

THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ SA

REPORT ISSUED BY THE BOARD OF ADMINISTRATION

- Semester I 2018-



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THE ADMINISTRATORS' MESSAGE TO SHAREHOLDERS, INVESTORS

Dear shareholders,
Dear investors,

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

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

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

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

*In the context of profiling major new sources of natural gas supply, **the natural gas from the Caspian Sea region and those recently discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2018-2027, plan sent for approval at ANRE** are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.*

*In recognizing the importance of TRANSGAZ both as a driver of activities in the national economy and as a vector of the economic growth of the country, by its role in the development of the energy sector and in the transformation of Romania into an energy power of Europe, the company's administrators undertook to further launch and implement one of the largest and most important gas transmission infrastructure development plan in Romania over the past 20 years, with investment projects **estimated at 1.9 billion euros**.*

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

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

Given the need to finance a complex and extensive investment plan, Transgaz envisages, in addition to its own sources of funding, attracting and using additional external funding under advantageous conditions as well. We refer to obtaining European funds, funding from international financial institutions, from other banking and financial institutions as well as financing instruments specific to the capital market.

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

Yours sincerely,

ION STERIAN - Administrator –Director General

PETRU ION VĂDUVA – Administrator

BOGDAN GEORGE ILIESCU – Administrator

REMUS GABRIEL LĂPUȘAN – Administrator

NICOLAE MINEA– Administrator

1. ISSUER IDENTIFICATION DATA

1.1 Report and issuer identification data

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

For the semester concluded on: 30 June 2018

Report date: 09 August 2018

Company name: The National Gas Transmission Company TRANSGAZ SA

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

VAT Number: RO13068733

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

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

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

1.2 Mission, Vision, Organizational Values

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

Mission

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

Transgaz' mission is:

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

Vision

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

Vision as a message to the Romanian company

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

Vision as a message to the shareholders

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

Vision as a message to employees

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

The organisational values defining Transgaz' business ethics are:

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

Transgaz' core strengths

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

1.3 Shareholding

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

Transgaz's shareholding structure on 26.06.2018 was as follows:

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by the Ministry of Economy (ME)	6.888.840	58,5097
Free float - Other shareholders (natural and legal persons) out of which:	4.885.004	41,4903
- natural persons	1.158.741	9,8417
- legal persons	3.726.263	31,6487
Total	11.773.844	100,00

Table 1- Shareholding on 26.06.2018

Transgaz shareholding structure as at 26 June 2018

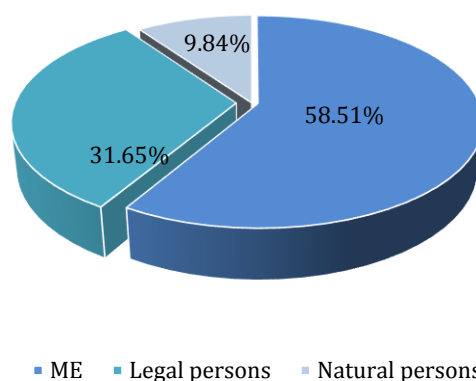
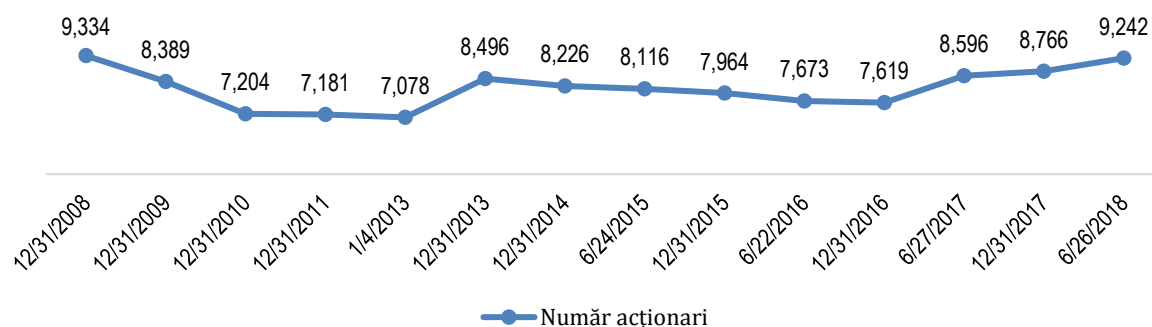


Chart 1- Transgaz's shareholding on 26.06.2018

The share capital of Transgaz on 30 June 2018 is of 117.738.440 lei and is divided into 11.773.844 registered shares, each share having a nominal value of 10 lei.

Regarding the **number of shareholders**, according to Transgaz shareholders' register at the reference date of 26.06.2018, a number of 9.242 TGN shareholders are registered, namely 646 more shareholders than on 27.06.2017.



Number of shareholders
Chart 2- Number of Transgaz shareholders from the listing and until 26.06.2018

1.4 Structure

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

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

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

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

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

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

- Transgaz registered office: Mediaş, 1 C. I. Motaş Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaş, 11 George Enescu Street, Sibiu County, code 551018;
- Design and Research Department: Mediaş, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanţi Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street;
- Transgaz Representative Office - Chişinău – Republic of Moldova;
- European Funds and International Relations Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.
- Design and Research Workshops - Braşov, 2 Nicolae Titulescu Street.
- Limited liability company EUROTRANSGAZ: MD-2004, Bvd. Ştefan cel Mare şi Sfânt, 180, of.506, Chişinău city, Republic of Moldova.
- Transgaz secondary office: Mediaş, 3 I.C. Brătianu, building 3, flat 75, Sibiu County.

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

- 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 Subsidiary, 59 Sibiului Street, Mediaş, Sibiu County.

2. EXECUTIVE SUMMARY

2.1 Indicators of the economic and financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. during January-June 2018 was conducted based on the indicators included in the revenue and expense budget approved by OGMS Decision No.1/27.04.2017.

The value of the standard performance indicators at 30 June 2018 as compared to their value at 30 June 2017 is as follows:

No.	Performance criteria	Performance objective	MU	Weighting coefficient	Achieved	
					Sem I 2018	Sem I 2017
1.	Commissioned investments	Plan achieved	LEI thousand	0,15	18.391	15.209
2.	EBITDA	EBITDA increase	LEI thousand	0,15	425.749	567.370
3.	Labour productivity	Increasing labour productivity in units of value (turnover / average no. of employees);	LEI/ pers.	0,15	203.156	222.040
4.	Outstanding payments	Payments made during the contract duration (in current prices)	LEI thousand	0,15	0	0
5.	Outstanding receivables	Diminished amount of outstanding receivables (in current prices)	LEI thousand	0,1	301.240	313.768
6.	Technological consumption	Remaining within the gas quantities representing technological consumption	%	0,15	41%	21%
7.	OPEX at LEI 1000 operating revenue	Diminishing of OPEX at LEI 1000 operating revenue	LEI	0,15	614	530

Table 2–Performance standard indicators in semester I 2018 vs semester I 2017

The main economic and financial indicators achieved in semester I 2018 as compared to semester I 2017 are as follows:

No	Indicator	MU	Sem. I 2018	Sem. I 2017	Variation %
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0	1	2	3	4	5=3/4*100
1.	Turnover	mil. lei	883,52	1.027,60	85,98
2.	Operating revenue before the balancing and the construction activity acc. to IFRIC12	mil. lei	823,91	980,48	84,03
3.	Operating expense before the balancing and the construction activity acc. to IFRIC12	mil. lei	506,15	519,98	97,34
4.	Operating Profit before the balancing and the construction activity acc. to IFRIC12	mil. lei	317,76	460,50	69,00
5.	Revenue from balancing	mil. lei	90,48	76,69	117,98
6.	Cost of balancing gas	mil. lei	90,48	71,91	125,82
7.	Revenue from the construction activity acc. to IFRIC12	mil. lei	34,92	17,53	199,18
8.	Cost of assets built according to IFRIC12	mil. lei	34,92	17,53	199,18
9.	Operating profit	mil. lei	317,76	465,28	68,29
10.	Financial Profit	mil. lei	13,10	13,10	100,03
11.	Impozit pe profit	mil. lei	51,25	77,88	65,81
12.	Net profit	mil. lei	279,61	400,49	69,82

Table 3- Evolution of the main economic and financial indicators in sem I 2018 vs sem I 2017

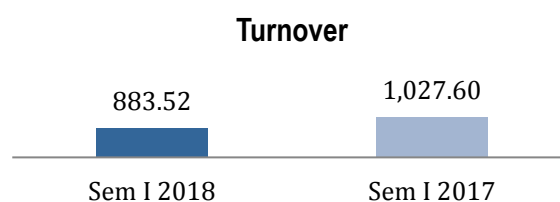


Chart 3-Turnover in sem I 2018 vs sem I 2017 (LEI thousand)

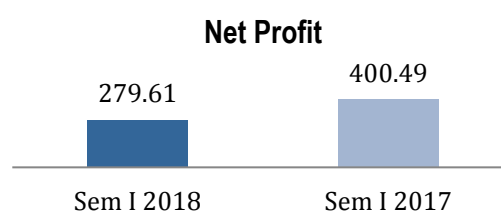


Chart 4-Net profit in sem I 2018 vs sem I 2017 (Lei thousand)

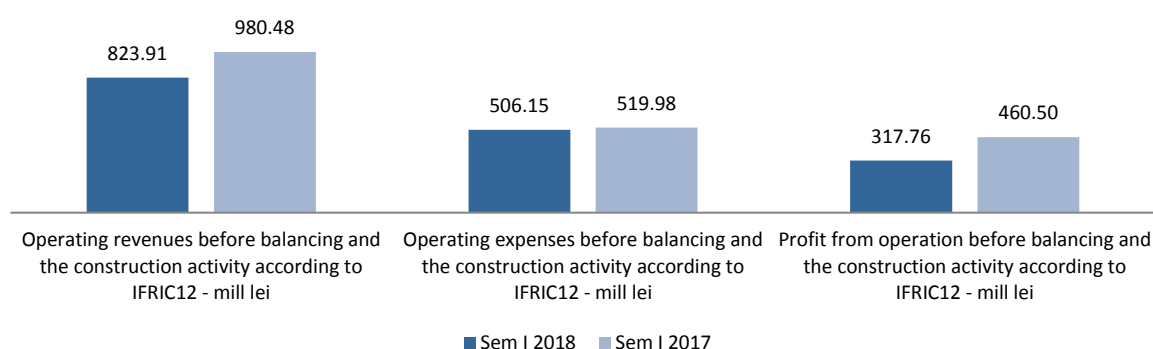


Chart 5 - Operating revenue, expense and profit before the construction activity according to IFRIC 12 in sem I 2018 vs sem I 2017

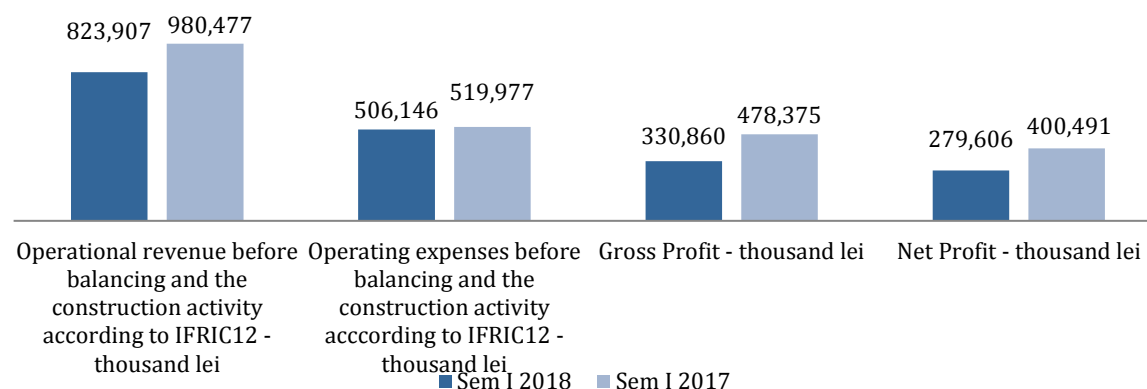


Chart 6 -Evolution of the main economic and financial indicators in sem I 2018 vs sem I 2017-lei thousand

Transgaz holds the monopoly in Romania in terms of natural gas transmission and circulates approximately 90% of the total natural gas consumed.

At 30 iunie 2018 the Company's assets in bank accounts amounted to lei 512.157.224 of which 64% were liquid assets denominated in foreign currency, most of them in EUR.

Transgaz' performance in semester I 2018 vs semester I 2017 is also reflected by the evolution of the following indicators:

Indicators	Calculation formula	Sem I 2018	Sem I 2017
Profitability indicators			
EBITDA in total sales	EBITDA	48,19%	55,21%
	Turnover		
EBITDA in equity	EBITDA	12,28%	15,36%
	Equity		

Indicators	Calculation formula	Sem I 2018	Sem I 2017
Gross profit share	Gross profit	37,45%	46,55%
	Turnover		
Return on equity	Net profit	8,07%	10,85%
	Equity		
Liquidity indicators			
Current liquidity indicator	Current assets	2,52	2,50
	Short term debts		
Immediate liquidity indicator	Current assets - Stocks	2,40	2,39
	Short term debts		
Risk indicators			
Indebtness indicator	Borrowed capital	6,72%	0,00%
	Equity		
Interest coverage ration	EBIT	327,64	X
	Interest expense		
Management indicators			
Days sales outstanding - clients	Average accounts receivable x 365 days	122,05	116,18
	Turnover		
Days payable outstanding - suppliers	Average accounts payable x 365 days	18,98	11,99
	Turnover		

Table 4- Profitability, liquidity, risk and management indicators in sem I 2018 vs sem I 2017

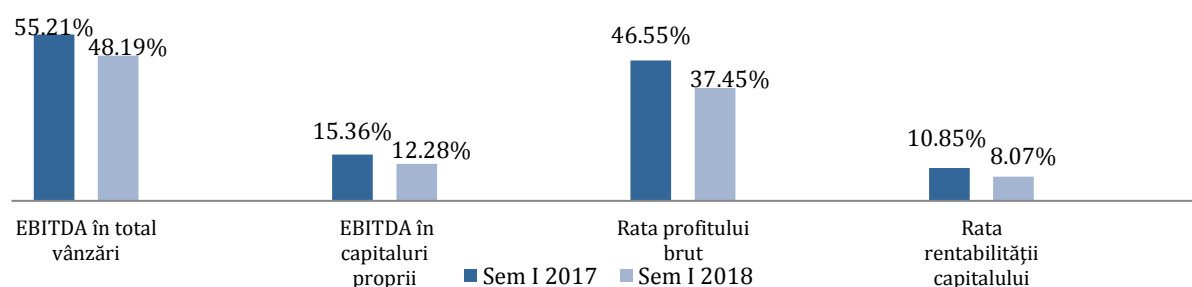


Chart 7 - Evolution of the profitability indicators in sem I 2018 vs sem I 2017

2.2 Key financial and non-financial performance indicators (KPIs)

Key financial performance indicators for the calculation of the variable component of the remuneration

No.	Indicator	Objectiv	2018		Achievement
			Budgeted 2018	Achieved Sem I	
1	Outstanding payments	Maintaining outstanding payments to zero	0	0	100%

No.	Indicator	Objectiv	2018		Achievement
			Budgeted 2018	Achieved Sem I	
2	Operating expenses (except for depreciation, balancing, construction activity and provisions for the impairment of assets and for risks and expenses) (LEI thousand)	<i>Maintaining the level of the operating expenses at the level undertaken in the Administration Plan</i>	1.002.101	404.850	248%
3	Current liquidity rate `Acid Test`	<i>Current liquidity rate (acid test) to register annual values over 1.</i>	1.39	2,40	173%
4	Net leverage rate	<i>Maintaining a net leverage rate under the limits set in the loan agreement (EIB) for obtaining bank financing, namely: 3 -2017; 3-2018; 5,5 -2019; 5,5 -2020; 4-2021</i>	3,00	0,55	548%
5	EBITDA (lei thousand)	<i>Achieving the EBITDA target undertaken in the Administration Plan</i>	458.599	425.749	93%

Table 5 – Estimations of the key financial performance indicators for the calculation of the variable component of the remuneration in sem I 2018

Key non-financial performance indicators for the calculation of the variable component of the remuneration

No	Indicator	Objectiv	No	Semester I		Achievement
				Planed	Achieved	
Operational						
6	Monitoring the investment and implementation strategy	<i>Implementation of the FID Project under the TYNDP</i> <i>I = (achieved +initiated) / proposed actions</i> 1. Development on the Romanian territory of the National Gas Transmission System on the Corridor Bulgaria-Romania-Hungary-Austria (BRUA Phase 1).	6.1	- Obtainig of comprehensive decision (acc. to Regulation EU 347/2013)	Achieved (March 2018)	100%
7	Increasing energy efficiency	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0.72 In semester I 2018	138.8

Oriented towards public services						
8	Performance indicators of the gas transmission service	Achievement of the targets under the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 applicable as of October 2016)	8.1	$IP_0^1 \geq 90\%$	97.69%	0%
			8.2	$IP_1^1 \geq 95\%$	33.33%	
			8.3	$IP_1^2 \geq 95\%$	33.33%	
			8.4	$IP_1^3 \geq 95\%$	100%	
			8.5	$IP_1^4 \geq 95\%$	-	
			8.6	$IP_1^5 \geq 95\%$	-	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	22.22%	
			8.10	$IP_3^2 \geq 95\%$	-	
			8.11	$IP_3^3 \geq 95\%$	0%	
			8.12	$IP_3^4 \geq 95\%$	50%	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	77.89%	
			8.15	$IP_5^2 \geq 98\%$	33.33%	
			8.16	$IP_6^1 \geq 98\%$	5.1%	
			8.17	$IP_6^2 \geq 98\%$	43.88%	
			8.18	$IP_7^1 \geq 80\%$	100%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
Corporate governance						
9	Implementation of the internal/managerial control system	Implementation of the provisions of SGG Order no. 600/2018 for the approval of the Internal/Managerial Control Code for public entities as further amended I = implemented standards /provided standards in Order 600/2018 *100 Achievement of the measures provided for in the Program for the implementation of the SCI/M I = measures achieved within the deadline /proposed measures *100	9.1	94%	94% No ME 270251/30.01.2018 Letter no DSMC/2497/17.01.2018	It is monitored annually

10	Client satisfaction	Achievement of the targets provided for in the administration plan (According to PP 165 Client satisfaction evaluation a score between 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly)	10.1	7.8	7.7 for 2017	It is monitored annually
11	Establishing the risk management policies and risk monitoring	Achievement of the targets provided for in the administration plan for the implementation of the requirements of Standard 8 of Order SGG no. 600/2018 on the approval of the Internal/management control Code for public entities as further amended.	11.1	-Preparation of the risk management strategy	Achieved The risk management strategy was prepared and is currently expecting approval	100%
			11.2	- Preparation of the Risk Management system procedure;	Achieved The Risk Management system procedure PS 05 SMI was prepared and approved.	
			11.3	- Preparation of the EGR activity pocedure;	Following the impact analysis of the entry into force of Order 600/2018 of the General Secretariat of the Government on the approval of the Internal Management Control Code of Public Entities, it was decided that the <i>Activity of the Risk Management Team</i> process procedure should no longer be developed. The performance of the EGR activity is set out in the <i>Risk Management System Procedure</i> and in the <i>Rules for the Organizing and Functioning of the Risk Management Team</i>	
12	Timely reporting of the key performance indicators	Compliance with the legal reporting deadlines I = actual reporting deadlines/provided reporting deadlines *100	12.1	Financial communication Calendar to the Bucharest Stock Exchange	100% achieved for sem I	100%
			12.2	Status of the achievement of the TYNDP	Achieved Letter no DSMC 10014/01.03.2018 Deadline 15 March 2018	
			12.3	SCI/M reporting	Achieved Letter no. ME 270251/ 30.01.2018 Letter no. DSMC/2497/ 17.01.2018 No. 31870/07.07.2017 reporting for 2017 (it is reported annually)	

			12.4	Reporting on the achievement of the performance indicators of the gas transmission service	Achieved Letter no 7349/14.02.2018 reporting for 2017 (it is reported annually to ANRE)	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	Achieved by Letter DSMC 30292/19.06.2018 Adresa DSMC 34773/11.07.2018 Deadline – 45 calendar days from the conclusion of the reporting period	
13	Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans	<i>Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline/proposed measures*100</i>	13.1	Preparation of a corruption prevention procedure	The Fraud and Corruption Policy Statement and the Fraud and Corruption Policy were approved by BoA Resolution 26/30.05.2018, and the procedure is under preparation	100%
			13.2	Preparation of corruption risk assessment methodology	In progress	
			13.3	Publication of SCIM assessment results	Achieved	
			13.4	Creating a database of companies which did not execute properly the contracts concluded with TRANSGAZ following the public procurement procedures	The database was constituted at the level of the company	
			13.5	Preparation of the anti-bribery policy at the level of the company	The Fraud and Corruption Policy Statement and the Fraud and Corruption Policy were approved by BoA Resolution 26/30.05.2018	
			13.6	Identification and assimilation of good practices according to the Guidelines for Good Practices of OCDE	In progress	
			13.7	Organization of training courses on themes related to integrity, corruption and fraud (execution staff);	Prepared according to the Professional Formation and Training Plan	
			13.8	Initiating an information campaign for employees on the phenomenon of fraud and corruption (execution staff);-	Internally: it was sent to all employees. The Declaration for adhering to SNA and to the Integrity Plan of the company. Externally: according to Order 1244/2017, to be achieved by the Antifraud Department within DCC/MEc performed 3 activities for preventing corruption in which the company management participated.	

					Trening was performed on 14.02.2018 (Transgaz Representative Office) and on 5-6.06.2018 (Transgaz)	
			13.9	Identifying fraud and corruption high risk areas (external consultant)	It was issued Decision No. 434/10.05.2018 on the establishment of the Corruption Prevention Working Group, whose main task is to coordinate all stages necessary for the management of corruption risks	
			13.10	Prioritization of audit and control actions by intensifying them in areas exposed to fraud and corruption	Achieved by the annual audit and control plans	
			13.11	Annual evaluation of the mode of impelmentation of the Integrity Plan and adapting it to the risks and vulnerabilities occurred recently	Achieved (sent by Letter no DSMC 4226/29.01.2018, together with Annex 1 – Situation of incidents related to intergity, Annex 2- Reporting measures implemented SNA Ministry of Justice and Report dated 30.01.2018 on the status of achievement of Transgaz Integrity Plan))	
			13.12	Annual publication of the performance indicators monitored within the Integrity Plan of the company	Achieved (by the publication of the Annual evaluation of the Intergity Plan on intranet)	

Table 6 – Estimation of non-financial key performance indicators for the calculation of the variable component of the remuneration in sem I 2018

3. THE DEVELOPMENT STRATEGY

3.1 Strategic projects

In consideration of compliance with European Directive EC/73/2009 Art. 22 on the obligation to prepare the **Ten-Year Development Plans** for all gas transmission system in the European Union, and Article 125 (6) of Law 123/2012, SNTGN Transgaz SA Mediaş, as the technical operator of the National Transmission System for gas in Romania prepared the **2018-2027 TYNDP**, which was sent to ANRE for approval, by updating and supplementing the **2017-2026TYNDP**, which was approved by ANRE by Decision 910/22.06.2017.

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

The 2018– 2027 TYNDP complies with the European energy policy on:

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

Thus, the projects proposed in the 2018– 2027 TYNDP are:

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

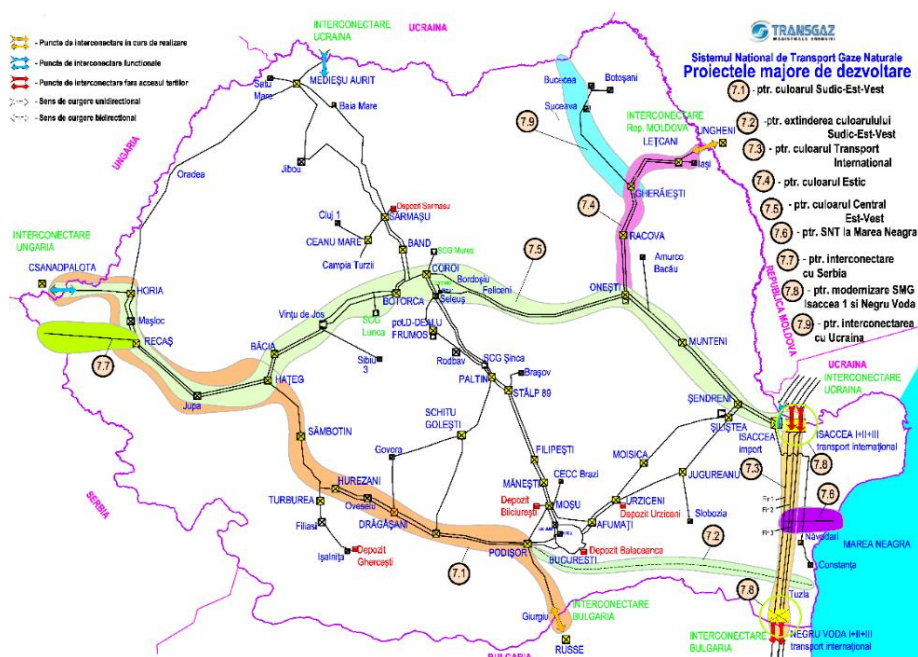


Figure 1- Map of the NTS major projects

1. Development on the national gas transmission system on the Bulgaria – Romania – Hungary – Austria corridor (BRUA)

Currently, at European level the implementation of several major projects allowing for the diversification of Europe's gas supply sources by the transmission of Caspian gas and of the gas available from the LNG terminals to Central Europe:

- enhancement of the South Caucasus Pipeline;
- construction of the Trans-Anatolian Pipeline (TANAP);
- construction of the Trans Adriatic Pipeline (TAP);
- Construction of the interconnection Greece - Bulgaria (IGB).

The implementation of these projects creates the possibility to transmit Caspian gas to the Southern border of Romania.

Under these circumstances, the National Transmission System needs to be adjusted to the new perspectives, by extending the transmission capacities between the existing interconnection points of the Romanian gas transmission system with the Bulgarian system (at Giurgiu) and the Hungarian system (at Nădlac).



Figure 2– The interconnection points of the Romanian gas transmission system with the similar Bulgarian and Hungarian systems

The NTS entry-exit points Giurgiu and Nădlac are linked through a system of pipelines with a long service life, with diameters of maximum 24" and design pressures of maximum 40 bar. The existing gas transmission capacities do not allow for the transmission of important gas volumes.

The project 'Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor', concerns developments of the gas transmission

system capacities between the interconnections between the Romanian gas transmission system and the similar systems of Bulgaria and Hungary consisting in construction a new transmission pipeline to connect the Podișor Technological Node to the Horia GMS.

This project imposed itself as a necessity in the second half of 2013 based on the following:

- the deselecting of the Nabucco project as the route preferred for Caspian gas transmission to the Central European markets;
- ensuring adequate gas transmission capacities at the cross-border interconnection points between Romania and Bulgaria and between Romania and Hungary for increasing the degree of interconnectivity at the European level;
- ensuring gas transmission capacities for the use of Black Sea gas on the Central European markets.

Also it was also included in the updated list of projects of common interest published in November 2017 as an Annex to Regulation 347/2013. Thus, the updated list of the Union's List of Projects of Common Interest (List 3/2017) comprises the Project in sections 6.24.1 at the second position and 6.24.4 at the forth position within "Group of projects involving the phased increase of the capacity of Bulgaria - Romania - Hungary - Austria bi-directional corridor (currently known as ROHUAT/BRUA) allowing for the transmission of 1.75 billion cm/year in the first phase and 4.4 billion cm/year in the second phase, with the possibility of including also the new resources from the Black Sea ".

The BRUA Project is included within this group of projects, its implementation being carried out in two phases:

- Development on the Romanian territory of a gas transmission capacity on the Podișor-Recaș corridor, including a new pipeline, a metering station and 3 new compressor stations at Podișor, Bibești and Jupa – 6.24.1 second position in List 3 PCI/2017-Phase 1;
- Extension on the Romanian territory of the gas transmission capacity from Recaș to Horia towards Hungary to up to 4.4 bcma and the development of the compressor stations from Podișor, Bibești and Jupa – 6.24.4 the forth position in List 3 PCI/2017-Phase 2.

Moreover, the BRUA Project was included in the list of priorities of the CESEC (Central East Europe Gas Connectivity) working group as follows:

- Phase I of the BRUA Project was included in the list of priority projects;
- Phase II of the BRUA Project was included in the list of conditional priority projects.

The BRUA project is included in the 2017 TYNDP European gas transmission network identified with the code TRA-N-358, and is proposed to be included in the 2018 TYNDP European gas transmission network. At the request of ENTSOE and for the aligning to the updated list of the Projects of Common Interest (List 3/2017), this project is divided into two separate projects in the 2018 TYNDP.

- Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-Phase 1;
- Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-Phase 2.

1.1 Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-Phase 1

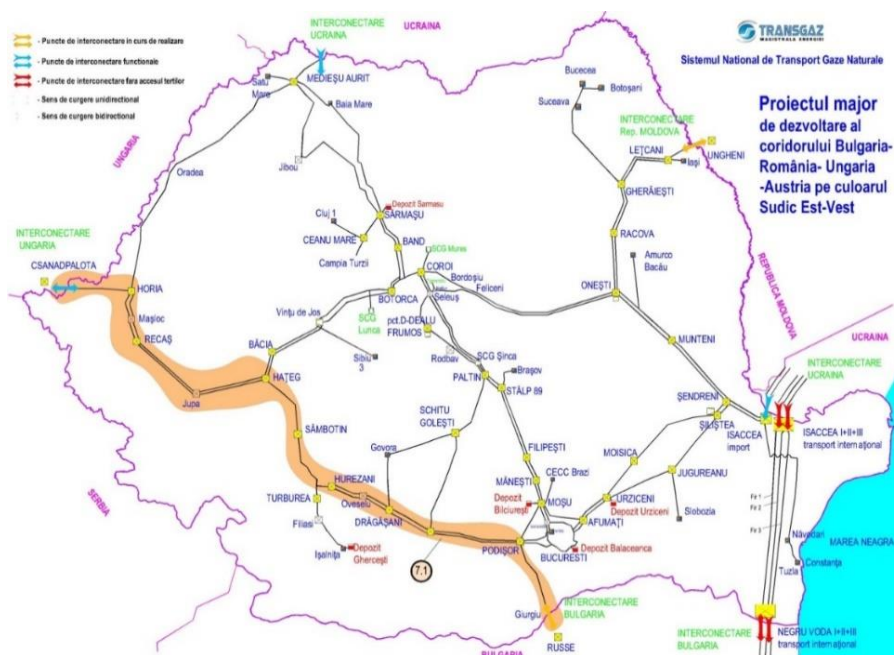


Figure 3- Map of the the major project for the development of the Bulgaria - Romania - Hungary - Austria Corridor – Phase 1

Project description

BRUA Phase I consists in achieving the following objectives

- Podișor – Receaș 32" x 63 bar gas transmission pipeline 479 km long;
- Three gas compressor stations (CS Podișor, CS Bibești and CS Jupa), each station being equipped with two compressors (one in operation, one back up), with the possibility to ensure bi-directional gas flow. The project aims to create gas transmission capacity between the interconnection points of the Romanian and the Hungarian gas transmission systems, and the Romanian and Bulgarian systems.

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

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

Estimated project development calendar

Development stages	Status/Estimated completion date
Pre-feasibility study	completed
Feasibility Study	completed
Obtaining the environmental permit	completed
Technical documentation for obtaining construction permits	completed both for the pipeline and for the compressor stations
Obtaining construction permits	completed in February 2017 both for the pipeline and for the compressor stations

Development stages	Status/Estimated completion date
Obtaining the comprehensive decision (in line with the provisions of EU Regulation no 347/2013)	Obtained in March 2018
FID Phase I	Completed in 2016
Construction Phase I	November 2019
Commissioning Phase I	December 2019
Operation start Phase I	December 2019

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

Estimated completion date: 2019

Estimated value: Euro 478,6 million

Considering its status of project of common interest, even from the first PCI list, Transgaz obtained a grant by the Connecting Europe Facility for the design of the three compressor stations.

Also, in October 2015, Transgaz filed an application within the grant application session to obtain a grant for the BRUA Phase I execution works.

On 19 January 2016, the CEF-Energy Coordination Committee Meeting (responsible for the management of the procedures for the granting of European financial assistance to Projects of Common Interest in Energy) took place in Brussels and the list of projects of common interest was validated by vote, projects proposed to receive European grant under the Connecting Europe Facility 2015. The grant amount for BRUA Phase 1 is of approx. EUR 179.3 million, representing 40% of the eligible costs.

In September 2016 the **Grant Contract** in the amount of maximum EUR 179.3 million .

Inclusion of the project in international plans

- **PCI project (first list):** 7.1.5.
- **PCI project (the secons list):** Phase I: 6.24.2.
- **PCI project (the third list):** Phase I: 6.24.1 position 2.

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

Project status

Considering its status of project of common interest, even from the first PCI list, Transgaz obtained a grant by the Connecting Europe Facility for the design of the three compressor stations.

For the design of the three compressor stations a Grant Agreement was signed with the **Innovation and Networks Executive Agency (INEA)**, for a grant in the amount of EUR 1,519,342 representing 50% of the total estimated amount of the design costs of the compressor stations.

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

The final grant request was accepted by INEA and in May 2018 TRANSGAZ received 341,644.68 Euro. The total amount of the grant (pre-financing and final financing) was 797,447.28 Euro.

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

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

In March 2018, the first Intermediate Report on the BRUA Phase I implementation stage was submitted on the INEA portal together with a new pre-financing application for the amount of 13,839,087.46 euro. In May, 13,839,087.37 euro representing the pre-financing requested was collected.

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

In 2017 and 2018 the activities related to the preparation for the commencement of the works for the implementation of the BRUA Project – Phase I continued. The status of the public procurement is as follows:

- the contract for the procurement of the compressors and the contract for the procurement of the electro insulating joints – were signed in August 2017.
- the contracts for the procurement of the execution of the pipeline, related to lots 1, 2 and 3 were signed in November 2017.
- the contract for the procurement of the valves was signed in February 2018.
- the contract for the compressor stations execution works was signed in March 2018.
- the contract for the procurement of the pipe material and curves was signed in April 2018.

Also the procedure for procurement of the pipeline automation and securing works is in progress and the deadline for contract signature is July 2018.

The status of the contracts signed and the start of the works are as follows:

CONTRACTS SIGNED FOR BRUA						
No	Works contracts awarded	Providers/ Contractors	Country of origin	Date of signature	Contract value	Order to start the works
1.	Electrical insulated monoblock joints	INDUSTRIAL M.D TRADING S.R.L	Romania	04.08.2017	528,000.00 EUR	11.10.2017
2.	Compressors	ASSOCIATION Solar Turbines Europa SA, Leader of the Association Sutech SRL	Belgium Romania	10.10.2017	37,851,326.00 EUR	10.10.2017
3.	Execution LOT 1 Pipeline	ASSOCIATION Associate 1, INSPET S.A - Leader of the Association Associate 2, PETROCONST S.A Associate 3, ARGENTA S.A Associate 4, IRIGC IMPEX S.R.L Associate 5, COMESAD RO S.A	Romania Romania Romania Romania	28.11.2017	118,503,553.03 RON	04.06.2018

4.	Execution LOT 2 Pipeline	ASSOCIATION Associate 1 - HABAU PPS PIPELINE SYSTEMS S.R.L. - Leader of the Association , Associate 2 - INSPET S.A. Associate 3 - IPM PARTNERS ROMANIA S.A. Associate 4 - PETROCONST S.A. Associate 5 - MOLDOCOR S.A. Associate 6 - ARGENTA S.A. Associate 7 - ANTREPRIZA MONTAJ INSTALATII S.A. Associate 8 - ROMINSTA S.R.L. Associate 9 - COMESAD RO S.A.	Romania Romania Romania Romania Romania Romania Romania Romania	28.11.2017	155,695,508.67 RON	04.06.2018
5.	Execution LOT 3 Pipeline	ASSOCIATION Associate 1 - HABAU PPS PIPELINE SYSTEMS S.R.L. - Leader of the Association Associate 2 - IPM PARTNERS ROMANIA S.A. Associate 3 - MOLDOCOR S.A. Associate 4 - ANTREPRIZA MONTAJ INSTALATII S.A. Associate 5 - ROMINSTA S.R.L.	Romania Romania Romania Romania Romania	28.11.2017	154,849,135.06 RON	04.06.2018
6.	Valves	TOTALGAZ INDUSTRIE S.R.L.	Romania	28.02.2018	4,875,500.00 EUR	22.03.2018
7.	Execution Compressor Stations	ASSOCIATION Associate 1 - INSPET S.A. S.R.L. - Leader of the Association Associate 2 - PETROCONST S.A.; Associate 3 - MOLDOCOR S.A.; Associate 4 - HABAU PPS PIPELINE SYSTEMS Associate 5 - IRIGC IMPEX S.R.L Associate 6 - Sutech SRL Associate 7 - TIAB S.A. Associate 8 - ROCONSULT TECH S.R.L.	Romania Romania Romania Romania Romania Romania Romania Romania	23.03.2018	288,742,446.15 RON	14.04.2018
8.	Pipe material and curbes	Tosçelik Spiral Boru Üretim Sanayi A.Ş	Turkey	23.04.2018	126,906,259 EUR	12.05.2018

On 14 April 2018 it was issued the order to start the works for the execution of the three compressor stations. Thus the execution works were initiated, the site management being performed in a first stage.

In May 2018 the site was handed over for the execution of the pipeline, site management, pipe warehouses and the pipeline route of 479 km length, and on 4 June 4 2018, the order for the start of the pipeline execution works was issued.

CONSTRUCTION PERMIT AND COMPREHENSIVE DECISION

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

The construction permit was extended by the period comprised between 24.02.2018–23.02.2019.

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

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

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

Transgaz took the following steps for obtaining the Comprehensive Decision:

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

Following the actions taken, on 21.03.2018 the Comprehensive Decision was issued.

ARCHAEOLOGICAL ASPECTS

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

In semester I 2018, activities were carried out for the conclusion of the following subsequent contracts:

- archaeological surveillance of overground installations;
- intrusive archaeological diagnosis;
- preventive archaeological research of the sites identified during the technical design stage.

Archaeological surveillance services - subsequent contracts were signed for pipe deposits, site management and compressor station, thus:

Contracts signed	Date of contract signature	Site management/Warehouses/CS's	Order to start the works
ARVADA	13.04.2018	SM Căldăraru	06.06.2018
		SM Turcinești	22.06.2018
		Frasin (Vladimir) Warehouse	22.06.2018
		CS Jupa	
		SM Băuțar	
		Obreja Warehouse	18.06.2018
GAUSS	16.04.2018	CS Podișor	
		Poeni Warehouse	
		Lugoj Warehouse	13.06.2018
		SM Recaș	13.06.2018
TOTAL BUSSINES LAND	16.04.2018	Corbu Warehouse	18.06.2018
		Teslui Warehouse	18.06.2018

		SM Gușoieni Vulcan Warehouse Sălașu de Sus (Pui) Warehouse	18.06.2018 18.06.2018
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Earthworks for intrusive archaeological diagnosis:

Contracts signed	Date of contract signature	Pipeline construction
ARVADA	14.04.2018	Pipeline construction Giurgiu Dâmbovița Teleorman Caraș-Severin Hunedoara
GAUSS	13.06.2018	CS Bibești Pipeline construction: Vâlcea și Gorj
TOTAL BUSSINES LAND	29.05.2018	Pipeline construction: Timiș

BIODIVERSITY ASPECTS

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

STEPS FOR OBTAINING THE GRANTS NECESSARY FOR THE IMPLEMENTATION OF BRUA PHASE I FROM THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) AND THE EUROPEAN INVESTMENT BANK (EIB)

From 2016 SNTGN Transgaz S.A. worked closely with EBRD specialists to carry out the technical, economic and environmental due diligence process on SNTGN Transgaz S.A. and on the project. The environmental and social documentation prepared according to the EBRD performance standards was submitted for public consultation on 12.07.2017 for a period of 120 days according to the EBRD policy on EBRD's and Transgaz's websites.

