

THE NATIONAL NATURAL GAS TRANSMISSION COMPANY TRANSGAZ SA

REPORT ISSUED BY THE BOARD OF ADMINISTRATION

SEMESTER I 2016

www.transgaz.ro



Contents

MESSAGE OF THE CHAIRMAN OF THE BOARD OF ADMINISTRATION	2
1. ISSUER IDENTIFICATION DATA.....	19
1.1 Report and issuer identification data	19
1.2 Main activities	19
1.3 Structure	20
1.4 Shareholders.....	21
2. EXECUTIVE SUMMARY	22
2.1 Indicators of the operational activity	22
2.2 Indicators of financial results	27
2.3 Indicators of the investment activity.....	30
2.4 Indicators of management performance	39
3. ANALYSIS OF THE COMPANY'S ACTIVITY	43
3.1 Analysis of the operational activity	43
3.1.1 Regulatory framework.....	43
3.1.3 International natural gas transmission	51
3.1.4 Evaluation of the provision of natural gas transmission service	53
3.1.5 Evaluation of the research and design activity.....	59
3.1.6 Evaluation of the procurement activity.....	63
3.1.7 Evaluation of the human resources and social dialogue activity	67
The training has two components: one professional (technical, economic and other specialties) necessary to perform duties in the job description, and a general one on the professional formation in various fields.	68
Professional training and formation of employees follows:	68
▪ employee adaptation to job requirements by updating knowledge and skills specific to the job;.....	68
▪ professional training for basic job;.....	68
▪ acquiring advanced knowledge, modern methods and processes needed to achieve the higher level of professional activities;	68
▪ retraining determined by social and economic restructuring, reorganizing or retrofitting;.....	68
▪ preventing the risk of unemployment.	68
The training, formation and professional development of Company employees is done based on the Professional Training Plan developed by the Company, in line with the provisions of the Collective Labour Contract in force at this level.....	69
3.1.8 Evaluation of the activity of HSSEQ.....	70
3.1.9 Disputes	71
3.1.10 The activity of the Black Sea Project Management Unit.....	72
3.1.12. Other aspects related to the company's activity	78
3.1.13 Procurement and disposal of assets.....	84
3.1.14 Internal and external audit of the Company's activity.....	84
3.2 Analysis of the development activity	85
3.2.1 The main components of the NTS infrastructure	85
3.2.2. Investments made in the 1 st semester of 2016 versus Investments scheduled in 2016.....	88
3.2.3. NTS strategic development projects	95
3.3 Analysis of the corporate activity	109
3.3.1 Activity on the capital market	109
3.3.2 Significant mergers or reorganizations during the financial year	115
3.3.3 Corporate Governance	115
3.4 Analysis of the financial activity	118
3.4.1 Financing standing	118

3.4.2 Comprehensive income.....	123
Table 36 – Incomes from the operation activities accrued during the 1 st semester of 2016 vs. the 1 st semester of 2015.....	123
3.4.3 Cash flow statement.....	125
3.4.4 Evaluation of the activity related to the financial risk management	126
4. INTERNAL AND MANAGEMENT CONTROL SYSTEM	130
5. THE MANAGEMENT OF THE COMPANY	142
5.2 Executive management	142

MESSAGE OF THE CHAIRMAN OF THE BOARD OF ADMINISTRATION

Dear shareholders,
Dear investors,

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

TRANSGAZ is a joint stock company, listed at the Bucharest Stock Exchange and it is administered by the Board of Administration using a unitary system. In compliance with the current legislation on corporate governance, the Board of Administration 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 Administration has delegated the management of the company to the director-general, 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 programmes 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 gas from the Caspian Sea region and those recently discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System for 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 gas from offshore perimeters in the Black Sea in order to capitalize them on the Romanian market and other markets in the region; extending the natural gas transmission infrastructure in order to improve natural gas supply in deficient areas; creating an integrated single market in the European Union.

Given the complex and extensive investment plan, 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 gas, on competitiveness and capitalizing on existing and future opportunities, so as TRANSGAZ shall become a recognized carrier of natural gas on the international market of natural gas, a leader on the energy market in the region, an important link in the national and European energy chain.

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

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

For the semester concluded on: 30 June 2016

Report date: 5 August 2016

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 on which issued securities are traded: The 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 nominal value of RON 10/share.

The financial and economic indicators presented in this report are calculated based on the financial statements drawn-up in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU), according to the Order of the Minister of Public Finance no. 881/25 June 2012 and the accounting regulations approved by Order of the Minister of Public Finance no. 1286/1 October 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 Mediaş 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/ 28 April 2000 *on the reorganisation of the former National Natural Gas Company (SNGN) Romgaz SA, published in the Official Journal of Romania, Part I, no. 194/04.05.2000.*

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

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

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

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

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

- Transgaz registered office: Mediaş, 1 C. I. Motaş Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaş, 11 George Enescu Street, Sibiu County, code 551018;
- Design and Research Department: Mediaş, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanţi Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street;
- Transgaz Representative Office - Chişinău – Republic of Moldova;
- European Funds and International Relations Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.

Transgaz owns 9 regional offices and a branch:

- Arad Regional Office, 56 Poetului Street, Arad, Arad County, code 310369;
- Bacău Regional Office, 63 George Bacovia Street, Bacău, Bacău County, code 600238;
- Brăila Regional Office, 5 Ion Ghica Street, Brăila, Brăila County, code 810089;
- Braşov Regional Office, 12A Grigore Ureche Street, Braşov, Braşov County, code 500449;

- Bucharest Regional Office, 24 Lacul Ursului Street, District 6, Bucharest, code 060594;
- Cluj Regional Office, 12 Crişului Street, Cluj-Napoca, Cluj County, code 400597;
- Craiova Regional Office, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, code 200011;
- Mediaş Regional Office, 29 George Coşbuc Street, Mediaş, Sibiu County, code 551027;
- Constanţa Regional Office, 2 bis Caraiman Street, Constanţa, Constanţa County, code 900117;
- Mediaş Branch, 59 Sibiului Street, Mediaş, Sibiu County.

1.4 Shareholders

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

On 22 June 2016 the Transgaz`s shareholding structure is as follows:

- 58,5097% - Romanian state represented by the Ministry of Economy, Trade and Relations with the Business Environment – 6.888.840 shares;
- 41.4903% - Free float – 4.885.004 shares, of which:
 - 7,6640% *natural persons* – 902.348 shares
 - 33,8263% *legal persons* – 3.982.656 shares

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by Ministry of Economy, Trade and Relations with the Business Environment	6.888.840	58,5097
Free float - Other shareholders (natural and legal persons)	4.885.004	41,4903
Total	11.773.844	100,00

Table 1 -Transgaz's shareholding structure on 22.06.2016

The share capital of Transgaz on 30 June 2016 is of RON 117.738.440 and is divided into 11.773.844 registered shares, each share having a nominal value of RON 10.

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

2. EXECUTIVE SUMMARY

2.1 Indicators of the operational activity

The evolution of the natural gas quantities circulated and transmitted through the National Natural Gas Transmission System (NTS) and of the technological consumption in semester I 2016, compared to semester I 2015 is as follows:

Indicator	Semester I 2016	Semester I 2015	+/-	%
1	2	3	4=2-3	5=2/3-1
Circulated gas - thousand m³	5.950.671	6.501.532	-550.861	-8%
Transported gas - thousand m³	5.873.039	6.480.291	-607.230	-9%
Technological consumption - thousand m³	65.375	21.148	44.205	209%
Share tech. consumption/circulated gas	1,10%	0,33%		

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

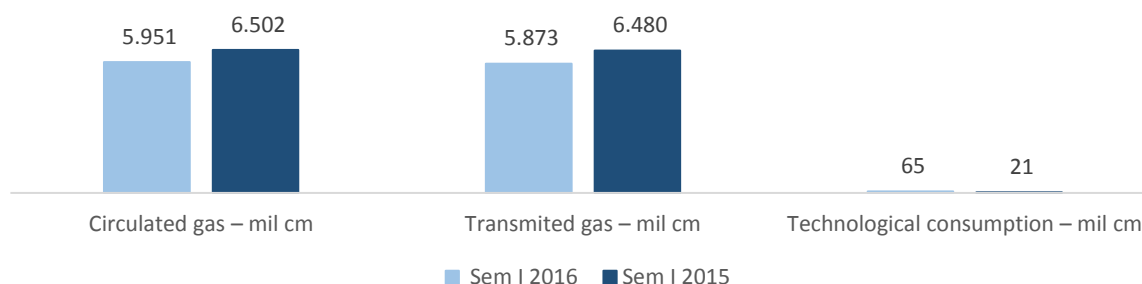


Chart 1 - Quantities of circulated and transmitted natural gas and of the technological consumption for semester I 2016 vs. semester I 2015

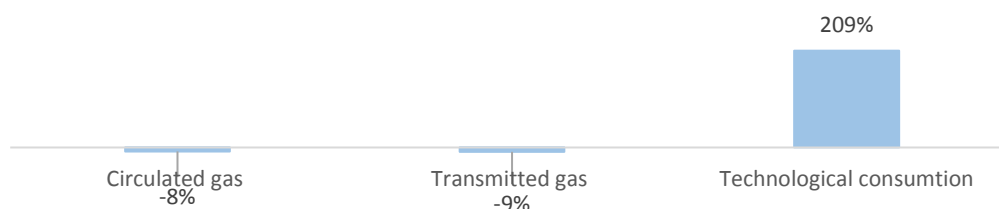


Chart 2 - The evolution of the quantities of circulated and transmitted natural gas and of the technological consumption for semester I 2016 vs. semester I 2015



Chart 3 - Share of technological consumption in the total circulated gas for semester I 2016 vs. semester I 2015

Thousand cm

Technological consumption gas amounts achieved vs. planned in semester I 2016							
	January	February	March	April	May	June	TOTAL
PLANNED	13.419	11.763	10.218	7.955	7.622	7.287	58.263
ACHIEVED	18.656	11.428	10.346	6.481	7.186	11.277	65.375

Table 3 - Technological consumption gas amounts achieved vs. planned in semester I 2016

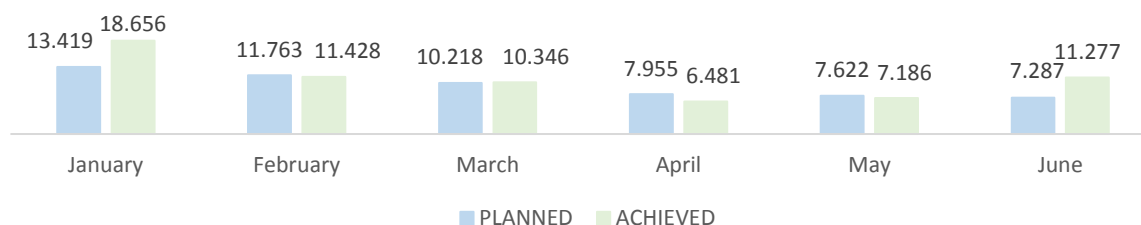


Chart 4 - Evolution of technological consumption achieved vs. planned in semester I 2016

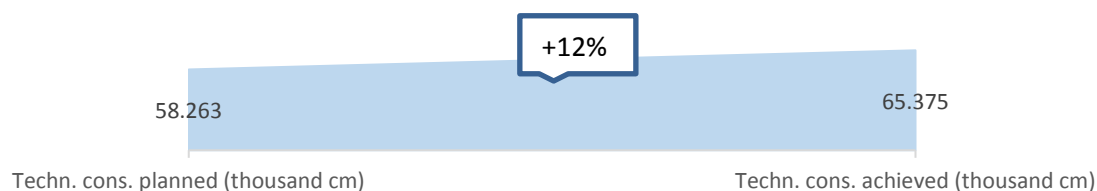


Chart 5 - Level of decreasing the technological consumption achieved vs. planned in semester I 2016

In semester I 2016 the evolution of the technological consumption on the NTS followed an upward trend, being by 12% higher than planned.

mil. cm

Gas quantities circulated in semester I 2016 vs planned							
	January	February	March	April	May	June	TOTAL
ROMGAZ	490	434	435	328	262	226	2.175
PETROM	342	328	357	355	377	365	2.124
OTHERS	55	48	46	44	52	49	294
CURRENT IMPORT	96	45	16	37	44	37	276
WITHDRAWAL FROM STORAGES	661	233	187	1	0	0	1.082

ACHIEVED	1.644	1.089	1.041	765	735	677	5.951
PLANNED	1.491	1.307	1.135	765	718	726	6.142

Table 4 – Gas quantities circulated IN the NTS in semester I 2016 vs planned (mil cm)

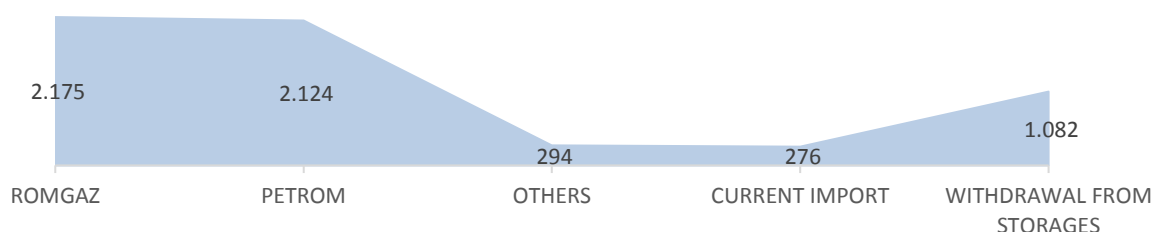


Chart 6 - The quantities of natural gas circulated in the NTS in semester I 2016 by sources

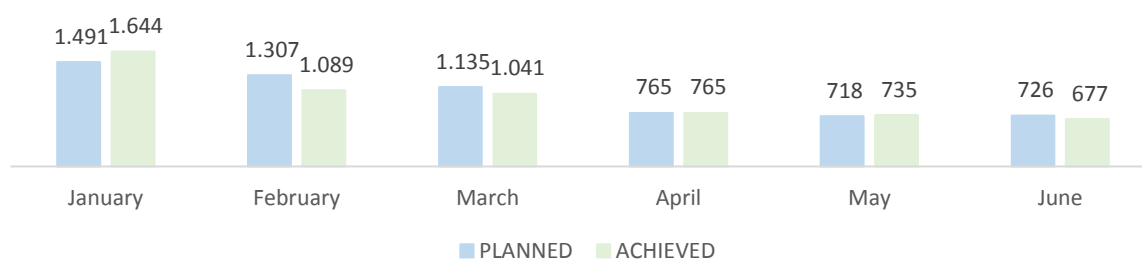


Chart 7 - The quantities of natural gas circulated in the NTS in semester I 2016 – achieved vs. planned (mil. cm)

The quantities of natural gas transported in semester I 2016 vs planned							
	January	February	March	April	May	June	TOTAL
PLANNED	1.477.623	1.295.217	1.125.071	875.963	839.288	802.325	6.426.185
ACHIEVED	1.624.019	1.073.166	1.028.315	756.549	724.148	666.841	5.873.039

Table 5- The quantities of natural gas transported to the direct consumers and distributions in the NTS in semester I 2016 – achieved (includes also the injection quantity) vs. planned (thousand cm)

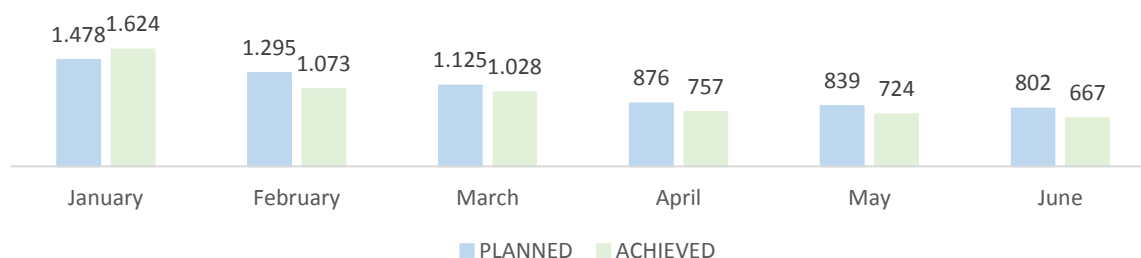


Chart 8- The quantities of natural gas transported to the direct consumers and distributions in the NTS achieved vs planned in semester I 2016 (mil. cm)

In semester I 2016, the natural gas quantity transmitted amounted to 5,87 billion cm, which is lower by 0,55 billion cubic meters than the planned quantity.

thousand cm					
Quantities of gas for storage in semester I 2016 vs planned					
	Q I	April	May	June	TOTAL
PLANNED	0	122.966	407.882	362.145	892.993
ACHIEVED	0	209.359	223.654	249.440	682.452

Table 6- The quantities of natural gas for storage in semester I 2016 achieved vs. planned (thousand cm)

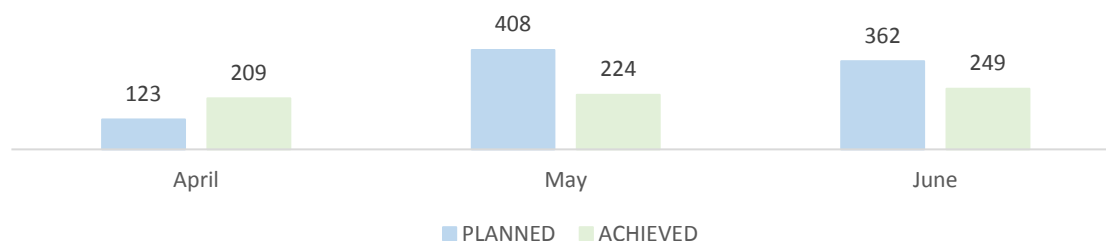


Chart 9- The quantities of natural gas for storage in semester I 2016 achieved vs. planned (mil cm)

The natural gas quantities in storages in semester I 2016 are lower by 24% as compared to planned quantities.

The comparative evolution of the revenue from operations, before the construction activity according to IFRIC 12, obtained by the Company in semester I 2016 vs. semester I 2015 is presented in the table below:

Specifications	Sem. I 2016	Sem. I 2015	Dynamics %
Revenue from the transmission activity			
- thousands RON	630.318	660.193	95,47
- MWh	62.987.973	69.118.324	91,13
- RON/MWh	10,01	9,55	104,77
- thousands cm	5.873.039	6.480.291	90,63
- RON/1000 cm	107,32	101,88	105,35
Revenue from the international transmission activity			
- thousands RON	160.728	158.798	101,21
Revenue from the balancing activity			
- thousands RON	22.012	-	x
Other operating revenue			
- thousands RON	79.423	29.140	272,55
TOTAL OPERATING REVENUE before the construction activity according to IFRIC12	892.481	848.132	105,23

Table 7 – Comparative evolution of operating revenue in sem. I 2016 vs sem. I 2015

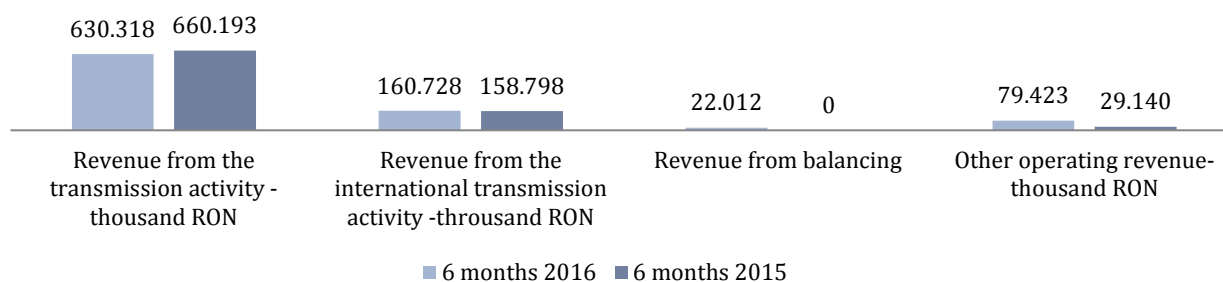


Chart 10 –Structure of operating revenue in sem. I 2016 vs. semester I 2015

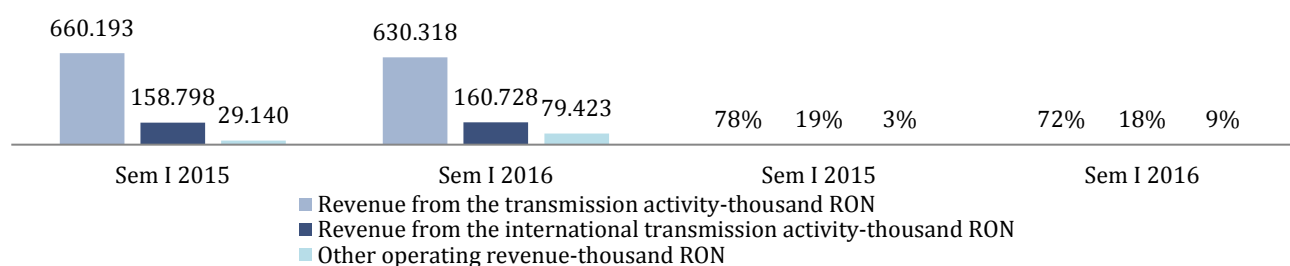


Chart 11 – The share of the activities in the total operating revenue in sem. I 2016 vs sem. I 2015

No.	Indicator	Achieved semester I		Dynamics (%)
		2016	2015	
0	1	2	3	4=2/3*100
1	Turnover	814,54	820,38	99,29
2	Operating revenue before the construction activity acc. to IFRIC12	892,48	848,13	105,23
3	Operating expense before the construction activity acc. to IFRIC12	567,37	474,53	119,56
4	Operating profit before the construction activity acc. to IFRIC12	325,11	373,60	87,02
5	Revenue from the construction activity acc. to IFRIC12	33,67	41,88	80,39
6	Cost of assets built acc. to IFRIC12	33,67	41,88	80,39
7	Operating profit	325,11	373,60	87,02
8	Financial profit	11,70	14,00	83,60
9	Tax on profit	55,04	66,04	83,35
10	Net profit	281,77	321,56	87,63

Table 8 – Evolution of the operational performance indicators for semester I 2016 vs. semester I 2015

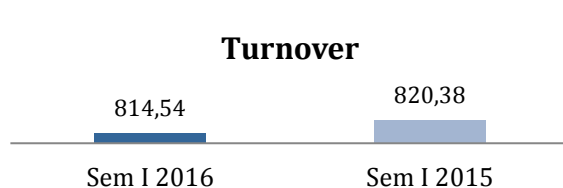


Chart 12–Net turnover in semester I 2016 vs. semester I 2015 – mil. RON

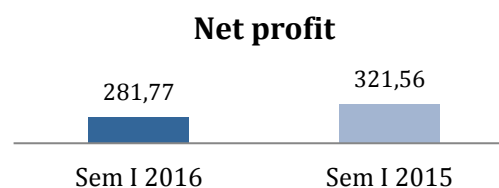


Chart 13–Net profit in semester I 2016 vs. semester I 2015 – mil. RON

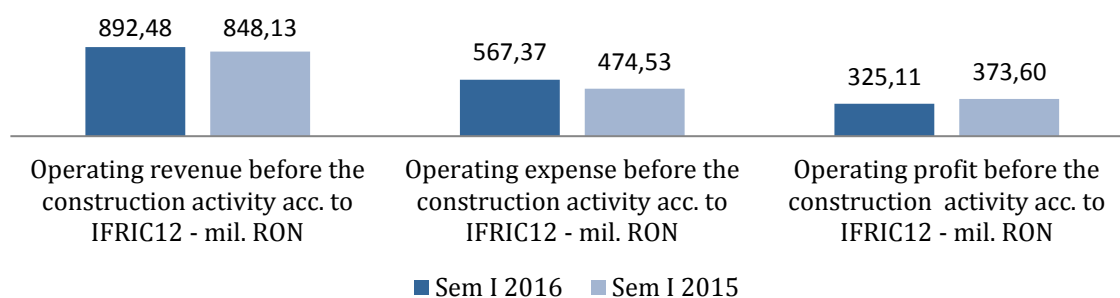


Chart 14 - Evolution of revenue, expense and operating profit in semester I 2016 vs. semester I 2015

2.2 Indicators of financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. at 30 June 2016 was conducted based on the indicators included in the revenue and expense budget approved by Resolution no. 1/21.03.2016 of the Ordinary General Meeting of the Shareholders.

The main economic and financial indicators achieved in semester I 2016 as compared to semester I 2015 are as follows:

No.	Indicator	UM	Sem. I 2016	Sem. I 2015
1	Turnover	thousand RON	814.535	820.382
2	Operating revenue before the construction activity acc. to IFRIC12	thousand RON	892.481	848.132
3	Operating expense before the construction activity acc. to IFRIC12	thousand RON	567.373	474.534
4	Operating profit before the construction activity acc. to IFRIC12	thousand RON	325.107	373.597
5	Revenue from the construction activity acc. to IFRIC12	thousand RON	33.671	41.885
6	Cost of assets built acc. to IFRIC12	thousand RON	33.671	41.885
7.	Operating profit	thousand RON	325.107	373.597
8.	Financial revenue	thousand RON	14.625	17.473
9.	Financial cost	thousand RON	2.921	3.474
10.	Gross profit	thousand RON	336.810	387.596
11.	Tax on profit	thousand RON	55.044	66.039
12.	Net profit	thousand RON	281.767	321.557
13.	Total comprehensive result for the period	thousand RON	281.767	321.557
14.	Transmitted gas	thousand cm	5.873.039	6.480.291

15.	Investment expenses	thousand RON	45.318	56.101
16.	Rehabilitation expenses	thousand RON	7.522	11.174
17.	Technological consumption	thousand RON	52.226	21.671
18.	Technological consumption	thousand cm	65.375	21.140

Table 9 – Evolution of the main economic and financial indicators in semester I 2016 vs. semester I 2015

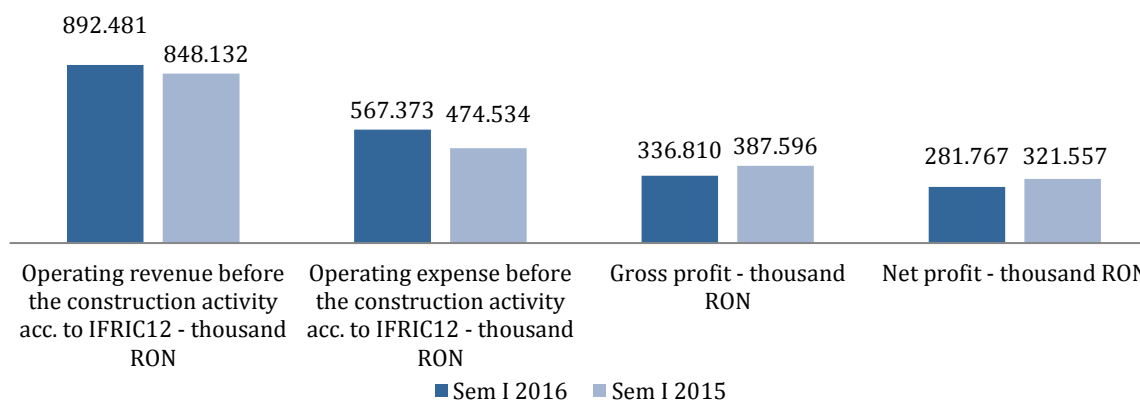


Chart 15–Evolution of the main economic and financial indicators in semester I 2016 vs. semester I 2015 thousand RON

Transgaz holds the monopoly in Romania in terms of natural gas transmission and circulates approximately 90% of the total natural gas consumed. Approximately 18% of the total revenue achieved in semester I 2016 is in foreign currency and is achieved from the international gas transmission activity.

At 30 June 2016, the Company's assets in bank accounts amounted to RON 963.116.340, of which 10,24% were liquid assets denominated in foreign currency, most of them in EUR.

