

THE NATIONAL GAS TRANSMISSION COMPANY TRASGAZ SA

# REPORT ISSUED BY THE BOARD OF ADMINISTRATION

- Semester I 2019-



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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 discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2018-2027, approved by ANRE Decision 1954/14.12.2018** 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 semester ended:** 30 June 2018

**Report date:** 9 August 2019

**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's 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 neighbouring 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 community**

The responsible fulfilment 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's business ethics are:**

- tradition and professionalism;
- professional ethics and conduct;
- respect for the environment and for the people;
- responsibility towards business partners and social dialogue, towards the state institutions and the community;

### **Transgaz's 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**

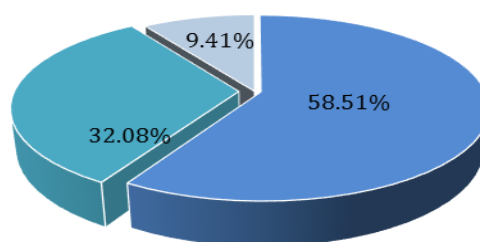
According to the provisions of Government Emergency Ordinance no. 1/04.01.2017 on the establishment of measures in the field of the central public administration and for the amendment and supplementation of regulatory acts, the Ministry of Economy was established, by the reorganisation of the activities 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 25.06.2019 was as follows:

| <b>Shareholder's name</b>   | <b>Number of shares</b> | <b>Percentage %</b> |
|---|-------------------------|---------------------|
| 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   | 1.108.256               | 9,4129              |
| - legal persons   | 3.776.748               | 32,0774             |
| <b>Total</b>  | <b>11.773.844</b>       | <b>100,00</b>       |

*Table 1 - Shareholding on 25.06.2019*



### Transgaz Shareholding structure as at 26 June 2019

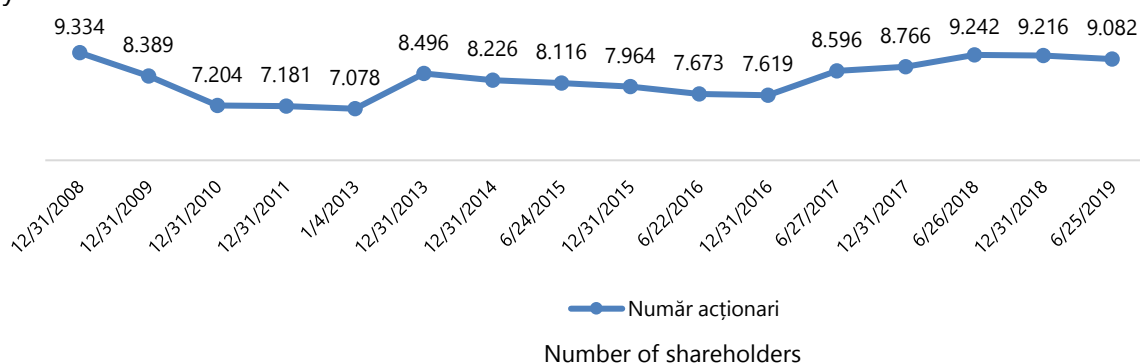


■ ME ■ Legal persons ■ Natural persons

**Chart 1** - Transgaz's shareholding on 25.06.2019

The share capital of Transgaz on 30 June 2019 amounted to 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 25.06.2019, a number of 9.082 TGN shareholders were registered, namely less by 160 shareholders than on 25.06.2018.



**Chart 2** - Number of Transgaz shareholders from the listing and until 25.06.2019

## 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: Chisinau, 180 Stefan cel Mare si Sfânt Blvd, of. 506, 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 și 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. on 30 June 2019 was conducted based on the indicators included in the revenue and expense budget approved by OGMS Decision No. 3/2019.