On 13 December 2017 the Board of EBRD approved the funding of the BRUA project. On 23 februarie 2018 SNTGN Transgaz S.A. and EBRD signed a loan agreement under which EBRD will make available to the company a loan of up to 278 million lei, the equivalent of 60 million euro, for 15 years.

On 27 October 2017, the loan agreement for the amount of EUR 50 million was concluded for a period of 15 years with EIB, whose tender was awarded winner, following a competitive negotiation procedure in which four bidding banks participated.

We declare that there are no factors to affect or that could significantly and negatively affect the Project or the implementation of the Project under the Project Implementation Plan.

1.2 Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-Phase 2

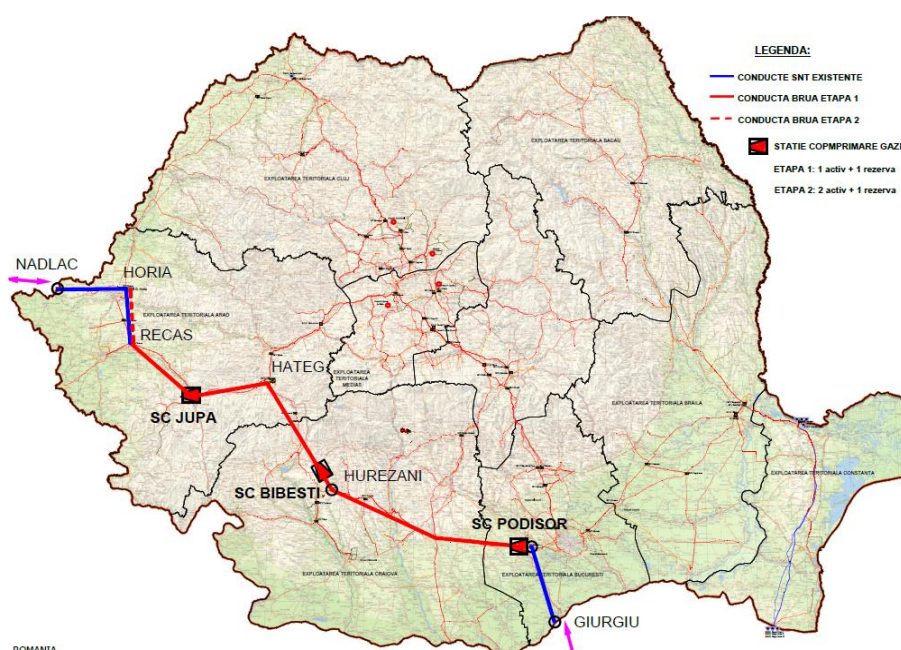


Figure 4- Map of the the major project for the development of the Bulgaria - Romania - Hungary - Austria Corridor – Phase 2

Project description

BRUA – Phase II consists in the construction of the following objectives:

- 32" x 63 bar Receaş–Horia gas transmission pipeline, approximately 50 km long;
- Extension of the three compressor stations (Podișor CS, Bibești CS and Jupa CS) each compressor station being equipped with an additional compressor;
- Extension of the Horia GMS gas metering station.

At the completion of BRUA - Phase II the following will be ensured:

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

Estimated project development calendar

Development stages	Status/Estimated completion date
Pre-feasibility study	completed
Feasibility Study	completed
Obtaining the environmental permit	completed
FEED and permitting documentation for the construction permit	completed
FID Phase II	December 2018/February 2019*
Construction Phase II	2022*
Commissioning Phase II	2022*
Operation start Phase II	2022*

* The completion of Phase II will depend on the successful binding Open Season for capacity booking at the Csanadpalota interconnection point and on the calendar of the procedure.

Estimated completion date: 2022

Estimated value: Euro 68,8 million

Inclusion of the project in international plans

- **PCI project (first list):** 7.1.5.
- **PCI project (the second list):** Phase II: 6.24.7
- **PCI project (the third list):** Phase I II: 6.24.4, position 4.

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

Project status

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

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

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

The Final investment decision for the execution of Phase II will be taken in the end of 2018 depending on the final results of the Open Season procedure.

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

In September 2017 the public consultation was organized and carried out in accordance with EU Regulation No. 347/2013 and the Public Participation Concept was approved on 07.08.2017 by the Competent Authority for projects of common interest.

The final synthetic report on the results of public consultations was published on the project web site. The final synthetic report on the results of the public consultations will be part of the project application file - within the specific authorization procedure, according to EU Regulation no. 347/2013.

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

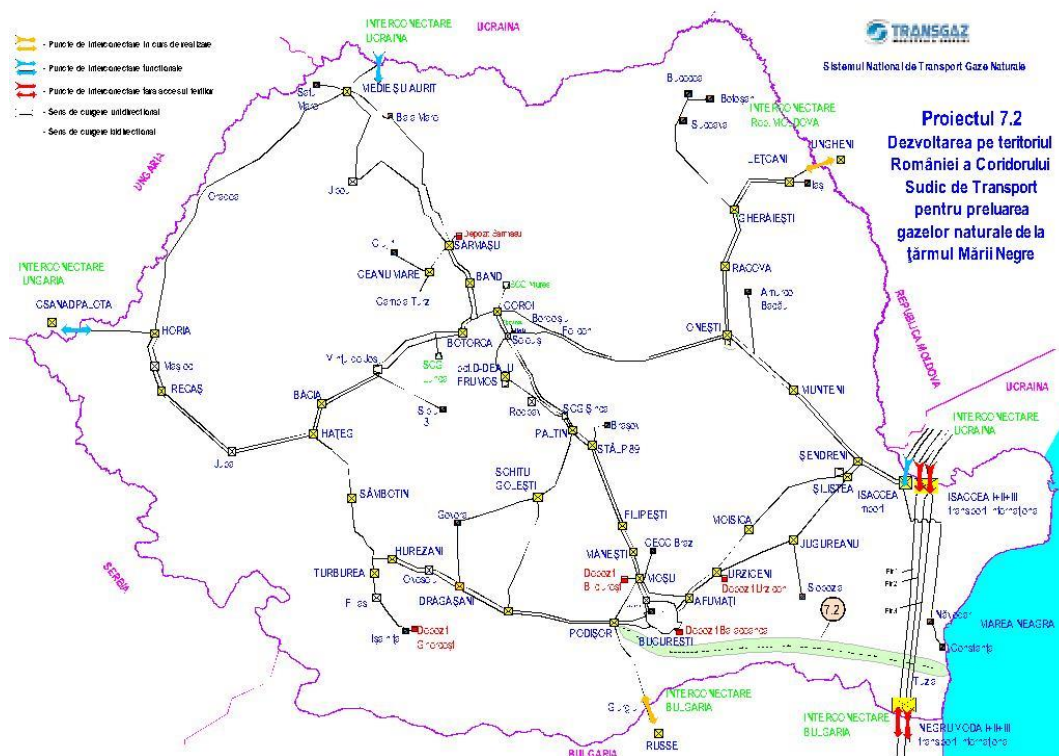


Figure 5 - Black Sea - Podișor Southern Corridor

The major goal of this investment is to build a gas transmission telescopic pipeline Tuzla - Podișor, 308.3 km long and Dn 1200 and Dn 1000 connecting the natural gas resources available at the Black Sea to the corridor BULGARIA - ROMANIA - HUNGARY - AUSTRIA, thus ensuring the possibility of transmission gas towards Bulgaria and Hungary through existing interconnectors Giurgiu - Ruse (Bulgaria) and Nădlac - Szeged (Hungary). This pipeline will also be interconnected with the current T1 international gas transmission pipeline.

Transmission capacity amounts to 8.14 mil. cm/year according to the Open Season procedure published on the website of Transgaz.

Estimated project development calendar

Development stages	Status/Estimated completion date
Prefeasibility study	completed
Feasibility study	completed
Environmental impact assessment	completed
Technical documents for obtaining the construction permits	completed
Obtaining the construction permits	completed
FID Phase I	2018
Construction	2019 - 2020
Commissioning/ Start of operation	2020

Estimated completion date: 2020

The completion dates depend on the execution schedules of the offshore upstream projects.

Estimated value: Euro 360.36 million.

Inclusion of the Project in international plans

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

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

Project status

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

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

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

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

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

In line with the provisions of Regulation (EU) No. 347/2013 the **Notification for the initiation of previous procedure for the submission of the application** was submitted to the Competent Authority and the approval was received in 23.03.2017.

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

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

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

The Town Planning Certificates related to the counties of Constanța, Giurgiu and Călărași.
The identification of the owners affected by the implementation of the project is ongoing.
The procedure for capacity booking in the point PM Tuzla was initiated according to the procedure approved by ANRE by notice no 13/22.06.2017 following the receipt of an incremental capacity request on 19.10.2017.

Currently the analysis of the demand related to the non-binding stage of the process is in progress.

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

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

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

This project is very important because:

- By its implementation a transmission corridor is created between the markets in Greece, Bulgaria, Romania and Ukraine, in the conditions in which the new interconnection between Greece and Bulgaria is achieved;
- The transmission contract for the capacity of the Transit 1 pipeline expired on 1 October 2016. Starting with gas year 2016-2017, the transmission capacity of the Transit 1 pipeline is auctioned according to the European Code on capacity allocation mechanisms at the cross-border interconnection points and to ANRE Order no. 34/2016;
- Physical reverse flows could be ensured at the Negru Voda 1 point in accordance with Regulation (EU) 1938/2017;
- Its implementation enables the taking over of the newly discovered gas in the Black Sea by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.

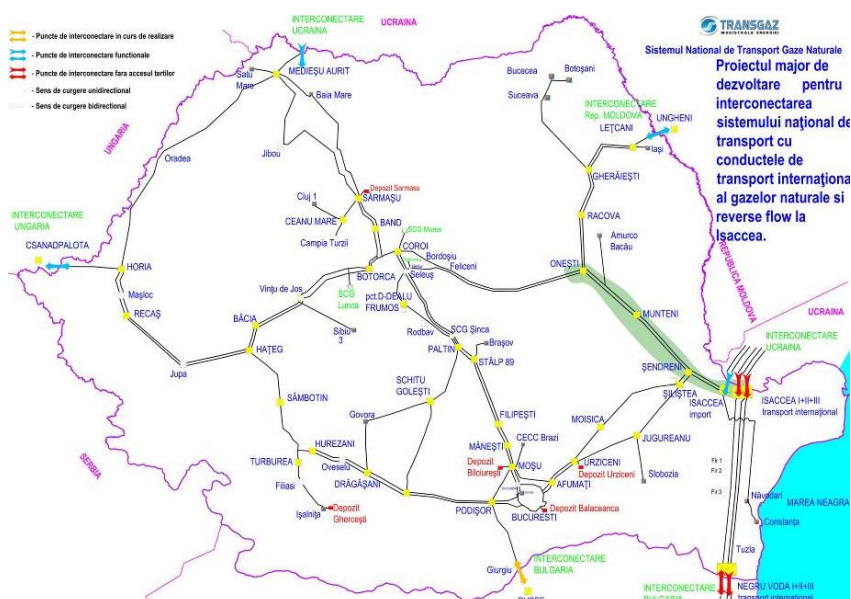


Figure 6- NTS/Transit I Interconnector at Isaccea

The project description:

The project consists of the following:

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

The project does not develop additional capacities at the Negru Vodă NTS entry/exit point.

Estimated project development schedule:

Development stages	Status/Indicative completion date
Phase I	2018
Pre-feasibility study	completed
Feasibility study	completed
Environmental impact assessment	completed
Technical documentation for issuance of construction permits	completed
Issuance of construction permits	completed
Construction	2018

Commissioning/start up	2018
Phase II	2019
Pre-feasibility study	completed
Feasibility study	completed
Environmental impact assessment	December 2018
Technical documentation for issuance of construction permits	January 2019
Issuance of construction permits	January 2019
Construction	2019
Commissioning/start up	2019

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

Investment Estimated value: EURO 101 million.

Cost breakdown:

Phase I	Euro 8.8 million
Phase II	Euro 92.2 million
TOTAL	Euro 101 million

This project was included in the 2017 TYNDP and in the 2018 TYNDP (under preparation) and is also on the third list of **European PCI/2017**, section 6.24.10, position 1, under **Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as ROHUAT/BRUA) to enable 1.75 bcm/a in the 1st phase, 4.4 bcm/a in the 2nd phase, and including new resources from the Black Sea in the 2nd and/or 3rd phase.**

Project status

Transgaz completed the feasibility study on the *Interconnection of the National Transmission System with the T1 international gas transmission pipeline and Isaccea reverse flow* and the documentation for the endorsement of the intervention works (DALI) on the rehabilitation of the Onești-Cosmești pipeline section. The project was divided into two phases depending on the energy infrastructure categories under Regulation (EU) 347/2013:

- Phase 1:
 - NTS interconnection with T1 at Isaccea;
 - Rehabilitation of Dn 800 mm Onești-Cosmești pipeline.
- Phase 2:
 - Upgrading and extension of the Siliștea compressor station;
 - Upgrading of the Onești compressor station;
 - Changes at TN Siliștea și TN Onești;
 - Works at the TN Șendreni

S-a avizat Proiectul Tehnic pentru Interconectarea SNT cu T1 la Isaccea. De asemenea, este în curs elaborarea Proiectului Tehnic privind reabilitarea tronsonului de conductă Onești-Cosmești precum și

Caietul de Sarcini pentru proiectarea și execuția lucrărilor de modernizare a Stațiilor de Comprimare de la Onești și Siliștea

The FEED for the NTS interconnection with the T1 pipeline at Isaccea was approved. Also the FEED for the rehabilitation of the Cosmești – Onești pipeline section and the Technical Specifications for the design and execution of the Onesti and Silistea compressor stations are under preparation

All the town planning certificates related to each phase were obtained.

The identification of the owners affected by the implementation of the project is approaching completion.

The Environmental Notifications were prepared and submitted to the Agency for Environmental Protection (APM) Bacău, APM Tulcea, APM Galați, APM Vrancea și APM Brăila.

All the decisions for the initial evaluation stage were obtained from all of the above mentioned APMs.

The environmental procedures are in progress: preparation of the presentation reports and their submission to APM, participation to the CAT meetings, media coverage, etc.

At the same time the activity related to the preparation and submission to approving authorities of the documentations for obtaining the necessary approvals requested by the town planning certificates are ongoing.

Because of its importance the Project was proposed and fulfilled the eligibility conditions for its inclusion in the **Third List of EU Projects of Common Interest** issued by the European Commission on 23.11.2017. In line with the provisions of Regulation (EU) No. 347/2013 the **Notification in view of the initiation of the previous procedure to the submission of the application** and its approval was obtained on 17.01.2018.

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

4. NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities towards the Republic of Moldova

Taking into account the need for improving gas supply to the North-East Romania and also keeping in mind the perspective offered by the interconnection pipeline between Romania and the Republic of Moldova (Iași-Ungheni) to offer gas transmission capacities to the Republic of Moldova, a series of developments need to be performed in the Romanian gas transmission system to ensure the required technical parameters for the consumption in the relevant regions.

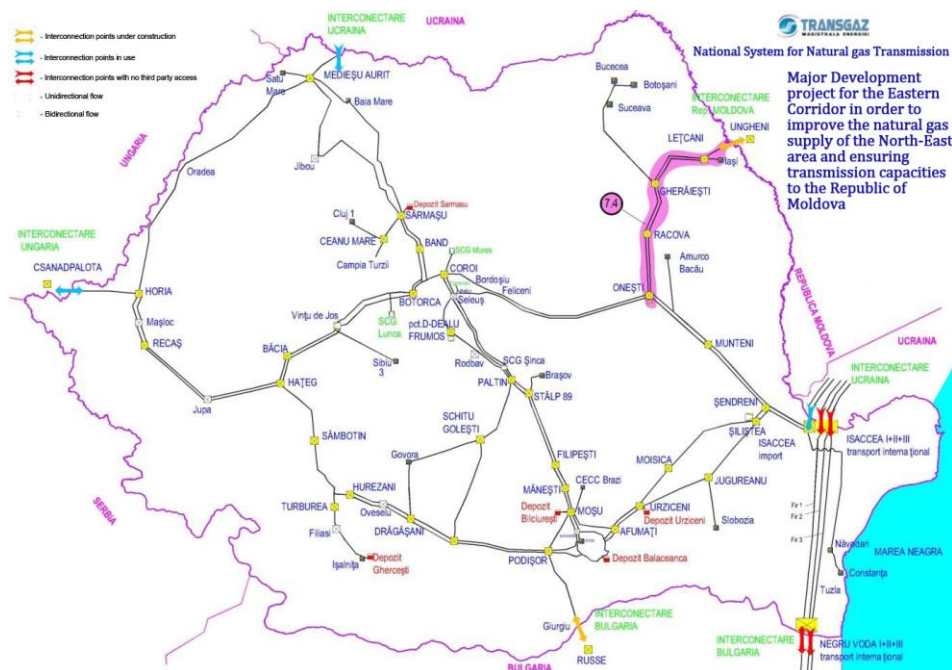


Figure 7 – NTS developments in the North-Eastern area of Romania

Project description:

In order to streamline the implementation and the process for absorbing grants under the EU regional development programmes, the project consists in the achievement of the following milestones:

- Construction of a new DN 700 gas transmission pipeline, Pn 55 bar, in the Onești – Gherăești direction, 104.1 km long. The route of this pipeline will be parallel mainly to the existing pipelines DN 500 Onești – Gherăești;
- Construction of a new gas transmission pipeline DN 700, Pn 55 bar, in the Gherăești – Letcani direction, 61.05 km long. This pipeline will replace the existing DN 400 pipeline Gherăești – Iași on the Gherăești – Letcani section.
- Construction of a new gas compressor station at Onești with an installed power of 9,14 MW, 2 compressors of 4,57 MW each, one active one back up,
- Construction of a new gas compressor station at Gherăești with an installed power of 9,14 MW, 2 compressors of 4,57 MW each, one active one back up.

Indicative project development calendar:

Development stages	Stage/Indicative completion date
Concept study	completed
Feasibility study	completed
FEED for the pipelines	completed
FEED for the compressor stations	completed
Issuance of construction permits for the pipelines	completed

Issuance of construction permits for the compressor stations	completed
Construction	2018 - 2019
Commissioning/start up	2019

Estimated completion: 2019

Estimated investment: EUR 174.25 million.

Gas transmission pipeline Onești-Gherăiești	51,01 mil.Euro
Gas transmission pipeline Gherăiești-Lețcani	36,06 mil.Euro
Compressor station Onești	41,75 mil.Euro
Compressor station Gherăiești	37,06 mil.Euro
Automation and pipeline security	8,37 mil.Euro
TOTAL	174,25 mil. Euro

Project consistency with international plans

The project "**Development of the NTS transmission capacity to ensure the natural gas flow in the Romania - Republic of Moldova direction**" was accepted as eligible according to the conditions set by the Large Infrastructure Operational Program (POIM). Within this program, the Priority Axis (PA) 8 - The Strategic Objective (OS) 8.2 - "Increasing the interconnection degree of the National Gas Transmission System with other neighbouring states", has a financial allocation of about Euro 55 million.

Project status

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

Within the feasibility study the following works were completed:

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

The procedure related to the environmental impact assessment

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

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

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

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

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

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

5. Extension of the bi-directional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3)

Provided that the gas transmission capacities required to transport the Black Sea gas to the Central-Western EU market exceed the transmission potential of the BRUA 2 corridor, Transgaz envisaged the development of the **central corridor** meant to follow the route of existing pipelines which are currently operated at technical parameters inadequate for main pipelines.

Project description

The development of the gas transmission capacity along the corridor Onesti-Coroi-Hateg-Nadlac depends upon the gas from the Black Sea off-shore blocks and from other on-shore fields.

The development of this gas transmission corridor entails the following:

- Upgrading of the existing pipelines belonging to the NTS;
- Replacement of existing pipelines belonging to the NTS or new pipelines installed in parallel with existing ones;
- The development of 4 or 5 new compressor stations with a total installed power of approx. 66 - 82.5MW.
- Increasing gas transmission capacity towards Hungary by 4.4 bcm/year.

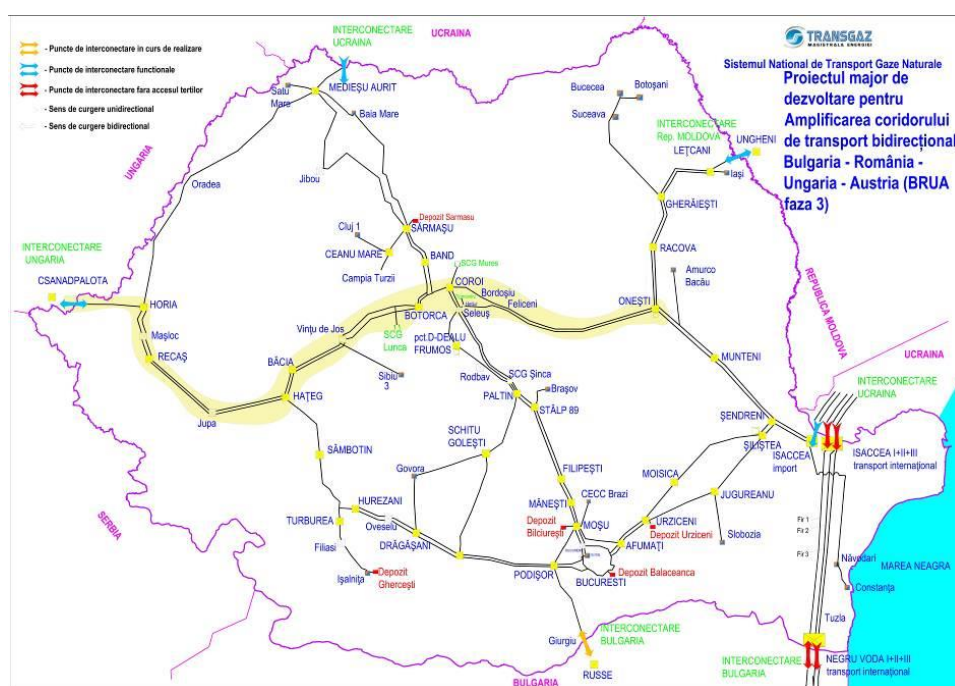


Figure 8 - Development BRUA 3

Transgaz prepared the pre-feasibility study on the development of this gas **transmission corridor**, and in order to optimize and streamline both the implementation process and the possibilities of attracting non-reimbursable funds, the **corridor** has been divided into two projects.

1. Ensuring the reversible flow on the Romania – Hungary interconnection:

- **PCI Project:** 6.24.10 position 2;
- **Priority Corridor:** NSI EAST.

The project consists in the following:

- New gas transmission pipeline Băcia – Hațeg – Horia – Nădlac, approximately 280 km long ;
- Two new gas compressor stations located along the route.

2. NTS development between Onești and Băcia:

- **PCI Project:** 6.24.10 position 2.
- **Priority Corridor:** NSI EAST

The project consists of:

- Upgrading some pipeline sections;
- Replacement of existing pipelines with new pipelines with higher diameters and operating pressure ;
- Two or three new gas compressor stations.

The projects above were grouped in the updated list (List 3/2017) of **projects of common interest** published as annex to Regulation 347/2013 being included at position **6.24** under the name **"Cluster phased capacity increase on the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (currently known as "ROHUAT/BRUA") to enable 1.75 bcm/a in the 1st phase, 4.4 bcm/a in the 2nd phase, and including new resources from the Black Sea in the 2nd and/or 3rd phase"**.

The completion deadline for the entire corridor: 2023

The estimated investment: EUR 530 million.

Project status

The pre-feasibility study has been completed.

Transgaz will start the feasibility study when the Black Sea titleholders make available additional data such as confirmations of capacity demands, first Black Sea gas indicative date, etc.).

We reiterate that the achievement of this corridor depends upon the evolution of the capacity demand, respectively upon the results of the exploration/exploitation of the Black Sea gas reserves or of other on-shore fields, an FID may be taken only when the additional capacity demand is confirmed by booking agreements and contracts.

6. New NTS developments for taking over Black Sea gas

Taking into account the natural gas reserves discovered at the Black Sea, Transgaz intends to expand the NTS with the aim of creating an additional taking over point for the natural gas coming from the Black Sea off-shore blocks.

Estimated investment amount: Euro 9.14 million.

Status of the project

Transgaz completed the feasibility study and the FEED for a DN 500 gas transmission pipeline of approx. 25 km from the Black Sea shore to the existing T1 international gas transmission pipeline. The transmission capacity is 1.1 bcm/year according to the Open Season procedure published on Transgaz' website.

The relevant town planning certificates were issued. The environmental procedure was completed and the environmental agreement was obtained on 21.11.2017. The construction permit was issued on 20.12.2017.

The project was declared National Importance Project by GD no. 563 dated 4 August 2017.

Considering its importance, the Project was promoted to and complied with the eligibility conditions of the 3rd PCI list issued by the European Commission on 23 November 2017.

The capacity booking procedure related to MP Vadu was launched according to the procedure approved by the Romanian regulator by endorsement no. 13/22.06.2017, following the receipt of a request for incremental capacity pn 21.07.2017. for the moment, the binding stage of the process is in progress.

7. Romania – Serbia Interconnection – interconnection of the national gas transmission system with the Serbian gas transmission system

In the context of the provisions of the EU Strategy on the Energy Union and of the actions for the implementation of the objectives of such strategy (competitiveness, sustainability and security of energy supply), Romania grants special interest to ensuring security of energy supply, the development of the energy infrastructure by the diversification of energy transmission sources and routes, by the consolidation of the solidarity between member states and by ensuring the efficient operation of the energy market.

In order to increase the interconnectivity between gas transmission systems of the EU member states and to increase energy security in the region, the project on the achievement of the interconnection of the national gas transmission system of Romania with the Serbian one is necessary.

The analysed version for gas export towards Serbia is to take over gas from the future BRUA pipeline (Phase I). The closest point of the BRUA pipeline at the border between Romania and Serbia is the locality Mokrin, in the Timis-Arad area.

The Project "Interconnection of the National Gas Transmission System with the Serbian gas transmission system" consists in the construction of an approximately 97 km long pipeline to interconnect the national gas transmission system with the Serbian gas transmission system in the Recaş – Mokrin direction.

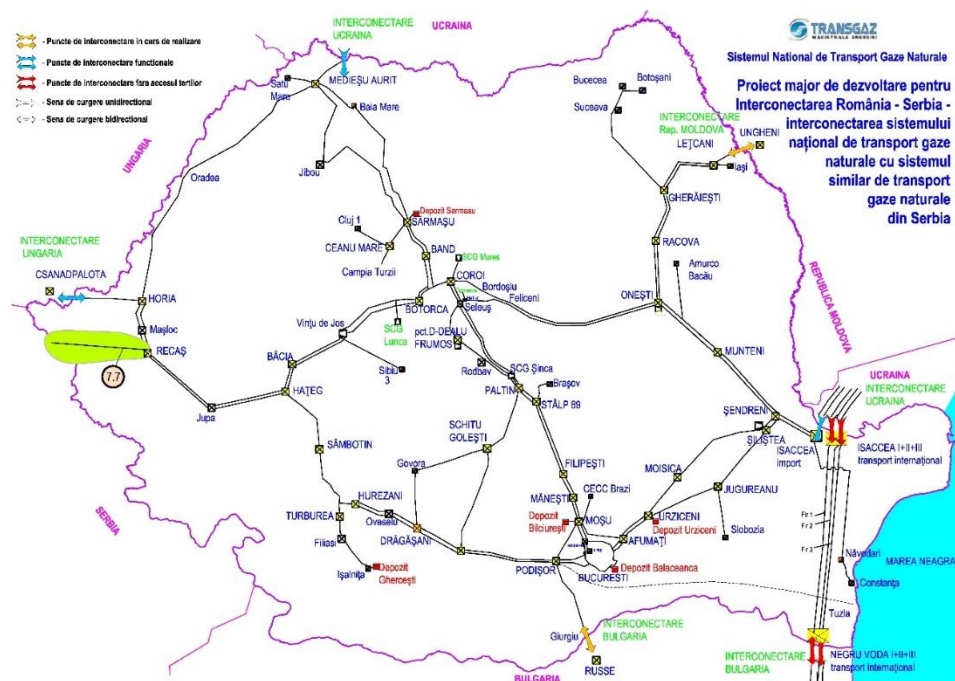


Figure 10 - Interconnection of the NTS with Serbia in the Recas – Mokrin direction

Project description:

The project consists in the following:

- Construction of an approximately 97 km long interconnection pipeline in the Recas – Mokrin direction, out of which about 85 km on the territory of Romania and 12 km on the territory of Serbia with the following characteristics:
 - Pressure of the BRUA pipeline in the Recas area: 50 – 54 bar (PN BRUA – 63 bar);
 - Diameter of the interconnection pipeline: Dn 600;
 - Transmission capacity: max. 1 bScm/y (115 000 Scm/h), Pressure in Mokrin: 48,4 – 52,5 bar;
 - Transmission capacity: max. 1.6 bScm/y (183 000 Scm/h), Pressure in Mokrin: 45,4 – 49,9 bar.
- Construction of a gas metering station (located on the Romanian territory).

Indicative project development calendar

Development stages	Status/ Estimated completion date
Pre-feasibility study	Completed
Feasibility study	August 2018
Engineering	December 2018
FEED and uthority engineering for the construction permit	December 2018
Bidding and procurement documentation	2019
Construction	2019 - 2020

Commissioning /start-up	2020
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Estimated completion: 2020

Total estimated investment: EURO 50,7 million of which:

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

It is worth mentioning that gas export towards Serbia will be performed only after the completion of the BRUA project (Phase 1).

If gas will be taken over from Serbia to Romania it may be redirected towards the Timisoara – Arad consumption area, through the DN 600 Horia – Maşloc – Reaş (25 bar) pipeline, at pressures lower than as through the BRUA pipeline.

Project status

In February 2018, the Pre-Feasibility Study was completed by the Research and Design Division. The preparation of the Feasibility Study is in progress.

8. Upgrading GMS Isaccea 1 and GMS Negru Vodă 1

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

- **Interconnection Agreement for the Interconnection Point Isaccea 1**, concluded with PJSC Ukrtransgaz, Ukraine, on 19.07.2016;
- **Interconnection Agreement for the Interconnection Point Negru Vodă 1**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016.

The actions included in these Agreements include the upgrading of the gas metering stations at the two interconnection points.

The project "Upgrading GMS Isaccea 1 and GMS Negru Vodă 1" consists in the construction of two new gas metering stations at the existing locations of the Metering Stations.

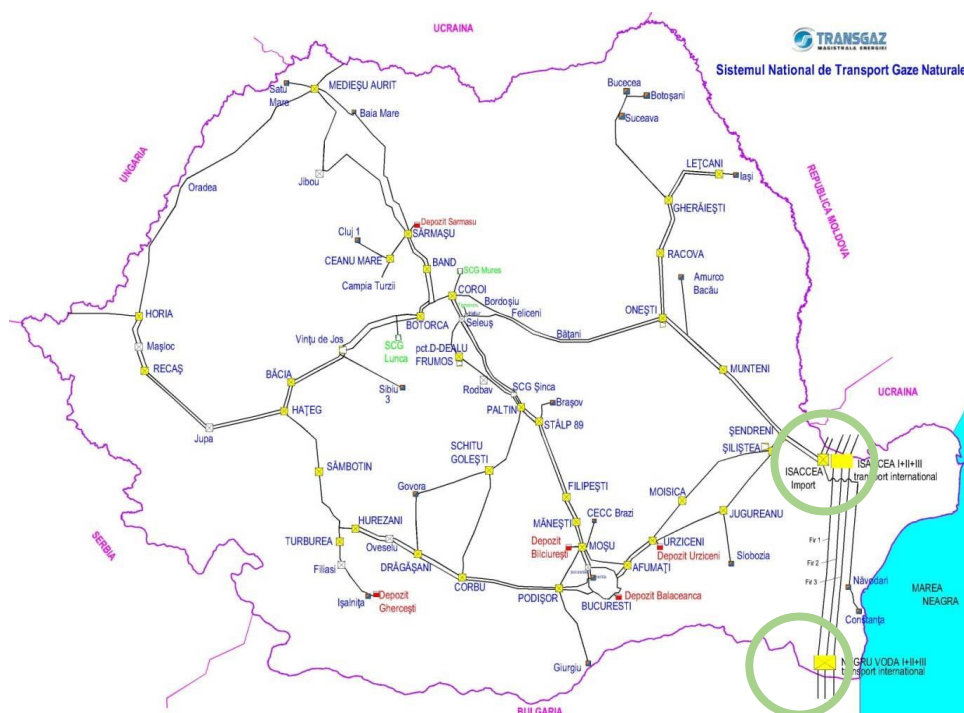


Figure 11 - Upgrading GMS Isaccea 1 and Negru Vodă 1

Project description:

8.1 Gas Metering Station GMS Isaccea 1

The upgraded Metering Station will be equipped with a separating/filtering installation and a metering installation:

- Separation/filtering is ensured by a separating/filtering battery.
- The metering installation will consist of several parallel metering lines (in operation and back up) equipped with ultrasonic meters for metering the delivered gas quantities, each line being equipped identically with three independent metering systems (Pay, Check and Verification). The independent systems Pay and Check will employ dual ultrasonic meters and the systems for the Verification will use a simple ultrasonic meter.

The number of the metering lines is sufficient to allow for the metering of the gas quantities to be delivered through the GMS. The number of lines in operation will depend on the quantities of natural gas to be circulated through the GMS.

To verify the traceability of ultrasonic meters on the metering lines, they will be periodically connected in series with a reference metering line equipped with a turbine meter.

If one of the systems no longer meets the established standards and/or error limits, that metering line will be closed and withdrawn from normal operation until the causes that caused these malfunctions are remedied.

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

8.3 The metering station GMS Negru Vodă 1

The upgraded Metering Station will be equipped with a separating/filtering installation and a metering installation

- The Separation/filtering is ensured by a separating/filtering battery.
- The metering installation will be made up of several parallel metering lines (in operation and back up) equipped with ultrasonic meters for metering the delivered gas quantities, each line being equipped identically with two independent metering systems (Pay and Check). The independent Pay and Check systems will use dual ultrasonic meters.

The number of the metering lines is sufficient to allow for the metering of the gas quantities to be delivered through the GMS. The number of lines in operation will depend on the quantities of natural gas to be circulated through the GMS. To verify the traceability of ultrasonic meters on the metering lines, they will be periodically connected in series with a reference metering line equipped with a turbine meter.

The project implies the upgrading of the two metering stations for the existing capacities and enables the bidirectional operation in Isaccea as well.

If one of the systems no longer meets the established standards and/or error limits, that metering line will be closed and withdrawn from normal operation until the causes that caused these malfunctions are remedied.

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

Estimated project development program

Development stages	Status/ Estimated completion deadline
Feasibility study	2018
Design	2018
FEED and permitting documentation for the construction permit	2018
Construction	2018 - 2019
Commissioning /start-up	2019

Estimated completion deadline: 2019

The total estimated investment amount: EUR 13.9 million of which:

- EUR 7.1 million upgrading GMS Isaccea 1
- EUR 6.8 million upgrading GMS Negru Vodă 1

Project status

The Feasibility studies related to the two metering stations were completed by the Research and Design Division.

9. Interconnection of the gas transmission systems of Romania and Ukraine in the Gherăești – Siret direction

According to the TYNDP, Transgaz intends to increase the interconnectivity between the national and the European gas transmission networks. Therefore, in addition to the Project for NTS developments in North-Eastern Romania for improving gas supply to the region and ensuring transmission capacities to

Moldova, Transgaz identified the opportunity to construct an interconnection between the NTS and the gas transmission system in Ukraine, in the Gherăești – Siret direction.

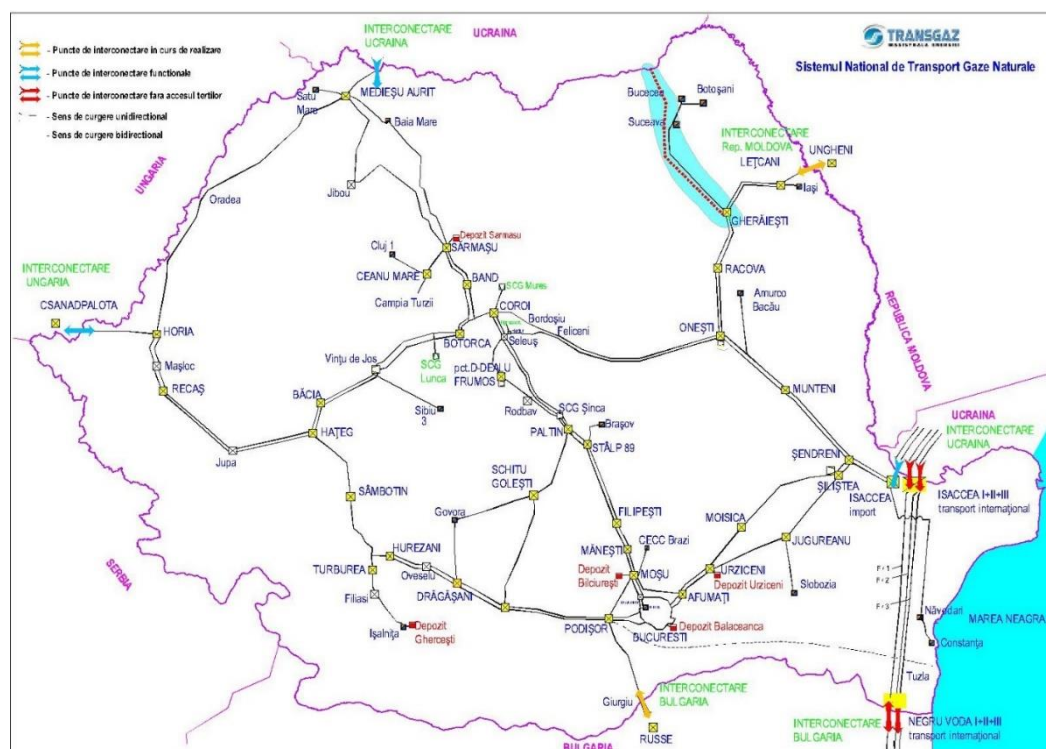


Figure 12 - Interconnection of the gas transmission systems in Romania and in Ukraine in the Gherăești – Siret direction

Project description:

The Project Interconnection of the gas transmission systems of Romania and Ukraine in the Gherăești – Siret direction consists of:

- the construction of a gas transmission pipeline and the related facilities, in the Gherăești – Siret direction;
- the construction of a cross-border gas metering station;
- the extension of the Onești and Gherăești compressor stations, if applicable.

The Project is in an early stage and the capacities to be developed under the project will be established subsequently.