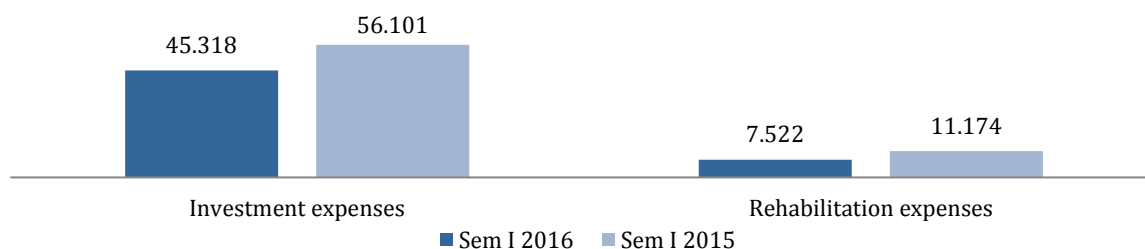


Chart 16–The evolution of the investments and rehabilitation expenses in semester I 2016 vs. semester I 2015 – thousand RON

The Transgaz performance in semester I 2016 vs. semester I 2015 is also reflected by the evolution of the following indicators:

Indicators	Calculation formula	Sem. I 2015	Sem. I 2016
Profitability indicators			
EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	57,20%	52,61%
EBITDA in equity	$\frac{\text{EBITDA}}{\text{Equity}}$	13,83%	12,15%
Gross profit share	$\frac{\text{Gross profit}}{\text{Turnover}}$	47,25%	41,35%
Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	9,48%	7,99%
Liquidity indicators			
Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short term debts}}$	2,51	2,48
Immediate liquidity indicator	$\frac{\text{Current assets} - \text{Stocks}}{\text{Short term debts}}$	2,43	2,32
Risk indicators			
Indebtness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	0,00%	0,00%
Interest coverage ration	$\frac{\text{EBIT}}{\text{Interest expense}}$	1.675,24	0
Management indicators			
Days sales outstanding - clients	$\frac{\text{Average accounts receivable} \times 181 \text{ days}}{\text{Turnover}}$	89,83	98,75
Days payable outstanding - suppliers	$\frac{\text{Average accounts payable} \times 181 \text{ days}}{\text{Turnover}}$	12,32	20,76

Table 10 – Evolution of profitability, liquidity, risk and management indicators in semester I 2016 vs. semester I 2015

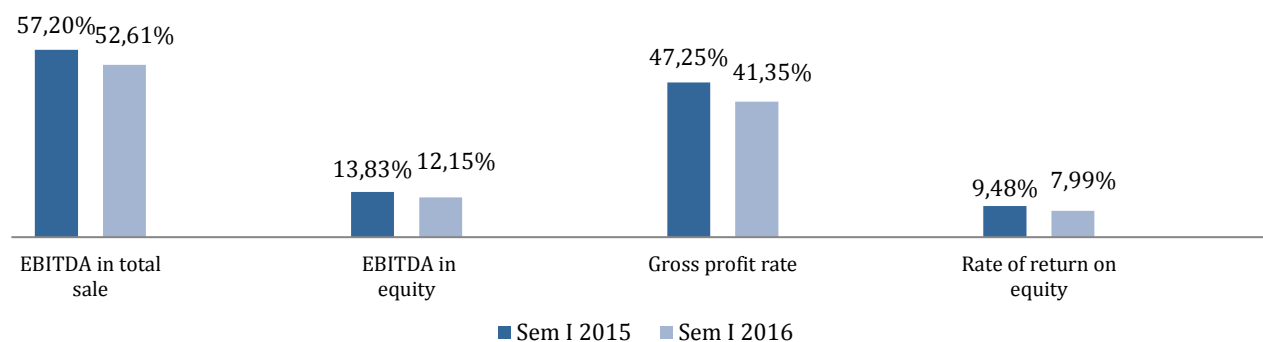


Chart 17- Evolution of profitability indicators for semester I 2016 vs. semester I 2015

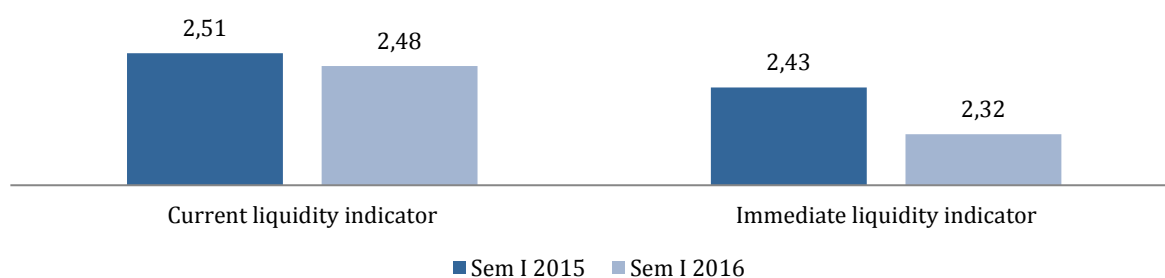


Chart 18- Evolution of liquidity indicators for semester I 2016 vs. semester I 2015

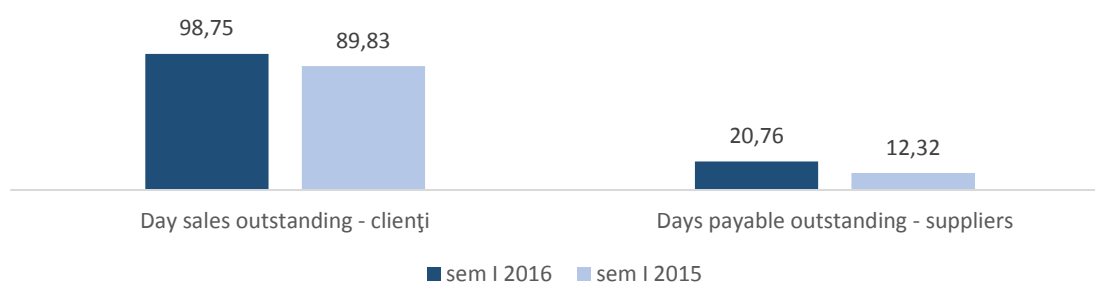


Chart 19- Evolution of management indicators for semester I 2016 vs. semester I 2015

2.3 Indicators of the investment activity

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

No.	Chapter name	Plan 2016 (August revision)	Achievements sem I 2016	%
0	1	2	3	4=3/2*100
Chap. A. REPAIR AND REHABILITATION WORKS FOR THE NTS (RON)				
1	Planned repairs of main pipelines	57.303.444	2.792.442	4,87%
2	Rehabilitation of Regulating and Metering Stations (MRS)	1.000.000	526.303	52,63%
3	Rehabilitation of Technological Nodes	-	-	0,00%
4	Rehabilitation of Compressor Stations	-	-	0,00%
5	Repairs of special MRSs and VCSs facilities	-	-	0,00%
6	Rehabilitation of cathodic protection systems (CPS)	340.260	-	0,00%
7	TC equipment and facilities repairs	15.000	-	0,00%
8	Repairs of buildings	3.191.398	62.418	1,96%
TOTAL WORKS		61.850.102	3.381.163	5,47%
Chap. B. MAINTENANCE SERVICES FOR THE NTS (RON)				
TOTAL SERVICES		31.997.781	4.140.520	13%

No.	Chapter name	Plan 2016 (August revision)	Achievements sem I 2016	%
0	1	2	3	$4=3/2*100$
TOTAL WORKS + SERVICES (third parties) PRRASM		93.847.883	7.521.683	8,01%

Table 11- Implementation of the Repairs, Rehabilitation and Maintenance Plan for the NTS in semester I 2016

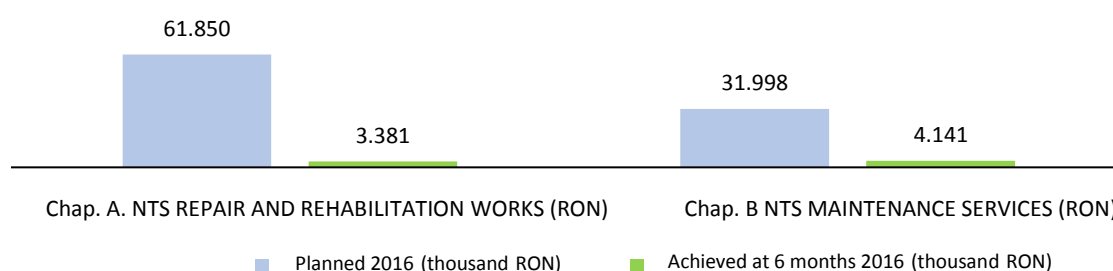


Chart 20 - Level of fulfilment of the Repairs, Rehabilitation and Maintenance Plan for the NTS in semester I 2016 by chapters of the Plan

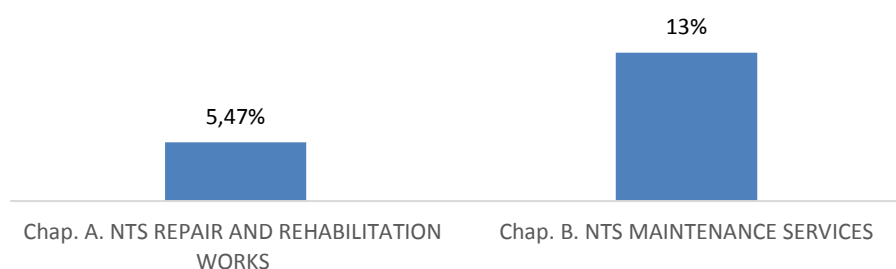


Chart 21- Fulfilment of the NTS Repairs, Rehabilitation and Maintenance Plan in semester I 2016 by chapters of the Plan

The NTS Repairs, Rehabilitation and Maintenance Service Plan for year 2016, having an allocated value of **RON 93.847.883**, at the end of semester I 2016 being recorded achievements amounting to **RON 7.521.683**, has a level of achievement in a proportion of 8,01%.

The low values of chapter A, *Repair and Rehabilitation Works*, are due to the following:

- In the cold season (November – March), no current maintenance works or connection works are executed, requiring the interruption of gas supply for a continuous period of more than 12 hours, in accordance with Law no. 346/2007 art. 12 (2). Thus, all the works requiring the closing of the pipelines were ceased in order to provide the transmission capacity and safety in NTS operation;
- Difficulties were faced during the process for drawing up the documentation and extension of the procurement procedures duration, being concluded 22 contracts of the total 73 budgeted positions of the chapter;
- Difficulties were faced in obtaining the construction permits from institutions and authorities;

- Termination of contracts from the constructors` fault;
- Right of way issues in the relationship with the landowners.

NTS maintenance services

For chapter B., *Maintenance Services*, the values of the achievements of semester I 2016 come from the zone of the corrective maintenance services (repairs), the initiation of maintenance services (predictive) is possible after entering the season of minimal load on system, the settlement being possible in semester II 2016.

Investment plan

The value of the investment funds for 2016, approved the revenue and expenditure budget for 2016 is of **RON 721.902.260 thousand**. The value of the achievements of semester I 2016 is of **RON 37.759 thousand**, which includes the amount of RON 5.312 thousand, representing works for the connection of new consumers to the NTS, compliant with the rules of access to the NTS, approved by GD 1043/2004.

The implementation of the investments modernization and development plan for semester I 2016 is presented in the table below:

Chapter	Works category	Plan 2016	Achieved in sem. I 2016	%
		Value (thousand RON)	Value (thousand RON)	
0	1	2	3	4=3/2*100
Chap. A	NTS modernization and development works	653.668	24.745	3,79
1.	Modernization and retrofitting of the National Gas Transmission System	40.660	3.858	9,49
1.1.	<i>Modernization of the National Gas Transmission System technological installations (MRS, VCS, MP, TN)</i>	29.487	3.741	12,69
1.2.	<i>Data acquisition and control system</i>	11.173	117	1,05
2	Development of the National Gas Transmission System and related installations	613.008	20.887	3,41
2.1.	<i>Natural gas transmission pipelines</i>	128.575	17.092	13,29
2.2.	<i>Interconnection pipelines</i>	20.500	15	0,07
2.3.	<i>Transmission capacity increase</i>	299.656	0	0,00
2.4.	<i>Surface construction and installation works for MRS</i>	36.014	513	1,42
2.5.	<i>Cathodic protection stations</i>	785	0	0,00
2.6.	<i>Information technology and telecommunications installations</i>	121.978	2.775	2,28
2.7.	<i>Surface construction and installation works for odorization</i>	4.500	492	10,93
2.8.	<i>Electrical installations and networks</i>	1.000	0	0,00

Chap. B	Own assets modernization and development works	62.234	7.702	12,38
1.	Other works	22.627	946	4,18
2.	List of the devices, equipment and endowments	39.107	6.756	17,28
3.	Land procurement	500	0	0,00
Chap. C	Access works to NTS	6.000	5.312	88,50
TOTAL planned investments		721.902	37.759	5,23
Expenses related to studies and projects		30.038	3.392	11,29
Other investment expenses			4.167	
TOTAL INVESTMENTS		751.940	45.318	6,03

Table 12- Fulfilment of the Investment Plan in semester I 2016

As compared to the total value of the investments modernization and development plan amounting to RON 721.902 thousand, the total value of the achievements is of RON 37.759 thousands, meaning that the plan was **5,23%** fulfilled.

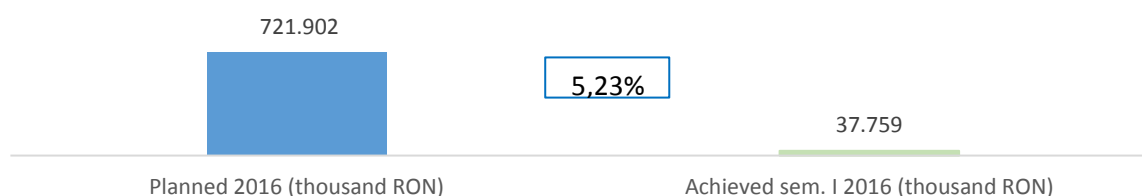
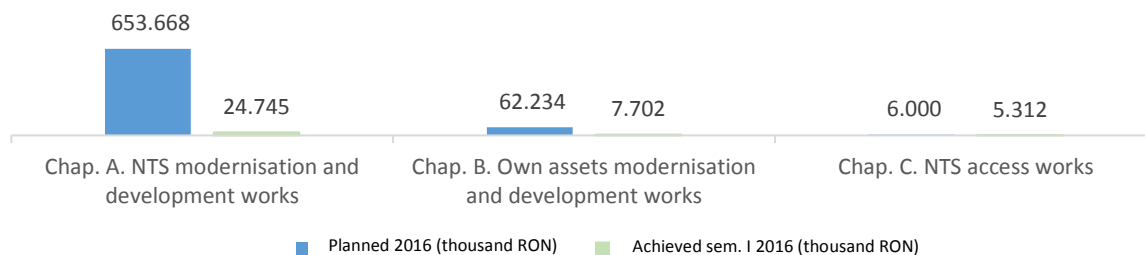


Chart 22- Investment achievements - 2015 vs Investment Plan in semester I 2016



Chat 23- Achievements in semester I 2016 vs total plan 2016 under the Plan for Investment Development and Modernisation by chapters

The investment plan was 5,23% fulfilled from reasons related to legal matters on field access, authorizations not obtained in due time, changes implemented by NARMPP in the tender validation procedures, and other.

The causes that led to the fulfilment of the investment modernization and development plan for semester I 2016 in a percentage of only 5,23%, are detailed 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 the National Gas Transmission Company Transgaz SA Mediaş is the implementation of the Data Control and Acquisition System (SCADA), which is a legal obligation, provided initially in Art 25 of Gas Law no. 351/2004 and reiterated in Art. 130, point c, of Gas and Electricity Law no. 123/2012.

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

In semester I 2016 PMU SCADA monitored the following contracts:

Supply Contract 17095/2009 –SCADA System for the National Gas Transmission Network:

- Following analysis of documentation submitted and the results of the technological tests and field analysis of the works executed, the report for the commissioning of the SCADA System for the National Gas Transmission Network was signed on 15.01.2016.
- At present, for compliance with ANRE Order 54/2004 on measures for the development of gas markets, SNTGN Transgaz SA is analysing the modality to develop/update the implementation of all NTS entry/exit points, requirements which appeared during the implementation of the TRANSGAZ SCADA System, additional to Supply Contract 17095/2009.

Financing Contract 5T/2012 – Implementing a Data Acquisition Control System at the Level of the Entire National Natural Gas Transmission System - SCADA:

- In semester I 2016 the documents related to Refund Application no. 3 - Final for the amount of RON 7.754.616.84, according to Financing Contract 5T/2012, were prepared, finalized and submitted, compliant with the refunding programme on 26.02.2016 by the Intermediate Body for Energy for analysis and approval for payment of Refund Application no. 3 - Final.

Refunding programme:

Refund Application no.	Amount requested to be refunded (RON)	Date of submission
1.	39.146.126,25	- until 31.03.2013
2.	10.385.059,02	- until 31.12.2014
3.	7.754.616,84	- until 29.02.2016
TOTAL	57.285.802,11	

According to Financing Contract 5T/2012 SNTGN TRANSGAZ SA has the obligation to monitor and report annually the **result indicators** at Art. 7 A(2):

Result indicators	Value at the end of the Project implementation period	Value at the end of the period for the mandatory maintenance of the investment
Reducing losses from technical incidents by shortening the intervention duration to eliminate them (with reference to the annual average of the 2008 – 2011 reference period; it is estimated a reduction by 49%)	51%	51%
Reducing losses from leaks and pores (with reference to the annual average of the 2008 – 2011 reference period, it is estimated a reduction by 5%)	95%	95%
The elimination of penalties according to the law and regarding SCADA: - Gas Law 351/2004; - Transmission authorization 40/2001.	RON 0	RON 0
SCADA integrated system	1	1

Table 13- Level of result indicators at 30.06.2016

The SCADA PMU and the specialist divisions/units carry out a large scale process regarding the monitoring, inventory and record all technological values defining and composing these reporting indicators.

Bidirectionality Contract 408/2014:

- The services contracted for the changing of 76 metering lines within the technological nodes from single direction metering to bidirectional metering are reported completed on 30.06.2016 by the service provider:
 - ✓ The procedures regarding the acceptance of the works for 38 bidirectional metering lines according to Contract 408/2014 (stage III of payment schedule) were completed on 26.05.2016;
 - ✓ The procedures regarding the acceptance of the last stage of the contract (stage IV of the payment schedule) are in progress.

The SCADA information system allows:

- The transmittal, in real-time, of the technological data (pressure, flow, temperature, gas quality, calorific power) to the national dispatching centre;
- The improvement of TRANSGAZ'S ability to control and react rapidly and efficiently to any potential risk to interrupt the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensure the necessary conditions to provide short term natural gas transmission services in/out of the national gas transmission system and to execute the contacts related to this type of services, according to the requirements of the Regulation (EC) no. 715/2009.

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

	Plan Sem. I 2016	Achieved Sem. I 2016
Investments of which:	141.973	45.318
-NTS access works		5.312
TOTAL INVESTMENT EXPENSES	141.973	45.318

Table 14- Total investment expenses (thousands RON)- semester I 2016

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

	Plan 2016	Achieved 2016
▪ Net profit allocated for own financing	95.820	116.194
▪ Amortization and depreciation	101.396	80.505
▪ Non-cash expenses	-	43.818
▪ Net profit allocated for own financing	613.724	594.534
TOTAL FINANCING SOURCES	810.939	835.051

Table 15- Investment financing sources (thousands RON) 2016

European funds

The activity of obtaining European funds in semester I 2016 has developed mainly for:

- Identifying the financing possibilities of the future period, based on the programmes promoted directly by the European Commission and on the financing programmes under the Management Authorities of Romania;
- Supporting TRANSGAZ'S 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;
- The preparation of the funding requests and of the related documents;
- The preparation of the documents related to the interim/final funding requests;
- The monitoring of the investments which received European grants;
- Inter-institutional engineering with the line ministries (Ministry of Economy, Ministry of Energy, Ministry of European Funds) and the financing institutions.

Some of the main achievements in semester I 2016 (some of these in cooperation with other departments of the Company) are:

The following activities were performed for the projects which received grants from European funds and are under implementation for:

- Preparation of reports, letters, documents which were sent regularly (resulted from the obligations of the funding contracts) to the funding bodies, European Commission and to the Management Authority/Intermediary Body for Energy for

the management of Transgaz's projects which benefited from European grants, in accordance with the provisions of the funding decisions/contracts;

- Preparation of notification on points of view regarding the sensitivities found and the implications of possible changes to the work execution contracts, correlated with the provisions of the funding decisions/contracts;
- Providing support, collaboration, information additional to various forms of assessment/verification which the European non-repayable funding projects were subjected to.

The *Interconnection Bulgaria -Romania* project

- Monitoring the eligible expenses related to the implementation of the Giurgiu – Ruse project, resulted from the contracts related to the execution of the works on the terrestrial and undercrossing sections of the Danube river;
- Preparation of notifications on the dysfunctionalities appeared in the implementation of the execution contract, from the perspective of the funding decision;
- Preparation of the documentation related to the extension of the eligibility period of the costs until 31.12.2016, the application of the extension decision;
- Participation in work meetings on the preparation of the documents regarding the procurement of the works for the building of the main pipeline of the Danube undercrossing, from the perspective of the funding decision;
- The monitoring of the execution works;
- The continuous analysis of the documents issued during the execution works.

The *FEED for three Compression Stations in the corridor PCI 7.1.5*. Project

- Preparation of the documents requested by INEA – E.C. in order to rectify the coordinates of the approved Funding Contract;
- Analysing and preparation of the documentation related to the FEED service procurement for the three stations;
- Signature of funding contract on 13.05.2016;
- Initiation of procurement procedure for the FEED services on 18.07.2015;
- Signature of FEED service contract on 05.05.2016;
- Documentation for the extension of the Funding Contract by Addendum no. 2 on 13.06.2016.

The *BRHA Gas pipeline from Bulgaria to Austria via Romania and Hungary* project

- Continuous monitorisation of the laws, activity and decisions of the European Commission regarding the projects of common interest;
- Administration of correspondence with the competent European and national institutions and of the correspondence following the preparation of the funding application;

The *Upgrading TCS Șinca and the related installations* project

- Development of responses to requests for clarification following submission of the file for the final application for the refunding of the eligible costs;
- Preparation of documentation for verification by the Court of Auditors which conducted an audit on the costs recorded in the Company accounts for this investment.

The *Ensuring the reversible gas flow through the transit pipeline dedicated to Bulgaria* project

- after the notification received from the European Commission on the suspension of EU funding for the project "Ensuring reversible gas flow through the transit pipeline dedicated to Bulgaria", justifying documents were prepared and provided to DG-ENERGY from the European Commission for partial settlement, approved by the European Commission;
- Managing cashing/reimbursement of the eligible/non-eligible amounts related to the project;
- Preparation of documents regarding the auditing of the project by the European Commission representative;
- Participation in the audit, completed with a positive audit report.

The *SCADA* project

- Collaboration with UMP SCADA team in order to draw-up the documents necessary to be submitted to the final payment application of the balance
- Advice on the funding contract provisions.

The project *Automation, monitoring, data transmission– the Iași-Ungheni pipeline – Advisory services granted by TRANSGAZ 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 final acceptance tests;
- Performance of 72 hours test and the final work acceptance test;
- Automation integration in the SCADA system.

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

- Identification of the priority axis in the 2014 – 2020 funding programmes, for which TRANSGAZ could submit financing requests and which will be achieved after the opening of these programmes 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 Large Infrastructure Operational Program;
- 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;

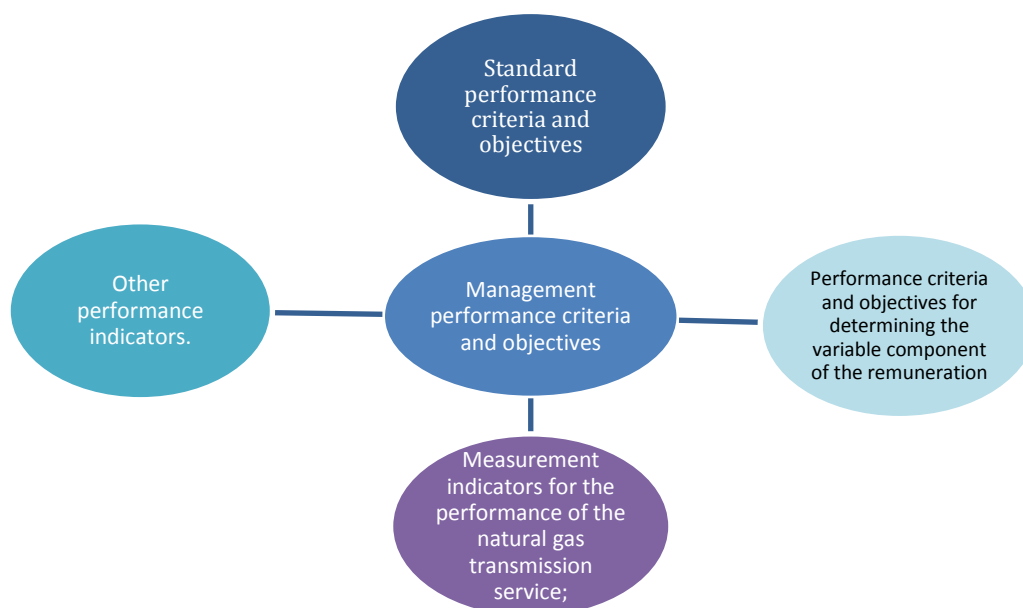
- Cooperate with the parties involved in supplying the information, documentation, necessary forms for drawing up the Financing Requests and in the conduct and monitoring of the projects financed by European funds, national and international authorities;
- Analysis of compliance with the eligibility criteria of potential TRANSGAZ projects, according to the 2014 – 2020 Financing Programmes as follows:

It is considered the promotion of funding potential TRANSGAZ projects regarding:

- use of the kinetic energy of pipeline gas flow in order to obtain electricity;
- possibility to develop facilities to allow (in collaboration with other companies) production and transmission of synthetic natural gas;
- possibility to refurbish the Bățani CS, the first turbocompressor station in Europe, and to record it as historic monument;
- cooperation with EU companies for the development of research topics enabling the obtaining of European funds through the Horizon 2020 programme;
- Increasing the capacity of the Company to absorb the latest technology and to adapt this technology to the needs of target markets through industrial research, feasibility studies, innovation activities;
- Supporting smart specialization processes through research, feasibility studies, innovation activities;
- Increasing the competitiveness of the Design and Research Division by attracting external funding, CD projects and specific support;
- Development of the Design and Research Division human resources and infrastructure through CDI support projects.

2.4 Indicators of management performance

In compliance with Chapter 6 of the Management Plan of The National Gas Transmission Company 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 Semester I 2016	Achievement degree
Implemented investments –thousand RON	Achieving the planned level	141.000	48.134	34,14%
EBITDA –thousands RON	Increasing EBITDA	675.539	428.492	63,43%
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel no.)	372.217	173.416	46,59%
Overdue payments-thousand RON	Making payments according to contract terms (in current prices)	0	0	100%
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	65.075	236.181	27,55%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100%	28%	352,02%
Operating expenses for 1000 RON operating revenue - RON	Decreasing operating expenses for 1000 RON operating revenue	735,09	635,73	115,63%

Table 16 –Fulfilment of standard performance indicators at 30 June 2016

Performance criteria	Performance objective	Weighting coefficient %	Achievement degree Sem. I 2016 %	Fulfilment level in semester I 2016 according to the weighting coefficient
Commissioned investments –thousand RON	Achieving the planned level	15	34,14%	5,12
EBITDA –thousand RON	Increasing EBITDA	15	63,43%	9,51
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	46,59%	6,99
Overdue payments - thousand RON	Making payments according to contract terms (in current prices)	15	100%	15,00
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	10	27,55%	2,76
Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	352,02%	52,80
Operating expenses at 1000 RON operating revenue - RON	Decreasing operating expenses for 1000 RON operating revenue	15	115,63%	17,34
TOTAL		100%		109,53

Table 17–Fulfilment of standard performance indicators for semester I 2016

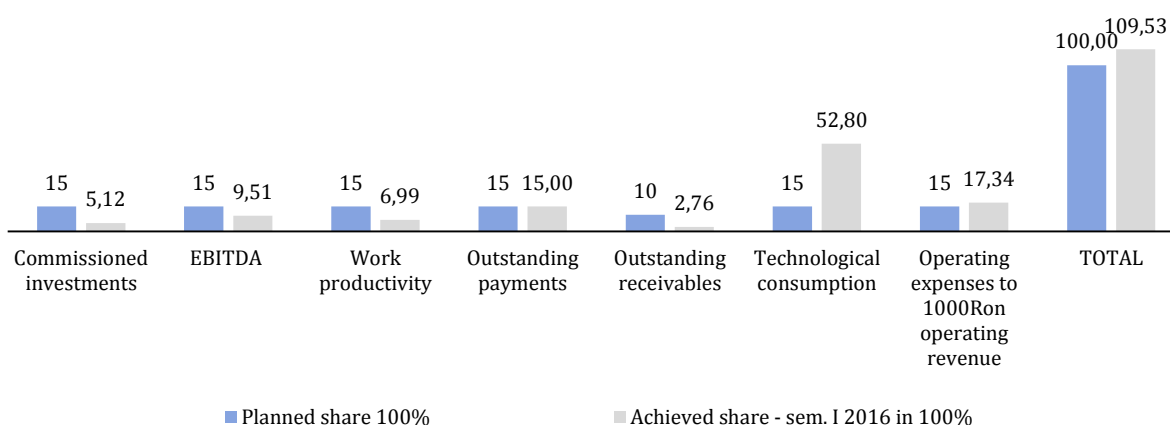


Chart 24- Aggregate level of fulfilment of standard performance indicators in semester I 2016

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

PERFORMANCE CRITERION	PERFORMANCE OBJECTIVE	Management plan 2016	Achieved semester I 2016	Achievement degree %
EBITDA -thousand RON	Fulfilment of the EBITDA target undertaken in the Management Plan	675.539	428.492	63%
Operating expense without amortisation - thousand RON	Reducing the level of operating expense (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	1.126.733	463.989	243%
Investments - thousand RON	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	369.200	45.318	12%

Table 18- Fulfilment of performance indicators for the calculation of the variable component of the remuneration for semester I 2016

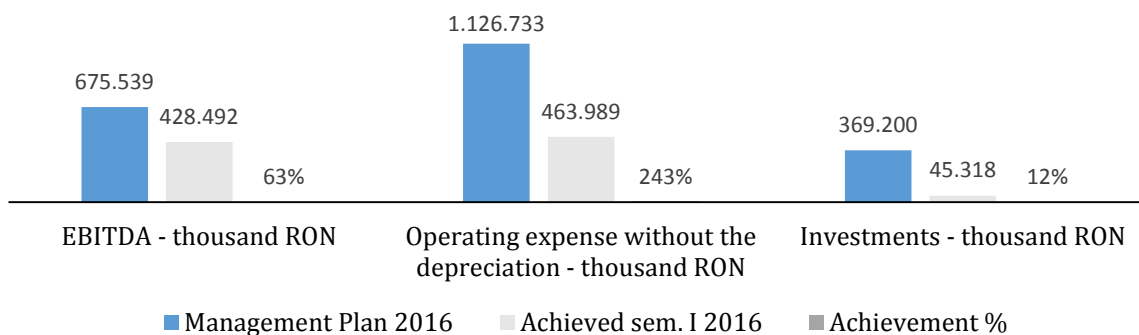


Chart 25 -Fulfilment of performance indicators for the calculation of the variable component of the remuneration at 30 June 2016

Indicators underlying the performance of the natural gas transmission service

The performance standard for the natural gas transmission service, approved by Decision no. 1.361/13.12.2006 of the ANRE President in the field of natural gas, published in Official Journal 27 bis on 16 January 2007, as further amended and supplemented by Order no. 45/24.04.2008 of ANRE President, regulates the commercial quality criteria, defined by the performance indicators in order to ensure the natural gas transmission services and the ancillary services performed by the transmission system operator (TSO).

Performance indicator (no. article)	Objective	Achievements 2015
IP1 -Solve the access requests for the connection to the NTS (art.5)	98%	100%
IP2 -Execute the NTS connection installation related to the access requests (art.6 lit(a) and (b))	98%	100%
IP4 - Notification on the resumption of the service provision (art.8 (1) letter (a) and (b))	95%	100%
IP5 - Notification on the planned interruptions in the service provision and its resumption (art.9 (1))	100%	100%
IP6 -Solve the complaints of the NTS users on natural gas metering (art.10 (1) letter (a) and (b))	98%	100%
IP7 -Solve the referrals related to the integrity and NTS operation under safety conditions (art.11 par. (2))	95%	100%
IP8 -The obligations of the TSO to inform the applicants/users, according to other regulations of the National Regulatory Authority on natural gas (ANRGN) (art.12)	95%	100%
IP11 - Safety indicators (art.15 (1) letter (a)) RCA	maximum 8,3%	7,4%
(art.15 (1) letter (b)) NAP	0.8	0.01
(art.15 (1) letter (c)) NAP _r	0.1	0.00

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

IP10- The toll-free phone number 0800872674 is mentioned on the web page of the company www.transgaz.ro.

Total number of calls received in semester I of 2016 is of 73 calls,

Content of the calls:

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

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

By Order 161/2015, published in Official Journal of Romania, Part I, no. 919/11 December 2015, ANRE approves the new Performance Standard for the Gas Transmission System Service, to become effective as of 1 October 2016.

Other performance indicators

In semester I 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, accountable and transparent organizational climate in terms of activity and management of employed resources, consistent with the requirements of the 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 pipelines* – is defined by law as the activity organized for the circulation of natural gas through the National Natural Gas Transmission System (NTS) or through other transmission systems.

In addition, Transgaz also carries out related/secondary activities supporting its main object of activity, according to the legislation in force and the company's updated Articles of Incorporation.

According to the regulatory framework applicable to the natural gas sector, Transgaz conducts the natural gas transmission activity based on the specific field legislation and the Concession Agreement concluded with the National Agency for Mineral Resources approved by GD no. 668/2002, as amended and supplemented, and on the Licence to Operate the Natural Gas Transmission System no. 1933 granted by Decision no. 3911/20.12.2013 for the development of the natural gas transmission system operation issued by the National Energy Regulatory Authority (ANRE).

The natural gas transmission activity is a public service of national interest and it is included in the regulated segment of the domestic natural gas market. The transmission service has a natural monopoly status and is carried out based on a tariff regulated by ANRE.

The contracts for the provision of natural gas transmission services are usually concluded for a period of 1 gas year, based on the Framework Contract appendix to the Network Code for the National Natural Gas Transmission System, approved by Order no. 16/27 March 2013 of the ANRE President, as further amended and supplemented.

Another important normative act for Transgaz's activity is ANRE Order no. 34/2013 on the approval of the Rules for the issuing of establishment authorisations and licensing in the natural gas sector.

In semester I 2016 Transgaz has managed together with its specialists the specific regulation projects launched in a public debate by ANRE and has participated both at the revision activities of the Network Code provisions within the different joint committees and working groups with ANRE and other involved institutions (*The Coordination/supervising committee of the activities regarding the provisions of the Network Code; the Working group for the revision of the Network Code coordinated by ANRE; the Operative working group for the modification of the Network Code; the Joint working group TRANSGAZ-OMV PETROM-EXXON*) and to the revision activity of the concession agreement.

