousand RON	1.815.385	1.663.398	1.655.319	1.516.640	109,14

Table 41 - Income from the operating activity achieved in 2016 vs 2015

Operating expenses

The expenses from the operating activity achieved in 2016 are:

Tag no.	SPECIFICATION	Achievements (RON thousand)		Dynamics (%)
		2016	2015	
0	1	2	3	4=2/3*100
1.	Depreciation	208.663	193.401	107,89
2.	Allowances, salaries, other salary related expenses and benefits granted to employees	369.161	357.731	103,19
3.	Technological consumption, materials and consumables used, of which:	110.011	106.966	102,85
	- Technological consumption, materials and consumables used	84.406	83.146	101,52
	Technological consumption quantity MWh	1.184.300	965.920	122,61
	Technological consumption quantity thousand cm	108.873	88.103	123,58
	- Auxiliary materials	21.580	19.511	110,60
	- Other material expenses	4.025	4.308	93,43
4.	Expenses with royalties	168.893	157.854	106,99
5.	Maintenance and transport, of which	29.569	33.181	89,12
	- Works, services executed by third parties	16.547	20.020	82,65
6.	Tax and other amounts owed to the state, of which:	67.544	70.183	96,24
	- Tax related to granting the gas transmission and international gas transit license	7.275	6.509	111,77
	- Tax on monopoly	52.989	56.781	93,32
	- Tax on special constructions	1.418	1.238	114,54
7.	Expenses with provisions for risks and expenses	1.707	-1.255	X
8.	Other operating expenses	169.718	159.160	106,63
OPERATING EXPENSES before the balancing and the constructions activity according to IFRIC12		1.125.268	1.077.219	104,46

Table 42 - Operating Expenses achieved in 2016 vs 2015

3.4.3 Cash flow statement

The cash flow statement on 31 December 2016 is indicated below:

Indicator	The year ended on 31 December (thousand RON)	
	2016	2015
Profit before tax	713.975	607.101
Adjustments for:	0	0
Depreciation	208.663	193.401
Provision for impairment of intangible assets	2.204	-5.236
Profit/(loss) from the disposal of fixed assets	163	-170
Provision for risks and expenses	270	-1.255
Revenue from connection fees, grants and goods taken free of charge	-21.186	-17.628
Provisions for employees benefits	1.437	337
Provisions for the inventories impairment	1.698	1.691
Losses from claims various debtors	2.381	0
Provision from the impairment of claims	99.420	104.406
Expenses with interest	0	308
The effect of updating the provision for benefits granted to employees	4.038	4.125
Income from interests	-21.277	-22.163
The effect of the variation of the exchange rate upon other elements than those from operation	-81	591
Income from the claims from the regulated value which was undepreciated upon the termination of the concession agreement	-27.967	-26.391
Other revenues	-307	-295
Profit from operation before the modifications in the circulating capital	963.431	838.821
(Increase)/ decrease of the commercial claims and other claims	-265.247	-80.533
(Increase)/decrease of stocks	-11.421	-39.037
Increase/(decrease) of commercial debts and other debts	61.851	-10.340
Cash generated from operation	748.613	708.911
Paid interest	0	-308
Received interest	3.985	6.392
Paid tax on profit	-123.280	-126.979
Net cash inflow generated from the operating activity	629.318	588.015
Cash flow from the investment activities		
Payments to acquire tangible and intangible assets	-182.260	-221.141
Proceeds from disposal of tangible assets	0	292
Cash flows from connection fees and funds	126.070	57.108
Net cash used in investment activities	-56.190	-163.741
Cash flow from financing activities		
Dividends paid	-324.633	-257.344
Repayments of long-term loans	0	-24.000

Indicator	The year ended on 31 December (thousand RON)	
	2016	2015
Net cash used in financing activities	-324.633	-281.344
Net change in cash and cash equivalents	248.495	142.930
Cash and cash equivalent at beginning of year	700.798	557.868
Cash and cash equivalent at end of period	949.293	700.798

Table 43 - Cash flow statement in 2016 vs 2015

From the cash flow analysis of **31 December 2016 we may note an increase of the budget resources of RON 248.495 thousand compared to 31 December 2015.**

The modifications which occurred in the cash flow structure are:

- The cash flow generated from operation is RON 629.318 thousand by RON 41.303 thousand lower than the one related to 2015;
- The cash flow used in the investment activity is RON 56.190 thousand by RON 107.551 thousand higher than the one related to 2015;
- The cash flow used in the financing activity is RON 324.633 thousand by RON 43.289 thousand lower than the one related to 2015.

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 cash-ins 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 2016	31 December 2015
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	150.839	163.938
USD depreciation by 10%	(150.839)	(163.938)
EUR appreciation by 10%	36.308.626	5.600.361
EUR depreciation by 10%	(36.308.626)	(5.600.361)

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 2016 would have been lower/higher by RON 545.065 (December 2015: 3.087.911 RON).

Interest rate risk on cash flow and fair value

The Company was exposed until December 2015 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 2016, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to 2016 and equity would have been by RON 2.946.452 lower/higher (2015: 2.471.548 RON), 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 71% of the trade receivable balances on December 31st 2016 (31 December 2015: 69%).

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 2016	31 December 2015
No rating	5.265.922	1.433.162
BB	335.096.959	252.046.000
BB+	4.192.200	1.910.084
BBB-	974.762	683.305
BBB	495.423.597	258.276.067
BBB+	107.867.942	35.232.715
A	139.154	150.919.196
A+	-	-
AA	193.562	167.844
	949.154.098	700.668.373

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 2016 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 2016 is as follows:

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

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>	-	-

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	31.12.16	31.12.15
Cash and cash equivalent	204.335.217	168.364.078
Term bank deposits	744.958.019	532.433.704
Loans and receivables	1.115.871.835	931.218.691
Available-for-sale financial assets.	163.122.672	163.122.672
Available-for-sale financial assets provisions	(163.122.672)	(163.122.672)
	2.065.165.071	1.632.016.473

The category of loans and receivables does not cover claims in relation to employees and accrued expenses.

Financial liability	31.12.16	31.12.15
Financial liabilities evaluated at fair value	-	-
Financial securities for contracts	4.724.822	4.116.283
Commercial debts and other debts	86.633.267	147.292.640
	91.358.089	151.408.923

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 2016 the Company's strategy which remained unchanged since 2015 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 2016 and 31 December 2015:

	31 December 2016	31 December 2015
Total loans	-	-
Loss: cash and cash equivalent	(949.293.236)	(700.797.782)
Net cash position	(949.293.236)	(700.797.782)

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 end of 2016:

- **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 2016 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 administrators 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 31.12.2016	Interest share (%)
Rusu Ioan	Director	2.508	0,021301
Pătărnice Mihai	Director	97	0,000823
Lața Ilie	Director	46	0,000390
Tătaru Ion	Director	25	0,000212
Lupean Marius	Director	20	0,000169
Șai Alexandru	Director	10	0,000084
Comaniță Adela	Director	7	0,000059
Nita Viorel	Director	5	0,000042

Table 41- Members of the executive management holding shares in Transgaz as at 31.12.2016

The following persons represent the Company's executive management:

Nr. crt.	Nume și prenume	Funcția	Departament/Direcție
1.	Petru Ion Văduva	Director - General	SNTGN Transgaz SA
2.	Gheorghe Hațegan	Deputy Director - General	SNTGN Transgaz SA
3.	Tarsac Grigore	Deputy Director - General	SNTGN Transgaz SA
4.	Lupean Marius	Director	Economic Division
5.	Elisabeta Ghidiu	Director	Strategy and Corporate Management Division
6.	Florian Vardol	Director	Legal Division
7.	Ciprian Octavian Alic	Director	European Funds and International Relations Division
8.	Gheorghe Marius Stroia	Director	Operation Division
9.	Florin Emil Cosma	Director	Exploitation and Maintenance Division
10.	Ion Tătaru	Director	Development Division
11.	Viorel Ciprian Achim	Director	HSQE Division
12.	Bogdan Avram Luca	Director	Sectoral Procurement and Contracting Division
13.	Mihai Leontin Leahu	Director	Design and Research Department
14.	Daniel Gruia	Director	IT and Communication Division
15.	Mihai Iuliu Fodor	Director	Budget and Finances Unit
16.	Adela Marinela Comăniță	Director	Accounting Unit
17.	Oana Cristina Niculescu	Director	Budgeting Strategy Unit
18.	Olga Idu	Director	Endorsement and Litigations Unit

19.	Cornel Ovidiu Ilieș	Director	European Funds Unit
20.	Florin Bunea	Director	Gas Market Operator Unit Bucharest
21.	Larisa Banu	Deputy Director	Gas Market Operator Unit Bucharest
22.	Ioan Rău	Director	Commercial Unit
23.	Mihai Pătrîniche	Director	The National Gas Dispatching Centre
24.	Alexandru Șai	Director	Gas Metering and Quality Unit
25.	Aurel Muntean	Director	Gas Metering and Quality Unit
26.	Viorel Barbu	Director	NTS Rehabilitation Unit
27.	Sorin Gabriel Deac	Director	Works Preparation and Execution Unit
28.	Nicu Drusan	Director	Protection and Security Unit
29.	Monica Alexandra Petrescu	Director	Special Projects Procurement Unit
30.	Adela Cristina Pinzar	Director	Sectoral Procurement Unit
31.	Angela Aneta Mateș	Director	HR Unit
32.	Gabriela Elena Mareș	Director	Regulations and Licences Unit
33.	Ionel Sârbu	Director	Land Regulations Unit
34.	Sorin Bolchiș	Director	Automations and SCADA Unit
35.	Adrian Ionuț Tudor	Deputy Director	Automations and SCADA Unit
36.	Sebastian Moldovan	Deputy Director	Automations and SCADA Unit
37.	Mihai Antoniu Olteanu	Project Manager	Black Sea PMU
38.	Corneliu Paul Popescu	Project Manager	BRUA PMU
39.	Ilie Lața	Subsidiary Director sucursală	Medias Subsidiary
40.	Angela Velicea	Financial Director	Medias Subsidiary
41.	Gheorghe Bachios	Director	Arad Regional Office
42.	Gheorghe Cristoloveanu	Director	Brasov Regional Office
43.	Eduard-Cristian Schimdt-Hăineala	Director	Bacău Regional Office
44.	Cristian Gherghie	Director	Constanța Regional Office
45.	Ioan Rusu	Director	Mediaș Regional Office
46.	Victorel Gurgu	Director	Bucharest Regional Office
47.	Nicușor Dumitru	Head of department in charge with the responsibilities of regional office director	Brăila Regional Office
48.	Viorel Niță	Director	Craiova Regional Office
49.	Marcel Tandrau	Director	Cluj Regional Office

Table 45–SNTGN Transgaz SA Mediaș 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;

In the following period it is expected to cashing of additional amounts from the liquidation of NIC, but because of the level of uncertainty the Company's investment in NIC amounting to RON 138.544.435 was fully provisioned;

- **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 2016

From the monitoring of the news on Transgaz activity on the media channels in 2016 we mention that in this year these were in a no. of 307, out of which:

Nr. crt.	Categorie știri	12 months		%	Percent	
		2016	2015		2016	2015
1.	Neutral news	161	117	38	53%	60%
2.	Positive news	130	49	165	42%	25%
3.	Negative news	16	29	-45	5%	15%
	Total news	307	195	57	100%	100%

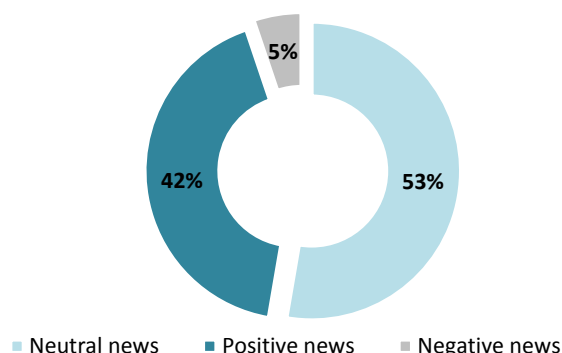


Chart 53- Positive, neutral, negative news on the activity of Transgaz in 2016

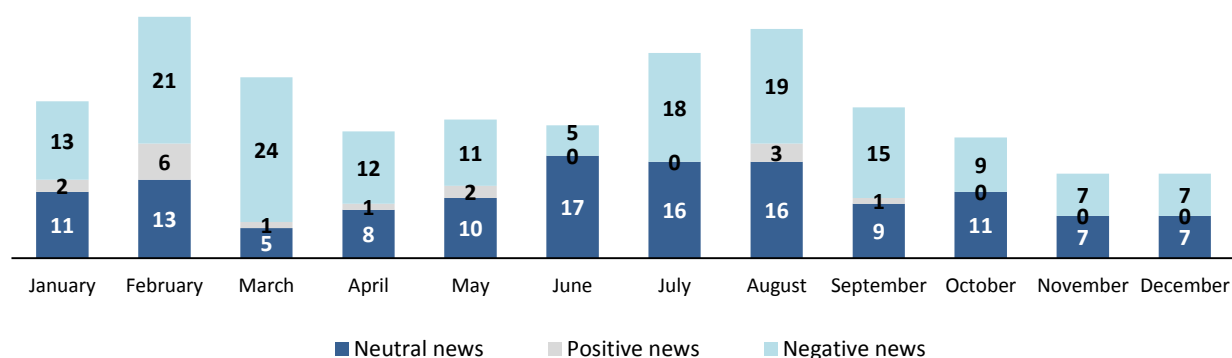


Chart 54- Distribution of positive, neutral, negative news on the activity of Transgaz in 2016

In 2016 the negative news decreased by 45% as compared to the previous year and the positive news increased by 165%, which creates a strong and professional image of the company at the national and international level.

Total distribution of news in 2016 and classification by subject: investment, financial results, European grants, capital market, development plan:

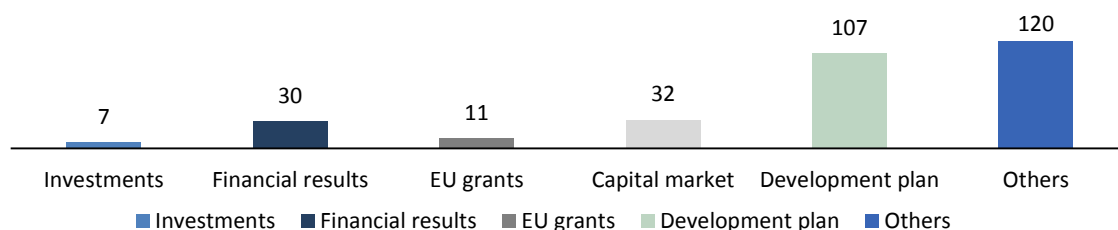


Chart 55- Monitorization of news by theme - 2016

Distribution by months in year 2016 of references appeared depending of the approached theme is as follows:

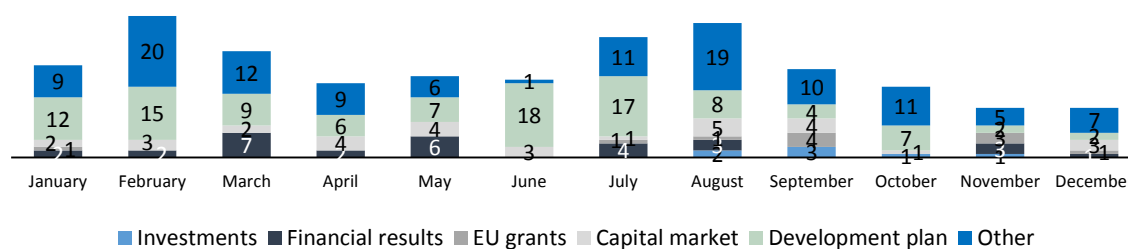


Chart 56- Monitorization of news by theme per months - 2016

The share of the references published in 2016 depending on the theme addressed is as follows:

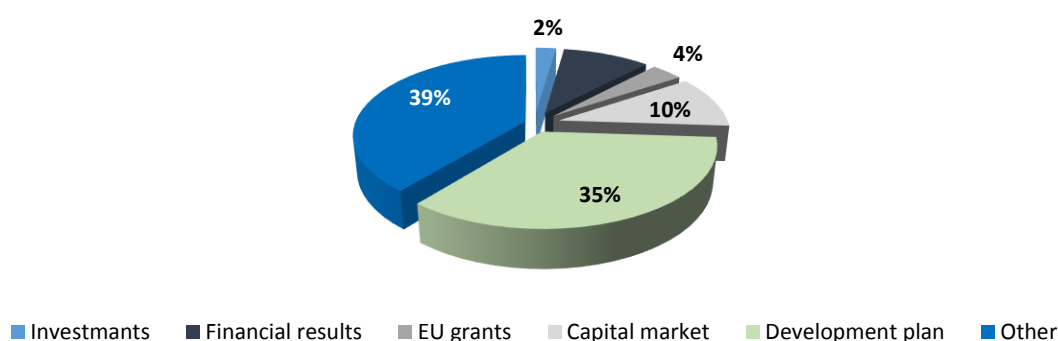


Chart 57 - News share by theme - 2016

Transgaz' rating review

On 24 June 2015 Standard & Poor's Ratings Services improved Transgaz SA Medias rating from BB to **BB + with a stable outlook, rating valid also in 2016.**

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 of GEO 109/2011, as further amended and supplemented, SNTGN Transgaz SA administrators submit for the approval of the General Meeting of the Shareholders the Report issued by the Board of Administration for 2016.