Estimated project development calendar

Development stages	Stage/ Estimated completion date
Feasibility study	2018 - 2019
Engineering	2019 - 2020
Procurement (materials and works)	2021
Construction	2022 - 2024
Commissioning/start of operation	2025

Estimated completion date: 2025

Total estimated value of the investment: EUR 125 million

"Ten Year Development Plan" Execution Rate – as at 30 June 2018

Tag. Nr.	Name of project	Total estimated value mil.Euro	Planned	Achievements 2013-2017		Achievements Q I 2018 (lei)	TOTAL 2013-Q I 2018	
				lei	mil. Euro		lei	mil Euro
1.1	Development of the national gas transmission system on the Romanian territory along the Bulgaria – Romania – Hungary – Austria corridor BRUA phase 1		Feasibility studies	4.016.390	0,89	-	4.016.390	0,89
			FEED (without guarantees)	34.412.939	7,65	1.016.818	35.429.757	7,87
			Development			14.175.016	14.175.016	3,15
			TOTAL phase 1	38.429.329	8,54	15.191.834	53.621.163	11,92
1.2	Development of the national gas transmission system on the Romanian territory, on the Bulgaria – Romania – Hungary – Austria corridor BRUA phase 2		Feasibility studies	280.482	0,06		280.482	0,06
			FEED (without guarantees)	82.615	0,02	3.149	85.764	0,019
			Development			775	775	0,0002
			TOTAL phase 2	363.097	0,1	3.924	367.021	0,1
2	Development on the Romanian territory of the Southern Corridor for taking over Black Sea gas		Feasibility studies	935.391	0,21		935.391	0,21
			Proiectare (without guarantees)	3.295.628	0,73	1.217.994	4.513.622	1,00
			Development	-	0	0	-	-
			TOTAL	4.231.019	0,94	1.217.994	5.449.013	1,21
3	Interconnection of the National Transmission System with the international gas transmission pipeline T1 and reverse flow Isaccea		Feasibility studies	765.438	0,17		765.438	0,17
			FEED (without guarantees)	-		509.376	509.376	0,11
			Development	-				
			TOTAL	765.438	0,17	509.376	1.274.814	0,28
4	Development of the National Transmission System in view of improving gas supply in the area and increasing the transmission capacity in the North-Eastern region of the country and on the Romania – Republic of Moldova interconnector		Feasibility studies	3.770.331	0,84	52.041	3.822.372	0,85
			FEED (without guarantees)	3.404.116	0,76	1.059.424	4.463.540	0,99
			Development	-	0	-	-	
			TOTAL MOLDOVA	7.174.447	1,59	1.111.465	8.285.912	1,84
5	Extension of the Bulgaria – Romania - Hungary – Austria bidirectional gas transmission corridor (BRUA Phase 3)		Feasibility studies	-			-	
			FEED (without guarantees)	-		-	-	
			Development	-		-	-	
			TOTAL	0	0	0	0	0
6	Project on new NTS developments the taking over Black Sea gas		Feasibility studies	531.811	0,12	19.915	551.726	0,12
			FEED (without guarantees)	-		-	-	
			Development	-		-	-	
			TOTAL	531.811	0,12	19.915	551.726	0,12
7	Interconnection Romania - Serbia		Feasibility studies + FEED	46.365	0,01	147.505	193.870	0,04
			Development	-		-	-	
	TOTAL	42,4		46.365	0,01	147.505	193.870	0,04

8	Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS		Feasibility studies + FEED	47.410	0,01	517.765	565.175	0,13
			Development	-		-		
	TOTAL	13,9		47.410	0,01	517.765	565.175	0,13
9	Interconnection Romania – Ukraine in the direction Gherăești - Siret		Feasibility studies + FEED					
			Development					
	TOTAL	125		0	0	0	0	0
TOTAL		1.903,45		51.588.916	11,46	18.719.778	70.308.695	15,62

Table 7- TYNDP execution rate

3.2 European funds

The company continuously monitors and seeks to identify opportunities, sources, funds and structural instruments for EU funding, funding programs managed by Romania through the Management Authorities (MAs) and state aids and manages procedures for accessing grants to fund Transgaz projects for modernization / upgrading / development of the National Gas Transmission System (NTS), ensuring:

- Identification of sources, funds and programs which could finance the company's projects;
- Analysis of the eligibility conditions and elaboration of the proposals for the approval of the eligible projects and of the investment;
- Drawing up the Funding Request file and submitting it to the financing authorities;
- Preparation and submission of the interim and final requests for the payment of the balance;
- Monitoring the implementation / post-implementation of projects from the perspective of the financing contract;
- Interface with the project partners and with all expert consultants, with the competent national and international authorities, throughout the implementation / post-implementation of projects with non-reimbursable financing;
- Collaboration with the Management Authorities and Intermediate Bodies, the Ministry of the European Funds, the Ministry of Economy, the Ministry of Energy, the Competent Authority for Projects of Common Interest, the Ministry of Foreign Affairs, the General Directorates of the European Commission and the project partners, internal and external

The following activities were performed for absorbing European funds for Transgaz' projects:

- constant monitoring of the funding programs managed by the European Commission, of the Calls for applications relevant websites and of the MEF website to identify updated information and instructions regarding grants
- Maintaining the connection with the Large Infrastructure Operational Program Management Authority in order to identify the possibilities for promoting TRANSGAZ projects in the area of "energy efficiency", submitting proposals in this respect in order to complete the eligibility criteria from the Program's Priority Axis 6 and 7
- Drawing up / submitting reports to TRANSGAZ management / departments on the financing opportunities based on the Financing Programs managed by the European Commission and by the National Funding Bodies, on the conditions and criteria for accessing the structural funds in order to correlate their provisions with Transgaz Development and Research Program and promoting its own investment objectives and projects potentially eligible for grants

- steps on the additional allocation of funds from the financial year 2014-2020 for the natural gas transport sector through the Large Infrastructure Operational Program
- The preparation / submission of the annual report on the value of the outcome ratios, namely "The Capacity of the National Natural Gas Transmission System at the interconnection points", in the context of the implementation of the projects financed under the Large Infrastructure Operational Program (LIOP) and in order to apply the general conditionality on the Statistical System and Outcome Indicators, based on the Collaboration Protocol concluded between Transgaz and MFE
- Assessing the compliance of Transgaz' potential projects with eligibility criteria according to the requirements of the Financing Programms 2014-2020;

The promotion of funding possibilities for potential Transgaz projects envisaging:

- *use of the kinetic energy of pipeline gas flow in order to obtain electricity;*
- *control and data acquisition system from the cathodic protection system of S.N.T.G.N. TRANSGAZ*
- *professional training by exchanging experience or by training courses within the Operational Program Human Capital – POCU, including in a potential partnership with the trade union organization in the branch.*
- Promotion of the following investment objective, appraisal of the LIOP funding possibilities in respect thereof and preparation of relevant Project Sheets:
 - Interconnection between the Gas Transmission Systems of Romania and Serbia – project contemplated in Transgaz' Network Development Plan for 2017-2026.
- Coordination and verification of the compliance of data under the Project Sheets with the Feasibility Study and the cost benefit analysis (CBA) and with the requirements of the funding programs and the applicable laws
- Monthly submission of data to the National Statistics Institute (INTRASTAT)
- Receipt of the Customs Statements – alternative evidence for transit to Greece – and submission thereof to the Customs Unit of Tulcea.

The following activities were performed in respect of the projects which obtained EU grants:

- Preparation of progress reports, sustainability reports and letters regarding the management of Transgaz projects provided with EU grants – documents which were delivered to the Financing Entities, according to the provisions of the Financing Contracts/Decisions;
- Preparation of reports regarding the opinions on the identified sensitive issues and the consequences of potential changes in the conditions of the Works Contracts, in correlation with the Financing Decision/Contracts;
- Provision of support, cooperation, additional information as requested as a result of various verifications/checks of the projects funded by EU grants;
- Supporting the sessions of audits related to the EU Funds Unit activity in terms of the compliance with the quality rules and the provisions of the Process Procedure;
- z projects provided with EU grants – documents which were delivered to the Financing Entities, according to the provisions of the Financing Contracts/Decisions;
- Preparation of reports regarding the opinions on the identified sensitive issues and the consequences of potential changes in the conditions of the Works Contracts, in correlation with the Financing Decision/Contracts;
- Provision of support, cooperation, additional information as requested as a result of various verifications/checks of the projects funded by EU grants;
- Supporting the audits of the activity related to the EU Funds Unit in terms of the compliance with the quality rules and the provisions of the Process Procedure;

Project-specific activities

For the project `Development on Romanian territory of the National Gas Transmission System on the Bulgaria-Romania-Hungary-Austria direction, execution works Stage 1` (the action), action number 7.1.5-0029-EN-W-M-15

- updated data on the BRUA Project (Action Status Report), execution works Stage 1 was entered on the TENtec platform;
- data on the progress of each sub-activity (percentage and value) was updated;
- the projects with European funding which could have an impact on the BRUA pipeline in the county of Arges, UAT Izvoru, Căldăraru and Bârla were verified (in the field). There were meetings with local mayors and representatives of AFIR Argeş.

For the project `Modernization of the Şinca Compressor Station and of the related facilities`:

In accordance with the Regulation 1080, Regulation 1083, Regulation 1826/2006 of the European Parliament and of the Council on the transparency of funding, the details and form of a permanent Plate were developed; the plate was manufactured and installed at the premises of the Şinca Compressor Station.

For the project `NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to/from the Republic of Moldova`:

Complying with the Applicant's Guide to the Large Infrastructure Operational Program (POIM), the documentation for the Financing Application was prepared. The file of the grant application was completed according to AM-POIM's requests and was filed at AMPOIM on 04.05.2018.

Based on the proposals of the EC Consultant for the Ministry of European Funds, JASPERS, and of the Managing Authority for the Large Infrastructure Operational Program (AM-POIM), related to the project `NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to/from the Republic of Moldova` the following activities were carried out:

- implementation of JASPERS recommendations in the Feasibility Study (FS) and the Cost/Benefit Analysis (CBA);
- In line with the changes made in the and CBA, the content of the Financing Application was updated;
- the content of the institutional analysis was modified and completed, as suggested by AMPOIM;
- The Application for Financing File was updated and prepared for submission to the AMPOIM.
- Some of the information available from the FS, CBA, as well as the general data of the beneficiary, was included in the MySMIS application.

For the project `Pipeline system from Bulgaria via Romania and Hungary to Slovakia (known as Eastring)`

The Project of Common Interest (PCI) 6.25.1, part of the priority energy corridor 6, North-South Gas Interconnections in Central and South-Eastern Europe - `Pipeline system from Bulgaria to Slovakia` aims at developing a pipeline system for bidirectional transmission to interconnect the natural gas transmission networks in Slovakia, Hungary, Romania and Bulgaria. The preparation of the FS for the Eastring project

brought together data on route selection, environmental and business issues, supply sources, market test, as well as information on the business plan - how it works, how to finance and the calculation of tariffs.

The activities related to the preparation of the Easting Feasibility Study are undergoing advanced finalization and will be completed by the end of August 2018.

For the project 'Interconnection of the national gas transmission system with the similar gas transmission system in Serbia'

- the project was identified and was included in Transgaz' 2017-2026 TYNDP;
- knowing that in 2018 a POIM re-evaluation shall be carried out, Transgaz promoted the project to finance, taking into account the following aspects:
 - if it falls into the categories of actions funded by the POIM, Priority Axis (PA) 8, Specific Objective (OS) 8.2;
 - the contribution to securing and optimizing the cross-border gas transmission;
 - it increases the flexibility of balancing the NTS in order to provide more efficient services;
 - it increases the energy efficiency of NTS and ensures the protection of the environment;
 - it is an investment necessary for the development of the interconnection with the neighbouring countries, according to the Romanian Energy Strategy for 2016-2030, Chapter II.3. The Regional Context: South East Europe and Black Sea Basin, Interconnection of energy transmission networks.

For the project 'Interconnection of Romanian and Bulgarian Gas Transmission Systems', Transgaz was involved in the activity of the EC audit team. To this end, the documents relating to the final payment of the balance were submitted to the audit committee, both during the preparation of the mission and during the on-site mission:

- the situation of the expenses requested for settlement structured on the activities stipulated in the Funding Decision;
- execution contracts - five contracts were selected in the sample to be verified, and three more contracts were requested at the time of the audit at the company's headquarters;
- underlying documents (invoices, work reports, payment orders related to the execution contracts selected in the verification sample etc).

The Monitoring Committee for the Large Infrastructure Operational Program (POIM)

Transgaz participated in the 7th meeting of the Energy Sectoral Subcommittee of the Monitoring Committee for POIM, presenting the stage of preparation of the project 'NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to/from the Republic of Moldova'. It also participated as observers in the POIM Monitoring Committee.

ACER activities

- documents/questionnaires related to Transgaz projects were extracted from the ACER communication platform;
- the questionnaires of the project managers were sent for completion;
- completed information was verified, and updated data on Transgaz projects were entered on the ACER platform.

3.3 International cooperation

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

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

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

BULGARTRANSGAZ EAD (Bulgaria):

Regarding the joint operation of the Giurgiu-Ruse cross-border IP, and Negru Vodă I, II and III cross-border IPs;

The contact with Bulgartransgaz' representatives was maintained as far as the operation of the cross-border interconnection points (IPs) Ruse/Giurgiu and Negru Voda I, II and III and the related capacity trading are concerned pursuant to the applicable regulatory framework.

To this effect, in 2016 the parties concluded Interconnection Agreements for IPs Ruse/Giurgiu and Negru Voda I, within the course of last year. Such agreements contemplating the procedures for nomination, matching and allocation of gas quantities to be circulated through the interconnections and establishing the technical details regarding the operation of the gas metering stations related to the two points are governed by the provisions of Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules.

As far as IP Negru Voda 2+3/Kardam is concerned, considering that on the territory of Bulgaria the international gas transmission pipelines Transit 2 and 3 are converging into one pipeline, Transgaz and Bulgartransgaz agreed to prepare only one interconnection agreement for a virtual interconnection point, i.e. IP Negru Voda 2+3/Kardam. In this respect, a public consultation of the relevant business rules to be integral part thereof will be launched.

FGSZ Ltd. (Hungary):

- *The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:*
 - The contact with FGSZ regarding the coordinated development of the BRUA project was maintained
- *Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT)*
 - According to the Interconnection Agreement for the Csanadpalota IP, according to Regulation (EU) 2015/703;

- According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the bundled and unbundled capacity of the cross-border IPs with Hungary and Bulgaria, according to Regulation (EU) 459/2017 establishing a network code regarding the capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No. 984/2013.

UKRTRANSGAZ (Ukraine):

- *Joint operation of the Isaccea 1 Cross-Border Interconnection Point* under the Interconnection Agreement in accordance with applicable European regulations.
- Operation of the Virtual Interconnection Point Isaccea 2,3/Orlovka. The parties are to agree the documents necessary for launching public consultations of the business rules which are integral part of the future agreement. As a first step, the public consultation of the business rules and communication procedures in case of exceptional events related to the draft Interconnection Agreement for the VIP Isaccea 2,3 / Orlovka were conducted during 16.10-15.12.2017, according to art. 4 of Reg. 703/2015.
- *As regards the operation of the Medieșu-Aurit-Tekovo Cross-Border Interconnection Point*, the parties are in the process of negotiating an Interconnection Agreement.
- *As regards the modernization of the Gas Metering Station Isaccea 1* as a commercial metering station, Isaccea 1 GMS is part of a project for the upgrading of the stations along Transit 1 pipeline for enabling bidirectional gas flows through IP Isaccea 1 and IP Negru Voda 1 / Kardam.

VESTMOLDTRANSGAZ (Republic of Moldova):

By Decision no. 10 adopted in the meeting dated 12.12.2017, Transgaz' Extraordinary General Shareholders' Meeting (EGSM) approved a company to be established on the territory of Romania considering the requirements under the Moldavian applicable laws. Based on the EGSM resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfillment of its core business, Eurotransgaz S.R.L. participated in the investment contest for Vestmoldtransgaz. On 26 February 2018, the Commission for privatisation contests of the Republic of Moldova notified the result of the contest declaring Eurotransgaz SRL to be the winner of the contest. On 28 March 2018, Eurotransgaz signed the contract for the taken over of Vestmoldtransgaz Chisinau.

SRBIJAGAS (Serbia):

In 2017, Transgaz and Srbijagas signed a Memorandum of Understanding on the development of the cooperation between the two companies.

- The document is part of a set of actions for strengthening the bilateral cooperation in fields of activities pertaining to the gas transmission system operators of Romania and Serbia and establishes a framework for promoting projects of mutual interest.
- By creating the infrastructure necessary for the interconnection of the gas transmission systems, Transgaz and Srbijagas aim at contributing to the increase in the predictability of energy supply to the region, by alternatives which are more effective than the gas supply solutions provided by other options.
- The parties are cooperating for the implementation of the project "Interconnection between the National Gas Transmission Systems of Romania and Serbia" which envisages the construction of a new gas transmission pipeline ensuring the connection of the main gas transmission pipeline BRUA and the Technological Node Mokrin, of Serbia.
- Transgaz and Srbijagas are preparing the Pre-Feasibility studies for the objectives related to each countries, the necessary data and the required solutions for the completion thereof was agreed within the joint meetings.

Cooperation with other companies of the gas sector:

▪ **Regional Shippers:**

GAZPROM EXPORT (the Russian Federation):

The bilateral contractual relations with respect to Transit II and Transit III pipelines are ongoing.

BULGARGAZ (Bulgaria):

After the historical gas transmission contract between Transgaz and Bulgargaz regarding the international gas transmission pipeline Transit 1 expired on 1 October 2016, the EU regulatory framework was enacted to govern capacity booking operations related to Transit 1 pipeline such as the procedures for the nomination, matching and allocation of capacities pursuant to *Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules* and to *Regulation (EU) 984/2015 establishing a network code on the capacity allocation mechanisms*.

Such regulations also provide rules for the access of all network users to the gas transmission systems to ensure the proper functioning of the domestic gas market - rules contemplating the application of a transparent and non-discriminatory treatment in the relationship between the operators and all potential network users.

Starting with October 2016, Bulgargaz constantly participated in the annual, quarterly and monthly capacity auctions organized by Transgaz, on a transparent basis, by means of the RBP (Regional Booking Platform) platform.

▪ **European and non-European gas transmission system operators**

Discussions and meetings for identifying new business opportunities were held with:

Eustream AS (Slovakia), GRTGaz (France), DESFA (Greece), GASUNIE (the Netherlands), GOGC (Georgia), Gaz-System (Poland).

Transgaz General Shareholders's Assembly approved the company's association with Regasificadora del Noroeste S.A. (Spain) for the submission of a binding offer within DESFA's privatisation procedure. The Board of Directors of the Hellenic Republic Asset Development Fund (HRADF) analysed the binding offers for the acquisition of 66% (31% stake owned by HRADF and 35% stake owned by HELPE) of the Hellenic Gas Transmission System Operator S.A.'s (DESFA's) share capital.

Binding offers were submitted by:

- The Consortium composed of Snam S.p.A., Enagás Internacional S.L.U. and Fluxys S.A.
- The Consortium composed of Regasificadora del Noroeste S.A., Reganosa Asset Investments S.L.U., S.N.T.G.N. Transgaz S.A. and European Bank for Reconstruction and Development (EBRD)

According to the terms of the above-mentioned tender, the Fund requested the Consortia to submit improved financial offers.

Transgaz together with the consortium partners, i.e. the Spanish company Reganosa and EBRD submitted an improved binding offer for the procurement of a 66% stake in DESFA.

The offer of the Consortium composed of Snam S.p.A., Enagás Internacional S.L.U. and Fluxys S.A. was declared successful.

GRTGaz (France)

The cooperation with GRTGaz consisted in the organization of workshops on the preparation of the new network code and the assessment of the possibility to develop projects in the field of research and design, investments and joint national and international projects.

EUSTREAM (Slovakia)

On 9 February 2018, Transgaz signed a Memorandum of Understanding with the Slovak TSO. By signing the Memorandum the Parties declared that they will cooperate with the aim to investigate the possibility of developing the Easting on the territory of their countries and hence, to officially become project promoters.

The aim of such Memorandum is to evaluate the possibility of constructing Easting as a gas transmission pipeline, which is crossing the state borders Slovakia – Hungary/Ukraine - Romania – Bulgaria - external border of the European Union on the territory of Romania, utilizing parts of the existing gas transmission infrastructure and able to transmit natural gas quantities through these countries in both directions.

The results will serve the subsequent decision making on the realisation of the Easting project as fully-functioning gas transmission system, providing non-discriminatory, equal and transparent access for market participants, respecting the relevant EU and national legislative and regulatory frameworks.

Transgaz attended meetings of the working group coordinated by Eustream for the development of the feasibility study related to the Easting project.

International natural gas exploitation and production companies (OMV, ExxonMobil)

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

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

The EU Funds and International Relations Division manages most of the cooperation relations with the bodies where Transgaz is a member.

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

Meetings and discussions with GIE representatives were held concerning the organization of the GIE Annual Conference to be hosted by Transgaz in Bucharest, during 14-15 June 2018.

Between 14 and 15 June 2018, Transgaz hosted the GIE Annual Conference in Bucharest, where, besides the companies in the field, regulatory authorities, institutions of the European Union, professional associations in the energy sector participated. The conference focused on current issues in the European gas sector agenda, including: the European regulatory framework currently under discussion, the future impact of the gas sector on the energy mix, the role of biomethane and renewable energies in it, as well as issues concerning the safety in operation of the gas transmission infrastructure such as protection against possible cyber attacks.

In May 2018, SNTGN TRANSGAZ SA hosted the 26th Annual Gas Dispatching Conference, dedicated to the representatives of companies from countries ensuring the transit and usage of Russian gas in Ukraine, Moldova, the Balkan countries and Turkey.

Transgaz Representative Office in Brussels

In line with the tasks and responsibilities set, the work of the Representative Office focused on the following lines of action:

- On the line of promoting Transgaz's interests, data were obtained on any issues that may have an impact on the company's activity;
- Identification and reporting to the EU Funds and International Relation Division of events / activities organized in Brussels over the short and medium term, relevant to Transgaz in terms of information / documentation, promotion of company's interests / image and networking;
- Individual study (materials / analysis published by the COM / PE / EC on energy / natural gas / European gas transmission infrastructure / geo-political and geostrategic future projections, relevant to the company);
- Provide assistance to all Transgaz delegations in Brussels to participate in various approved activities / events;
- Organizing, in terms of protocol, under optimal conditions, the activities carried out at the headquarters of the representation;
- Active participation in all workshops organized by GIE in order to represent the company's interests regarding the European gas infrastructure;
- Developing relationships with other transmission system operators in Brussels;
- Taking and solving administrative actions.

Transgaz' representative office in Chisinau

Transgaz' Representative Office in Chişinău was established to develop infrastructure projects in the gas field in cooperation with Moldova. In cooperation with other entities within the company, it carried out intensive activities in collaboration with Vestmoldtransgaz, especially in the project of developing the Ungheni-Chişinău gas pipeline project in Moldova and the impact of Transgaz on this project:

In order to achieve and implement the technical project for the Ungheni-Chişinău gas pipeline, Transgaz representatives in Chişinău facilitated and participated in several meetings with administrative and energy entities of the Republic of Moldova (government, ministries, Chişinău local administration, ANRE, Moldovagaz SA, Chişinăugaz etc.).

At the same time, the Representative Office supported the actions of Eurotransgaz SRL from the Republic of Moldova (subsidiary of SNTGN Transgaz SA) in fulfilling the objective to successfully participate in the privatization investment contest of the Vestmoldtransgaz State Enterprise. As a result, on 26 February 2018, the Privatization Committee of the Republic of Moldova announced the result of the contest through which Eurotransgaz SRL became the winner of this competition. On 28 March 2018 Eurotransgaz signed the agreement for the takeover of Vestmoldtransgaz Chişinău.

In the reference period, the Representative Office was involved in the organization and good course of the official visit to Chişinău of the Prime Minister of Romania on 27 February 2018, as well as of the interministerial meetings in March this year.

Cooperation with **the relevant ministries**. In semester I 2018 information on the status of strategic projects undertaken by Transgaz, on the regional gas transmission projects impacting Romania and on the cooperation relationships with external partners was sent to the Ministry of Economy, Ministry of Energy, Ministry of Foreign Affairs and Romanian Government. Moreover, replies to the relevant ministries's requests for information on Transgaz' international relations were duly submitted.

By means of the organizational structures the relationship with the Competent Authority for Projects of Common Interest (ACPIC) is managed to implement projects of common interest (PCI) included in EU list of PCIs and promoted by Transgaz, according to EU Regulation 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure repealing Decision No. 1364/2006/EC and amending Regulation (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009.

3.4 Interconnection agreements

Interconnection agreements concluded between 2013 and 2016:

- **Interconnection Agreement for the Interconnection Point Csanadpalota**, concluded with FGSZ Zrt., Hungary on 02.12.2015;
- **Interconnection Agreement for the Interconnection Point Isaccea 1**, concluded with PJSC Ukrtransgaz, Ukraine on 19.07.2016;
- **Interconnection Agreement for the Interconnection Point Negru Voda 1**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016;
- **Interconnection Agreement for the Interconnection Point Ruse - Giurgiu**, concluded with Bulgartransgaz, Bulgaria, on 22.12.2016.

In 2017 and the semester I 2018 the following addendums were concluded:

- Amendment no. 2 / 25.01.2017 to the Interconnection Agreement for IP Negru Voda 1 / Kardam (regarding the application of the gas day 08:00-08:00 at IP Negru Voda 1 / Kardam until 01.10.2017);
- Amendment no. 2/23.02.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.05.2017);
- Amendment no. 3/28.04.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.07.2017);
- Amendment no. 4/23.09.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.10.2017);
- Amendment no. 5/28.09.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.01.2018);

- Amendment no. 6/27.12.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.07.2018).
- Amendment no. 7/22.06.2018 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.01.2019).

Other activities related to the interconnection agreements are:

With Ukrtransgaz:

- Establishment by Decision 568/14.06.2017 of the Transgaz Working Group for the negotiation of the interconnection agreements for Medieșu Aurit, Isaccea, Isaccea 2, 3 and Negru Vodă 2, 3 interconnection points and ensuring the conditions for capacity trading and allocation in accordance with the applicable European regulatory framework;
- Conduct of the public consultations related to the trading rules and communication procedures in case of exceptional events for the preparation and negotiation by the Working group nominated by Decision no 568/14.06.2017 of the Interconnection Agreement for the IP Medieșu Aurit–Tekovo;
- Transgaz și Ukrtransgaz published a joint declaration on the results of the public consultations related to the business rules and communication procedures in case of exceptional events to the draft Interconnection Agreement for IP Medieșu Aurit–Tekovo, conducted during 01.07-01.09.2017;
- Taking the relevant steps for the organization of the public consultation process related to the draft Interconnection Agreement for the VIP Isaccea 2-3;
- Conduct of the public consultations related to the commercial rules and communication procedures in case of exceptional events for the preparation and negotiation by the Working group appointed by Decision no 568/14.06.2017 of the Interconnection Agreement for the VIP Isaccea 2, 3. Transgaz și Ukrtransgaz will agree on a joint statement on the results of the public consultations to the business rules and communication procedures in case of exceptional events to the draft Interconnection Agreement for the VIP Isaccea 2,3, conducted in the period 16.10.2017 and 15.12.2017;

With Bulgartransgaz:

- Taking the relevant steps for the organization of the public consultation process related to the draft Interconnection Agreement for the VIP Negru Voda 2-3;

3.5 Retrofitting and automation - SCADA

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

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

The implementation of the SCADA System facilitates and allows for a constant flow:

- Ensures the transmission, in real time, of the technological parametres (pressure, flow, temperature, gas quality, calorific power) to the National and all Regional Dispatching Centres;
- Exports technological values to a new data baset o satisfy internal/external communication requirements according to the procedures/provisions/agreements concluded at the Company's level;

- Improves TRANSGAZ' ability to control and react promptly and efficiently to any potential risk of interruption of the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensures the necessary conditions to offer short term gas transmission services in the entry/exit points in/out of the national transmission system and to perform the contracts related to such types of services according to the requirements of Regulation (EC) no 715/2009.

The extension of the SCADA system aims at:

- Verification of the implementation level of the automation, local monitoring and SCADA installations;
- Contracting and implementation of SCADA to NTS objectives not included in SCADA Transgaz System (30 locations);
- SCADA telecommunication services;
- Determining the degree of local automation of NTS objectives;
- Design of remote control systems for NTS objectives;
- Analysis of the current mode of operation in order to elaborate the procedures;
- Preparation of the maintenance plan and identification of the relevant objectives;
- Implementation of SCADA at interconnection points:

Status of technological parameters at the interconnection points on 30.06.2018

Interconnection point	Status	
	Local integration of technological parameters at GMS	SCADA integration of technological parameters
GMS Horia	Fulfilled	Fulfilled
GMS Csanádpalota	Fulfilled	Fulfilled
GMS Giurgiu	Fulfilled	Fulfilled
GMS Ruse	Fulfilled	Fulfilled
GMS Negru Vodă	Fulfilled	Fulfilled
GMS Kardam	Fulfilled (<i>the technological parameters are also present at GMS Negru Vodă</i>).	No request
GMS Medieșu Aurit	Fulfilled	Fulfilled
GMS Isaccea	Fulfilled	Fulfilled
Automation center Iași-Ungheni: TN LEȚCANI	Fulfilled	Fulfilled
Automation Center Iași-Ungheni: TN UNGHENI	Fulfilled (<i>the technological parameters are also present at the Automation Centre at the Iasi Sector and Lețcani TN</i>).	Under analysis

Information on the activity of the Automation and SCADA activity in the first semester of 2018

Technical activities:

- supervising the biannual maintenance activities of the SCADA system;
- Intervention and remediation activities in order to maintain proper functionality of the SCADA system;
 - diagnosis and evaluation of measurement system functionality with ultrasonic meters - RMG type;
 - diagnose and remedy nonconformities with pressure and temperature transducers integrated into the SCADA system whose operation has been identified as inadequate;

- verification and replacement of solar panel power supply batteries;
- Verification and Replacement of Accumulators back-up Power Systems SCADA Automation Panel;
- repair/completion and commissioning of SCADA equipment (3 locations with stolen equipment);
- Analyze/rectify the malfunctions reported at the NTS Electrical Actuators:
 - technical intervention Technological Node Band, TN Bogata III, Technological Node Sarmasel and Technological Node Podișor;
 - technical intervention regarding the deactivation of the wireless communication related to the electrical actuators with which the valves are equipped at the following Technological Nodes: Technological Node Ungheni, Technological Node Band, Technological Node Sărmășel, Ceanu Mare Technological Node, Valve control station Urziceni, Technological Node Lazarești, Technic Node Feliceni, Technological Node Afumati, Technological Node Podișor, Node Technological Bacia, Receaș Technological Node, Horia Technological Node, Mosu Tehnological Node;
 - technical support test RS DN 500 Urziceni - Moara Domnească;
 - communication line configuration and testing between Lețcani Technological Node and Automation Center Iasi;
 - updating/completing the technical database on industrial systems such as NTS location automation in order to ensure maintenance/reinstatement.
- **Development / Investment:**
 - new equipment integration design and SCADA systems relocation (25 locations);
 - Integration of additional equipment in the SCADA system at the locations included in the SCADA system: integration of PTZ4 measuring systems (10 locations), gas chromatographs (3 locations), local automation PLCs (2 locations), SCADA equipment relocation (1 location)), pressure transducer integration (1 location);
 - integration of new SNT locations in the SCADA-1 location system;
 - Configurations / parameterization of measuring devices RTU, PLC and SCADA system communications;
 - mounting reed contact and permanent magnet on the battery panel;
 - Execution and commissioning of the power supply and automation at the Baba Novac Line Valve.
- **Services contracted / developed:**
 - between 2016 and 2018, Supply Contract 17.095/2009, through which the SCADA system was implemented at the NTS level, continues to produce effects in the form of ensuring the biannual maintenance of the implemented facilities and to provide the telecommunication services necessary for tele transmission of field data to dispatchers.

3.6 Development, repair, rehabilitation and maintenance of NTS maintenance services

3.6.1 Main Components of NTS Infrastructure

The main components of the National Gas Transmission System on 31 March 2018 are as follows:

Name of the NTS objective / component	U.M.	Value
---------------------------------------	------	-------

Main pipelines and gas supply connections, of which international transmission pipelines	km	13.359 553
Operating metering-regulating stations (MRS)	pc.	1.125 (1.232 metering directions)
Valve control stations (VCS, TN)	pc.	58
Import gas metering stations (GMS)	pc.	5
Gas metering stations located on the gas transit pipelines (GMS)	pc.	6
Gas compressor station (CS)	pc.	3
Cathodic protection stations (CPS)	pc.	1.037
Gas odorising stations (GOS)	pc.	892

Table 8 – Main components of the NTS on 30.06.2018

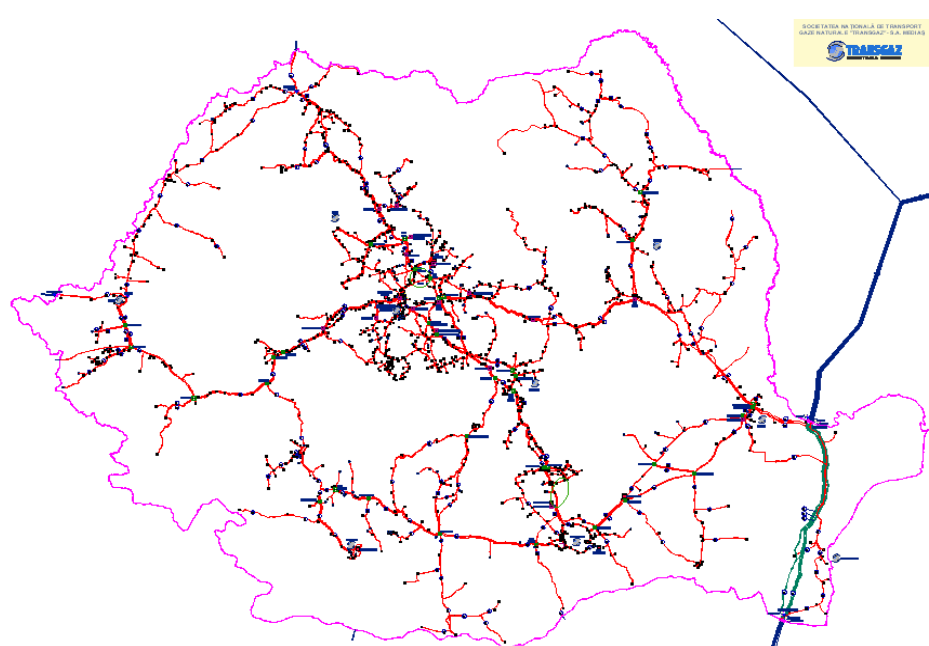


Figure 13 - Map of the National Gas Transmission System

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

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

Description and analysis of the degree of wear of the NTS components

An analysis of the main objectives belonging to the NTS in terms of service life is shown in the table below:

Service life	Transmission pipelines (km)	Supply pipelines (km)	Number of directions of MRSs
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> 40 years	6.628	342	149
Between 30 and 40 years	2.001	164	60
Between 20 and 30 years	692	302	252
Between 10 and 20 years	1.505	862	575
< 10 years	745	118	196
TOTAL	11.571	1.788	1.125 MRS's (1.232 metering directions)

Table 9- The main components of the NTS on 30.06.2018, from the perspective of the service life

With regard to natural gas pipelines, of the **13,359 km** in operation, approx. **81% have an effective service life of more than 20 years**, close to their normal service life. The pig inspection services conducted until 2018 for approx. **2,661 km (3,974 km** due to multiple inspections) reveal quite high levels of pipe defects, mainly due to the long pipeline operation.

In semester I 2018, pig inspections were performed over 166 km. The inspections were carried out on the 24 "Band- Crăciunel pipeline, 84 km-long, and the 24" Crăciunel-Băcia, 82 km-long. **995 km** of pipelines were cleaned. 79.5% of the natural gas transmission pipelines have passive insulation made through a currently aged bitumen system, which also leads to increased electricity consumption registered at the **1,037** pipeline cathodic protection stations.

Approximately **96%** of the pipelines and fittings that are in use have cathodic protection. By 30.06.2018 intensive metering were performed for **116.17 km** of pipelines.

The gas delivery to the distributors and end users is performed by the **1.232 MRSs** (metering directions), **50 MRSs** (metering directions) being temporarily inactive /in preservation.

MRSs are included in the upgrading/rehabilitation programs to be integrated into the SCADA automatic control and monitoring system. Out of the **1.232 MRSs** (consumption directions) in operation in the first stage, a total of **948** are considered for the implementation of the SCADA system.

The compression capability is provided by **3** gas compressor stations, placed on the main transmission directions. The procedure for the procurement of the upgrading works "GAS AND FLAME DETECTION SYSTEM FOR THE TCS SINCA HALL" (INCLUDED IN THE THE Plan for Investment Development and Upgrading 2018) was launched. The contract for the supply of equipment, i.e. "THE MOBILE COMPRESSOR STATION – RECOVERY OF GAS FROM DAMAGED PIPELINES", is ongoing

Gas dispatching in the NTS is performed by manoeuvres carried out in the interconnection nodes of the main transmission pipelines. Most nodes are equipped mainly with manually operated manoeuvre valves and equipment for tracking parameters, most of which are out-dated in terms of performance and operation safety.

From the existing technological nodes about 20% are new or rehabilitated.

During the implementation of the SCADA system, the process of upgrading the technological nodes will continue.

Gas odorization is ensured by a number of **892** odorization facilities of which **587** systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas.

Out of the **587** modern systems, a total of **28** 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 overodorization and thus to an increased consumption of odorant. Out of these **15** facilities are centralized.

In 2018 a number of 21 old odorisation facilities were replaced with automatic machines and the procedure for the procurement of another **121** automatic odorization facilities was finalized, of which 36 were delivered, the rest of them being undelivered in the first quarter of 2018.

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

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

Cross-border interconnection points

Currently, the import/export of natural gas to/from Romania is achieved by 5 cross-border interconnection pipelines:

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

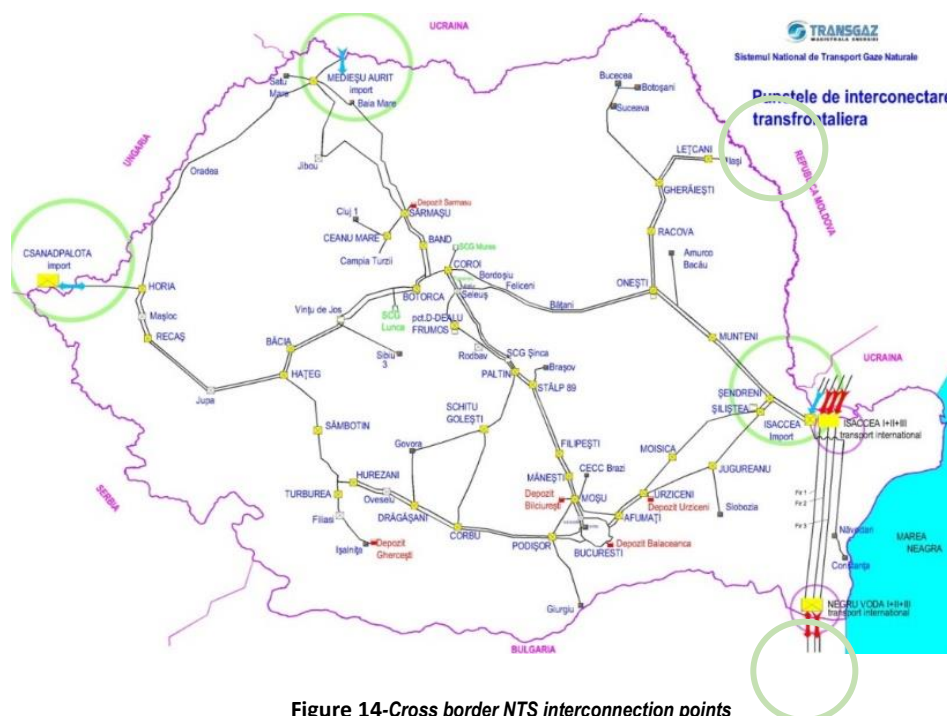


Figure 14-Cross border NTS interconnection points

3.6.2 Investment policy

Modernization and Investment Development Plan

The investment activity is mainly directed towards the modernization and development of the NTS in order to improve the efficiency and to increase its capacity and also to develop new consumption areas.

The value of the 2018 Investment Plan, approved in the 2018 revenue and expense budget, is **687,112,468 lei**.

Of the total budgeted amount of PMDI for 2018, in January 2018, works in progress represented 45%, design works 38%, purchase works 13%, and facilities and other investments 4%.