The value of the standard performance indicators on 30 June 2019 as compared to their value as at 30 June 2018 is as follows:

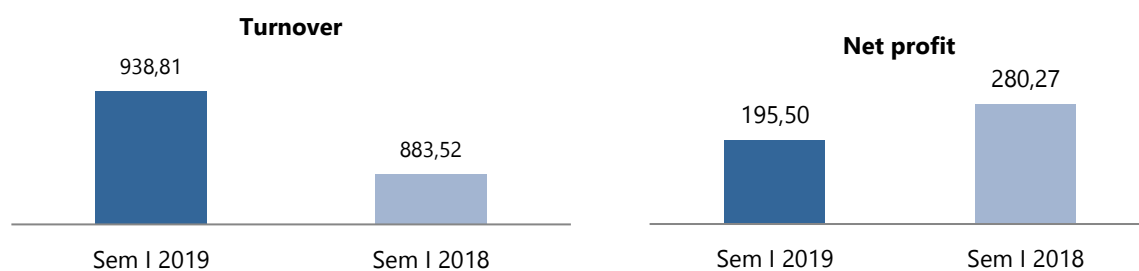
| No. | Performance criteria                      | Performance objective   | MU           | Weighting factor | Achieved    |                      |
|-----|---|---|--------------|------------------|-------------|----------------------|
|     |   |   |              |                  | Sem. I 2019 | Sem. I 2018 restated |
| 1.  | <b>Commissioned investments</b>           | Plan achieved   | LEI thousand | 0,15             | 10.202      | 18.391               |
| 2.  | <b>EBITDA</b>                             | EBITDA increase   | LEI thousand | 0,15             | 311.739     | 410.649              |
| 3.  | <b>Labour productivity</b>                | Increasing labour productivity in units of value (turnover / average no. of employees); | LEI/pers.    | 0,15             | 220.429     | 203.156              |
| 4.  | <b>Outstanding payments</b>               | Payments made during the contract duration (in current prices)                          | LEI thousand | 0,15             | 0           | 0                    |
| 5.  | <b>Outstanding receivables</b>            | Diminished amount of outstanding receivables (in current prices)                        | LEI thousand | 0,1              | 392.473     | 301.240              |
| 6.  | <b>Technological consumption</b>          | Remaining within the gas quantities representing technological consumption              | %            | 0,15             | 32%         | 41%                  |
| 7.  | <b>OPEX at LEI 1000 operating revenue</b> | Diminishing of OPEX at LEI 1000 operating revenue                                       | LEI          | 0,15             | 723         | 607                  |

*Table 2-Performance standard indicators in sem I 2019 vs sem I 2018*

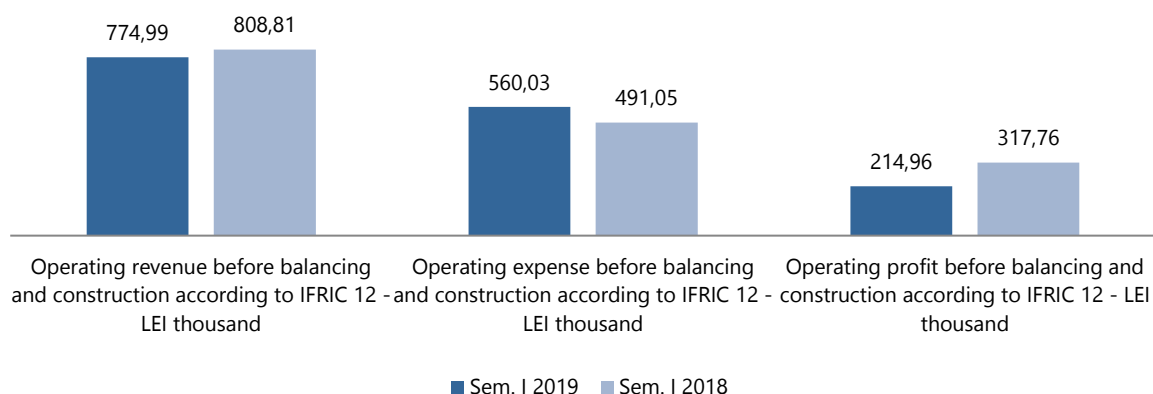
The main economic and financial indicators achieved in semester I 2019, as compared with the same period of 2018, are as follows:

| Tag no. | Indicator  | MU           | Sem. I 2019 | Sem. I 2018 restated | Dynamics (%) |
|---------|--|--------------|-------------|----------------------|--------------|
| 0       | 1  | 2            | 3           | 4                    | $5=4/3*100$  |
| 1.      | Turnover   | Lei thousand | 938.808     | 883.524              | 106,26       |
| 2.      | Operating revenue before the balancing and the construction activity acc. to IFRIC12 | Lei thousand | 774.994     | 808.806              | 95,82        |
| 3.      | Operating expense before the balancing and the construction activity acc. to IFRIC12 | Lei thousand | 560.033     | 491.046              | 114,05       |
| 4.      | Operating profit before the balancing and the construction activity acc. to IFRIC12  | Lei thousand | 214.961     | 317.760              | 67,65        |
| 5.      | Revenue from balancing   | Lei thousand | 183.208     | 90.483               | 202,48       |
| 6.      | Balancing gas expense  | Lei thousand | 183.208     | 90.483               | 202,48       |
| 7.      | Revenue from the construction activity acc. to IFRIC12                               | Lei thousand | 297.898     | 34.919               | 853,11       |
| 8.      | Cost of assets built according to IFRIC12  | Lei thousand | 297.898     | 34.919               | 853,11       |
| 9.      | Operating profit   | Lei thousand | 214.961     | 317.760              | 67,65        |
| 10.     | Financial revenue  | Lei thousand | 33.199      | 21.978               | 151,06       |
| 11.     | Financial expense  | Lei thousand | 16.433      | 8.878                | 185,10       |
| 12.     | Gross Profit   | Lei thousand | 231.726     | 330.860              | 70,04        |
| 13.     | Tax on profit  | Lei thousand | 36.225      | 50.590               | 71,61        |
| 14.     | Net Profit   | Lei thousand | 195.500     | 280.270              | 69,75        |
| 15.     | Total comprehensive result of the period   | Lei thousand | 195.500     | 280.270              | 69,75        |
| 16.     | Transmitted gas  | MWh          | 73.279.756  | 71.483.634           | 102,51       |
| 17.     | Investment expense   | Lei thousand | 372.672     | 89.215               | 417,72       |
| 18.     | Rehabilitatin expense  | Lei thousand | 3.014       | 6.828                | 44,14        |
| 19.     | Technological consumption  | Lei thousand | 39.228      | 39.745               | 98,70        |
| 20.     | Technological consumption  | MWh          | 389.039     | 504.476              | 77,12        |

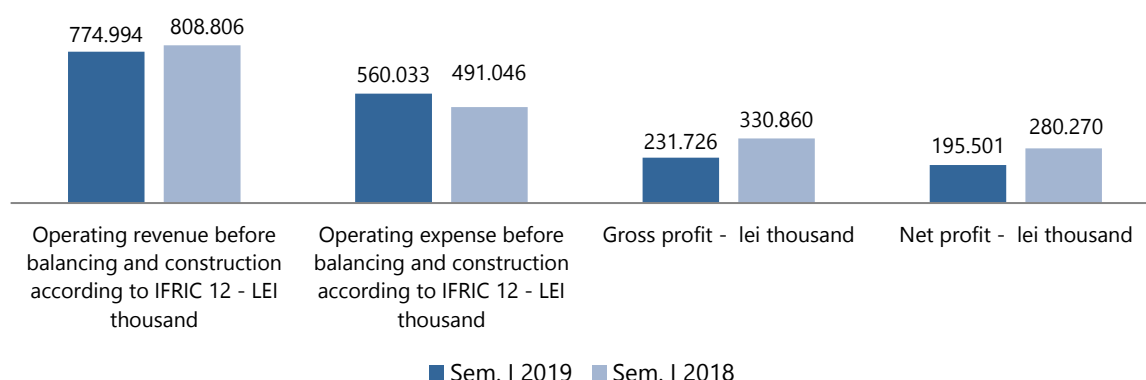
**Table 3- Performance indicators in sem I 2019 vs sem I 2018**



**Chart 3 Turnover** Sem I 2019 vs. Sem I 2018 (lei thousand) **Chart 4 - Net profit** Sem I 2019 vs. Sem I 2018 (lei thousand)



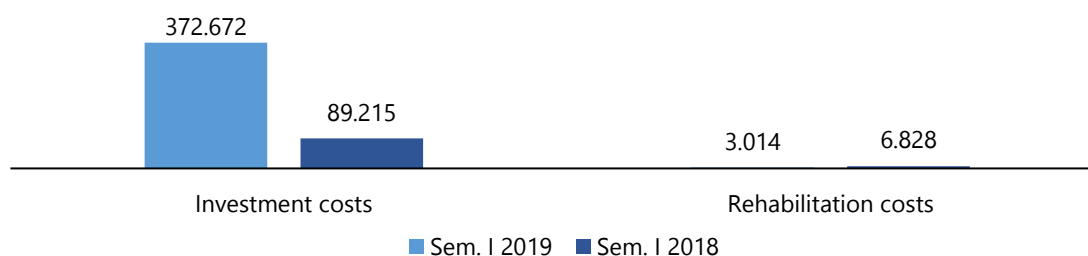
**Chart 5 Evolution of the operating revenue, expense and operating profit before construction according to IFRIC 12 Sem I 2019 vs. Sem I 2018 (LEI thousand)**



**Chart 6 - Evolution of the main economic and financial indicators in Sem I 2019 vs. Sem I 2018 (lei thousand)**

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

As at 30 June 2019 the Company's cash in bank accounts amounted to lei 879.064 thousand of which 69% was cash denominated in foreign currency, most of it in EUR.