The following regulations are relevant for the activity of Transgaz:

1. **A.N.R.E. Order no. 1/18.01.2016** establishing interim measures on the implementation of the Network Code for the National Gas Transmission System, approved by Order no. 16/2013 of the ANRE President, published in Official Journal of Romania, Part I, no. 43/20.01.2016;
2. **Government Ordinance no. 11/27.01.2016** for the amending and supplementing of Government Ordinance 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are unique or majority shareholders or hold directly or indirectly a majority participation, published in Official Journal 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 rules for implementing the provisions concerning the award of public procurement contracts of Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, public works concession contracts and service concession contracts, published in Official Journal of Romania, Part I, no. 115/15. 02.2016;
4. **Competition Law. 21/1996**, republished in Official Journal 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 contracts, published in Official Journal 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 normative acts in the field of external grants, published in Official Journal of Romania, Part I, no. 171/07.03.2016;
7. **A.N.A.P. Instruction no. 1/02.03.2016** on amending the public procurement contract during its validity and the classification of these changes as substantial or insubstantial, published in Official Journal 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 Order no. 22/2012 of the ANRE President approving the Methodology for approving the prices and setting the regulated tariffs in the natural gas sector, published in Official Journal 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, amending and supplementing certain normative acts, published in Official Journal 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 assistance for the implementation of the projects financed by EU structural instruments, signed on 2 February 2016, published in Official Journal 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 application of Order no. 58/2015 of the ANRE President on the establishment of the regulated tariff for the provision of the gas underground storage service by the National Gas Company Romgaz S.A. Medias, published in Official Journal of Romania, Part I, no. 229/29.03.2016;
12. **Order no. 617/25.03.2016 of the Minister of Environment, Waters and Forests**, amending and supplementing Order no. 594/2006 of the Minister of Environment and Waters, approving the Certificate regarding the obligations to the Environment Fund, published in Official Journal of Romania, Part I, no. 305/21.04.2016.
13. **A.N.R.E. Order no. 14/30.03.2016** on the establishment of interim measures for the implementation of the Network Code for the National Gas Transmission System, approved by Order no. 16/2013 of the ANRE President, published in Official Journal 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 Official Journal of Romania, Part I, no. 245/01.04.2016;
15. **A.N.A.P. Instruction no. 2/31.03.2016** issued for the application application of Art. 188, paragraph (1) a), paragraph (2) a) and paragraph (3) a) of Government Emergency Ordinance no. 34/2006 on the awarding of the public procurement contracts, public works concession contracts and service concession contracts, published in Official Journal of Romania, Part I, no. 272/11.04.2016;
16. **Order No. 200/26.02.2016** of the General Secretariat of the Government, amending and supplementing Order no. 400/2015 of the General Secretariat of the Government for approving the Internal/Managerial Control Code of the public entities, published in Official Journal of Romania, Part I, no. 275/12.04.2016;
17. **Order No. 201/02.26.2016** of the General Secretariat of the Government, approving the Methodological Norms on the coordination, methodological guidance and supervision of the implementation and development stage of the internal managerial control system of public entities, published in Official Journal of Romania, Part I, no. 276/12.04.2016;
18. **Government Emergency Ordinance no. 11/06.04.2016** on the establishing of reorganising measures at the level of central public administration, published in Official Journal of Romania, Part I, no. 285/14.04.2016;
19. **Order no. 181/04.02.2016 of the Minister of European Funds and no. 473/05.04.2016 of the Minister of Public Finance**, approving the Methodological Norms for the application of Art. I and VI of Emergency Government Ordinance no. 34/2015 regulating certain measures to stimulate the absorption of external grants, published in Official Journal of Romania, Part I, no. 291/18.04.2016;

20. **A.N.R.E. Order no. 15/20.04.2016** establishing measures for transmission capacity booking in the Csanadpalota interconnection point between the National Gas Transmission Systems of Romania and of Hungary, published in Official Journal of Romania, Part I no. 322/27.04.2016;
21. **Law no. 69/25.04.2016** on green public procurement, published in Official Journal 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 Official Journal of Romania, Part I, no. 325/27. 04.2016;
23. **Law no. 98/19.05.2016** on public procurement, published in Official Journal of Romania, Part I, no. 390/23.05.2016;
24. **Law no. 99/19.05.2016** on sectorial procurement, published in Official Journal of Romania, Part I, no. 391/23.05.2016;
25. **Law no. 100/19.05.2016** on works and services concessions, published in Official Journal of Romania, Part I, no. 392/23.05.2016;
26. **Law no. 101/19.05.2016** on remedies and appeals concerning the awarding of the public procurement contracts, sectorial contracts, works concession contracts and service concession contracts, and for the organising and functioning of the National Council for Solving Complaints, published in Official Journal of Romania, Part I, no. 393/23.05.2016;
27. **Order No. 530/20.05.2016** of the General Secretariat of the Government, amending and supplementing Order no. 400/2015 of the General Secretariat of the Government, approving the Internal Managerial Control Code for public entities, published in Official Journal of Romania, Part I, no. 401/26.05.2016;
28. **Law no. 111/27.05.2016** approving Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, published in Official Journal 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 on the awarding of the sectorial contract/framework contract of Law 99/2016 on the sectorial procurement, published in Official Journal 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 awarding of the public procurement contract/framework contract of Law 98/2016 on public procurement, published in Official Journal of Romania, Part I, no. 423/06.06.2016;
31. **A.N.A.P. Order no. 264/08.06.2016**, establishing the methodology for the ex-ante selection of the tender documentation related to public procurement contracts/framework contracts covered by Art. 23 paragraph (2) of the Annex to Government Decision no. 395/2016, approving the Methodological Norms for the application of the provisions on the awarding of the public procurement contract/framework contract of Law 98/2016 on public procurement, and contracts/framework contracts covered by Art. 25 paragraph (2) of the Annex to Government Decision no. 394/2016, approving the Methodological Norms for applying the provisions relating to the awarding of the sectorial contract/framework contract under Law 99/2016 on the sectorial procurement and to define the modality of interaction with the contracting authorities/entities verified, published in Official Journal 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 organising and functioning of the Ministry of Economy, Trade and Relations with the Business Environment, and amending other normative acts, published in Official Journal of Romania, Part I, no. 474/24.06.2016;
- 33. Government Emergency Ordinance no. 28/28.06.2016** amending and supplementing Energy and Gas Law no. 123/2012, published in Official Journal of Romania, Part I, no. 487/30.06.2016.

In semester I 2016 Transgaz made the following amendments to normative acts/ legislative proposals:

1. The BRHA draft law

Stage: on 27.06.2016 the project was submitted to the Chamber of Deputies

An inter-ministerial working group was constituted at the level of the Ministry of Economy, Trade and Relations with the Business Environment, which decided to promote in parallel an Emergency Ordinance on measures necessary for the implementation of projects of national importance in the gas domain (currently in public consultation until 7.07.2016), starting from the legislative proposal received by the ministries concerned from the Romanian Senate, in order to obtain the point of view of the Government of Romania.

2. GEO no. 22/2014 amendments

Stage: the project is at the Legal Commission, the legal and administrative commissions following to meet in the joint session

3. Amendments to the Energy and Gas Law no.123/2012

Stage: The proposals were centralised and submitted to the Commission for Industry and Services (the Chamber of Deputies)

4. Draft Ordinance on measures to accelerate implementation of trans-European transmission infrastructure projects, amending and supplementing certain normative acts

Stage: the Emergency Ordinance was published in the Official Journal (O.U.G. no. 7/2016)

5. Draft law on the Maritime Spatial Planning (transposing Directive 2014/89/EU)

Stage: the proposals of Transgaz were submitted to the Ministry of Economy, Trade and Relations with the Business Environment

6. Amendments to the Energy and Gas Law no.123/2012 on the introduction of an entry - exit system with VTP

Stage: By Decision no. 356/2016 it was established a working group within the Company; according to the estimated schedule, the draft amendment/supplementation of some chapters/articles of Title II of Gas Law 123/2012 in order to define the basic characteristics of a functional market model applicable in Romania, based on the entry-exit system with access on the VTP will be submitted to the management to be validated at the end of August 2016.

The main actions in the field of regulations and licensing were:

- Participating in activities concerning the revision of the Network Code;
- Managing the internal consultations in order to develop the point of view of the Company on the draft normative acts initiated by ANRE and other relevant authorities to improve the national regulatory framework;
- Managing the work authorisation/re-authorisation of the technical staff of the Company that owns/will own the status of authorized installer for natural gas;
- Authorization and licensing in the natural gas domain;
- Promoting the draft Order establishing measures for transmission capacity booking in the Csanádpalota interconnection point of the National Gas Transmission System in Romania and in Hungary;
- Draft order approving the Methodology for transmission capacity booking and tariff setting for the gas transmission activity through the Isaccea - Negru Voda transmission pipelines;
- Negotiating interconnection agreements with Ukrtransgaz related to the interconnection points between the Romanian and Ukrainian transmission systems;
- Negotiating interconnection agreements with Bulgartansgaz for the interconnection points between the Romanian and the Bulgarian systems;
- Preparing the necessary regulatory framework for the trading of the transmission capacity of the Transit 1 and Transit 2 pipelines in accordance with the European regulatory framework, starting with the 2016/2017 gas year;
- supplementation of the RBP platform services procured based on the Cooperation and TSO Membership Agreement no. 570/ 09.11.2015, concluded between Transgaz and FGSZ Zrt., Hungary;
- Implementing Regulation (EU) no. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) no. 1348/2014 on data reporting, for the implementation of Article 8 (2) and (6) of Regulation (EU) no. 1227/2011, in cooperation with the Operating, ITC and SCADA divisions;
- Legal actions regarding the cooperation with ENTSOG.

3.1.2 The activity of domestic natural gas transmission

From **1 August 2014 to 30 September 2015**, the regulated tariffs for the provision of natural gas transmission services through NTS were set based on the following regulations:

- **ANRE Order no. 70/22 July 2014** on the approval of the regulated budget, the total income and the transmission tariffs for the activity of natural gas transmission through the National Transmission System for the period 1 July 2014 – 30 September 2015;
- **ANRE Order no. 80/14 August 2014** for the amendment of Annex no. 1 to the Order no. 70/2014 of the ANRE President on the approval of the regulated budget, the total income and the transmission tariffs for the activity of natural gas transmission through the National Transmission System for the period 1 July 2014 – 30 September 2015;

In semester I 2016 the regulated tariffs for NTS gas transmission were established based on ANRE Order no. 136/14 August 2015 on the approval of the regulated revenue, total revenue and transmission tariffs for the activity of natural gas transmission through the National Transmission System for the period 1 October 2015 – 30 September 2016.

The natural gas transmission service ensures the fulfilment of Transgaz’s obligations under its own program, namely to provide the network users access services to the NTS based on equivalent, non-discriminatory and transparent conditions and contractual terms. The transmission agreements concluded with the beneficiaries of the services are consistent with the regulated framework agreement and provide the legal framework for the provision of firm and interruptible transmission services. The provision of the transmission service designates all the activities and operations carried out for and in relation to transmission capacity booking and the transmission through the NTS of determined natural gas quantities.

The transmission of natural gas quantities is performed from the commercial delivery/receipt points at NTS entry to the commercial delivery/receipt points at NTS exit, *the natural gas volumes required to cover NTS losses being the responsibility of Transgaz.*

Through the transmission services contracted in semester I 2016, the total amount of **62.987.973 MWh** (5.873.039 thousand cm) was transmitted to:

distribution:	40.480.866 MWh (3.772.266 thousand cm); -64,23 %
direct consumers:	15.096.262 MWh (1.418.321 thousand cm); -24,15 %
storage:	7.410.845 MWh (682.452 thousand cm); -11,62 %
reverse flow (Csanadpalota):	0 MWh (0 thousand cm) - 0%

The main beneficiaries of the domestic gas transmission service at **30 June 2016** are:

The main users of the NTS at 30.06.2016	Invoiced value exclusive of VAT Sem. I 2016 (RON)	%
ENGIE ROMÂNIA	190.000.199,24	30%
E.ON ENERGIE ROMÂNIA	156.980.163,25	25%
OMV PETROM GAS	75.834.320,93	12%
ELECTROCENTRALE BUCUREȘTI	58.336.807,29	9%
ROMGAZ MEDIAȘ	45.115.389,07	7%
AZOMUREȘ TG. MUREȘ	30.732.765,21	5%
C-GAZ&ENERGY DISTRIBUȚIE	10.252.081,07	2%
CONEF GAZ BUCUREȘTI	8.927.831,48	1%
WIEE ROMÂNIA BUCUREȘTI	6.705.372,76	1%
ELECTROCENTRALE CONSTANȚA	6.406.040,33	1%
Other Users	41.027.276,73	7%
TOTAL	630.318.247,36	100%

Table 20 - The share of the main users of the NTS at 30 June 2016

In order to cover the losses from the NTS and for the own technological consumption in semester I 2016, Transgaz purchased natural gas amounting to 719.940 MWh (65.375 thousand cubic meters) natural gas.

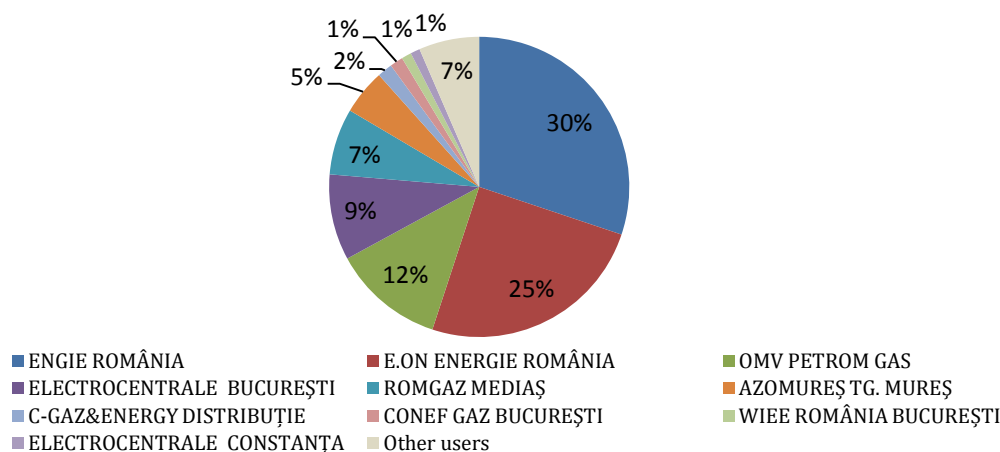


Chart 26 - The share of the main users of the NTS in semester I 2016

Based on Report no. **DO 1156/15.04.2016** approved by the Board of Administration, has approved under **Decision no. 14/2016** underground capacity booking services of **372.750 MWh** were contracted both for maintaining on stock the quantity of natural gas remained in the previous cycle and for storing additional gas amounts necessary for the NTS balancing actions of TRANSGAZ and to ensure its safe operation.

In semester I 2016, as a result of the measures taken during the operation activity, the **National Gas Dispatching Centre** performed a series of activities as follows:

- Offline updating the NTS topology for the SIMONE simulator of NTS hydraulic calculation model for the determination of the LP on the NTS, including the taking into consideration of the new limits between the ROs;
- Online updating the NTS topology for the SIMONE simulator; an 'intelligent' format for storing the NTS topology is under implementation;
- Completing the preparative works of the NTS electronic parameter register with SCADA data; from 1 August in a first experimental phase data will be automatically taken over from SCADA; in semester II 2016 the electronic registers of each dispatching centres of the regional offices will be prepared;
- The Web application for the online monitoring of the NTS valve status is solid and known in the territory;
- Implementation of NTS LP calculation with SIMONE online; continuation of improving NTS LP calculation by LP calculation calibration with SIMONE online;
- Implementation of an IT application for the automate operation data input from the SCADA data into MAIS, a time consuming activity of the dispatchers, their responsibilities being taken over through SCADA, LP calculation, monitoring valve status;
- Preparation of a new methodology for the calculation of the capacity of the transit pipelines necessary for the conclusion of the cross-border cooperation agreements; re-calculation of the transit pipeline capacity based on this methodology;
- Analysis of the technical parameters of the BRHA pipeline;
- Preparation of reports regarding the compressor stations located on the BRHA pipeline route;
- Preparation of reports regarding gas export through the Giurgiu-Russe interconnection pipeline;
- Preparation of reports regarding the gas export possibilities through the Medieșu Aurit-Hust interconnection pipeline.

3.1.3 International natural gas transmission

International natural gas transmission is performed using dedicated pipelines which are not interconnected to the national transmission system (NTS) and, therefore, it is *not considered a regulated activity and the tariffs were commercially set by negotiations between the parties*. International natural gas transmission ensures the transit of natural gas from the Russian Federation to Bulgaria, Turkey, Greece and other countries, through three gas pipelines, between Isaccea and Negru-Vodă.

The quantity of gas transmitted through the transit pipelines in semester I 2016 amounts to **8.704.764,592 thousand cm (92.657.857,638 Mwh)**.



Fig.1- International gas transmission pipelines

This activity is conducted based on the three contracts concluded between Transgaz and Bulgargaz EAD (Bulgaria), and Transgaz and Gazprom Export (Russian Federation). The

legal framework for the conclusion of the contracts is represented by 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 party were denounced by the GD no. 1278/27 December 2011, based on the provisions of Art. 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, (main pipeline)** valid until 31 December 2011, extended by 2 addenda until 30 September 2016;
- Contract no. 2102-06 of 3 June 1987 valid until 31 December 2011, extended by 3 addenda until **30 September 2016;**
- Contract no. 643/00157629/210247 of 24 September 1999, valid until **31 December 2023.**

Considering that the contracts for Transit I and Transit II expire on 30 September 2016, Transgaz has initiated the necessary actions to ensure the regulatory framework for further trading of the transmission capacity of the two pipelines in accordance with the applicable European codes and to conclude the interconnection agreements with the neighbouring transmission operators.

Transgaz's actions to ensure the regulatory framework for trading the transmission capacity of the Isaccea - Negru Voda pipelines are:

- Agreeing the interconnection agreements with Ukrtransgaz for the Isaccea 1 and Isaccea 2,3 interconnection points. At present the interconnection agreement for the Isaccea 1 interconnection point was sent to Ukrtransgaz to be signed;
- Agreeing the interconnection agreements with Bulgartransgaz EAD for the Negru Voda 1 and Negru Voda 2,3 interconnection points. The Interconnection Agreement for the Negru Voda 1 interconnection point was sent to Bulgartransgaz EAD to be signed;
- Promoting the draft Order for the approving of the Methodology for transmission capacity booking and tariff setting for the gas transmission services through the Isaccea - Negru Voda pipelines, representing the national regulatory framework

necessary for the application of the CAM NC for the interconnection points located on the Isaccea - Negru Voda gas transmission pipelines;

- Providing Regional Booking Platform access and use services for the allocation of the available capacity in accordance with the CAM NC and the above draft Order;
- Amending the validity of the existing gas transmission contract concluded with Bulgargaz EAD for the T1 pipeline for the trading of its capacity starting with 01.10.2016;
- Regarding the T2,3 pipelines, Transgaz is negotiating the interconnection agreements for the Isaccea 2,3 and Negru Vodă 2,3 interconnection points, negotiation is hampered by the provisions of the existing gas transmission contract concluded with Contract historic transport natural gas Gazprom Export for Isaccea 3 - Negru Voda 3.

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

3.1.4 Evaluation of the provision of natural gas transmission service

Transgaz is the only transmission system operator in Romania. In the table below is presented the evolution of the provision of domestic and international natural gas transmission services for semester I 2016 as compared to semester I 2015:

Specifications	Sem. I 2016	Sem. I 2015	Dynamics %
Revenue from the transmission activity			
- thousand RON	630.318	660.193	95,47
- MWh	62.987.973	69.118.324	91,13
- RON/MWh	10,01	9,55	104,77
- thousand cm	5.873.039	6.480.291	90,63
- RON/1000 cm	107,32	101,88	105,35
Revenue from the international transmission activity			
- thousand RON	160.728	158.798	101,21
Revenue from the balancing activity			
- thousand RON	22.012	-	x
Other operating revenue			
- thousand RON	79.423	29.140	272,55
TOTAL OPERATING REVENUE before the construction activity acc. to IFRIC12	892.481	848.132	105,23

Table 21- Evolution of revenue from domestic and international natural gas transmission in semester I 2016 vs. semester I 2015

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

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

Achievements - semester I 2016 versus achievements - semester I 2015

The situation of the financial results on 30 June 2016 as compared to results achieved in the similar period of year 2015 is as follows:

thousand RON			
Name	Achieved Sem I 2016	Achieved Sem I 2015	Changes
1	2	3	4=2/3x100-100
Operating revenue before the construction activity acc. to IFRIC12	892.481	848.132	5,23%
Revenue from the construction activity acc. to IFRIC12	33.671	41.885	-19,61%
Financial revenue	14.625	17.473	-16,30%
Operating costs before the construction activity acc. to IFRIC12	567.373	474.534	19,56%
Cost of assets acc. to IFRIC12	33.671	41.885	-19,61%
Financial costs	2.921	3.474	-15,91%
GROSS PROFIT-total, of which:	336.810	387.596	-13,10%
· from operation	325.107	373.597	-12,98%
· from the financial activity	11.703	13.999	-16,40%
Tax on profit	55.044	66.039	-16,65%
NET PROFIT	281.767	321.557	-12,37%

Table 22- Financial results in semester I 2016 vs financial results in semester I 2015

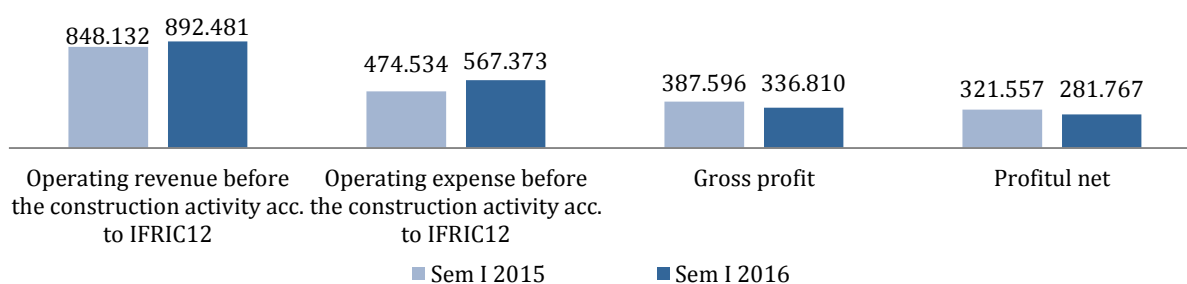


Chart 27- Financial results sem I 2016 vs sem I 2015 (thousand RON)

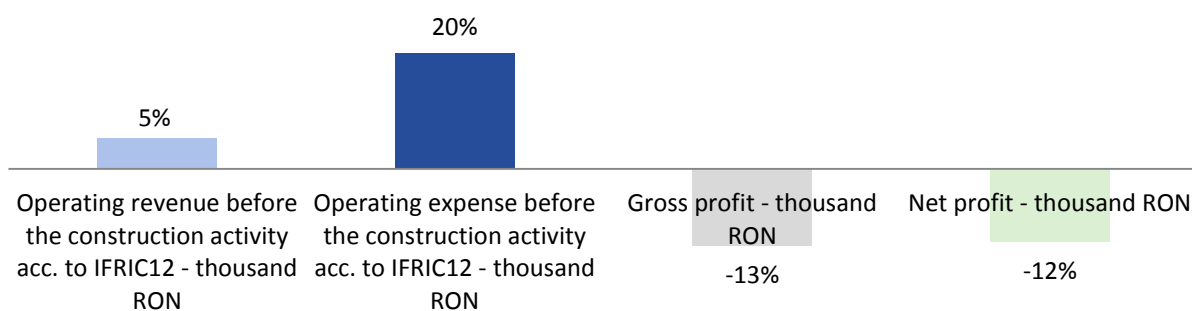


Chart 28- Financial results sem I 2016 vs sem I 2015 (%)

Operating revenue before the construction activity according to IFRIC12 increased by 5% as compared to the corresponding period of year 2015, which is higher by RON 44.349 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 93.005 thousand** mainly due to:
 - the increase of the fix component share in the total revenue to 60%;
 - the invoicing of the booking capacity surplus for semester I 2016 amounting to RON 49.487 thousand according to Art. 3 (6) of ANRE Order 1/18.01.2016;
- volumetric component revenue lower by **RON 122.880 thousand** due to:
 - the decrease of the variable component share in the total revenue to 40%;
 - the decrease of the quantity of invoiced gas by 6.130.351 MWh (607.252 thousand m³), detailed by categories of consumers as follows:

		Sem I 2016	Sem I 2015	Differences
Quantity transmitted for direct consumers	MWh	22.507.108	26.733.698	-4.226.591
	thousand m ³	2.100.774	2.514.729	-413.955
Quantity transmitted for distribution	MWh	40.480.865	42.384.625	-1.903.760
	thousand m ³	3.772.265	3.965.562	-193.297
Total	MWh	62.987.973	69.118.324	-6.130.351
	thousand m ³	5.873.039	6.480.291	-607.252

Table 23- Amount of gas invoiced - sem I 2016 vs sem I 2015

Starting with the fourth year 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 fix component and 40% for the volumetric component, which results in the redistribution of the transmission revenue as follows: the decreasing of transmission revenue in winter quarters, based on the lowering of revenue from the volumes transmitted, and the increasing of transmission revenue in summer quarters, based on the increasing of revenue from capacity booking, compared to the previous gas year.

- *international gas transmission revenue* higher by **RON 1.929 thousand** due to the changes in the foreign currency of the contracts;
- *revenue from the balancing activity* according to ANRE Order 1/18.01.2016 amounting to **RON 22.012 thousand**;
- *other operating revenue* higher by **RON 50.282 thousand** to the prescribing of the delay increase for the payment of years 2000-2003 dividends paid with a delay;
- *financial revenue* with a negative influence of **RON 2.848 thousand** based on the changes in the foreign exchange rates.

Operating costs before the construction activity according to IFRIC12 increased by 20% as compared to semester I 2015, which is higher by RON 92.839 thousand.

The Company made savings of RON 10.162 thousand, mainly in relation to the following cost elements:

- 👉 maintenance and transmission: RON 3.584 thousand;
- 👉 tax and duties: RON 3.444 thousand;
- 👉 royalty: RON 2.799 thousand;
- 👉 auxiliary materials and other material costs: RON 335 thousand.

An expense surplus of RON 103.002 thousand was recorded mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **RON 30.555 thousand** due to the following factors:
 - amount of gas for technological consumption higher by 482.018 MWh/ 44.234 thousand m³ (▲203%), as compared to semester I 2015, with a negative influence of RON 43.905 thousand;
 - average procurement price in semester I 2016 lower by RON 18,54/MWh as compared to semester I 2015, with a positive influence of RON 13.350 thousand;
- balancing activity cost: RON 20.948 thousand;
- other operating cost: RON 12.221 thousand;
- fixed asset depreciation cost: RON 7.745 thousand;
- cost of personnel: RON 6.605 thousand;
- provision for risk and charges: RON 24.927 thousand.

The financial cost is lower by RON 553 thousand based on the foreign exchange gain.

As compared to the gross profit obtained on 30 June 2015 the gross profit in semester I 2016 decreased by 13%, which is lower by RON 50.786 thousand.

Achievements – semester I 2016 versus Budget – semester I 2016

The main financial and economic indicators obtained in semester I 2016, compared to revenue and expense budget approved by OGMS Resolution 1/21 March 2016 are presented in the following table:

thousand RON			
Name	REB Sem. I 2016	Obtained Sem. I 2016	Changes
1	2	3	4=3/2x100-100
Operating revenue before the construction activity, according to IFRIC12	851.133	892.481	4,86%
Revenue from the construction activity, according to IFRIC12	0	33.671	x
Financial revenue	14.748	14.625	-0,84%
<hr/>			
Operating costs before the construction activity, according to IFRIC12	638.370	567.373	-11,12%
Cost of assets built according to IFRIC12	0	33.671	x
Financial costs	2.225	2.921	31,30%
<hr/>			
GROSS PROFIT , of which:	225.287	336.810	49,50%
• from operation	212.763	325.107	52,80%
• from the financial activity	12.523	11.703	-6,55%
Tax on profit	33.645	55.044	63,60%
NET PROFIT	191.641	281.767	47,03%

Table 24- Financial results – sem. I 2016 vs Budget – sem. I 2016

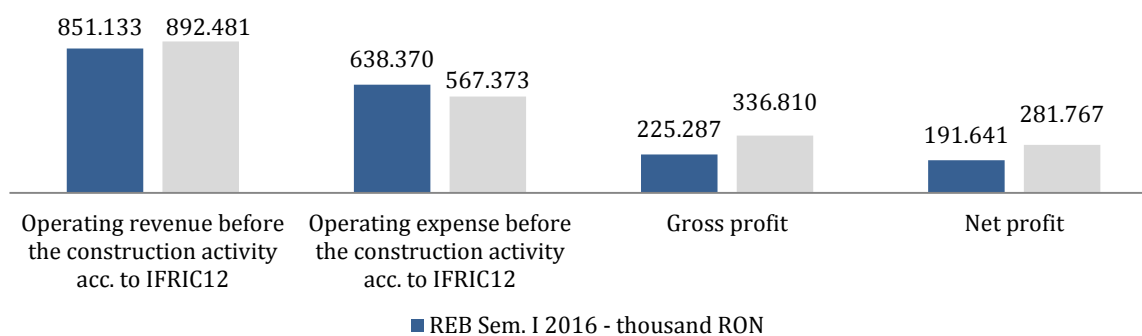


Chart 29 – Achieved vs. Budget sem. I 2016 (thousand RON)

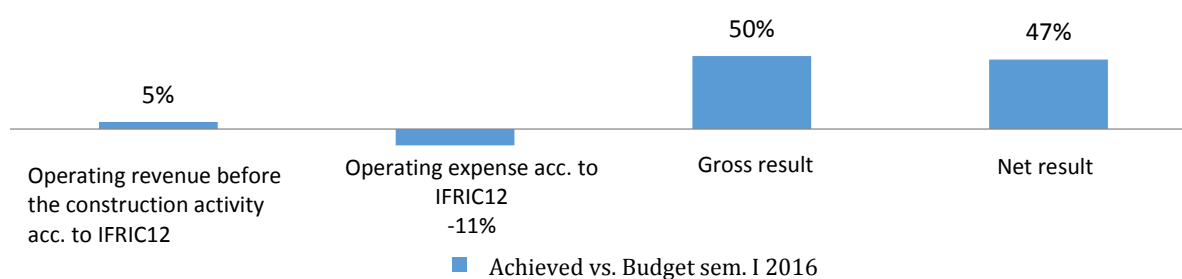


Chart 30– Achieved vs. Budget sem. I 2016 (%)

Operating revenue before the construction activity according to IFRIC12 are higher by **RON 41.347 thousand** as compared to the REB. The revenue was influenced by the following factors:

- The gas transmission revenue increased by **RON 32.661 thousand**, due to:
 - the invoicing of the booking capacity surplus for semester I 2016 amounting to **RON 49.487 thousand**, according to Art. 3 (6) of ANRE Order 1/18.01.2016;
 - the increasing of the capacity booked by 4.375.929 MWh with a positive influence of **RON 4.309 thousand**;
 - the decreasing of the quantity of transmitted gas by 5.016.204 MWh/553.146 thousand m³ (▼7%) as compared to the programme, with a negative influence of **RON 21.134 thousand**.
- international gas transmission revenue higher by **RON 3.691 thousand** due to the changes in the foreign currency of the contracts;
- revenue from the balancing activity lower by **RON 37.471 thousand** based on the following factors:
 - trading price higher by RON 6,05 /MWh, with a positive influence of **RON 1.426 thousand**;
 - quantity lower by 445.711 MWh, with a negative influence of **RON 38.897 thousand**.
- other operating revenue lower by **RON 42.467 thousand** as compared to the REB;
- the financial revenue decreased by **RON 124 thousand** as compared to the REB due to the interest income and the foreign exchange gains.

Operating costs before the construction activity, according to IFRIC12 decreased by **11%** as compared to the plan approved, which is lower by **RON 70.994 thousand** compared to the REB.

Savings of RON 115.282 thousand were obtained mainly regarding the following cost elements:

- balancing activity cost: **RON 38.535 thousand**;
- auxiliary materials cost: **RON 28.993 thousand**;
- maintenance and transmission: **RON 20.241 thousand**;
- cost of personnel: **RON 16.157 thousand**;
- fixed assets depreciation cost: **RON 6.794 thousand**;
- tax and duties: **RON 4.562 thousand**.

An expense surplus of RON 44.287 thousand was recorded mainly to the following cost items:

- transmission system technological gas consumption and loss: **RON 1.083 thousand**, due to the following factors:
 - average purchase price obtained lower by RON 9,61 /MWh as compared to the REB, with a positive influence of RON 6.916 thousand;
 - amount of gas for technological consumption higher by 97.372 MWh/7.111 thousand m³ (▲16%) as compared to the plan, with a negative influence of RON 7.999 thousand.
- cost of royalty: RON 3.631 thousand;
- other operating costs: RON 13.844 thousand;
- provision for risk and charges: RON 25.729 thousand.

The financial costs are higher by **RON 696 thousand** than budgeted based on the foreign exchange loss.

The gross profit is higher by 50% as compared to the plan, being higher by **RON 111.521 thousand** as compared to the REB, and the net profit increased by **47%** as compared to the plan, which is higher by **RON 90.123 thousand** as compared to the REB.