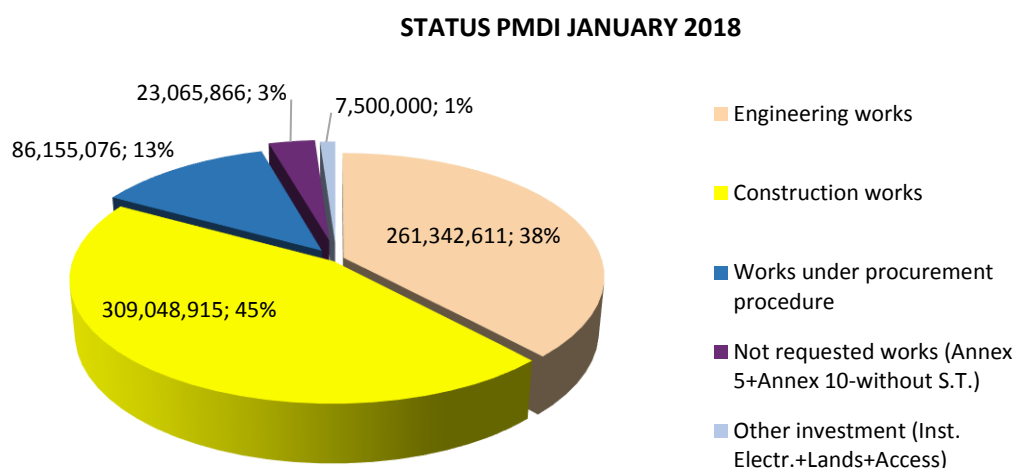


Chart 8- PMDI - January 2018

In semester I 2018, compared to the budgeted amount, the executed works increased from 45% to 74% as a result of finalizing some of the projects and start of procurement and finalizing some procurement procedures by concluding contracts and beginning execution.

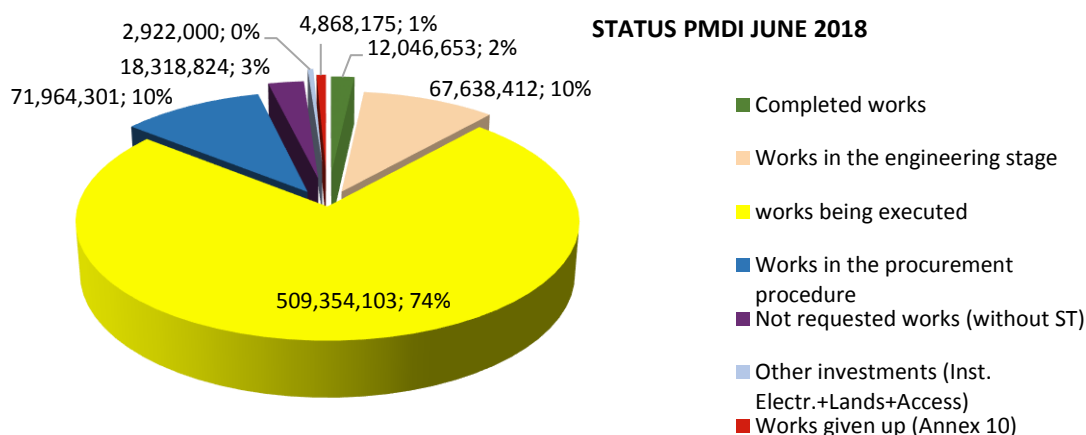


Chart 9- PMDI-June 2018

The main works in progress in semester I 2018 are:

- Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)
 - Compressor stations execution works (Podișor, Bibești and Jupa)
 - Pipeline execution works (Phase 1);
- Securing the Ø32" Șendreni - Silistea – Bucuresti pipeline, Scorțaru Vechi - Comăneasca zone;
- Replacement of technological installations at MRS Timișoara I;
- Ø 28" MRS SIDEX GALATI connection pipeline;
- MRS IȘALNIȚA;
- Upgrading and extension ERP MAIS;
- Ø 28" Gănești - Idrifaia – Coroi gas transmission pipeline.

The main contracts concluded in semester I 2018 are:

- Compressor stations execution works (Podișor, Bibești and Jupa);
- Securing TRANSIT 1 pipeline, in Camena area;
- Securing TRANSIT 3 pipeline, in Ceamurlia area;
- Securing abovecrossing of the Târnava Mica river with the DN 700 Bahnea-Idrifaia natural gas pipeline, the Bahnea area;
- Works to secure the abovecrossing crossing of the Vețca River with the DN600 Coroi-Bordoșiu pipeline, Bordoșiu area;
- Riverbank protection on the Ø 20" Botorca-Arad and Coroi-Maşloc pipelines, Zeicani area;
- Moistica technological node - automations;
- Works to secure the gas supply connection MRS BRĂILA, Agricultural Farm Area;
- Investments in units, equipment and facilities.

The main works the technical designs of which were completed in semester I 2018 are:

- Compressor stations execution works (Podișor, Bibești and Jupa);
- New NTS developments to takeover gas from the Black Sea (Vadu-T1);
- Gas and smoke detection system in turbocompressor room at CS ȘINCA;
- NTS interconnection with the international gas transmission pipeline T1 and reverse flow at Isaccea;
- The ø20" Craiova-Segarcea-Băilești-Calafat gas pipeline, phase I, pipeline section Craiova-Segarcea;

- Undercrossing of the Olt River with the ø 12" Drăgășani-Caracal pipeline (gas supply pipeline for Caracal);
- Riverbank protection on the ø 20" Botorca-Arad and Coroi-Maşloc pipelines, Zeicani area;
- The ø 12" Mintia-Brad-Ştei gas pipeline, phase I Mintia-Brad;
- Securing the abovecrossing of the Iazul River on the DN 500 Rotbav-Şinca pipeline, DN 600 and DN 700 Bărcuţ-Şinca pipeline, Toderiţa area;
- Securing the undercrossing of the Bogdana River with the DN 800 Oneşti-Han Domneşti pipeline, Bogdana area;
- Securing Transit 3 pipeline, Ceamurlia area;
- Securing Transit 1 pipeline, Camena area;
- Interconnection of the Jupa Compressor Station/the national transmission system;
- MRS Clinceni- Increasing the efficiency of the metering system by completing the technological facility with the corresponding elements / equipment;
- Modernization of MRS Chisineu Cris.

There are difficulties in achieving some investment objectives, such as:

There are still difficulties in achieving investment objectives such as:

- Lack of the necessary permits to obtain the Construction Authorization from ROMSILVA, CNAIR and the local authorities for the following investment objectives:
 - the DN 250 Câmpulung Moldovenesc - Vatra Dornei gas pipeline (Pojarâta - Vatra Dornei section 25,8 km long);
 - DN 700 Moşu - Buciumeni gas transmission pipeline;
 - DN500 Hurezani - Haţeg pipeline rehabilitation, Hunedoara County: DN 66 undercrossing;
 - deviation of DN350 Tisăuţi gas pipeline - Bucecea, Salcea area.
- Lack of land ownership agreements for the following investment objectives:
 - DN 300 Moinesti - Dărmăneşti pipeline deviation, Dărmăneasca area;
 - pipeline systemization in the area of the Moşu Technological Node;
 - DN 400 Vaslui - Iasi gas pipeline (Vaslui - Mogoşesti section);
 - modernisation of the gas supply system of Ploieşti.
- The necessity of applying the provisions of GO 79/2017 led to the termination of the works for a number of objectives such as:
 - Modernisation of the gas supply system of Ploieşti;
 - MRS Dej II.

In order to solve the problems that occurred during the execution of the works and the achievement of the objectives according to the plan, the following measures were taken:

▪ for owners who have not given their consent to constructors' land access, court proceedings were initiated; in cases where no consensus was reached by court, steps were taken to start the expropriation procedures;
▪ In some more difficult areas, from the point of view of obtaining agreements from landowners or at the request of local governments, the decision was taken to redesign the pipeline route or technical solutions for the construction;
▪ For the forest areas for which the ROMSILVA approval was not obtained, following the modification of the laws in the field, discussions will be resumed in order to solve the divergences that arose in order to achieve the crossing of such areas.

3.6.3 NTS maintenance policy

Repair, Rehabilitation and Maintenance Services Plan

The 2018 Maintenance, Repair and Maintenance Services Plan has an allocated amount of 70,770,845 lei, out of which 39,320,947 lei for NTS Repair and Rehabilitation Works and 31,449,898 lei for NTS Maintenance Services.

A. NTS repair and rehabilitation works

Of the total NTS Repair and Rehabilitation Works budgeted amount, in January 2018, the executed works represented 23%, the design works 13% and the works under the procurement procedure 61%.

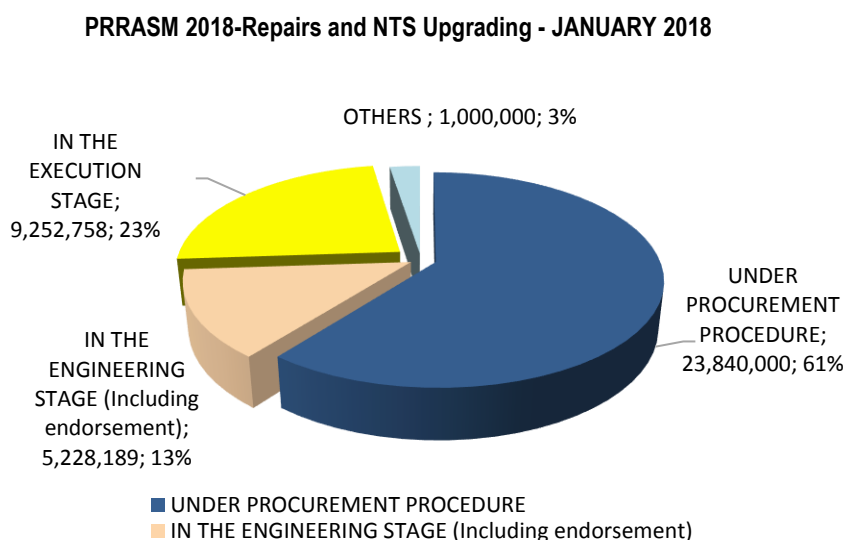


Chart 10 - PRASM 2018 - NTS Repair and Rehabilitation - January 2018

In the first half of 2018 (June 2018), compared to the budgeted amount, the repair and rehabilitation works in execution increased from 23% to 77% as a result of finalizing some of the projects and the initiation of the procurement, and finalizing some procurement procedures by concluding contracts and executing them.

PRRASM 2018-NTS REPAIRS AND UPGRADING - JUNE 2018

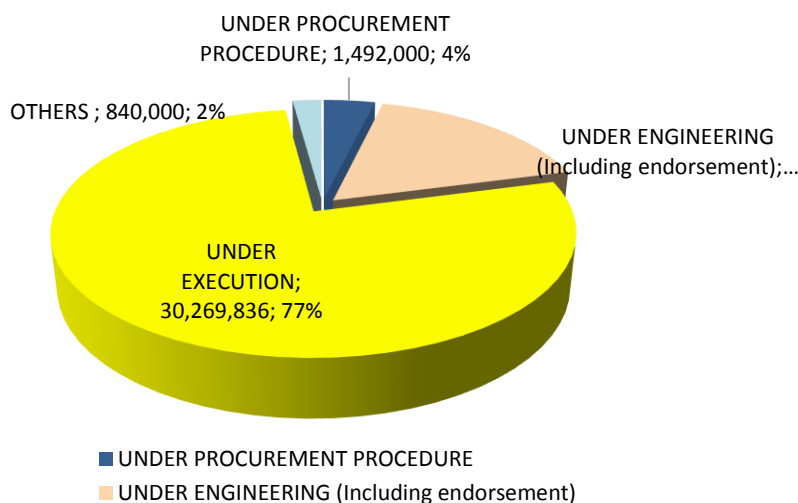


Chart 11 - PRASM 2018 - NTS Repair and Rehabilitation - June 2018

The works whose technical design were finalized in semester I 2018 are:

- Securing the Ø20 "Adjudul Vechi-Siliștea Branch, Braniștea, Schela and Independence
- Preparation of the pipeline Ø 20 "Șendreni - Albești for conducting pipelines
- Repairs of natural gas pipeline Ø20 "Beach-Garsebeș after inspection with intelligent PIG

FEED finalized in semester I 2018:

- Visa river aerial crossing by Ø 10 " - 12" pipe connection PM Soala, Agârbiciu area.

There are difficulties in carrying out repairs and rehabilitation of main pipelines due to certain issues external to the company:

- Absence or expiration of the necessary permits for obtaining the Construction Authorization for the following objectives (caused by the procedural term of the public procurement, namely, the procurement procedure cannot be started without AC's and, until the end of the procedure, the approvals/AC's lose their validity):
 - Ø 6" connection ELSID Titu;
 - Ø20 "Onesti - Racova - Gherăiești pipeline - line II;
 - Ø24 "Paltin Schitu - Golesti pipeline (Arges Brasov stage I)
 - Ø 28 "Seleuș Cristur Bățani pipeline Stage 2B (Harghita County);
 - Ø 48 "Isaccea - Negru Voda pipeline - TRANSIT 3;
- Lack of land ownership agreements for the following objectives:
 - Ø 6" connection pipeline ELSID Titu;
 - Ø 28" Seleus Cristur Bățani pipeline Stage 2B (Harghita County);
- The necessity to apply the provisions of GEO 79/2017 has made it difficult to carry out and settle the works for some of the objectives under execution:
 - Ø20" Sendreni-Albești pipeline(Braila County);
 - Ø28" Bucharest Ring, MRS Măgurele-MRS Linde Gaz section;
 - Ø 28" Seleuș-Cristur-Bățani pipeline stage 2C (Covasna County);
- The need to re-design some works (following normative changes) / documentation revision:
 - Ø12" pipeline bypass of Piatra Neamt, hydro dam MRS Dej II area;

- Repair works for abovecrossings (frame agreements / 2 years);
- Refusal of the contractors to sign the contract or their giving up to some of the works:
 - Abovecrossings of the Vișa River with the Ø 10" pipeline - 12" connection PM Soala, Agârbiciu area;
 - Ø 20" Botorca pipeline - Arad, Zeicani area;

In order to solve the problems that have arisen, the following measures have been taken:

- | |
|---|
| - Documents for obtaining opinions/authorizations have been restored and submitted to the competent authorities; |
| - In some more difficult areas, from the point of view of obtaining the agreements from the landowners or at the request of the local administrations, the decision was made to redesign the pipeline route or the technical solutions for the achievement of the construction; for owners who did not agree to the landlords' access to the field, court proceedings were opened and steps were taken to start the expropriation procedures; |
| - Addendums to contracts have been drawn up (and reports have been prepared) for all maintenance work (for the application of GEO 79/2017). |
| - Unfinished works by contractors were approached with their own forces (Mediaș Subsidiary and RO). |

B. NTS Maintenance Assurance Services

Chap. B. PRSASM NTS Maintenance Services includes a budget projection of external service needs for maintenance (maintenance, repairs, service, logistics facilities, etc.). As a rule, these benefits complement the set of maintenance activities and use or value quantification is largely presumptive. Budget allocations for some repair and servicing services can be judged with an acceptable degree of predictability, and for others, the values set out in the programs are based only on providing a budget corresponding to the situations in which these benefits are required to be purchased.

The budget allocated to the NSS Maintenance Services is 31.449.898 lei, representing 44.4% of the total amount of the Maintenance Program.

Of the total budgeted amount of the NTS Maintenance Services, in January 2018, executed contracts accounted for 42%, contracts under 30% procurement procedures, and unsolicited services accounted for 26%.

**PRRASM 2018-Services for ensuring NTS maintenance
JANUARY 2018**

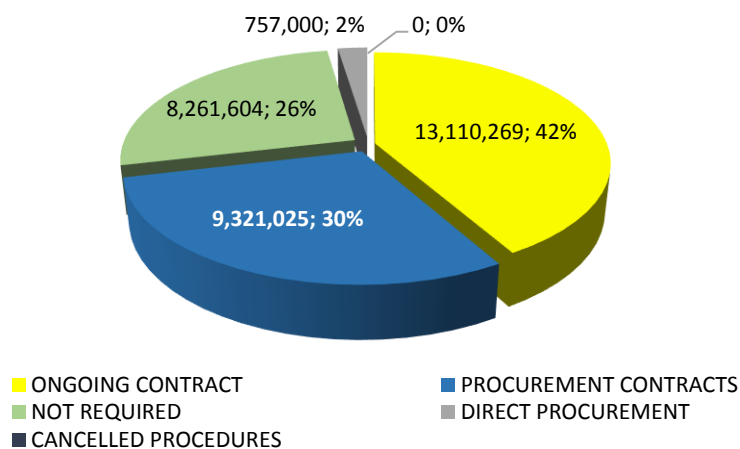


Chart 12- PRASM 2018 - SNT Maintenance Services - Stage January 2018

In the first half of 2018 (as of June 2018), in relation to the budgeted amount, the value of ongoing NTS maintenance services increased from 42% to 67% and the proportion of unsolicited services dropped to 19%.

**PRRASM 2018-Services for NTS maintenance
JUNE 2018**

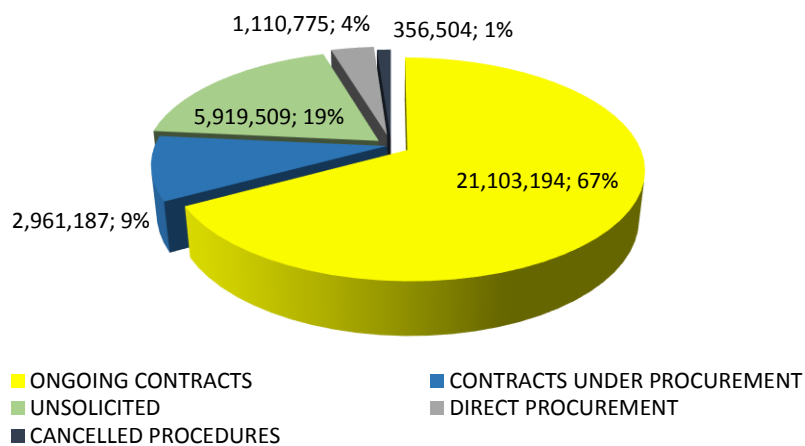


Chart 13 - PRRASM 2018 – NTS maintenance services -June 2018

Main contracts concluded in semester I:

- Piggable pipeline inspection services
- Revision and repair services to MRSs and odorisation plants
- Inspection services with intelligent pig for Isaccea-Negru Vodă-Transit 1 pipeline
- Automation and vibration lines verification services at compressor stations

3.7 Control of procurement

Procurement of the technical-material basis is based on firm contracts or orders, in compliance with the applicable laws, both on the domestic and import markets

At the substantiation of the PAAS 2018 the necessary works, products and services were considered as included in the Rehabilitation Repair and Maintenance Services Plan, the Design Plan, the Research Plan, and the Plan for Other Services Performed by Third Parties, as approved by the BoA Resolution 49 / 20.12.2016, and the Modernization, Investment Development and Supply Plan - approved by the BoA Resolution 1 / 01.12.2017.

The program includes all the contracts/framework agreements that SNTGN Transgaz S.A. Medias intends to award/conclude in 2018. Also, procedures started in 2017, which were not awarded/ not completed by the end of the year, were taken over in the 2018 program, with the indication that they are in progress in previous years.

The total value of the Sectoral Procurement Annual Program for 2018, originally approved on 26.01.2018, was 4,109,209,707.15 lei, out of which 1,151,033,726.00 lei related to the investment DEVELOPMENT ON THE NATIONAL TERRITORY OF THE NATIONAL GAS TRANSMISSION SYSTEM ON THE BULGARIA-ROMANIA-HUNGARY-AUSTRIA ROUTE (Phase 1) - (PAAS 2018 for BRUA-PHASE 1). Following the 9 revisions / updates of the Annual Program of Sectoral Purchases for 2018, which became necessary as a result of the revision of the execution programs underlying the founding of REB, the total value of the Annual Sectoral Procurement Program for 2018 became 4.278.206.986, 73 out of which 3,136,173,260.73 lei for the Sectoral Procurement Annual Program (PAAS 2018) and 1,151,033,726.0 lei for the Sectoral Procurement Annual Program on DEVELOPMENT ON THE NATIONAL TERRITORY OF THE NATIONAL GAS TRANSMISSION SYSTEM ON THE BULGARIA-ROMANIA-HUNGARY-AUSTRIA ROUTE (PHASE 1) - (PAAS 2018 for BRUA-Phase 1).

PROCUREMENT PROCEDURES:

On the basis of the PAAS 2018 (Procedures section, updated) out of the **398 active positions**, 173 procedures were initiated following requests from the departments/divisions/offices concerned, of which 97 procedures were finalized (24.37%) and 76 procedures are started (19.1%), in progress at different stages.

In addition, a total of **71** procedures are currently **not started (17.84%)**, with DASC documents, and up to the total number of active positions in the program a total of **154 positions** are not requested by interested departments/ divisions/offices a percentage of **38.69%**.

Schematically the status of the procurement procedures is as follows:

Procedures centralizer (physical)		
Total pos. as of 30.06.2018, where:	398	% realized through PAAS (procedure section)
- initiated	76	19,1%
- completed	97	24,37%
- not started	71	17,84%

- not requested	154	38,69%
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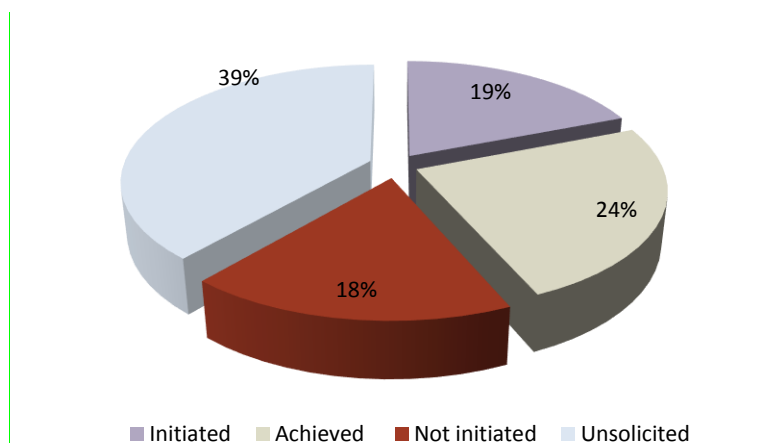


Chart 14- Situation of procurement procedures at 30.06.2018

Procedures centralizer (value) - lei		
Total value as of 30.06.2018, where:	3.119.818.178,98	% realized from PAAS (section procedures)
- started	177.411.727,61	5,69%
- realized	84.058.228,6	2,69%
- not started (in progress at DASC)	1.153.437.225,8	36,97%
- not requested	1.681.074.099,41	53,88%

NOTE. The percentage for the completed procedures is the final value achieved in relation to the total estimated value; and for the ones started but not finished and for the unmounted ones, their estimated value is based on the total estimated value (for this reason the sum of the percentages is less than 100% for the value differences from the estimated values to those awarded).

For the 97 positions made in the PAAS 2018 procedure section, the situation of the achievements against the estimated values only is presented according to the following table:

No. positions in PAAS	Estimated value	Achieved value	%
97	107.895.126,16	84.058.228,6	77,91%

The total number of contracts concluded (including the subsequent contracts awarded under the framework agreements as set out in Annex 1 to PAAS 2018) is presented schematically in the following table:

Contract type	Total value contracts (lei without VAT)	Number of contracts/ Frame agreements assigned	Out of which number of subsequent contracts	Value of subsequent contracts (lei without TVA)	Value achievement from PAAS (lei without TVA)
Contract of works	24.150.023,13	11	0	0	24.150.023,13
Contracts of services	48.669.077,06	78	30	15.718.652,75	32.950.424,31
Contracts of products	38.283.842,83	51	8	11.326.061,67	26.957.781,16
TOTAL CONTRACTS	111.102.943,02	140	38	27.044.714,42	84.058.228,6

Table 10 - The situation of the contracts concluded through procurement procedures - Sem. I 2018

DIRECT PURCHASES:

On the basis of the updated PAAS 2018, out of **343 active positions**, **235 direct purchases** were initiated following requests from the departments/ divisions/offices concerned, out of which 211 direct purchases (61.52%) and 24 direct purchases started (7%), ongoing in different stages. In addition, a total of 10 direct purchases (2.92%) are currently unmanned, with DASC documentation, and up to the total active positions in the program 98 positions are not requested by interested departments / divisions/ offices (representing a percentage of **28,57%**).

Centralizer of direct purchases (physical)		
Total pos. at 30.06.2018, where:	343	% realization direct purchases
- initiated	24	7,0%
- achieved	211	61,52%
- not started	10	2,92%
- not requested	98	28,57%

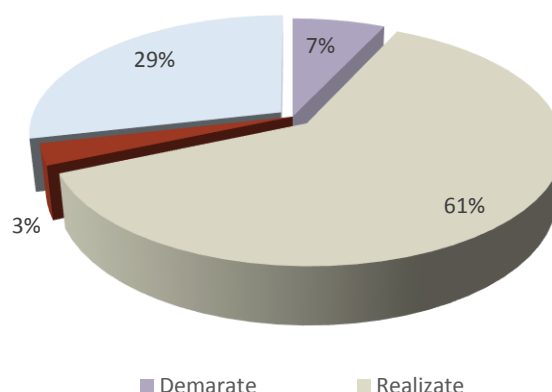


Chart 15-Situation of direct procurements at 30.06.2018

Centralizer of direct purchases (value)		
Total value as of 30.06.2018, where:	16.355.081,75	% realization direct purchases
- initiated	2.186.055,94	13,37%
- partially achieved	4.746.805,11	29,02%
- not started	241.307,12	1,48%
- not requested	6.691.127,22	40,91%

NOTE. The percentage of direct purchases made shows the final value in relation to the total estimated value; and for the ones started but not completed and for the non-initiated ones the estimated value of them in relation to the total estimated amount (for this reason the sum of the percentages is less than 100% for the value differences from the estimated values to the awarded ones).

For the **211 positions achieved** from PAAS 2018 - Direct Purchases, the situation of the achievements against the estimated values only of them is presented in accordance with the following table:

No. positions from PAAS	Estimated value	Achieved value	%
211	7.236.591,47	4.746.805,11	65,59%

Centralized situation of direct purchases

On the basis of the updated PAAS and following the requests of the departments/ divisions/offices concerned during the period 03.01-30.06.2018, is presented schematically in the following table:

Type of contract	Total Value contracts / orders / delegation of competences	No. Contracts concluded by purchase office	Value of contracts concluded by purchase office	No. orders concluded by purchase office	Value orders concluded by purchase office	Value of purchases which are not comprised into PAAS - AD	No. Orders delegations of competences of services and products	Value of orders delegations of competences of services and products	Value of realizations from PAAS - AD
	(lei without VAT)	-	(lei without VAT)	-	(lei without VAT)	(lei without VAT)	-	(lei without VAT)	(lei without VAT)
Works	1.587.197,88	12	1.587.197,88	0	0,00	0,00	0	0,00	1.587.197,88
Services	1.542.017,50	59	1.392.830,18	10	113.423,45	1.821,55	6	35.763,87	1.540.195,95
Products	1.619.411,28	10	369.888,38	68	472.234,54	0,00	94	777.288,36	1.619.411,28
TOTAL	4.748.626,66	81	3.349.916,44	78	585.657,99	1.821,55	100	813.052,23	4.746.805,11

Table 11 - Situation of contracts concluded through direct purchases during the period 03.01-30.06.2018

PURCHASE PROCEDURES-PAAS 2018 (for BRUA-Phase 1)

On the basis of the PAAS 2018 (BRUA-PHASA 1) - section of the procedure, updated from 4 active positions respectively, following the requests of the departments/ divisions/offices concerned, 4 procedures were initiated, of which 3 procedures were completed, and 1 procedure is started.

From the physical point of view of the total number of procedures foreseen in PAAS 2018 (for BRUA-Phase 1) - actualized, the rate of achievement is 75%, and in terms of value the achievement is 78.5% (value realized in relation to the total estimated value) - according to the details contained in this information.

Schematically the status of the procurement procedures is as follows:

Centralizer of procedures PAAS-for BRUA-PHASE 1 (physical)		
Total pos. at 30.06.2018, where:	4	% of achievement procedures
- started	1	25,00%
- achieved	3	75,00%
- not started	0	0,00%
- not requested	0	0,00%

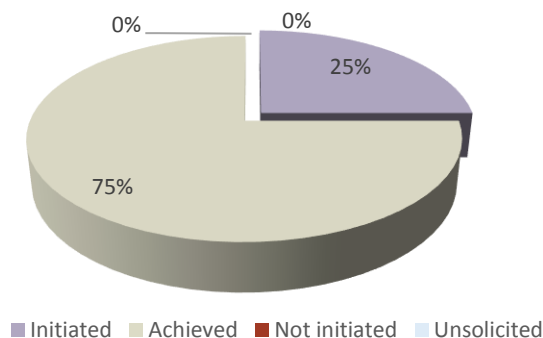


Chart 16 - Situation of PAAS procedures for BRUA-PHASE 1 as at 30.06.2018

Procedures centralizer PAAS-for BRUA-PHASE 1 (valoric)		
Total value at 30.06.2018, where:	1.151.033.726,00	% of realization procedures
- started (estimated)	73.264.726,00	6,37%
- realized (concluded contracts)	903.515.608,51	78,50%
- not started	0,00	0,00%
- not requested	0,00	0,00%

NOTE. The percentage for the completed procedures is the final value achieved in relation to the total estimated value, and for the started but unfinished ones, as well as for the unmounted ones, their estimated value is based on the total estimated value (therefore the sum of the percentages is less than 100% value from the estimated values to the adjudicated ones).

For the 3 positions made from PAAS 2018 for BRUA-PHASE 1, the achievement of the estimated values only is presented according to the following table:

No. positions from PAAS for BRUA-PHASE 1	Value estimated	Value achieved	%
3	1.077.769.000,00	903.515.608,51	83,83%

The total contract status for PAAS 2018 (for BRUA-PHASE 1) is shown schematically in the following table:

BRUA Contract type	BRUA Total value contracts/orders (lei VAT excluded)	BRUA number of contracts/frame agreements awarded	BRUA value achievement from PAAS 2018 for BRUA-PHASE 1 (lei VAT excluded)
Works	288.742.446,15	1	288.742.446,15
Services	0,00	0	0,00
Products	614.773.162,36	2	614.773.162,36
TOTAL CONTRACTS	903.515.608,51	3	903.515.608,51

Table 12 - The status of the contracts concluded for the BRUA project in semester I 2018

4. FINANCIAL REPORT

4.1 Financing position

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

On 30 June 2018, the financial position is as follows:

Indicator	30.06.2018	31.12.2017	Dynamics (%)
	Thousand lei	Thousand lei	
0	1	2	3=1/2
Intangible Assets	2.447.280	2.490.561	98,26%
Tangible Assets	539.362	558.555	96,56%
Financial assets	42.883	233	0,00%
Trade receivables and other receivables	674.055	660.031	102,12%
Fixed assets	3.703.580	3.709.380	99,84%
Inventories	97.088	82.093	118,27%
Commercial receivables and other receivables	388.910	379.452	102,49%
Cash and cash equivalent	1.512.497	1.062.352	142,37%
Current assets - TOTAL	1.998.495	1.523.897	131,14%
TOTAL ASSET	5.702.075	5.233.277	108,96%
Debts to be paid over a one-year period	792.030	273.603	289,48%
Debts to be paid over a period of more than one year	1.443.585	1.238.525	116,56%
Total debts	2.235.615	1.512.128	147,85%
Equity	3.466.460	3.721.149	93,16%
Share capital	117.738	117.738	100,00%
Hyperinflation adjustment of share capital	441.418	441.418	100,00%
Share premium	247.479	247.479	100,00%
Other reserves	1.265.797	1.265.797	100,00%
Retained earnings	1.394.028	1.648.717	84,55%
Total equity and debts	5.702.075	5.233.277	108,96%

Table 13-The Company's statement of financial position between 01.01-30.06.2018

Intangible Assets

From 2010, in accordance with the EU approval process, the Company started to apply IFRIC 12

Service Concession Arrangements, adopted by the EU.

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

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

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

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

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

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

Intangible assets decreased by lei 43.281 thousand as compared with 31.12.2017, this decrease being mainly due to the fact that the developments brought to the national transmission system exceed the depreciation expense registered for this type of intangible assets.

Tangible Assets

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

Tangible assets registered a decrease of lei 19.193 thousand as compared to 31.12.2017, mainly due to the fact that the tangible assets inflow and the reclassification of the tangible assets were exceeded by the depreciation cost for tangible assets.

Financial assets

At the end of the first semester of 2018 the value of the financial assets in the company's balance sheet was 42.650 lei, the increase of 42.418 lei as compared to 31.12.2017 is due to the increase of the share in the company EUROTRANSGAZ SRL Chisinau, established by Resolution GEMS 10 dated 12.12.2017 of SNTGN Transgaz SA with 42.412 thousand lei and the registration of the 6.000 lei stake in the Phaedra's SHA Consortium, set up by Resolution BA no.5 dated 13.02.2018, composed of Reganosa, Transgaz and EBRD, in order to submit the tender for the participation in the second one, the second round of the privatization process of 66% of the company DESFA, the Greek operator of the natural gas network.

Trade receivables and other receivables

The increase of the receivables to ANRM on 30 June 2018 by the amount of LEI 14.024 thousand, calculated after 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 concession provider on payment of a compensation equal to the regulated value remaining not amortized, established by ANRE.

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

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

The lei **14.024** thousand increase compared to 31 December 2017 is determined mainly by the updating of the receivables with the modifications registered in the RAB.

Inventories

On June 30, 2018, stocks increased by lei 14,995 thousand compared to December 31, 2017, mainly due to the increase in the stock of natural gas used for the de-balancing activity of NTS. The balancing activity, carried out as of 1 December 2015, is regulated by the ANRE Order no. 160/2015 "on the modification and completion of the Network Code for the National Gas Transmission System, approved by the Order of the President of the National Regulatory Authority for Energy no. 16/2013 " which establishes the obligation of the company to ensure the balancing activity of the national transmission system, as a transmission system operator.

Commercial receivables and other receivables

On 30 June 2018 the balance figure of the trade receivables and other receivables increased by lei **9.459 thousand** as compared to 31 December 2017, mainly due to the following factors:

- Increase of advance payments to suppliers by lei 35.221 thousand;
- An increase of provisions for impairment of commercial receivables and other receivables by lei 3.044 thousand.
- Increase of the balance of other receivables by lei 76.593 thousand.
- A decrease of the customer receivable balance by lei 99.311 thousand mainly because of the decrease of the receivables balance from transmission and international transit;

Cash at bank and in hand

As at 30 June 2018 the company's cash increased by lei 450.144 thousand as compared to the end of 2017, this increase is due to the fact that the holdings in the bank and in cash in lei increased by lei 188.897 thousand and the ones in currency increased lei 261.096 thousand and cash equivalents increased by lei 151 thousand.

Debts to be paid over a one-year period

In the structure of debts to be paid over a one-year period, the following changes were noticed compared to 31 December 2017:

- **A balance increase in commercial payables and other payables by lei 504.841 thousand** mainly due to the decrease of commercial receivables by lei 41.626 thousand, the decrease of the debts related to royalties by lei 14.757 thousand, the increase of the payable dividends by Lei 532.714 thousand, the decrease of the undue VAT by Lei 12.028 thousand, the decrease of

the non-reimbursed VAT balance by 8,404 thousand lei, the increase of the debts with other taxes by 2,253 thousand lei, the decrease of the payments to the employees by 4,942 thousand lei, the increase of other debts by 51,631 thousand lei;

- A **decrease of the provision for risk and charges by lei 7.762 thousand** due to the cancellation of the provision for the employees participation to profit for 2017;
- A **decrease of the debt related to tax on current profit by lei 21.348 thousand** as a result of the registration of the tax on profit on semester I 2018;

Long-term debts

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

- **the increase of the pre-paid revenues by lei 44.293 thousand**, due to the May 2018 collection from the European Commission of pre-financing for the BRUA Phase I Project and the recalculation of the receivable recognized as a result of the legislative amendments, whereby the company has the right to recover the undepreciated amount of the assets related to investments made as a titleholder of the National Transmission System;
- **the increase in long-term loans of 163.160 thousand** on account of the receipts of EUR 15 million on 28 February of the second loan tranche contracted with the European Investment Bank ("EIB") and on 30 April 2018 the third tranche of EUR 20 million of the same loan.
- **The decrease of deferred tax liabilities by Lei 2.392 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.

Equity

The subscribed and paid up capital remained unchanged. The decrease in retained earnings by lei 254.689 thousand is determined by the allocation of the profit related to 2017 to dividends due to shareholders, which exceeded the profit registered in semester I of 2018.

4.2 Comprehensive income

The situation of the profit loss account as at 30.06.2018:

Specification	Achievements (thousand lei)		Dynamics (%)
	30 June 2018	30 June 2017	
0	1	2	3=1/2
TOTAL revenues, of which:	971.287	1.096.468	88,58%
Revenue from the construction activity according to IFRIC12 and balancing	823.907	980.477	84,03%
Revenue from the balancing activity	90.483	76.692	117,98%
Revenue from the construction activity according to IFRIC12	34.919	17.532	199,18%
Financial revenues	21.978	21.767	100,97%
TOTAL expenses, of which:	640.427	618.093	103,61%
Operating expenses before the construction activity according to IFRIC12 and balancing	506.146	519.977	97,34%
Expenses from the balancing activity	90.483	71.913	125,82%
Cost of assets constructed according to IFRIC12	34.919	17.532	199,18%

Financial expenses	8.878	8.672	102,38%
GROSS PROFIT, of which:	330.860	478.375	69,16%
Operating result	317.761	465.280	68,29%
Financial result	13.100	13.095	100,03%
TAX ON PROFIT	51.254	77.885	65,81%
NET PROFIT	279.606	400.491	69,82%

Table 14 – Situation of the profit and loss account in semester I 2018 vs semester I 2017

Operating revenue

Operating revenue before the balancing and the construction activity according to IFRIC 12 obtained in semester I 2018 compared to the same period of 2017 is as follows:

Specification	Achievements 6 months (lei thousands)		Dynamics (%)
	2018	2017	
0	1	2	$3=1/2*100$
Revenue from the transmission activity			
- Lei thousand	631.399	774.342	81,54
- MWh	71.483.634	73.670.134	97,03
- Lei/MWh	8,83	10,51	84,03
- thousand cm	6.658.467	6.857.186	97,10
- Lei/1000 cm	94,83	112,92	83,97
Revenue from the international transmission activity			
- Lei thousand	159.911	174.643	91,56
Other operating revenue			
- Lei thousand	32.597	31.492	103,51
TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12	823.907	980.477	84,03

Table 15- Revenue from the operating activity –Achievements sem I 2018 vs sem I 2017

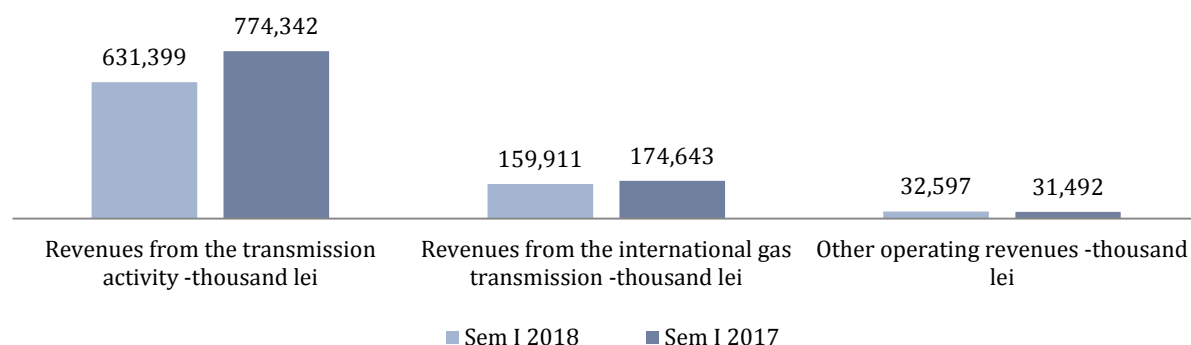


Chart 17- The structure of the operating revenues - 6 months 2018 vs. 6 months 2017

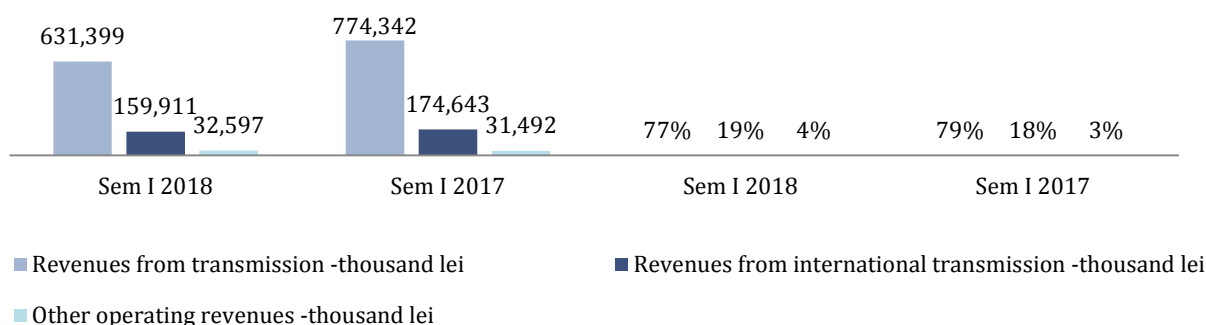


Chart 18 - The share of the activities in the total operating revenues- 6months 2018 vs. 6 months 2017

Out of the total transmission revenues achieved in the first semester of 2018, about 19% are made in foreign currency, from the international gas transmission activity.