Considering:

- Art.111 (2)(d), Art. 155 and Art. 186 of Companies` Law 31/1990 as further amended and supplemented;
- Art.15 (3) (h) in the Articles of Incorporation of SNTGN Transgaz SA updated on 29 April 2016;
- Art.4.1 (h) of the Administrators' Mandate Contract concluded on 30 September 2013,

the Company's administrators submit for the approval of the General Meeting of the Shareholders the discharge from administration for the activity performed in 2016 as presented in this report.

Note: Annexes 1 and 2 are part of the Report.

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

SNTGN TRANSGAZ SA MEDIAŞ

ANNEXES TO THE REPORT ISSUED BY THE BOARD OF ADMINISTRATION FOR 2016

**ANNEX 1 – CORPORATE GOVERNANCE
ANNEX 2 - HSSEQ**

LEGAL DOCUMENTS CONCLUDED ACCORDING TO ART.52 (1) AND (6) OF GEO 109/30.11.2011

In 2016 Transgaz concluded the following legal documents with companies directly or indirectly controlled by the Romanian State and which have a cumulated value of at least the RON equivalent of the amount of EUR 50.000:

Contract Parties	concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA – the Ploiești Subsidiary
Contract date and type	No. 12211/2016, concluded at 15.06.2016
Contract scope	Gas underground storage
Contract value	RON 6.279.168,96 without VAT // RON 7.535.002,75 VAT included (estimated)
Mutual debts	<p>(1) at the date of this contract the Parties decide if they can submit to each other one or more guarantee instruments for their own obligations, agreed by them, as follows:</p> <p>a) financial guarantees;</p> <p>b) real guarantees, except for the stored gas.</p> <p>(2) The guarantee at paragraph (1) refers to the performance of the contract obligations of the Parties, if such obligations are culpably breached. The value of such guarantees shall amount to 5 % of the value of the services provided under this Contract.</p> <p>(3) If the guarantee established under paragraph (1) is executed, the relevant Party must re-establish the submitted guarantee within 7 calendar days from the execution.</p> <p>If the Parties establish real guarantees, the guarantee contracts shall be concluded together with this Contract.</p> <p>(1) If the service Provider does not meet the gas underground storage service provision obligation, as agreed by this Contract, and any other obligations established under this Contract, the Beneficiary shall be entitled to claim and receive damages within the limits of the damage incurred.</p> <p>2) Failure to pay the gas underground storage services according to Art. 10, paragraph (2) shall incur:</p> <p>a) delay penalties related to the unpaid amount, equal to the delay interest due for the non-payment in due time of the budgetary obligations, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, in the case of the non-fulfilment of the payment obligation within 15 calendar days from the maturity date;</p>
Guarantees established and penalties stipulated	The Beneficiary shall pay to the service Provider the gas underground storage value, calculated based on the regulated tariff for the underground storage services, according to Annex 7, compliant with the applicable laws.

	<p>Art.10.- (1) According to the formula and tariff in Annex 7 to the Contract, the service Provider shall issue to the Beneficiary a monthly invoice for the storage services provided. The storage services shall be paid in the order of the maturity date of the issued invoices, by payment order or any other legal payment instrument agreed by the Parties, and shall be considered made at the moment when the amounts become available in the account RO74 RNCB 0205 0448 6013 0001 of the service Provider, opened with BCR-the Ploiești Branch.</p> <p>(2) The gas underground storage services shall be paid monthly, within 15 calendar days from the date of invoice issuing by the service Provider. The provider shall send the issued invoice according to the Contract to the Beneficiary, by fax/e-mail, at the date of issuance and later by mail. If the maturity date is a non-working day, the term shall be deemed achieved the next working day.</p> <p>(3) The Parties agree to perform at the end of the injection cycle and of the withdrawing cycle the settlement/revision of the payment/cashing obligations/rights regarding capacity booking, depending on the total amount of gas actually stored by the Beneficiary.</p>
Contract Parties	concluded between SNTGN Transgaz SA and SNGN Romgaz SA Medias
Contract date and type	Conclusion date: 15.07.2016 Concluded as a result of auction no. 158/11.07.2016 held on disponibil.ro owned and managed by the Romanian Commodities Exchange
Contract scope	Gas as technological consumption
Contract value	RON 11.928.000,00, without VAT, fees or capacity booking costs
Mutual debts	-
Guarantees established and penalties stipulated	<p>Mutual guarantees as letter of bank guarantee amounting to 10% of the contract value – meaning RON 1.192.800,00;</p> <p>Penalties:</p> <p>If the Beneficiary fails to meet its payment obligations, it shall pay penalties amounting to 0,05% of the remaining invoice starting with the 16th day from the invoice maturity date.</p> <p>If the Beneficiary fails to meet its taking over obligation, it shall pay penalties amounting to 5% of the value of gas not taken over.</p> <p>If the Supplier fails to meet its delivery obligation, it shall pay penalties amounting to 5% of the value of gas not delivered.</p>
Payment terms and modalities	The value of the gas procured under this contract shall be paid within 30 days from the date of issuing by the Supplier of the invoice for the gas actually delivered/taking over.
Contract Parties	concluded between SNTGN Transgaz SA and SNGN Romgaz SA
Contract date and type	Conclusion date: 16.09.2016 Concluded as a result of auction no. 202/14.09.2016 held on disponibil.ro owned and managed

	by the Romanian Commodities Exchange.
Contract scope	Gas as technological consumption
Contract value	RON 63.791.370,00, without VAT, fees or capacity booking costs
Mutual debts	-
Guarantees established and penalties stipulated	<p>Mutual guarantees as letter of bank guarantee amounting to 10% of the contract value – meaning RON 6.379.137,00;</p> <p>Penalties:</p> <p>If the Beneficiary fails to meet its payment obligations, it shall pay penalties amounting to 0,05% of the remaining invoice starting with the 16th day from the invoice maturity date.</p> <p>If the Beneficiary fails to meet its taking over obligation, it shall pay penalties amounting to 5% of the value of gas not taken over.</p> <p>If the Supplier fails to meet its delivery obligation, it shall pay penalties amounting to 5% of the value of gas not delivered.</p>
Payment terms and modalities	The value of the gas procured under this contract shall be paid within 30 days from the date of issuing by the Supplier of the invoice for the gas actually delivered/taking over.
Contract Parties	concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA
Contract date and type	Contract no. 27/ 2016 (1 October 2016 – 1 October 2017)
Contract scope	Transmission services
Contract value	153.781.489,99 - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p>Guarantees:</p> <p>Art. 10. (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code.</p> <p>(2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating.</p> <p>The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA.</p> <p>(3) The payment guarantee in amount of RON 3.730.127,50 representing 5% of the countervalue of the firm and uninterruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee (Annex 4) or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.</p> <p>(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.</p>

(5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfils its contract obligations completely or partly or if it delays fulfilling such obligations.

(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.

(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).

(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.

(9) The Network User shall be exempter from the provision of the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked.

Penalties:

Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under paragraph (5) of Art. 5/Art.5¹, par. (5), letter b) shall incur:

a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay the budgetary obligations in due time, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in case of failure to meet the payment obligation within 15 calendar days from the maturity date;

b) in case of failure to meet the payment obligation, the limitation/interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 15 calendar days foreseen at letter a).

(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.

Art. 14 - (1) If, during the delivery month, NU does not ensure at NTS entry points the gas quality specifications at least at the level established by the applicable laws, TSO shall be entitled to request and receive an amount equal to 0,5% of the value of gas, expressed as energy units, delivered at NTS entry and of a quality non-compliant with the applicable laws; the gas value, expressed in energy units, shall be calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS entry and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.

(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, TSO shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when NU, due to its own fault, does not fulfil the relevant obligations as well as any other obligations established by this Contract.

Art. 15 - If, upon TSO's request, the NU does not voluntarily return/does not use the booked and not used capacity transfer

	<p>facility, thus the mandatory capacity transfer being applied, NU shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.</p> <p>Art. 16 - (1) NU shall be entitled to request and receive:</p> <ul style="list-style-type: none"> a) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of delivery at NTS exit points under the approved nomination/re-nomination. b) an amount established based on the tariff for not ensuring the booked capacity, according to the Network Code, in case TSO does not keep at NU's disposal the entire transmission capacity booked by the latter. c) an amount equal to 0.5% of the value of gas, expressed in energy units, delivered at NTS exit and of a quality non-compliant with the applicable laws, calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS exit and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period; <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, NU shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when TSO, due to its own fault, does not meet its gas transmission services obligation as well as any other obligations established by this Contract.</p>
<p>Payment terms and modalities</p>	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15th day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:</p> <ul style="list-style-type: none"> a) an invoice for the transmission services provided for the previous month, set based on the final allocations; b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102² and 102⁴ of the Network Code; c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions

	<p>of Art. 101 of the Network Code, if applicable</p> <p>d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.</p> <p>(5) Invoices issued according to the Network Code shall be paid within 15 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p>
Contract Parties	concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA
Contract date and type	Contract no. 9T/ 2016 (1 October 2016 –1 January 2017)
Contract scope	Quarterly transmission services
Contract value	6.691.203,89 - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p>Guarantees:</p> <p>Art. 10. (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code.</p> <p>(2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating.</p> <p>The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA.</p> <p>(3) The payment guarantee in amount of RON 193.138,91 representing 5% of the value of the firm and interruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee (Annex 4) or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.</p> <p>(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.</p> <p>(5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfils its contract obligations completely or partly or if it delays fulfilling such obligations.</p> <p>(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.</p> <p>(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).</p>

(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.

(9) The Network User shall be exempter from the provision of the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked

Penalties:

Art. 13.(1) Failure to meet the invoice payment obligation as stipulated under Art. 5 (5)/Art. 51 (5)(b) shall incur:

c) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay budget obligations in due time, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract in the case of failure to meet payment obligation within 15 calendar days from the maturity date.

d) in case of failure to meet the payment obligation, the limitation / interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 15 calendar days foreseen at letter a).

(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.

Art. 14 - (1) If, during the delivery month, the network user does not ensure at NTS entry points the gas quality specifications at least at the level established by the applicable laws, the transmission system operator shall be entitled to request and receive an amount equal to 0.5% of the value of gas, expressed as energy units, delivered at NTS entry and of a quality non-compliant with the applicable laws; the gas value, expressed in energy units, shall be calculated by multiplying the gas quantity, expressed in energy units, registered in the Report signed at NTS entry and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, the transmission system operator shall be entitled to request and receive damages additionally, up to full coverage of the prejudice incurred when the network user, due to its own fault, does not meet the relevant obligations as well as any other obligations established by this Contract.

Art. 15 - If, upon the request of the transmission system operator, the network user does not voluntarily use the booked and not used capacity transfer facility, thus the mandatory capacity transfer being applied, the network user shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.

Art. 16. (1) The Network User shall be entitled to request and receive:

d) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of

	<p>delivery at NTS exit points under the approved nomination/re-nomination.</p> <p>e) an amount established based on the tariff for delivery under the capacity booked, according to the Network Code, in case the transmission system operator does not keep at the network user's disposal the entire transmission capacity booked by the latter.</p> <p>f) an amount equal to 0.5% of the value of gas, expressed in energy units, delivered at NTS exit and of a quality non-compliant with the applicable laws, calculated by multiplying the gas quantity, expressed in energy units, registered in the Report signed at NTS exit and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.</p> <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, the network user shall be entitled to request and receive damages additionally, up to full coverage of the prejudice incurred when the transmission system operator, due to its own fault, does not fulfil the gas transmission service provision obligation as well as any other obligations established by this Contract.</p>
<p>Payment terms and modalities</p>	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15th day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:</p> <ul style="list-style-type: none"> a) an invoice for the transmission services provided for the previous month, set based on the final allocations; b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102² and 102⁴ of the Network Code; c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point. <p>(5) Invoices issued according to the Network Code shall be paid within 15 calendar days from the date of issuance. If the</p>

	<p>due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p>
Contract Parties	concluded between SNTGN Transgaz SA and SC Electrocentrale Bucuresti SA
Contract date and type	Contract no. 14/2016 (1 October 2016 – 1 October 2017)
Contract scope	Transmission services
Contract value	57.705.792,86 - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p>Guarantees:</p> <p>Art.10</p> <p>(1) For meeting contract obligations, each party shall establish in favour of the other party a guarantee according to the Network Code.</p> <p>(2) In addition to the provisions of paragraph (1), the parties may mutually present one or more guarantee instruments for the obligations under the contract.</p> <p>(3) The guarantee instruments at paragraph (2) are constituted in equivalence conditions.</p> <p>Penalties:</p> <p>Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under paragraph (5) of Art. 5/Art.5¹, par. (5), letter b) shall incur:</p> <p>a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay the budgetary obligations in due time, for each day of delay, starting with the 91st calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in case of failure to meet the payment obligation within 90 calendar days from the maturity date;</p> <p>b) in case of failure to meet the payment obligation, the limitation/interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 90 calendar days foreseen at letter a).</p> <p>(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.</p> <p>Art. 14 – (1) If, during the delivery month, NU does not ensure at NTS entry points the gas quality specifications at least at the level established by the applicable laws, TSO shall be entitled to request and receive an amount equal to 0,5% of the value of gas, expressed as energy units, delivered at NTS entry and of a quality non-compliant with the applicable laws; the gas value, expressed in energy units, shall be calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS entry and corresponding to the quality</p>

	<p>non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.</p> <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, TSO shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when NU, due to its own fault, does not fulfil the relevant obligations as well as any other obligations established by this Contract.</p> <p>Art. 15 - If, upon TSO's request, the NU does not voluntarily return/does not use the booked and not used capacity transfer facility, thus the mandatory capacity transfer being applied, NU shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.</p> <p>Art. 16 - (1) NU shall be entitled to request and receive:</p> <ul style="list-style-type: none"> a) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of delivery at NTS exit points under the approved nomination/re-nomination. b) an amount established based on the tariff for not ensuring the booked capacity, according to the Network Code, in case TSO does not keep at NU's disposal the entire transmission capacity booked by the latter. c) an amount equal to 0.5% of the value of gas, expressed in energy units, delivered at NTS exit and of a quality non-compliant with the applicable laws, calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS exit and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period; <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, NU shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when TSO, due to its own fault, does not meet its gas transmission services obligation as well as any other obligations established by this Contract.</p>
<p>Payment terms and modalities</p>	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15th day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter 'monthly invoices') drawn up based on the final allocations, as follows:</p>

	<p>a) an invoice for the transmission services provided for the previous month, set based on the final allocations;</p> <p>b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102² and 102⁴ of the Network Code;</p> <p>c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable</p> <p>d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.</p> <p>(5) Invoices issued according to the Network Code shall be paid within 90 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p>
Contract Parties	concluded between SNTGN Transgaz SA and SC Electrocentrale Bucuresti SA
Contract date and type	Contract no. 4T/ 2016 (1 October 2016 –1 January 2017)
Contract scope	Quarterly transmission services
Contract value	13.877.056,24 - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p>Guarantees:</p> <p>Art.10</p> <p>(1) For meeting contract obligations, each party shall establish in favour of the other party a guarantee according to the Network Code.</p> <p>(2) In addition to the provisions of paragraph (1), the parties may mutually present one or more guarantee instruments for the obligations under the contract.</p> <p>(3) The guarantee instruments at paragraph (2) are constituted in equivalence conditions.</p> <p>Penalties:</p> <p>Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under paragraph (5) of Art. 5/Art.5¹, par. (5), letter b) shall incur:</p> <p>a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay the budgetary obligations in due time, for each day of delay, starting with the 91st calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in case of failure to</p>

meet the payment obligation within 90 calendar days from the maturity date;

b) in case of failure to meet the payment obligation, the limitation/interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 90 calendar days foreseen at letter a).

(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.

Art. 14 - (1) If, during the delivery month, NU does not ensure at NTS entry points the gas quality specifications at least at the level established by the applicable laws, TSO shall be entitled to request and receive an amount equal to 0,5% of the value of gas, expressed as energy units, delivered at NTS entry and of a quality non-compliant with the applicable laws; the gas value, expressed in energy units, shall be calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS entry and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.

(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, TSO shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when NU, due to its own fault, does not fulfil the relevant obligations as well as any other obligations established by this Contract.

Art. 15 - If, upon TSO's request, the NU does not voluntarily return/does not use the booked and not used capacity transfer facility, thus the mandatory capacity transfer being applied, NU shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.