	Achieved in sem. I 2016 vs Achieved in sem. I 2015	Achieved in sem. I 2016 vs REB - sem. I 2016
Operating revenue from the construction activity acc. to IFRIC12	5%	5%
Operating expense before the construction activity acc. to IFRIC12	19%	-11%
Gross result	-13%	50%
Tax on profit	-17%	64%
Net profit	-12%	47%

Table 25- Achievements sem. I 2016 vs achievements sem. I 2015, REB in sem. I 2016 (%)

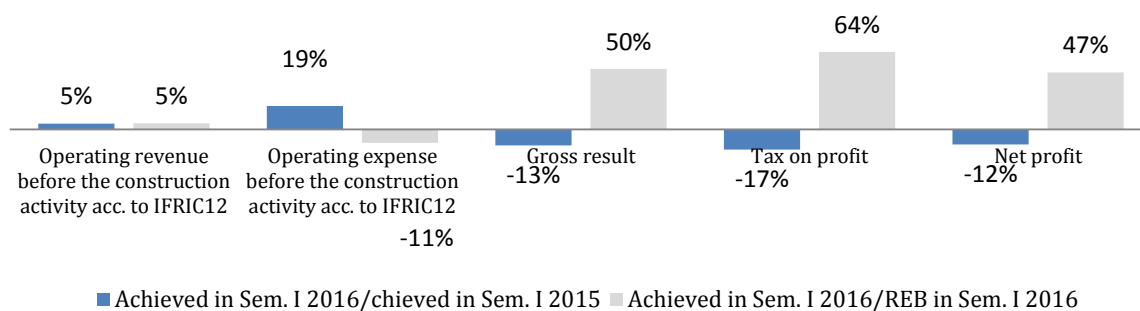


Chart 31. – Results of semester I 2016 vs. Results of semester I 2015, REB in semester I 2016

3.1.5 Evaluation of the research and design activity

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

A. Design activity

Drawing up design works within the Design and Research Department

During semester I 2016, 161 design works were performed within the division, out of which 35 works endorsed in TEC Transgaz, with a total value of the investment amounting to RON 2.157.663.618, as follows:

- 7 solution studies having a value of RON 2.131.791.309;
- 18 investment works having a value of RON 9.405.348;
- 5 maintenance works having a value of RON 11.268.611;
- 5 works for NTS access granting having a value of RON 5.198.350,

the rest of 126 works being in different development stages.

In semester I 2016 the following were prepared and endorsed by TEC Transgaz:

- 11 site orders for works in execution, generated from the necessity to amend the designed solutions from objective reasons;
- 15 projects for the location of the odorisation facility of a total of 128 projects in execution.

Important works developed in this period:

- Pre-feasibility study regarding the compressor unit at the Podișor Technological Node for ensuring bidirectional flow through the Giurgiu – Ruse interconnection;
- Pre-feasibility study regarding the interconnection between the NTS and the transit system;
- Pre-feasibility study regarding the replacement of the Transit II pipeline gas quantities metering/metering station systems;
- Feasibility study regarding the Black Sea shore – Podișor pipeline;
- Feasibility study regarding Developments of NTS in the North-Eastern area of Romania in order to improve the supply with natural gas of the area and ensure the capacity of transmission towards Moldova Republic;

- Feasibility study regarding the modernisation of the MRS Cerghid, Cerghid, Ungheni town, Mureş County;
- Feasibility study regarding the data control and acquisition system from the cathodic protection system of S.N.T.G.N. Transgaz S.A. Medias
- Modernisation of TN Drăgăşani – Power supply of facility actuation and surveillance equipment;
- Mounting receiving pig trap Dn 800 on the 32” Batani – Oneşti pipeline, in the Bogdăneşti – Oituz area;
- Mureş River undercrossing with the gas transmission pipeline Fântânele – MRS Arad, the Fântânele area.

Important works under development:

- Pre-feasibility study regarding the extension of the NTS by building gas transmission pipeline in the Vadu – Transit 1 area
- FEED for the development on the Romanian territory of the transmission corridor between. Bulgaria and Austria via Romania and Hungary;
- FEED – NTS developments in the North - East of Romania for enhancing gas supply to the area and ensuring transmission capacities to the Republic of Moldova;
- FEED regarding the Black Sea shore – Podişor pipeline;
- Reverse flow Ukraine – necessary modifications to be executed in GMS Isaccea II in order to deliver gas to Ukraine;
- Gas transmission pipeline for gas supply to the localities in the northern area of Prahova County;
- Ø20” Albeşti-Urziceni pipeline repair following pigging.

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

- Development on the Romanian territory of the transmission corridor between. Bulgaria and Austria via Romania and Hungary (BRHA);
- The Black Sea shore – Podişor pipeline;
- NTS developments in the North - East of Romania for enhancing gas supply to the area and ensuring transmission capacities to the Republic of Moldova.

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

Out of 84 design works in progress in semester I 2016, 17 design works were endorsed by the TEC with a value of the investment of RON 114.985.718. Due to changes to the initial project in this period a work developed in 2015 was re-endorsed in the TEC.

In semester I 2016, a total number of 245 design works were executed, 52 works endorsed by TEC, with a total investment value of RON 2.272.649.336 (without the projects regarding the location of odourisation facilities).

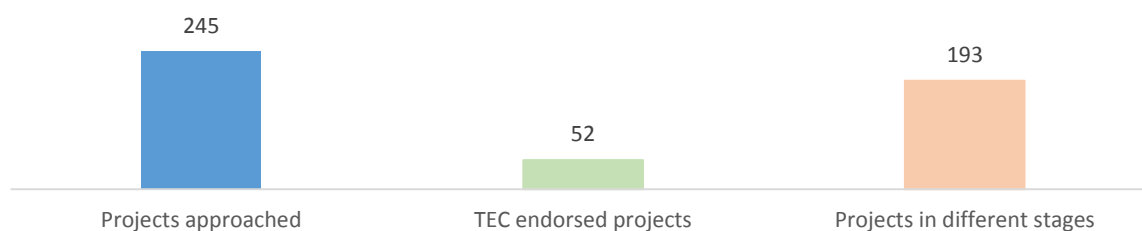


Chart 34– Number of design works approached and endorsed in TEC Transgaz in semester I 2016

The evolution of the number of design works approached and endorsed in the TEC in semester I 2016 is as follows:

	January	February	March	April	May	June
No. of TEC endorsed projects	12	3	10	9	5	13
No. of projects in progress	212	216	207	195	193	193
Total no. of projects	224	219	217	204	198	206

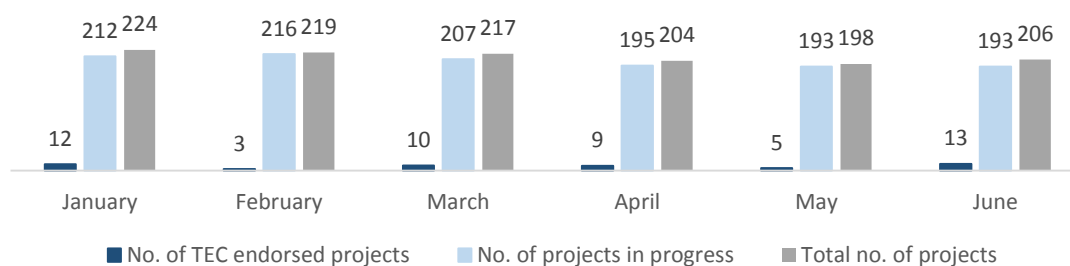


Chart 33– Evolution of the no. of design works approached and endorsed in the TEC Transgaz between January-June 2016

	Semester I	
	2016	2015
No. of TEC projects endorsed	52	47
No. of projects in progress	193	192
Total no. of projects	245	239

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 1 was carried out from 2015, and the other 11 were new themes for 2016.

During semester I 2016, the TEC endorsed stages of 2 research works, being recorded achievements amounting to a total of RON 229.287.

C. Other activities within the department:

- development in collaboration with other departments of the technical specifications necessary for concluding subsequent contracts and other contracts necessary for design work such as geotechnical, hydrological studies, pipeline design and others;
- evaluation of bids for the procurement of services and works for projects developed within the department and for those developed by third parties;
- analysis and preparing point of view for projects developed by third companies;
- technical assistance for the works under execution;
- verification of the quality of the pipe material, equipment and other accessories;
- 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 direction Iasi - Ungheni). The beneficiary of the project ANRM;
- preparation of 27 risk analysis for 25 projects in progress prepared by the RDD and 2 for projects prepared by third party firms;
- participation of the division personnel at supervision of the contract regarding the FEED for 3 compressor stations in the corridor PCI 7.1.5-the Romanian sector;
- participation of the division personnel at USTDA contract execution regarding the verification of the BRHA and Black Sea shore –Podișor feasibility study.

D. Achievement of the designs and research programmes

For the **Transgaz 2016 Design Plan** it was budgeted the amount of RON **120.182.784** lei, of which actual design of RON **33.200.784**. The difference between total and the actual design is guarantees for removal of land from farm-use classification. At the end of semester I 2016 the actual designing was **15,01%** achieved.

The Transgaz 2016 Research Plan has a budgeted value of **RON 1.382.000**. At the end of semester I 2016 was **16,57%** achieved.

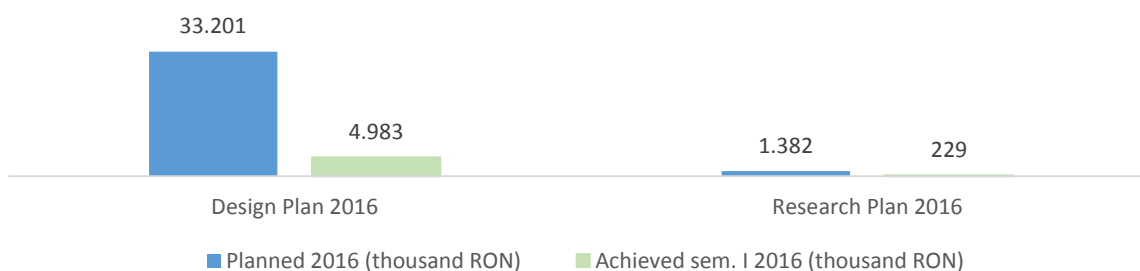


Chart 36- Achievements of Research and Design Plan- sem. I 2016



Chart 35- Degree of achievement of Research and Design Plan sem. I 2016

3.1.6 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 **PAAS 2016 the necessary of works, products and services, were calculated** as they are contained in the **Plan for Upgrading, Investments Development, Repair, Rehabilitation and Maintenance Services Plan** as well as in the **Supply Plan, the Design Plan and the Research Plan**, as approved through the **BoA Resolution 39/17.12.2015 and the Plan for other services executed by third parties, approved by BoA Resolution 1/18.01.2016.**

The plan contains **the entire contracts/frame agreements** that the National Gas Transmission Company Transgaz SA Medias intended to **award/conclude in 2016. The procedures started in 2015 which were not awarded/concluded** until the end of the year, **were kept in the 2016 plan as in progress.**

The total value of the **Annual Sectorial Acquisitions Plan for 2016**, approved by **BoA Resolution no. 4/2016** was of **RON 3.096.697.432,68 (697.454.376,71 euro)** out of which **the estimated value of the contracts that will be attributed through acquisition procedures** based on the P.A.A.S. 2016 was of **RON 3.071.788.679,68 (691.844.297,23 euro)**, and the estimated value of **the direct procurement** was of **RON 24.908.753,00 (5.610.079,48 euro).**

Following the 10 rectifications/updates of the Annual Sectorial Acquisitions Plan for 2016 that became necessary due to the revision of the execution programmes on which is based the substantiation of the R.E.B, **the total value of the Annual Sectorial Acquisitions Plan for 2016** became **RON 3.233.929.670,31** (the equivalent of **728.362.538,36 euro**).

PROCUREMENT PROCEDURES:

Based on the provisions of the P.A.A.S. 2016 (procedures section, updated) respectively from 378 active positions (less the relocated ones, but including the new entries), upon the requests of the interested divisions/units/departments 117 procedures were initiated out of which 63 were finalized, 54 procedures are in progress, in different stages.

Additionally, 58 procedures are not initiated, with documentations at DAPC, and up to the total of active positions in the plan, 203 positions are not requested by the interested divisions/units/departments (representing 53,70%).

From a physical perspective of the total number of procedures stipulated in the updated P.A.A.S., the execution percentage is of 16,67%, and from the value perspective the execution degree is of 3,67% (the achieved value in relation to the total estimated value).

In percentage, the 58 procedures that are not initiated and are under development represent 15,34 % of the total positions in the plan.

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

Procedures summary (physical)		
Total positions on 30.06.2016, of which:	378	% achievement from P.A.A.S (procedures sections)
- started	54	14,29%
- executed	63	16,67%
- not started (under development at the DAPC)	58	15,34%
- not requested	203	53,70%

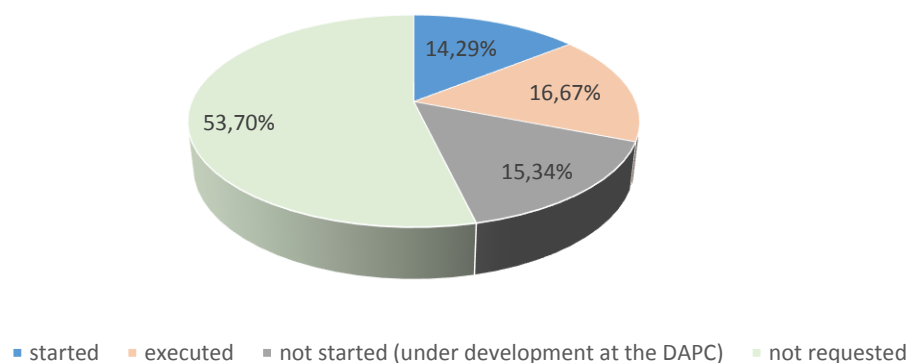


Chart 36a – Situation of procurement procedures – sem. I 2016

Procedures summary (value)-RON		
Total value at 30.06.2016, of which:	3.206.017.370,49	% achievement from P.A.A.S (procedures sections)
- started	148.374.442,40	4,63%
- achieved	117.514.058,27	3,67%
- not started (under development at the DAPC)	102.481.323,42	3,20%
- not requested	2.768.609.770,47	86,36%

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

No. of positions in PAAS	Estimated value	Achieved value	%
63	186.551.868,20	117.514.058,27	62,99

The total situation of the contracts concluded (including the subsequent contracts granted based on the frame agreements, according to Annex 1 to PAAS 2016) is presented in the following table:

Contract type	Total value of the contracts	Number of granted contracts/ frame agreements	Out of which, no. of subsequent contracts	Value of the subsequent contracts	Value of procurement not included into the PAAS	Results value from the PAAS
	(RON without VAT)			(RON without VAT)	(RON without VAT)	(RON without VAT)
Work contracts	32.651.683,20	16	1	280.398,29	0,00	32.371.284,91
Service contracts*	32.997.462,52	104	47	10.291.932,35	0,00	22.705.530,17
Product contracts	62.822.108,19	28	2	195.280,00	189.585,00	62.437.243,19
TOTAL CONTRACTS	128.471.253,91	148	50	10.767.610,64	189.585,00	117.514.058,27

Table 26 – Situation of the contracts concluded through procurement procedures in semester I 2016

DIRECT PROCUREMENTS:

Based on the provisions of the updated P.A.A.S., out of 593 active positions (less the relocated ones, but including the new entries) and upon the requests of the interested divisions/units/departments 362 direct procurements were initiated out of which 347 direct procurements were finalized, and up to the total number of active positions of the plan 221 positions are not requested by the interested divisions/units/departments (representing 37,27%).

From the physical point of view of the total number of direct procurements from the approved plan the execution percentage of the direct procurements is of 58,52%, and the value is of 19,71% (achieved value in relation to the total estimated value).

Direct procurements summary (physical)		
Total positions at 30.06.2016, of which:	593	% achievement of direct procurements
- started	15	2,53%
- achieved	347	58,52%
- not started	10	1,69%
- not requested	221	37,27%

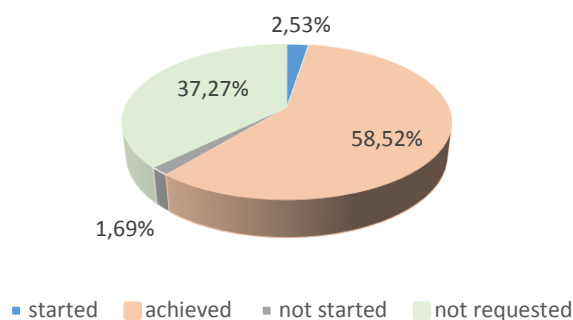


Chart 36b – Direct procurements – sem. I 2016

Direct purchases summary (value)		
Total value at 30.06.2016, of which:	27.912.299,17	% achievement of direct procurements
- started	825.300,68	2,96%
- partly achieved	5.500.699,23	19,71%
- not started	504.803,47	1,81%
- not requested	11.812.744,25	42,32%

NOTE. The percentage of direct purchases represents 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 347 positions in PAAS Direct Procurements, the situation of the achievements as compared to the estimated values, exclusively for these, is presented as follows:

No. positions from PAAS	Estimated value	Achieved value	%
347	14.769.450,77	5.500.699,23	37,24

The situation of the direct procurements

Based on the provisions of the updated P.A.A.S., and upon the requests of the interested divisions/units/departments, the situation of the direct procurements between 04.01-30.06.2016 is as follows:

Contract type	Total value contracts/ Orders	Number of public proc. contracts	Value of public proc. contracts	No. of direct proc. orders	Direct proc. orders value	Value of procurement not included in Annex 1-AD	No. of orders of the proc. plan	Value in proc. plan	Value of achievements in Annex 1-AD
	(RON without VAT)		(RON without VAT)		(RON without VAT)	(RON without VAT)		(RON without VAT)	(RON without VAT)
Works	832.122,72	13	832.122,72	0	0,00	0,00	0	0,00	832.122,72
Services	1.901.755,32	42	1.664.420,37	26	237.334,95	93.272,00	0	0,00	1.808.483,32
Products	2.860.093,19	0	0,00	113	1.324.181,44	0,00	253	1.535.911,75	2.860.093,19
TOTAL CONTRACTE	5.593.971,23	55	2.496.543,09	139	1.561.516,39	93.272,00	253	1.535.911,75	5.500.699,23

Table 27 - Situation of the contracts concluded through direct procurements between 04.01-30.06.2016

The Direct Procurements reported to the Supply Department in the amount of RON **1.535.911,75** for **253** positions in PAAS 2016 were achieved under the delegation of powers to the regional offices under Report no. 2019/18.01.2016 and under Decision no. 91/10.02.2016, valid until 26.05.2016 .

3.1.7 Evaluation of the human resources and social dialogue activity

On 30 June 2016, the National Gas Transmission Company Transgaz SA had 4. 673 employees with individual labour contracts, of which 4.620 for an undetermined period of time and 53 for a determined period of time.

In semester I 2016 the policy of reducing the number of personnel in line with the retirements and layoffs from the elimination of the positions continued. Thus the number of Company employees at 30 June 2016 was down by 27 persons compared to 31 December 2015 and by 102 persons as compared to 30 June 2015.

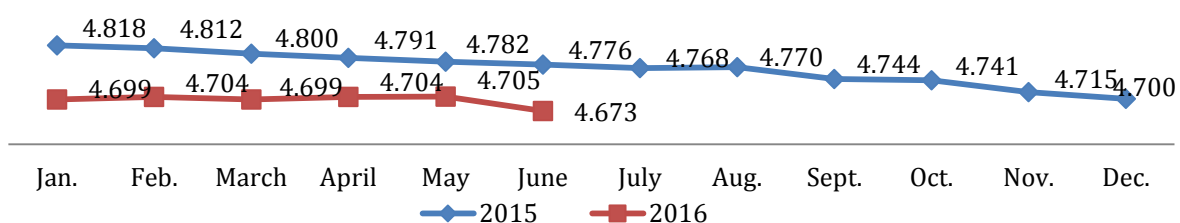


Chart 37- Evolution of no. of employees in sem. I 2016 vs sem. I 2015

In order to improve the use of the qualified personnel for performing the duties entirely in the new working conditions, according to the Management Plan of the National Gas Transmission Company TRANSGAZ S.A. 2013-2017, it was prepared the SNTGN TRANSGAZ S.A. Technical Works Time Schedule Plan carried out in 2 stages:

- Stage I – priority work time establishing technical works;
- Stage II – the other technical works.

The technical works timed up to now are the following:

2016	Jan	Feb	March	April	May	June	Total Sem. I 2016
ARAD REGIONAL OFFICE		9	16	5		21	51
BACĂU REGIONAL OFFICE				9	2	6	17
BRAȘOV REGIONAL OFFICE			4		13	22	39
BRĂILA REGIONAL OFFICE			13	9	3	25	50
BUCUREȘTI REGIONAL OFFICE		3		2			5
CLUJ REGIONAL OFFICE		6		5	4	23	38
CONSTANȚA REGIONAL OFFICE	1		1	5	1	2	10
CRAIOVA REGIONAL OFFICE			1	1	8	16	26
MEDIAȘ REGIONAL OFFICE			6	5	6	11	28
THE MEDIAȘ SUBSIDIARY		1	1		2		2
Total works with time established	1	19	42	41	41	126	270

The evolution of the personnel structure by category of studies shows the interest of the Company in covering the personnel requirements by employing highly qualified specialists and the continuous formation of the existing personnel, showing the higher education personnel increasing trend in parallel with the decreasing of the number of employees with high school, primary and vocational education personnel.

The evolution of the number of the Company's employees in semester I 2016 vs semester I 2015 is presented in the table below:

No.	Category	Sem I 2016	Sem I 2015
1	Higher education graduates	1.265	1.195
2	High school education graduates	1.429	1.496
3	Vocational education graduates	821	862
4	Primary school education + training course graduates	1.158	1.222
*	TOTAL employees	4.673	4.775

Table 28- Evolution of personnel structure by category of studies in sem. I 2016 vs sem. I 2015

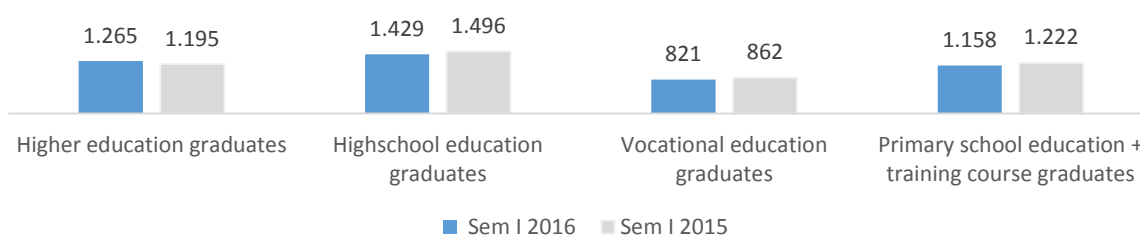


Chart 38- Evolution of personnel structure by category of studies in sem. I 2016 vs sem. I 2015

Within the Company the professional formation of the personnel is carried out continuously and planned by courses organized with foreign or national external trainers or with internal trainers through the Training and Formation Centre.

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

Professional training and formation of employees follows:

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

The training, formation and professional development of Company employees is done based on the Professional Training Plan developed by the Company, in line with the provisions of the Collective Labour Contract in force at this level.

Through the Company's Training and Formation Centre there were conducted programmes for the qualification of the employees as gas development, treatment, transmission and distribution operator, locksmith and welder for which the Company holds the CNFPA certificate. Also a large number of employees were formed annually by the specialists of the Training and Formation Centre.

The number of training and formation courses for the Company employees in semester I 2016:

No.	Category	Sem I 2016	Sem I 2015
1	No. of courses with internal trainers (through the Training and Formation Centre)	16	2
2	No. of courses with external trainers	80	69
	TOTAL	96	71

No.	Category	2016					
		Jan	Feb	March	April	May	June
1	No. of courses with internal trainers (through the Training and Formation Centre)	1	5	5	3	1	1
2	No. of courses with external trainers	7	13	18	11	13	18
	TOTAL	8	18	23	14	14	19

Number of employees who completed qualification/formation courses in semester I 2016:

No.	Category	Sem I 2016	Sem I 2015
1	No. of qualified personnel through courses with internal trainers (through the Training and Formation Centre)	322	98
2	No. of qualified personnel through courses with external trainers	508	452
	TOTAL	830	550

At 30 June 2016 the degree of unionization of the workforce was 97,81% of the total 4.673 employees 4.571 were union members (compared to the end of 2015, when the degree of unionization of the workforce was 98,12%).

There are four trade unions in which Transgaz employees are members:

- 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 representative union at the unit level, according to Law no. 62/2011 on the Social Dialogue, Art .51, letter c. and therefore it represented the employees at the conclusion and in the execution of the Collective Labour Contract concluded within SNTGN TRANSGAZ S.A.

The relations between employer and employees are established in the Collective Labour Contract of the Company, registered at the Sibiu Regional Labour under no. 112/23.06.2015 in the Collective Contracts Register, and in the individual labour contracts of the employees. Collective Labour Contract of the Company is valid 24 months. The relations between employer and employees fall under the legal provisions in force in 2016, with no conflicting elements regarding these relations.

3.1.8 Evaluation of the activity of HSSEQ

In semester I 2016, the actions carried out by the Internal Control, Quality, Protection and Security Division mainly targeted the implementation of the measures included in the Management Plan, in the Policy Statement, the annual plans approved by the Board of Administration and/or director-general of the National Gas Transmission Company TRANSGAZ SA, and the fulfilment of the responsibilities set by the ROF and the legal provisions in the areas of activity.

The activity of the Control Body, Environmental Quality, Protection and Security Division comprises aspects regarding:

- Activities carried out in the field of Labour Security and Health;
- Activities carried out in the field of environment protection;
- Activities carried out in the field of Environment Quality Management System;
- Activities carried out in the field of Protection, Guard and Security;
- Activities carried out in the field of Document Management;
- Activities carried out in the field of Control Body.

<p>Activities carried out in the field of Labour Security and Health</p>	<p>In semester I 2016, the activity in the field of labour security and health was mainly focused on the compliance with the legislative provisions, taking all the measures in order to ensure the security and health of the workers, especially by accomplish those contained in the Prevention and Protection Plan. In order to diminish and/or eliminate the risks of accidents or professional illness in the company, specific actions were performed, contributing to the materialization of the planned measures, priority having those with technical, organisational and sanitary-medical character.</p> <p>In semester I 2016 there were no labour accidents or professional diseases.</p> <p>The Company did not receive any penalty for breaching the labour security and health provisions.</p>
<p>Activities carried out in the field of environment protection</p>	<p>The activity in the field of environment protection was mainly focused on the conformity and compliance with the legislative regulations and with those imposed by the environment and water management authorizations. Thus, the Company holds:</p>

	<ul style="list-style-type: none"> • 17 environment authorizations for 1183 facilities of SNTGN Transgaz SA. According to the environmental protection law in semester I 2016 2 requests for renewal of environment authorizations were submitted, and • 130 water management authorizations for water crossings with gas transmission pipelines. In semester I 2016 documents for renewal 21 of these were submitted. <p>In semester I 2016, as a result of the inspections performed by the Environmental Guard (5 inspections), the Company was not penalized for failure to comply with environment protection laws.</p>
Activities carried out in the field of Environment Quality Management System	In semester I 2016 – <i>The Process of Audit of the Integrated Quality-Environment-Health and Occupational Security Management System</i> was carried out according to the approved plan.
Activities carried out in the field of Protection, Guard and Security	The activity of the Protection, Guard and Emergency Situation Service (SPPSU) is focused on guarding the valuables and assets belonging to Transgaz, preventing and limiting the emergency situations, which can affect the integrity of the NTS, keeping the record and applying the actions of mobilizing the employees at the workplaces, and also the situation regarding the record of assets that can be seized and of the transportation vehicles.
Activities carried out in the field of Document Management	In semester I 2016, the activity in the field of document management was mainly focused on the compliance with the legislative provisions, and it was attempted to improve the procedures for the registration, correspondence and archiving of the documents created and held by the Company.
Activities in the field of Control Body	The missions of the Control Body were focused on ensuring a minimization of the risks of errors and incompliance, striving to obtain performances at all the levels from the company. Thus, the stress was mainly put on: <ul style="list-style-type: none"> • Identifying the possible factors which can affect the achievement of the management plan; • Proposing viable solutions for the period of the projects, first of all of those funded from European funds.

3.1.9 Disputes

According to the Register of cases kept by the Legal and Litigation Division, in semester I 2016 a number of 72 cases were recorded, cases in which Transgaz acted both as plaintiff and defendant of which:

- 29 cases – as plaintiff;
- 43 cases – as defendant.

Resolutions:

- 7 cases with resolutions favourable for Transgaz (7 final) ;

- 4 unfavourable (3 final, 1 appealed);
- 61 cases pending resolution.

Values:

- Values of cases in which Transgaz acts as plaintiff: RON **272.321.479,04** and EUR **25.505,63**.
- Values of causes in which Transgaz acts as defendant: RON **1.107.099,95** .

The number of cases involving our Company in sem. I 2016 as compared to sem. I 2015:

No.	Cases	Sem I 2016	Sem I 2015
1	As plaintiff	29	20
2	As defendant	43	17
	TOTAL	72	37

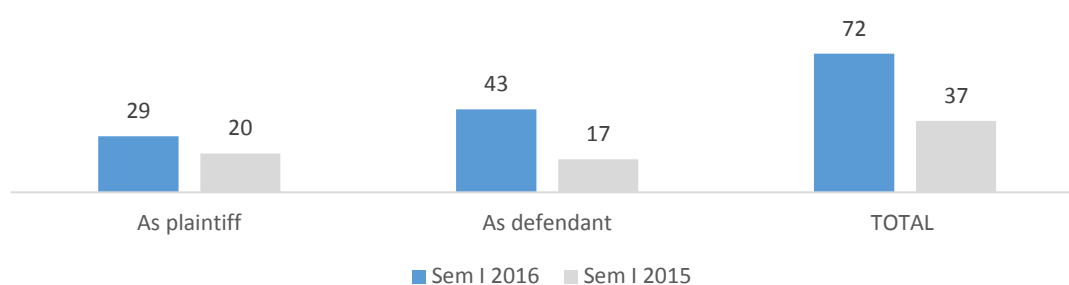


Chart 41 - Structure and no. of cases involving our Company in sem I 2016 vs sem I 2015

3.1.10 The activity of the Black Sea Project Management Unit

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

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

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

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

Cooperation with ExxonMobil and OMV Petrom

Under the Cooperation Agreement signed in 2014 Transgaz continued cooperation with ExxonMobil and OMV Petrom, the exchange of technical, economic, financial and legal

information to coordinate necessary developments regarding the NTS and the offshore developments in 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 continuously cooperated with the representatives of the parties involved for the mutual notification on recorded progress. And harmonisation of development and implementation schedules for the 2 projects.

Obtaining grants for project financing

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 the Innovation & Networks Executive Agency (INEA) for the preparation of the funding contract for the BRHA – Phase 1 Project execution works.

Financing from international financial institutions

The Black Sea PMU provided the necessary support in the discussions and meetings held by Transgaz with various international financial institutions to obtain funds for the financing of the BRHA Project.

Cooperation with the USTDA

The collaboration with the United States Trade Development Agency continued based on the funding agreement concluded with Transgaz in September 2015. USTDA approved the contractor selected by Transgaz to be in charge with the assessment, validation and enhancement 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 contract agreed by parties was sent to USTDA for approval.

Reports requested by ACER and CESEC

For loading on the ACER site, according to the annual reporting obligation of Transgaz as promoter of projects of common interest, the Black Sea PMU was involved in filling in the forms for monitoring the implementation of the projects of common interest in 2016 - gas transmission pipelines - progress report for PCI implementation according to Article 5 (4) of Regulation EU 347/2013 for the projects:

- 6.24.2 The Development of the Romanian Gas Transmission System Along Bulgaria – Romania – Hungary – Austria Route, Podișor-Horia GMS and 3 new compressor stations (Jupa, Bibești and Podișor) (phase 1);
- 6.24.7 Expansion of transmission capacity in Romania to Hungary up to 4.4 bcm/year (phase 2);

- 6.24.8 Black Sea shore — Podișor. (RO) pipeline for taking over the Black Sea;
- 6.25.3 Further enlargement of the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (ROHUAT/BRUA- Phase 3).

The Black Sea PMU provided support to the International Relations Unit to fill in the information requested by the European Commission - DG Energy - through various forms, for projects managed by the Black Sea PMU.

The process for obtaining the Environment Permit for the BRHA Project

The environmental consultant completed the environmental impact report and the appropriate assessment study. The documentation was submitted on 08.03.2016 at the National Agency for Environment Protection (ANPM). Following submission of environmental documentation in March, ANPM informed Transgaz that in the first phase it will be carried out the appropriate assessment study. ANPM provided comments to the study at the end of March. These were implemented and the appropriate assessment study was submitted to ANPM on 7 April. Subsequently ANPM requested further supplementations of the appropriate assessment study, which were submitted between April and June 2016.