Operating expense

The operating expense obtained in semester I 2018 as compared to the same period of 2017 is as follows:

N o.	Specification	Achievements 6 months (lei thousand)		Dynamics (%)
		2018	2017	
0	1	2	3	4=2/3*100
1.	Depreciation	107.989	106.869	101,05
2.	Indemnities, salaries, other expenditures related to salaries and benefits to employees	186.989	184.475	101,36
3.	Technological consumption, materials and consumables used, of which:	53.456	51.346	104,11
	Transmission system technological consumption and loss	39.745	36.022	110,34
	Technological consumption amount MWh	504.476	527.817	95,58
	Technological consumption thousand cm	48.310	50.281	96,08
	Auxiliary materials	11.999	11.387	105,38
	Other material expenditures	1.711	3.938	43,45
4.	Expenditures related to royalties	79.131	94.899	83,38
	Maintenance and transport, of which:	14.336	11.055	129,68
	Works, services performed by third parties	6.828	4.517	151,16
6.	Taxes and other amounts due to the State, of which:	36.447	34.373	106,03
	The fee for obtaining the license for gas transmission and international transit	5.631	3.753	150,06
	Monopoly tax	27.749	28.184	98,46
7.	Expenditures related to the provision for risks and expenses	-7.762	-8.588	90,37
8.	Other operating expenditures	35.560	45.548	78,07

TOTAL OPERATIONAL REVENUES before the balancing and the construction activity according to IFRIC12	506.146	519.977	97,34
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Table 16- Operating activity expenses achieved in sem I 2018 vs.sem I 2017

4.3 Cash flow statement

Cash flow statement on 30 June 2018 is presented below:

Indicator	30 June (lei thousand)	
	2018	2017
Profit before tax	330.860	478.375
<i>Adjustments for:</i>		
Amortization	107.989	106.869
Gain/(loss) on disposal of fixed assets	101	-33
Provisions for risks and charges	-7.762	-8.588
Revenue from connection fees, grants and goods taken free of charge	-11.537	-11.179
Loss on account of debts and various debtors	4	0
Provisions for the impairment of receivables	3.044	12.784
Interest related expense	973	0
Interest revenue	-13.826	-11.522
Loss/(gain) from the impairment of inventories	-1.976	1.047
Effect of exchange rate fluctuation on other items than operating	-76	34
Revenue from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement	-15.101	-14.923
Operating Profit before the changes in working capital	392.694	552.864
(Increase)/decrease in trade and other receivables	-16.056	195.455
(Increase)/decrease in inventories	-13.020	1.375
Increase/(decrease) in trade payables and other debts	-15.318	-72.778
Cash generated from operations	348.301	676.917
Paid interest	3.781	2.979
Received interest	0	0
Paid profit tax	-30.772	-65.792
Net cash inflows generated from operating activities	321.309	614.103
Cash flow from investments		
Payments for the acquisition of tangible and intangible assets	-56.959	-34.840
Cash from transfer of tangible assets	0	136
Financial assets investments	-42.651	0
Cash from connection fees and non-reimbursable funds	66.868	11.051
Net cash used in investment activities	-32.741	-23.652

Cash flow from financing activities		
Loan	163.160	0
Dividends paid	-1.583	-1.277
Net cash used in financing activities	161.576	-1.277
Net change in cash and cash equivalents	450.144	589.175
Cash and cash equivalents at the beginning of the year	1.062.352	949.293
Cash and cash equivalents at the end of the period	1.512.496	1.538.468

Table 17 – Statement of cash flow – sem I 2018 vs sem I 2017

The analysis of the cash flow as of 30 June 2018 show a decrease in liquid assets by lei 25.972 thousand as compared to 30 June 2017.

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

- cash flow generated from the operation is of lei 321.309 thousand, lower by lei 292.794 thousand than in semester I of 2017;
- cash flow used in investment activity is of lei -32.741 thousand, by lei 9.089 thousand higher than in semester I of 2017;
- cash flow used in financing activity is of lei 161.576 thousand, by lei 162.853 thousand higher than in semester I of 2017.

As at 30 June 2018 the balance of the resources available in the bank accounts of the company was of lei 1.512.157 thousand, of which 63,63% are available resources denominated in foreign currency, mostly in EURO.

4.4. Factor analysis of the activity

Achievements of semester I 2018 versus Achievements of semester I 2017

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

Thousand lei			
Name	Obtained in 2017	Obtained in 2016	Changes
0	1	2	$4 = \frac{1}{2} \times 100 - 100$
Operating revenue before the balancing and the construction activity according to IFRIC12	823.907	980.477	-16%
Revenue from the balancing activity	90.483	76.692	18%
Revenue from the construction activity according to IFRIC12	34.919	17.532	99%
Financial revenue	21.978	21.767	1%
Operating costs before the balancing and the construction activity according to IFRIC12	506.146	519.977	-3%
Cost of balancing gas	90.483	71.913	26%
Assets costs according to IFRIC12	34.919	17.532	99%

Financial costs	8.878	8.672	2%
GROSS PROFIT -total, of which:	330.860	478.375	-31%
· from operaton	317.761	465.280	-31%
· from the financial activity	13.100	13.095	-32%
Profit tax	51.254	77.885	-34%
NET PROFIT	279.606	400.491	-30%
Other elements of the gross result		0	
The total gross result related to the period	279.606	400.491	-30%

Table 18- Financial results – sem I 2018 vs. sem I 2017

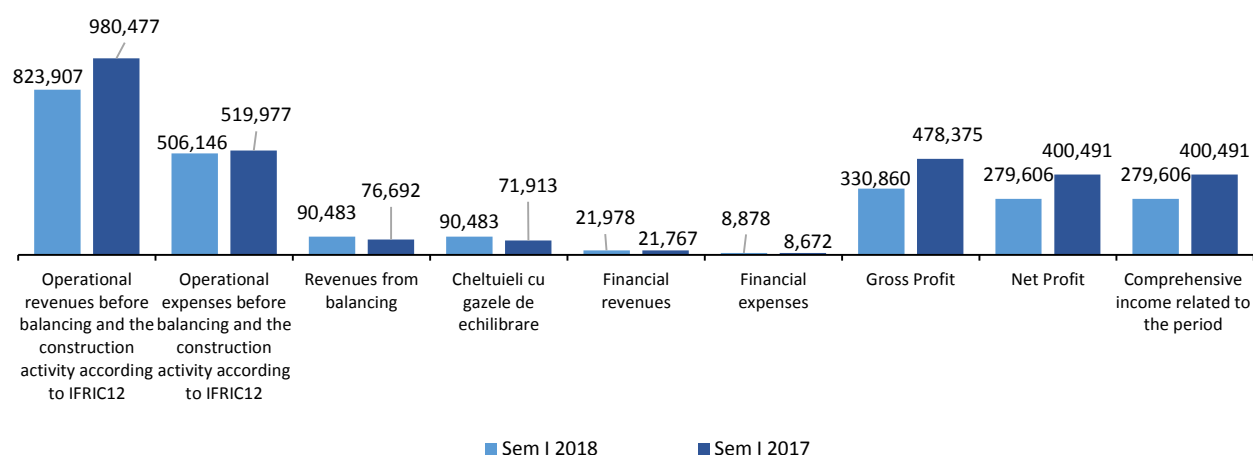


Chart 19 – Financial results sem I 2018 vs sem I 2017 (lei thousand))

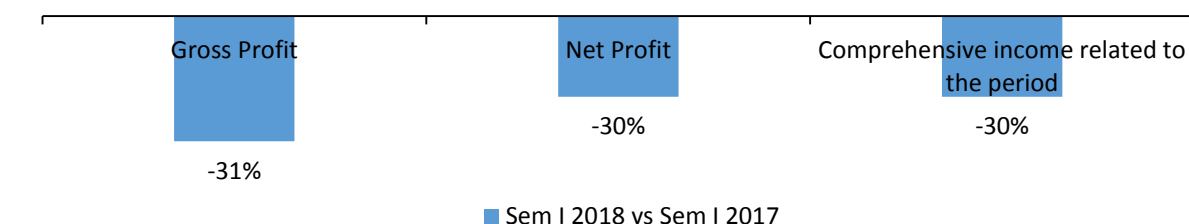


Chart 20- Financial results sem I 2018 vs sem I 2017 (%)

Operating revenue before the balancing and the construction activity according to IFRIC12 decreased by 16% as compared to semester I 2017, which is lower by Lei **156.570** thousand.

The revenue was influenced mainly by the following factors:

- commodity component revenue lower by Lei 87.347 thousand due to:

- the commodity transmission tariff lower by Lei 1,104/MWh, with a negative influence of LEI 8.000 thousand
- the gas transmitted capacities lower by 2.186.501 MWh/198.719 thousand cm (▼ 3%), as compared to semester I 2017, with a negative influence of LEI 79.346 thousand, detailed by categories of consumers as follows:

		6 months 2018	6 months 2017	Differences
Quantity transmitted for direct consumers	MWh	27.466.959	27.755.475	-288.516
	thousand m ³	2.570.141	2.593.909	-23.768
Quantity transmitted for distribution	MWh	44.016.675	45.914.659	-1.897.984
	thousand m ³	4.088.325	4.263.277	-174.952
Total	MWh	71.483.634	73.670.134	-2.186.500
	thousand m ³	6.658.467	6.857.186	-198.719

*) transmitted quantity for which transmission servicesd are invoiced

Table 19 – Quantity of gas invoiced - Sem. I 2018 vs. Sem. I 2017

- revenue from capacity booking lower by LEI 55.597 thousand due to:
 - booked capacities lower by 8.356.667 MWh, with a negative influence of LEI 21.189 thousand;
 - capacity booking tariff lower by LEI 0,186/MWh, with a negative influence of LEI 34.408 thousand;
- international gas transmission revenue lower by **LEI 14.732 thousand** due to the application of ANRE Order 34/19 July 2016 and the foreign currency exchange gain regarding the contract currency;
- other operating revenue higher by **LEI 1.105 thousand**.

Revenue from the balancing activity increased by **LEI 13.792 thousand** based on the following factors:

- trading price higher by LEI 15,56/MWh, with a positive influence of LEI 14.662 thousand;
- quantity lower by 10.813 MWh, with a negative influence of Lei 870 thousand.

Revenue from the construction activity higher by **LEI 17.387 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts.

Financial revenue has a positive influence of **LEI 211 thousand** based on the foreign exchange gains.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by 3% as compared to semester I 2017, which is lower by **LEI 13.830 thousand**.

The company made savings of LEI 27.982 thousand, mainly in relation to the following cost elements:

- cost of royalty: LEI 15.768 thousand;
- other material costs: LEI 2.227 thousand;
- other operating costs: LEI 9.987 thousand.

An expense surplus of Lei 14.151 thousand was recorded, mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **LEI 3.724 thousand** due to the following:
 - amount of gas for technological consumption lower by 23.340 MWh (▼ 4%), with a positive influence of LEI 1.593 thousand;
 - average purchase price in semester I 2018 higher as compared to semester I 2017 by LEI 10,54/MWh, with a negative influence of LEI 5.317 thousand;
- cost of maintenance and transmission: LEI 3.281 thousand;
- cost of personnel: LEI 2.514 thousand;
- cost of taxes and duties: LEI 2.074 thousand;
- depreciation costs: LEI 1.119 thousand;
- cost of provision for risks and charges: LEI 827 thousand;
- cost of auxiliary materials: LEI 613 thousand.

The financial cost is higher by **LEI 206 thousand** based on the interest expenses related to the new credits contracted.

As compared to semester I 2017 the gross profit obtained in semester I 2018 decreased by 31%, which is lower by LEI 147.515 thousand.

Achievements for the 6 months 2018 versus Budget 6 months 2018

The main economic and financial indicators obtained between January and June 2018 as compared to the indicators in the REB approved by OGMS Resolution 2/06 March 2018 are as follows:

(thousand LEI)

Name	REB Sem. I 2018	Achieved in sem. I 2018	Change s
0	1	2	$4=1/2 \times 100-100$
Operating revenue before the balancing and construction activity, according to IFRIC12	747.911	823.907	10%
Revenue from the balancing activity	13.648	90.483	563%
Revenue from the construction activity, according to IFRIC12	217.089	34.919	-84%
Financial revenue	17.314	21.978	27%
Operating costs before the balancing and construction activity, according to IFRIC12	603.290	506.146	-16%
Costs of balancing gas	13.648	90.483	563%
Cost of assets according to IFRIC12	217.089	34.919	-84%
Financial costs	7.500	8.878	18%
TOTAL GROSS PROFIT, of which:	154.436	330.860	114%
-from operation	144.622	317.761	119%
-from the financial activity	9.814	13.100	33%
Income tax	17.818	51.254	185%
NET PROFIT	136.618	279.606	105%

Table 20- Financial results Sem. I 2018 vs. Budget Sem. I 2018

Operating revenue before the balancing and construction activity according to IFRIC12 increased by LEI 75.996 thousand as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **LEI 92.395 thousand** due to:

- Capacities booked higher by 17.474.902 MWh, with a positive influence of **LEI 89.435 thousand**, mainly due to the invoicing of the booking capacity surplus for semester I 2018, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
- the gas transmitted capacities higher by 1.247.653 MWh (▲ 2%), with a positive influence of **LEI 2.960 thousand**;
- Revenue from international gas transmission services decreased by **LEI 2.519 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- Revenue from the balancing activity increased by **LEI 76.835 thousand** based on the following:
 - Quantity higher by 781.901 MWh, with a positive influence of LEI 66.640 thousand;
 - Trading price higher by LEI 10,82 /MWh, with a positive influence of LEI 10.195 thousand;
 - Other operating revenue decreased by LEi 13.881 thousand as compared to the REB.

Financial revenue increased by **LEI 4.664 thousand** as compared to the REB, mainly based on the foreign currency exchange loss.

The operating costs before the balancing and construction activity according to IFRIC12 decreased by **16%** as compared to the plan approved, which is lower by **LEI 96.996 thousand** as compared to the REB.

Savings amounting to LEI 113.504 thousand were recorded mainly the following cost elements:

- 👍 transmission system technological gas consumption and loss amounting to **LEI 11.877 thousand**, due to the following:
 - average purchase price lower by LEI 0,10 /MWh as compared to the REB, with a positive influence of LEI 51 thousand;
 - amount of gas for technological consumption lower by 149.141 MWh (23%) than planned, with a positive influence of LEI 11.827 thousand;
- 👍 other operating costs: LEI 27.923 thousand;
- 👍 costs of personnel: LEI 31.233 thousand;
- 👍 costs of auxiliary materials and other materials: LEI 16.227 thousand;
- 👍 maintenance an transmission: LEI 22.581 thousand;
- 👍 depreciation: LEI 3.360 thousand;
- 👍 cost of taxes and duties: LEI 303 thousand.

An expense surplus of LEI 16.508 thousand was recorded mainly in relation to the following cost elements:

- NTS concession royalty: LEI 8.988 thousand;
- cost of provision for risks and charges: LEI 7.520 thousand.

The financial cost is higher by **LEI 1.378 thousand** as compared to the REB, based on the foreign currency exchange loss and the interest expenses related to the new contracted credits.

The gross profit increased by 114% as compared to the plan, which is higher by LEI 176.278 thousand as compared to the REB, and the net profit increased by 105% as compared to the plan, which is higher by LEI 142.989 thousand as compared to the REB.

	Achieved Sem. I 2018 vs. Achieved Sem. I 2017	Achieved Sem. I 2018 vs. REB Sem. I 2018
Operational revenues before balancing and the construction activity according to IFRIC12	-16%	10%
Operational expenses before balancing and the construction activity according to IFRIC12	-3%	-16%

Gross result	-31%	114%
Profit tax	-34%	185%
Net Profit	-30%	105%

Table 21 – Achievements Sem. I 2018 vs. level of achievements Sem. I 2017 and Sem. I 2018 (%)

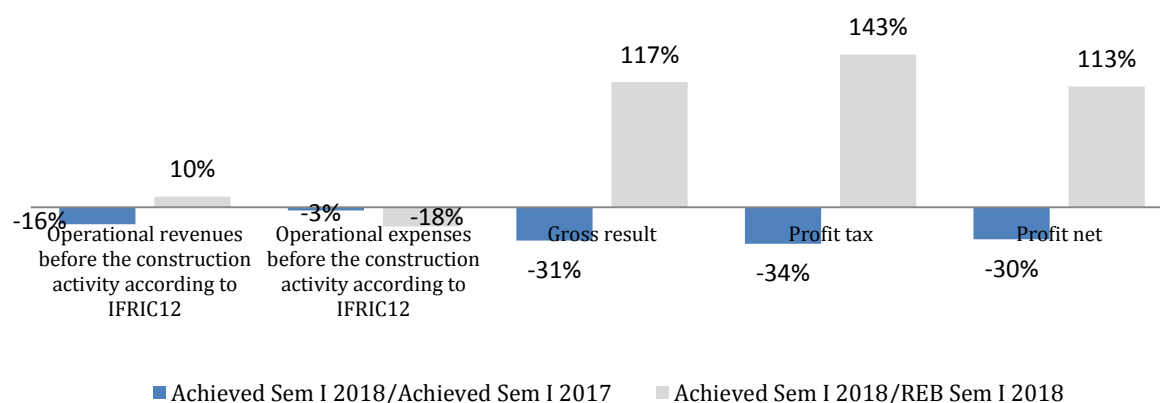


Chart 21 - Achievements Sem I 2018 vs. level of achievements Sem. I 2017, REB 2018

Semester I 2018 Achievements versus 2018 Management Plan

The key financial performance indicators approved by OGMS Resolution 2/2018 were substantiated based on the company's Revenue and Expense Budget data approved by OGMS Resolution 2/2018.

The level of the financial performance indicators achieved as compared to the Management Plan is as follows:

(lei thousand)

No.	Performance criteria	2018 Management Plan	Achieved sem. I 2018	Percentage	Difference
1.	Outstanding payments – lei thousands	0	0	100%	0
2.	Operating expense (without the depreciation, balancing, construction activity and provision for asset depreciation and for risks and expenses) - lei thousands	1.002.101	404.850	248%	-597.251
3.	Acid test ratio	1,39	2,40	173%	1,01
4.	Net debt-to-equity ratio	3,00	0,55	548%	2,45
5.	EBITDA – lei thousand	458.599	425.749	93%	-32.850

Table 22 – Achievements Sem I vs Management Plan 2018

4.5 Evaluation of the activity related to the financial risk management

Financial risk factors

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

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

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

Market risk

Currency risk

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

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

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

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

	30 June 2018	31 December 2017
<i>Impact on profit and loss and on equity of:</i>		
USA dollar appreciation by 10%	121.318	38.536
USA dollar depreciation by 10%	(121.318)	(38.536)
Euro appreciation by 10%	75.029.313	64.842.955
Euro depreciation by 10%	(75.029.313)	(64.842.955)

Price risk

The Company is exposed to the commodity price risk related to the gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 1.669.301 (June 2017: Lei 1.512.907).

Interest rate risk on cash flow and fair value

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

For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by LEI 2.051.573 lower/higher (June 2017: LEI 2.346.860 lower/higher), as a result of the interest rate variation for bank deposits.

Credit risk

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

The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 63% of the trade receivable balances as at 30 June 2018 (31 December 2017: 61%).

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.

	30 June 2018	30 June 2017
	(unaudited)	
Without rating	2.071.620	4.400.920
BB	707.423.071	355.439.685
BBB-	433.424.612	3.901.284
BBB	2.012.208	224.008.353
BBB+	365.791.723	474.084.727
A	138.283	138.479
AA	1.295.707	190.822
	1.512.157.224	1.062.164.270

All financial institutions are presented to Fitch rating or equivalent.

Liquidity risk

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

The company forecasts cash flows.

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

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

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

The table below shows the obligations as at 30 June 2018 in terms of remained contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Analysis of financial liabilities as at 30 June 2018 in terms of maturity:

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	261.472.538	2.919.035	65.253.024	193.300.480
Commercial debts and other debts	681.584.709	681.584.709	-	-
	943.057.247	684.503.744	65.253.024	193.300.480

Analysis of financial liabilities as at 30 June 2017 in terms of maturity:

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	78.443.204	830.048	17.885.494	59.727.662
Commercial debts and other debts	127.068.682	127.068.682	-	-
	205.511.886	127.898.730	17.885.494	59.727.662

Commercial and other debts comprise 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:

	30 June 2018	30 June 2017
Financial assets		
Cash and cash equivalents	314.198.138	622.330.653
Term bank deposits	1.198.297.838	440.021.181
Credits and receivables	1.019.779.951	1.004.745.959
Financial assets available for sale	67.416.616	24.578.237
Provisions for available-for-sale financial assets	(24.578.237)	(24.578.237)
	2.575.159.306	2.067.097.793

	30 June 2018	30 June 2017
Financial liabilities		
Debts measured at depreciated cost	-	-
Loans	233.055.000	69.895.500
Debts assessed at the fair value:		
-Financial guarantees related to contracts	5.326.862	5.488.821
-Commercial debts and other debts	676.257.847	121.579.861
	914.639.709	196.964.182

Capital risk management

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

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

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

In 2018, the Company's strategy which remained unchanged compared to 2017, was to keep the debt leverage degree as low as possible to keep a significant borrowing capacity for future investments.

The leverage was negative at 30 June 2018 and negative at 31 December 2017.

	30 June 2018	31 December 2017
Total loans	233.055.000	69.895.500
Less: cash and cash equivalents	(1.512.495.975)	(1.062.351.834)
Net cash position	(1.279.440.975)	(992.456.334)

Fair value estimate

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

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

The book value less the provision for the impairment of trade receivables and commercial debt is

deemed to approximate their fair value.

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

5. THE NON-FINANCIAL REPORTING

5.1 Non-financial statement

According to the provisions of the Order of the Ministry of Public Finance no. 1938 of August 17, 2016 on the amendment and additions to accounting regulations, public interest entities which, at the balance sheet date, exceed the criterion of having an average of 500 employees during the financial year, shall include in the administrators' report a non-financial statement containing, to the extent to which this is necessary to understand the development, performance and position of the entity and the impact of its activity, information on at least environmental, social and staff issues, namely human rights, the fight against corruption and bribery (art I, item 2, 492¹, par. (1)) or shall draw up a separate report (art I, item 2, 492⁴, par. (1)).

SNTGN Transgaz SA submitted the non-financial statement in the administrators' report.

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

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

- Compliance with the requirements of the European and national regulatory framework for natural gas transmission;
- Optimizing the quality of implementation of the principles of good corporate governance, ethics and integrity;
- Improving the process of strategic budgeting and monitoring of systems and management processes;
- Strengthening and diversifying the relations of internal and external collaboration;
- Increasing energy efficiency and reducing the negative impact of technological processes on the environment;
- Increasing the adaptability and the capacity of the company to react to the permanent changes of the environment in which it operates;
- Increasing the satisfaction of customers, business partners, suppliers and the quality of the services provided;
- Improving occupational safety and security;
- Improving the general, internal and external communication process of the company, of the image capital;
- Improving the professional training, improvement and development process of the staff;
- Increasing the market value, stock market capitalization and investor confidence in the company's shares;
- Optimizing the company's rating;
- Implementing an internal control mechanism to protect the investment made by shareholders in the company and its assets and to assist administrators in the annual assessment of the effectiveness of control mechanisms;
- Optimizing the social responsibility policy model and granting of sponsorship.

5.2 Responsible management and sustainable strategies

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

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

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

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

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

5.2.1 Integrated Management Quality-Environment, Health and Occupational Security

The company has aligned itself with the international management systems and with the implementation and certification of the Integrated Quality Management System - Environment, Occupational Health and Safety according to SR EN ISO 9001: 2015, SR EN ISO 14001: 2015 and SR-OHSAS 18001: 2008. The Standard allows for the control of the health and safety risks of its own employees or providers operating on the company's premises.

The advantages of OHS implementation are:

- improving the company image;
- improving relations with business partners;
- improving relations with competent authorities in the field;
- Creating a unique and coherent framework for the elimination of hazards and risks related to work;
- achieving more effective control over the risk factors of injury and / or professional illness;
- improving working conditions for employees;
- improving the level of knowledge and compliance of the applicable legislation;
- alignment with best practices in the field;
- Integration with the existing quality-environment integrated management system.

Improving occupational safety and security

In the first half of 2018, work in the field of health and safety at work was planned and organized to reduce and/or eliminate the risks of occurrence of events, accidents at work, dangerous incidents and occupational illnesses in the company's workplaces, such as and compliance with legislative provisions in the field of health and safety at work, by implementing the measures included in the **"Prevention and**

"Protection Plan for 2018" no. 58.742 / 07.12.2018 approved in the meeting of the Labor Safety and Health Committee for the fourth quarter of 2017 and the fulfillment of all the activities established by the Organization and Operation Regulation of the company, as well as the legislation in force.

The following services and products were substantiated and budgeted in the **Annual Services supplied by Third Parties Program and the 2018 Supply Program** to provide:

- occupational health services;
- Attestation services for installations operating in Ex-environments;
- ecological toilet rental services;
- services of incident and event expertise produced in Transgaz;
- services for the preparation of risk assessments of injury and professional illness;
- Services for the preparation of Transgaz specific safety and health framework instructions;
- individual protective equipment;
- hygienic-sanitary materials;
- sanitary kits.

In order to ensure a unitary approach and to increase the efficiency of the training of workers within TRANSGAZ, training/testing in the field of safety and health at work within the company and training themes on all phases (general introductory training, on-the-job training, periodic training and additional training, respectively special training).

Staff training at all levels was ensured for all new employees as well as third-party staff working on TRANSGAZ' facilities.

The training and retraining courses for workers with specific responsibilities in the field of occupational safety and health (job managers, workers' representatives in the Security Committee and Occupational Health, Workplace Safety and Health Inspectors, Safety and Health Coordinators on Site, Ex responsible persons, etc.).

From the analysis of how to carry out the prevention and protection activities set out in the above-mentioned plans and programs, we present the following:

A. The organizational measures were performed as planned:

- The monitoring and supervision of the health of workers according to the rules legal regulations in force through specialized medical centers of occupational medicine was ensured. Workers' health surveillance was carried out with accredited external providers, the quality of the services provided by the medical centers in contractual relations with SNTGN TRANSGAZ SA was good, in accordance with the contractual clauses and the legal norms in force.

The Report no. 12181/13.03.2018 regarding the state of health of the workers of SNTGN TRANSGAZ SA Mediaș for 2017 was drafted, presented and endorsed in the CSSM meeting for the first quarter of 2018. According to the Report:

- the state of health of the company's employees surveyed in 2017 is generally good ("APT" 88,08%), there are employees with chronic conditions not related to the noxes at the workplace, as well as some influence exposures occupational health status;
- work conditionation is mainly due to the chronic illness of the employees, for which the following measures have been indicated: taking into account the employee's family doctor and / or the specialist doctor, dispensing / monitoring the chronic conditions

through the family doctor, and or the specialist doctor, compliance with a proper hygienic-dietary regimen, application and observance of the appropriate treatment of the condition, and that these employees will be re-evaluated by the occupational health physician on the occasion of the following periodic check or at certain individual intervals, in depending on the situation.

Both in 2017 and in the first half of 2018, the existence of problems related to the fact that the labor force is aging was noticed, which leads to:

- the existence of a large number of employees with chronic health problems who have work conditions;
- Many requests for voluntary redundancy;
- the existence of a large number of retirements for old age.

According to the contractual clauses, training sessions were held to provide first aid at the workplace. In the first semester of 2018, employees from the following Transgaz entities were trained: Bucharest, Mediaș Subsidiary, Mediaș Regional office, Bucharest, Arad, Brăila, Constanța, Craiova.

In the first half of 2018 no cases of occupational disease were reported.

Please note that at the date of this report the purchase of prophylactic medical services for occupational health is at the stage of submission of bidders by potential providers, the deadline is 10.07.2018, 03.00 p.m.

- The Report no. 293 / 04.01.2018 on occupational safety and health for 2017 was drafted, presented and endorsed at the CSSM meeting on IV quarter 2017, which took place on 09.01.2018.
- In order to ensure minimum requirements for improving the safety and health protection of workers who may be exposed to a potential risk due to explosive atmospheres, during the first half of 2018 specific activities were organized by G.D no. 1058/2006 on minimum requirements for improving the safety and health protection of workers who may be at risk from explosive atmospheres for the conclusion of a new sectoral service contract with INCD-INSEMEX Petroșani for on-site examination of installations where potential atmospheres may occur explosives and issuing compliance certificates for a number of 192 objectives. In this respect there were correspondences and discussions with the representatives of INSEMEX Petroșani concerning the finalization of the procurement procedures. At the date of this report, the procurement procedure report was signed, and the sectoral service contract was concluded. In order to comply with the legal requirements regarding explosion safety (legislation, norms, standards) and ensure their unitary application in the fields of activity of the company, in collaboration with the Design and Research Department and the Department of Exploitation and Maintenance, the procedure for elaboration of the Technical Rule for the design, execution, verification, receipt, commissioning, maintenance, certification and retesting of technological facilities operating in explosion-hazardous environments in gas transmission. For this, correspondences were held and meetings with the management and specialists of INSEMEX Petroșani regarding the content and the way of providing the specialized consultancy for the elaboration of the above mentioned work. At the date of this report, the documentation for the consultancy service was recovered and submitted to the Department for Sectoral Procurement and Contracting as the initial documentation was rejected by ANAP.
- In order to ensure the minimum safety and hygiene requirements at work, provided by H.G. no. 1091/2006 on Minimum Safety and Health Requirements for Workplaces has been continuously monitored through inspectors within the Health and Safety at Work Service for the smooth running of the subsequent services contract for the rental and maintenance of the green toilets located in points which do not have sewage and running water, as well as temporary construction sites within the company. At the time of this report a new subsequent service contract no. 514 / 02.07.2018, with one year validity.

- To protect workers against occupational hazards at work/job within the company, OHS inspectors have been involved in:
 - identifying the types of personal protective equipment and establishing the necessary equipment for the appropriate equipping of workers in accordance with the provisions of the List of Individual Equipment for Personal Protective Equipment specified by Transgaz, updated and approved by the Board of Administration in August 2015;
 - the drawing up of technical specifications and specifications for the purchase of personal protective equipment;
 - evaluation of bids in tender bids.

Thus, in the first half of 2018, documents were prepared for the purchase of summer overalls for explosion-hazardous environments and for normal work environments.

Between 1 January and 30 June 2018, through inspection/prevention actions carried out by OSH inspectors within the Health and Safety at Work department, endowment with personal protective equipment and its proper use by workers, maintenance/detoxification and proper storage and replacement within the deadlines set out in the Internal Equipment List for Personal Protective Equipment for Workers specifies Transgaz and in other situations provided for by law.

- In order to ensure safety and health at work at the construction sites of Transgaz for the construction/assembly of gas transmission installations, the safety and health coordination of contractors and subcontractors was ensured through OHS inspectors within the Security and Health at Work Department, which are specialized in carrying out these activities in accordance with the provisions of the GD no. 300/2006 on minimum health and safety at work requirements for temporary and mobile construction sites. The safety and health coordination of temporary and mobile sites was carried out through periodic site inspections and coordination meetings with the representatives of the manufacturers so as to ensure that all prevention and protection measures applicable to the sites covered by the Health and Safety Plans were fulfilled.

In order to establish the obligations and responsibilities of the partners (beneficiary/executor) in the case of works performed in Transgaz' facilities, the Safety and Health at Work Department has ensured the conclusion of occupational safety and health conventions - emergency situations and environmental protection. This ensures the training of the personnel of the contractor by the inspectors in the field of safety and health at work, emergency situations and environmental protection, mutual information on the risks generated by the respective works and establishes the main measures and rules to be observed throughout the works.

- To comply with G.D no. 971/2006 on minimum requirements for safety and/or health signaling at work, the purchase of the necessary safety and health boards within Transgaz was started in July 2017. The acquisition is at the stage of signing the sectoral contract of products.
- A working meeting was held between 15-16 March 2018 on the theme "Improving management in the field of security and health at work", attended by the directors of the Territorial Exploitation / Mediaș Branch and the heads of the Exploitation and Maintenance Division, Development, Environment, Protection and Security. The meeting was attended by labor inspectors from the Bucharest Labor Inspectorate and from the Regional Labor Inspectorate in Sibiu. During this meeting, issues related to the organization of Transgaz's prevention and protection activity were clarified and issues related to the coordination of temporary and mobile construction sites organized within Transgaz were discussed. Discussions were also held on the Law on Prevention no. 270 / 12.22.2017.
- The FEEDS, the design themes, the feasibility studies and the solutions, submitted to the Transgaz Technical-Economic Council for their compliance with the legislative provisions as well as with Transgaz's requirements in the field of safety and health at work, have been verified.

For all the investment/development projects promoted by Transgaz, decision-makers, health and safety coordinators have been appointed during the project design, which, in collaboration with inspectors within the OHS department, develops the Health and Safety Plan as required by G.D. no. 300/2006 on minimum safety and health requirements for temporary and mobile construction sites.

- Occupational Safety and Health Inspectors within the SSM Service participated in the reception committees at the completion of the investment objectives and thus ensured that these facilities were achieved by the manufacturers according to the technical design and that these facilities meet the security and safety requirements. health provided by the legislation and the regulations in force.
- The meetings of the Health and Safety Committees established at the level of the Central Headquarters, Regional Offices and Mediaș Subsidiary were organized on a quarterly basis, in accordance with the Organization and Operation Regulations. During the sessions OHS inspectors presented reports on the safety and health status of the entities they represent, the actions that have been taken and their effectiveness in implementing preventive and protective measures. At the meeting of the Occupational Safety and Health Committee for the second quarter of 2018, the chief executives or chief engineers of Territorial Exploitation / Mediaș Branch participated. Also, at the meetings organized within Regional Offices and Mediaș Subsidiary participated representatives of the employer of the CSSM organized at the company's headquarters. These actions were aimed at raising awareness among members of the Health and Safety Committees organized at Regional Offices and Mediaș Subsidiary of the main role of these committees, which is to consult workers and/or their representatives and allow their participation to discuss all issues related to safety and health at work.
- In the first quarter of 2018 the activity of reassessing the risks of accidents and occupational illness for jobs/work stations within SNTGN Transgaz SA Mediaș in cooperation with the National Institute for Research and Development for Labor Protection "Alexandru Darabont" Bucharest started. On 17.07.2018 the contract was concluded and we received the risk assessment works. Also, in the first half of 2018, the activity of updating the own instructions for safety and health at work was carried out, also in collaboration with INCDPM Bucharest.
- Preventive actions were taken by S.S.M. inspectors. of the Occupational Health and Safety (OHS) department as planned at the beginning of the year. In the preventive actions there were talks with the managers of the work places and the specific documents for occupational health and safety were grouped in dedicated bibliographies, according to the description established at the level of the department.
- From 16 to 18 May 2018, an audit of the process of investigating work-related accidents was carried out within OHS department. This process has also been audited in the Regional offices and Mediaș Subsidiary. Following the completion of the audit, the Audit Report no. 12/26, which includes an implementation program for the areas of improvement. No reports of non-compliance were made.

B. Technical measures

During the period 01.01-30.06.2018, the technical measures foreseen in the *Prevention and Protection Plan* for 2018 were pursued, taking into account the **projects of SNTGN Transgaz S.A. Mediaș** to the modernization policy of the National Transmission System, of which we mention:

- Restoration of electrical and earthing installations to the work points mentioned in the Prevention and Protection Plan;
- Upgrading social groups and linking to drinking water networks at the work points mentioned in the Prevention and Protection Plan;
- the execution of the modernization and sanitation works at the operators' premises established in the Prevention and Protection Plan.

C. Hygiene-sanitary measures

In order to achieve sanitary and hygienic measures (hygiene-sanitary materials, filling/replacement of components of first-aid sanitary kits, protection of foodstuffs, etc.), the documents necessary for the purchase were drafted and necessary supplies were prepared.

D. Report on incidents (work events) which occurred at SNTGN TRANSGAZ SA in semester I 2018.

EVENTS COMMUNICATED AND RESEARCHED IN TRANSGAZ IN SEMESTER I 2018

Nr. crt.	Regional Office (RO)	Location, date and hour of event occurrence	Causes of event production	Classification
1.	Regional Office Mediaș	MRS VICTORIA II-Sector Făgăraș, RO Mediaș, 9.01.2018 03.00 p.m.	Paroxysmal atrial fibrillation	Did not meet the conditions to be classified as an accident at work
2.	Regional Office Craiova	Headquarters Work formation Hurezani 15.01.2018 11,00 a.m.	Explosion followed by pipeline fire PETROM	Research in development performed by ITM GORJ
3.	SNTGN TRANSGAZ SA	Mediaș Piața C.I. Motaș nr.1 23.04.2018, 7,30 a.m	Stroke	Did not meet the conditions to be classified as an accident at work
4.	Regional Office Arad	Headquarters RO Arad, Str. Poetului no. 56 04.05.2018, 8,00 a.m	Stroke	Did not meet the conditions to be framed as labour accident
5.	Regional Office Constanța	Along the pipeline DN 600 loc. Gura Dobrogei 03.05.2018, 12,30 p.m	Fall out of the wagon along the pipeline	Labour accident
6.	Regional Office Brașov	SRM Poiana Brașov 07.06.2018, 03,45 p.m	Breaking down the underground gas pipe by drilling	Research in development

E. Inspections carried out by Regional Labor Inspectorates

External inspections 01.01-30.06.2017						
No	Date of control	LOCATION (RO/Dep./Subsidiary)	Authority entitled to Control	Description of control reasons	Measures taken	Manner of solving
1.	26.04.2018	RO-Arad-Deva Sector	Regional Working Inspectorate Hunedoara	Control SSM- PV nr. 72.798 /26.04.2019- checking of labour conditions pregnant employee	1 measure and 1 recommendation	Remedied

NOTE: The company was fined for non-observance of the safety and health provisions at work by the minutes of finding and sanctioning contraventions GJ series no. 00013682 / 5.8.2018. The fine was in the amount of 4,000 lei and was applied in the context of the investigation of the event that occurred on 15.01.2018 at the headquarters of the Hurezani working group, caused by the explosion followed by the fire of the pipeline PETROM property.