Art. 16 - (1) NU shall be entitled to request and receive:

- a) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of delivery at NTS exit points under the approved nomination/re-nomination.
- b) an amount established based on the tariff for not ensuring the booked capacity, according to the Network Code, in case TSO does not keep at NU's disposal the entire transmission capacity booked by the latter.
- c) an amount equal to 0.5% of the value of gas, expressed in energy units, delivered at NTS exit and of a quality non-compliant with the applicable laws, calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS exit and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period;

(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, NU shall be entitled to request and receive

	damages, additionally, up to full coverage of the prejudice incurred when TSO, due to its own fault, does not meet its gas transmission services obligation as well as any other obligations established by this Contract.
Payment terms and modalities	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15th day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:</p> <ul style="list-style-type: none"> e) an invoice for the transmission services provided for the previous month, set based on the final allocations; f) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102² and 102⁴ of the Network Code; g) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable h) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point. <p>(5) Invoices issued according to the Network Code shall be paid within 90 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p>
Contract Parties	concluded between SNTGN Transgaz SA and Societatea Complexul Energetic Hunedoara SA
Contract date and type	Contract no. 9/2016 (1 October 2016 – 1 October 2017)
Contract scope	Transmission services
Contract value	3.576.994,48 - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p>Guarantees:</p> <p>Art. 10. (1) For the purpose of fulfilling their obligations under</p>

the contract, either party shall establish a guarantee for the other party in accordance with the Network Code.

(2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating.

The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA.

(3) The payment guarantee in amount of RON 193.138,91 representing 5% of the countervalue of the firm and uninterruptible transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee (Annex 4) or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.

(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.

(5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfils its contract obligations completely or partly or if it delays fulfilling such obligations.

(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.

(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).

(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.

(9) The Network User shall be exempter from the provision of the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked.

Penalties:

Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under paragraph (5) of Art. 5/Art.5¹, par. (5), letter b) shall incur:

a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay the budgetary obligations in due time, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in case of failure to meet the payment obligation within 15 calendar days from the maturity date;

b) in case of failure to meet the payment obligation, the limitation/interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 15 calendar days foreseen at letter a).

(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at

	<p>paragraph (1) shall be shifted accordingly.</p> <p>Art. 14 - (1) If, during the delivery month, NU does not ensure at NTS entry points the gas quality specifications at least at the level established by the applicable laws, TSO shall be entitled to request and receive an amount equal to 0,5% of the value of gas, expressed as energy units, delivered at NTS entry and of a quality non-compliant with the applicable laws; the gas value, expressed in energy units, shall be calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS entry and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period.</p> <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, TSO shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when NU, due to its own fault, does not fulfil the relevant obligations as well as any other obligations established by this Contract.</p> <p>Art. 15 - If, upon TSO's request, the NU does not voluntarily return/does not use the booked and not used capacity transfer facility, thus the mandatory capacity transfer being applied, NU shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.</p> <p>Art. 16 - (1) NU shall be entitled to request and receive:</p> <ul style="list-style-type: none"> a) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of delivery at NTS exit points under the approved nomination/re-nomination. b) an amount established based on the tariff for not ensuring the booked capacity, according to the Network Code, in case TSO does not keep at NU's disposal the entire transmission capacity booked by the latter. c) an amount equal to 0.5% of the value of gas, expressed in energy units, delivered at NTS exit and of a quality non-compliant with the applicable laws, calculated by multiplying the gas quantity, expressed in energy units, registered in the report signed at NTS exit and corresponding to the quality non-compliance period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by CA for the relevant period; <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, NU shall be entitled to request and receive damages, additionally, up to full coverage of the prejudice incurred when TSO, due to its own fault, does not meet its gas transmission services obligation as well as any other obligations established by this Contract.</p>
<p>Payment terms and modalities</p>	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p>

(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.

(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.

(4) Until the 15th day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:

- a) an invoice for the transmission services provided for the previous month, set based on the final allocations;
- b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102² and 102⁴ of the Network Code;
- c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable
- d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.

(5) Invoices issued according to the Network Code shall be paid within 15 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.

(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.

(*)Art.5¹

(1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.

(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.

(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.

(4) The TSO shall send facturi separate invoices (hereinafter `monthly invoices`) for each month as follows:

- a) the first invoice, representing an advance payment, issued for the value of the booked capacity, until the 25th day of the month preceding the delivery month;
- b) an invoice related to the transmission services supplied for the previous month, set based on the final allocations, by means of which the initial advance invoice will be regulated;
- c) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the

	<p>methodology under Art. 102² and 102⁴ of the Network Code;</p> <p>d) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101, if applicable;</p> <p>e) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.</p> <p>(5) Invoices issued according to the paragraph (4) shall be paid as follows:</p> <p>a) the invoices issued according to paragraph (4) (a) until the last day of the month preceding the delivery month;</p> <p>b) the invoices issued according to paragraph (4) (b) to (e) within 15 calendar days from the issue date of the invoices.</p> <p>If the due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p> <p>(*) It is applied in case of choosing the advance payment option.</p>
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ANNEX 2 HSSEQ ACTIVITY

Activity developed in the field of Environmental Quality, Protection and Security

Cuprinde aspecte privind:

- Activities developed in the field of Internal Control (until 23.06.2016);
- Activities developed in the field of Integrated Quality Management System – Environment – HSS;
- Activities developed in the field of Occupational Health and Security;
- Activities developed the field of Protection, Surveillance and Security;
- Activities developed in the field of Critical Infrastructures Protection;
- Activities developed in the field of Documents Management;
- Activities developed in the field of environmental protection;
- Activities developed by the Laboratory for Monitoring the Environmental Factors.

I. Activities developed in the field of internal Control

The activity of the Surveillance and Control Department and Fraud Control Office defined in the Rules of Organization and Operation of SNTGN Transgaz SA valid until 23.06.2016 was developed based on administrative orders and on the schedules prepared for each assigned mission.

As of 23.06.2016 based on the Decision of the Board of Administration no 22/2016 the Surveillance and the Control Department and the Fraud Control Office were disbanded and the Internal Control Department and the Verification and Prevention Office were established and they took over the majority of the responsibilities of the former, the scheduled control activities will be carried out based on an approved annual control plan, and the unscheduled

ones at the explicit request of the director general and a greater emphasis will be placed on the prevention activity.

The control missions of the department were oriented on the mitigation of the risks related to non-conformities and frauds, aiming at the improvement of the performances within the company. Therefore, the focus was predominantly set on the following:

- The identification of the possible factors bearing illegal content which may affect the fulfillment of the management plan;
- The prevention of the occurrence of non-conformities and frauds during the implementation of the projects, mainly of the ones funded by European funds.

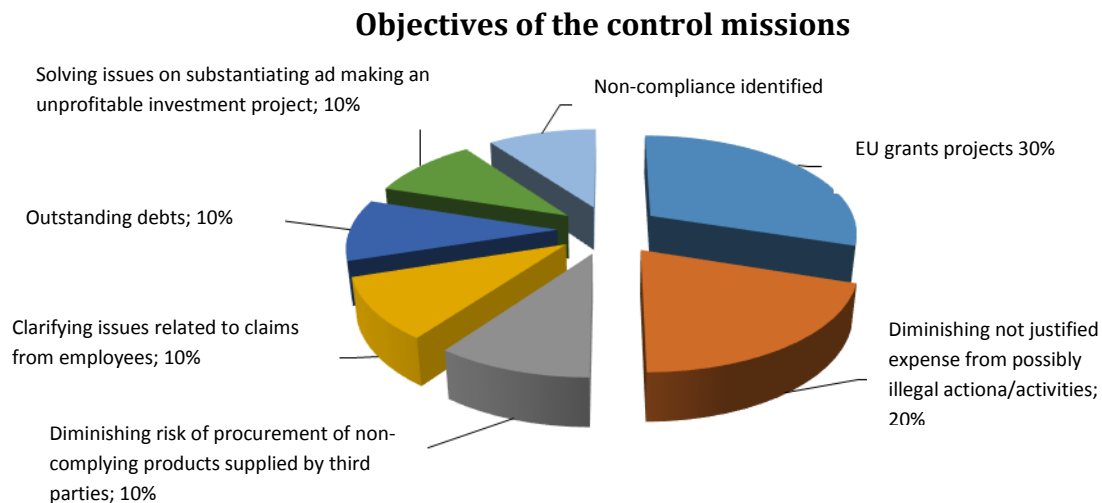
In semester I 2016, 6 inspection topics were submitted for being addressed. The summary of the 10 inspection topics, of which 4 were initiated in 2015 and continued in 2016 is presented in the table no 1 which indicates that they were oriented towards:

- The conduct of the activities related to EU funded projects;
- Uncollected receivables;
- The reduction of the irregular expenditure, generated by potentially illegal actions/activities;
- The reduction of the risks related to the procurement of the non-compliant products/services supplied by third parties;
- Clarification of aspects highlighted by employees in their complaints;
- Shedding light on aspects related to the substantiation and implementation of an unprofitable investment project.

No.	Theme of the inspection topic	Status of the mission
EU funded projects		
1.	Verification of the implementation of the SCADA system- Stage I.	Completed mission (Control report DCCCMPS/4459/01.02. 2016)
2.	Identification of the causes for the non-submittal of the claim for reimbursement related to Stage I of the SCADA project.	(Control report proposed for endorsement/approval)
3.	Information on the verification of the implementation as at 30.11.2014 of the project for the works in view of the interconnection of the gas transmission systems in Romania and Bulgaria.	Revised Material and resubmitted to the DG (Report no. DCICPS/34527/26.07.2016)
Reduction in the irregular expenses, generated by potentially illegal actions/activities		
4.	Correlation of the expenses incurred by the trips in the field of the employees within the Subsidiary office in Medias because of the complex works executed in the period January - September.	Report (DCICPS/35867/03.08.2016) Draft control report.
5.	Verification of the accounts in the period 2005 - 31 March 2016 at the Regional Office Constanța.	Report (DCCCMPS/23798/23.05.2016) Draft Control report
Reduction of the risks related to the procurement of non-compliant products supplied by third parties		
6.	Verification of the products and services supplied by Eurosystem SRL in the period January 2012- March 2016.	Report (DCICPS/26105/04.08.2016) Draft Control report
Clarification of the aspects highlighted in the complaints submitted by employees		
7.	Verification of the legality of the receipt of the rights of inventor related to the patent "Gas odorization installation" owned at SC SUDOCOR	Completed mission (Control report no.DCCCMPS/10877/09.03.2016)

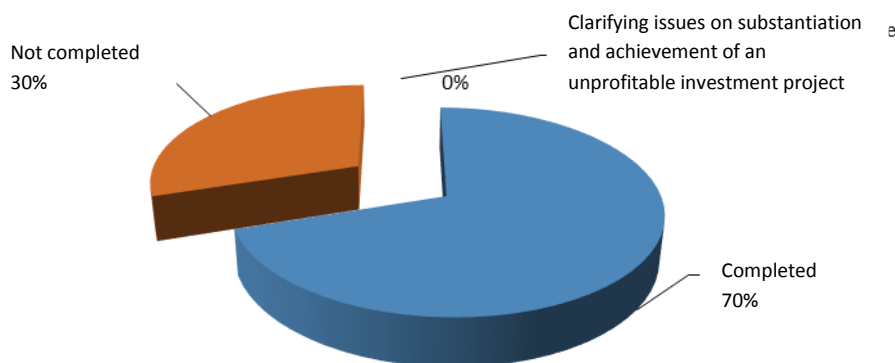
No.	Theme of the inspection topic	Status of the mission
	VMV SRL by Mr. Lața Ilie.	
Uncollected receivables		
8.	The verification of the method for the recovery of the uncollected receivables upon the deadline from SC Interagro SA București during the period 2007-2013.	Revised material and then resubmitted to the DG (completed). (Report no.DCCCMPS/33421)
Shedding light on aspects related to the substantiation and implementation of an unprofitable investment project.		
9.	Verification of the achievement of the investment project „Pipeline DN400 Biharia-Aleșd”.	Completed mission (Report no. DG 43318/22.09.2016)
Identified non-conformities following the execution of some works		
10.	Non-conformities identified in the works executed at the TN Afumați for the "Adaptation to the ground of the metering lines to be installed as a result of the SCADA project”.	Completed mission (Report no. DCICPS/39363/29.08.2016)

According to the following diagram the themes of the control missions assigned were focused on EU funded projects following the reduction of unjustified expenses.



The stage of the control missions carried out in semester I 2016 is presented in the following chart:

Progress of control missions



As indicated in the chart above, the completed missions sum up 70% (7 missions) the rest of 30% (3 missions) are still ongoing the stage of endorsement/approval of the control reports.

Apart from the allocated control missions, the personnel of the Internal Control Department and of the Verification and Prevention Office also took part in other missions or works which are not necessarily part of their activity, as follows:

- Participation in the working group for the project „*Consolidation of the financial management by the improvement of the financial performances of state owned companies*” carried out by the Romanian Government by the Ministry of Public Finance (according to the Decision no. 501/12.07.2016);
- Participation in the disciplinary research commission established within Transgaz;
- Transgaz SA, regarding the analysis of some possible misconduct within the regional Office Constanța (according to the Decision no. 597/11.08.2016);
- Analysis and preparation of opinions to the contestations submitted by Transgaz’ employees against the imputation orders as a result of the illegal activities carried out by them (for example Bunea Florin, Pușcă Teodor Nichifor);
- Preparation of the Process procedure (code PP-176) regarding „The prevention and reporting of frauds, corruption deeds and the identification of breaches of law or of the internal regulation” namely of the Control Procedure (code PP-177).

The Internal Control Department has constantly monitored the prompt achievement of the control missions and at the same time the compliance with the efficiency and quality indicators.

Qualitatively, the activity of the Internal Control Department (Surveillance and Control Department) was positive mainly due to the activity carried out in the field and to the analysis of the documents.

On the other hand, the quality of the activity of the employees of the Internal Control Department (Surveillance and Control Department) should be analyzed bearing in mind the complexity of the control missions and the diversity of the analyzed aspects.

There were situations when the role of the control missions was a preventive one when the activities were ongoing and that is why the non-conformities were remedied during their fulfillment (for example: non-conformities identified at the TN Afumati).

The reconstitution of the event flow diagram in case of the missions with the subject facts recorder during the 2-10 years period, was difficult because of the following reasons:

- Delayed answers or incomplete answers to the request for documents;
- The deficient archiving of the documents;

- Insufficient material resources.

From the point of view of the means to ensure the necessary resources the following aspects are worth mentioning:

- The activity of the department was carried out by 6 persons, out of which a Head of the Department and a Head of Office;
- The current material resources are limited and the employees of the department do not have all the means/facilities for an efficient activity.

In order to continuously improve the activity we propose to put in place the following appropriate measures:

- Providing the necessary materials for the conduct of the activity in optimum conditions (laptops during the business trips, mobile phones, cars, etc);
- The consistency of the operating staff within the department; we propose an inspector/expert;
- The inclusion in the training program of the staff specialty courses offering participants certifications in a certain specific field (internal control).

II. Activities developed in the field of Occupational Health and Security

In 2016, the occupational health and security activity was carried out in a planned and organized manner, aiming at the reduction and/or elimination of the risks for the occurrence of some events, occupational accidents, dangerous incidents and professional diseases within the company in compliance with the legal provisions in the field of safety and health at work, particularly through the performance of the "**Plan for Prevention and Protection for 2016**" nr. 60.672/17.12.2015 approved in the meeting of the Committee for Occupational Health and Safety for quarter IV 2015 and the fulfilment of all the activities set by the Rules of Organization and Operation of the company as well as the laws in force.

In the **Annual Program of the Services provided by third parties** and in the **Supply Program for 2016** the following services and products were substantiated and budgeted to be procured in the first semester of 2016:

- Occupational healthcare services
- Services for the certification of installations operating in explosive atmosphere.
- Services for renting ecological toilets
- Services for expertise related to incidents and events occurred within Transgaz
- Personal protective equipment
- Hygiene – health products.

The activity related to the inspection in the field of occupational health and safety was carried out in line with the requirements of art.15, par.1 point17 of G.D. 1425/2006 for the approval of the Methodological rules for the application of the Law on Occupational Health and Safety no 319/2006, the following programs were prepared:

- The Joint Inspection Program carried out by the departments within the Quality-Environment, Protection and Security Division for 2016.
- Cross inspection program for the Regional Offices for 2016.
- The preventive evaluation program within the Regional Offices for 2016.

Instruction/testing programs were prepared in the field of occupational health and safety within the company and the training themes during all the stages (general introductory training – upon employment, in-service training, and regular training namely additional and special training) in order to ensure a unitary approach and to streamline the training program of the employees within TRANSGAZ. Personnel training was ensured for all the employees, newly employed persons and the third party personnel executing works for Transgaz.

Within *Transgaz' development and professional training program for 2016* the development and training of the workers with specific responsibilities in the field of occupational health and safety (the managers of the jobs, the representatives of the workers within the Occupational health and safety committee, the inspectors in the field of occupational health and safety, the coordinators of security and health on site, etc.) were substantiated and included.