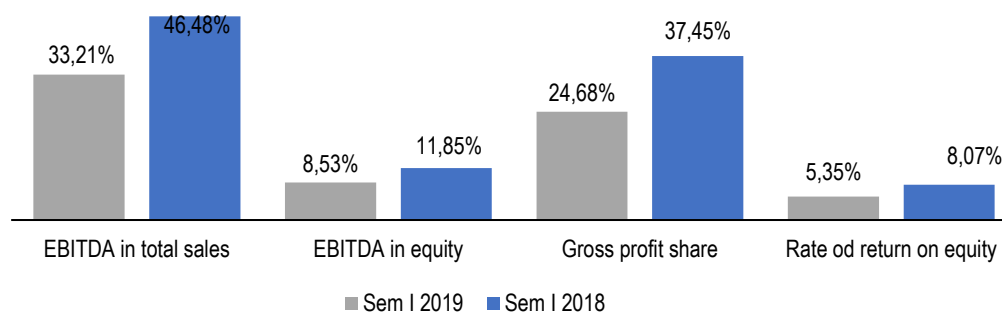


**Chart 7 - Evolution of investment and rehabilitation costs during in Sem. I 2019 vs. Sem I 2018 (lei thousand)**

The values of the profitability, liquidity, risk and management indicators for semester I 2019 as compared to the same period in 2018:

| Indicators                      | Calculation formula                          | Sem. I 2019 | Sem. I 2018 Retreated |
|---------------------------------|--|-------------|-----------------------|
| <b>Profitability indicators</b> |  |             |                       |
| EBITDA in total sales           | EBITDA                                       | 33,21%      | 46,48%                |
|                                 | Turnover                                     |             |                       |
| EBITDA in equity                | EBITDA                                       | 8,53%       | 11,85%                |
|                                 | Equity                                       |             |                       |
| Gross profit share              | Gross profit                                 | 24,68%      | 37,45%                |
|                                 | Turnover                                     |             |                       |
| Return on equity                | Net profit                                   | 5,35%       | 8,08%                 |
|                                 | Equity                                       |             |                       |
| <b>Liquidity indicators</b>     |  |             |                       |
| Current liquidity indicator     | Current assets                               | 2,28        | 2,52                  |
|                                 | Short term debts                             |             |                       |
| Quick liquidity indicator       | Current assets -<br>Stocks                   | 1,71        | 2,40                  |
|                                 | Short term debts                             |             |                       |
| <b>Risk indicators</b>          |  |             |                       |
| Leverage indicator              | Borrowed capital                             | 6,48%       | 6,72%                 |
|                                 | Equity                                       |             |                       |
| Interest coverage ration        | EBIT   | 136,16      | 327,64                |
|                                 | Interest expense                             |             |                       |
| <b>Management indicators</b>    |  |             |                       |
| Spped of debit - clients        | Average accounts<br>receivable x 181<br>days | 124,04      | 122,05                |
|                                 | Turnover                                     |             |                       |
| Speed of credit - suppliers     | Average accounts<br>payable x 181<br>days    | 38,12       | 18,98                 |
|                                 | Turnover                                     |             |                       |

**Table 4- Evolution of the profitability, liquidity, risk and management indicators during 2016-2019**



**Chart 8 - Profitability indicators during 2016-2019**

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

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

The key financial performance indicators approved by Resolution GOMS no 3/2019 were substantiated based on the data of the Revenue and Expense budget of the company approved by GOMS resolution no 3/2019.