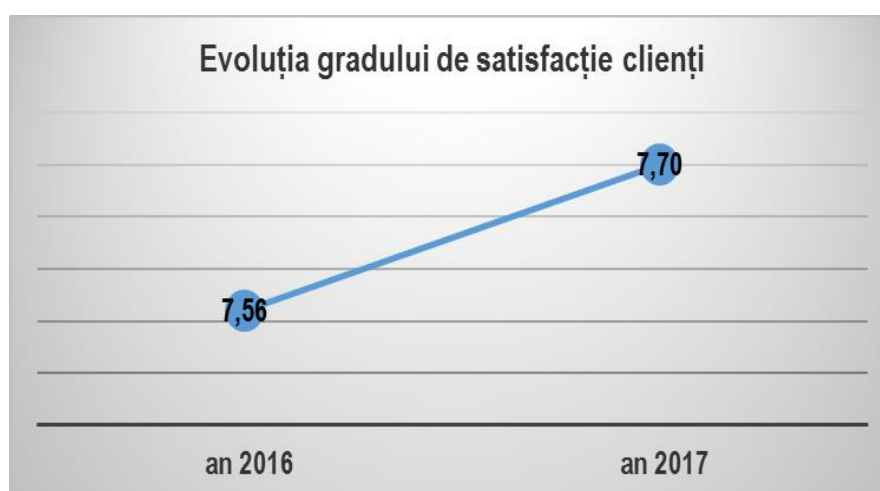
SNTGN TRANSGAZ SA was sanctioned for not having organized in an appropriate manner first-aid, fire-fighting and workers evacuation. This activity was not adapted to the nature of the activities and the size of the enterprise, disregarding the provisions of the Rules regarding the organization of the intervention and rescue activity at industrial units with potential danger of toxic and/or explosive gas emissions, approved by the Order no. 391/2007. The employer violated the provisions of art. 10 par. (1), lit. a) of Law 319/2006, corroborated with the provisions of art.2, art.3, art.4 and art.5 of the Normative regarding the organization of the intervention and rescue activity at industrial units with potential danger of toxic and/or explosive gas emissions, approved by Order no. 391/2007, corroborated with the provisions of art.39, paragraph (6), letter a) of Law 319/2006, the law on safety and health at work;

The Minutes of finding and sanctioning the offenses GJ series no. 00013682/08.05.2018 was challenged in court.

Customer satisfaction

In order to be successful on the internal and external market, the company is increasingly focusing on the understanding of the implicit and explicit requirements of customers, in order to continuously increase the satisfaction of their needs and expectations, taking into account both current customers and potential ones. Customer satisfaction is also a key non-financial performance indicator for calculating the variable remuneration component of the board of administration during 2018, aiming to maintain a customer satisfaction rating of more than 7, the target being 7.8. (*According to PP 165- Customer Satisfaction Assessment, a score of 6-8 indicates that the services provided satisfactorily met customer requirements*). Monitoring this indicator is performed in the first quarter of this year for the previous year.

Evolution of clients' satisfaction



According to the PP 15 procedure Customer Satisfaction Survey **33 questionnaires were sent to the users of the natural gas transmission network**. From the data centralized in Annex 2 it results that **14** of them sent completed questionnaires. The analysis of the questionnaires highlighted the following:

- no customer complaints were received;

- Excellent scores were given by clients to the professionalism and appropriate behavior of the company's employees.

5.2.2. Environmental protection

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

The main direction pursued were the following:

Activities carried out within the Environmental Management Department

The main activities in the field of environmental protection in semester I 2018 were planned and organized aiming to prevent pollution, to reduce the risks of environmental incidents on the sites within the company, as well as to comply with the legislative provisions in the field.

A. Monitoring of regulatory acts

At the level of the company there are **17 environmental permits** authorizing a number of 1,195 objectives of SNTGN Transgaz SA, in semester I 2018 **requests for renewal of environmental permits** have not been submitted.

With regard to the water management permits, the legislation in the field requires the obtaining of regulatory acts for all the objectives related to waters. As a result, the company owns **130 water management permits** for crossing water courses with natural gas pipelines, out of which, **renewal documentation has been submitted for 5 of them**.

In accordance with the procedures issued by the national environmental protection authorities, the **projects for development, repair and maintenance of the national gas transmission system** have been registered in the Integrated Environmental System. For this purpose, the activity of implementing the regulatory acts with regard to environmental protection was coordinated, following the observance of the procedure specified in the legislation, and a number of **25 projects** were registered.

The projects submitted to the TEC have been verified by the department and environmental protection opinions have been issued in order to comply with the legislative provisions.

B. Assessment of compliance with relevant legislation

Prevention Action, Counseling

In the first half of 2018, the environmental prevention and counseling action was launched. This action was attended by environmental inspectors within the Environmental Management Department, establishing the working method, organizing specific documents and counseling the job managers.

External assessment

In semester I 2018, S.N.T.G.N. Transgaz S.A was subjected to 6 external inspections listed in the table below. These were carried out by the control structures within the Romanian Water Administration.

Table including the external inspections

No.	Name of inspection authority	Inspected site	Date of inspection
1.	SGA Covasna–ABA Olt	Regional Office Braşov–Băţani Sector	11.01.2018
2.	SGA Dolj–ABA Jiu	Regional Office Craiova–headquarters	29.03.2018
3.	GNM BACĂU	Regional Office Bacău	14.05.2018
4.	ABA Argeş–Vedea	Regional Office Craiova–crossing rivers by pipelines	15.05.2018
5.	ABA Argeş–Vedea	Regional Office Craiova– crossing rivers by pipelines	06.06.2018
6.	SGA Gorj–ABA Argeş Vedea	Regional Office Craiova– crossing rivers by pipelines	14.06.2018

Following controls and inspections, **no sanctions were applied** and only improvement measures were established, as shown by inspection reports drafted by the control authorities, in the areas of water management.

As such, in order to carry out the measures established by the authorities, the Environmental Management Service initiated the elaboration of the Project Theme no. 4/05.03.2018 - *Rehabilitation of the sewage, collection and wastewater treatment system of the Batenii Sector*, which was approved by the Technical-Economic Council on 22.03.2018.

C. Specialized reporting to authorities in the field

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

- according to the provisions of art. 9, c) of GEO no. 196/2005 on the Environmental Fund, the company has to pay the obligations to the **Environment Fund Administration**, which are the monthly charges for pollutant emissions into the atmosphere; in order to meet these financial obligations, the service follows the consumption of specific resources, quantifies and draws up the statement for the Environment Fund;
- in accordance with the provisions of Article 13 paragraph 2 of Law no. 132/2010 on Selective Collection of Waste in Public Institutions, they are tracked and centralized at the company level and the **Waste Register** is sent monthly to the National Environmental Protection Agency of Bucharest;
- the monitoring of waste management was performed at the company level and reports were submitted to the authorities in accordance with the obligations in the environmental permits;
- the annual Environmental Reports, related to each Territorial Operation, were elaborated and transmitted in accordance with the obligations of the environmental protection permits.

D. Environmental Protection Expenditure

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

In the company's programs, respectively the **Annual Program of Services Performed by Third Parties 2018**, the required environmental services were funded and budgeted, the most important ones being:

- services for the recovery of hazardous and non-hazardous waste within the company;
- physico-chemical analysis services for the characterization and classification of liquid/solid waste generated from the pigging operations/cleaning activity of the filter elements/separators;
- Physical and chemical analysis services for waste water;
- services for drawing up technical documentation for obtaining water management permits;
- Liquid/solid waste disposal services generated at pigging operations / cleaning filters, separators;
- decontamination services;
- Consulting services for the transition of the Environmental Management System to the requirements of the new standard SR EN ISO 14001:2015.

In order to ensure the proper development of the environmental protection at the level of the regional offices and the Mediaș Subsidiary, a decision was issued and approved for the delegation of competences for the conclusion of sectoral contracts for environmental services, namely services for the recovery of hazardous and non-hazardous waste, decontamination services, hazardous waste and non-hazardous waste disposal services within the company.

Through the **Supply Program for 2018**, environmental protection materials and products were required at each regional office.

In the first half of 2018, the necessary documents were prepared for the procurement of the technical documentation preparation for obtaining the water management permits.

In order to **comply** with the obligations of the company from the legal provisions/regulatory acts in the field of environmental protection, the **avoidance of sanctions** in the field of environmental protection, the **observance of the environmental principles**, the **effective and operative solution of the specific services needs**, a decision on the delegation of the exercise attributions from the scope of competence of the director general to the management of some functional entities within SNTGN Transgaz SA, respectively to the directors of the Regional Offices and the Mediaș Subsidiary.

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

In semester I 2018, the internal audit was carried out on the process of *Identifying legal requirements and environmental requirements*, which ended with 3 reports of observations.

The process of transition of documents related to the Environmental Management System was also continued.

F. Activity carried out by the Environmental Factors Monitoring Laboratory

The planning of the activities carried out in semester I 2018 by the Environmental Factors Monitoring Laboratory consisted of the following:

- monitoring the pollution sources carried out by the Environmental Factors Monitoring Laboratory for 360 sites within the regional offices;
- identifying and evaluating the environmental aspects for 101 sites within the regional offices.

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

- conducting measurements on the noise level;
- check of sewerage technology facilities for the detection of methane and ethylmercaptan emissions;
- determination of emissions of atmospheric pollutants (CO, NO_x, SO₂) from the combustion gases from the compressor stations, thermal power stations, convection stoves and gas heaters;
- identification of different situations not complying with the legislation on environmental protection and/or accidental pollution;
- preparation of measuring bulletins, environmental assessment sheets and monitoring reports.

Table contemplating the degree of **monitoring of pollution sources**:

Tag no	Type of activity / Reporting period	Number of proposed monitorings	Number of completed monitorings	Degree of achievement (%)
1	Monitoring	360	304	84.44
2	Evaluation of environmental aspects	101	59	58.41

On the basis of the endowment with equipment from 2014-2016, the monitoring of the sources of pollution and the assessment of the environmental issues materialized in **monitoring reports with measurement bulletins followed by corrective action plans** prepared by the Environmental Management Service were carried out. These plans to remedy the nonconformities found are subject to the approval of SNTGN Transgaz SA Mediaș management and also represent a **control and guidance activity** for Regional Offices.

Financial resources allocated

For 2018, in PAAS 2018 by the PASET 2018 program, Appendix no. 8 "Environmental services", item no. 1: "Service and Metrological Check Services for the equipment from the Laboratory for the Monitoring of Environmental Factors" the amount of lei 125.316 was planned. And at item no 11 "*Consultancy services in view of the accreditation of the Monitoring Laboratory of Environmental Factors*" the amount of lei 40,000.

In semester I 2018, all three planned laboratory equipment service contracts were started, executed and completed. The service equipment services procurement for the 42,658 lei installment of the 2017 contracts planned for semester I 2018 ended with the value of 24,443.98 lei for all three contracts. Between 23-25 May 2018, the professional training program on "Acoustics Course" for the staff of the Environmental Factors Monitoring Laboratory was carried out.

Reducing technological consumption and keeping it within reasonable limits over the NTS

As a result of the annual balances of natural gas at SNTGN Transgaz SA level, between the quantities of gas entering and exiting the NTS, there are certain differences called technological consumption.

According to the Guidelines for the Determination of Technological Consumption Considered Losses of Natural Gas in Transmission and Distribution Networks, a guide prepared in 1999 and published by Ministry of Industry and Trade (currently the Ministry of Economy), technological consumption is divided into:

Determined technological consumptions	Technological consumptions not determined
Consumption at the compressor stations	Technological consumption of equipment in technological installations (NT, SRMP.s, a) - replacement, verification, adjustment, discharging of safety valves, leaks in the removable joints of the pipelines and at the MRS;
Facilities and processes consumption	Technological consumption unidentified losses / defects of pipe;
Consumption of repairs, pipeline rehabilitation, NTS development	Technological consumption measurement error - operation of meters under improper pressure conditions. Inappropriate gas quality, accuracy class of meters and gas chromatographs.
Consumption of technical accidents – pipeline cracks, breaks.	

Technological consumption includes the company's own consumption and technological losses. Compared to the total amount of natural gas circulated, technological consumption has been steadily decreasing in recent years, constituting a generator of economic efficiency for the company.

Filling in the quantities of natural gas representing the technological consumption is an important indicator of operational performance.

Between 2013 and 1818, the share of technological consumption in the total natural gas flowing through NTS was the following:

Indicator	UM	2013	2014	2015	2016	2017	Sem. I 2018
0	1	2	3	4	5	6	7
Natural gas circulated	Thousand cm	13.696.258	13.082.740	12.383.825	12.201.157	12.974.819	6.721.242
Technological consumption	Thousand cm	160.140	96.940	88.103	108.874	95.242	48.309
Share of technological consumption / gas emissions	%	1,17%	0,74%	0,71%	0,89%	0,73%	0,72%

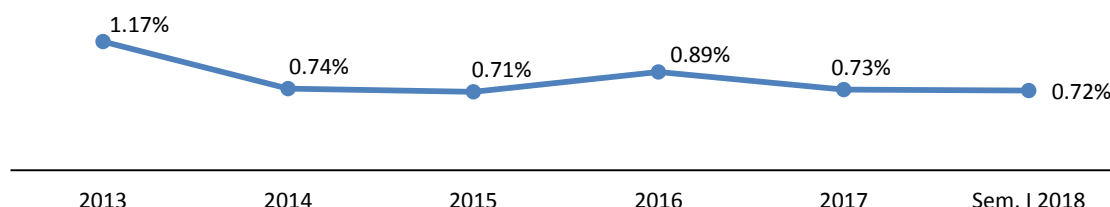


Chart 22 - Share of technological consumption in total natural gas transmitted through the NTS between 2013-semester I 2018

The cost of technological consumption is recovered through the transmission tariff, which is included in the operational expenses. The decrease in the share of technological consumption in the total natural gas circulated through the NTS, from 1.17% in 2013 to 0.72% in the first half of 2018, is the result of the efficient management of NTS operation and use of the technical means used in this respect

5.2.3. Staff related issues

The optimal dimensioning of the number of personnel in the company is correlated with the real personnel needs required by the operational activities carried out by the company, with the modernizations and refurbishments realized for increasing the safety and efficiency in NTS operation and annex facilities, as well as the realization of the major development projects of company.

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

The evolution of the number of staff in semester I 2018 is the following:

Specification	January	February	March	April	May	June
Number of employees at the beginning of the period	4.405	4.405	4.392	4.392	4.340	4.281
Number of newly employed persons	10	9	10	19	21	9
Number of persons who have ceased work relations with the company	10	22	10	71	80	34
Number of employees at the end of the period	4.405	4.392	4.392	4.340	4.281	4.256

Table 231-Development of the average number of employees in semester I 2018

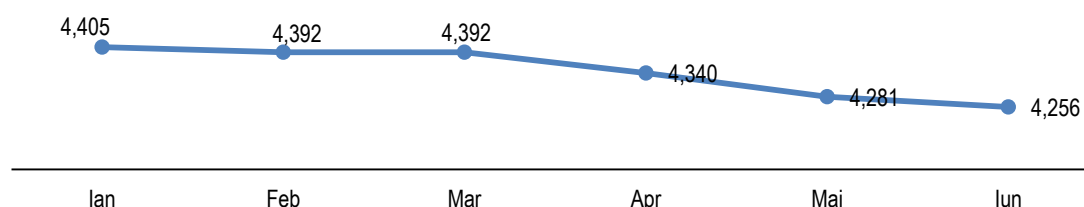


Chart 231- Development of the average number of employees in semester I 2018

On **30 June 2018**, SNTGN TRANSGAZ S.A. registered 4,256 employees with individual labour agreements, out of which 4,190 for an indefinite term and 66 for a determined term.

The evolution of the number of personnel in the first half of 2018 compared to the same period of the previous year is the following:

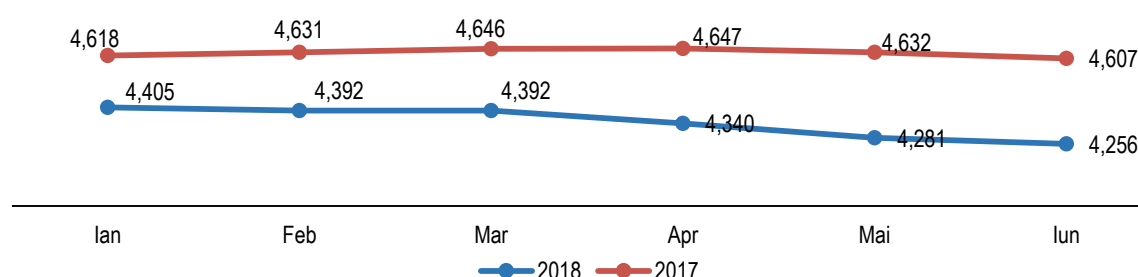


Chart 24-The evolution of the number of employees in semester I 2018 vs. semester I 2017

In order to make more efficient the use of qualified personnel to carry out full job related duties under the new working conditions, in accordance with the Management Plan of SNTGN Transgaz SA, in 2018 through the "Schedule of Normalization of Technical Works within SNTGN TRANSGAZ approved by the Director General, it was foreseen to extract the time and staff rules for 167 technical works. The Commission for Validation of Technical Works established at the company level validated the time and personnel rules for any technical work foreseen to be standardized.

Time and staff standard rules validated in the first semester of 2018:

UNIT	TECHNICAL WORKS SCHEDULED TO BE STANDARDIZED IN 2018	TECHNICAL WORKS STANDARDIZED IN semester I 2018
Territorial operations*	5	5
Compressor Stations**	7	0
Mediaș Subsidiary***	155	94
TOTAL	167	99

Table 24-Scheduled technical works / technical works standardized in semester I 2018

In accordance with the Schedule of staggering the standardization of technical works approved by the Director General, 191 technical works were scheduled to be timed in 2017, the standardizing team succeeding in the activity carried out to time at the end of semester I of 2018 – 128 technical works presented in the table below:

2017	Jan	Feb	Mar	Apr	May	June	TOTAL sem I 2018
R.O. ARAD							
R.O. BACĂU							
R.O. BRAȘOV							
R.O. BRĂILA							
R.O. BUCUREȘTI			2				2
R.O. CLUJ		1					1
R.O. CONSTANȚA							
R.O. CRAIOVA							
R.O. MEDIAȘ		3					3
SUBSIDIARY		20	35	10	31	26	122
GCS							
Total timed works		24	37	10	31	26	128

Table 25-Total works timed in sem I 2018

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

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

The development of the structure of the staff by category of education in semester I 2018 is presented in the following table:

No.	Category	2017	Semester I 2018
1.	Higher education graduates	1.370	1.390
2.	High school graduates	1.346	1.292
3.	Trade school graduates	708	652
4.	General studies graduates + training classes	981	922
TOTAL employees		4,405	4.256

Table 262-Development of the staff structure by categories of education in semester I 2018

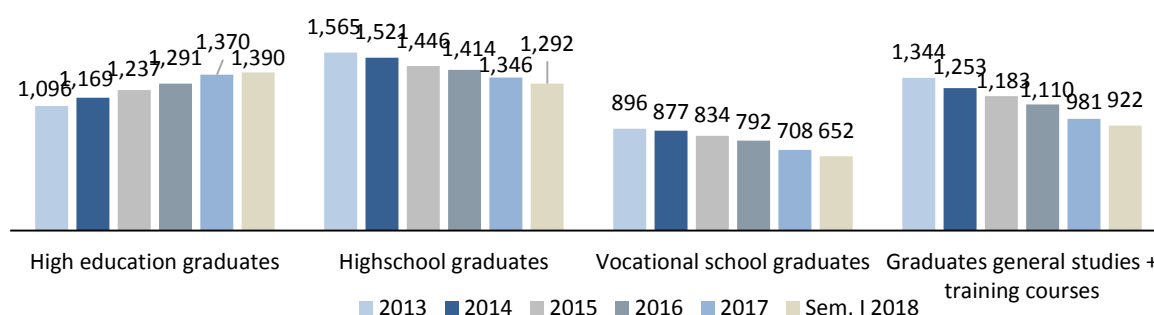


Chart 25-Development of the staff structure by categories of education in semester I 2018

The evolution of the staff structure by categories of study in the first half of 2018 compared to the same period of the year is presented in the following table:

No.	Category	Sem I 2018	Sem I 2017
1.	Higher education graduates	1.390	1.351
2.	High school graduates	1.292	1.410
3.	Vocational school graduates	652	770
4.	General + qualification courses graduates	922	1076
TOTAL no. of employees		4.256	4.607

Table 27- Evolution of the personnel structure by study category - sem I 2018 as compared to sem. I 2017

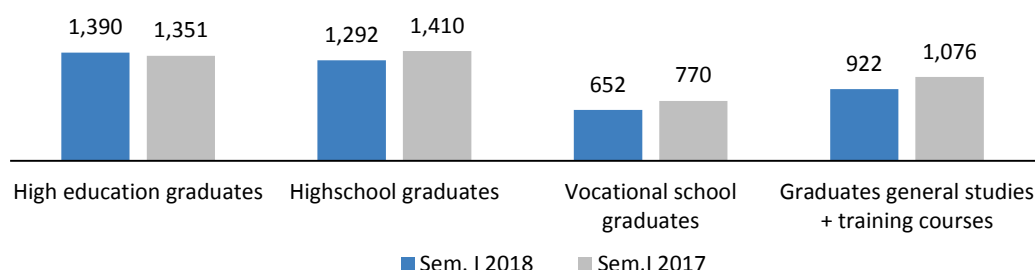


Chart 26 - Evolution of the personnel structure by study category - sem I 2018 as compared to sem. I 2017

Improving the training and professional development process of staff

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

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

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

In the field of training and continuous improvement of employees in semester I 2018 there were organized training courses and training with external trainers from the country and abroad for 587 employees in specific fields and / or complementary to the field of activity of the company.

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

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

The status of the number of training and improvement courses for company employees in semester I 2018, compared to the same period of 2017 is presented in the following tables:

No.	Category	Sem I 2018	Sem I 2017
1.	No. of courses with internal trainers (through our own Vocational Training Center)	11	8
2.	No. of courses with external trainers	75	43
TOTAL		86	51

No	Category	Sem I 2018
----	----------	------------

		Jan	Feb	Mar	Apr	May	June
1.	No. of courses with internal trainers (through our own Vocational Training Center)	2	3	3	0	1	2
2.	No. of courses with external trainers	9	12	15	12	16	11
	TOTAL	11	15	18	12	17	13

Table 28-The status of qualification / improvement courses for the company's employees in semester I 2018

The situation of the number of employees who graduated qualification / improvement courses in the first semester of 2018 compared to the same period of 2017 is the following:

No.	Category	Sem I 2018	Sem I 2017
1.	No. of trained staff by courses with internal trainers (through our own Vocational Training Center)	183	75
2.	No. of trained staff by courses with external trainers	587	507
	TOTAL	770	582

Table 29-The situation of the personnel who graduated qualification / improvement courses in sem I 2018 vs Sem I 2017

On **30 June 2018**, the trade union members rate was 96.35% of the total of 4,256 employees, and 4,101 were trade union members.

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

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

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

The relations between the employer and the employees are regulated by the Collective Labour Agreement at the company level, registered with the Sibiu Territorial Labour Inspectorate under no. 121/21.06.2018 in the Single Recording Register, as well as by the individual labour agreements of the employees.

As of 25.06.2018, the new Collective Labor Agreement concluded at SNTGN TRANSGAZ SA entered into force with a 24-month validity period.

The relations between the employer and the employees are in line with the legal provisions in force in semester I 2018, and there are no conflicting elements connected to these relations.

5.2.4. Social and corporate responsibility

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

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

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

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

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

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

Sponsorship activity, financial aid according to CCM and partnerships concluded in semester I 2018

SPONSORSHIPS

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

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

The level of sponsorship expenditures for SNTGN Transgaz SA is regulated in the REB for 2018, in the following structure:

(lei
thousand)

SPONSORSHIP CATEGORY	PROPOSAL REB 2018
Expenditures related to sponsorship in the medical and health fields	1.600
Expenditures related to sponsorship in the fields of education, learning, social, sport, of which:	1.700
-for sports clubs	920
Other sponsorship expenditures	700
TOTAL	4.000

Table 30 – Sponsorship budget 2018

No	SPONSORSHIP CATEGORY	BUDGETED AMOUNT 2018	BUDGETED AMOUNT sem I 2018	AMOUNT GRANTED sem I 2018	REMAINING AMOUNT of sem I 2018
0	1	2	3	4	5=3-4
1.	HEALTH AND MEDICAL FIELD	1.600.000	567.000	320.000	247.000
2.	EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which:	1.700.000	933.000	850.000	83.000
	- for sports clubs	1.000.000	480.000	400.000	80.000
3.	OTHER SPONSORSHIP EXPENDITURES	700.000	300.000	195.000	105.000
TOTAL SPONSORSHIP EXPENDITURES		4.000.000	1.800.000	1.365.000	435.000

Table 31- Statement of sponsorship budget 2018 and granted amounts up to 30.06.2018

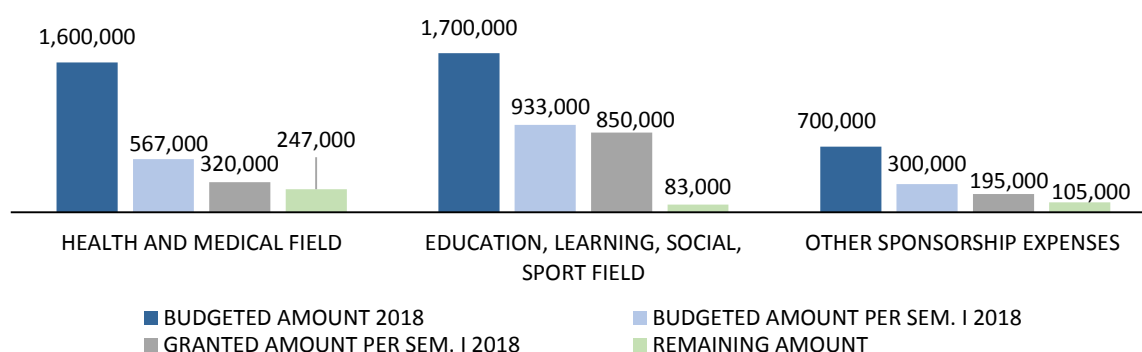


Chart 27 - Statement of the sponsorship budget for 2018 and granted amounts up to 30.06.2018

In semester I 2018, sponsorships was granted in the following fields: **medical and health, amounting to 320,000 lei, education and social education and sports, amounting to 850,000 lei, and other sponsored areas, we mention that sponsorship was granted in the amount of 195,000 lei.**

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

- the internal document entitled **The company's policy to grant sponsorship and financial aid in 2017**, a document which provides an effective framework for monitoring their progress and implementation in accordance with the legal and tax regulations in force;
- **the process procedure PP-51** of the sponsorship documents was updated in December 2014;
- **the establishment** by Decision No. 258/20.04.2015 of the Director General, of the **Commission for the review of the applications for sponsorship**.

The detailed report of the sponsorships granted is available on the company's web site at the address:
<http://www.transgaz.ro/ro/responsabilitate-sociala/informatii-publice-privind-activitatea-de-sponsorizare>

FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

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

In semester I 2018, 31 applications for social aid were processed to be presented for analysis and approval to the Board of Administration.

5.2.5 Ethics and integrity

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

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

Transgaz' Integrity Plan aims to achieve the following objectives

GENERAL OBJECTIVE	SPECIFIC OBJECTIVES
Developing a culture of transparency for good corporate governance	Increasing institutional transparency and the transparency of decision-making processes
	Increasing the transparency of public resource management processes

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

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

These principles are:

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

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

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

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

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

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

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

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

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

5.2.6 Compliance policy

Compliance is to act in accordance with the rules set out in the legal and regulatory framework, policies and procedures as well as standards of professional ethics and conduct

In order to achieve this objective, SNTGN TRANSGAZ SA is committed to maintaining high legal, ethical and moral standards, adhering to the principles of integrity, objectivity and honesty and declaring against fraud and corruption.

SNTGN TRANSGAZ is strongly committed to combating this phenomenon by all the legal means available.

Anti-Fraud and Anti-Corruption Policy Strengthens SNTGN TRANSGAZ SA Message: "Zero Tolerance to Fraud and Corruption of All Types and Under Any Circumstances"

TRANSGAZ has developed and adopted the set of policies aimed at:

- • Anti-fraud and anti-corruption policy
- • Transgaz Integrity Plan
- • The Best Practice Guide adopted on 18.02.2010 by the Council of the Organization for Economic Cooperation and Development

Preventing corruption at organizational and employee level

At the **organizational** level, the following measures are taken to prevent corruption:

- computerisation of internal processes;
- identification of vulnerable areas of independent divisions/departments/units /Medias Representative office/Regional offices and corruption risks, simultaneously with the implementation of a corruption risk management system;
- Establishment of a complaints management and evaluation system (customer satisfaction/ feedback) for processes to be improved.

At **employee** level, the following measures are taken to prevent corruption:

- increasing the level of professional and civic education of employees, as well as assuming obligations of conduct and professional ethics;
- informing the employees on how to report the corruption cases and the institutions dealing with the prevention and fight against corruption;
- creating a strong organizational culture to discourage corruption;
- categorical rejection of the temptations offered in return for faulty performance or non-fulfillment of the service duties (amounts of money, goods, services, advantages, etc.);
- Inventory of vulnerable points in an institution and assessment of the risk of corruption
- Implementing Integrity Management - a form of human resource management with an emphasis on internal communication and performance.

To this end, in the first semester of 2018, the following actions were taken:

- the Anti-Fraud and Anti-Corruption Policy and Anti-Fraud and Anti-Corruption Policy Statements were approved by the decision of BA 26 of 30.05.2018;
- according to Order No. 1244/2017 the department Anti-Fraud within DCC/MEC carried out 3 anti-corruption activities attended by senior management employees within the company. Training took place on 14.02.2018 (Transgaz Representative office) and between 05-06.06.2018 at Transgaz headquarters in Medias;
- the annual assessment of the implementation of the Integrity Plan and its adaptation to newly emerging risks and vulnerabilities (*transmitted through DSMC Address 4226 / 29.01.2018, together with Annex 1 - Situation of Integrity Incidents, Annex 2- Implementation SNA Implementation Report Ministry of Justice and Report on 30.01.2018 on the state of implementation of the Integrity Plan of SNTGN TRANSGAZ SA*);
- a campaign was launched to inform employees about the phenomenon of fraud and corruption; in this sense, the Declaration of Accession to SNA and the Corporate Integrity Plan was sent to all employees;
- Decision No. 434 / 10.05.2018 on the establishment of the Working Group on the Prevention of Corruption has been issued to identify areas of high risk of fraud and corruption within the company, whose main task is to coordinate all the stages necessary for the management of corruption risks;
- the Integrity Advisor was appointed at the level of SNTGN Transgaz SA, by Decision no.130/ 20.02.2018;
- The declaration of assets, interests and interests was made by all the stakeholders, in accordance with the legal provisions;
- Methodology for assessing the risks of corruption is under preparation;
- System Procedure PS 06 SMI Prevention of Corruption is being developed
- The Code of Ethics is being updated according to legal changes;
- the courses of training of the execution personnel, on integrity, corruption and fraud, have been carried out according to the training and professional development program;

5.2.7 Internal/Management Control system

1. Background data

Definition of the internal/management control

The necessity and the obligation to organize the internal/managerial control in the public entities are regulated by the Government Ordinance no.119 / 1999 on internal/managerial control and preventive financial control.

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

In SNTGN Transgaz, control activity is perceived as a means of analyzing the activities of company, adopting and applying a new type of internal management that is often associated with the **activity of knowledge**, thus allowing the management to coordinate the activities within the company in an effective manner.

Internal control is regarded as a **managerial function** and not as a verification operation. By exercising the control function, the management observes the deviations from the established objectives, analyzes the causes and disposes the necessary corrective or preventive measures.

By developing the Internal / Managerial Control System, SNGGN Transgaz moves to a new type of management, suited to a flexible company that includes strategic management, performance management and risk management.

2. Legal framework

The implementing, development and monitoring process of the Internal/managerial Control System is based on the following legal acts:

- Government Ordinance no. 119/1999 regarding internal/managerial control and preventive financial control;
- Law no. 234 of 7 December 2010 amending and supplementing GO no. 119/1999;
- Order of the General Secretary of the Government No. 400/2015 for the approval of the Managing Internal Control Code of Public Entities, amended and supplemented by Order no. 200/2016;
- Order of the General Secretary of the Government no.201/2016 approving Methodological Norms on coordination, methodological guidance and supervision of the state of implementation and development of the managerial internal control system in public entities;
- Order of the General Secretariat of the Government 600/20.04.2018 regarding the approval of the Code of internal/managerial control of public entities, published in the Official Gazette no. 387 / 07.05.2018, Part I, (applicable from 07.05.2018)
- International regulations:
 - TEADWAY (US) -COSO Public Sponsorship Committee;

- Canadian Authorized Institute (CRITERIA OF CONTROL) -COCO;
- THE EUROPEAN COMMISSION;
- The International Organization of Supreme Audit Institutions (INSOSAI).

Note:

In 2018, through the *Order of the General Secretariat of the Government 600 / 20.04.2018* regarding the approval of the Code of internal / managerial control of public entities, published in the Official Gazette of Romania no. 387/07.05.2018, Part I, the Order of the General Secretariat of Government 400/2015 for the approval of the Code of internal / managerial control of public entities, published in the Official Gazette of Romania, no. 444 / 22.06.2015, Part I, as amended and supplemented.

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

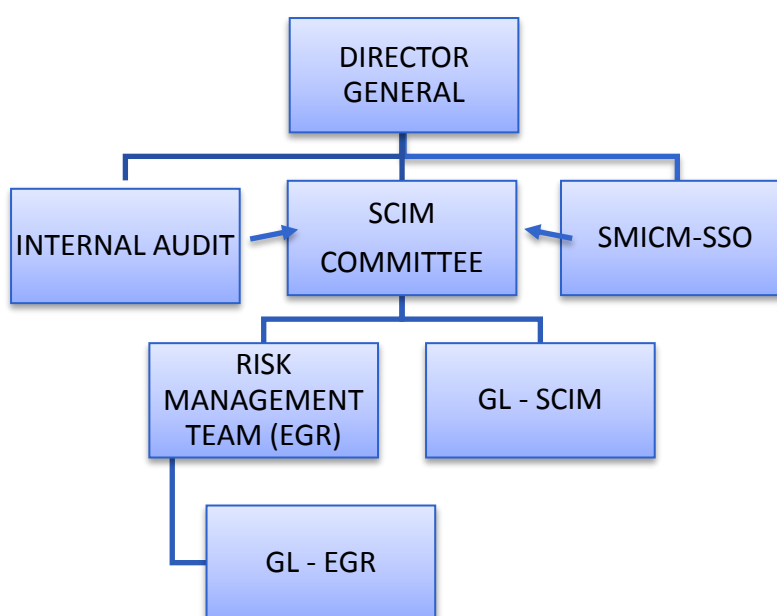


Figure 15 - The organizational structure of the internal/managerial control system within SNTGN Transgaz SA

NOTE:

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

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

The organizational structure presented in figure 10 was valid until 07.05.2018 when the Order of the General Secretariat of the Government 600/20.04.2018 regarding the approval of the Code of internal/managerial control of public entities, published in the Official Gazette of Romania no. 387/07.05.2018, Part I, which repealed the Order of the General Secretariat of Government 400/2015 for the approval of the Code of internal/managerial control of public entities, published in the Official Gazette of Romania, no. 444/22.06.2015, Part I, as amended and supplemented.

The new established organizational structure is as follows:

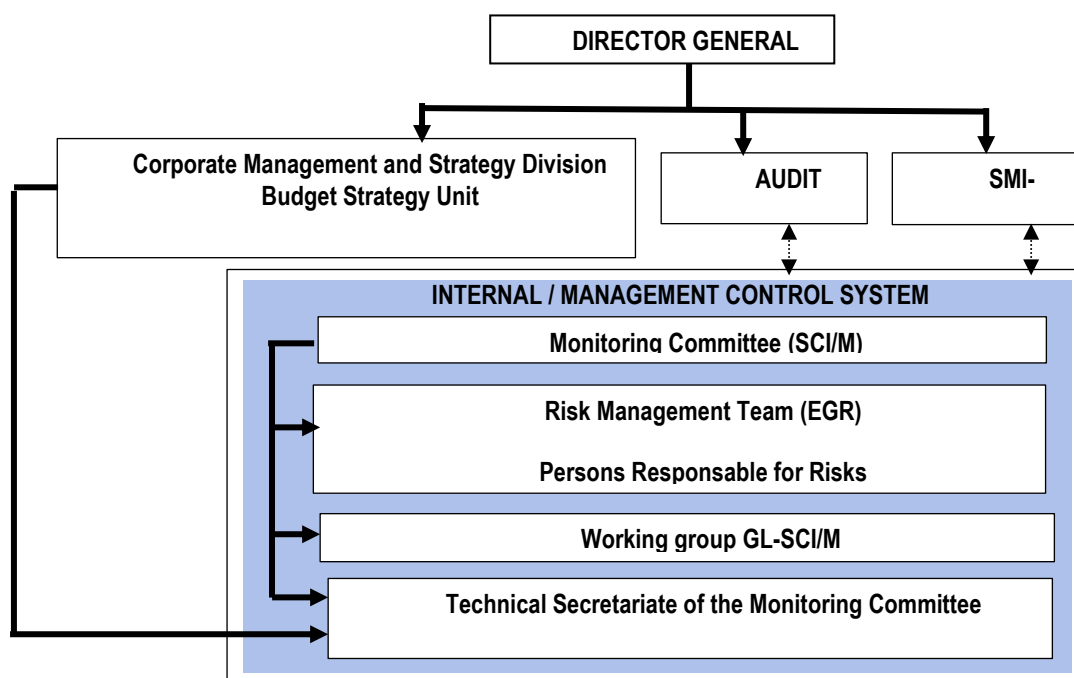


Figure 16 - Organizational structure of the Internal Control/Management System within SNTGN Transgaz SA

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

- The **chairman** of the Monitoring Committee is the Deputy director general of the company, Mr Gheorghe Hațegan.
 - The **members** of the *Monitoring Committee* are directors of divisions/units/departments/Medias Subsidiary/regional offices of the company
 - The Monitoring Committee **secretariat** is provided by the SCI / M Implementation and Monitoring Service, within the Budget Strategy Division, the Strategy and Corporate Management Department.

Members of the Monitoring Committee have designated a person responsible for developing the internal /managerial control system within the division/department/Subsidiary /.

The organization and working mode of the Monitoring Committee is under the responsibility of the chairman of the CM were established on the basis of the **SCI/M Monitoring and Operation Regulation of the SCI/M Monitoring Committee** and through the PP Procedure "Activity of SCI/M Monitoring Committee"

In view of the entry into force of Order SGG 600/2018 an internal decision on the setting up of the Monitoring Committee and the updating of the Organization and Operation Regulation of SCI/M Monitoring Committee in accordance with the order in force.

The **Chairman** of the *Monitoring Committee* is the deputy general manager of the company Mr. Hațegan Gheorghe.

The **members** of the *Monitoring Committee* are appointed directors of independent departments / directorates / independent services / Mediaș Subsidiary / Regional office within the company. Members of the Monitoring Committee designate a person responsible for the development of the internal / managerial control system within the Department / Directorate / Subsidiary / Regional office that they represent.

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

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

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

4. Internal control/management standards

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

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

As of 07.05.2018, with the entry into force of the Order of the General Secretariat of the Government 600 / 20.04.2018 and the abrogation of the **Order of the General Secretariat of the Government no. 400/2015** for the approval of the Code for the internal / managerial control of public entities, as subsequently amended and supplemented, the List of Standards for internal / managerial control and their grouping on the 5 key elements remained unchanged.