From the analysis of the achievement of the prevention and protection activities set in the above mentioned programs please find below:

A. The organizational measures were carried out as planned, as follows:

1. The monitoring and the surveillance of the health of the workers under existing applicable laws, by specialized Medical Centre in occupational medicine until 30.04.2016, the due date of the medical service contracts concluded in 2015. As of 01.05.2016 the monitoring of the health of the workers could no longer be provided. To remedy this shortcoming the employees of the department cooperated extensively with the employees of the Procurement Division within the procedure for the procurement of medical services, started in December 2015 and on 14.07.2016 the procurement was finalized by the conclusion of the framework agreements. So immediately the procedure for the conclusion of the first two subsequent contracts was initiated and through this procedure the monitoring of the health of workers in Transgaz was carried out, the schedule for carrying out the medical checks within the company based on priorities and the deadlines of the sheets of individual skills

2. In order to ensure minimum requirements for improving the safety and health protection of workers potentially at risk may be due to the formation of an explosive atmosphere, during the first half of 2016 specific activities were organized provided by GD No. 1058/2006 regarding the development in good conditions of the service contract concluded with INCD - INSEMEX Petrosani for on-site review of facilities where potentially explosive atmospheres may occur and issue certificates of conformity for a total of 88 objectives. In this regard correspondences were carried out and meetings were held with representatives of INSEMEX regarding the content of the framework documentation to be prepared by Transgaz' experts and to be submitted in order to obtain the Ex reassessment. In this respect the OSH department requested by a written letter the Operation and Maintenance Division to submit the documentation to INSEMEX Petrosani on step by step basis.

In order to comply with the legal requirements concerning Explosion safety (legislation, regulations, standards) to ensure their uniform application in the fields of activity of the company, in collaboration with the Planning and Research Division and the Operations and Maintenance Division the procedure for the preparation of the **Technical Norms for design execution, verification, acceptance, commissioning, maintenance, certification and re-authorization of units operating in hazardous environments in the natural gas transmission** was initiated. For this reason correspondences were carried out and meetings

were held with the management and specialists of INSEMEX Petrosani on the content and the provision of expert advice for the development of the above mentioned document. In this respect in the first half of 2016 the technical specification and documentation for the procurement of the consultancy service was drafted and sent.

3. In order to ensure the minimum requirements for safety and hygiene at work, provided by G.D. no. 1091/2006 was continuously monitored by **inspectors from the Occupational Health and Safety Department**, the running in good conditions of the subsequent services contract for rental and maintenance of ecological toilets located at the sites that do not have sewerage and running water and at the temporary sites organized by the company. Also in the month of June 2016 the necessary arrangements were made for a new subsequent services contract for the period 23.07.2016 - 07.23.2017.

4. Following complaints from the Regional Office in Bucharest, to protect workers who are exposed to risks that may be caused by electromagnetic fields, the assessment / expertise survey of the electromagnetic fields was carried out in the workplace at the headquarters of the Regional Office in Bucharest, by the National Institute for Research and Development for Occupational Safety Alexandru Darabont Bucharest. The findings of this study indicate that the measured values of the strength of the electric field and of the power density do not exceed the limits imposed by G.D. No. 1136/2006 - on minimum safety requirements regarding the exposure of workers to the risks arising from electromagnetic fields.

5. To protect the workers from occupational hazards that occur at workplaces/workstations in the company sorts of personal protective equipment were identified and the necessary equipment was prepared for equipping the workers in accordance with the **List of Internal equipment and individual Protection equipment of Workers specific to Transgaz updated and approved by the Board of Administration in August, 2015**. Thus in the second quarter of 2016 specific documentation necessary to initiate the procurement procedures of personal protective equipment were prepared (specifications, technical specifications, reports of necessity, delivery charts, etc) for the following: protective clothing Winter/Summer, safety shoes winter/summer, gloves, head protection products, special working clothing - gas masks, aluminized costumes).

In 2016 the **inspections carried out by the inspectors in the OHS field within the Occupational health and safety department**, aimed at the inspection of the equipment and the appropriate use of the personal protective equipment by the workers, the maintenance and appropriate storage of it and its replacement at the deadline set in the Internal List for the Personal Protective Equipment of the workers within Transgaz and in other situations provided by law.

6. In view of ensuring the occupational health and safety on the sites organized within Transgaz for the execution of the construction works/mounting installation in the gas transmission field, **the contractors and subcontractors were coordinated in the field of occupational health and safety by means of the inspectors in the field of OHS within the Occupational Health and Safety Department and the Regional Offices**, who are certified for these activities in line with the provisions of G.D. no 300/2006 on minimum occupational health and safety requirements for temporary and mobile sites. The coordination of the occupational health and safety of the temporary sites and of the mobile sites was achieved by regular inspections on the sites and coordination meetings with the representatives of the

constructors so as to ensure the fulfillment of all prevention and protection measures applicable to the sites provided in the security and health plans.

The coordination in the field of security and health was ensured throughout the duration of the preparation of the design of the pipeline Bulgaria – Romania – Hungary – Austria, namely the design of the gas compressor stations to be mounted on this pipeline.

In order to set the obligations and the responsibilities of the partners (beneficiary/contractor) in case of the works executed at Transgaz' objectives the Occupational Health and Safety Department ensured the conclusion of the **occupational health and safety convention – emergency situations and environmental protection**. Therefore the training of the contractor's personnel is ensured by the inspectors in the field of occupational health and safety, emergency situations and environmental protection, the mutual information regarding the risks generated by those works and the main measures and rules are set which must be complied with through the duration of the works (see table no 1).

Table no.1

Month	OHS Conventions –ES –MP concluded until 31.12. 2016	Appointment decisions OHS coordinator concluded until 31.12.2016
January	2	1
February	1	1
March	4	4
April	9	8
May	8	1
June	3	1
July	3	2
August	2	2
September	5	3
October	5	4
November	3	1
December	2	1
Total	37	22

7. Inspection actions were carried out by the OHS inspectors within the OHS Department and preventive evaluations were carried out as well by the inspectors in the field of occupational health and safety within the Regional Offices, the Subsidiary in Medias and other entities (Compressor Stations, Occupational Recovery Center) according to the planning achieved in the beginning of the year.

8. In semester I 2016 the training program in the field of occupational health and safety of the supervisors summing up 75 persons (head of sector, heads of the compressor stations and gas import, directors of regional offices/subsidiaries, directors of divisions, heads of independent departments, etc). Therefore, the training of the company's personnel was

carried out with specific responsibilities in the field of occupational health and safety and a task provided in the CSSM for 2015 was fulfilled.

9. In the period 08.02.2016 – 15.04.2016 the ***ad-hoc audit mission of the occupational health and safety and emergency situations activity*** was carried out by the Internal Audit department of the company. The occupational health and safety inspectors within the OHS department and within the regional offices provided the auditors with the information, clarifications and the requested documents.

Following this action the Action plan and the schedule for the implementation of the recommendations included in the audit report.

In the end of semester I and semester II 2016 actions were taken for the implementation and achievement of the measures set both centrally and at the level of the Regional Offices and of the Medias Subsidiary.

We would like to mention the conclusions of the Audit report which underlined the positive evolution of the activity of the department which was found at the last audit.

10. In the period 08 -12.02.2016 a working meeting was organized with all the inspectors in the field of occupational health and security at the Occupational Recovery Centre in Poiana Braşov, with the purpose to prepare the control/inspection themes for 2016, the clarification of the aspects related to the technical specifications for the procurement of the personal protective equipment and the setting of the method to signal the risks related to Transgaz' goals.

Prior to this meeting the OHS inspectors within the department made a prospection of the market of the personal protective equipment at the meeting new models of protective equipment were presented including the specific technical characteristics to ensure the protection of the workers against the risks which may occur at the jobs within the company.

The selected models and the technical charts were submitted for analysis to the members of the health and security committee in the meeting for quarter I 2016. Following the debates the new models of the equipment to be procured as of 2016 were presented.

11. The verification of the technical design, of the design themes, the feasibility studies and solutions submitted for the endorsement by Transgaz' Technical Economic Committee, was carried out in view of the verification of their compliance with the legal provisions and with Transgaz' requirements in the field of occupational health and safety.

For all the investment/development projects promoted by Transgaz coordinators in the field of occupational health and safety were appointed by decision throughout the duration of the preparation of the project who prepare together with the inspectors within the OHS department the Health and security plan according to the requirements of G.D. no 300/2006 regarding the minimum health and security requirements for temporary and mobile sites.

12. ***Inspectors in the field of occupational health and security within the OHS department participate in the acceptance commissions upon the completion of the works at the investment objectives***, making sure that these objectives were achieved by the constructors according to the technical design and that these objectives comply with the health and security requirements provided by law and by the regulations in force.

13. In line with the Rules for Organization and Operation the ***meetings of the Occupational Health and Security Committees*** were organized in each quarter, these meetings were established at the headquarter (the OHS department provides their related

secretariate services) in the Regional Offices and the Medias Subsidiary. In these meetings the OHS inspectors presented reports related to the situation of the occupational health and safety in the entities they represent, the actions which were carried out and the prevention and protection measures taken.

14. A new stage of the study achieved by the National Institute for Research and Development „Alexandru Darabont” Bucharest was initiated with the subject: „Determination of the professional effort, the evaluation of the working skills and the professional fatigue, neuropsychological and sensorial disturbances. The level of the expertise of the jobs and of the persons working in difficult, dangerous, possibly harmful or noxious.”

B. Technical measures

In 2016 the achievement of the technical measures contemplated in the *Prevention and Protection Plan for 2016* was pursued taking into account **Transgaz’ Projects** related to the policy for the upgrading of the **National Transmission System**, of which it is worth mentioning:

- The upgrading of the power and earthing installations in the working sites nominated in *the Prevention and Protection Plan*;
- The upgrading of the social groups and the connection to the running water networks in the working sites nominated in *the Prevention and Protection Plan*;
- The execution of the upgrading, hygienisation works at the cabins of the operators set in the *Prevention and Protection Plan*;

C. Health and hygiene measures

In view of the achievement of the measures related to the health and hygiene field (the provision of hygiene/sanitary materials, the filling in/replacement of the components of the sanitary first aid kits, ensuring protection food, etc) the documents necessary for the procurement were prepared and the necessary materials were prepared.

D. Report on incidents (work related events) occurred within Transgaz Mediaș in 2016

EVENTS NOTIFIED AND INVESTIGATED IN THE COMPANY IN 2016

No	Position	Location, date and time of occurrence	Cause of occurrence of the event	Classification
1.	Statistician	01.08.2016, ora 15,50 Mediaș - P-ța CI Motaș No.1	Stumbling and accidental falling on the stairs outside the building	Accident at work
2.	Operator	11.08.2016, 21,00 o'clock MRS Bârlad – Regional office Brăila	Sickness during the business hours	Did not meet the conditions to be classified as accident at work
3.	Locksmith	24.08.2016, ora 11,00 MRS Govora	Crushing the fingers of the left hand in the cup of the backhoe loader	Accident at work.
4.	Engineer	12.09.2016, 14 o'clock Regional office CLUJ	Stumbling and accidental falling on the stairs outside	Accident at work

No	Position	Location, date and time of occurrence	Cause of occurrence of the event	Classification
			the building	
5.	Human resources inspector	26.09.2016, ora 16,15 Mediaş - P-ța CI Motaş No.1	Stumbling and accidental falling on the stairs outside the building	Accident at work
6.	Engineer	26.09.2016, ora 17:00. DN 1F – E81, Topa Mică, the county of Cluj.	Car accident resulting in death.	Investigation performed by the Regional Labour Inspectorate CLUJ. Meets the conditions to be classified as accident at work
7.	Engineer	29.09.2016, 6,10 o'clock DN 68 Oțelul Roșu – Caransebeș	Car accident resulting in death. Crushed in a parking lot by a truck.	Investigation performed by the Regional Labour Inspectorate CARAȘ SEVERIN. Meets the conditions to be classified as accident at work
8.	Engineer	06.10.2016, ora 8,00 La 300 m de Hotel Casa Creangă Tg. Ocna the county of Bacău.	Heart attack resulting in death.	Investigation performed by the Regional Labour Inspectorate BACĂU. Did not meet the conditions to be classified as accident at work
9.	Operator	01.12.2016, ora 7,20 - MRS Lugoj – Regional office Arad	Slipping on the ice in the premises of MRS Lugoj resulting in head injury.	Investigation completed within the company. The file was submitted for endorsement at the Regional Labour Inspectorate Timiș. Meets the conditions to be classified as accident at work
10.	Operator	22.12.2016, 11:40 o'clock MRS Brașov I – RO BRAȘOV.	Sickness, dizziness and chest pains.	Ongoing investigation. Did not meet the conditions to be classified as accident at work

E. Inspections carried out by the Regional Labour Inspectorates

In 2016 the Occupational health and safety inspectors within the Regional Labour Inspectorates of the counties carried out within Transgaz inspections for the verification of the compliance with the legal provisions in the field of occupational health and safety, as follows:

EXTERNAL INSPECTIONS 2016						
No.	Inspection date	LOCATION (R.O./Dep./S subsidiary)	Competent authority	Description of the reason for the control	Measures to be adopted	Achievement method
1.	18 – 19.02.2016.	Regional Office Bacău – Sector Onești	Regional Labour Inspectorate (RLI) Bacău	OHS Control – Report no. 41369 / 19.02.2016.	4	Remedied

2.	14 - 15.01.2016	Regional Office Arad Sector Deva	RLI Hunedoara	OHS Control	No measures were decided to be adopted	-
3.	21.04.2016	Regional Office Bacău – Sector Onești	RLI Bacău	OHS Control - Report no. 41389 / 21.04.2016	No measures were decided to be adopted	-
4.	02.11.2016	Regional Office Cluj	RLI CLUJ	OHS Control - Report no. 073445 / 02.11.2016	1	Remedied
5.	13.10.2016	Regional Office Craiova	RLI Vâlcea	OHS Control - Report no. SM 1072 / 13.10.2016	4	Remedied
6.	22.12.2016	Regional Office Arad - Sector Deva	RLI Hunedoara	OHS Control - Report no 70.939 / 22.12.2016	No measures were decided to be adopted	
7.	23.12.2016	Regional Office Craiova	RLI Vâlcea	OHS Control - Report no SM 1382 / 23.12.2016	1	Remedied

The company received no legal sanction for the non-compliance with the occupational health and safety provisions

I. ACTIVITIES CARRIED OUT IN THE FIELD OF ENVIRONMENTAL PROTECTION

The main activities in the field of environmental protection in 2016 were carried out in a planned and organized manner in order to avoid pollution reduce the risk of environmental incidents in the sites within the company as well as the compliance with the legal provisions in the field.

Therefore, the main directions taken were:

A. The monitoring of the regulatory acts

Within the company there are **17 environmental permits**, authorizing a number of 1195 objectives belonging to Transgaz. According to the *Planning of the renewal of the regulatory acts*, in 2016, **3 requests for renewal of the environmental permit** were submitted, for the authorization of **12 new objectives**.

From the point of view of the water management permits, the laws in the field require the obtaining of the regulatory acts in all the objectives connected to waters. Therefore, the company owns **130 water management permits** for the crossing of water courses by gas transmission pipelines and for 17 of them **documentations for renewal** were submitted.

According to the procedures issued by the national environmental protection authorities the **projects related to development, repairs and maintenance of the national transmission system** were recorded in the Integrated Environmental System. For this purpose the activity for obtaining the regulatory documents in the field of environmental protection was carried out, monitoring at the same time the compliance with the procedure contemplated in the regulations in the field, therefore 55 projects were registered.

The department verified the projects which were submitted to the TEC for endorsement and issued an opinion in the field of environmental protection, monitoring at the same time the compliance with the legal provisions.

B. Evaluation of the compliance with the regulations in the field

Internal evaluation

This activity was carried out by planning different types of integrated internal inspections, both within the Division and within the Regional Offices and by the specialty inspectors in every field.

Thus, subsequent to these inspections for the evaluation of the compliance with the regulation and in order to improve the activity **measures** were decided for environmental protection, as follows:

- In the field of the management of hazardous substances – the display of the revised Security charts of the substances used;
- In the field of pollution prevention – the training of the personnel in terms of the *Plans for intervention in case of accidental pollution*;
- In the field of waste management - the appropriate labelling of the containers, the preparation of the documents related to the regulations, the inappropriate storage of the metallic waste.

External evaluation

In 2016, Transgaz S.A underwent 12 external inspections presented in the table below. They were carried out in the control structures within the National Environmental Control Agency, the National Romanian Water Management, Environmental Protection Agency.

External inspections table

No.	Name of the control entity	Inspected location	Inspection date
1.	SGA Covasna - ABA Olt	Regional office Braşov - Sector Băţani	28.01.2016
2.	GNM Vrancea	Regional office Brăila	15.04.2016
3.	ABA Jiu	Regional office Craiova	05.05.2016
4.	GNM Brăila	Regional office Brăila – TCS Siliştea	11.05.2016
5.	ABA Olt	Regional office Mediaş - Sector Sibiu	22.06.2016
6.	GNM Alba	Regional office Arad – Sector Alba	21.07.2016
7.	GNM Brăila	Regional office Brăila – VCS Şendreni	06.10.2016
8.	ABA Siret	Regional office Bacău – verification of the location of the project	03.11.2016
9.	ABA Buzău Ialomiţa	Regional office Brăila – renewal of the water management permits	04.11.2016
10.	GNM Sibiu	SNTGN TRANSGAZ – Botorca Storage	09.11.2016
11.	GNM Sibiu	Regional office Mediaş - Sector Sibiu	10.11.2016
12.	APM Brăila	Regional office Brăila – verification of the completion of the project	25.11.2016

As for the sanctions applied to Transgaz we would like to mention that **the company received no legal sanction for the non-compliance with the environmental protection provisions**

Following the controls and inspections no sanctions were applied only **improvement measures** as resulted from the inspection reports of the control authorities in the following fields:

- Waste management;
- Analysis of the environmental factors;
- Water management permits;
- Intervention plans in case of accidental pollution;
- Management of substances and hazardous chemical substances;
- Appointment of the personnel responsible for the environmental protection in some of the objectives.