| No. | Indicator   | Objective  | 2019      |                 | Achievement |
|-----|---|--|-----------|-----------------|-------------|
|     |   |  | Budgeted  | Achieved Sem. I |             |
| 1   | <b>Outstanding payments</b>   | Maintaining outstanding payments to zero   | 0         | 0               | 100%        |
| 2   | <b>Operating expenses</b> (except for depreciation, balancing, construction activity and provisions for the impairment of assets and for risks and expenses) (LEI thousand) | Maintaining the level of the operating expenses at the level undertaken in the Administration Plan   | 1.070.891 | 421.446         | 254%        |
| 3   | <b>Current liquidity rate</b> `Acid Test`   | Current liquidity rate (acid test) to register annual values over 1.   | 0,91      | 1,71            | 188%        |
| 4   | <b>Net leverage rate</b>  | Maintaining a net leverage rate under the limits set in the loan agreement (EIB) for obtaining bank financing, namely:<br>3 -2017; 3- 2018; 5,5 -2019; 5,5 -2020; 4-2021 | 5,5       | 0,76            | 724%        |
| 5   | <b>EBITDA</b> (lei thousand)  | Achieving the EBITDA target undertaken in the Administration Plan  | 329.594   | 311.739         | 95%         |

**Table 5 –Key financial performance indicators for the calculation of the variable component of the remuneration in semester I 2019 vs. Budget 2019**

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

| No                 | Indicator  | Objective  | No  | Semester I 2019   |                                | Achievement        |
|--------------------|--|--|-----|---|--------------------------------|--------------------|
|                    |  |  |     | Planned   | Achieved                       |                    |
| <b>Operational</b> |  |  |     |   |                                |                    |
| 6                  | <b>Monitoring the investment and implementation strategy</b> | <b>Implementation of the FID Project under the TYNDP</b><br><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 ( <b>BRUA Phase 1</b> ). | 6.1 | Construction Phase I<br>Commissioning Phase I   | In progress                    | Monitored annually |
|                    |  | Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea                        | 6.2 | Procurement of design and execution works<br>- Obtaining of comprehensive decision Phase II | - In progress<br>- In progress |                    |
|                    |  | Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;   | 6.3 | Isaccea I – construction and commissioning<br>Negru Vodă 1 – construction work start        | In progress                    |                    |
| 7                  | <b>Increasing energy efficiency</b>                          | Maintaining the share of the technological consumption in the total circulated gas below 1%  | 7.1 | <1  | 0,53                           |                    |



| 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  | $IP_0^1 \geq 90\%$ | 88,15%  | Monitored annually |
|                                  |  |  | 8.2  | $IP_1^1 \geq 95\%$ | 100%  |                    |
|                                  |  |  | 8.3  | $IP_1^2 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.4  | $IP_1^3 \geq 95\%$ | 100%  |                    |
|                                  |  |  | 8.5  | $IP_1^4 \geq 95\%$ | 100%  |                    |
|                                  |  |  | 8.6  | $IP_1^5 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.7  | $IP_2^1 \geq 95\%$ | 100%  |                    |
|                                  |  |  | 8.8  | $IP_2^2 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.9  | $IP_3^1 \geq 95\%$ | 100%  |                    |
|                                  |  |  | 8.10 | $IP_3^2 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.11 | $IP_3^3 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.12 | $IP_3^4 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.13 | $IP_4^1 \geq 95\%$ | -   |                    |
|                                  |  |  | 8.14 | $IP_5^1 \geq 98\%$ | 100%  |                    |
|                                  |  |  | 8.15 | $IP_5^2 \geq 98\%$ | 100%  |                    |
|                                  |  |  | 8.16 | $IP_6^1 \geq 98\%$ | 100%  |                    |
|                                  |  |  | 8.17 | $IP_6^2 \geq 98\%$ | 100%  |                    |
|                                  |  |  | 8.18 | $IP_7^1 \geq 80\%$ | 95,0 %  |                    |
|                                  |  |  | 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<br>I = implemented standards /provided standards in Order 600/2018 *100<br>Achievement of the measures provided for in the Program for the implementation of the SCI/M<br>I = measures achieved within the deadline /proposed measures *100 | 9.1  | 100%               | <b>Achieved</b><br>Letter no DSMC/4786/25.01.2019 | 100%               |