The purpose of the internal/managerial control standards applied in SNTGN Transgaz is to create a reference system that allows the assessment of the internal / managerial control system at different times and highlights areas and directions of change. It can be said that standards provide good practice, which SNTGN Transgaz management has to implement.

Internal/managerial control includes standards grouped on 5 key elements, closely interdependent components, arising from the manner in which activities are managed and integrated into these activities, as presented in the table below:

Key elements	Standards
I. CONTROL ENVIRONMENT	
Comprises issues related to organization, human resources management, ethics, deontology and integrity	Standard 1 - Ethics and integrity
	Standard 2 – Responsibilities, positions and tasks
	Standard 3 – Competence, performance
	Standard 4 – Organizational structure
II. PERFORMANCE AND RISK MANAGEMENT	

Refers to the target setting management, planning (multiannual planning), scheduling (management plan) and performance (monitoring performance).	Standard 5 - Targets
	Standard 6 - Planning
	Standard 7 – Monitoring performance
	Standard 8 –Risk management
III. CONTROL ACTIVITIES	
Refers to documentation of procedures, continuity of operations, recording exceptions, separation of responsibilities, monitoring, etc.	Standard 9 - Procedures
	Standard 10 - Surveillance
	Standard 11 – Continuity of activity
IV. INFORMATION AND COMMUNICATION	
Refers to issues related to the creation of an informational system and of a reporting system regarding the execution of the management plan, budget, resource use and documentation management.	Standard 12 – Information and communication
	Standard 13 – Documentation management
	Standard 14 – Accounting and financial reporting
V. AUDIT AND ASSESSMENT	
Refers to the development of the capacity of assessment of the internal/management control for ensuring continuity of its improvement.	Standard 15 – Internal/management control assessment
	Standard 16 – Internal audit

In order to comply with the provisions of **GSG Order no. 200/2016 completing the GSG Order no. 400/2015** in force until 07.05.2018 and of **GSC no 600/2018 which entered into force as of 07.05.2018, in Semester I of 2018** the following actions were undertaken:

- The General Status regarding the Stage of Implementation and Development of the internal / managerial control system within SNTGN Transgaz SA was prepared in accordance with the provisions of SGG Order no. 200/2016, amending and supplementing Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, and was submitted to the Ministry of Economy";
- In order to report on the state of implementation of the Internal/Managerial Control System within SNTGN Transgaz SA on 31 December 2017 (as a result of analyzing and centralizing the data from the self-evaluation questionnaires sent by the organizational entities), the Report of the Director General on the Internal / Managerial Control System according to the model provided in Annex no. 4.3. of the Instructions provided for in SGG Order no. 400/2015 on the approval of the Code of internal/managerial control of public entities, amended and supplemented by SGG Order no. 200/2016 and other attached documents were prepared and submitted to the Ministry of Economy;
- The Plan for the Development of the Internal/Managerial Control System within SNTGN Transgaz SA – 2018-2021, prepared according to the provisions of Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, amended and supplemented by OSGG no. 200 / 2016, Art.4, paragraph (1) corroborated with Art.8, paragraph (1), was approved and submitted to the Ministry of Economy;
- posting the *Development Program of the Internal Control/Managerial Control System within SNTGN Transgaz SA 2018-2021*, in the database **TRANSGAZ (intranet) -ZoneInterDep - ControlInternManagerial**, in the folder dedicated to each structure, for compliance;
- Updating the Common area (Transgaz on Intranet - ZoneInterDep - "ControlIntern Managerial"), with limited access by the CM Commission members appointed through the Decision, the SCI / M and Risk Officers, by independent division/independent department/Mediaș Subsidiary/regional offices; this area is created both for making a quick and effective communication on the elaboration

of all the supporting documents necessary to demonstrate the SCIM implementation in all the entities of the company, as well as for the dissemination of the information;

- The inventory of procedural activities within Transgaz SA on 30.06.2018, revealed 220 declared procedures, 4 system procedures and 126 elaborated process procedures;
- submitting, by the end of 2017, all the organizational structures (according to the organization chart) of the Performance Reports for the year 2017 to the Monitoring Committee Secretariat;
- analyzing and centralizing the Performance Monitoring Reports for 2017 by the SCI/M Implementation and Monitoring Department and elaborating the Performance Monitoring Information within SNTGN Transgaz for 2017; it presents an analysis of the achievement of the objectives based on the established performance indicators through the Activity Monitoring System, 2017;
- elaborating the Report on the state of implementation of the Internal / Managerial Control System within SNTGN Transgaz for the year 2017 as a result of analyzing and centralizing the data from the self-evaluation questionnaires sent by the organizational entities; it presents an assessment of how each standard is implemented by each organizational structure and a general assessment at the company level. Internal/managerial control standards are considered to be implemented, partially implemented or not implemented according to the fulfillment of the criteria specific to each standard; the degree of compliance of the internal/ managerial control system is established according to the number of standards implemented; the state of implementation of the internal / managerial control system for the 151 organizational structures was analyzed at the level of each internal/managerial control standard within the 5 key elements of internal control;
- The conclusions of the Report on the state of implementation of the Internal / Managerial Control System at SNTGN Transgaz level for 2017 are: - the degree of compliance of the internal / managerial control system in SNTGN Transgaz is 94%. Evolution of the SCI / M compliance rate over previous years is shown in the figure below:

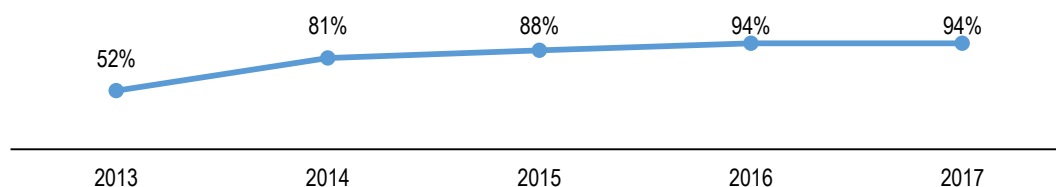


Chart 28 2- Evolution of the SCI/M implementation degree

- the average degree of implementation of the internal / managerial control standards at the level of the 151 structures, on 31.12.2017 is 98.18% implemented standards, increasing by 1.28% as compared to 2016;
- the verification and self-evaluation of the internal managerial control system and the elaboration and presentation of the report on the internal managerial control system are done annually;
- self-assessment of the internal / managerial control system prevents the malfunctioning of internal / managerial control by detecting deficiencies and correcting them.
- the proposal of the Chair of the Monitoring Committee, to organize a training course in SCI/M for a group of 25 persons with leading positions, in order to improve the implementation / development of the internal / managerial control system, including risk register and activity-based procedures; report on the substantiation of a necessity is under analysis at the Human Resources Organization Division/ Bureau of Programming and Tracking Vocational Training.

Actions to be taken for the following period:

- Update of Decision no. 548 of 26.07.2016 regarding the appointment of the SCI/M officers of SNTGN Transgaz SA;
- Updating of the Decision no. 603/27.06.2017 regarding the setting up of the Monitoring Committee;
- Updating the Process of Activity The SCI / M Monitoring Committee;
- Updating the PP-162 Process Procedure Self-assessment of the Internal / Managerial Control System of SNTGN Transgaz SA;
- approval of the Performance Monitoring Information at SNTGN Transgaz level for 2017;
- approving the Report on the state of implementation of the Internal / Managerial Control System at SNTGN Transgaz level for the year 2017;
- Approval of the System for monitoring the performance of the activities of SNTGN Transgaz facilities for the year 2018;
- to train the members of the Monitoring Committee and the SCI/M officers with each department /division/independent department/Mediaș Subsidiary/Regional offices, divided into 3 working groups, with the following theme:
 - how to fill in the Analytical Fact Sheets and Synthetic Sheets for each organizational entity within Transgaz SA for 2018 according to System Procedure PS 07 SMI Management of the Internal/ Managerial Control System
 - how to fill in the annexes provided in System Procedure PS 05 SMI Risk Management

5.2.8 Risk Management

1. Legislative framework

The main normative acts underlying the regulation of risk management within SNTGN Transgaz SA are the following.

- Government Ordinance no. 119/2015 on internal/managerial control and preventive financial control;
- Law no. 234 of 7 December 2010 amending and supplementing GO no. 119/1999;
- Order of the General Secretariate of the Government no.400/2015 approving the Code of internal / managerial control of public entities, as subsequently amended and supplemented; abrogated on 07.05.2018.
- Order of the General Secretariat of the Government no. 600/2018 regarding the approval of the Code of internal managerial control of public entities; in force since 07.05.2018.
- Methodology-of-risk-management-2018, elaborated by the General Secretariat of the Government.
- Order of the General Secretary of the Government no.201 / 2016 approving Methodological Norms on coordination, methodological guidance and supervision of the state of implementation and development of the managerial internal control system in public entities;
- SR EN 31000: 2010, Risk Management- Principles and Guidelines
- SR EN 31010: 2010, Risk Management - Risk Assessment Techniques

2. The organizational framework of the risk management process

In order to manage the risks at the level of the company, the General Manager of SNTGN Transgaz SA established, by Decision no. 602 / 27.06.2017, a structure with attributions in this respect, called the Risk Management Team (EGR), in the following composition:

- President of the EGR is the deputy general manager of the company Mr. Târzac Grigore;

- Members of the EGR are appointed substitutes for department / department director / independent services / Mediaș Subsidiary / Territorial Exploitation. These are the Risk Officers;
 - The EGR Secretariat is provided by the Risk Management Office/SCI/ M Implementation and Monitoring department, within the Budget Strategy Division, the Strategy and Corporate Management Department. Within SNTGN Transgaz, in addition to the Risk Management Team (EGR), teams consisting of Heads of department in the Risk Management Team (GL-EGR) are constituted at the level of each department / independent directorate/ Mediaș Subsidiary/Regional offices entities concerned.
- The organization and operation of the Risk Management Team is under the responsibility of the President and is established by the Regulation on the Organization and Operation of the EGR.

The essence of the risk management process within SNTGN Transgaz SA is represented by a series of five subprocesses:

- a) Setting the context
- b) Risk identification
- c) Risk assessment
- d) Risk management

Parallel to the core process, to ensure that proper information is used in the process and to disseminate the findings and information, communication and consultation are carried out using the INTRANET network "ZonaInterDep" and "zonapublica.transgaz.ro".

Monitoring and ongoing review of risk registers ensures that identification, analysis, assessment and risk management are always updated.

3. Actions taken in the semester I 2018

In the first semester of 2018, the following actions were taken:

- a) drawing up the draft of the *Risk management strategy*; it establishes the framework for identifying, evaluating, monitoring and controlling significant risks in order to maintain them at acceptable levels, depending on the risk tolerance limit; through the risk management strategy, the risk tolerance against risk exposure was established using a 3-step scale, resulting in a 9-value array for risk exposure;
- b) transmitting the Drawing of the Risk Management Strategy to the relevant functions for the purpose of verifying compliance with the policies of the company and the legislation in force;
- c) analyzing and centralizing, in January 2018, the Risk Management Report for 2017 by the Risk Management Secretariat.
- d) Analysis of the significant risks identified at the company level:

Risks related to the natural gas sector
The risk associated with government intervention in major infrastructure sectors.
Changing the regulatory framework specific to the natural gas market and the legal regulations applicable to the company's activity.
Impact of competing projects on international gas transmission activity.
Seasonal fluctuation of the activity.
Changes in natural gas prices in Romania.
Risks related to the natural gas transmission activity
Regulatory nature of the natural gas transmission activity.
Changes in gas price purchased by the company.
The risk of implementing the new business model of SNTGN Transgaz SA.

Concluding international transmission contracts based on intergovernmental agreements.
Failure to meet the minimum investment program - obligation of SNTGN Transgaz SA according to the Concession Agreement.
The risk of failing to improve the profitability of the current natural gas transmission activity and the reduction of technological consumption.
The risk of limited access to own sources for financing development plans.
Failure to develop other profit-generating activities as a core business.
The risk that ANRE does not accept the remuneration of investment made and their introduction in the RAB.
The risk that the National Gas Transmission System may be affected by natural catastrophes.
Risk related to the clasified information regime of SNTGN Transgaz SA.
Powerful trade unions which may hinder the optimization and efficiency of the company's activity
Financial risks
Lending
Currency
Interest rate
Liquidity

The risk determined by the correlation with the evolution of the global market

Events on the world financial market have a direct impact on the evolution of the Romanian economy, a fact reflected in the evolution of the Romanian capital market in recent years. Global developments therefore affect SNTGN Transgaz's business as well as its evolution on the capital market.

The economy of Romania, as any emerging economy, is sensitive to the fluctuation of global activity. Geopolitical, economic, social events on the global market have a significant impact on the economic climate in which SNTGN Transgaz operates.

The level of risk analyzed has low tolerability, and permanent monitoring measures have been set, namely: increased attention to government policies through systematic and appropriate communication with representatives of the majority shareholder (the Romanian State), shareholders and all other stakeholders for the integration of the activity economics of the company in the national energy strategy. The following opportunity has been identified: the continuous growth of emerging economies in the world will boost energy demand in these countries and increase opportunities for expansion of national gas companies in these markets.

Strategic-financial risks

Credit risk

Credit risk is the risk that a company will suffer a financial loss as a result of a customer's or a counterparty's failure to meet the contractual obligations, and this risk arises mainly from trade receivables and other types of receivables.

The control tools are:

- customer credit references are normally obtained for all new customers;
- the due date is carefully monitored;
- amounts due after the deadline are timely followed.

This risk is considered to be low-tolerance risk.

Risk of liquidity

Prudent liquidity risk management implies maintaining sufficient cash and available credit lines. Due to the nature of the activity, the company seeks to have flexibility in funding opportunities by maintaining credit lines available to finance operating activities. This risk is considered to be low-tolerance risk.

Currency risk

The Company is exposed to exchange rate fluctuations through debt generated by foreign currency loans or trade payables. Due to the high associated costs, the company's policy is not to use financial instruments to mitigate this risk.

It is a tolerable risk, so keeping it under control does not require special measures.

Interest rate risk

The Company's cash flows are affected by interest rate fluctuations mainly due to variable interest loans. The company does not use financial instruments to protect itself against interest rate fluctuations.

It is a tolerable risk, so keeping it under control does not require special measures.

Market risk

BVB being a small stock market, it has a certain fragility in the fluctuation of the market price of quoted shares, which is influenced by the information provided by the company.

For this medium level risk, with low tolerability, the preventive financial control was set as control instrument requiring the strict monitoring of binding expenses within the legal and budget limits.

Strategic risks in the gas an gas transmission sectors**The risk of obtaining building permits.**

The main activity of SNTGN Transgaz, namely the transport of natural gas through pipelines, has a significant impact on the environment, which implies the obtaining and renewal of authorizations regulating the Company's activity, obtaining construction and environmental permits for subcontracted works in SNTGN Transgaz programs.

The company's activity is subject to a large body of regulations in various areas that, if not complied with, can lead to company sanctioning or suspension of business. The company also faces the lack of consistency and concordance between these regulations, due to which additional costs arise and the delay in starting or finalizing some modernization or rehabilitation works of the NTS, with negative effects, such as: technical failures, followed by losses of the product transported and the receipt of sanctions from the authorities.

The level of risk determined by the regulatory and licensing framework under consideration is high, it is an intolerable risk for which urgent measures have been set for its control:

- urgent and systematic steps to update/complete the Network Code and comply with European regulations;
- steps to regulate the legal situation of the land affected by the facilities of SNTGN Transgaz;
- steps to obtain land access agreements for NTS investment works

Risk related to the regulated framework in which the company operates**Specific to the natural gas sector:**

- modifying the regulatory framework specific to the natural gas market;
- the risk associated with government intervention in the main infrastructure sectors;

- the possible increase in the price of natural gas in Romania generated by the liberalization of the market may result in a decrease in the consumption of natural gas and implicitly may have an adverse impact on the financial performance of SNTGN Transgaz SA Mediaș;

- Seasonal fluctuation of activity.

Specific to the **gas transmission activity**

- the transmission activity is carried out within a regulated framework;
- changes in the price of the gas purchased by the company;
- non-fulfillment of the minimum investment-obligation program of SNTGN Transgaz SA according to the Concession Agreement;
- the risk of failing to improve the profitability of the current natural gas transmission activity and the reduction of the technological consumption;
- limited access to own sources for financing development plans;
- the impossibility to develop other profit-generating activities as the main field of activity;
- the remuneration of the investments made and their introduction into the RAB is done with ANRE's acceptance.

These risks are monitored systematically, discussions are initiated on these issues with the competent authorities. The level of these risks is considered major.

The following opportunities have been identified:

- Interaction with governments and regulators: gas supply chains are increasingly interconnected and their management in the context of more governments with changing policies and regulations involves significant challenges; this sector is also moving rapidly towards new geographic and technical areas; these are new challenges for governments and short periods of time when critical decisions with long-term implications for SNTGN Transgaz must be made;
- investing in research and development, so that the company remains competitive.

The risk of natural disasters

This category of risks includes mainly natural phenomena: earthquakes, extreme temperatures, floods, fires, landslides, storms, massive snowfalls, frost, etc.

There are risks with low probability and high impact.

a) Organization and conduct of the Risk Management Team meeting on 08.03.2018.

b) Endorsement at the EGR meeting of the following documents:

- *Risk management strategy*
- *Information on the conduct of the risk management process at SNTGN Transgaz level for 2017;*
- *Report on the approval of the proposed tolerance limit for 2018;*
- *Endorsement on the risk profile of SNTGN Transgaz for 2017;*
- *Company Risk Register for the year 2018;*
- *Program of risk minimization measures at company level; for 2018.*

c) Approval by the Director General of the following documents:

- *Information on the conduct of the risk management process at SNTGN Transgaz level for 2017;*
- *Report on the approval of the proposed tolerance limit for 2018;*
- *Endorsement on the risk profile of SNTGN Transgaz for 2017;*
- *Company Risk Register for the year 2018;*
- *Program of risk minimization measures at company level for 2018.*

d) Elaboration and approval of System Procedure PS 05 SMI Risk Management;

4. Actions to be taken for the upcoming period

The actions to be carried out for the following period are:

- Analysis of the impact of Order SGG 600/2018 on the organization of the risk management process so as to be adapted to the size, complexity and specific environment of SNTGN Transgaz.
- Updating the Decision no. 602 / 27.06.2017 regarding the establishment of the Risk Management Team;
- Elaboration and approval of the Regulation for Organization and Functioning of the Risk Management Team;
- Approval of the Risk Management Strategy
- Elaboration by all organizational structures of the forms established in the System Procedure "Risk Management":
- List of specific objectives and performance indicators at independent department/division/ Regional offices/ Mediaș Subsidiary/Independent department;
- List of operational objectives, indicators, activities and risks at the service / office level;
- Registry of Risks at the service level, RegR-RR office;
- Risk Register at Registry-RD department level;
- Risk minimization plan;
- FUR Risk Tracking Data Sheet;
- Risk Alert FAR File (if applicable);
- Report on the conduct of the geographic and risk monitoring process for 2018.

5.2.9 Comunicare internă și externă pentru creșterea capitalului de imagine a societății

A part of the company's development strategy, communication policy and social responsibility aims at a permanent increase in the company's transparent communication and accountability to employees, shareholders, partners, community and the environment, as well as the efficiency of all the actions carried out in this sense.

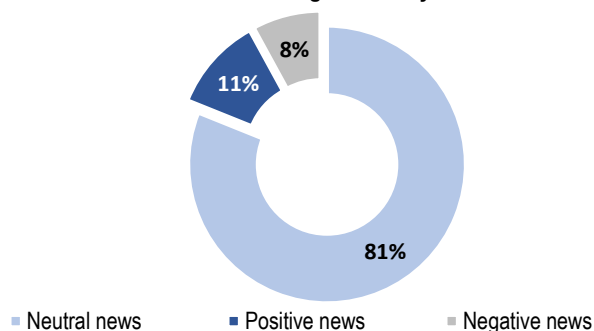
Under the slogan **`A RESPONSIBLE COMPANY IS A FOUNDATION OF THE FUTURE`**, the entire internal and external communication activity of the company is modeled on and is carried out in accordance with the principles of professional deontology, ethics, transparency and good business and collaboration practices, culture and organizational values . The general, internal and external communication activity is carried out at the company level based on the procedure developed in accordance with the requirements of SMICMSSM.

Infographic monitoring of news on Transgaz activity in Semester I 2018

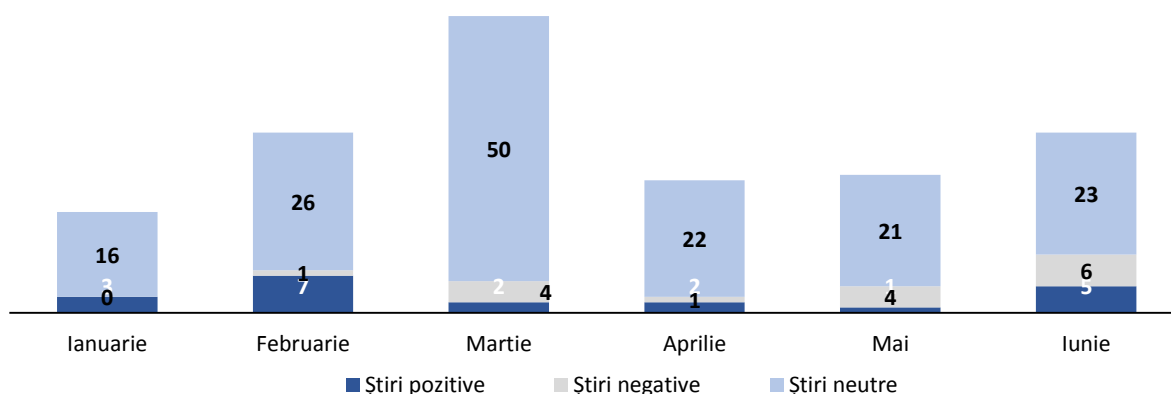
Following the monitoring of news on Transgaz's activity, which appeared on media channels in the first half of 2018, we mention that this year there were 194 of which:

Neutral news	158	81%
Positive news	20	11%
Negative news	16	8%
Total news	194	100%

the share of news related to Transgaz' activity in semester I 2018



The monthly distribution in the first half of 2018 of positive, neutral, negative media references is the following:



The total distribution in semester I 2018 of the references made by the topic, investments, financial results, European financing, capital market, development program is presented:

5.2.10 Key non-financial performance indicators

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

Key non-financial performance indicators for the calculation of the variable component of the remuneration

No	Indicator	Objective	No	Semester I 2018		Achievement degree
				Planned	Achieved	
Operational						
6	Monitoring the Implementation and Investment Strategy	Achievement of the FID projects from the 10 years Development Plan <i>I=(achieved+initiated actions)/proposed actions</i> 1.Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).	6.1	Obtaining the comprehensive decision (in line with the provisions of EU regulation no 347/2013)	Achieved (March 2018)	100%
7	Increasing energy efficiency	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0,72 in Semester I 2018	138,8%
Oriented towards public services						
8	Performance indicators related to the gas transmission service	<i>Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016)</i>	8.1	$IP_0^1 \geq 90\%$	97,69%	0%
			8.2	$IP_1^1 \geq 95\%$	33,33%	
			8.3	$IP_1^2 \geq 95\%$	33,33%	
			8.4	$IP_1^3 \geq 95\%$	100%	
			8.5	$IP_1^4 \geq 95\%$	-	
			8.6	$IP_1^5 \geq 95\%$	-	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	22,22%	
			8.10	$IP_3^2 \geq 95\%$	-	
			8.11	$IP_3^3 \geq 95\%$	0%	

			8.12	$IP_3^4 \geq 95\%$	50%	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	77,89%	
			8.15	$IP_5^2 \geq 98\%$	33,33%	
			8.16	$IP_6^1 \geq 98\%$	5,1%	
			8.17	$IP_6^2 \geq 98\%$	43,88%	
			8.18	$IP_7^1 \geq 80\%$	100%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
Corporate governance						
9	Implementing the internal/managerial control system	<p>Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p><i>I = implemented standards/standards provided by Order 600/2018*100</i></p>	9.1	94%	<p>94%</p> <p>No. ME 270251/ 30.01.2018</p> <p>Letter no. DSMC/2497/ 17.01.2018</p>	Is monitored annually
10	Clients satisfaction	<p>Achievement of the targets provided for in the administration plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)</p>	10.1	7,8	7,7 for 2017	Is monitored annually
11	Setting the risk management policies and risk monitoring	<p>Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial Control Code of public entities</p>	11.1	-Preparation of the strategy related to risk management	Achieved The Risk Management Strategy is prepared. It is currently being approved	100%
			11.2	- Preparation of the procedure related to Risk Management System;	Achieved The Risk Management System procedure PS 05 SMI is prepared and approved	
			11.3	- Preparation of the procedure for the conduct of the EGR activity	Following the impact analysis of the entry into force of the Order of the General Secretariat of the	

					Government on the approval of the Managing Internal Control Code of Public Entities no. 600/2018, it was decided that the "Risk Management Activity" Process Procedure should no longer be developed. The conduct of the EGR activity is set out in the "Risk Management" System Procedure and in the "Risk Management Team Organization and Operation Regulation"	
12	Timely reporting of the key performance indicators	<i>Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100</i>	12.1	Financial communication calendar to BSE	Achieved 100% for semester I	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	Achieved Letter no 10014/01.03.2018 Reporting deadline 15 march 2018	
			12.3	SCIM reporting	Achieved Letter no. ME no.270251/ 30.01.2018 DSMC/2497/17.01.2018 – reporting for 2017 (is reported annually)	
			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	Achieved Letter no. 7349/14.02.2018 Reporting for 2017 (is reported annually ANRE)	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	Achieved Letter DSMC no. 30292/19.06.2018 Letter DSMC 34773/11.07.2018 Deadline: 45 calendar days from the end of the reporting period	
13	Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans	<i>Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline</i>	13.1	Preparation of a procedure on corruption prevention	The Declaration of Anti-Fraud and Anti-Corruption Policy and Anti-Fraud and Anti-Corruption Policy were approved by the Resolution of BA 26 of 30.05.2018 and the procedure is in progress	Is monitored annually

		/proposed measures *100	13.2	Preparation of a methodology for the evaluation of corruption related risks	In progress
			13.3	- Publication of the results of the SCIM evaluation	Achieved
			13.4	Creating a database of companies that did not execute properly the contracts concluded with TRANSGAZ following the public procurement procedures	The company's data base was created
			13.5	-Preparation of the policy on anti-bribery within the company	The following were approved: The Declaration of Anti-Fraud Policy and Anticorruption Policy and Anti-Fraud and Anti-Corruption Policy were approved by HCA 26 of 30.05.2018
			13.6	The identification and assimilation of good practices from the Guide of Good Practice of OCDE	Ongoing
			13.7	- Organization of training courses with themes on integrity, corruption and fraud (execution staff);	Achieved according to the program for training and staff development
			13.8	- Initiation of a campaign for the information of employees on the phenomenon of fraude and corruption (execution staff);	Internal: The Declaration for the adherence to SNA was sent to all employees As well as the Integrity Plan of the Company. External: according to Ord. 1244/2017, The Anti fraud department within DCC/MEc carried out 3 activities for corruption prevention attended by the management staff within the company. The training was conducted in 14.02.2018

					(Transgaz Representative Office) and during 05-06.06.2018 at Transgaz headquarters in Medias.
			13.9	- Adoption and distribution within the company of the declaration for adherence to SNA;	Decision No. 434/ 10.05.2018 on the establishment of the Corruption Prevention Working Group, whose main task is to coordinate all stages necessary for the management of corruption risks
			13.10	Prioritize audit and control actions by increasing their share in areas exposed to fraud and corruption	Achieved by the annual audit and control programs
			13.11	- Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities	Achieved (sent by Letter no DSMC 4226/29.01.2018, together with Annex 1 – The situation of Integrity related incidents , Annex 2- Reporting the implementation of the SNA measures Ministry of Justice and the Report dated 30.01.2018 on the status of achievement of Transgaz Integrity Plan)
			13.12	-Annual publication of the performance indicators monitored within the company's Integrity Plan	Achieved (by the publication of the Annual Evaluation of the Integrity Plan on intranet)

Table 32- Estimates of the key non-financial performance indicators for the calculation of the variable component of the remuneration in semester I 2018

6. CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

- | |
|--|
| - Chapter 1 - Corporate Governance Structures: Board of Administration, Advisory Committees, Executive Management. The tasks of the executive management are set out in the Transgaz Regulation of Organization and Functioning and the Code of Conduct sets out the ethical rules of mandatory conduct for all employees and applies to all organizational and hierarchical structures of the company. |
| - Chapter 2 - Shareholder rights: shareholder rights, shareholder treatment. |
| - Chapter 3 - 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, 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 - Conflict of interests and transactions with persons involved: conflict of interests; transactions with persons involved. |
| - Chapter 6 - Corporate Information Regime. |
| - Chapter 7 - Social Responsibility. |
| - Chapter 8 - Administration system. |
| - Chapter 9 - Final Provisions. |

6.1 Corporate Governance Statement

I. STATEMENT OF COMPLIANCE WITH THE CODE

II. CORPORATE GOVERNANCE STATEMENT ITEMS

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

I. STATEMENT OF COMPLIANCE WITH THE CODE

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

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

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

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

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

Subsequently, on October 12, 2016, SNTGN TRANSGAZ SA, sent a Current Report to the BSE, bringing to the attention of the stakeholders the compliance with a new provision of the Code.

The table below contemplates the compliance or non-compliance with the provisions of the new CGC of the BSE:

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

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
Section A-Responsibilities				
A.1	All companies must have an internal Board Regulation that includes the terms of reference / responsibilities of the Board and the key management functions of the company and	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	which applies, inter alia, the General Principles of Section A.			
A.2	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	X		
A.3	The Board of Administration or the Supervisory Board must be composed of at least 5 members.	X		
A.4	Most members of the Board of Administration should not hold executive positions. At least one member of the Board of Administration or the Supervisory Board must be independent in the case of companies from the Standard Category. In the case of Premium Category companies, no less than two non-executive members of the Board of Administration or the Supervisory Board must be independent. Each independent member of the Board of Administration or the Supervisory Board, as the case may be, must file a statement at the time of his/her nomination for election or re-election, and when any change of his/her status occurs, indicating the elements based on which he/she is considered as independent from the point of view of his/her character and judgment and according to the following criteria:	X		
	A.4.1. He / she is not the General Manager / Chief Executive Officer of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
	A.4.2. He / she is not the employee of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
	A.4.3. He/she does not receive and has not received any additional remuneration or other benefits from the company or a company controlled by it, other than those corresponding to the capacity of non-executive administrator.	X		
	A.4.4. He/she is not or was not the employee or does not or did not have a contractual relationship in the previous year with a significant shareholder of the company, a shareholder controlling over 10% of the voting rights, or a company controlled by it.	X		

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

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	regard to the purpose, criteria and frequency of the assessment process.			well as in the mandate contracts, and the extent to which they are fulfilled is included in the Board of Administration annual report. The company does not have a policy / guide for assessing the activity of the Board of Administration, the assessment being made on the basis of the above mentioned criteria. TGN will send a current compliance report when drafting this policy.
A.9	The corporate governance statement should contain information on the number of Board and committee meetings over the past year, the participation of administrators (in person and in absentia), and a report by the Board and committees on their activities.	X		
A.10	The corporate governance statement should include information on the exact number of independent members of the Board of Administration or the Supervisory Board.	X		
A.11	The Boards of Premium Category Companies must establish a nomination committee composed of non-executive members, which will lead the nomination process of new members of the Board and make recommendations to the Board. Most members of the nomination committee must be independent.	X		
Section B - Risk Management System and Internal Control System				
B.1	The Board should establish an audit committee in which at least one member has to be a non-executive independent administrator. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee. At least one member of the audit committee must have proven and appropriate auditing or accounting experience. In the case of Premium Category companies, the audit committee must consist of at least three members and the majority of the	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	members of the audit committee must be independent.			
B.2	The Chairman of the Audit Committee should be an independent non-executive member.	X		
B.3	Within its responsibilities, the audit committee must carry out an annual assessment of the internal control system.	X		
B.4	The assessment should take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the audit committee of the Board, the promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified following the internal control and the submission of relevant reports to the Board.	X		
B.5	The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties.	X		
B.6	The audit committee should assess the effectiveness of the internal control system and risk management system.	X		
B.7	The Audit Committee should monitor the application of generally accepted legal standards and auditing standards. The Audit Committee should receive and evaluate internal audit team reports.	X		
B.8	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they should be followed by regular reports (at least annually) or ad-hoc reports to be submitted to the Board.	X		
B.9	No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates.	X		
B.10	The Board must adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relationships with a value equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board following a binding opinion of the Board's Audit Committee and properly disclosed to shareholders and potential investors, to the extent that such transactions fall within the		X	This policy will be developed and approved in accordance with the Board of Administration ROF and the Articles of Incorporation.

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	category of events subject to reporting requirements.			
B.11	Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.	X		
B.12	In order to ensure the main functions of the internal audit department, it must report functionally to the Board through the audit committee. For administrative purposes and within the management's responsibility to monitor and mitigate risks, it must report directly to the Director General.	X		
Section C - Fair rewards and motivation				
C.1	<p>The company must publish its remuneration policy on its intranet page and include a statement on the implementation of the remuneration policy in the annual report during the annual period under review.</p> <p>The remuneration policy should be formulated in such a way as to enable shareholders to understand the principles and arguments underpinning the remuneration of the members of the Board and of the Director General as well as the directors in the dualist system. It should describe the management of the decision-making process on remuneration and detail the components of the executive management's remuneration (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions, etc.) and describe the purpose the principles and assumptions underlying each component (including general performance criteria for any form of variable remuneration). In addition, the remuneration policy must specify the duration of the contract of the executive director and the notice period stipulated in the contract, as well as possible compensation for unjustified revocation.</p> <p>The remuneration report should present the implementation of the remuneration policy for the persons identified in the remuneration policy during the annual period under review.</p> <p>Any major change in the remuneration policy should be published in a timely manner on the company's website.</p>		X	Transgaz partially applies this provision by observing the provisions of GEO 109/2011 art.39 and art. 55 (2).
Section D-Building value by the relationship with investors				
D.1	The company must organize an Investor Relations Service-indicating to the general public the responsible person(s) or organizational unit. In addition to the information required by law, the company must include on its	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:			
	D.1.1. Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.	X		
	D.1.2. Professional CVs of members of the company's governing bodies, other professional engagements of Board members, including executive and non-executive positions in boards of administration in non-profit companies or institutions.	X		
	D.1.3. Current reports and regular reports (quarterly, half-yearly and annually) - at least those under D.8 - including current reports with detailed information on non-compliance with this Code;	X		
	D.1.4. Information on the general meetings of the shareholders: agenda and informative materials; the procedure for electing the members of the Board; the arguments that support the proposals of candidates pr for election in the Board together with their professional CVs; the shareholders' questions about the agenda items and the company's replies, including the resolutions adopted.		X	The Company partially applies this provision, in accordance with art. 29 of GEO 109/2011 on Corporate Governance of Public Enterprises, as subsequently amended and supplemented.
	D.1.5. Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of the rights of a shareholder, including the deadlines and the principles applied to such operations. Such information will be published within a time frame that will allow investors to make investment decisions.	X		
	D.1.6. Names and contact details of a person who will be able to provide relevant information upon request.	X		
	D.1.7. Company presentations (e.g., investor presentations, quarterly results presentations, etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.	X		
D.2	The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the Director General		X	The distribution of the company's profits is made in

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	or the Directorate and adopted by the Board in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the policy regarding annual distribution to shareholders will be published on the company's website.			accordance with the provisions of Government Emergency Ordinance 64/2001 on the distribution of profits of national companies, and trade companies with full or majority state capital, as well as autonomous administrations.
D.3	The company will adopt a policy in relation to the forecasts, whether they are made public or not. The forecasts refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (so-called assumptions): by its nature, this projection has a high level of uncertainty, the actual results may differ significantly from the forecasts originally presented. The forecasting policy will determine the frequency, the period considered and the content of the forecasts. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The forecasting policy will be published on the company's website.		X	The activity of the company is regulated by ANRE. The management plan of Transgaz includes the management strategy during the mandate. It is rigorously structured and includes strategic action directions for managing all the resources, operational and management processes of the company in order to achieve, with maximum efficiency, the established performance targets.
D.4	The rules of the general meetings of the shareholders must not limit the participation of shareholders to general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting with the next meeting of the shareholders.	X		
D.5	External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.	X		
D.6	The Board will give a brief assessment to the Annual General Meeting of the Shareholders on the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting.	X		This information is included in the annual report of the Board of Administration as well as in the Statement of the management,

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

II. CORPORATE GOVERNANCE STATEMENT ITEMS

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

Administration system

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

The management of Transgaz is provided by a Board of Administration formed mostly by non-executive and independent administrators within the meaning of Art.138² of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

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

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

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

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

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

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

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

Members of the Board of Administration of SNTGN Transgaz SA

The composition of Transgaz' Board of Administration as of 11.07.2017, following the Resolution of the GOSM no 3/19.06.2017, namely the Resolution of GOSM no 13/28.12.2017 is as follows:

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

The CVs of the members of Transgaz' Board of Administration are available on the company's website at: www.transgaz.ro/Despre noi/Management/Consiliul de administratie.

Role and Duties of the Board of Administration

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

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

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

In semester I of 2018 there were 30 meetings of the Board of Administration and the attendance of the members of the Board of Administration at these meetings was as follows:

Administrator	Participation in meetings	
	In person	In absentia (by proxy)
STERIAN ION	30	-
PETRU ION VĂDUVA	27	3 by proxy
BOGDAN GEORGE ILIESCU	28	1 in absentia and 1 by proxy
MINEA NICOLAE	25	2 in absentia and 3 by proxy
LĂPUȘAN REMUS GABRIEL	28	2 by proxy

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

The company is managed in a unitary system by the Board of Administration. The Director - General and the Company's Chief Financial Officer were appointed by the Board of Administration following the completion and conclusion of the selection procedure under the provisions of the Emergency Ordinance no. 109/2011, as further amended and supplemented.

The Director draws up and submits to the Board of Administration a management plan – Management component - for the duration of the mandate and for the first year of the mandate, including the management strategy for achieving the objectives and performance criteria set out.