The works undertaken by the company were undertaken by the **Plan for measures to reduce noise pollution in MRS Titan** within the Regional office Bucharest.

These actions were carried out following the complaint received by the company and the inspections carried out by the National Environmental Control Agency – the Municipality Commissioner of Bucharest.

The works carried out for the reduction of sound pollution consisted in:

- The replacement of old, non-functional regulators with redactors provided with noise minimizers;
- The refurbishment of the building of the MRS by the reduction and replacement of the glass surfaces.

In 2016 the company registered a complaint generated by the discomfort caused by the mercaptane emissions and in 15.04.2016 an inspection was carried out by the National Environment Control Agency – the department for the commissioner of the county of Vrancea, MRS Focsani - Odobesti, objective in the Regional Office Braila, which has a result the Findings Report no. 141/15.04.2016.

Related to the measures set by the authorities „*the preparation of an analysis bulleting by a laboratory certified by RENAR, in order to determine ethylmercaptane concentration both in the premises of the working site and outside the premises (emissions and immissions)*”.

The department prepared a tender book and contracted a certified firm for this type of specialty services related to the performance of the meterings at MRS Focşani. Following the execution of the operations and the issue of the metering bulletins it was discovered that the emissions and immissions of ethylmercaptane were within the legal limits and the results were sent to the control authorities.

C. Specialty reporting to the authorities in the field

Monthly and quarterly reports were prepared by the authorities in the field, according to the obligations provided in the regulatory acts owned by the company:

- According to the provisions of art. 9, letter c of GEO no 196/2005 on the Environment fund the company has to pay the obligations in favor of **The Administration of the Environment Fund**, representing the monthly taxes for pollutants emissions in the air. In view of the payment of these financial obligations

the department monitors the consumption of specific resources, quantifies and prepares the declaration for the Environment Fund.

- According to the provisions of art. 13 paragraph 2 of Law no 132/2010 on the selective collection of waste in public institutions they are monitored and summarized within the company by sending monthly **the waste register** to the National Agency for Environmental protection Bucharest;
- The monitoring of the management of the waste generated with the company was performed and reports were sent to the authorities, according to the obligations from the environment permits;
- The management of the dangerous substances and of the chemical preparations used within the company was reported to the Environment Protection Agencies.

At the same time, according to the requests of the authorities **specialty reportings** were prepared (waste oils management, waste management, Local Inventory of the Emissions) in the **Integrated Environment System**.

D. BRUA Project

The Environmental Management Department ensures the coordination of the design from the environmental point of view for the 3 compressor stations part of the **BRUA** project.

The personnel within the department participated in the identification of the land owners and in the conclusion of the conventions with them.

They took part in different meetings with external bank institutions, with the purpose to finance the project. Therefore, following these meetings reports were prepared and information was supplied to comply with the requirements in the field of environmental protection of the two banks BERD and BEI.

The personnel within the Laboratory for Monitoring the Environmental Factors participated in the verification of the **Study for the assessment of the environmental impact and the Adequate Assessment Study related to the BRUA project**, prepared by a specialized firm.

E. Environmental protection expenditure

For the appropriate conduct of the environmental protection activity expenses on the procurement of the specific services were provided and also the expenses related to the taxes required by the authorities.

In the plans of the company, respectively in the **Annual program for services executed by third parties** the necessary environmental services were budgeted and by means of the **Supply program for 2016** environmental protection materials and products were requested.

We would like to mention that all types of services were initiated, the development stage of these services being different and correlated with the necessities resulted from Transgaz' main activity namely gas transmission.

The tender books for the following environmental services were prepared and sent to the specialty departments:

- Physico – chemical analysis services related to domestic waste waters;
- Physico – chemical analysis services in view of the characterization and classification of liquid/solid waste generated from the pigging/cleaning activity related to the filtering elements/separators;

- The department for interventions in case an environmental incident occurs;

The third party accredited laboratories analysed the domestic waste waters and the waste generated from the pigging/cleaning activity upon the request of the operators who took over those wastes.

In 2016 the contract „*Services for the preparation of technical documentations in order to obtain the water management permits*” was implemented and completed, summing up RON 579.362 services with the final purpose to prepare the technical documentations for the revision of the water management permits related to the Olt River Basin.

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

In 2016 the supervision audit was conducted by SRAC which resulted in 4 improvement fields related to the environmental protection activity, respectively:

- The monitoring of the implementation of the measures taken subsequent to the inspections;
- The integration of environmental considerations in the projects;
- The management of the types of waste resulted from the repair works;
- The monitoring and management of the environmental aspects within the Subsidiary office in Mediaş.

At the same time the transition to the new standard ISO 14001 : 2015 was initiated by the identification of all the processes related to the activity and by the preparation of the Flow Diagrams and of the Process Charts.

G. Activity developed by the Environmental Pollution Monitoring Laboratory

The planning of the activities carried out in 2016 by the Environmental Pollution Monitoring Laboratory included the following:

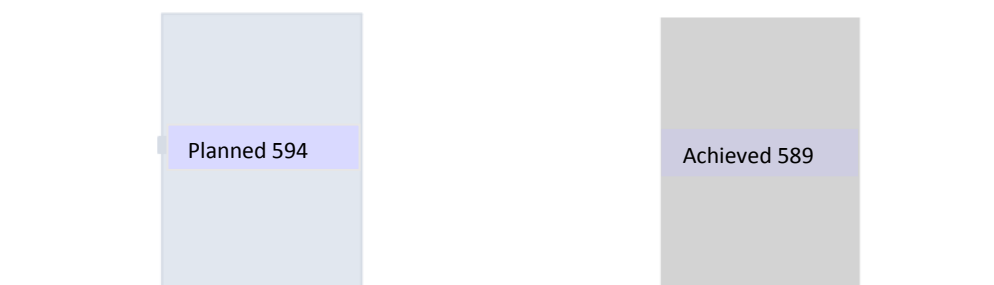
- *The planning of the monitoring of the pollution sources by the Environmental Pollution Monitoring Laboratory for 297 locations;*
- *The planning in view of the identification and evaluation of the environmental aspects in the sites of the company, for 112 locations.*

In line with the requirements of the Environmental permits issued by the National Agency for Environmental Protection Bucharest the monitoring involved the systematic performance on the sites of the company of the meterings of the environmental factors as follows:

- Noise level meterings;
- Verification of the technological installations from the point of view of the sealing in view of the detection of the mercaptane and ethyl mercaptane emissions;
- Determination of air pollutants emissions (CO, NO_x, SO₂) of the combustion gas coming from the compressor stations, district heating plants, convector stoves and gas heaters;
- Identification of situations which are not in line with the environmental protection regulations and/or related to accidental pollution;
- Preparation of metering reports, of the charts for the evaluation of the environmental aspects and of the monitoring reports.

Table contemplating the degree of achievement of the **monitoring of the pollution sources**

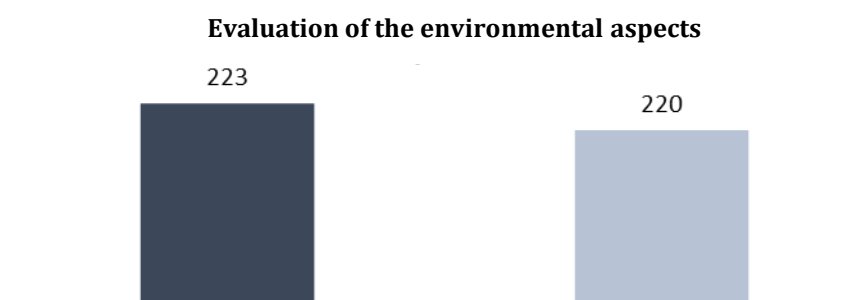
Type of activity/ Reporting period	Number of proposed surveys	Number of achieved surveys	Degree of achievement (%)
Monitoring	594	589	99,16



Monitoring the pollution

Table contemplating the sites where the **evaluation of the environmental aspects** was proposed and achieved

Year	Number of sites proposed for the evaluation of the environmental aspects	Number of sites where evaluation of the environmental aspects was achieved	Achievement degree (%)
2016	223	220	98,65



The recent procurement of portable equipment on the field for the equipment of the laboratory was a spectacular step forward as compared to the previous years with respect to the **increase of the metering capacity and performance.**

New fields were approached such as the procurement of detectors for metering the **concentration of harmful gas, soil resistivity meterings** upon the crossing of running waters by pipelines and then the metering of the **radiation level.** At the same time the pollutants may also be collected and determined from the contaminated soil samples. As for the **increase of the capacity metering and performance new devices** were procured, in the field of **sonometry, of ethylmercaptane and methane detectors, of combustion gas, of the metering of weather parameters, liquid and soil samplers.**

In this equipment and upgrading stage only the **mobile field equipment** were approached with priority so as to allow for the smooth conduct of the activity for the monitoring of the pollution sources.

All of the above allow the **accurate clear and unequivocal determinations** related to the nuisance issued on Transgaz' sites in line with the requirements of the Environmental permits of the Regional Offices.

In particular, the supplementing of the equipment of the „laboratory on the field” included the following procurements:

- Integrated noise meter – Bruel&Kjaer type 2270;
- Off-road vehicles for the transport of persons equipped with the necessary devices related to the mobile laboratory for Environmental protection - Volkswagen `Caravelle`;
- Portable ethylmercaptane detector – Dräger model X-am 5000;
- Set of lab sampling equipment;
- Sampling kit and preparation of soil samples for TPH analysis;
- Soil resistivity metering device - model CA 6472;
- Methane gas analyzer by laser absorption - INSPECTRA LASER model;
- Portable device for metering the radiation level - RIIDEYE model;
- Portable combustion gas analyzer - MADUR GA 12plus;
- Digital camera – Sony DSC HX 3000;
- Digital camera DSLR type - Nikon D7000;
- GPS device – Explorist Magellan 510;
- Telescopic ladder - 5 m;
- Weather parameters metering device–Kestrel 4000 model.

Based on this equipment the monitoring of the pollution sources was performed and also the evaluation of the environmental aspects materialized in **monitoring reports with metering reports followed by plans of measures to be taken**, prepared by the Environmental management department.

These plans envisaged by the Quality – Environment, Protection and Security Division and approved by the Exploitation Maintenance Division for the remedy of the inconsistencies discovered, represent the **control and guidance activity** of the Regional Offices.

Therefore, **15 Monitoring reports** and **15 Plans of measures including 378 measures** for the maintenance team at the specific works related to the technological installations of the monitored sites to remedy the environmental deficiencies.

The metering reports issued by the lab for the monitored sites are included in the **Annual Environmental Report (AER)** prepared by the environmental protection inspector at each Regional Office and are sent to the Environmental protection agencies, in line with the provisions of the environmental protection permits.

In 2016 the Program related to the **Monitoring of the pollution sources and identification and evaluation of the environmental aspects at Transgaz' sites** was 98,65% completed.

Allocated financial resources

For 2016 in the Annual Program for Public Procurement related to 2016 through the Annual program related to other services executed by third parties for 2016, Annex no 8 the `Environmental services` were contemplated in row no 1 `Service provision services and metrology checks of the devices in the Laboratory for Monitoring Environmental Factors` in the amount of **RON 82.658,00**. As compared to the planning the amount of **RON 74.005,29** is substantiated by the relevant contracts of which service works and checks summing up **RON 26.114** were executed.

H. Actions for 2017

- Involving environmental inspectors in conducting inspections on construction sites and monitoring the compliance with the obligations of regulatory documents issued by the authorities;
- - Authorization in terms of environmental protection of the activity related to the transmission of dangerous substances;
- - To continue the renewal of the technical documentation for the revision of water management permits;
- - Preparation of Environmental Management System documents related to the transition to the new standard ISO 14001: 2015;
- The need for **laboratory accreditation** - the current space occupied by the Laboratory for Monitoring Environmental Factors in the division, at Transgaz premises in Medias, 11, G. Enescu street is **insufficient, inadequate and do not provide the conditions necessary for its accreditation** in accordance with EN ISO/IEC 17025-2005.

II. ACTIVITIES CARRIED OUT IN THE FIELD OF QUALITY MANAGEMENT

The activity of the Quality Management Department was centered upon the mitigation of risks and inconsistencies and on the evaluation of the performance in the context of the approach of risks. Therefore, emphasis was placed on:

- A. The conduct of the audits provided in the Annual audits Program of SMI-CMSSO;
- B. The monitoring of the stage of implementation of the corrections, corrective actions and methods for improvement;
- C. Customers' satisfaction evaluation;
- D. Advising the process supervisors;
- E. The documented information of the Integrated Occupational Quality – Environment - Health and Safety Management System;
- F. Maintaining the certification of the Integrated Occupational Quality – Environment - Health and Safety Management System;
- G. The transition to the standard SR EN ISO 9001:2015
- H. Prospects.

A. *The conduct of audits provided in the Annual audits Program of SMI-CMSSO*

The internal audit of the Integrated Occupational Quality – Environment - Health and Safety Management System (SMI-CMSSO) was carried out based on the *Annual audits program*. During 2016 *the annual internal audit program of the Integrated Occupational Quality – Environment - Health and Safety Management System* was revised 4 times, for objective reasons (the fluctuation of the personnel and the approach of the internal audits).

The process approach provided in SR EN ISO 9001:2015 was applied in the internal audits as well, so as of semester II only process audits were proposed and carried out.

According to the data contemplated in table no. 1 and represented in diagram no. 1 please find below the status, as at 31.12.2016, of the 10 audits planned in version 4 of the *Annual program for audit SMI-CMSSO*:

- **8** completed audit reports notified to the process owners;
- **2** audit reports still to be completed.

Table no.1

No	Division/Unit/	Audited organizational	Process audits
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	Independent Department	entities	planned	completed	Still to be completed	Not carried out
1	Organization, Human Resources	Organization department Human Resources department Payroll department Planning department Planning, Human Resources and restoration of the working ability The Centre for Training and vocational training – Human Resources department – Regional office (RO) Arad, Braşov and Bacău	1	1	0	0
2	Operation	International gas transmission department Gas transmission contracts department Management of the Relation with networks users department Gas ballance and allocation department Commercial ballancing and imbalance calculations department Transmission capacity management department DOPG Bucharest– Dispatchers office Market operation department Data processing and supporting activities office Nominations and IDN renominations department Nominations correlation office Consumption structure analysis office Gas transmission department – RO Cluj, Bucureşti, Constanţa Tranzit operation department – RO Constanţa GMS Medieşu Aurit GMS Isaccea.	1	1	0	0
3	Public procurement and contracting	Planning department Tenders-Contracting department Contract records department Procurement office	1	1	0	0

No	Division/Unit/ Independent Department	Audited organizational entities	Process audits			
			planned	completed	Still to be completed	Not carried out
		Special projects procurement department				
4	Secretariate of the Board of administration and of the general meeting of the shareholders	Secretariate of the Board of administration and of the general meeting of the shareholders	1	1	0	0
	Total semester I		4	4	0	0
1	Access to the National gas transmission system	Third party Works office	1	1	0	0
2	Analysis, verification and endorsement of the technical-economic documentations	Projects Analysis and verification department Works estimates verification and economic evaluation office TEC Secretariate Office Price estimate office	1	1	0	0
3	Site approval notice issue	Construction permits and pipe protection areas department within all the Regional offices	1	1	0	0
4	Preparation of the pre-feasibility and feasibility studies	Studies and Projects programs department Research and design compartment no 2 Research and design compartment no 6 Electrical installations related Projects and Studies compartment Works estimates office	1	0	1	0
5	Obtaining certificated for the certification of the ownership rights related to the lands owned by Transgaz	Assets and concessions department	1	0	1	0
6	Monitoring annual work programs	Budget strategy and monitoring performace indicators department Department for monitoring the execution of the investment programs Analysis ans Strategis Information office	1	1	0	0
	Total semester II		6	4	2	0
	Total Year 2016		10	8	2	0

B. Monitoring the status of the implementation of corrections, corrective actions and methods for improvement

During the period in which the internal audits SMI – CMSSO were carried out reports were prepared, namely reports including the non-compliance and methods for improvement. The process owners identified the causes, set the responsible persons and the deadlines related to their resolution. In case of the 10 audits 4 observations reports were prepared and a non-compliance report, allocated as follows;

- An Observations Report at the Organization and Human Resources Unit;
- An Observations Report at the Third party works office;
- 2 Observations Reports at the Research and Design Division;
- A Non-compliance Report at the Operation Division.

Each chief auditor monitored the stage of implementation of the improvement programs notified by the audited entities. The status of the achievement of the corrections until 31.12.2016 was summarized in tables no 2 and 3. Out of the 4 Observations Reports granted during the audit 3 of them exceeded the set deadline.

The non-conformity report was closed by the chief auditor based on the objective proof presented by the audited entity.