As part of the procedure for obtaining the environmental permit, ANPM requested the custodians of the Natura 2000 sites crossed by the project their permit. Also, between 30 May and 3 June it took place the meetings of the Technical Analysis Committees within the environmental agencies county on the BRHA route or in the proximity of the Natura 2000 sites, namely the counties of Giurgiu, Olt, Valcea, Gorj, Hunedoara, Caras-Severin and Timis.

On 15.06.2016 it was submitted to ANMP the environmental impact report comprising also the conclusions of the appropriate assessment study. The document is in analysis at ANPM.

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

Transgaz and the FGSZ Hungary and Gas Connect Austria TSOs performed a market test on the capacity allocation concept and the Open Season procedure on the RO-HU-AT corridor.

Voluntary liquidation of the company Nabucco Gas Pipeline International GmbH

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

It was finalized the draft termination (of the JVA) and the (NIC) asset distribution agreement (TADA), establishing the possibility and method of distribution between the shareholders of the remaining assets in the NIC patrimony. The final draft of the agreement will be approved internally by each shareholder.

For Transgaz the TADA approval took place in May (BoAR No. 20/30.05.2016) according to the EGMS Resolution No. 3/29 April 2016.

Relation with the Competent Authority for Projects of Common Interest (ACPIC)

ACPIC cooperation relations are conducted within the authorization procedure for PCI 6.24.2 The Development of the Romanian Gas Transmission System Along Bulgaria – Romania – Hungary – Austria Route, Podișor-Horia GMS and 3 new compressor stations (Jupa, Bibești and Podișor) (phase 1) to meet the obligations and responsibilities of each party in accordance with Art. 10 of Regulation (EU) no. 347/2013.

3.1.11 Transgaz's activity at the international level

In the current context, in which new gas transmission corridors or new alternative solutions are needed to diversify supply sources and to enhance energy security of the EU Member States, the implementation as soon as possible of the Development Plan of the National Gas Transmission System - by implementing projects to develop future transmission routes having significant regional impact - is very important for the strategic role of Romania in the energy domain.

Meeting strategic objectives requires close a collaboration between Transgaz and the national (ministries, agencies, intermediate bodies, competent authorities, etc.) and European institutions, with the European Commission Directorate General for Energy, the neighbouring gas transmission system operators (Bulgaria, Hungary, Moldova, Ukraine, Serbia), but also with companies in the natural gas sector and other European Union gas transmission system operators (Spain, France, Belgium, Greece, the Central Eastern European countries) and non-EU countries, but especially impacting the Balkans and the Southern Corridor for gas transmission (Turkey, Azerbaijan, Turkmenistan, Georgia and Iran).

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

Cooperation with BULGARTRANSGAZ EAD, Bulgaria:

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

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

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

Both public procurement procedures were successfully completed by the conclusion of the works contracts with the winning constructors as follows:

On 06.04.2016 the works execution contract for the main pipeline of the Danube underscrossing was signed between TRANSGAZ – BULGARTRANSGAZ and SC HABAU PPS PIPELINE SYSTEMS SRL Ploiești, Romania.

On 30.05.2016, TRANSGAZ and BULGARTRANSGAZ assigned the contract with the winner of the tender for the contracting the construction works for the backup pipeline of the Danube underscrossing, the Association INSPET SA, leader – HABAU PPS Pipeline Systems SRL, associate.

At present the execution works regarding the Danube underscrossing with the two pipelines are in progress.

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

The conclusion of interconnection agreements compliant with Regulation (EU) 2015/703 establishing a network code on interoperability and data exchange rules is in progress.

Cooperation with FGSZ Ltd.:

1. Regarding the Development on the Romanian territory of the transmission corridor between Bulgaria and Austria via Romania and Hungary

- The parties cooperate for the initiation of the Open Season for the capacity of the Project PCI 7.1.5. Gas pipeline from Bulgaria to Austria, via Romania and Hungary (BRHA).

2. Regarding the joint operation of the Csanadpalota interconnection point in accordance with the European network codes (CAM, BAL, INT)

- Based on the Interconnection Agreement concluded at the end of 2015 for the Csanadpalota interconnection point according to Regulation (EU) 2015/703, concluded an Interconnection Agreement for the.
- Based on the RBP TSO Cooperation and Membership Agreement for trading capacity at the cross-border interconnection point according to Regulation (EU) 2013/984.

Cooperation with UKRTRANSGAZ:

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

Cooperation with other gas companies:

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

- **European and non-European gas transmission system operators such as:** Eustream AS (Slovakia), DESFA (Greece), Fluxys(Belgium), LNG Croatia LLC,

Socar(Azerbaijan), ENAGAS (Spain), SNAM RETE (Italy), GRTGaz (France), Gaz-System (Poland)

- **International gas suppliers of energy and infrastructure services and equipment for the gas industry** (ENGIE, OMV, ExxonMobil, SC Trinovator SRL, Hasel Invent SRL, etc.)

Cooperation with national and international bodies, the European Commission and other institutional relations

SNTGN Transgaz S.A. became member or kept its quality of member within gas national and international bodies. The advantages and benefits of such membership are mainly: promoting the company and its objectives and interests, access to the updated information in the gas regulatory, policy, innovation, standards and products domain, and the participation in national and international events (conferences, seminars, forums, summits, etc.).

In semester I 2016 the EU Funds and International Relations Division the cooperation relationship with the following associations was managed:

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

From January to June 2016, the division management through the Division director, the International Relations Director, the EU Funds Director and the heads of the Division departments participated in meetings with different external partners, European organisations in the domain, and to international and national events in the gas sector, with an important impact on the activity 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 participation, as speaker, of the EU Funds and International Relations Division Director in internal and external conferences contributed to promoting the visibility and image of our Company at the regional level. Some of the relevant events in this regard are as follows:

- Energy Future Week 2016 - International Conference 2016 GasReg21 - Poznan, Poland;
- ZF Power Summit 2016, organized by Ziarul Financiar, in Bucharest;
- Business Meetings, Pipelines / Cross-border interconnections / Gas Infrastructure Modernization, organized by Business France Romania, in Bucharest;
- Energy Strategy Summit, organized by Energynomics.ro under the patronage of the Romanian Government, ANRM and ANRE, in Bucharest;
- The challenges of the energy industry, organized by News.ro. in Bucharest.

3.1.12. Other aspects related to the company's activity

The list of all entities Transgaz holds shares in

- **NABUCCO GAS PIPELINE INTERNATIONAL GmbH**, based in Vienna, company in which Transgaz owns equity interests of 17.93% of the share capital and whose object of activity is the development of Nabucco project.

The lack of perspective of Nabucco project in the context of failure to be selected by Shah Deniz Consortium and the uncertainty of commissioning new gas fields in the predictable future in the Caspian Sea and Middle East determined Nabucco shareholders to make the decision of liquidating the project company and the National Nabucco Companies (NNCs), voluntary liquidation controlled by NIC shareholders through a liquidator;

- **SC MEBIS SA Bistrița**, based in Bistrița, (J06/150/1991) in which Transgaz owns a 17.47% stake, whose object of activity is the development of metal structures and complex welded assemblies, assemblies and hydraulic products. The company is under liquidation proceedings, reason due to which SC MEBIS SA share was entirely provisioned. Transgaz has no obligations towards 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 has entered the liquidation procedure in 2006; the procedure is performed by a court enforcement officer appointed by the court of law and cannot be controlled by Transgaz, therefore the share is not consolidated and is registered at a cost less the provision for impairment set up at 100% of the cost.

The loan granted to SC RESIAL SA is entirely provisioned. The management is not expecting Transgaz to redeem any amount of this share and does not register any residual obligations towards SC RESIAL SA.

Sponsorship activity, financial aids according to the Collective Labour Contract and partnerships concluded in the first semester of 2016

SPONSORSHIPS

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

- a) minimum 40% of the approved amount, in the medical and healthcare field, for equipping, services, actions or other activities connected with this filed including

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

The level of Transgaz' expenses related to sponsorship is regulated in the REB for 2016, approved by Resolution no. 1/21.03.2016 of the Ordinary General Meeting of the Shareholders as follows:

Tag no.	SPONSORSHIP CATEGORIES	BUDGETED AMOUNT FOR 2016	BUDGETED AMOUNT FOR SEM. I 2016	GRANTED AMOUNT FOR SEM.I 2016	REMAINING AMOUNT
0	1	2	3	4	5=4-3
1.	MEDICAL AND HEALTHCARE FIELD	1.200.000	700.000	175.000	525.000
2.	EDUCATION, SOCIAL, SPORTS FIELD	1.600.000	900.000	385.000	515.000
3.	OTHER EXPENSES RELATED TO SPONSORSHIPS	200.000	95.000	29.000	66.000
TOTAL SPONSORSHIP EXPENSES		3.000.000	1.695.000	589.000	1.106.000

Table 29- Situation of the sponsorships budget for 2016 and of the budgeted/granted amounts until 30.06.2016

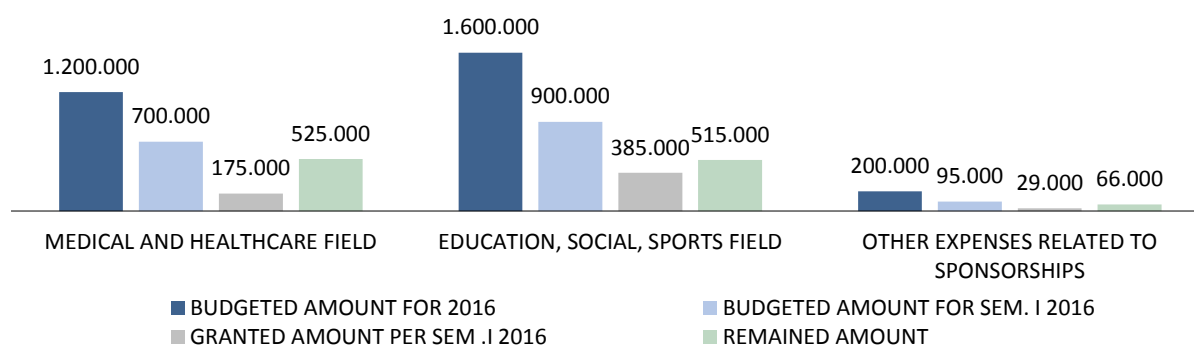


Chart 40- Situation of the sponsorship budget related to 2016 and of the budgeted/granted amounts until 30.06.2016

Tag no.	SPONSORSHIP CATEGORIES	BUDGET		BUDGET Sem. I		GRANTED Sem. I		REMAINING AMOUNT	
		2016	2015	2016	2015	2016	2015	2016	2015
0	1	2	3	4	5	6	7	8=2-6	9=3-7
1.	MEDICAL AND HEALTHCARE FIELD	1.200.000	920.000	700.000	447.000	175.000	80.000	525.000	840.000
2.	EDUCATION, SOCIAL, SPORTS FIELD, of which:	1.600.000	1.181.000	900.000	618.000	385.000	334.500	515.000	846.500
3.	OTHER EXPENSES RELATED TO SPONSORSHIPS	200.000	190.000	95.000	95.000	29.000	57.600	66.000	132.400
TOTAL SPONSORSHIP EXPENSES		3.000.000	2.291.000	1.695.000	1.160.000	589.000	472.100	1.106.000	1.818.900

In the **first semester** of 2016, sponsorships were granted in the **medical and healthcare field** – in the amount of **RON 175.000**, in the **education, social and sports field** – in the amount of **RON 385.000**, and in the **field of other expenses related to sponsorships** we would like to mention that sponsorships were granted in the amount of **RON 29.000**.

Beneficiaries of the sponsorships in the **MEDICAL AND HEALTHCARE FIELD:**

~RON~

Tag no.	BENEFICIARY	APPROVED AMOUNT SEMESTER I 2016
0	1	2
1.	THE COUNTY EMERGENCY CLINICAL HOSPITAL BRAȘOV. THE COUNTY OF BRAȘOV	15.000
2.	THE FOUNDATION "HOPE FOR ROMANIAN CHILDREN" BUCHAREST	160.000
TOTAL GRANTED SPONSORSHIPS		175.000

Beneficiaries of the sponsorships in the **EDUCATION, SOCIAL AND SPORTS FIELD:**

~RON~

Tag no.	BENEFICIARY	APPROVED AMOUNT SEMESTER I 2016
0	1	2
1.	SPORTS CLUB "RING BOX" TÂRGU MUREȘ, THE COUNTY OF MUREȘ	2.500
2.	THE "ZVORUL TĂMĂDUIRII" PARISH MAVROGHENI, BUCHAREST	15.000
3.	THE GREEK - CATHOLIC PARISH OF BLĂJEL, THE COUNTY OF SIBIU	5.000
4.	THE "PINOCHIO" ASSOCIATION ORADEA, THE COUNTY OF BIHOR	8.000
5.	THE SPORTS ASSOCIATION "ACADEMIA DE FOTBAL STARS BRĂILA", THE COUNTY OF BRĂILA	50.000
6.	THE SPORTS CLUB "GAZ METAN" MEDIAȘ, THE COUNTY OF SIBIU	300.000
7.	THE PUBLISHER OF THE ROAMANIAN ACADEMY, BUCHAREST	4.500
TOTAL GRANTED SPONSORSHIPS		385.000

Beneficiaries of the sponsorships in the **OTHER SPONSORSHIP EXPENSES FIELD:**

~RON~

Tag no.	BENEFICIARY	APPROVED AMOUNT SEMESTER I 2016
0	1	2
1.	ROMANIAN ASSOCIATION OF THE BLIND - BACĂU SUBSIDIARY	4.000
2.	THE FIRST ROMANIAN SCHOOL, THE COUNTY OF BRAȘOV	10.000
3.	THE FEDERATION OF TRADE UNIONS IN THE GAS SECTOR IN ROMANIA, BUCHAREST	15.000
TOTAL GRANTED SPONSORSHIPS		29.000

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

- the internal document entitled **The Company's Policy for Granting Sponsorships and Financial Aid in 2016** was drafted, a document which provides an effective framework for monitoring their progress and implementation in accordance with the legal and tax regulations in force;
- in December 2014 the **activity process procedure PP-51** on the preparation of the sponsorship documents was updated;
- by Decision No. 258/20.04.2015 of the Director General, the **Commission for the review of the applications for sponsorship** was set up.

FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

At the level of **TRANSGAZ** financial aids are granted to employees based on the **process application procedure PP-52** implemented by the **Public Relations Department** where social (financial) grants applications received from employees are processed (in accordance with the provisions of the Collective Labour contract in force) and endorses them for approval to the Board of Administration.

In **Semester I** of 2016, 18 requests for financial aid were processed and will be submitted to the Board of Administration for approval.

Partnerships contracts

The activity related to the partnership contracts for Transgaz participation and support to cultural events, conferences with subjects related to the field of activity of the company, to social responsibility related actions concluded during 2016 is as follows:

Tag no.	Fields	Value of the partnership (RON)	Beneficiary
0	1	2	3
1.	CULTURAL	0	0
2.	CONFERENCES IN THE FIELD OF ACTIVITY OF THE COMPANY	10.826,84	The Ministry of Foreign Affairs and the Cultural Foundation Yehudi Menuhin
		7.659,93	SC Diplomat Media Events
		11.259,75	The Association Romanian National Committee of The World Energy Council
3.	SOCIAL	0	0
TOTAL VALUE OF THE PARTNERSHIPS		29.782,52	0

Partnerships	January	February	March	April	May	June
Number of contracts	2	0	0	0	1	0
Value (RON)	18.487	0	0	0	11.260	0

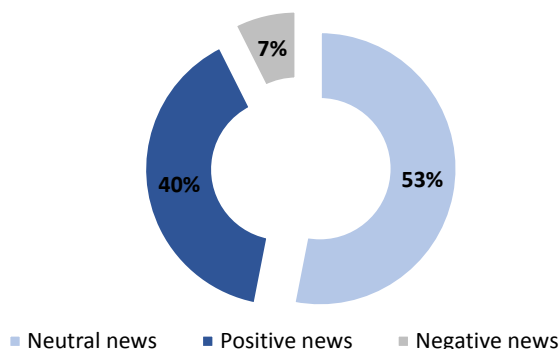
Tag no.	Category	Completed Sem. I	
		2016	2015
1.	Partnerships	3	4

Computer graphics monitoring of the news related to Transgaz' activity in semester I 2016

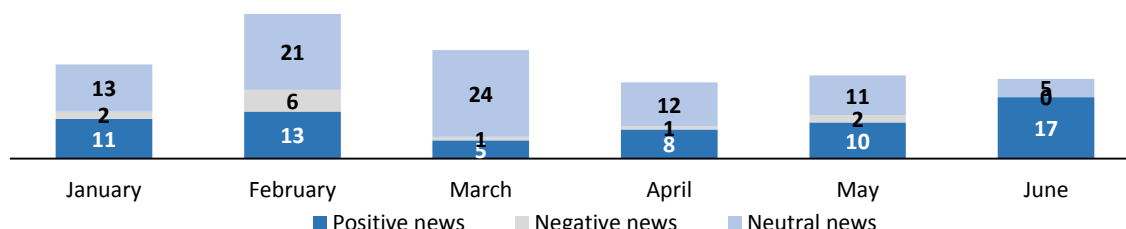
Subsequent to the monitoring of the news related to Transgaz' activity which were broadcast in the media in the first semester of 2016 versus the first semester of 2015, we mention that they summed up 162 of which:

Tag no.	News category	Semester I		Percentage	
		2016	2015	2016	2015
1.	Neutral news	86	25	53%	37%
2.	Positive news	64	20	40%	30%
3.	Negative news	12	22	7%	33%
	Total news	162	67	100%	100%

The share of news related to Transgaz' activity in Sem. I 2016

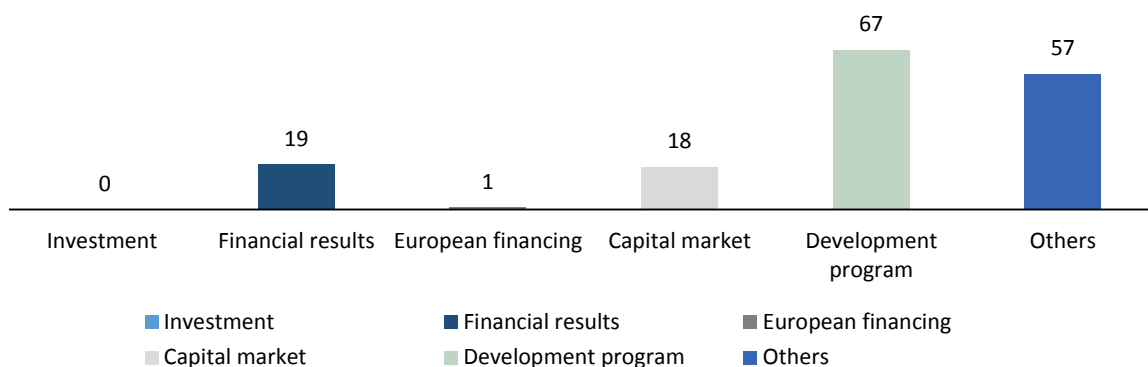


The distribution per months in the first semester of 2016 of the positive, neutral, negative broadcast references:



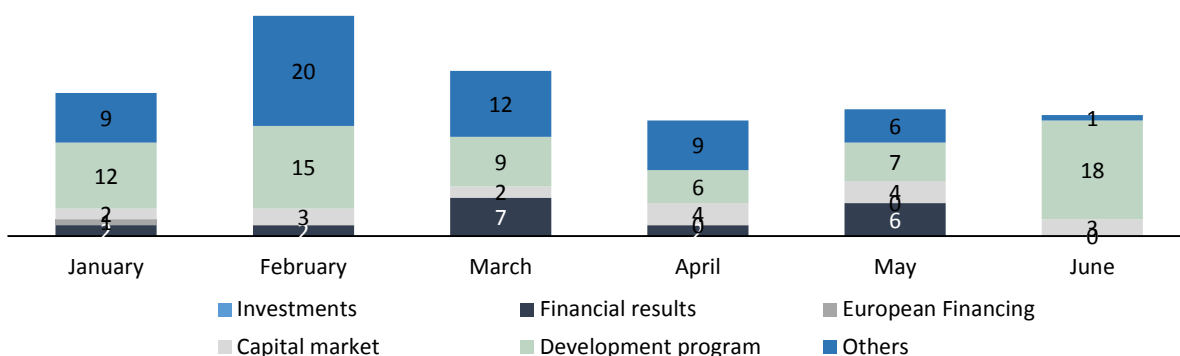
The total distribution per semester I of 2016 of the references broadcast according to the approached theme: investment, financial result, European financing, capital market, development program is presented as follows:

Monitoring news according to the approached theme on 30.06.2016



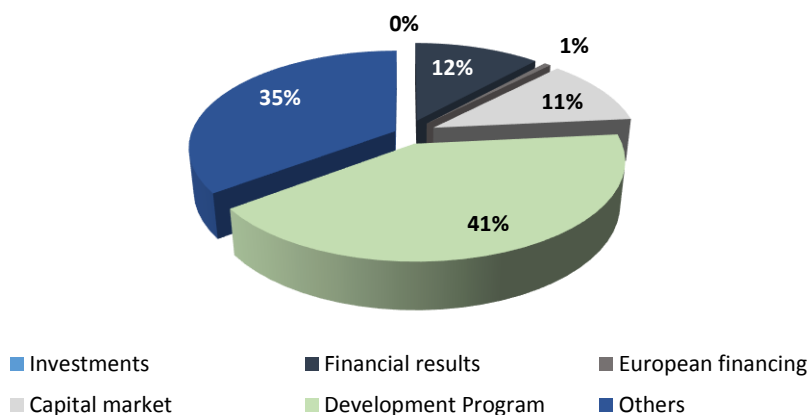
The distribution per months in the first semester of 2016 of the references broadcast according to the approached theme is as follows:

Monitoring the news according to the approached theme distributed per months



The share of the references broadcast in the first semester of 2016 according to the approached theme:

Monitoring the news according to the approached theme



Review of Transgaz' Rating

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

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

At the same time, the rating agency has admitted the progresses made in the activity of regulatory authority and in stabilizing the regulatory framework.

Among the positive items mentioned in Standard&Poor's analysis are:

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

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

The report also provides that a two stages increase of Romania's rating may determine an improvement of the company's rating if both the company's crediting profile and the governmental support remain unchanged.

3.1.13 Procurement and disposal of assets

Except for the procurement of assets necessary to carry out and develop the activity, as well as of the assets taken out of service under the law, the Company recorded no other similar operations in semester I of 2016.

3.1.14 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 establishment of the Internal Audit Office. The first Internal Audit Plan was implemented in 2008. Since then, annual audit plans are developed for each financial year.

In addition to the annual plans, the internal audit structure develops multiannual plans, for 3 calendar years, according to Law no.672/2002, art.13.let.b. The analysis of the risks

related to the entity's activities is carried out at the end of each calendar year by the internal audit structure, as provided by Law no.672/2002, Article 16, paragraph 1.

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

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 June 30th, 2016 are as follows:

Name of NTS objective/component	U.M.	
Transmission pipelines and connections of gas supply, of which transit pipelines	km	13.299 553
Metering regulating stations (MRS) in operation	pc	1.126 (1.238 metering directions)
Valve control stations (VCS, NT)	pc	59
Import gas measuring stations (GMS)	pc	6
Metering stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	4
Cathode protection stations (CPS)	pc	1040
Gas odorization stations (GOS)	pc	847

Table 30 - Main components of the NTS on June 30th, 2016

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

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

The operation of the NTS is done via 9 regional transmission operations, in turn composed of 44 sectors. From the technological point of view the NTS consists of 9 sub-regional transmission systems for natural gas.

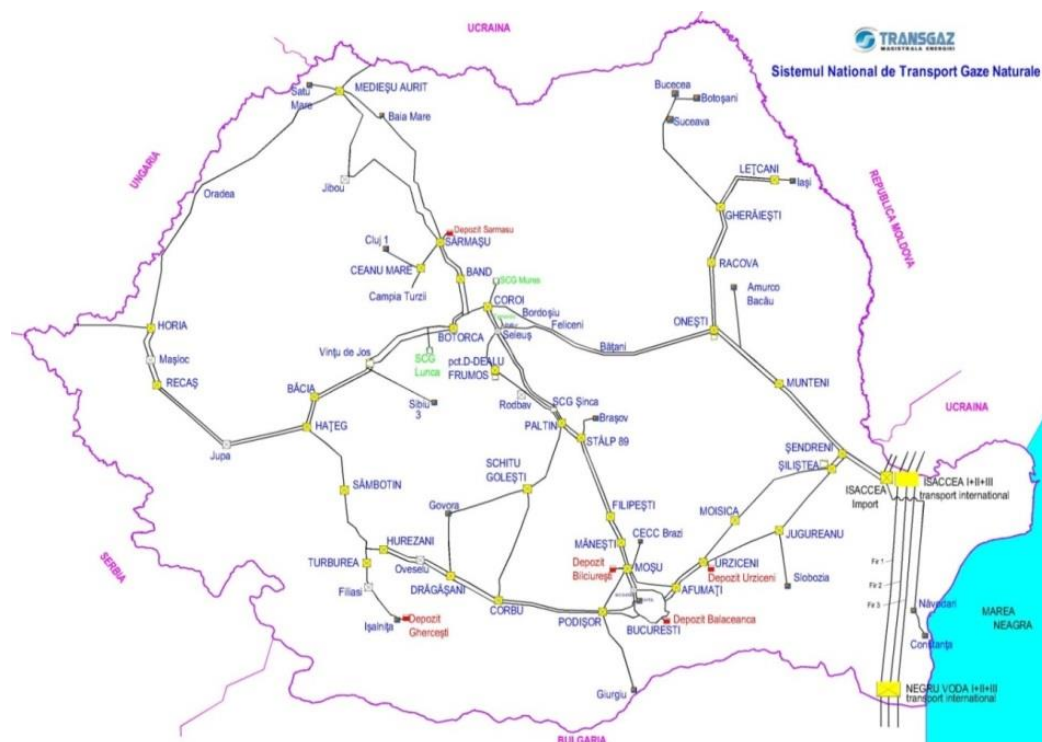


Fig. 2 - Map of the Natural Gas Transmission System

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 shown 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	1.469	827	539
< 10 years	1.089	323	370
TOTAL	11.502	1.797	1.126 MRSs (1.238 metering directions)
	13.299		

Table 31–Main components of the NTS on 30.06.2016, in terms of service life

To be noted that in terms of natural gas transmission pipelines out of the **13.299 km** in operation, about **72%** have an effective service life higher than 20 years, close to their normal service life.

The diagnostics performed, in which the intelligent PIG for about **2.311 km** (3.340 km taking into account multiple inspections) reveal high enough levels of tubular material defects, mainly because of the extensive pipeline operation duration together with the technical condition of the active insulation, achieved 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 1.040 pipe cathode protection stations.

Approximately 96,1% of the pipelines and fittings that are in use have cathode protection. Subsequent to the potential intensive metering performed in 2015 (241 km pipelines) in the first semester of 2016 intensive metering were performed for 60, 5 km of pipelines.

The *handing over of the gas* to the distributors and end users is achieved by the **1.238** MRSs (metering directions) that are included in the upgrading/rehabilitation programs to be integrated into a SCADA automatic control and monitoring system. Of the 1.238 MRSs (consumption directions) in operation in the first stage, a total of **948** are considered for the implementation of the SCADA system.

The *compression capacity* is ensured by **4** gas compressor stations, placed on the main transmission directions. During the 1st semester of 2016 the upgrading works related to the gas and flame detection monitoring systems and fire extinction executed at the Silistea and Onesti TCS were completed.

Regarding the stations Vințu and Siliștea they are equipped with equipment and installations made in the 70s, which are obsolete and strategies of modernization/rehabilitation should be considered.

At the same time rehabilitation works – technical revisions scheduled at the compressor units and repairs of the subassemblies by means of third parties were carried out. Checks and calibrations to automation systems at all compression stations were performed

Gas dispatching in the NTS is performed by manoeuvres carried out in the interconnection hubs of the main pipelines. Most hubs are equipped mainly with manually operated manoeuvre valves and equipment for tracking parameters, most of which are out-dated in terms of performance and operation safety. From the existing technological hubs about 20% are new or rehabilitated. During the implementation of the SCADA system, the process of modernizing the technological hubs will continue.

Gas odorization is ensured by 847 odorization installations of which 542 systems are new, by sampling and by injection ensuring an optimal odorization of the transmitted gas. Of the 542 modern systems, a total of 30 are centralized - serving several delivery points. The other 305 "evaporation/drip" type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or over odorization and thus to an increased consumption of the odorant. Out of these 14 facilities are centralized.

It should be stressed however that although the infrastructure is quite out-dated, the technical condition of the NTS is maintained at an appropriate level due to the fact that the operation is carried out based on a predominantly preventive planned and corrective maintenance system and based on some upgrading programs.

These programs are based on the Technical Rules on the maintenance of the NTS as they are carried out on a longer period of time due to their high levels.

Cross-border interconnection points

Currently, the import of natural gas in Romania is achieved by 3 cross-border interconnection points:

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

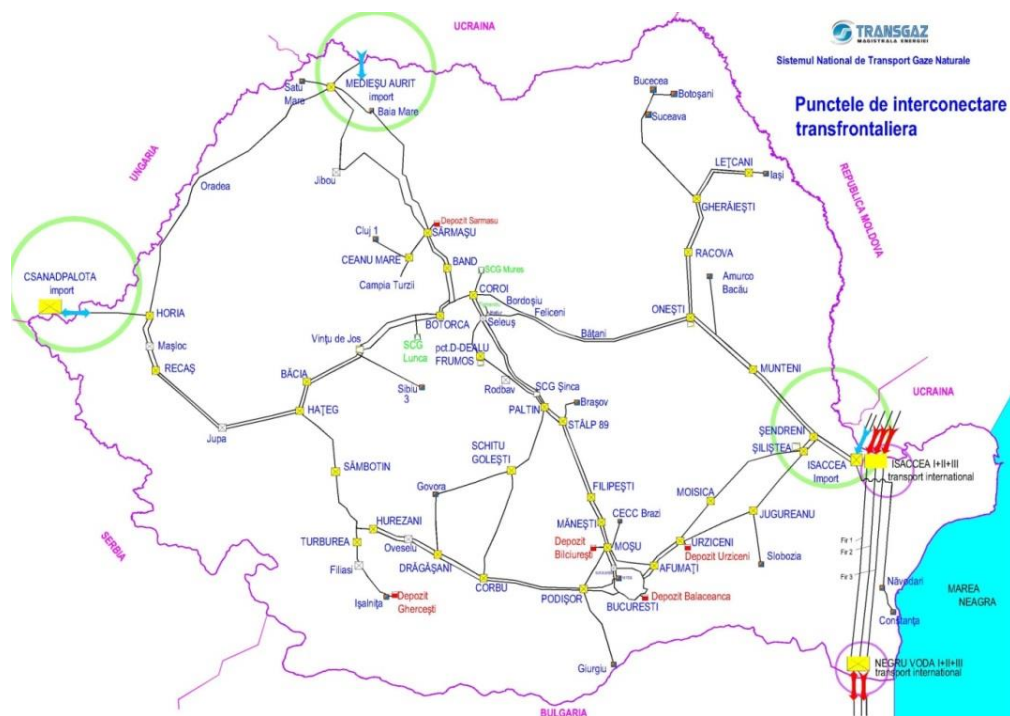


Fig. 3 – Cross-border interconnection points of the NTS

3.2.2. Investments made in the 1st semester of 2016 versus Investments scheduled in 2016

Compared to the estimated value of the Programme for the Upgrading and Development of Investments for 2016 of RON 721.902 thousand, the total value of the achievements related to the first semester of 2016 is RON 37.340 thousand, which indicates a fulfilment of the program at a rate of 5,17 %.

The status of the achievements related to the ongoing objectives of the upgrading and development program at the end of the 1st semester of 2016 is as follows:

Modernization of fixed gas and flame detection monitoring systems and fire extinction systems at TCS Siliștea and TCS Onesti

Works are completed and accepted.