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

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

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

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

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

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

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

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

Liability of administrators

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

Incompatibility

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

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

Duties of the Board of Administration

The Board of Administration has the following main tasks:

- to establish the main directions of activity and development of the company;
- to draw up the management plan, which includes the management strategy for the duration of the

- mandate to achieve the objectives and performance criteria set by mandate contracts;
- to approve the internal regulation on the organization and functioning of the advisory committees set up at the level of the Board of Administration and their composition;
 - to establish accounting policies and the financial control system and approve financial planning;
 - to approve the organizational structure and the regulation of organization and functioning of TRANSGAZ S.A. ;
 - to appoint and revoke the general director of TRANSGAZ S.A. and determine his/her remuneration;
 - to approve the management plan for the duration of the mandate and for the first year of the term of the general director of TRANSGAZ S.A. ;
 - to supervise the work of the general director;
 - to prepare the annual report, organize the general meeting of shareholders and implement its decisions;
 - to introduce the request for initiating insolvency proceedings for TRANSGAZ S.A., in accordance with the legal regulations in force;
 - to approve the level of guarantees for persons who are managers;
 - to conclude legal documents by which to acquire, lease, rent, change or warrant assets in the patrimony of TRANSGAZ S.A., with the approval of the general meeting of shareholders when the law imposes this condition;
 - to approve the competences of the branches by field of activity (economic, commercial, technical, administrative, financial, legal etc.) in order to achieve the activity of TRANSGAZ SA;
 - to approve the change of the secondary activity scope of SNTGN „Transgaz” S.A.;
 - to approve the set-up/closure of objective work points of NTS;
 - to approve the conclusion of any contracts for which it has not delegated the competence of the general director of TRANSGAZ S.A. ;
 - to submit annually to the general meeting of the shareholders, after the end of the financial year, the report on the activity of TRANSGAZ S.A., the balance sheet and the profit and loss account for the previous year;
 - to submit to the general meeting of the shareholders the activity program and the draft income and expenditure budget for the following year;
 - to convene the general meeting of shareholders whenever necessary;
 - to establish the rights, obligations and responsibilities of the TRANSGAZ SA staff, according to the approved organizational structure;
 - to decide on the contracting of bank loans, including foreign ones; to establish the competencies and level of contracting of bank loans in the domestic and foreign markets, of trade credits and guarantees, including by pledging shares related to holdings held in other companies according to the law; to approve the release of guarantees;
 - to approve the number of posts and the normative act for the establishment of functional and production departments;
 - to approve production, research, development and investment programs;
 - to approve policies for environmental protection, occupational safety, according to the legal regulations in force;
 - to approve, within the limits of the revenue and expenditure budget approved by the general meeting of shareholders, changes in its structure within the limits of the powers for which it has been mandated;
 - to negotiate the collective labour agreement by mandating the general director and to approve the

- status of the staff;
- to ensure and to be responsible for the fulfilment of any other tasks and duties established by the general meeting of the shareholders or which are provided by the legislation in force;
- to decide on behalf of and for the General Assembly of the Shareholders of the limited liability company Eurotransgaz on the territory of the Republic of Moldova;
- to adopt any other decisions concerning the activity of the company, except those which are within the competence of the general meeting of the shareholders.

Appointment of Board members

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

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

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

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

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

The Rules of procedure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA, updated on 28.02.2018, can be found on its own website in the **About us/Board of Administration** section.

The last update was aimed at amending the Internal Regulation on the Organization and Operation of the Advisory Committees following the Resolution of the Board of Administration no. 10/28.02.2018 the update of the responsibilities of the Advisory Committees for audit and rating.

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

ADVISORY COMMITTEE	REMARKS	DUTIES
NOMINATION AND REMUNERATION COMMITTEE	<p>will be composed of at least two members of the Board of Administration;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an</p>	<ul style="list-style-type: none"> ▪ coordinates the process of appointing the members of the Board of Administration; ▪ elaborates and proposes to the Board of Administration the Procedure for the election of the members of the Board of Administration; ▪ addresses recommendations on both the position of administrator and the filling of vacant positions within the Board of Administration; ▪ assesses the cumulative professional skills, knowledge and experience at the level of the Board of Administration, directors and other management functions; ▪ establishes the requirements for occupying a certain position in the management of the company;

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> elaborates and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and other management positions; recommends to the Board of Administration candidates for the listed positions; apply best practices of corporate governance by improving knowledge of the company's business and constantly updating the professional competencies of board members; develops the remuneration policy for administrators; submits such remuneration policy for approval to the General Meeting of Shareholders; formulates proposals on the remuneration of directors and other management functions; informs about the remuneration policy in the Corporate Governance Statute / Regulations of the company; presents in the Annual Report the total amount of the direct and indirect remuneration of administrators and directors, separately, according to the fixed and variable components of such remuneration; in determining the remuneration of non-executive directors, it will observe the principle of proportionality of this remuneration with the responsibility and time devoted to the exercise of their functions by them; draws up an annual report on the remuneration and other advantages granted to the administrators and directors during the financial year, which shall be presented to the general meeting of the shareholders and includes the information provided in art. 55 paragraph (3) of GEO no. 109/2011 on Corporate Governance of Public Enterprises; may, where appropriate, call on external experts to assist with the tasks they are required to perform.
AUDIT AND RATING COMMITTEE	<p>will be composed of at least three members of the Board of Administration and the majority of members must be independent;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>at least one member of the committee must have proven and appropriate</p>	<ul style="list-style-type: none"> assists and recommends the Board of Administration, proposes the establishment of the accounting and financial control system and approves the financial and budgetary planning; monitors the effectiveness of the entity's internal quality control systems and risk management systems and, where applicable, internal auditing of the financial reporting of the audited entity without prejudice to its independence; monitors the statutory audit of the annual financial statements and the consolidated annual financial statements, in particular the performance of the annual financial statements, taking into account the findings and conclusions of the competent authority in accordance with Article 26 (6) of EU Regulation no.537/2014; performs an annual assessment of the internal control system and presents relevant reports to the Board of Administration; assesses conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties; monitors the application of generally accepted legal standards and internal audit standards; receives and evaluates internal audit team reports; submits regular reports to the Board of Administration; elaborates and submits to the Board of Administration for approval an opinion on the policy by which to ensure that any transaction of the company with any of the companies with which it has close

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>audit or accounting experience;</p> <p>the chairman of the committee must be an independent non-executive member;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<p>relationships, the value of which is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board;</p> <ul style="list-style-type: none"> meets as often as necessary, but at least twice a year for drafting half-yearly and annual results, when their dissemination to shareholders and the general public is performed; checks the compliance of the audit reports with the approved audit plan at the company level; provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by reviewing the relevance and consistency of accounting standards applied by the Company; collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other; is liable for the selection procedure of the financial auditor or audit firm and recommends to the general meeting of the shareholders the financial auditor or audit firm (s) to be designated / designated in accordance with Article 16 of EU Regulation No.537 / 2014, unless Article 16 (8) of EU Regulation No.537 / 2014 applies; evaluates and monitors the independence of financial auditors or audit firms in accordance with Articles 21-25, 28 and 29 of Law no. 162/2017 on statutory audit of annual financial statements and consolidated annual financial statements and amending certain acts normative and Article 6 of EU Regulation No.537 / 2014 and, in particular, the opportunity to provide services that are not audit to the audited entity in accordance with Article 5 of that Regulation; informs the members of the Board of Administration of the audited entity about the results of the statutory audit and explain how the statutory audit contributed to the integrity of the financial reporting and the role of the committee in the process; monitors the financial reporting process and submits recommendations or proposals to ensure the integrity thereof; fulfills the duties provided in art. 47 of GEO no. 90/2008, approved with amendments by Law no. 278/2008, in accordance with art. 34 par. (3) of GEO 109/2011.
SAFETY AND SECURITY COMMITTEE OF NTS	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> periodically reviews the critical infrastructure criteria list of Transgaz and the established security measures; provides the necessary conditions for the implementation of measures to protect all critical infrastructure objectives of the company or under the authority/coordination of the company; monitors / updates its own programs for preventing and combating terrorism through optimal physical and organizational protection measures, with recommendations to the Board of Administration; monitors the fulfilment of programs for maintenance and modernization of NTS development as well as the observance of the technical norms for operation and maintenance of production capacities.

ADVISORY COMMITTEE	REMARKS	DUTIES
STRATEGY AND DEVELOPMENT COMMITTEE	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> assists the Board of Administration in fulfilling its responsibilities in the field of elaboration and updating of the general strategy of the development of company; analyses the opportunities identified for business development and issues recommendations to the Board of Administration on these; analyses and assists the Board of Administration on the direction of international development and cooperation of the company; monitors and analyses the implementation of strategic and action plans / programs regarding the obligations of Transgaz as an NTS technical operator and stock exchange issuer; develops proposals for improving and streamlining strategic activity, development and collaboration; addresses recommendations to the Board of Administration on the effective operation of strategic and action plans / programs; monitors and analyses the performance indicators of the transport system and the economic and financial performance of the company's activity.
REGULATORY AND PUBLIC AUTHORITY RELATIONS COMMITTEE	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> assists the Board of Administration in analysing the regulatory activity and legal obligations of the company in this field; monitors the fulfilment by the company of the obligations stipulated by the regulations that are incident to the performed activity; analyses and submits proposals to the Board of Administration on the regulatory framework; monitors collaborative relationships with public authorities and assists the Board of Administration in establishing and managing the collaboration policy.

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

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

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

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

The activity carried out in semester I 2018 by the five advisory committees set up at the level of the Board of Administration on the basis of:

- Art. 140² of the Companies Law no. 31/1990, as subsequently amended and supplemented, republished;
- The Corporate Governance Code of the BSE;
- Art. 4 of the Board of Administration Decision no. 7 of May 27, 2013;
- Art. 9 of the Board of Administration Decision no. 13 of July 29, 2013;
- Art. 4 of the Board of Administration Decision no. 2 of February 10, 2014;
- Art. 1 of the Board of Administration Decision no. 21 of June 16, 2014;
- Art. 10.1 of the Board of Administration Decision no. 43 of November 19, 2014;
- Art. 12 of the Board of Administration Decision no. 39 of December 17, 2015;
- Art. 4 of the Board of Administration Decision no. 15 of May 16, 2017 and
- Art. 2 of the Board of Administration Decision no. 22 of July 11, 2017
- Art. 6 of the Board of Administration Decision no. 10 of 28.02.2018

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

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

The way of presenting the activity report of the advisory committees set up at the Board of Administration level in semester I 2018 was designed so as to reflect in a comprehensive and accurate manner the entire activity regarding the analysis, consultation and the decision making process regarding the activity of the company.

No.	Description	Responsible	Composition of the Committee
1.	Activity Report of the Nomination and Remuneration Advisory Committee between January and June 2018	Nomination and Remuneration Advisory Committee	Văduva Petru Ion Minea Nicolae Iliescu Bogdan George
2.	Activity Report of the Audit and Rating Advisory Committee during January-June 2018	Audit and Rating Advisory Committee	Iliescu Bogdan George Minea Nicolae Lăpușan Remus Gabriel
3.	Activity Report of the Safety and Security Advisory Committee of NTS during January-June 2018	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
4.	Activity Report of the Strategy and Development Advisory Committee during January-December 2018	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Minea Nicolae
5.	Activity Report of the Regulatory and Public Authority Relations Advisory Committee during January-December 2018	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel

Section B - Risk and internal control information

At the level of Transgaz an Audit Committee was initially established, but following the approval of the new structure of the Advisory Committees by the Board of Administration Decision no. 7 of May 27, 2013, the *Audit and Rating Committee* was established to regularly review the compliance of financial reporting, internal control, and the company's risk management and rating system. The audit committee must be composed of at least three members and the majority of the members must be independent. The Chairman of the Audit Committee should be an independent non-executive member. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee.

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

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

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

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

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

Conflict of interests

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

Transactions with involved persons

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

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

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

Section C - Remuneration Information

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

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

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

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

Section D - Shareholder Information

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

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

Transgaz makes every effort to facilitate the participation of shareholders in the works of the General Meetings of the Shareholders, the dialogue between shareholders and members of the Board of Administration and / or management, as well as the full exercise of their rights. The participation of the

shareholders in the works of the General Meetings of the Shareholders is fully encouraged, and shareholders who can not participate in the meetings are given the possibility of voting in absentia - on a special proxy basis, or by correspondence.

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

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

6.2 Capital Market Activity

SNTGN TRANSGAZ SA, a dynamic and capable of aligning its business with the requirements of the current internal and international context in which it operates, managed to perform on the capital market, ranking 7 by the traded value, and 5 by the number of transactions in the first 6 months of 2018 in Top 10 trading on the Stock Exchange Bucharest Stocks.

This year, on 24 January, the company celebrated 10 years of being present on the capital market in Romania.

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

For 2017, a gross dividend per share of MDL 45.38 was approved at the OGMS on 07.06.2018, subject to the application of the 90.00351 share of the profit after the profit tax deduction, based on GO no. 64/2001, of the clarifications approved by OMFP no.144 / 2005 and of the Memorandum on the mandate of the representatives of the State in the General Meeting of the Shareholders / the Board of Administration, as the case may be, to the national companies, the national companies and the companies entirely controlled by the state or having a majority capital held by the state as well as to the autonomous regies, in order to take the necessary measures to allocate a share of at least 90% of the net profit obtained in 2017 as dividends / payments to the state budget.

TGN shares

In the first 6 months of 2018, the TGN share followed a downward trend, but above all those recorded in the similar period of 2017. Thus, on the last trading day of January 2018, the closing price of the TGN share was 426.00 lei / share, 32% more than at the end of January 2017. Then in February, the closing

price of the TGN shares had oscillating values, registered at the end of February 2018, amid the publication of the preliminary financial results for 2017, the value of 408.00 lei / share. Subsequently, in March and April, the TGN's turnover oscillated around 400 lei / share on 31 March 2018, the value of 408.50 lei / share, 13% more than in the same period of the previous year, and 398 lei / share on 30.04.2018 by 6% more than in the same period of 2017. Since May 2018, the TGN share has fallen below the threshold of 400 lei / share, registering at the end of June the value of 328 lei / share amid the unloading of the value of the dividend.

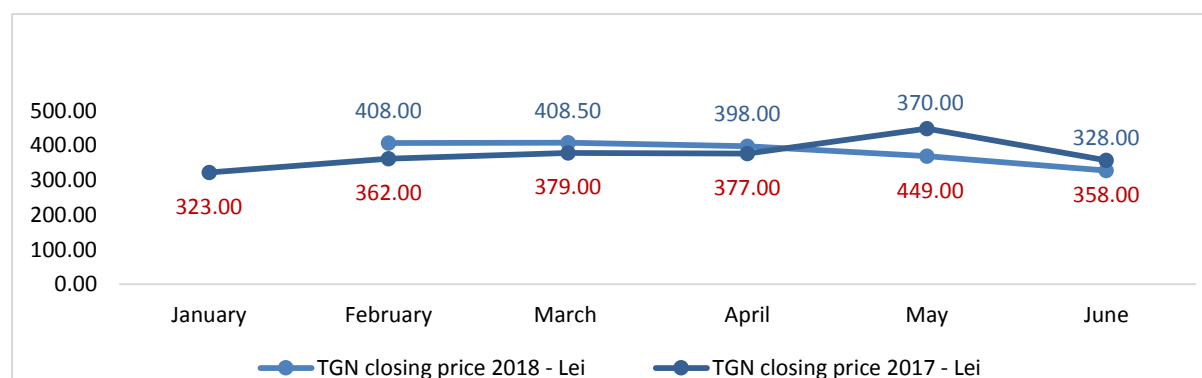


Chart 29 -The closing price of TGN shares in the period Jan 01, 2018- June 30, 2018 vs. Jan 01, 2017-30.06. 2017

The traded volumes, as well as transaction values fluctuated over the entire period ended as at 30 June 2018. Compared to the first quarter of the year both the volume and the traded values had mainly increases, compared to the first semester of 2017 the traded volumes as well as the transaction values in the period ended as at 30 June 2018 recorded lower values, with the exception of February and April, when they had values close to those in the similar period of 2017 amid investors expecting to approve the annual financial statements and of the dividend for the financial year 2017.

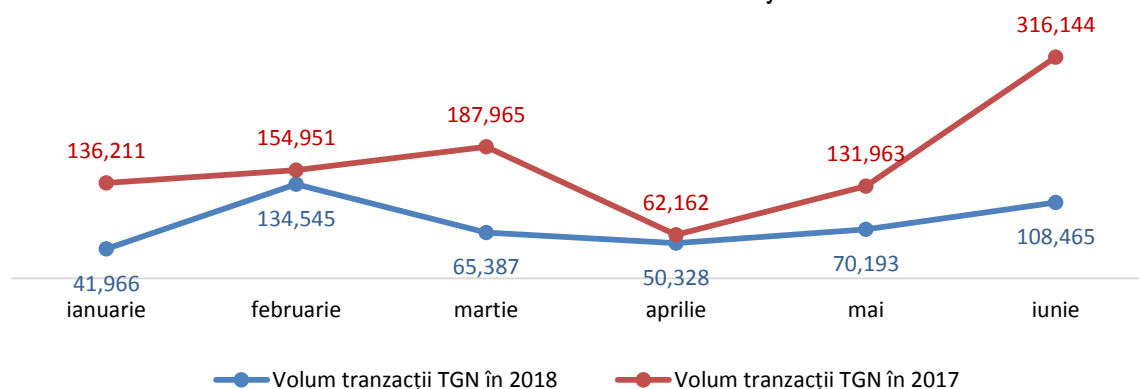


Chart 30 -The volume of TGN transactions in the period Jan 01, 2018- June 30, 2018 vs. Jan 01, 2017-30.06. 2017

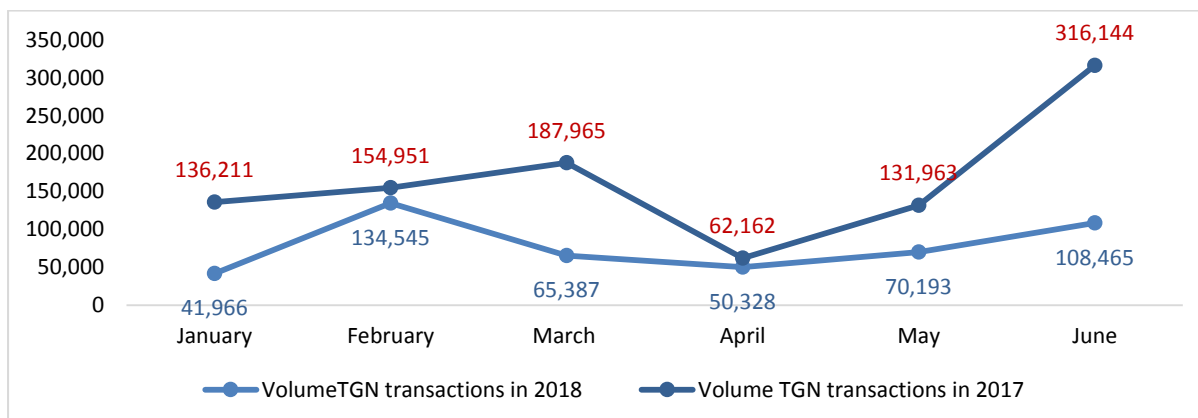
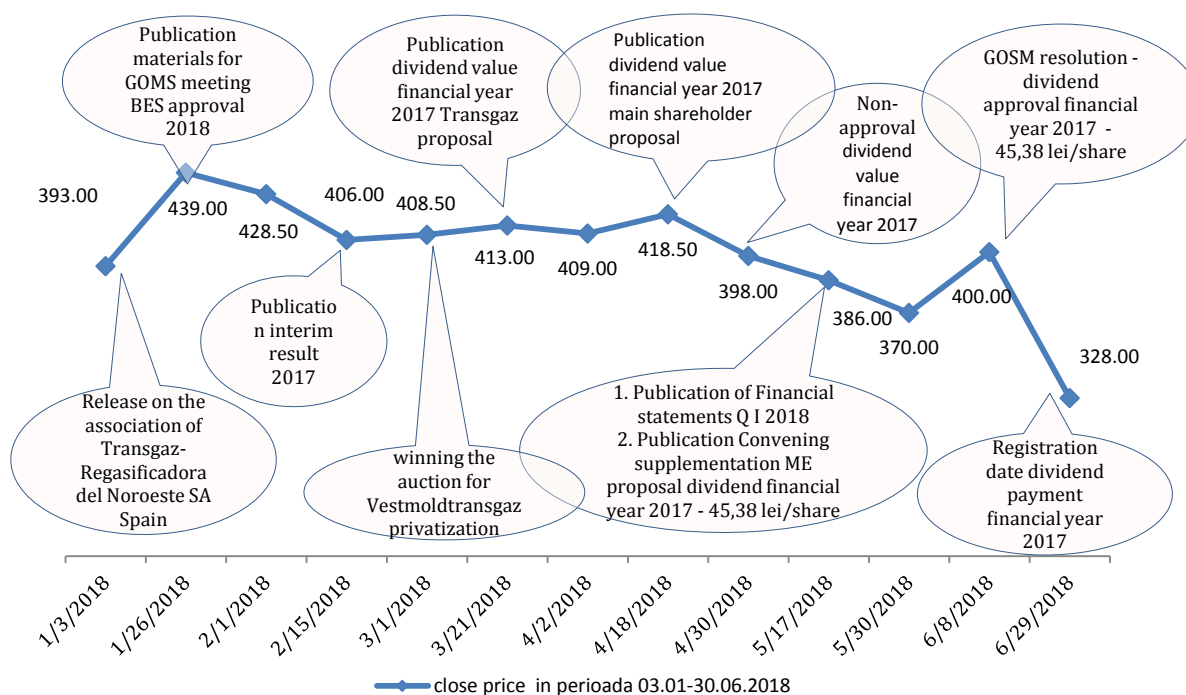


Chart 31 -The value of TGN transactions-thousand lei in the period Jan 01, 2018- June 30, 2018 vs. Jan 01, 2017-30.06. 2017

Main corporate events with an impact upon the share price in semester I 2018



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

Date	P/BV	PER	DIVY	EPS
30.06.2018	1,04	6,63	13,84	49,44
30.06.2017	1,10	7,09	12,94	50,50

Table 333-Status of Stock Market Indicators as at 30.06.2018 vs 30.06.2017

In the period ended on 30 June 2018 the dividend yield (DIVY) increased compared to the same period of the previous year. At the same time, the P / BV stock indexes, PER (share price / earnings per share) and EPS (TGN share) declined compared to the first half of 2017.

The increase in dividend yield (DIVY) compared to semester I 2017 is due to the large dividend for the financial year 2017 and the decrease in the value of the TGN share as at 30.06.2018.

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	13,4	2,2	10,5
SNAM SpA	Italy	12,6	1,9	11,5
Fluxys	Belgium	32,8	2,6	11,3
Media		19,60	2,23	11,10
Transgaz	Romania	11,9	1,0	4,7
Premium /Discount		39%	55%	58%

Source: Bloomberg: 17.07.2018

Table 34 - The value of Transgaz stock exchange indices compared to similar companies in Europe

Stock market capitalization

The stock market capitalization of the company on 29.06.2018 was lei 3.81 billion (EUR 828 million) namely lei 353 million (~ 97 million euro) above the level recorded on 30.06.2017.

Currency	2018		2017	
	03.01.2018	29.06.2018	03.01.2017	30.06.2017
LEI	4.627.120.692	3.861.820.832	3.473.283.980	4.215.036.152
EURO	996.966.451	828.521.343	768.850.909	925.588.211
Euro/BNR exchange rate	4,6412	4,6611	4,5175	4,5539

Evolution of TGN shares versus BET, BET-NG and BET-BK stock market indicators in semester I 2018

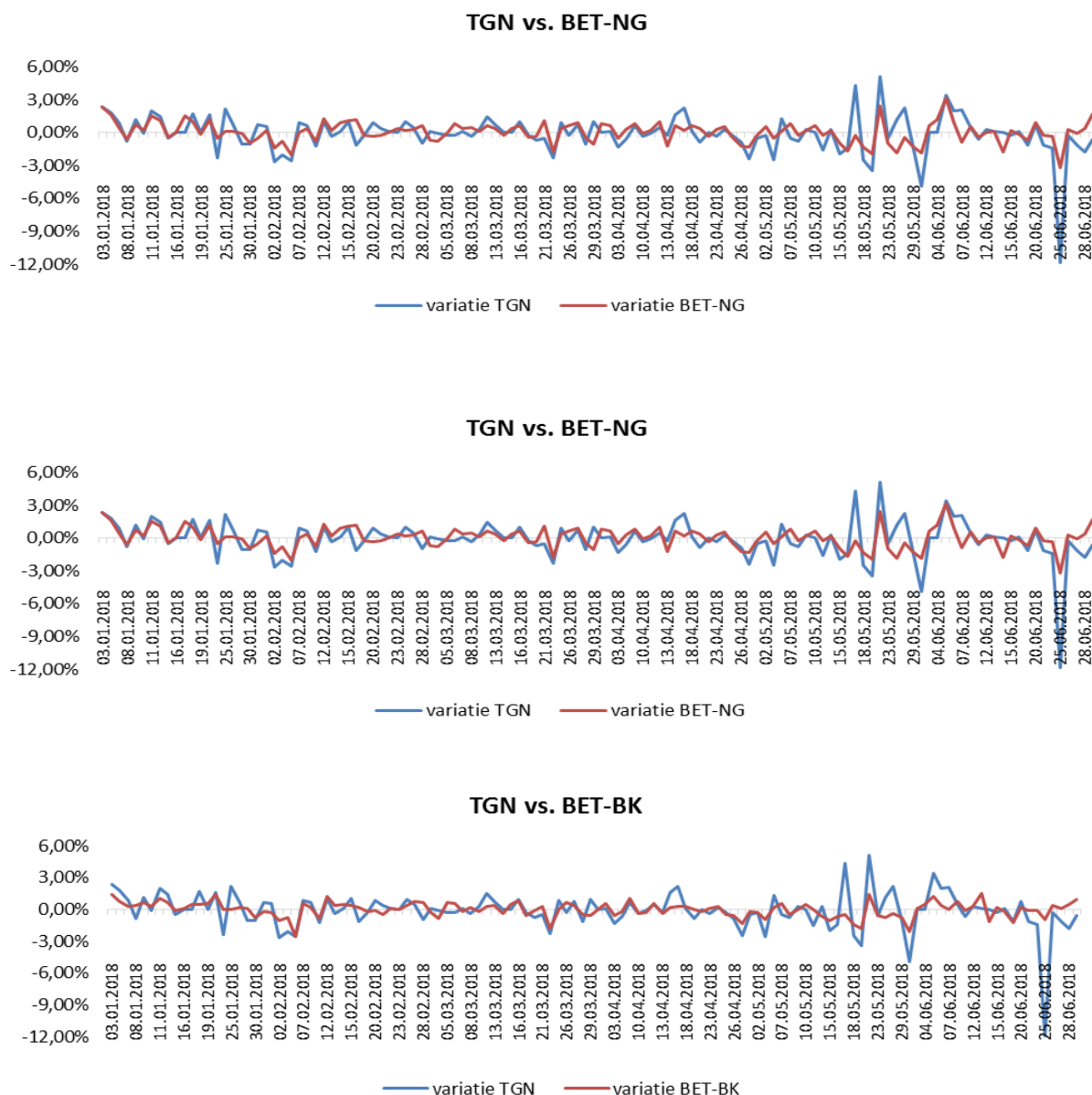


Chart 32 – Evolution of TGN share compared to stock exchange indices BET, BET-NG and BET-BK in semester I 2018

6.3 Dividend policy

In 2018, the proposal for the determination of the value of the dividends for the financial year 2017 was made by applying the 90.00351% share of the accounting profit remaining after the deduction of the profit tax, based on the Government Ordinance no.64 /2001, the specifications approved by the OMFP no.144 /2005 as well as the Memorandum on: Mandating State representatives to the General Meeting of Shareholders/Board of Administration, as the case may be, to national companies and companies with full or majority state capital, as well as autonomous regies, in order to take the measures required to

allocate a quota of at least 90% of the net profit realized in 2017 in the form of dividends/payments to the state budget.

Thus, in accordance with the provisions of Decision No. 4 of the Ordinary General Meeting of the Shareholders dated 07.06.2017, the National Gas Transmission Company Transgaz SA shall pay the dividends for the financial year 2017 through the Central Depository and BRD Groupe Societe Generale, the appointed paying agent, starting with 16 July 2018 (date of payment), for the shareholders registered on the registration date 26 June 2018, **the gross dividend per share being 45.38 lei.**

Review of Transgaz' rating

On June 20, 2018, S&P Global Ratings published the report on the revision of the prospects of the operator of the National Gas Transmission System Transgaz SA from stable to negative. At the same time, they affirmed the company's credit rating at BB +.

The decision of the financial evaluation agency to revise Transgaz' outlook to negative is motivated by the following aspects:

- The possibility of the weakening of Transgaz's financial performance over the next two years, with funds from operations (FFO) to debt falling substantially below 30%, due to increasing capex related to BRUA phase 1 and declining EBITDA;
- The BRUA project execution risks;
- potential pressures on liquidity, and longer-term uncertainties related to the position of Transgaz's gas transmission business, given potential changes in the key gas transit routes in Central and Eastern Europe if the physical flow of Russian gas via Ukraine is replaced with new routes.

In affirming the current credit rating, S&P Global Ratings expects that liquidity will stay adequate, the regulatory framework will remain reasonably predictable, with sufficient visibility of future cash flows, and Transgaz will remain shielded from negative political intervention linked to changes in the national macroeconomic or fiscal environment

S&P Global Ratings sees ratings upside as limited in the next two years, due to the company's significant capex program.

The rating agency states that the outlook of Transgaz would revise to stable if the company's credit metrics recovered over the following period of time, with the FFO to debt at about 30%. This could result from: successful completion of BRUA phase 1 and the respective additions to the RAB boosting regulated revenues, from lower capex than currently envisaged, from a lower dividend payout or other supportive measures from the shareholders.

6.4 Mergers or significant reorganisations

In semester I of 2018 no mergers or reorganisations were made as far as Transgaz is concerned.

The list of all the entities in which Transgaz holds shares

- **SC MEBIS SA Bistrita**, based in Bistrita, (J06 / 150/1991), where Transgaz owns 17.47% of the share capital, having as object the realization of metal structures and complex welded assemblies, assemblies and hydraulic products; is in liquidation proceedings, which is why the shareholding in SC MEBIS SA was fully provisioned. Transgaz has no obligations towards SC MEBIS SA;
- **SC Resial SA** with headquarters in Alba Iulia (J01 / 77/1991), where Transgaz owns 68.16% of the share capital, having as object the production and marketing of silico aluminous refractory products, entered into liquidation procedure in year 2006; the procedure is carried out by a court bailiff appointed by the court and is independent of the control of Transgaz, which is why the share is not consolidated and is recorded at the cost less the impairment provision established at 100% of the cost.

The loan granted to SC RESIAL SA is fully serviced. The management does not expect Transgaz to recover any amount of this share and does not record any residual liabilities for SC RESIAL SA.

- **SC EUROTRANSGAZ SRL** with headquarters in Chisinau, Republic of Moldova, where Transgaz owns 100% of its share capital with the objective of producing, transporting, distributing, stocking and supplying natural gas, pipeline transport, warehousing as well as business consulting activities; management (establishment of this subsidiary was approved by HAGEA No. 10 of 12.12.2017). The purpose of the subsidiary was to participate in the privatization procedure of the Vestmoldtransgaz State Enterprise operating the Iasi-Ungheni pipeline on the territory of Moldova.

LEGAL DOCUMENTS CONCLUDED BASED ON ART.52 PARA.(1) AND PARA.(6) OF G.E.O no.109/30.11.2011

In semester I 2018 the company concluded the following legal documents with the companies directly or indirectly controlled and whose cumulated amount is at least the lei equivalent of euro 50,000:

Contract data	Contract clauses
Contract Parties	Concluded between SNTGN Transgaz SA and S.N.G.N. ROMGAZ S.A
Contract date and type	Contract no. 28T /2017 (for Quarter I 2018)
Contract scope	Quarterly transmission services
Contract value	RON 3,437,910.00 - estimated amount of the legal act VAT included (RON)

Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A.
Contract date and type	Contract No 37L/2017 (for December 2017)
Contract scope	Provision of monthly transmission services
Contract value	RON 7,331,867.58 – Estimated value of juridical act including the VAT (RON)

Contract Parties	Concluded between SNTGN Transgaz SA and S.N.G.N. ROMGAZ S.A
Contract date and type	Contract no. 48L/2017 for January 2018
Contract scope	Monthly transmission services

Contract value	RON 1,900,572.80 - estimated amount of the legal act VAT included (RON)
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Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A.
Contract date and type	Contract No 52L/2017 (for January 2018)
Contract scope	Provision of monthly transmission services
Contract value	RON 8,329,901.34 – Estimated value of juridical act including the VAT (RON)
Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A.
Contract date and type	Contract No. 29T/2017 for Q I 2018 (1 January 2017 – 1 April 2018)
Contract scope	Provision of transmission services
Contract value	RON 21,896,750.96 - Estimated value of juridical act including the VAT (RON)

Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A.
Contract date and type	Contract no. 70L/2018 for February 2018.
Contract scope	Provision of monthly transmission services
Contract value	RON 5,159,863.80 - Estimated value of juridical act including the VAT
Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A. (in insolvency)
Contract date and type	Contract no. 97L/2018 for April 2018.
Contract scope	Provision of monthly transmission services
Contract value	lei 2,659,373.08 - Estimated value of juridical act including the VAT (lei)
Contract Parties	concluded between S.N.T.G.N. Transgaz S.A. and S.C. ELECTROCENTRALE BUCURESTI S.A. (in insolvency)
Contract date and type	Contract no. 39T/2018 for quarter II 2018 (1 April 2018- 1July 2018)
Contract scope	Provision of quarterly transmission services
Contract value	lei 482,655.75 - Estimated value of the legal act including the VAT (lei)
Contract parties	Buyer – SNTGN Transgaz SA Medias Seller – SNGN Romgaz SA Medias
Contract date and type	Date of conclusion 01.03.2018 Concluded following the tender no. 19318/01.03.2018 on the platform STEGN owned and managed by Bursa Română de Mărfuri (the Romanian Commodity Exchange).
Contract Scope	Domestic production gas required for the balancing of the National Transmission System.
Contract value	Lei 1.171.500, VAT excluded, service provision tariffs, other taxes and charges

7. THE MANAGEMENT OF THE COMPANY

7.1 Strategic objectives related to Transgaz' management during 2017-2021

Aiming to pursue the full achievement of the proposed goals and the achievement of the strategic objectives regarding operational efficiency, optimization of performance and sustainable development of the company, respecting the principles of good corporate governance, the Board of administration of the company wishes to continue with the same responsibility, efficiency, transparency and professionalism towards all stakeholders, the road opened in the 2013-2017 mandate for the construction and development of a solid and performing future of the Romanian energy sector.

Thus, the strategic objectives set out in the 2013-2017 mandate in the context of alignment with the requirements of the European energy policy, ENERGY SAFETY AND SECURITY, COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT are taken over in the Management Plan of SNTGN Transgaz SA for the period 2017-2021 and completed with objectives and new directions of action specific to the company's activity.

Structured according to the four perspectives of the Balance Score Card (BSC), the action directions provided in the Management Component of the Management Plan of SNTGN Transgaz SA in the period 2017-2021 aim at:

Perspective of the stakeholders

STRATEGIC OBJECTIVE 1: The continuity of the activity and ensuring energy safety and security

Lines of action

- Increasing the level of NTS security and ensuring the security of gas supply
- Competitive energy markets – by creating the necessary technical conditions for the development of the gas market
- Upgrading the Corporate Governance System

Internal perspective/ processes

STRATEGIC OBJECTIVE 2: Increasing the degree of the company's COMPETITIVITY

Lines of action

- Development and upgrading of all of the operational processes
- Increasing energy efficiency and reducing the negative impact of the technological processes upon the environment

Development perspective/staff

STRATEGIC OBJECTIVE 3: Increasing the degree of SUSTAINABLE DEVELOPMENT of the company due to the increase of the human, informational, organizational capital of the company, and the alignment to the European regulations related to the activity of the company and ensuring sustainability.

Lines of action

- Optimization of the management processes of human resources

- Alignment to European regulations related to the activity of the company and ensuring sustainability.

Financial outlook

STRATEGIC OBJECTIVE 4: Maintaining the financial balance and the operational stability

Lines of action

- Ensuring the sustainable financial, economic and social performance

7.2 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 as at 26.06.2018:

Name and first name	Position	Number of shares as at 31.12.2017	Interest share (%)
Lupean Marius	Director	20	0,000169
Tătaru Ion	Director	25	0,000212
Comaniță Adela	Director	25	0,000212
Șai Alexandru	Director	10	0,000084
Lața Ilie	Director	46	0,000390
Rusu Ioan	Director	2.508	0,021301
Nita Viorel	Director	5	0,000042
Duțu Tudor Alexandru	Head of Transgaz Representative Office in Chișinău	230	0,001953

Table 35- Members of Transgaz' executive management owning shares in the company as at 26.06.2018

The persons appointed as members of the executive management of the company are:

Tag no	Name and surname	Position	Division/Unit
1	Sterian Ion	Director General	
2	Târsac Grigore	Deputy Director General	
3	Gheorghe Hațegan	Deputy Director General	
4	Marius Lupean	Chief Financial Officer	Economic Division
5	Ghidiu Elisabeta	Director	Strategy and Corporate Management Division
6	Stroia Marius	Director	Operation Division
7	Tătaru Ion	Director	Development Division
8	Cosma Florin	Director	Exploitation and Maintenance Division

9	Leahu Mihai	Director	Engineering and Research Division
10	Achim Viorel Ciprian	Director	HSQE Division
11	Alic Ciprian Octavian	Director	European Funds and International Relations Division
12	Gruia Daniel	Director	IT and Communication Division
13	Mateş Angela	Director	HR Organization Division
14	Luca Bogdan Avram	Director	Sectoral Procurement and Contracting Division
15	Sârbu Ionel	Director	Land Regulation and Aquisition Division
16	Dutu Tudor Alexandru	Head of Representative Office	Transgaz Representative Office in Chisinau
17	Grăjdan Vasilica	Director	HR Planning and Organization Unit
18	Ene Alin	Director	General Inspection Unit
19	Bolchiş Sorin	Director	Automation and SCADA Unit
20	Tudor Adrian Ionuţ	Deputy Director	Automation and SCADA Unit
21	Moldovan Sebastian Marius	Deputy Director	Automation and SCADA Unit
22	Idu Olga	Director	Legal Unit
23	Iancu Cristina Daniela	Deputy Director	Legal Unit
24	Niculescu Oana	Director	Budgeting Strategy Unit
25	Mares Gabriela	Director	Regulations and Licence Unit
26	Fodor Mihai Iuliu	Director	Budgeting Finances Unit
27	Comăniţa Adela	Director	Accounting Unit
28	Deac Sorin Gabriel	Director	Works Preparation and Execution Unit
29	Rău Ioan	Director	Commercial Unit
30	Banu Larisa	Deputy Director	Gas Market Operator Unit Bucharest
31	Şai Alexandru	Director	Gas Metering, Gas Quality Unit
32	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Unit
33	Bunea Florin	Director	The National Gas Dispatching Centre
34	Barbu Viorel	Director	NTS Rehabilitation Unit
35	Pânzar Adela	Director	Sectoral Procurement Unit
36	Petrescu Monica Alexandra	Director	Special Projects Procurement Unit
37	Drusan Nicolae	Director	Security and Protection Unit
38	Drăghici Aurelian	Director	Projects Analysis, Checking and Endorsement Unit
39	Iuga Alexandru	Director	Supply and Transmission Unit
38	Olteanu Mihai Antoniu	Manager Proiect	Black Sea PMU
39	Duţu Tudor Alexandru	Şef Reprezentantă	Transgaz Representative Office in Chişinău
40	Popescu Paul	Manager Proiect	BRUA PMU
41	Olteanu Mihai Antoniu	Manager Proiect	UMP Marea Neagră
42	Ilie Laţa	Director	Mediaş Subsidiary
43	Rusu Ioan	Director	Regional Office Mediaş
44	Schmidt Hăineală Eduard	Director	Regional Office Bacău
45	Țandău Marcel	Director	Regional Office Cluj

46	Andrei Romeo	Director	Regional Office Constanța
47	Niță Viorel	Director	Regional Office Craiova
48	Dumitru Nicușor	Director	Regional Office Brăila
49	Cristoloveanu Gheorghe	Director	Regional Office Brașov
50	Gurgu Victorel	Director	Regional Office București
51	Bachios Gheorghe Medicla leave replaced by Ionel Alexandru	Director	Regional Office Arad

Table 36-Transgaz' executive management

In view of optimizing the activity the company's management will act responsibly and will efficiently use modern and adequate management techniques and methods in order to optimize all the processes and activities carried out by the company as presented:



ION STERIAN – Executive Administrator - Director general

PETRU ION VĂDUVA – Non-executive Administrator

BOGDAN GEORGE ILIESCU – Non-executive Administrator

LĂPUȘAN REMUS GABRIEL – Non-executive Administrator

MINEA NICOLAE – Non-executive Administrator

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