Table no.2

Audited Division/Unit/ Independent Department	No. of observations reports	No. of finalized observation reports	No. of observations reports not finalized, deadline exceeded	No. of observations reports within the deadline
Organization, Human Resources	1	0	1	0
Access to the National gas transmission system	1	0	1	0
Research Design	2	0	1	1
TOTAL	4	0	3	1

Table no. 3

Audited Division/Unit/ Independent Department	No. of Non-compliance reports	No. of finalized Non-compliance reports	No. of Non-compliance reports not finalized, deadline exceeded	No. of Non-compliance reports within the deadline
Operation	1	1	0	0
Total	1	1	0	0

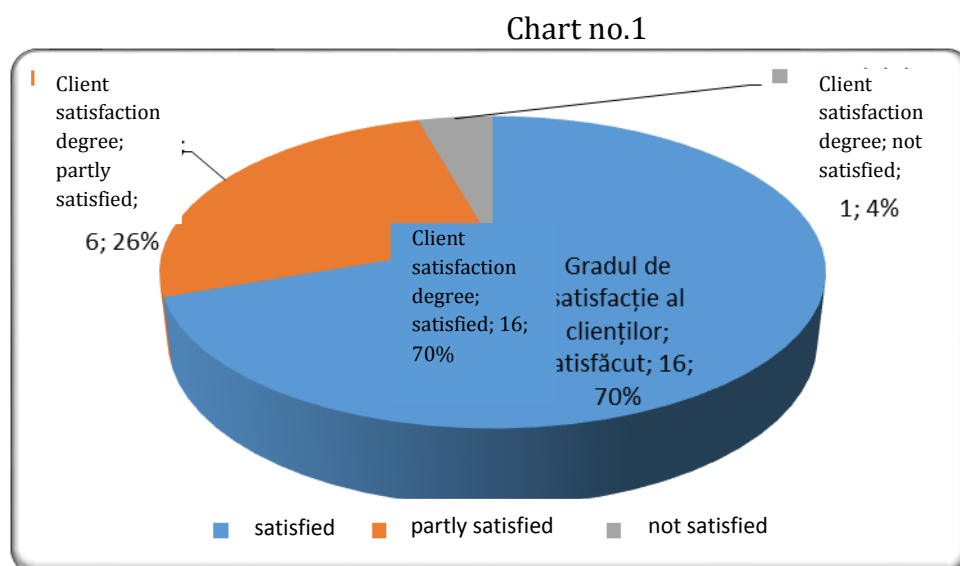
C. Customers' satisfaction evaluation

According to the procedure PP 15 *The Customers' satisfaction evaluation* 36 questionnaires were sent to the users of the gas transmission network. Out of the data summarized in Annex no 1, 23 of them submitted filled in forms. The analysis of the questionnaires had as a result the following:

- **8 complaints** were recorded,
- **1 unsatisfied client** was identified.

The evaluation related to 2015 indicate that **63,88 %** of the total number of the network users wanted to express their point of view. We found out an increase in the interest of the clients to express their satisfaction as compare to 2014 when only **52,63%** of the clients submitted the filled in questionnaires.

The degree of satisfaction of the 23 clients who responded is indicated in the chart no 1.



D. Advising the process supervisors

Based on the procedure PP 175 – *The conduct of the process of advising in view of the preparation of the procedures and work instructions*, the Quality management department offered advice in line with the situation presented in table no. 4.

Table no. 4

No.	Division/ Unit / Independent Department	Procedures/Work instructions			Comments
		Planned	Achieved	Replanned	
1.	Legal division				Processes were identified and a flow diagram was prepared for the <i>Endorsement and legal counseling</i> process
2.	BA and GSM Secretariate	3 PP 2 IL	2 PP	-	Only the documents where amendments were identified were updated
3.	Public Procurement and Contracting Division	3 PP	1 PP	2 PP	The updating of the documents was postponed as the applicable regulations in the field were amended
4.	Regulations and Licenses Unit	3 PP	1 PP	2 PP	
5.	Economic Division	5 PP	0	5 PP	
6.	Financial Management	1 PP	0	1 PP	The control program did not

	Control Department				allow for the setting of a schedule for the advising process
7.	Organization and Human Resources Unit	4 PP 3 IL	0	4 PP 3 IL	
8.	Marea Neagră PMU				The action for the identification of the processes was postponed
	Total	19 PP 5 IL	4 PP	13 PP 3 IL	

According to the *Program of transition to SR EN ISO 9001: 2015* achieving the specific objective "Process approach" involves the preparation of flowcharts for processes identified in the company. As of 14.11.2016 the procedure PP 175 - *The conduct of advice to develop procedures and work instructions* was replaced by procedure PP DC 03 - *The trial of the advice process to develop flow charts*, the counseling being carried out under the requests of the Quality Management Department. The stage of the flowcharts for which advice was provided to organizational structures is presented in Table no 5.

Table no. 5

No	Name of the entity organizing it	Process name	Stage of the flow diagram	
			Completed	Draft
1.	Investors' Relations department	- management of the database of Transgaz' shareholding and the market of the related dividends; - Reporting to the institutions of the capital market; - The preparation of the structural investigations and of the statistical reporting		X
2.	Taxes, fees and settlement department	- Preparation of the declarations, recording and bookkeeping ITL		X
3.	National Gas Dispatching Centre	NTS limits	X	
4.	Department for Maintenance of the technological equipment	The execution of the works in emergency situations		X
5.	Management accounts department	The numbering and recording of the accounting financial documents		X
6.	The office for the works executed by third parties	Access to the NTS		X

E. The documented information of the Integrated Occupational Quality - Environment - Health and Safety Management System

The documented information of the Integrated OHS Quality System was updated according to the data in tables no 6 and 7.

Table no. 6

NO.	DIVISION/UNIT/ INDEPENDENT DEPARTMENT	PROCEDURE CODE	PROCEDURE NAME	EDITION	REVISION
1	Sectorial Public Procurement	PP 11	Recording of the public procurement contracts	1	0
		PP 53	Preparation of the annual program of public procurement	3	0
		PP 115	Awarding public procurement contracts by negotiation without the prior publication of a participation announcement	2	2
2	Quality, Environment, Protection and Security	PP 01	Preparation of the SMI CMSSO documents	7	0
		PP 175	Advising in view of the preparation of the procedures and of the working instructions	1	0
		PP DC 01	Internal Audit of SMICM	1	0
		PP DC 03	Carrying out the advisory process in view of the preparation of the flow diagram	1	0
		PS 01 SMI	Preparation of the SMI - CMSSO	1	0
3	Development	PP 16	Access to the national gas transmission system	2	0
		PP 56	Issuing site orders	2	0
		PP 55	Monitoring the execution of the investment works	2	0
4	Operation	PP 27	Gas monitoring flow	4	0
		PP 44	Invoicing gas transmission services	2	0
		PP 110	Management of the nomination, renomination and intraday nominatons	2	0
		PP 167	Management of the relevant information related to the physical entry/exit points in/out of the NTS	2	0
		PP 178	NTS Operation limits	1	0
		PP DH 02	NTS Operation limits	1	1
5	Regulations and licenses	PP 31	Authorizing the activities	2	0
6	BA and GSM Secretariate	PP 124	Organization and conduct of the meetings of the Board of Administration	1	1
		PP 125	Organization and conduct of the meetings of the Board of	1	1

NO.	DIVISION/UNIT/ INDEPENDENT DEPARTMENT	PROCEDURE CODE	PROCEDURE NAME	EDITION	REVISION
			Administration by electronic communication		
7	Corporate Strategy and Management	PP 30	Monthly reporting of the achievement of the annual business plans	1	0
		PP 92	Preparation and reporting of the achievement of the indicators provided in the performance standard for the gas transmission service	1	0
		PP 139	Monitoring "The Annual Business plans"	1	0
8	Mediaș Subsidiary	PP - SUC 179	Procurement of products by direct purchase	1	0
		PP 120	Execution of repair works, interventions and special operations executed by the Mediaș Subsidiary on the NTS infrastructure	1	2
9	Land Regulations	PP 21	Settlement of petitions related to the provision of the gas transmission service	3	0

Within the Quality Management Department **10 new procedures and 16 procedures part of a new edition respectively a new revision** were verified according to the requirements in PP 01 *Preparation of SMI – CMSSO Documents* and then endorsed. As of the entry into force of the procedure PS 01 *Preparation of SMI – CMSSO Documents* only 4 new procedures were prepared in line with the requirements of the standard SR EN ISO 9001:2015.

Table no.7

No.	DIVISION/UNIT/ INDEPENDENT DEPARTMENT	CODE OF THE WORKING INSTRUCTION	PROCEDURE NAME	EDITIO N	REVISIO N
1	Sectoral Public Procurement	IL-PP-115-01	Preparation of the necessity report	1	0
2	Quality Environment Protection and Security	IL - PS / 01 / 01	Posting documents related to the Integrated OHS Quality Environment Management System onto the Public Area	1	0
		IL 01 PS 01 SMI	Preparation of the flow diagram	1	0
3	Exploitation and Maintenance	IL 13	Preparation /endorsement/ approval of the reports of the diagnosis of the outer insulation of the pipelines /connections belonging to the NTS	1	0

No.	DIVISION/UNIT/ INDEPENDENT DEPARTMENT	CODE OF THE WORKING INSTRUCTION	PROCEDURE NAME	EDITIO N	REVISIO N
		IL 15	Surveillance and maintenance of the installations and components of the cathode protection stations	1	0
		IL 16	Preparation and monitoring of Transgaz' pipeline cleaning program.	1	0
		IL 36	Preparation of the potential diagram for a gas transmission pipeline	1	1
4	Operation	IL 14	Using the TRANSCALC program	1	1
		IL 46	Calculation of the uncertainty of a metering system	1	0
		IL-PP-174-01	Verification of the operation of the working standards in the regional operating centres	1	0
		IL 01 PP DH 01	Calculation in the stationary regime of the LP quantity in the NTS	1	0
		IL 01 PP DH 04	Use of the VUS program	1	0
		IL 02 PP DH 04	Use of the TRANSCALC program	1	0
5	Mediaș Subsidiary	IL - PP SUC 120 - 02	Provide materials for the execution of the works related to the special operations	1	0

Within the Quality Management Department the necessary time was allocated for the verification in line with PP 01 *Preparation of the documents SMI – CMSSO of the 12 new working instructions and 2 working instructions which passed to revision 1*. As of the entry into force of the system procedure PS 01 *Preparation of the documents SMI – CMSSO* only 4 new working instructions were prepared, in line with the standard SR EN ISO 9001:2015.

F. Maintenance of the certification of the Integrated Occupational Quality – Environment - Health and Safety Management System

The Integrated Quality – Environment Management System is certified in line with the SR EN ISO 9001 and 14001 as of 2006.

The last recertification of the OHS Quality – Environment Management System was implemented in 11.09.2015, in the audit report no comments or inconsistencies were recorded.

The Quality Management System requested the Romanian Society for Quality Assurance the rewording of the certification field in view of the issue of the design and execution permits by ANRE. Following the approval of the addendum no 1 to the certification contract no

22299.03/2015 other SRAC and IQNet certificates were issued for the OHS Quality – Environment Management System in line with the standards ISO 9001 : 2008, ISO 14001 : 2004, OHSAS 18001 : 2007 bearing the same validity data.

In the period 26 - 30.09.2016 the monitoring audit no 1 was conducted by SRAC at:

- The entities in: 1 C. I. Motaş Square, 11 G. Enescu street, 11, 6 Unirii street;
- The Bacău Regional Office;
- The Brăila Regional Office;
- The Constanţa Regional Office;
- The Mediaş Subsidiary.

In line with the Audit report prepared by SRAC 10 improvement directions were identified and 2 observations reports were submitted.

G. Transition to the Standard ISO 9001:2015

The objectives included in the Policy statement and the commitment of the director general were revised, the new document entered into force in 16.02.2016 and submitted to the entities for the training of the personnel.

The auditors in the field of quality participated in training courses related to the transition taking into account the new approach focused on:

- Process related approach to allow for the definition and consideration of the processes in terms of added value (indicators);
- The approach of risks and opportunities.

The Quality Management Department prepared and submitted to the process owners the following documents:

- **Decision no. 607/16.08.2016 for the implementation of the transition to the new standards ISO 9001:2015 and ISO 14001:2015;**
- **Letter no. DCICPS/ 39861/31.08.2016 requiring all organizational structures within the company to identify processes initiating in this manner the process related approach;**
- **The program for the transition to standard SR EN ISO 9001 : 2015, no. DCICPS/ 46258/ 07.10.2016;**
- **Decision no. 1116/ 09.12.2016 on the documentation and analysis of the Integrated OHS Quality – Environment System in line with the standards ISO 9001:2008, ISO 14001 : 2004 and OHSAS 18001:2007.**
- **Letter no. DCICPS/ 48367/20.10.2016 requiring all entities within the company to prepare flow diagrams, documented information to comply with the following requirements in the standard:**
 - To determine the requested entry elements and exit elements of the processes identified in the *List of processes*;
 - To determine the succession and interaction of these processes;
 - To assign responsibilities and authorities for these processes.

The process supervisors were convened based on the **letter no DCICPS/ 52479/ 14.11.2016 to participate in the training planned in the period 21.11 - 08.12.2016** with the following goals:

- **Development of the capacities and knowledge of the transition to standard SR EN ISO 9001:2015;**
- **Development of the capacities and knowledge of the preparation of the documents SMI – CMSSO, set in PS 01 SMI.**

H. Prospects

The implementation of the current version of the ISO 9001 standard offers a series of benefits for the company, among which:

Improvement of the performance of the company

The updated version of the standard ensures that the management system is completely aligned to the business of the company. Therefore, used as a management instrument of the business they will improve the performance and will provide value integrating the performance indicators from the incipient stages.

Improvement of the risks and opportunities management

The new aspects of the risk and opportunities management contemplated in the management system will allow for their use both as management instrument and as accelerator of the performance. It will ensure that the company is able to identify more efficiently the risks and opportunities improving the operational efficiency, reducing the duplications and saving time and financial resources.

Improving the image of the company

The early implementation of the standard sends a clear message to the current and potential customers that the company has an innovated and proactive approach as for the quality management by means of the management systems. Thus, the confidence of the customers and of the stakeholders will be improved.

Improving the integration of the systems

The new structure common to all standards related to management systems will facilitate the integration of several systems within the company without additional investment of time and money.

The standards of quality, environment, occupational health and safety must become binding in the contractual relations with customers and quality management techniques must be applied in order to obtain performance both nationally and internationally.

IV. ACTIVITIES CARRIED OUT IN THE FIELD OF DOCUMENT CONTROL

A. Planning the activity of the Documents Control Department

The planning of the activities proposed to be carried out during 2016 in the Documents Control Department was performed taking into account the specific objectives of the department and the conclusions of the analysis of the activity during 2015.

In 2016, the Documents Control Department planned to achieve, as a priority, the following:

1. Following the completion of the equipment of the TEMPEST rooms – with the necessary furniture and devices (computers and printers for the control of classified documents) and the initiation of the actions necessary for the certification of these rooms.

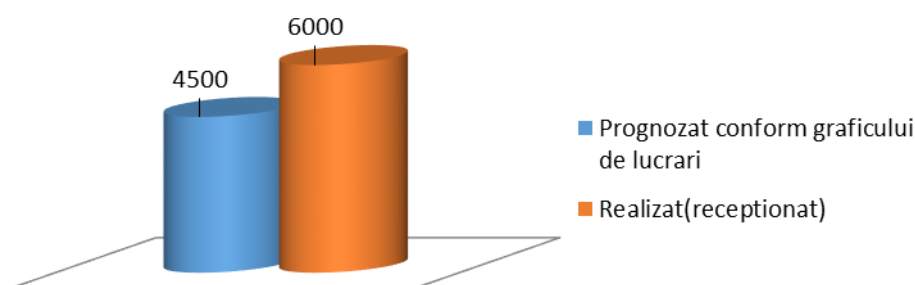
2. For the purpose of the achievement of a single document register the equipment of two premises necessary for the operation of the registry office locate din Unirii street no 6 – MEDIAȘ and Transgaz representative office in Bucharest, Primăverii bvd, no. 5, Sector 1.
3. The equipment of the premises in Carpați street, destined to host the archive and the technical library of Transgaz;
4. The transfer of Transgaz' technical library from the improper premises in the basement of the headquarters located in Medias 1 C. I. Motas Square, to the above mentioned location;
5. The conclusion of a contract for the provision of archiving services related to the current documents in Transgaz' archives (dedusting, decontamination and preparation of the documents, ordering the documents which are not part of a file in line with the Archive record, the filing of the documents by numbering and labeling the files, scanning the documents with a permanent archiving deadline, preparation of inventories, systematic arrangement in the archives and the preparation of a topographical guideline) and the initiation of these services.
6. The initiation of the transfer of the processed documents following the provision of archiving services, based on the above mentioned contract, from the improper premises in Carpati Street where they are stored into the new headquarters under construction at the same location.