Modernization and automation of technological hubs

The state of play of the 19 technological hubs included in the upgrading and development investment program, of which the HT Moisica both technological installation upgrading works and electrical automation and supervision objective is as follows:

- 5 technological hubs were completed (Gherăești, Schitu Golesti, Korea, Dealu Frumos and technological facilities in Moisica);
- 5 technological hubs are being executed (Mănești Jugureanu and the electrical actuation, automation and surveillance of the objective at Moșu, Ceanu Mare and Sâmbotin);
- 2 technological hubs are suspended due to the lack of building permit or the situation of the field (Racova and Filipești);
- 4 technological hubs are under the procurement procedure for the execution of the electrical automation and surveillance installation related to the objective (Băcia, Recaș, Drăgășani and Moisica);
- 4 technological hubs are being designed (Corbu, Botorca, Hațeg and Bogata 3). At the TH Hațeg there are problems in setting the location.

Enclosing SCADA valves and the technological hubs

Of the 6 enclosures of SCADA valves, the works are accepted at 4 enclosures (Lemniu, CATC, Pogăceaua and Cornești) and two enclosures (Lutita and Sarmisegetuza) are being designed. Of the five enclosures related to the technological hubs four enclosures are completed and accepted (Wallachian, Drăgășani, Lăzărești and Isaccea) and the enclosure in Feliceni is under the procurement procedure.

Licenses for taking over the entry/exit signals in the SCADA-TRANSGAZ System

The substantiation note was sent to DAPC and the technical specifications for the procurement of the licenses as well (36.000 Euro). The procurement of the telephone services has not been initiated yet.

Passing a number of metering lines from the technological hubs to be included in the SCADA project, from the unidirectional metering to the bidirectional metering

Of the total 76 metering lines 38 lines were accepted, the rest are being finalized and accepted.

The gas transmission pipeline Ø 24" Coroi - Paltin, tr. Seleuș - Bărcuț, Retiș area

The contracted construction works are 90% complete, coupling and commissioning are still to be executed.

The gas transmission pipeline Ø 12" Turburea - Aninoasa

The planned execution works were completed and accepted in 2015 by the Medias subsidiary.

Deviation of the Ø12" Moinești - Dărmănești pipeline, Dărmăneasca area

Because of the problems with landowners, letters were drafted to the Bacau Prefecture and the city hall of Dărmăneasca in which their support was requested to facilitate the access to of the constructor to the lands. Following the negative response received from them, it was decided to move the coupling of the pipe 200 m downstream from the problem area. Also a letter will sent to the Prefecture of Bacau, in which they will be advised that they bear the entire responsibility for any events that may cause material damage and human failure due to the failure to comply with the technical documentation and with the building permit.

The gas transmission pipeline Ø32" Crevedia – Podișor

The works refer to the reunification of the pipeline in the area of the owner Apostolache on a length of approx. 300 m. Currently, the tubular material was stocked, and the works are to be executed by the Medias subsidiary. The litigation with the land owner is ongoing, with the hearing on 26.09.2016.

Argeșel river crossing by pipeline Ø20" Schitu Golești - Slătioarele, in the Pișcani area

The contracted execution works are completed and then the works will be accepted.

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

It was decided to continue the works according to the minutes concluded on the occasion of the visit in the field.

The gas transmission pipeline Ø10" Câmpulung Moldovenesc – Vatra Dornei

The work is contracted from 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 (Campulung - Pojorâta section) of which 8.2 kilometres were executed. Because the leader of INSCOMP Suceava association became insolvent, the contract is being terminated, following that for the difference of 1km a new project to be drawn up that will be subject to a new procurement procedure. Also, for the 25.8 kilometres of pipeline crossing the forest fund, the project will be updated and will undergo a new procurement procedure.

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

The work is currently stopped because the ROMSILVA approval was not obtained for crossing the wooded areas with a length of 1,700 m.

The gas transmission pipeline Ø28" Gănești – Idrifaia – Coroi

The work is ongoing, the total of 21 km of pipeline, 9 km are mounted and plugged.

The gas transmission pipeline Ø16" Vaslui - Lețcani (Mogoșești – Lețcani)

The execution works are ongoing, but delayed due to the fault of the contractor, penalties being charged. The ordered curves were transported to the site so that all sections can be reunited and the other operations performed prior to completing the assembly works.

Connection pipeline MRS Sebeș

The execution works are 90% completed, the acceptance of the works is estimated at the end of July.

Preparation of the pipeline Ø28" Seleuș - Cristur - Bățani for pigging

The contracted execution works were completed and accepted.

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

The execution works are ongoing, the problems with the owner of land were solved, and according to the schedule drawn up by CONDMAG Brasov until 15.08. 2016 the acceptance of the executed works will be performed.

Technical solution to avoid exceeding the pressure of 6 bars in the pipe Ø 20 " Connection MRS FORTUS Iași

The execution works were completed and accepted.

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

This pipe section is located so as to continue the pipeline executed on the Negru Voda - Pecineaga - Mangalia direction. The technical design is finalized and submitted to OCPI Constanta, following that after consulting their removal from the agricultural circuit, all documentation to be submitted for issuing the Construction Permit.

The gas transmission pipeline Ø24" Mașloc - Recaș

The construction works on the 6 km long section of the forest have not been contracted, because the ROMSILVA approval to cross the area of the forest fund was not obtained, the approval was necessary to issue the Construction Permit.

Gas supply to the localities in the northern area of the county of Prahova (Ø 10" Buda - Slănic Prahova pipeline)

The technical documentation is being prepared. A deadline for the submission of the technical design cannot be estimated as the approvals of the land owners are necessary.

The gas transmission pipeline Ø12" Mintia - Brad - Ștei

Currently the technical documentation is being prepared.

Pig receipt station mounting (temporary) DN 800 mm on the pipeline Ø 32" Bățani - Onești, Bogdănești area

Currently the technical documentation is being prepared.

The gas transmission pipeline Ø20" Plătărești - Bălăceanca

The procurement procedure is ongoing.

Mureș river undercrossing by the Ø20" pipeline Fântânele - Arad, Fântânele area

The procurement procedure is ongoing, the execution and the completion of the planned works are estimated to be achieved this year.

Pipeline securing works related to the pipelines Ø28" Platou Izvor Sinaia - Filipești, Talea - Breaza area

The site was delivered to the constructor IMI Baia Mare and the Order to Start the works will be issued only after solving the problems with the owner who does not allow access to the land.

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

The technical design is being updated.

The connection pipeline Ø 10" MRS Luduș

The site of the works was delivered and the execution of the connection will be initiated after harvesting according to the requests of the land owners.

The works related to securing the gas supply connection of the MRS Răcăciuni, tourist sector Dumbrava

Currently the technical documentation is being prepared and endorsed.

The works related to securing the gas supply connection to the MRS Brăila, Agricultural farm area

Currently the technical documentation is being prepared and endorsed.

The gas transmission pipeline Ø28" Moșu - Buciumeni

The technical documentation is currently being prepared. The building permit in the county of Dambovita (based on notifications sent to the owners) was obtained but to obtain the Construction Permit for Ilfov County, the City Hall of Buftea (Mayor Gh. Pistol) requested the approval of the owners in the notarized form, as they disagree with the text of the law based on which the Construction Permit is issued based on the notifications to owners without prior formality.

The connection pipeline Ø 28" SRM SIDEX Galați

The procurement procedure is under development but at the same time the existing approvals must be updated and a new Building Permit must be issued.

The pipeline bridging the gas distribution system in the city of Craiova

Currently the technical documentation is being prepared

The works related to securing the gas supply connection to the Ø 10" MRS Breaza

The procurement procedure is ongoing and the execution and completion of the planned works is estimated to be finalized this year.

The gas transmission pipeline Ø12" Tr. Măgurele - Corabia

This objective was completed in 2015, this year accounting expenses recorded the value of the materials used in the works performed by the Medias subsidiary subsequently sent for the acceptance of the works and which increase the value of the asset.

The works related to securing the gas transmission pipeline DN 700, Platou Izvor Sinaia - Filipești, Talea - Breaza area (ph.I)

This objective was completed in 2015, this year accounting expenses recorded the value of the materials used in the works performed by the Medias subsidiary subsequently sent for the acceptance of the works and which increase the value of the asset.

Upgrading the gas supply to the city of Ploiești

This objective is newly introduced in the program, motivated by the increased gas consumption and the accentuated drop of pressure in the cold season, and because the Ploiesti area is extremely crowded with high real estate demands and due to the damage suffered by the natural gas transmission pipelines due to floods occurred in recent years on the Prahova River. For safe operation of the NTS objectives it is necessary to rationalize gas supply to the city of Ploiesti and to the neighbouring localities. Currently the procurement procedure is ongoing.

The works related to securing the gas transmission pipeline Ø20" Schitu Golești - Govora, Budești area, the county of Vâlcea

This objective is newly introduced in the program, the technical design provides the execution of works related to securing the pipeline affected by the increase of the flow of the Valea lui Durlei river as a result of the abundant rains. Currently the procurement procedure is ongoing.

The interconnection pipeline Giurgiu - Ruse

The execution works are ongoing.

Above-ground construction and installation works related to the Gas Metering Regulating Stations (GMRS)

- GMRS Işalnița – procurement procedure in progress;
- GMRS Craiova Est – engineering design in progress;
- GMRS Fântânele (Mureş) – the works are suspended until the agreement with the distribution operator on the coupling point;
- GMRS Sângeorgiu de Mureş – procurement procedure in progress;
- GMRS Lot 3 – MRSs procurement procedure in progress.
- Upgrading GMRS Drăgăneşti Olt, Jud. Olt – engineering design in progress;
- Replacement of the technological installations at GMRS Timișoara I – procurement procedure in progress;
- Upgrading GMRS IZVIN – engineering design in progress;
- Upgrading GMRS Chişineu Cris – engineering design in progress;
- Relocation, resizing and adapting the ground of the technological installation at GMRS Cărmăda Tg. Mureş at GMRS Cristeşti – the Works Commencement Order was issued, the works are in progress;
- GMRS Oradea I – contract to be signed;
- Adapting the ground of the GMRS lot 1 and 2 – the works related to adapting the grounds related to GMRS Dej II and Fălticeni are under the procurement procedure stage;
- GMRS Brazi –the works are completed, after obtaining PETROM’s approval the coupling will be executed;
- GMRS Câmpina (Petrutilaj P. Câmpina) – the concluded contract was terminated as a result of the inconsistencies between the design brief and the technical design that will be redrafted;
- GMRS ISCIP Orăştie (ROMOS) – execution in progress;
- Relocation, scaling and adapting to the ground the technological installation from the GMRS SUPERCOM Afumati to GMRS Dragomireşti - this objective is newly introduced in the program, the technical design provides the replacement of the Dragomireşti MRS, due to increased consumption of natural gas in the area, with SRM- Afumaţi SUPERCOM which no longer serves any consumer and which is in a good operating condition. Currently the procurement procedure is ongoing;
- GMRSs Enclosures –these objectives were introduced in the program for the appropriate entry in the accounting records of the fixed assets executed by means of the Regional office of Medias at the MRS Boița and Venturelli.

Cathodic protection stations - CPS

In 2015 the execution works related to CPS Laloş was completed. At CPS Hârleşti Connection the consent of the land owners was obtained, the building permit obtaining procedure is ongoing. The engineering design for the remaining 5 CPSs is ongoing.

Works related to the information and telecommunications technology

The achievements of the second quarter represent mainly the value of the purchases of software and computing.

Construction works and surface installations for the odorization installations

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

Connections, thermal networks and installations at administrative headquarters and MRSs

The works related to the heating installation of MRS Aghiresu are almost completed and the works for the connection of the headquarters of the Tg Jiu sector to the sewage system are under the procurement procedure, the engineering design for all the other planned objectives are in progress.

Administrative headquarters and production units at the Regional Offices

The works related to the isolation of the TCS Siliștea, the rehabilitation of Transgaz Medias headquarter on G Enescu street and the upgrading of the service apartment in Medias on Feleac Street were completed. At the same time the upgrading of Transgaz' office in Medias Street Carpati 6 and the cleaning of the air conditioning system at Transgaz' headquarters in bd. Primaverii, Bucharest. The engineering design of the rest of the planned objectives is in progress.

Security and surveillance systems

The works related to the installation of the safety systems at GMS Isaccea are in progress.

Works related to the access to the NTS

The works related to the expansion of the MRS Independenta Galati and the execution of the connection to MRSs from Bucovăț and Frumușica were completed and accepted. The connections related to MRS Slobozia II, Stefan Voda, and Turceni, and the works for the expansion of the MRS Borzești are in progress.

We encountered difficulties in achieving some investment goals such as:

- At the **gas transmission pipeline Ø 10 "Campulung Moldovenesc – Vatra Dornei**, continuing the works on the section in the forestry area designed from Pojorâta to Vatra Dornei with a length of 25.8 km, is subject to obtaining ROMSILVA's approval which is necessary to obtain the Construction Permit which to date has not been issued; For the pipeline Campulung - Vatra Dornei, a meeting was organized attended by the President and Vice President of Suceava County Council, the mayors of Suceava and Vatra Dornei, representatives of local administration and of NFA ROMSILVA and on behalf of Transgaz attended by the Chairman of the Board of Administration, directors of departments and divisions and heads of departments involved in the achievement of this investment objective. They discussed the situation and the action plan, the temporary occupation of forest land, to solve the problem, a joint working group was constituted. At the same time the deadlines related to the actions to be undertaken in order to obtain the approval of ROMSILVA.
- At the **gas transmission pipeline Ø16" Vaslui – Iași (Vaslui – Mogoșești section)** – the execution works are suspended because of the problems encountered during the procedure to obtain ROMSILVA's approval for the lands located in the forestry area, this approval is necessary for the issue of the Building permit.

In order to solve the problems encountered during the execution works and the achievement of the scheduled objectives the following actions were taken:

- law suits were opened for the owners who have not given their consent for the access to their land of the constructors. In the cases where no consensus was reached in the legal way, steps were taken to start expropriation procedures;
- in some more difficult areas, in terms of obtaining the consent of the landowners or at the request of the local administrations, it was decided to redesign the pipeline route and the technical solutions to execute the construction;
- for the areas on forested lands for which the approval of ROMSILVA was not obtained, as a result of the amendment of the legislation in the field, the discussions will be resumed to settle the disagreements arisen when crossing these areas.

Most investment objectives for which no achievements were made are in the design or procurement stage.

Also, there are a number of objectives in the design phase for which difficulties are faced in obtaining the consent of the landowners, which is necessary in order to be able to obtain the building permits

3.2.3. NTS strategic development projects

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

The document presents the development directions of the Romanian gas transmission network and the major projects that the company intends to implement in the next 10 years in order to achieve a maximum degree of transparency in the development of the national gas transmission system and the possibility of the actors on the market to be timely informed on the existing and planned transmission capacity so that by public consultations, the decisions on the investments in the gas transmission network to meet the market requirements.

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

- ensuring safety of natural gas supply;
- increasing the interconnection of the national gas transmission network to the European network;
- increasing the flexibility of the national gas transmission network;
- liberalization of the gas market;
- Integrating the gas market at the level of 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 the other operators in the region.

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

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

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

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

The orientation of the gas transmission system operators in the neighbouring countries to create new cross-border transmission capacities or extend 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 NERA 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 discovered 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 transmission corridors in Romania (a **southern-Danubian one**, in a first stage, and a **central one**, in a second stage, 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 Romania's national gas transmission system.

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 taking over 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 taking over the gas from the Black Sea shore.

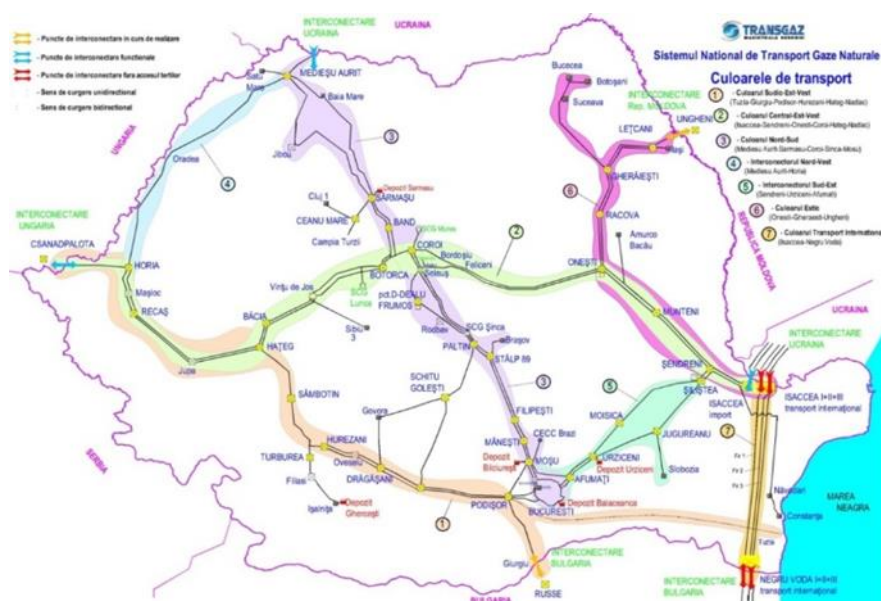


Fig. 4- Gas transmission routes from the NTS

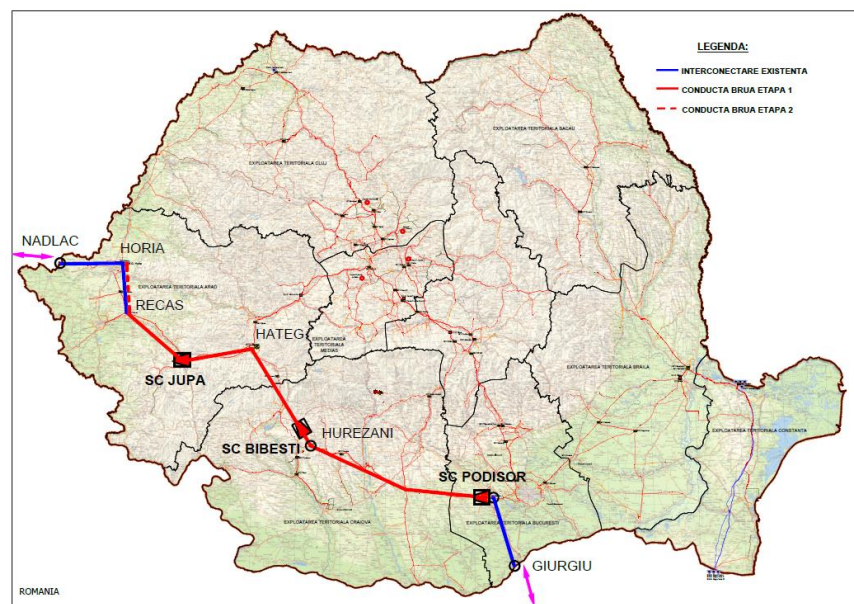
1. Development on the Romanian territory of the national gas transmission system on the Bulgaria - Romania - Hungary - Austria corridor

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

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

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

Transgaz envisages the staged development of the BRHA Project:



Stage I

- Podișor – Recaș 32" x 63 bar gas transmission pipeline, approximate length 478 km;
- Three gas compressor stations (CS Podisor, CS Bibesti, CS Jupa) each station being equipped with two compressor units with the possibility to ensure bidirectional gas flow.

At the end of stage 1 the following capacities will be assured:

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

Stage II

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

- Horia GMS extension.

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

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

Project development updated calendar

Development stages	Status/Estimated completion date
Prefeasibility study	Complete
Feasibility study	Complete
Environmental Impact assessment	Submitted in March 2016
FEED and permitting documentation for the construction permit	August 2016 for the pipeline January 2017 for the compressor stations
Obtaining the construction permit	September 2016 for the pipeline February 2017 for the compressor stations
Final investment decision Stage 1	2016
Construction Stage 1	November 2019
Commissioning Stage 1	December 2019
Start of operation Stage 1	December 2019
Final investment decision Stage 2	2017
Construction Stage 2	2020
Commissioning Stage 2	2020
Start of operation Stage 2	2020

Estimated completion date: 2019 for Stage 1, respectively 2020 for Stage 2 (depending upon the capacity requests)

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

- Stage 1: Euro 478,6 million
- Stage 2: Euro 68,8 million

Inclusion of the Project in international plans

- **PCI Project (the first list):** 7.1.5;
- **PCI Project (the second list) :**
Stage I: 6.24.2
Stage II: 6.24.7

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

Current status

Currently the FEED for the entire pipeline route is drawn up in Transgaz' Research and Design Division. The progress related to the development of the FEED is approximately 85%.

In July 2015 the procurement procedures was initiated for the design services related to the three compressor stations located along the pipeline route (CS Podisor, CS Bibești and CS Jupa). An appeal was submitted during the evaluation procedure, which was accepted by the National Council for Solving Complaints (CNSC). Currently NCSC's decision was appealed to the Court of Appeal. In May 2016 the contract for the design services related to the three compressor stations (CS Podisor, CS Bibești and CS Jupa) was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z o.o.

We would like to mention that a contract for the design of the three compressor stations was signed with the ***Innovation and Networks Executive Agency (INEA)***, in the amount of ***EUR 1,519,342***, representing 50% of the total estimated value of the design of the compressor stations.

The procedure for the assessment of the environmental impact of the BRHA project, is in the stage of development of the Environmental Impact Assessment report which was submitted in March 8, 2016 to the National Agency for Environmental Protection (authority responsible for conducting proceedings and issuing Environment Permits).

The stages completed so far are:

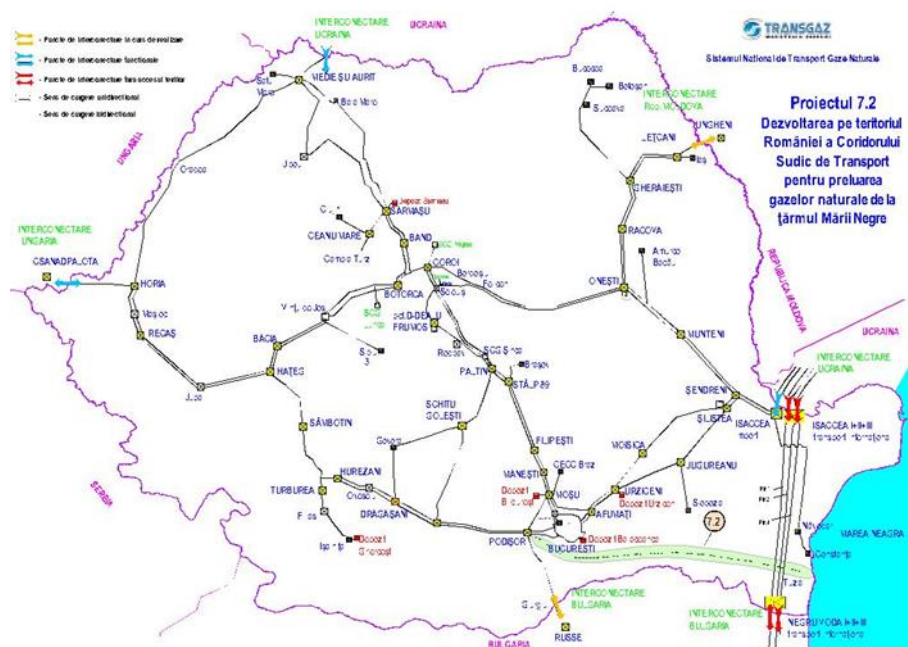
- submission of the notification and its initial evaluation
- Screening stage
- Scoping stage

In order to obtain the grant for the BRHA – Stage 1 project-related works, during 2015 the necessary steps to prepare the application were initiated (filling in forms, cost-benefit analysis based on the data input resulted from the feasibility study, etc.)

The application for funding was submitted on the portal of the Innovation and Networks Executive Agency (INEA) on 12. 10.2015. On 19.01.2016 CEF Committee validated the list of the projects proposed to receive financial assistance (grants) under the CEF. BRHA Project - Phase 1, was proposed to receive a grant worth EUR 179.3 million. At present the procedures to harmonize the contractual elements are in progress in order to sign the financing agreement.

We would like to mention that the BRHA project promoted by Transgaz, was included on the updated list of projects of common interest published on the Commission's website on 18.11.2015.

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



The major goal of this investment is to create a transmission infrastructure connecting the natural gas available at the Black Sea to the corridor BULGARIA - ROMANIA - HUNGARY - AUSTRIA, thus ensuring the possibility of steering gas towards Bulgaria and Hungary through existing interconnectors Giurgiu - Ruse (Bulgaria) and Nădlac - Szeged (Hungary).

Project development updated calendar

Development stages	Status/Estimated completion date
Prefeasibility study	Complete
Feasibility study	Complete
Environmental Impact assessment	December 2016
FEED and permitting documentation for the construction permit	February 2017
Obtaining the construction permit	March 2017
Final investment decision Stage 1	2017
Construction	2020
Commissioning/ Start of operation	2020

Estimated completion date: 2020

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

Estimated value: Euro 278, 3 million.

Inclusion of the Project in international plans

- **PCI Project (second list):** 6.24.8

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

Current status

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

- Identify landowners along the pipeline route;
- Procedure related to authorizing the execution of the construction works by obtaining Town planning Certificates.

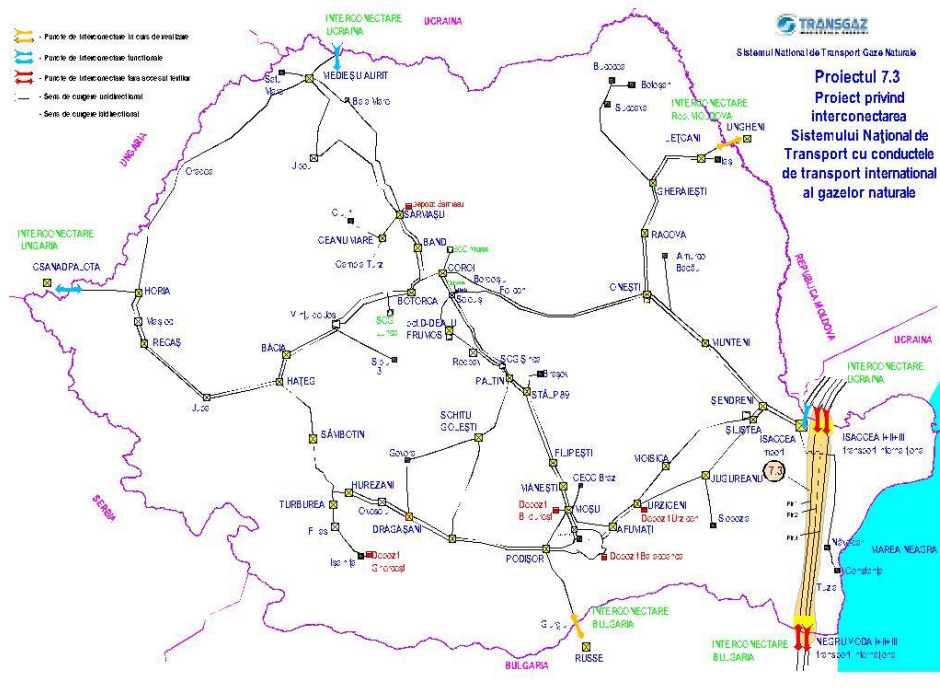
The environmental impact assessment is currently in the stage of submittal of the notification and its initial evaluation.

We would like to mention that the "Development on the Romanian territory of the Southern Corridor for taking over gas from the Black Sea shore" promoted by Transgaz, was included on the updated list of projects of common interest published on the Commission's website on 18.11.2015. The estimated timing of the development of the project will be reviewed based on the new execution schedules related to the development of offshore upstream projects.

3. Project related to the interconnection of the National Transmission System with the international natural gas transmission pipelines

This project is very important because:

- The project implementation leads to the removal of the main reasons that led the European Commission to start the infringement procedures against Romania, both for the breach of Regulation (EC) no. 715/2009 (inter alia by making available to the market the maximum capacity transit pipelines) and for failure to comply with Regulation (EU) no. 994/2010 (failure to ensure permanent bidirectional flow in cross-border interconnection points);
- The transmission contracts related to the total capacity of the international transmission pipeline I and II expires on 30 September 2016 and in order to make available these transmission capacities to the market by creating links between the Transit 1 pipeline and the NTS and the national transmission system to provide the access of several Shippers on the Romanian and regional market;
- The project is necessary in the context of taking over the newly discovered gas in the Black Sea in the Romanian transmission system, in order to make them available on the Romanian and regional markets.



Therefore Transgaz has a particular interest in implementing this project due to the following reason:

- (i) *In order to eliminate the possibility that the Commission imposes pricy financial fines;*
- (ii) *To make available these capacities after the expiry of the take or pay contracts.*

The project was originally designed strictly for emergency situations when the gas flow from Ukraine are significantly reduced or even discontinued. For such situations, the investments foreseen provide the opportunity either to ensure gas flows from the Romanian transmission system towards Bulgaria or in reverse flow.

Considering the regulatory and commercial requirements a different approach to the project is necessary so that, through its implementation, it can ensure bi-directional flows between NTS and the Transit 1 international transmission pipeline under normal operating conditions. In this effect the technical solution was reconsidered. We present below the description of the new technical solution:

Project description:

The projects consists of the following:

- Upgrading and extension of the Siliștea compressor station;
- Upgrading and extension of the Onești compressor station;
- Modifications in the Isaccea metering station;
- Rehabilitation of the pipe sections Cosmești – Onești (66, 2 km) and Siliștea - Șendreni (11, 3 km).

Currently, Transgaz has completed the prefeasibility study and the completion of the execution works is estimated for 2019.

Estimated project development calendar:

Development stages	Status/Estimated completion date
Prefeasibility study	Complete
Feasibility study	June 2017
Environmental Impact assessment	November 2017
FEED and permitting documentation for the construction permit	November 2017
Obtaining the construction permit	December 2017
Final investment decision	2017
Construction	2019
Commissioning/ Start of operation	2019

Completion deadline: 2019

Estimated value of the Investment: EURO 65 million

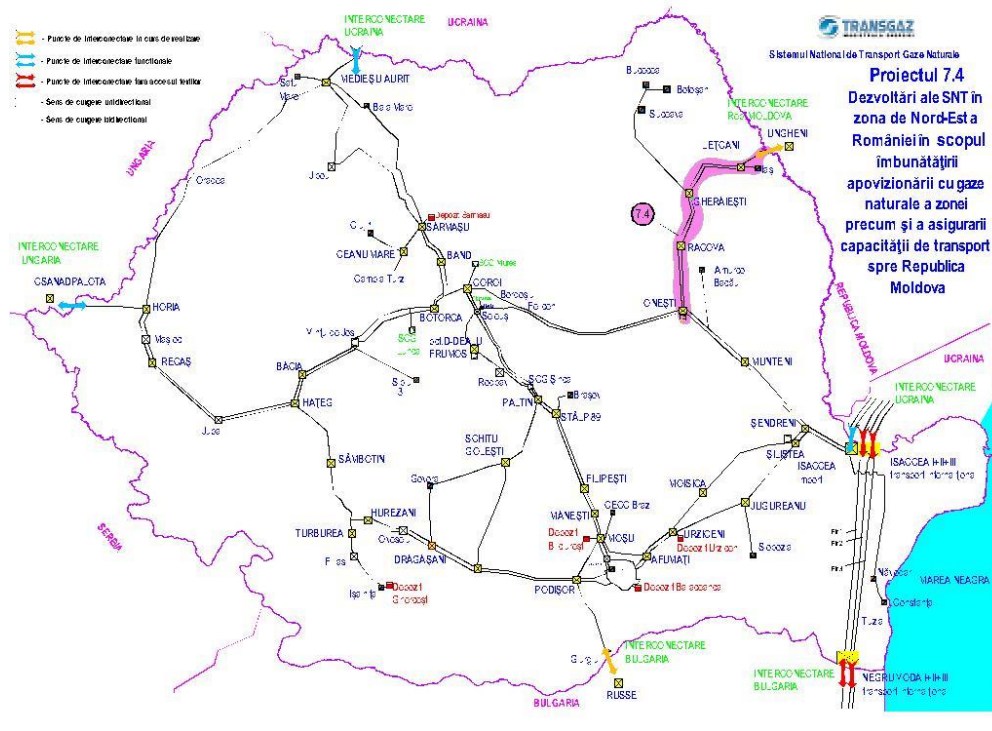
Cost break down:

Upgrading and extension of Siliştea CS	Euro 27,5 million
Upgrading and extension of Oneşti CS	Euro 27,5 million
Developments GMS Isaccea	Euro 1 million
Rehabilitation of pipeline sections	Euro 9 million
TOTAL	Euro 65 million

The project is part of the "*Development on the Romanian territory of the Central Corridor for taking over gas from the Black Sea shore*" and is included in the current list of projects of common interest **at the level of the European under no. PCI 6.15, part of the Priority Corridor NSI EAST.**

Considering the amendments to the technical solution the approval of the European Commission was requested for the update of the technical description of the project.