B. Activities completed throughout 2016

Considering the specific objectives of the Document Control Department:

- ✓ Application of all the legal provisions related to the registration and management of the classified documents;
 - ✓ Application of all the legal provisions related to the registration and management of the non-classified documents;
 - ✓ Ensuring the internal and external correspondence of the company carried out by the Document Control Department which was oriented in three main directions:
1. **Activity related to the management and archiving of the non-classified documents** included the following:
 - Extension of the data base of the company's archive by taking over technical documents in the archive;
 - Inventorying documents in the archive;
 - The inventory of books and standards in the library was launched in electronic format in order for them to be posted on TRANSGAZ' public area of the network, facilitating the access of all employees to this documentation database;
 - Identifying and xero - copying papers from the archive, with their supporting documents to make them available to the control bodies (D.I.I.C.O.T., D.N.A. Court of Accounts, A.N.A.F. etc.), according to the requests received from them;
 - Identification, xero - copying and making available according to requests from Divisions/Units, documents stored in the archive;
 - Work for selecting existing documents in the archive continued, which no longer have any information of interest;
 - The cooperation with the National Archives of Romania was continued;
 - The tender book on the procurement of archiving services necessary for the initiation of the public procurement procedure of the services related to archiving has been prepared;
 - The service contract no. 279/09.06.2016 on "Documents Archival Services" was concluded with S.C. DELTA CART EDUCATIONAL S.R.L;

- Following the conclusion of the contract mentioned above the schedule related to the conduct of the document archiving services was established;
- In order to achieve the archiving work under the contract no. 279/09.06.2016 the files to be processed and transformed into electronic archives were selected as follows: R.O. Bucharest - 5000 files, R.O. Constanta - 560 files R.O. Braila - 560 files and the technical archive in street Carpati, No.6, Medias - 5000 files;
- According to the schedule for the execution of the works under the contract mentioned above, agreed with the company S.C. DELTA CART EDUCATIONAL LLC, on September 6 the activities under the contract were initiated at the R.O. Bucharest and continued at the R.O. Constanta and R.O. Braila, in parallel with those at the headquarters in Carpati street, No.6, Medias;
- The folders selected to be processed and transformed into electronic archives were handed over on the basis of reports and the works under the contract are carried out under the access credentials for the employees of the provider in the timeframe laid down and after signing confidentiality agreements;
- Following the works carried out under the contract no. 279/09.06.2016 on "*Documents Archiving Services*" were received, based on the reports prepared by the members of the acceptance committee, established under Decision No. 977/04.11.2016, a total of 6,000 cases processed in the archive, in November, 6000 files processed in the archives in December and 552 000 scanned pages loaded into the database of the AIDA application, managing the electronic archive.



2. The activity related to the registration and dispatch of non-classified documents – was carried out according to the internal regulations on the circulation of documents in order to avoid the occurrence of losses/distractions of documents and includes the following:

- Within the registry office the registration, record keeping and inventory in real time of all the contracts concluded within the company;
- In order to ensure the fluidity and the achievement of a unique documents registration file a space destined to the operation of the registry was prepared in the premises of the headquarters in Unirii street no 6 – Medias;
- In the beginning of May 2016 the activity of the registry office in Unirii street no 6 was initiated;
- The activity of the two registry offices (Unirii street no 6 and CI Motas Square no 1) was carried out according to the regulation on „*documents delivery – receipt*” in view of their registration and dispatching;
- 30.000 type C6/C5 white envelopes were manufactured in order for Transgaz to be able to send urgently the notifications for access in the field related to BRUA corridor;
- The customized envelopes necessary for the preparation and dispatch of the notifications were sent to the relevant units/divisions/departments;

- In order to send by registered mail the notifications mentioned above the services contract no. 269/06.06.2016 was concluded with POȘTA ROMÂNĂ. This contract was concluded on favorable terms to yield a discount of up to 40% when a greater number of 20,001 shipments (we mention that the appropriate number of shipments related to BRUA corridor is 19,990);
- The Documents Management Department ensured the takeover, based on reports, of the notifications of access in the field related to the BRUA corridor from the Divisions/Units which compiled these notices and, after checking the slips, their daily delivery was assured by the ROMANIAN POST (18 464 notifications were sent until 30.09.2016);
- By means of the registry office the confirmations of receipt/envelopes which did not arrive at their destination (due to different reasons) were returned and the daily monitoring of their number and the daily reporting to the LAND REGULATIONS UNIT was ensured;
- In order to ensure the dispatch of the priority correspondence of the company the services contract no. 222/ 29.04.2016 was concluded with the economic operator S.C. POST MASTER, BUCUREȘTI;
- The letter no. 23116/18.05.2016 was prepared related to the conduct of express courier services and distributed to Units/Divisions/Regional Offices, namely the premises in Bucharest in order to ensure the best conduct of this activity;
- The procedure for the registration and circulation of documents within Transgaz is under preparation – Code PP 173 (stage of development 60%);
- The necessary steps were taken to prepare a registry office at the premises of Transgaz' representative office in Bucharest, Primaverii Bvd., no 5, sector 1.

In this respect:

- An area was identified as an office destined to the operation of the registry within the Representative Office;
 - The letter no 42472/16.09.2016 was submitted to the IT and SCADA Division requiring the assurance of the necessary infrastructure for the operation of the registry office (phone communication network, intranet and internet);
 - This office was equipped with a PC (including the soft programs) and phone necessary for the proper development of the activity within the registry office;
 - The personnel working in the registry office was trained (an operator who introduces the data and a courier) for the registration of the documents, using the records and the specialized soft - LOTUS application as well as the preparation of the mail and its distribution (the training was carried out at Transgaz' registry office located in CI Motas Square no 1, Medias);
 - The necessary steps were taken for the replacement of the PCs used at the registry offices at the headquarters in CI Motas Square no 1, Medias with new ones.
- 3. The activity related to the preparation, management and archiving of the classified documents**
- *Decision no. 874/06.10.2016 on the appointment of the security entity within TRANSGAZ;*
 - Subsequent to the completion, in the end of 2015, of the equipment of the two TEMPEST rooms destined to the editing of the 'STATE SECRET' documents in the premises of the headquarters located in Medias CI Motas Square no 1, respectively str. Unirii, no. 11, in 2016 the necessary steps were taken for the certification of the TEMPEST rooms and in this respect a advice of the National Office registry of State Secret Information was requested in the month of Aprilie, by means of a letter;
 - At the same time the necessary steps were taken for the equipment with furniture and needed equipment. These steps involved the following:

- Sending to the TI COMMUNICATION AND SCADA DIVISION letter no. 6063 /09.02.2016, requesting to make available 6 working systems (PC- monitor- keyboard – mouse) to be installed as follows:
 - 2 systems and a color A 3 printer, at the headquarters located in 1 C. I. Motas Square;
 - 4 systems and a color A 3 printer, at the premises located in 11 Unirii street; (the rooms were equipped with working systems, the dedicated printers and the plotter will also be brought);
- Sending to the CORPORATE STRATEGY MANAGEMENT DIVISION, the Protocol administrative department the letter no. 6319 /09.02.2016, requesting the necessary furniture for those rooms (the rooms were furnished);
- Also the support by RASIROM R.A. was sought for the replacement of the air conditioning module and its commissioning at the premises of the TEMPEST room located in Medias, str. Unirii No. 11, which was achieved;
- The themes of the annual trainings in the field of classified information were prepared (both for the personnel in Medias and for the regional Offices). Following these trainings the charts for *Individual training in the field of classified information protection* were filled in and signed;
- Trainings on protection of classified and unclassified information of the employees of companies that TRANSGAZ is collaborating with, were conducted, in the performance of contracts these employees require access to this information and provisional authorizations for access to such information were issued during the performance of contracts
- Access authorizations and revalidations, according to all secrecy levels, for the company's employees based on the lists of access to classified information and for new employees;
- The documents which were no longer relevant and included in the lists of classified documents of the company were declassified;
- Commissions for the destruction of non-classified documents were established according to the legal provisions (G.D. no. 585/2002) respectively their archiving, as appropriate;
- The taking over/sending of the documents from/to the Military Post, previously ensuring the necessary steps to include them in the specialized post system and issue the business trip orders for the personnel carrying out these activities;
- The transport of the envelopes bearing passwords to the Regional Offices upon the regular request of the Risk and IT Security Department;
- Within the Classified Documents Compartment the preparation, record keeping, multiplication and transmittal of the classified documents is carried out according to the regulations in the field and to the internal rules in force,
- At the beginning of 2016, in the period February – March, the inventory of the classified documents from the previous year was carried out;
- Following the enhancement of the cyber attacks to the information system connected to the Internet network respectively the diversification and the significant increase of these attacks on Transgaz' informatics system, attacks recorded in the period February –March 2016, **DECISION no 233/05.04.2014 on the establishment of the Commission for Analysis and Evaluation of the impact of cyber attacks on Transgaz' information system.** In order to implement the provisions of the above mentioned decision a request was submitted by letter no 16502/ 08.04.2016 to the IT COMMUNICATION S AND SCADA DIVISION to provide information on the nature of the registered information attacks, the steps taken and their effects. Based on the

information the commission prepared **Report no 23133/18.05.2016** which was submitted to the management of the company;

- In the beginning of May 2016 **DECISION no 340/12.05.2016 on the establishment of the Commission for the verification of the unknown equipment integrated in the information system related to the pipeline IAȘI - UNGHENI**, following the discovery of a data communication device at the location of the headquarter of Sector Iasi, connected both to Transgaz' data network and to the data transmission network of the project for, in the IAȘI – UNGHENI direction which was not part of the deliverables of the project and without being its goal. In order to fulfill the provisions of the decision the members of the team for the monitoring of the project `The project for the interconnection of the NTS in Romania with the NTS in the Republic of Moldova` in the IAȘI – UNGHENI direction, power supply, automation of TN Lețcani, surveillance intrusion and fire related data" established based on Decision No. 657/31.08.2015 were convened as well as other involved persons (a total of 15 persons) . Based on these 2 weeks discussions and on the information reports made available to the commission, the commission prepared and submitted to the management of the company **Report no 27637/ 15.06.2016;**
- Based on the request no 12553/ 18.05.2012 specialized advice was received from the Appointed Authority for Security in the field of the protection of classified information. Within this cooperation relation, in the beginning of May another meeting took place with the representatives of this institution,
- The IT network meant for the management of the classified information `CONFIDENTIAL INFORMATION` was extended by additional computers;
- The necessary steps for the execution of the works related to: *Tempestized system/station for editing documents including CONFIDENTIAL INFORMATION*, at the headquarters of Transgaz's Representative Office Bucharest. The work was executed based on the order A 161/ 01.10.2016.

Document Management Department members:

- Verified the series of the workstation, monitor, printer, keyboard and mouse for drawing up documents classified as `Secret` and the seals applied by the ITA Tempest measurement laboratory;
- updated `confidential information` list/guide of the S.N.T.G.N. TRANSGAZ S.A. In this regard Letter no. 42528/16.09.2016 to all divisions/units/departments of the company, requesting proposals for updating the list. This will be displayed in the public area of the TRANSGAZ computer network;
- Declassified documents classified as `state secret`, held between 1970 and 1972, issued by the Central Office of Methane Gas. Declassification was done in accordance with the legal provisions, recorded in the Report for declassification and destruction, approved by the Security Structure and the management of S.N.T.G.N. TRANSGAZ S.A;
- TRANSGAZ is in possession of 137 documents recorded mostly before 1970 as `SECRET` and `TOP SECRET` found in the basement of the office building located in 1 C.I. Motaș Square, which were subject of Administrative Investigation Report no. 2259/ 18.01.2016. They were inventoried and Letter no. 50953/22.10.2015 către M.E.C.T. was sent to M.E.C.T. for declassification and destruction. Following response Letter 100709/ 05.11.2015 Letter no. 6075/09.02.2016 was submitted to S.R.I. – UM 0645 Sibiu, requesting their opinion regarding the legal classification and the possibility of declassification and destruction. By Letter no. 2418335/24.02.2016, we were communicated that the TRANSGAZ has the obligation to further manage them until the legal solving of the situation;

- the Prevention Programme Against Classified Information Leakage was initiated by S.N.T.G.N. TRANSGAZ S.A. (updating the List of positions that require access to classified information, updating the list of persons who have (or will have) access to classified information classified by secrecy levels);
- checks on the implementation of legal measures for the protection of classified information and the management and archiving of classified documents were carried out in all regional offices. Checks were conducted under the Control Plan Approved for 2016, the facility control sheet being filled in and based on the Control Topics for Implementing the Plan Approved / 2016 no. 8488/24.02.2016, as follows:

Achievement of Control Plan approved for 2016

No	Date	Location (R..O./Division/ Subsidiary)	Necessary Measures	Planned	Achieved
1	15 - 21 September 2016	BRĂILA REGIONAL OFFICE	Acc. to Control and Defficiency Report 6643/ 21.09.2016	1	1
2	21 - 23 September 2016	CONSTANȚA REGIONAL OFFICE	Acc. to Control and Defficiency Report 5882/ 23.09.2016	1	1
3	28 - 29 September 2016	CLUJ REGIONAL OFFICE	Acc. to Control and Defficiency Report 11051/ 29.09.2016	1	1
4	06 - 07 October 2016	BRAȘOV REGIONAL OFFICE	Acc. to Control and Defficiency Report 3233/07.10.2016	1	1
5	25 - 27 October 2016	ARAD REGIONAL OFFICE	Acc. to Control and Defficiency Report 10039/27.10.2016	1	1
6	01 - 03 November 2016	BUCUREȘTI REGIONAL OFFICE	Acc. to Control and Defficiency Report 9112/03.11.2016	1	1
7	15 - 17 November 2016	CRAIOVA REGIONAL OFFICE	Acc. to Control and Defficiency Report 3769/17.11.2016	1	1
8	21 - 24 November 2016	BACĂU REGIONAL OFFICE	Acc. to Control and Defficiency Report 7820/24.11.2016	1	1
9	19 December 2016	MEDIAȘ REGIONAL OFFICE	Acc. to Control and Defficiency Report 9741/19.12.2016	1	1

Note:

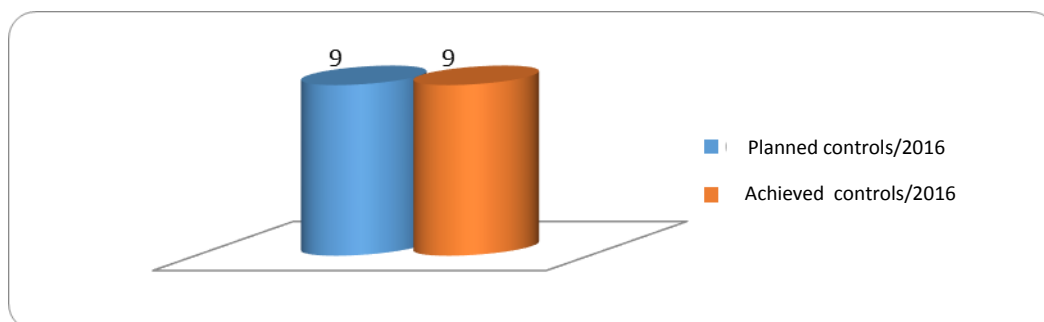
- controls carried out by the representatives of the Security Structure within S.N.T.G.N. TRANSGAZ S.A., employees at Quality – Environment, Protection and Security Division, the Document Management Department.

Following performance of these controls different aspects were considered:

- workstations were distributed for editing and managing `confidential information` classified documents exclusively to CONSTANTA and BRĂILA regional offices and a printer dedicated to BRĂILA Regional Office;
- classified information protection knowledge was verified for a number of 6-8 employees within each regional office by 2 different grid tests:

- advice was given in the field of classified information protection and preparation of the Plan on the Prevention of Classified Information Leakage in the regional offices;

The result of these controls was recorded in the control and deficiency reports mentioned in the table above based on which the Report of 2016 control activity regarding classified and non-classified information protection in TRANSGAZ S.A. no. 368/04.01.2017.



C. 2017 Outlook

1. Commencement of activity in the registration office at the Bucharest Representative Office, 55 Primaverii Blvd.

Activity within the registration office can start at any time. This has not been done up to now, being expected an order from the Company's management.

2. Continuation of provision of services under Contract no. 279/09.06.2016 on 'Document archiving services', according to their schedule.

Difficulties in conducting this contract: Because the space for housing the archive in 6 Carpati street is under construction, with completion date exceeded the services were rendered in the existing building, which houses the technical library and is totally inappropriate to conduct an activity in appropriate conditions and keeping documents as required.

To create the minimum conditions for the conducting of the archival processing works, the Document Management Department took actions to ensure inside the building:

- a grid capable of handling electrical consumption required the proper implementation of the works (a request was made to this effect to the Administrative Protocol Department);
- heating of the building (the management was required to purchase electric heating devices enabling employees to work from 3 October 2016);
- provision of necessary furniture for archival work under the contract (a request was made to this effect to the Administrative Protocol Department for procuring the tables and chairs requested by the company).
- bringing to the location of an ecological toilet needed because the toilets inside the building are unusable. Periodically it was requested to the OHS Department to have the toilet emptied.
- Bringing to the location of two containers for waste paper and keeping contact with ECOSAL Medias to ensure their regular emptying.

Note. The files under Contract 279/09.06.2016 by the end of 2017 were stored at the location, as described above, with the risk of deterioration due to moisture,

and contact with other documents in various stages of deterioration unless the new building, for use as a library will not be completed in a short time.

3. After completion of the construction works, the preparation of a new office in Carpati street. to house the archive and technical library of S.N.T.G.N. TRANSGAZ S.A.;
4. Completing approaches to accreditation of TEMPEST rooms.

V. PROTECTION, SECURITY AND EMERGENCY SITUATION ACTIVITIES

A. Fire protection and emergency situation activity

- It was prepared and circulated the decision on preparatory measures before and after the cold season
- It was ensured the participation in the tender evaluation committees for bids regarding products and services related to the domain of activity;
- It was ensured the presence of the specialists at the SRAC external recertification;
- It was concluded the contract for the procurement of s-a încheiat contractul pentru achiziția de `Services for identifying, assessing and treating fire risk for a total 65 SNT facilities`;
- It was provided specialist support to commission regarding the winter preparation.
- It was made the inventory and estimate for the PSI materials for 2017;
- The amounts necessary for 2017 services were proposed in the PAAS;
- Fire fighting equipment maintenance works were performed according to the law (fire hydrants and extinguishers);
- It was monitored the execution of the service contract concluded between S.N.T.G.N. TRANSGAZ S.A. and third companies, in the domain of activity;
- It was ensured provided specialist support in the PSI and SU domain for the B.R.U.A project;
- The preparation of the fire protection instructions was concluded;
- It was concluded the contract for the procurement of heaters needed to ensure conditions of work in company office access points;
- It was ensured the participation in the meetings of the County Committee for Emergency Situations Sibiu;
- monthly training topics for emergencies were prepared and submitted according to the training schedule;
- Training of employees was done according to the law and procedure PGSU - 01;
- It was provided opinion on PSI and security systems for projects subject to approval of the TEC;
- It was concluded the contract for the procurement of intervention materials in case of an emergency (195 195 pcs. gas masks were delivered to the central warehouse);
- It was concluded the contract on the procurement de equipment, tools and devices for fire prevention and extinguishing (fire extinguishers, hydrants, fire pickets, buckets, axes, shovels, hook, etc.);
- 4 intervention and evacuation exercises were conducted in collaboration with County Emergency Situations Inspectorate at Transgaz sites, among which those of Turnu Magurele MRS and Hurezani GCS (Craiova R.O.);
- 75 evacuation/intervention exercises were conducted according to PGMSSO - 04 at Transgaz sites;
- The representatives of the county emergency situations inspectorates conducted 10 preventive controls at the S.N.T.G.N. Transgaz S.A. sites

B. Security systems

- C. The contract for “maintenance and security systems repairs services” was concluded and it is currently ongoing;
- D. The SS Video connection was achieved from TCS Vințu in the network SPPSU Mediaș;
- E. The services contract concluded between Transgaz and Regia Autonomia “RASIROM” was terminated. The works were completed and the security systems, intrusion detection, fire, flood, video surveillance and access control were accepted at GMS Isaccea;
- F. The acceptance upon the completion of the works related to the installed security systems was carried out for 18 MRSs belonging to the Regional Offices Bacău, Brăila and Constanța and the acceptance upon the commissioning of the systems was being prepared;
- G. The service contract for maintenance and repair of the automated sliding doors at Transgaz’ objectives was concluded;
- H. The staff on behalf of the department was present at the acceptance of the completed security systems at the TN Sâmbotin, RO Cluj, RO Bacau, RO Iasi, MRS/TCS, RO Brăila/TCS/MRS, RO Constanța MRS, RO București, MRS Giurgiu, Representative office, RO Brașov;
- I. The staff on behalf of the department was present in the monitoring commissions for the delivery of the site and for the surveillance of the works at the TN Moșu, MRS Schela – Brăila, MRS Oradea 1, RO Constanța, GMS Isaccea;
- J. The tender book for “Security systems installations” and intrusion detection, fire and closed circuit video surveillance for 430 MRSs which were identified with an unacceptable level of risk subsequent to the risk analysis carried out, was sent to the Contracting and Public Procurement Division.

C. Facility security and protection

- The Framework Agreement regarding the security of Transgaz’ facilities was signed and its subsequent agreements as well;
- The security activity was taken over by the association with the successful bid by ensuring the continuity of this activity in every security jobs;
- 10 permanent security jobs were created at the work sites or the objectives with an unacceptable risk of physical security;
- The works related to the premises of Transgaz’ security dispatching center were completed and it will be equipped accordingly in the following period;
- The Addendums to the Security plans for the objectives where the provider of the security service was changed were prepared, in line with the legal provisions and they were submitted for endorsement to the competent regional Police Inspectorates;
- 16 thefts were registered from the NTS and SCADA with a total estimated damage of RON 93,188.11;
- 4 Transgaz facilities were controlled by the County Police Inspectorates without the application of non-criminal fines;
- The access credentials related to Transgaz’ premises for the staff carrying out various activities were updated and sent for approval to M.E.C.T., the access credentials for foreign persons entering the critical structure facilities (GMS Isaccea, GMS Negru Vodă and GMS Medieșu Aurit);
- Access cards were printed and service cards for new employees of Transgaz and for the employees whose cards did not work properly or were lost. These cards were registered in the existent access control programs for them to be used for the recording of the working time of the employees.

D. Military service

- under the provisions of article 9 para. (4) and Art. 10 (2) of GD no. 1204/2007, requests for mobilization at workplace for Transgaz' employees were prepared that meet the legal criteria and they have been submitted for approval to the Territorial Service for Special Problems Sibiu, namely to the County Military centers;
- necessary notifications were prepared for updating the economic and military monograph of the counties for which data were requested;
- the participation to the meeting on the mobilization of the personnel for the period 2017 - 2020;

E. The BRUA Project

Between August and November, 4 (four) TESA employees within the Emergency situations security and protection Department participated in the implementation of the BRUA Project in the territory

VI. CRITICAL INFRASTRUCTURE PROTECTION ACTIVITIES

This activity was subject of the Compartment for the Protection of Critical Infrastructures subordinated to the Protection, Security and Emergency Situation Department given the actions taken by the security structure in order to establish this compartment as required by the applicable laws and the need to identify and designate critical infrastructure sites.

Considering the legal requirements (Emergency Ordinance no. 98/03.11.2010 on the identification, designation and protection of critical infrastructures – TRANSPOSITION OF DIRECTIVE 2008/114/EC in the national laws, i.e. Order of the Ministry of Economy no. 1507/18.08.2009 on the identification and designation of national or European critical infrastructures specific to industry and resources), the challenges related to the protection of critical infrastructures as designated by Governmental Decision no. 1198/04.12.2012 on the designation of critical infrastructures (the LIST) generated the need to define services for the protection of critical infrastructures, at Transgaz level, for the development of the concept and for ensuring the compliance with EU applicable requirements. Therefore, based on Resolution no. 22/23.06.2016 of the Board of Administration, the **Critical Infrastructure Protection Department** was established. This department will start to organize its activities, to prepare a proposal to budget its required investments and to fully take over the coordination of its specific activities.

By 31.12.2016, among the companies having national critical infrastructures designated, Transgaz was the first company to put in place relevant specific activities by this department. Efforts to prepare the **Operator's Security Plans** for each designated sites according to the applicable laws, precisely Directive no. 166/19.03.2013 *on the approval of Methodological standards for the achievement/confirmation/revision of the security plans belonging to owners/operators/national/European critical infrastructure administrators and consisting of scenarios for major risks associated to the relevant sites as well as of mitigating measures. For a more effective risk management, according to the legal grounds, physical security, fire-fighting security and, if appropriate, seismic security risk analyses were conducted. The Operator's Security Plans (OSPs) were approved by the competent authority.*

In order to ensure compliance with the provisions of the European directive and of the applicable laws, the dedicated personnel attended specific training sessions, i.e. accredited Post-University

training sessions. Considering that the first training session was completed for this semester, the need for further personnel training over the following period will be thoroughly assessed.

Moreover, as part of the Operator's Security Plan management process, proposals regarding the tasks and responsibilities of the personnel operating within the facility/site will be put forward.

*The following step is to prepare **Decision no. 136/03.03.2016 on the assessment, verification and revision of the OSPs and of the equivalent/associated documents or plans** which will facilitate the management of the critical infrastructure site security – a process to be continued by the verification and, if legally and functionally applicable, the revision of the prepared Plans.*

A new assessment of the relevant sites and the determination of a hierarchy (based on the needs – either revision or testing) is needed as far as such protection activity vital steps are concerned.

Actions will be performed in parallel and the process being undergone both by the compartment representatives and by the relevant personnel of the regional centres will be completed in **Quarter 3 2017**. The plans related to 4 sites are being revised and they will be submitted to the competent public authorities.

In 2016, the department started to implement security actions as required by the Security Plans and the Risk Analysis prepared in relation to the critical infrastructure sites with the aim to maximize their security. Therefore, 5 sites deemed to be of maximum importance were planned to be secured pursuant to high standards. In this respect, tender books were prepared, bids were assessed and tender documentations were prepared. Given the changes in the public procurement laws, out of the 5 targeted projects, one is fully completed and functional, and the rest are to be resumed as soon as the legal aspects on the conduct of the procurement procedures will be clarified, taking into account the particularity of the sites subject of the legal provisions on data confidentiality and their status as sites of national or European interest.

The activity of the Critical Infrastructure Protection Department is also relevant for other NTS security aspects. In this respect, the department is in charge with the secretariat of the company's Commission for Risk Assessment and Management under Decision no. 672/04.09.2015. In 2016, it ensured the required support for 6 of the Commission's meetings meant to deal with issues on securing vulnerable areas and making effective preparations for the cold season 2016-2017.

Furthermore, by the nature of the activities developed within the department, constant support was offered in relation with the actions made in coordination with the Operation Division for unannounced checks (gas metering, station emplacement checks). In this respect, by 31.12.2016, a Control Report on the Regional Operating Centre Brasov was submitted to the company's management, for analysis.

Critical Infrastructure Protection Perspectives

Considering that this activity is a relatively new one, there are large and long-lasting prospects for developing and improving the protection of the national critical infrastructure managed by the company. There are priorities imposed by the applicable laws and by the documents generated as a result of the conducted risk assessments and there is a long-term planning of investments ensuring better comfort in terms of physical security, mainly given that, in 2016, based on GD no. 683/19.09.2016 on the designation of EU critical infrastructures, 2 of Transgaz sites (designated as national critical infrastructure sites) acquired the new and more important status of EU critical infrastructure sites.

- As a priority, the training of the personnel operating within such sites will be ensured, by level of competence, in compliance with the requirements specific to the status of the site
- The revision of the related OSP will be re-scheduled and in parallel, the security plans will be thoroughly checked until fully covered. The revision and checking of the plans are complex activities which involve competent authorities requiring site visits. Therefore, such activities will be performed in stages, given the number of sites.
- Among the objectives of the new established department there is the re-assessment and the revision of the List of national critical infrastructure site. In the process of the National Gas Transmission System analysis in terms of the potential national critical infrastructure sites (which was completed), Transgaz submitted proposals to the competent authority for the inclusion of new such sites on the list.
- The project for the implementation of security measures and for the increase in the protection of the 5 selected national critical infrastructure sites is a priority and it will be resumed as soon as all legislative aspects on public procurement will be worked out. The next target is the implementation of the same security procedures as resulted from risk assessments conducted in relation to all critical infrastructure sites of national or European importance.

Malfunctions:

The objectives targeting the development of the critical infrastructure protection are highly complex and require, besides the contact officers' site activity, a close cooperation with the competent authorities. They are large projects requiring the preparation of documentations, plans, strategies, works monitoring, etc. for a considerable number of critical infrastructure sites such as metering regulating stations, gas delivery stations, compressor stations, import stations, pipelines, technological nodes.

VII. DIVISION INTEGRATED ACTIVITIES

In 2016 the activity of the occupational health, labour protection, safety, protection and emergency situations legal conformity continued at the level of the division.

This activity was performed by planning different types of integrated internal controls at the level of the Division and at the level of the regional offices, carried out by speciality inspectors in each domain, being considered the following:

- monitoring activities and workplaces ensuring operative remediation of non-conformities found;
- proper management of environmental issues and their solving;
- monitoring activities related to protection, security and emergency situations.

The controls were based on control themes, check-lists prepared by each speciality department and approved by the division management.

The following types of plans were approved:

- *The Regional Office Crossed Control Plan;*
- *The Division Integrated Internal Control Plan*

The final result of these controls was recorded in a Control Report, approved by the management of the Division and sent to the regional offices involved in this process, for the achievement of required measures.

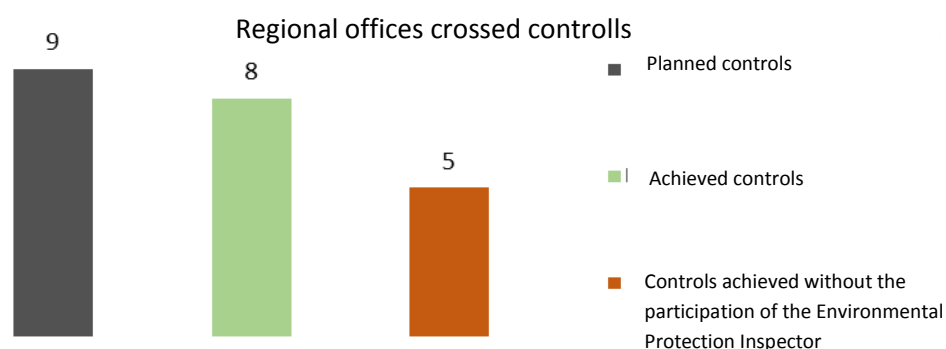
Therefore the regional speciality inspectors advised the heads of the workplaces for the implementation of the measures established in the control reports and monitored reporting to the division on their progress.

The progress regarding these plans is presented below:

- *Regional offices crossed controls* – achieved by the speciality inspectors within the regional offices

Regional offices crossed controls

No	Unit performing the control	Controlled unit	Control period	Progress of crossed controls
1.	Arad Regional Office	Bacău Regional Office	Martie	achieved - without the participation of the environmental protection inspector
2.	Bacău Regional Office	Constanța Regional Office	Aprilie	integrated achievement
3.	Brașov Regional Office	Arad Regional Office	Mai	integrated achievement
4.	Brăila Regional Office	Brașov Regional Office	Iunie	achieved - without the participation of the environmental protection inspector
5.	București Regional Office	Cluj Regional Office	Iulie	achieved -without the participation of the environmental protection inspector
6.	Cluj Regional Office	Brăila Regional Office	August	achieved -without the participation of the environmental protection inspector
7.	Mediaș Regional Office	București Regional Office	Noiembrie	achieved -without the participation of the environmental protection inspector
8.	Constanța Regional Office	Craiova Regional Office	Septembrie	integrated achievement
9.	Craiova Regional Office	Mediaș Regional Office	Octombrie	not achieved
	Total controls	9 planned controls		8 controls achieved/5 controls achieved without the participation of the environmental protection inspector



These controls were 89 % achieved, but the control was not integrated, with the participation of 3 speciality inspectors.

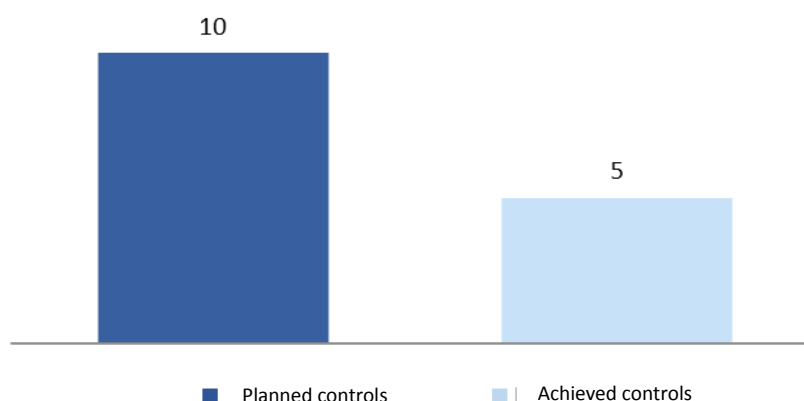
This is a consequence of the fact that the environmental protection inspectors in charge of these controls were transferred to the Environment and Archeology Department, participating in just 3 integrated controls.

- *Integrated Internal Control Plan – it was achieved by the speciality inspectors within the Division.*

Internal controls performed

No.	Service executed	Location controlled	Progress of integrated inspection achievement
1	Speciality services (OHS, FF, Environment)	Arad Regional Office	Not achieved
2	Speciality services (OHS, FF, Environment)	Bacău Regional Office	11 - 15.07.2016
3	Speciality services (OHS, FF, Environment)	Brăila Regional Office	Not achieved
4	Speciality services (OHS, FF, Environment)	Braşov Regional Office	21 - 25.03.2016
5	Speciality services (OHS, FF, Environment)	Bucureşti Regional Office	18 - 22.04.2016
6	Speciality services (OHS, FF, Environment)	Cluj Regional Office	Not achieved
7	Speciality services (OHS, FF, Environment)	Constanţa Regional Office	25 - 29.07.2016
8	Speciality services (OHS, FF, Environment)	Craiova Regional Office	Not achieved
9	Speciality services (OHS, FF, Environment)	Mediaş Regional Office	22 - 26.02.2016
10	Speciality services (OHS, FF, Environment)	The Mediaş Subsidiary	Not achieved
Total controls		10	5

Division integrated internal control



From the analysis of above data it results that 5 integrated internal controls were performed (degree of achievement 50 %), for reasons related to the necessity to involve the speciality inspectors of the Division into unplanned new activities connected to the B.R.U.A. Project.