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



Project Description:

Developments in the Romanian gas transmission system to improve gas supply to the north-eastern region of Romania and increasing the transmission capacity in the perspective offered by the new interconnector between Romania and the Republic of Moldova.

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

- The construction of a new gas transmission pipeline Dn700, Pn 55 bar, in the Onești-Gherăești direction 104 km long;
- The construction of a new gas transmission pipeline Dn700, Pn 55 bar, in the Gherăiești-Lețcani direction 61 km long;
- The construction of a Gas compressor station at Onești with an installed power of 6 MW, with 2 compressors of 3 MW each, one active and one backup;
- The construction of a Gas compressor station at Gherăiești with an installed power of 4 MW, with 2 compressors of 2 MW, each, one active and one backup;

The project development calendar

Development stages	Status/Estimated completion date
Prefeasibility study	Complete
Feasibility study	Complete
Completion of the FEED for the pipelines	August 2016
Completion of the FEED for the compressor stations	May 2017
Obtaining the construction permit for the pipelines	August 2016
Obtaining the construction permit for the compressor stations	May 2017
Construction	2018
Commissioning/ Start of operation	2018

Estimated completion date: 2018

Estimated value: EURO 119,1 million, split as follows:

The gas transmission pipeline Onești-Gherăiești	Euro 60,4 million
The gas transmission pipeline Gherăiești-Lețcani	Euro 31,5 million
Compressor station Onești	Euro 16,2 million
Compressor station Gherăiești	Euro 11 million
TOTAL	Euro 119,1 million

Inclusion of the project in international plans

The projects fulfil the eligibility criteria of the Operational Program Large Infrastructure (POIM) Priority axis (PA) 8- Strategic objective (OS) 8.2, the program developed by the Management Authority within the European Funds Ministry, through this program, PA8 – « Intelligent and sustainable transmission systems for electricity and natural gas » has a financial allocation of approximately EURO 55 million.

Current status

The feasibility status was completed in January 2016. Within the feasibility study the following works were completed:

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

The procedure related to the environmental impact assessment is in the scoping stage.

The stages completed until the present within this procedure:

- Submission of notifications and their initial evaluation
- The scoping stage of the project. In the first decade of the month of March 2016 the meeting of APN Neamt Bacău and Iași was scheduled in order to complete the stage.

Currently, within Transgaz' Research and Design Division **the FEED is being prepared** for the gas transmission pipeline. The registered progress is approximately 65%. As for the design and execution of the Compressor Stations the **Tender Book** is being prepared.

5 Development on the Romanian territory of the Central Corridor for taking over gas from the Black Sea shore

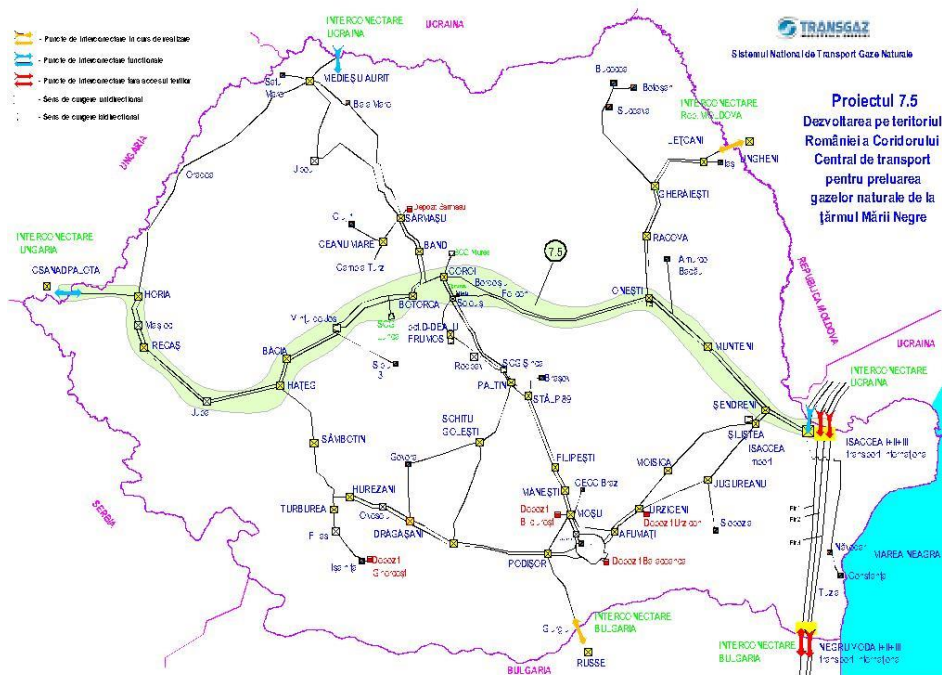
Assuming that the transmission capacity necessary for transmission of natural gas from the Black Sea to the Central-Western European markets outweigh the transmission potential of the Southern Corridor, TRANSGAZ planned the development of the **central corridor** which practically pursues the route of some pipelines in the current system but that currently operates at the technical parameters unsuitable for a trunk line.

Project description:

The development of the gas transmission capacity on the central corridor Isaccea - Șendreni - Onești - Coroi - Hațeg - Nădlac depending on the gas volumes available at the Black Sea shore or from other on-shore perimeters.

The development of this gas transmission corridor implies the following:

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



In order to optimize the implementation process and attracting grants, the **Central Corridor** was divided into three projects, as follows:

1. Interconnection of the national transmission system with the international gas transmission system and ensuring reverse flow at Isaccea

- **PCI Project (second list): 6.15;**
- **Priority corridor: NSI EAST.**

2. Ensuring reverse flow at the interconnection Romania-Hungary

- **PCI Project (second list) : 6.25.3 ;**
- **Priority corridor: NSI EAST.**

Project description

- ✓ New gas transmission pipeline Băcia – Hațeg – Horia approximately 220 km long;
- ✓ Two new gas compressor stations located along the route.

3. Development of the NTS between Onești and Băcia:

- **PCI Project (the second list): 6.25.3;**
- **Priority Corridor: NSI EAST.**

Project description

- ✓ Rehabilitation of some pipeline sections;
- ✓ Replacement of some existing pipelines with new pipelines with higher diameter and operating pressures;
- ✓ One or two new gas compressor stations.

Estimated completion date: 2023

Estimated value: Euro 544 million

Status of the project

Until now the **prefeasibility study was completed.**

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

We would like to mention that the project "Development on the Romanian territory of the Central Corridor for taking over gas from the Black Sea shore" promoted by Transgaz was included on the updated list of projects of common interest published on the Commission's website on 18.11.2015.

Transgaz' ability 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 Mediaş, dynamic company able to align its activity to the requirements of the current internal and international context succeeded in acting on the capital market **during the first six months of 2016 the 6th place in TOP 10 companies listed at the Bucharest Stock Exchange.**

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 and an attractive dividend policy.

For 2015, in the Ordinary Meeting of the Shareholders dated 29.04.2016 a gross dividend per share amounting to RON 27.61 was approved, applying the rate of 65.01977% of the accounting profit remaining after deduction of income tax, according to GD no. 64/2001 regarding profit distribution to national companies, national companies and companies owned or majority state owned, and the autonomous administrations, as subsequently amended and supplemented and the proposal of the main shareholder the Romanian State represented by the Ministry of Economy, Trade and Relations with the Business Environment.

TGN Share

In the first 6 months of 2016 the TGN share followed an **upward trend** with slight oscillations. Thus, on January 18, 2016 its closing price recorded its minimum for the period, reaching a value of 245 RON/ share. Later, in February-April the TGN share had a slightly upward trend, with higher values in April, due to the publication MECRMA proposal to increase the value for shareholders dividend for the financial year 2015. In June 2016 the TGN share recorded a maximum for the period on 17.06.2016, RON 293

/share due to the dividend payment record date, following that, on 21.06.2016, ex-dividend date, the TGN share recorded the value of RON 267/ share with a decrease of 8.87% as compared with the previous day. The Great Britain's Brexit out of the European Union on 24.06.2016 had a negative impact on the Bucharest Stock Exchange as well, the TGN share registering a decrease of 2.27% as compared to the previous day reaching a value of RON 258/share.

During the 1st semester of 2016 the **closing price of the TGN share** evolved under the level of the closing price of the 1st semester of 2015, except for June when its value increased by approximately 5% compared with the same month of the previous year, in the context of the international events causing decreases of all stock exchanges in June.

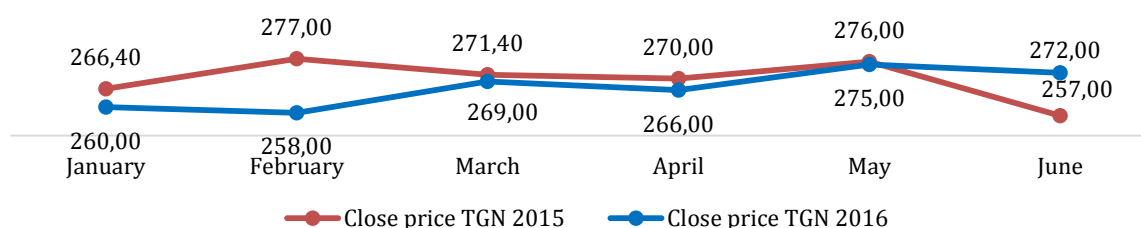


Chart 41 – Average closing price of the TGN share in the 1st sem. of 2016 vs. 1st sem. of 2015

Traded volumes and the values of the transactions recorded in the period ended 30 June 2016 increases primarily due to the high value of the dividend paid to shareholders for the financial year 2015. Compared to the first semester of 2015 the traded volumes and the values of the transactions in the period ended 30 June 2016 recorded higher values, with the exception of March when trading volumes decreased by approximately 19% and the transaction values by approximately 21%.

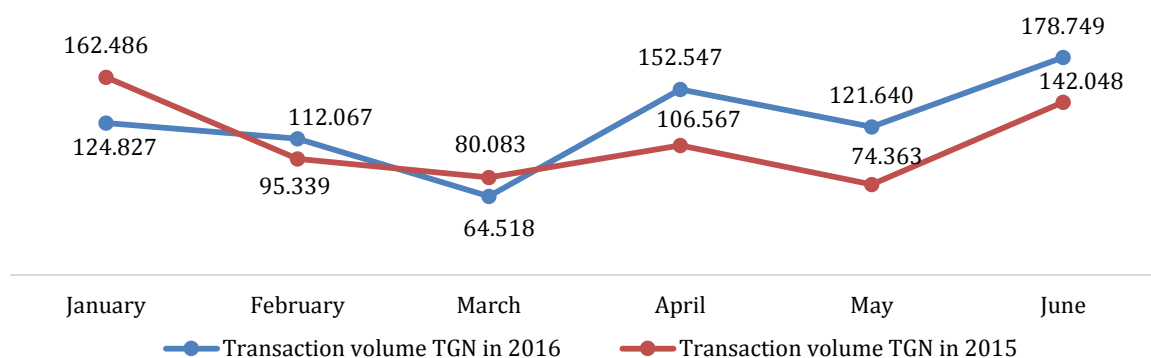


Chart 42 – Volume of TGN transactions the 1st sem. of 2016 vs. 1st sem. of 2015

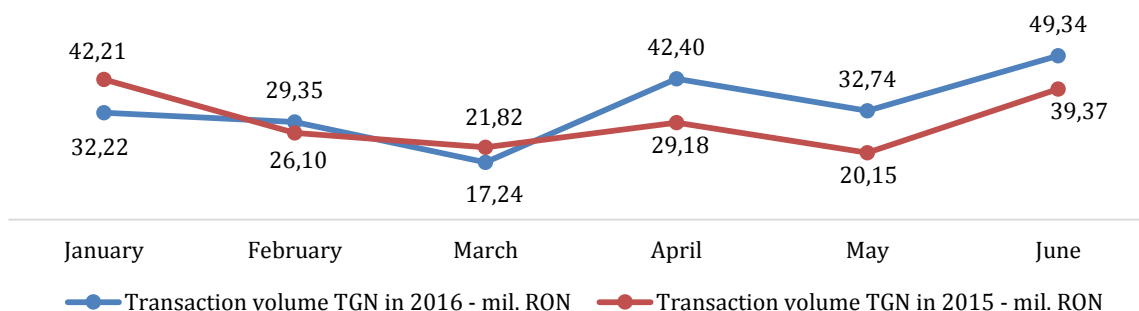


Chart 43 - Value of TGN transactions in the 1st sem. of 2016 vs. 1st sem. of 2015

Stock indicators: P/BV, EPS, PER, DIVY

Date	P/BV	PER*	DIVY	EPS*
30.06.2016	0,90	6,55	10,15	41,51
30.06.2015	0,91	6,02	8,48	42,68

* values reported at December 31st 2015, respectively December 31st 2014

Where:

P/BV - (Price to book value) – The ration of the market price of the shares and their book value– it expresses the coverage of the book value of a share on account of its quotation (Own capitals/no. of shares).

PER - (Price to earnings ratio) P/E –The share price/profit per share – indicates the saving period of an investment in a share (price paid per share) of profits obtained by the issuer (EPS). The lower the index (and the lower the saving period), the better for investors.

Dividend yield (DIVY) – the value of the dividend/price per share;

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

In the period ending 30 June 2016, the stock indicators P/BV (the ratio of the price per book value of a share), PER (share price/earnings per share) and dividend yield (DIVY) recorded slight increases compared to the same period of 2015 the exception is the indicator EPS (earnings per TGN share) which registered a slight decrease compared to the same period of 2015.

Increased dividend yield (DIVY) due to increased share company applied to sharing the profit as dividends, from the value of 50.00156% in 2015 it amounted to 65.01977% of the accounting profit remaining after the deduction of income tax in 2016 .

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	15,4	2,9	11,8
SNAM Rete Gas	Italy	16,6	2,3	11,9
Fluxys	Belgium	37,4	2,7	12,4
Media		23,13	2,63	12,03
Transgaz	Romania	7,5	0,9	3,4
Premium /Discount		68%	66%	72%

Source: Bloomberg 11.07.2016

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

TGN weight in the composition of stock indices (BET, ROTX, BET-NG, BET-TR, BET-XT, BET-BK)

NAME OF THE STOCK INDEX	30.06.2016	POSITION
BET (reference index of BSE representing the most liquid 10 companies listed at BSE)	5,82%	7
ROTX (price index weighted with free-float capitalization reflecting in real time the movement of "blue chip" shares traded on BSE)		
BET-NG (sectoral index / energy-utilities)		
BET-TR (total yield index launched by BSE in October 2014)	5,82%	7
BET - XT (blue-chip index, reflects the evolution of prices of the most liquid 25 traded companies)	5,37%	7
BET-BK (a price index weighted with free-float capitalization of the most traded listed companies)	4,75%	9

Stock exchange capitalization

The market capitalization of the company on 30.06.2016 was RON 3.20 billion (EUR 708 million) or RON 176 million (~ EUR 32 million) over the value registered on 30.06.2015.

Currency	Year 2016		Year 2015	
	04.01.2016	30.06.2016	05.01.2015	30.06.2015
LEI	3.237.807.100	3.202.485.568	3.025.877.908	3.025.877.908
EUR	716.820.629	708.357.790	672.821.005	676.400.561
EUR exchange/NBR	4,5169	4,5210	4,4973	4,4735

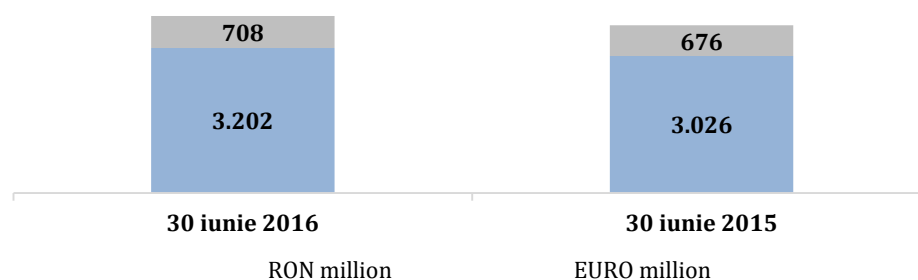


Chart 44 - Evolution of stock exchange capitalization of TGN in the 1st sem. of 2016 vs. 1st sem. of 2015

Shareholding structure

As a result of the enforcement of the provisions of Government Emergency Ordinance no. 55/19.11.2015 regarding the establishment of reorganization actions at the level of the central government and on amending certain regulatory documents the Ministry of Economy, Trade and Business Environment Relations was established after the reorganization and takeover of the activities of the Ministry of Economy, Trade and Tourism. Thus, on 29.01.2016 in the S.C. Central Depository S.A. was recorded the modification of identification data of the account holder Romanian state through the Ministry of Economy, Trade and Tourism in the Romanian state through the Ministry of Economy, Trade and Business Environment Relationship.

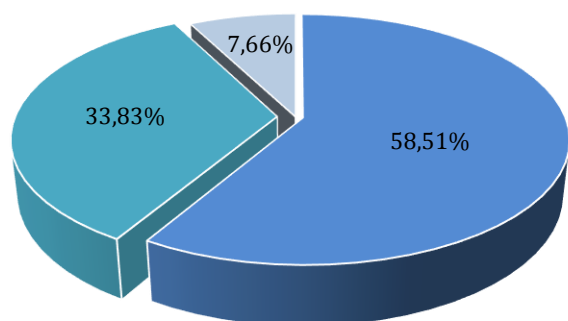
Transgaz shareholding structure on 22.06.2016 was:

Shareholder name	Number of shares	Percentage %
Romanian State through the Secretariat General of the Government	6.888.840	58,5097
Free float – Other shareholders, of which	4.885.004	41,4903
- natural persons	902.348	7,6640
- legal persons	3.982.656	33,8263
Total	11.773.844	100,00

Table 33 - Transgaz' shareholding Structure

Therefore, the structure of Transgaz shareholding as at June 30th 2016 was 117.738.440 shares and it is divided in 11.773.844 nominative shares, each share having a nominal value of RON 10.

TGN Shareholding structure as at 22 June 2016



■ MECRMA ■ Legal Persones ■ Natural Persons

Evolution of the number of shareholders:

The **number of Transgaz shareholders**, according to the registry of Transgaz' shareholders at the reference date of 22.06.2016 a number of 7.673 TGN shareholders are registered, 291 shareholders less than on 31.12.2015.

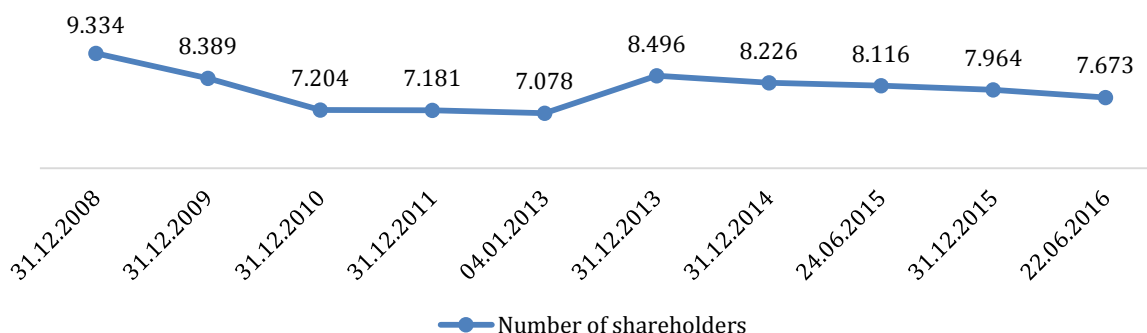


Chart 45- The evolution of the number of Transgaz shareholders between listing date and 22.06.2016

Dividend policy

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

Thus, the gross dividend approved for the financial year 2014 was 21.80 lei / share the gross dividend for the financial year 2015 is 27.61 lei / share with a yield of 10%.

At the end of the first semester ended 30.06.2016 the company has paid dividends to shareholders for the financial year 2014 amounting to 244,159,795.01 lei a total of 6,732 shareholders.

Transgaz' intention 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

Decision no. 4 of the Extraordinary General Meeting of Shareholders as of June 16th 2015 approved the commencement of the procedure on the issue of corporate, unsecured, non-convertible in stock bonds with a maximum value of RON 500 million, with a fixed

interest of maximum 4, 5% with a due date within minimum 5 years in order to finance the “Development plan of the National Gas Transmission System between 2014-2023.”

3.3.2 Significant mergers or reorganizations during the financial year

During the first semester of 2016 no mergers or reorganizations took place at the company level.

3.3.3 Corporate Governance

Corporate governance refers to the division of rights and responsibilities between the 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.

The general and specific objectives of TRANSGAZ' activity are set in the context of the compliance with the requirements of the new European energy policy on safety and energy security, sustainable development and competitiveness.

In this context, the implementation and development of the corporate governance principles and the development of responsible, transparent business practices becomes more and more a necessity in the substantiation and application of strategies and business policies of the 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 the Shareholders in 2 March 2011, through GMS Decision no. 1/2011 (art. 4).

The document has a structure which complies with the 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 Transgaz' Internal Rules of Organization and Operation 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 share owners**: the rights of the share owners, the treatment of share 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 . |

Transgaz as a company listed on BSE in the Premium category, adopted voluntarily the provisions of the CGC of the BSE and reports since 2010 total or partial compliance through the **Declaration on compliance or non-compliance with the Code of Corporate Governance (Declaration "comply or explain")**.

During 2015, within the project devoted to the corporate governance BSE rewrote the Corporate Governance Code of the BSE, in force in its first form as of 2008.

Thus, on **22 September 2015** a **new Corporate Governance Code** was launched related to the listed companies on the main market. The new code was designed by BSE with the support of the European Bank for Reconstruction and Development (EBRD) as part of a new corporate governance framework applicable as of 4 January 2016 and aims to promote higher standards of governance and transparency of listed companies. In its development the BSE took into account current international standards in this area, the change of the legal framework in Romania and in Europe, the experience gained from the implementation of the first code and the new aspirations of companies in general and the parties directly concerned regarding companies' responsibilities and conduct.

The main objective of the Code is to facilitate investors' access to information and the protection of their rights. The new Code is divided into four sections: **Responsibilities, Risk management system and internal control Just reward and motivation, and Adding value through investor relations**. Each section presents the "general principles" followed by "provisions to be observed". Implementing the new rules is based on the principle of "comply and explain" offering the market clear, accurate and timely information about how listed companies comply with corporate governance rules.

In this respect, companies will include a corporate governance statement in the annual report in a separate section, which will include a self-assessment of how they fulfil "the provisions to be observed", and the actions taken to comply with the provisions that are not fulfilled entirely. All cases of non-compliance by a company of a provision of the Code sections entitled "Provisions to be observed" will be reported to the market as of 4 January 2016 as a current report.

In the Ordinary General Meeting of the Shareholders on 23.06.2016 Transgaz shareholders approved the new Rules of Organization and Operation of Transgaz' Board of Administration where the provisions for managing conflicts of interest were included, so the company observes the provisions A.2 and A6 of the new Code.

Transgaz is in full compliance with most provisions of the new Code and the provisions the company does not yet comply with, respectively A.8., C.1., D.1.4., D.2., and D.3 were presented explicitly in a current report submitted to BSE in January 2016, published on the company's website in the section: Investor Relations / Current Reports / 2016. Any subsequent compliance that the company will achieve in this regard will be reported to the capital market.

LEGAL DOCUMENTS CONCLUDED UNDER ART. 52 PARAGRAPH (1) AND PARAGRAPH (6) OF GEO no. 109/30.11.2011

In the first semester of 2016, the company completed the following legal acts with companies in which the Romanian state exercises direct or indirect control and whose cumulative value is at least the equivalent in RON of EUR 50,000:

Contract data	Contractual clauses provided in the contract
Parties to the Contract	concluded between S.N.T.G.N. Transgaz S.A. and S.N.G.N. Romgaz S.A. Mediaş - Ploieşti Subsidiary
The date the contract was signed and the nature of the contract	No. 12211/2016, concluded on 15.06.2016
Contract scope	Underground gas storage services
Contract value	RON 6,279,168.96 VAT excluded/ 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) refer 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>
<p>Penalties and guarantees stipulated</p>	<p>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> <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 no RO74 RNCB 0205 0448 6013 0001 of the service Provider, opened with BCR-the Ploiești Subsidiary.</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>
<p>Payment deadlines and modalities</p>	<p>01.04.2016 - 31.03.2017</p>

3.4 Analysis of the financial activity

3.4.1 Financing 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 30.06.2016, the company's financial standing is as follows:

Name of indicator	Sem. I 2016	31.12.2015	Dynamics (%)
	thousand lei	thousand lei	
0	1	2	3=1/2
Intangible assets	2.565.037	2.606.655	98,40
Tangible assets	610.856	627.740	97,31
Financial assets available for sale	0	0	x
Trade and other receivables	595.991	579.723	102,81
Fixed assets	3.771.885	3.814.118	98,89
inventories	87.996	73.992	118,93
Trade and other receivables	360.389	362.527	99,41
Cash and bank accounts	963.421	700.798	137,47
Current assets -TOTAL	1.411.806	1.137.316	124,13
TOTAL ASSETS	5.183.691	4.951.434	104,69
Debt payable within one year	569.668	277.333	205,41
Long-term Debt	1.088.094	1.104.863	98,48
Total Debt	1.657.762	1.382.196	119,94
Equity	3.525.928	3.569.237	98,79
Share capital	117.738	117.738	100,00
Hyperinflation adjusted share capital	441.418	441.418	100,00
Capital premiums	247.479	247.479	100,00
Other reserves	1.265.797	1.265.797	100,00
Reported result	1.453.496	1.496.805	97,11
Total equity and debt	5.183.691	4.951.434	104,69

Table 34- the company's financial standing the 1st semester of 2016 vs the 1st semester of 2015

Intangible Assets

From 2010, in accordance with the EU approval process, the Company started to apply IFRIC 12 ***Service Concession Arrangements***, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the pipeline system, which are transferred to the regulatory authority at the end of the concession agreement.

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

Due to the fact that the Service Concession Agreement ("SCA") had no commercial substance (i.e. nothing substantial has changed in the way the company operated assets;

cash flows have changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of derecognized 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. The intangible assets are depreciated to zero in the remaining period of the concession agreement.

Intangible assets decreased by RON 41.618 thousand as compared with 2015, this decrease being mainly due to the fact that the developments brought to the national transmission system were exceeded by the depreciation expense registered for this type of intangible assets.

Tangible Assets

Tangible assets include auxiliary buildings of operating assets, office buildings, land, assets used for the transit activity, as well as objectives related to the national transmission system taken over free of charge. **The value of tangible assets has decreased by RON 16.884 thousand** as compared to 2015, mainly due to the fact that the tangible assets inflow and the reclassification of the tangible assets summing up RON 11.448 were surpassed by the depreciation cost for tangible assets amounting to RON 28.332.

Financial fixed assets

At the end of the first semester 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 was fully provisioned as at December 31st, 2014, remaining unchanged as at June 30th 2016.

Trade receivables and other receivables

The increase of the debt to ANRM on 30 June 2016 by the amount of RON 16.268 thousand, calculated subsequent to 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 the national transmission system operator shall be transferred to the owner of the national transmission system or another conceding on payment of a compensation equal to the regulated depreciated value established by ANRE. The company recognized as of 2014 a receivable related to the residual regulated value at the balance sheet date and an advance income. The advance income is recognized in the profit and loss account over the remaining life of the concession agreement.

Inventories

On June 30, 2016 stocks increased by RON 14.004 thousand compared to 31 December 2015, mainly on account of the increase in the stock of natural gas used for balancing the NTS. The balancing activity, performed as at 1 December 2015 is regulated by ANRE Order no. 160/2015 " on the amendment of the Network Code for the National gas Transmission System, approved by Order of the President of the National Energy Regulatory no. 16/2013 ", which establishes the obligation of the company to ensure the activity of balancing the national transmission system, as operator of the transmission system.

Trade receivables and other receivables

As at June 30th 2016 the balance figure of the trade receivables and other receivables has decreased by RON 2.138 as compared to December 31st 2015, mainly due to the following factors:

- **An increase of the customer receivable balance by RON 1.413** following the increase of the uncollected receivable;
- **Increase of advance payments to suppliers by RON 85 thousand;**
- **Increase of the not due VAT balance by RON 1.450;**
- **An increase of provision allowances for impairment of trade receivables and other receivables by RON 26.104.**
- **Increase of the balance of other trade receivables by RON 21.018** especially due to the increase of various debtors and trade receivables of the state budget.

Cash at bank and in hand

As at June 30th 2016 the company's cash increased by RON 262.623 thousand as compared to the end of 2015, this increase is due to the fact that the holdings in the bank and in hand increased by RON 94.717 thousand and the bank deposit accounts increased by RON 167.730 thousand, in the cash equivalents accounts an increase of RON 176 thousand is registered

Debts due in one year

In the structure of debts due in one year, the following changes were noticed compared to June 30th 2016:

- **A balance increase in trade payables and other payables by RON 281.142** mainly due to the decrease of debts for dividends to be paid by RON 425 thousand, of the increase of debts to the assets supplier by RON 5.383 thousand, the increase of trade payables to shareholders by RON 324.416, as a result of the share of the profit of 2015, the decrease of the debt to MEC by RON 51.718 because of its prescription, the decrease of the debts related to royalties by RON 5.173 thousand, the increase of the payable VAT by RON 11.119 thousand, the decrease of debt by other taxes by RON 593 thousand, the decrease of the amounts payable to employees by RON 2.653 thousand, the increase of other debts by RON 786 thousand;
- **An increase of the provisions for risk and charges by RON 16.511 thousand** due to the registration of the provision for the participation of employees to profit for the first semester of 2016;
- **A decrease of the debt related to tax on profit by RON 5.319 thousand** as a result of the calculation of the tax on profit as at 30 June 2016;

Long-term debts

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

- **The decrease of accrued income by RON 14.515**, mainly caused due to the recording at income of the portion corresponding to the current period and to an accounting accrual legislation change according to which the Company is entitled to recover the remaining un-depreciated value of the goods afferent to the company's investments as titleholder of the National Gas Transmission System;
- **The decrease of deferred tax liabilities by RON 2.254 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 has no other loans as at 30 June 2016. The loan contracted in 2010 from BRD GSG for the financing of the company's investment program summing up RON 120.000.000 was reimbursed entirely on 31 December 2015.

Equity

The subscribed and paid up capital remained unchanged. The increase in retained earnings by RON 43.309 is determined by the registration of the profit related to 2016 and for the distribution of profit related to 2015.

3.4.2 Comprehensive income

The situation of the profit and loss account on 30.06.2016 was:

Specification	Achievements Sem. I (RON thousand)		Dynamics (%)
	2016	2015	
1	2	3	4=2/3
Operating revenue before the construction activity according to IFRIC12	892.481	848.132	105,23%
Revenues from the construction activity according to IFRIC12	33.671	41.885	80,39%
Financial revenues	14.625	17.473	83,70%
Operating expenses before the construction activity according IFRIC12	567.373	474.534	119,56%
Cost of assets constructed according to IFRIC12	33.671	41.885	80,39%
Financial expenses	2.921	3.474	84,09%
GROSS PROFIT of which:	336.810	387.596	86,90%
Operating Profit	325.107	373.597	87,02%
Financial result	11.703	13.999	83,60%
TAX ON PROFIT	55.044	66.039	83,35%
NET PROFIT	281.767	321.557	87,63%

Table 35- the profit and loss account in sem I 2016 vs sem I 2015

Operating revenues

The revenues from the operating activity accrued in Semester I of 2016 are indicated below:

Specifications	Sem. I 2015	Sem. I 2016	Dynamics %
Revenues from the transmission activity			
- RON thousand	660.193	630.318	95,47
- MWh	69.118.324	62.987.973	91,13
- RON /MWh	9,55	10,01	104,77
- thousand cm	6.480.291	5.873.039	90,63
- RON /1000 cm	101,88	107,32	105,35
Revenues from the international transmission activity			
- RON thousand	158.798	160.728	101,21
Revenues from the balancing activity			
- RON thousand	-	22.012	x
Other operating expenses			
- RON thousand	29.140	79.423	272,55
TOTAL OPERATING REVENUES before the construction activity according to IFRIC12	848.132	892.481	105,23

Table 36 - Incomes from the operation activities accrued during the 1st semester of 2016 vs. the 1st semester of 2015

Operating expenses

The expenses from operating activities accrued during the 1st semester of 2016 were as follows:

Tag no	Specifications	Achievements in the 1st semester (RON thousand)		Dynamics (%)
		2015	2016	
0	1	2	3	4=3/2*100
1	Depreciation	95.639	103.384	108,10
2	Salary indemnities and other salary expenses and benefits granted to employees	173.310	179.916	103,81
3	Technological consumption, used materials and consumables, of which:	34.143	85.311	249,86
	Technological consumption and losses on the transmission system	21.671	52.226	240,99
	- quantity of technological consumption MWH	237.922	719.940	302,59
	- quantity of technological consumption thousand cubic meters	21.140	65.375	309,24
	Additional materials	10.155	9.570	94,24
	Other material expenses	2.317	2.567	110,80
4	Other expenses on royalties	81.899	79.100	96,58
5	Maintenance and transportation, of which:	17.408	13.824	79,41
	Works, services performed by third parties	11.174	7.522	67,31
6	Taxes and other amounts due to state, of which:	33.297	29.852	89,66
	Charge for granting gas transmission and international transit license	3.162	3.637	115,04
	Monopoly tax	26.962	23.179	85,97
	Tax on special constructions	619	709	114,49
7	Expenses on risks and expenses provision	-8.416	16.512	x
8	Other operating expenses	47.254	59.475	125,86
	TOTAL OPERATING EXPENSES before the construction activity according to IFRIC 12	474.534	567.373	119,56

Table 37 - Expenses of the operating activities accrued during 1st sem. of 2016 vs. 1st sem. of 2015

3.4.3 Cash flow statement

The situation of cash flows as at 30.06.2016 was:

Indicator	Financial year ended June 30 (thousand RON)	
	2016	2015
	Profit before tax	336.810
<i>Adjustments for:</i>	0	0
Depreciation	103.384	95.639
Profit/(loss) from assignment of fixed assets	83	58
Provisions for risks and expenses	16.512	-8.416
Revenues from connection charges, non-refundable funds and free of charge goods	-8.805	-8.853
Provisions for impairment of claims	26.104	18.370
Expenses on interest	0	223
Incomes from interests	-11.215	-11.161
Profit/(loss) from impairment of inventories	1.202	660
Loss from claims	2.263	0
Effect of exchange rates' variation on other items than the operating ones	-7	-25
Revenues from rights of claim of the regulated undepreciated value at the cessation of the assignment agreement	-14.203	-13.112
Operating profit before changes to working capital	452.129	460.981
(Increase)/decrease of trade receivables and other receivables	-27.673	-30.721
(Increase)/decrease of inventories	-15.206	-5.408
Increase/(Decrease) of commercial debts and other debts	-47.476	-25.980
Operating-generated cash	361.773	398.872
Paid interests	0	-223
Received interests	2.377	10.078
Paid corporate tax	-62.617	-68.021
Net cash entries from operating activity	301.533	340.705
Payments for purchase of tangible and intangible assets	-39.583	-76.533
Cash from connection charges and non-refundable funds	1333	4094

Net cash used in investment activities	-38.250	-72.438
Paid dividends	-660	-917
Reimbursements of long term loans	0	-12.000
Net cash used in financing activities	-660	-12.917
Net change of cash and cash equivalent	262.623	255.350
Cash and cash equivalent at the beginning of the year	700.798	557.868
Cash and cash equivalent at the end of the year	963.421	813.218

Table 38 – Situation of treasury flows in sem I 2016 vs sem I 2015

The analysis of the cash flow as of June 30th 2016 results into an increase of available funds by RON 150.204 compared to June 30th 2015.

The changes brought to the structure of cash flow for **1st semester of 2016 as compared to the 1st semester of 2015** are:

- cash flow generated from the exploitation is of RON 301.533, by RON 39.172 less than in 2015;
- cash flow used in investment activity is of RON -38.250, by RON 34.189 less than in 2015;
- cash flow used in financing activity is of RON -660 thousand, by RON 12.257 less than in 2015.

3.4.4 Evaluation of the activity related to the financial risk management

Financial risk factors

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

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

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

Market risk

Currency risk

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

The Company does not perform formal actions to minimize the currency risk related to its operations; thus, the Company does not apply hedge accounting. The management believes, however, that the Company is covered in terms of the currency risk, given that sales in foreign currencies (mainly incomes from international transmission) are used to settle liabilities denominated in foreign currencies.

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

	June 30 th 2016 (not audited)	December 31 st 2015
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	153.573	163.938
USD depreciation by 10%	(153.573)	(163.938)
EUR appreciation by 10%	2.201.668	5.600.361
EUR depreciation by 10%	(2.201.668)	(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 the 1st semester of 2016 would have been lower/higher by RON 2.182.270 (the same period of 2015: RON 910.188).

Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by its long and short-term loans, most of them having variable rates. 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 the 1st semester of 2016, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by RON 1.366.564 lower/higher (1st semester of 2015: RON 1.368.347), 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 64,63% of the trade receivable balances on June 30th 2016 (30 June 2015: 61,33%).

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.

	June 30 th 2016	December 31 st 2015
No rating	4.461.858	1.433.162
BB-	264.313.281	252.046.000
BB	2.861.958	1.910.084
Ba1	886.490	683.305
BBB-	481.871.178	258.276.067
BBB	8.766.830	35.232.715
BBB+	199.834.476	150.919.196
A	120.269	-
A+	-	167.844
	<u>963.116.340</u>	<u>700.668.373</u>

Liquidity risk

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

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

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 June 30th 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 June 30th 2016 is indicated in the table below:

	Total amount (unaudited)	less than 1 year (unaudited)	1-5 years	over 5 years
Trade payables and other payables	<u>429.414.754</u>	<u>429.414.754</u>	-	-
	<u>429.414.754</u>	<u>429.414.754</u>		-

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

	Total amount (unaudited)	less than 1 year (unaudited)	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 and payables to the Ministry of Economy, Trade and Relations with the Business environment and other payables.

Categories of financial instruments:

Financial assets	30 June 2016	31 December 2015
Cash and cash equivalents	263.257.064	168.364.078
Term bank deposits	700.164.093	532.433.704
Loans and claims	913.403.295	931.218.691
Financial assets available for sale	163.122.672	163.122.672
Provisions for the Financial assets available for sale	<u>-163.122.672</u>	<u>-163.122.672</u>
	<u>1.876.824.453</u>	<u>1.632.016.473</u>

Financial debts	30 June 2016	31 December 2015
Debts evaluated at amortise cost	-	-
Financial guarantees related to contracts	<u>4.000.278</u>	<u>4.116.283</u>
Commercial debts and other debts	<u>425.414.476</u>	<u>147.292.638</u>
	<u>429.414.754</u>	<u>151.408.921</u>

Capital risk management

The 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 Semester I of 2016, the Company's strategy that remained unchanged compared to 2015, was to keep the debt leverage degree as low as possible to keep a significant capacity to borrow funds for future investments. The leverage was zero as at June 30th 2016 and December 31st 2015.

	June 30 th 2016	December 31 st 2015
Loss: cash and cash equivalent	(963.421.157)	(700.797.782)
Net cash position	(963.421.157)	(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. INTERNAL AND MANAGEMENT CONTROL SYSTEM

1.General background

Definition of the internal/ management control

The etymology of the word "control" comes from the Latin expression "against rolus" which means checking a duplicate act performed according to the original one:

"Control" in the semantic sense is a permanent or regular analysis of an activity, a situation, to track its progress and improvement actions. In specialty literature there are several meanings for control:

- In the **French sense**, control is a check, a careful inspection of the correctness of an act;
- In the **Anglo-Saxon sense** control is the supervisory action of someone, something, a thorough examination in order to know or regulate the operation of a mechanism.

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

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

2. Legal framework

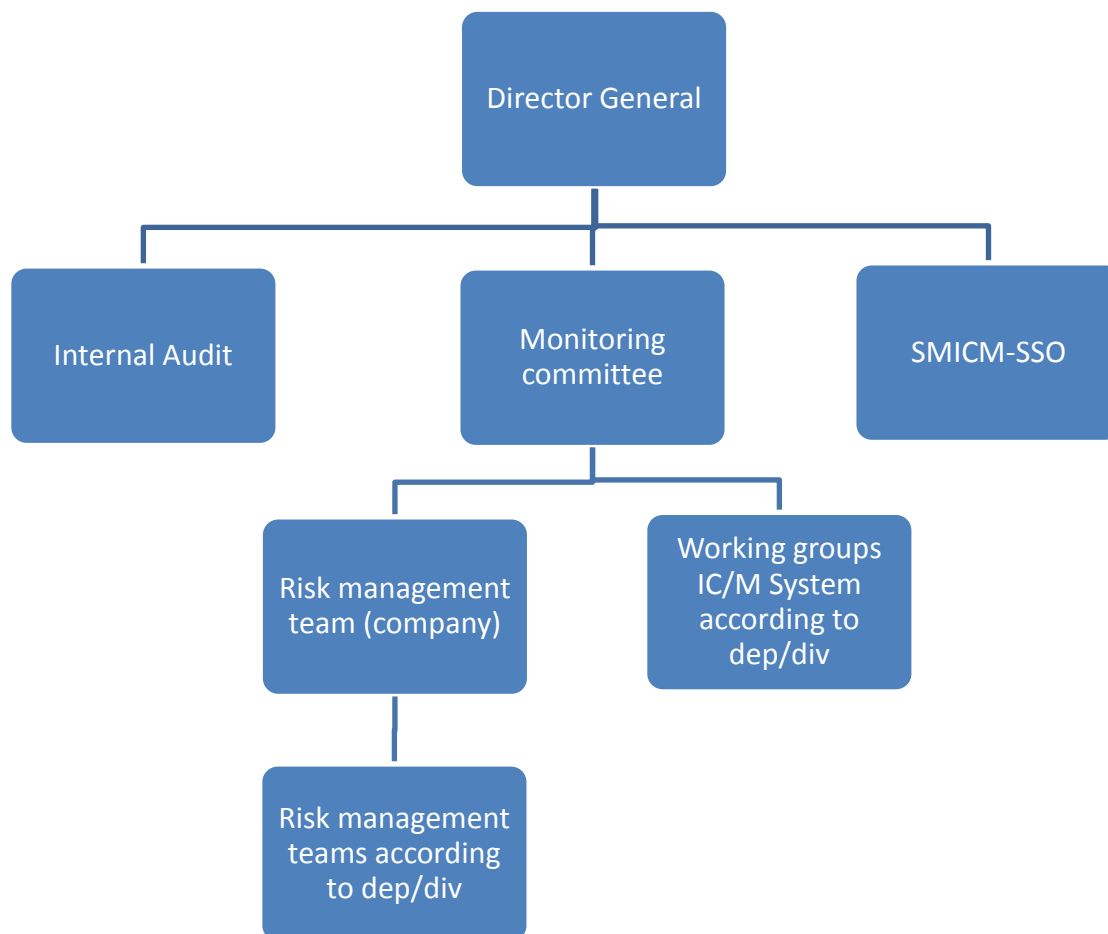
The implementing, development and monitoring of the Internal Control/Management System, was first based on the following legislation:

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

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

3. Organizational structure of the Internal Control/Management System

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



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

The Monitoring Committee has the following main tasks:

- coordinates the process of updating the company's overall objectives, specific objectives and activities including also the performance or outcome indicators for their evaluation;
- monitors and evaluates annually the overall objectives of the company;
- Analyzes and prioritizes annually the significant risks that may affect the fulfillment of the overall goals, setting risk tolerance limits. They must be approved by the company management, they are mandatory and they are sent to all departments in order for them to be applied;
- analyses and approves the formalized procedures and forwards them for approval to the company director general (members involved in activities subject to review and approval);
- examines in view of approving the notification on the conduct of risk management process developed by the Risk Management Team;

- analyses in view of approving the notification related to the performance monitoring at the level of the entity, drafted by the secretary of the monitoring committee, based on annual reports for annual performance monitoring from the compartments;
- develops/updates/monitors annually the program for the implementation and development of the internal control / management system of the company, a program that includes objectives, actions, responsibilities, deadlines;
- submits for approval to the Director General the program for the implementation and development of the internal control / management system of the company;
- guides divisions in the company in terms of implementation and development of the internal control / management system;
- presents to the Director General, whenever deemed necessary, but at least once a year, information on progress on the implementation and development of the internal control/management system in relation to the program adopted at the company level, the monitoring, coordination and methodological actions and guidance undertaken and other issues arising in connection with this field;
- performs annual self-assessment of the internal control/management system development within the company;
- prepares and submits annual reports on the state of implementation of the internal control/management system under GSG Order no. 400/2015 as amended and supplemented by Order GSG no. 200/2016 approving the Internal Control and Management Code related to public entities at the balance sheet date of the previous financial year, with the annual financial standing, to the hierarchical superior body (Ministry of Economy, Trade and Relations with Business environment as a higher public entity);
- prepares and submits to the hierarchical superior body (Ministry of Economy, Trade and Relations with the business Environment as a hierarchically superior public entity) on the terms set out therein, but not later than 15 March each year, the developed and updated programs for the implementation of internal control/management system, including administrative provisions establishing a structure that deals with the development of the internal control /management system.

In order to manage risks in the company, Transgaz' director general approved by **Decision no. 518 of 19.06.2016 the establishment of a Risk Management Team** within Transgaz and *Risk Management Teams* within the divisions/Independent departments / Medias Subsidiary / Regional offices.

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

- coordinates **risk management teams** established within the divisions/Independent departments / Medias Subsidiary / Regional offices they represent;
- analyses and prioritizes significant risks that may affect the achievement of specific objectives of the divisions/Independent departments / Medias Subsidiary / Regional offices they represent;
- validates or invalidates the escalated risks;
- proposes the appetite for risk related to the current year;
- proposes the risk tolerance limits;

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

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

- Centralizes Risk Registers per Division/Independent Departments/ Medias Subsidiary/ Regional offices for all inherent risks identified and escalated and prepares the Risk Register per company for escalated risks, and updates it annually;
- Centralizes the Monthly Monitoring Report of the state of implementation of the actions to minimize risks per Division/Independent Departments/ Medias Subsidiary/ Regional offices;

- Centralizes the Program of actions for Risk Minimization for the Division/Independent Departments/ Medias Subsidiary/ Regional offices;
- Centralizes the Program of actions for Risk Minimization per company for the escalated risks;
- Prepares the Annual report for risk management at the level of the company.

4. Internal control/management standards

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

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

Standards are a reference system, based on which internal control / management systems are assessed and areas and directions of change are identified.

The standards are grouped in five key elements of the internal control / management:

- **The control environment** - it brings together issues related to organization, human resource management, ethics professional conduct and integrity;
- **Performances and risk management** - this key - element includes management issues related to setting objectives, planning (multiannual planning) programming (management plan) and performance (performance monitoring);
- **Control activities** - grouped standards in this key-element of internal control/ management focuses on: documenting procedures, business continuity, recording exceptions, separation of duties, supervision, etc;
- **Information and communication** - in this section issues related to creating an adequate information system are grouped and of a reporting system on implementation of the management plan, budget, resource and document management;
- **Evaluation and audit** - issues covered by this standard group includes developing the capacity to assess internal control / management in order to ensure continuity of the process to improve it.

Each control standard is structured on three components:

- **The description of the standard** – presents the defining characteristics of the management field the standard refers to, the field established according to its title;
- **General requirements** – presents the main directions to act under the standard;
- **Main references** – list the representative regulations including the regulation applicable to the standard which are not exhaustive;

The Internal control/management standards at public entities, according G.O. no. 400/2015 approving the Code of internal control/management of public entities, amended and supplemented by SGS Order no.200 / 2016 grouped into five key elements are:

1. CONTROL ENVIRONMENT

- Standard 1 - Ethics and integrity
- Standard 2 - Tasks, responsibilities
- Standard 3 - Competence, performance
- Standard 4 - Organizational Structure

2. PERFORMANCES AND RISK MANAGEMENT

- Standard 5 - Objectives
- Standard 6 - Planning
- Standard 7 - Monitoring performances
- Standard 8 - Risk Management

3. CONTROL ACTIVITIES

- Standard 9 - Procedures
- Standard 10 - Surveillance
- Standard 11 - the continuity of the activity

4. INFORMATION AND COMMUNICATION

- Standard 12 - Information and communication
- Standard 13 - Documents control
- Standard 14 - Accounting and financial reporting

5. EVALUATION AND AUDIT

- Standard 15 - Evaluation of the internal control/management system
- Standard 16 - Internal Audit

5. History of Transgaz' Internal Control/Management System

Implementation and development of the Internal Control/Management System within Transgaz began in 2009, but due to legislative and structure changes within the company there was a constant need to reassess the implementation program, therefore the process took place in several stages between 2009 – 2015;

STAGE I

Contracting the consultancy firm – AJA Sibiu SRL (represented by AJA Registrars Romania) for services including: **Evaluation, Design, Documentation, Implementation of the set of procedures according to the Order no 946/2005, for the preparation of the development program of the management control system within the company - Contract AJAS 0029/10.04.2009.**

The project for defining the internal control/management system included the following stages:

1. Evaluation of the general instruments for internal control.
2. Evaluation of specific instruments for internal control related to each activity.
3. Drawing up the final "List" of internal control instruments (general and specific) that constitute the new internal control system to be implemented.
4. Drafting and approving the program to implement the new internal control/management system of the public entity.
5. Developing operational procedures for activities for which their absence would cause a risk. Communication of the developed operational procedures to all employees involved in the development of the documented work.

The conclusion of the internal auditors noted in the Audit Report of October 2011 as a result of performing the audit engagement **“Process evaluation and implementation**

stage of the management control system" is that the implementation and development of the managerial control system must be resumed and approached in a logical and well-structured way, with fixed targets and measurable deadlines. What was accomplished until the date of the audit placed the company at the implementation level "**slightly above 40%**", which is the minimum level of the qualification "**partially implemented**".

STAGE II

Due to legislative and structure changes within the company it was not possible to finalize the system, therefore it was considered necessary to reassess the status of implementation and completion of the implementation and development of Transgaz' internal control/management under the guidance of an accredited body for the certification of management systems.

Thus, **the Service contract no. 141/20.05.2013** was concluded for assessing the situation of the internal control/management system in accordance with the Order of the Minister of Public Finances no. 946/2005, republished, with the Association **The Romanian Movement for Quality (MRC)**, association **accredited by RENAR** (National Accreditation Body) for the certification of management systems.

In the **Final Report** on the assessment of the existing state of SCIM at Transgaz, the contractor, **MRC**, makes recommendations to finalize the implementation of the Internal Control/Management System.

New actions were initiated and actions from the previous year were restarted:

1. Updating the **Decision** on the establishment of the Committee for monitoring coordination and methodological guidance in view of the implementation and development of Transgaz' internal control management;
2. Approval of the "**Program for the implementation and development of the internal control/management system**";
3. Approval of the procedure "**Operation of the Committee for monitoring coordination and methodological guidance in view of the implementation and development of Transgaz' internal control management**".
4. The actions related to the **updating of the general, specific objectives of Transgaz' activities**;
5. The **Analytical Sheets** and **Control questionnaires** was reprinted and circulated which are related to each standard for internal control system/management self-assessment within departments and divisions for the year 2012;
6. The "**Risk management**" procedure was prepared
7. Establishment of an **Internal network system (Transgaz on intranet - MOTAŞ - "Internal Management Control System Implementation")**, with limited access of the members of the committee appointed by Decision and of the responsible persons within the department/division/regional office, where all the documents presented in the meeting on 23 January 2012 can be found, including the current objectives (see STAGE I and STAGE II) which must be updated.
8. Steps were established on the 25 standards - Implementation schedule of the SCIM.

6. Status of the implementation and development of the Internal control/management system within Transgaz on 30.06.2016

The Strategy and Corporate Management Division through the Budgetary Strategy Unit under Transgaz' Rules of Organization and Procedure has the responsibility to ensure the secretariat of the Monitoring, coordination and methodological Committee and to guide the implementation and development of internal control / management system within the company.

According to the provisions of the **Order of the Ministry of Public Finance no. 946/2005** on the approval of the Internal control/management Code, including internal control /management standards in public entities and to develop internal control/management systems, republished and supplemented by **Order no. 1423 of 30.10.2012**, the implementation and development of the Internal Control/Management System (IC/MS) in Transgaz began in 2009 – the service contract no. AJAS0029 / 10.04.2009 with SC AJA SRL Sibiu and resumed in 2013 – the service contract no. 141/20.05.2013 with the company ROMANIAN MOVEMENT FOR QUALITY Craiova, but due to legislative changes and to changes in the structure of the company there is a permanent need to reassess the implementation program and the evaluation of the current stage of implementing the Internal Control/ Management System within Transgaz.

The Order of the Ministry of Public Finance no. 946/2005 approving the Code of internal control/management, including internal control/management standards for public entities and to develop internal control/management systems referring to the implementation of a series of 25 standards was repealed by SGS Order no. 400 /2015 approving the Internal Control/management Code of public entities, amended and supplemented by **GSG Order no.200/2016** according to which the number of the standards was reduced to 16.

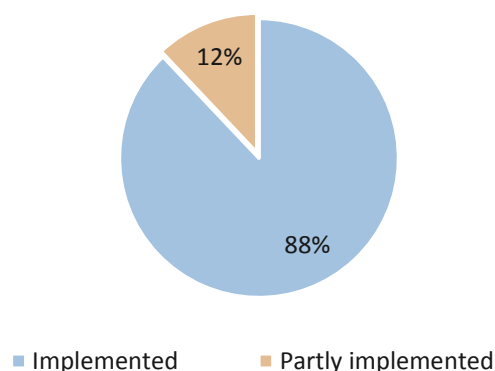
Annually, between September and October the self-assessment process related to the implementation of Internal Control/Management System (ICMS) is performed. In 2015 the self-evaluation was based on the organizational structure approved by the Rules of Organization and Procedure of 2015, meaning 150 organizational entities.

The conclusion, resulted from the analysis and centralization of data from the self-assessment questionnaires submitted by the organizational entities, is that the company internal control/management system is **partially compliant**, 14 standards being implemented out of the 16 standards set by the Order of the GSG No 400 / 2015 approving the Code of internal control / management of public entities, amended and supplemented by GSG order no. 200/2016.

Standard	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
No of compartments to which the standard applies	150	150	150	150	150	150	150	150	150	150	150	150	150	17	150	3

Implemented I	149	147	150	148	141	141	139	125	136	142	134	148	146	17	137	3
Partially implemented PI	1	3		2	9	9	11	20	14	8	16	2	4		6	
Not implemented NI								5							7	
At the level of the company	I	I	I	I	I	I	I	PI	I	I	PI	I	I	I	I	I

Share of implemented standards % %



Since the implementation of IC/MS should be extended to the Regional offices and Medias Subsidiary, in the beginning of **October 2015** the appointed responsible persons from the regional offices and Medias Subsidiary were summoned for training in order to start implementing IC/MS in all entities within Transgaz.

The themes of the training were:

1. Presentation of the legislation on implementation of the internal control/management system (Order nr.400/2015 for approval of the Code of internal control/management of public entities);
2. Presentation of the Program to implement the standards laid down by Government Order no. 400/2015 for the development of Internal Control/Management System within Transgaz";
3. Presentation of the Analytical Sheets and Fact sheets explaining how they should be filled by the departments/ office/Regional offices;
4. Presentation of the Self-assessment Questionnaire for the stage of implementation of internal control/management standards and explaining how they should be filled by the relevant departments (PP - 162 "Self-evaluation of Transgaz' Internal Control/Management System")
5. Presentation of the list including the control instruments and explaining how it should be filled;
6. Inventory of the information and of the information flows;
7. Preparation of the list of activities to be performed according to a procedure and of the activities performed in this manner;
8. Risk management raining – PP -91 "preparation/Updating the Risks Register".

For the implementation of all standards related to Internal Control/Management throughout 2016 the following actions are provided:

The name of the standard	At the level of the company		
	I	PI	Actions
1	2	3	4
I.CONTROL ENVIRONMENT			
Standard 1 - Ethics, integrity	YES		
Standard 2 - Tasks, responsibilities	YES		
Standard 3 - Competence, performance	YES		
Standard 4 - Organizational Structure	YES		
II.PERFORMANCE AND RISK MANAGEMENT			
Standard 5 - Objectives	YES		
Standard 6 - Planning	YES		
Standard 7 - Monitoring performances	YES		
Standard 8 - Risk Management		YES	Prepare the procedure
III. CONTROL ACTIVITIES			
Standard 9 - Procedures	YES		
Standard 10 - Surveillance	YES		
Standard 11 - Continuing the activity		YES	Prepare the Plan including the actions to ensure the continuity of the activity
IV.INFORMATION AND COMMUNICATION			
Standard 12 - Information and communication	YES		
Standard 13 - Documents control	YES		
Standard 14 - Accounting and financial reporting	YES		
V.AUDITING AND EVALUATION			
Standard 15 - Evaluation of the internal control/management system	YES		
Standard 16 - Internal Audit	YES		

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

- update and preparation of "Decision no. 519/19.07.2016 regarding the establishment of the *“Committee for monitoring, coordination and methodological guidance to the implementation and development of the Internal Control / Management System within Transgaz”*;
- preparation of "Decision no. 518/19.07.2016 regarding the establishment of the Risk management Team within Transgaz", according to the provisions of GSG Order no. 400/2015 of 12.06.2015 as amended and supplemented by GSG Order no. 200/2016;
- preparation of "Decision no. 548 of 26.07.2016 on the appointment of the responsible persons for IC/MS within Transgaz;

- Approval of the “*Program for the implementation of the standards provided by GSG Order no 400/2015 on the approval of the Code for Internal Control/Management of public entities for the development of the ICMS within Transgaz*” for 2016;
- Updating „*The Program for the implementation of the standards provided in the GSG Order no 400/2015 on 12.06.2015, as amended and supplemented by GSG Order no 200/2016 for the development of IC/MS within Transgaz*” for 2016;
- Preparation of the Procedure PP-162 “**Self-evaluation of the Internal Control/Management system within Transgaz**”;
- Preparation of the Procedure PP-91 “**Preparation/updating of the Risks register**”.
- Ongoing preparation of the Procedure PP-106 “**Risk management**”;
- Updating the **Internal network system (Transgaz on intranet – ZoneInterDep – “ControlIntern Managerial”)**,, with limited access of the members of the committee appointed by Decision and of the responsible persons within the department/division/regional office. This network system was created for a fast and effective communication for the preparation of all the necessary documents to prove the implementation of the ICMS within all entities belonging to the company;
- The activities to be performed according to the procedure within Transgaz were inventoried at 30.06.2016, and they summed up 184 and the system and process procedures prepared at 30.06.2016, summed up 158;
- The performance indicators associated to the objectives specific to the departments, divisions, the Black Sea PMU were set, except those related to the Information and Communication Technology and SCADA division;
- The Risk Register was prepared and updated per company and the Action plan for the minimization of risks and escalated risks as well.
- The implementation of IC/MS within Regional offices was initiated:
 - IC/MS responsible persons were nominated per Regional offices who received access to the database posted on the common internal network (**Transgaz on intranet - ZoneInterDep - “ControlInternManagerial”**);
 - **The persons responsible for ethics** at the level of each Regional Office were appointed;
 - The five files including key elements at the level of the Regional office including the files of the related standards according to the “List of internal control /management standards” provided in GSG Order no. 400/2015 amended and supplemented by GSG Order No. 200/2016;
 - The **analytical sheets** were completed for the 16 standards together with the explanation associated to the response underlying the status of implementation of the standard and the documentation related thereto;
 - For **Standard 5 – “Objectives”** the “List of specific objectives and performance indicators per Regional Office” was prepared;
 - For **Standard 8 – “Risk management”** the “**List of specific Objectives, risks and control instruments per Regional Office**” was prepared and the “**Risk Register per Regional Office**” was prepared, according to the model presented in Annex no 6 to PP-91- “**Preparation/updating of the Risk Register within Transgaz**”.

In the second semester of 2016 the self-evaluation of the status related to the implementation of the Internal Control/Management System will be performed at the level of the company.

Trips in the field will be scheduled at the Regional offices and actions will be undertaken for the implementation and development of the Internal Control/Management System at the level of these entities as well.

5. THE MANAGEMENT OF THE COMPANY

5.1 The Board of Administration

The administrators of the company as at 30.06.2016:

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

During the 1st semester of 2016 no changes were made to the membership 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 the information provided by administrators, there is no agreement or family tie between the respective person and another person due to which that person was appointed administrator.

Administrators' participation to Transgaz capital

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

Litigations or administrative procedures

During the past 5 years, no litigations or administrative procedures were recorded in which the administrative or executive management was involved.

5.2 Executive management

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

According to the information available, there is no agreement, covenant or family tie between the mentioned persons and another person due to which they were appointed

as members of the executive management. The table below indicates the members of the executive management holding shares in Transgaz:

Name and first name	Position	Number of shares as at 22.06.2016	Interest share (%)
Lupean Marius	Director	20	0,000169
Tătaru Ion	Director	25	0,000212
Comaniță Adela	Director	7	0,000059
Șai Alexandru	Director	10	0,000084
Pătărnice Mihai	Director	97	0,000823
Lața Ilie	Director	46	0,000390
Rusu Ioan	Director	2.508	0,021301
Nita Viorel	Director	5	0,000042

Table 39- Members of the executive management holding shares in Transgaz as at 22.06.2016

The following persons represent the Company's executive management:

Tag No.	Name and first name	Position	Division
1	Petru Ion Văduva	Director-General	
2	Gheorghe Hațegan	Deputy Director-General	
3	Tarsac Grigore	Deputy Director-General	
4	Marius Lupean	Director	Economic Division
5	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
6	Stroia Marius	Director	Operation Division
7	Tătaru Ion	Director	Development Division
8	Cosma Florin	Director	Exploitation and Maintenance Division
9	Leahu Mihai	Director	Engineering and Research Division
10	Achim Viorel Ciprian	Director	HSQE Division
11	Alic Ciprian Octavian	Director	European Funds and International Relations Division
12	Gruia Daniel	Director	IT, Communication and SCADA Division
13	Luca Bogdan Avram	Director	Public Purchase and Procurement Division
14	Vârdol Florian	Director	Legal Division
15	Idu Olga	Director	Legal Endorsement and Disputes Unit
16	Mateș Angela	Director	HR Division
17	Niculescu Oana	Director	Budgeting Strategy Division
18	Mareș Gabriela	Director	Regulations and Licence Division
19	Fodor Mihai Iuliu	Director	Budgeting Finances Division
20	Comăniță Adela	Director	Accounting Division
21	Deac Sorin Gabriel	Director	Works Preparation and Execution Division
22	Rău Ioan	Director	Commercial Division
23	Șai Alexandru	Director	Gas Metering, Gas Quality Division
24	Pătărniche Mihai	Director	The National Gas Dispatching Centre
25	Bunea Florin	Deputy Director	Gas Market Operator Division Bucharest
26	Barbu Viorel	Director	NTS Reconditioning Division
27	Ilies Ovidiu	Director	European Funds Division
28	Petrescu Monica Alexandra	Director	Special Projects Procurement Unit
29	Drusan Nicolae	Director	Protection and Security Division
30	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Division
31	Pânzar Adela	Deputy Director	Public Purchase and Procurement Division
32	Drăghici Aurelian	Director	Projects Analysis, Verification and Endorsement Unit
33	Mihalache Eugen	Head of Representative Office	Transgaz Representative Office in Brussels
34	Duțu Tudor	Head of Representative Office	Transgaz Representative Office in Chișinău
35	Ilie Lața	Director	Medias Subsidiary
36	Rusu Ioan	Director	Medias Regional Office
37	Schmidt Eduard Hăineală	Director	Bacău Regional Office
38	Țandru Marcel	Director	Cluj Regional Office
39	Gherge Cristian	Director	Constanța Regional Office
40	Niță Viorel	Director	Craiova Regional Office
41	Dumitru Nicusor	Director	Brăila Regional Office
42	Cristoloveanu Gheorghe	Director	Brașov Regional Office
43	Gurgu Victor	Director	Bucharest Regional Office

44	Bachios Gheorghe	Director	Arad Regional Office
----	------------------	----------	----------------------

Table 40-SNTGN Transgaz SA Mediaș executive management

In order to optimize the activity the management of the company shall act as responsibly as possible and shall effectively use modern management methods and techniques so as to streamline all the processes and activities performed within the company.

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