|      |  |  |      |  |  |                    |
|------|--|--|------|--|--|--------------------|
| 10   | <b>Client satisfaction</b>   | 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 | 7.9  | Achieved Letter.SMC 9610/15.02.2019 for 2018   | Monitored annually |
| 11   | <b>Establishing the risk management policies and risk monitoring</b>                       | 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                     | <b>Achieved</b><br>The Risk Management Strategy, registration no DSMC/39870/06.08.2018, was approved by BoA Resolution 41/2018 | 100%               |
| 11.2 | - Preparation of the Risk Management system procedure;                                     | <b>Achieved</b><br>The Risk Management System procedure PS 05 SMI was approved and circulated by publication on "Zonapublică".   |      |  |  |                    |
| 11.3 | - Preparation of the EGR activity procedure;   | <b>Achieved</b><br>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 Activity of the Risk Management Team process procedure should no longer be developed. The performance of the EGR activity is set out in the Risk Management System Procedure and in the Rules for the Organizing and Functioning of the Risk Management Team, approved by Letter no. 37021/23.07.2018. |      |  |  |                    |
| 12   | <b>Timely reporting of the key performance indicators</b>                                  | Compliance with the legal reporting deadlines<br>I = actual reporting deadlines/provided reporting deadlines *100  | 12.1 | Financial communication Calendar to the Bucharest Stock Exchange | <b>Achieved</b>  | Monitored annually |
| 12.2 | Status of the achievement of the TYNDP   | <b>Achieved</b><br>Letter no DSMC 16016/15.03.2018<br>Deadline 15 March 2019   |      |  |  |                    |
| 12.3 | SCI/M reporting  | <b>Achieved</b><br>Letter no. DSMC/4786/25/01.2019 reporting for 2018 (reported annually)  |      |  |  |                    |
| 12.4 | Reporting on the achievement of the performance indicators of the gas transmission service | <b>Achieved</b><br>Letter no. 63288/28.11.2018 reporting to ANRE for gas year 2017-2018  |      |  |  |                    |
| 12.5 | Reporting form S1100 on the monitoring of  | <b>Achieved</b><br>DSMC 38243/28.06.2019<br>Reporting for semester I 2019  |      |  |  |                    |

|    |   |   |      |  |  |      |
|----|---|---|------|--|--|------|
|    |   |   |      | the application of the provisions of GEO 109/2011  |  |      |
| 13 | Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans | Compliance with the measures undertaken by the approved Integrity Plan<br>I = measures achieved within the deadline/proposed measures*100 | 13.1 | Publication of SCIM assessment results   | <b>Achieved</b><br>2017 Annual Report published at:<br><a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202018.pdf">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202018.pdf</a> | 100% |
|    |   |   | 13.2 | 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. Identification is in progress according to the prevention procedure approved in December 2018.  |      |
|    |   |   | 13.3 | Annual evaluation of the mode of implementation of the Integrity Plan and adapting it to the risks and vulnerabilities occurred recently | <b>Achieved</b><br>The annual assessment was performed, and the 17.01.2019 Report on the assessment of the TRANSGAZ Integrity Plan, the Situation of the 2017 Integrity Incidents (Annex 1) and National Anti-Corruption Strategy Measure Implementation Report (Annex 2) were sent to the Ministry of Economy by Letter DG 3328/18.01.2019;   |      |
|    |   |   | 13.4 | Annual publication of the performance indicators monitored within the Integrity Plan of the company                                      | Achieved (by the publication of the Annual evaluation of the Integrity Plan on intranet)   |      |

**Table 6 – Non-financial key performance indicators forecasts for the calculation of the variable component of the remuneration in semester 2019**

## 3. THE DEVELOPMENT STRATEGY

### 3.1 Strategic projects

In consideration of the compliance with European Directive EC/73/2009 Art. 22 on the obligation to prepare the **Ten-Year Network Development Plans** (TYNDP) for all European Union gas transmission system operators and Article 125 (6) of Law 123/2012, SNTGN Transgaz SA Mediaș, as technical operator of the National Gas Transmission System of Romania prepared the **2018-2027 TYNDP**, which was approved by ANRE by Decision no. 1954/14.12.2018.

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.

The projects included in the **2018– 2027 TYNDP** are:

1. Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor (BRUA) will be achieved in two phases:
  - 1.1 Development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-**Phase 1**;
  - 1.2 Development on the Romanian territory of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)-**Phase 2**;
2. Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas;
3. The interconnection of the national gas transmission system with the T1 international gas transmission pipeline;
4. The development of the NTS in the North Eastern part of Romania to enhance gas supply to the area and to ensure transmission capacity to Moldova;
5. Enhancement 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 between the Gas Transmission Systems of Romania and Serbia;
8. Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;
9. Interconnection of the gas transmission systems of Romania and Ukraine in the Gherăești – Siret direction.

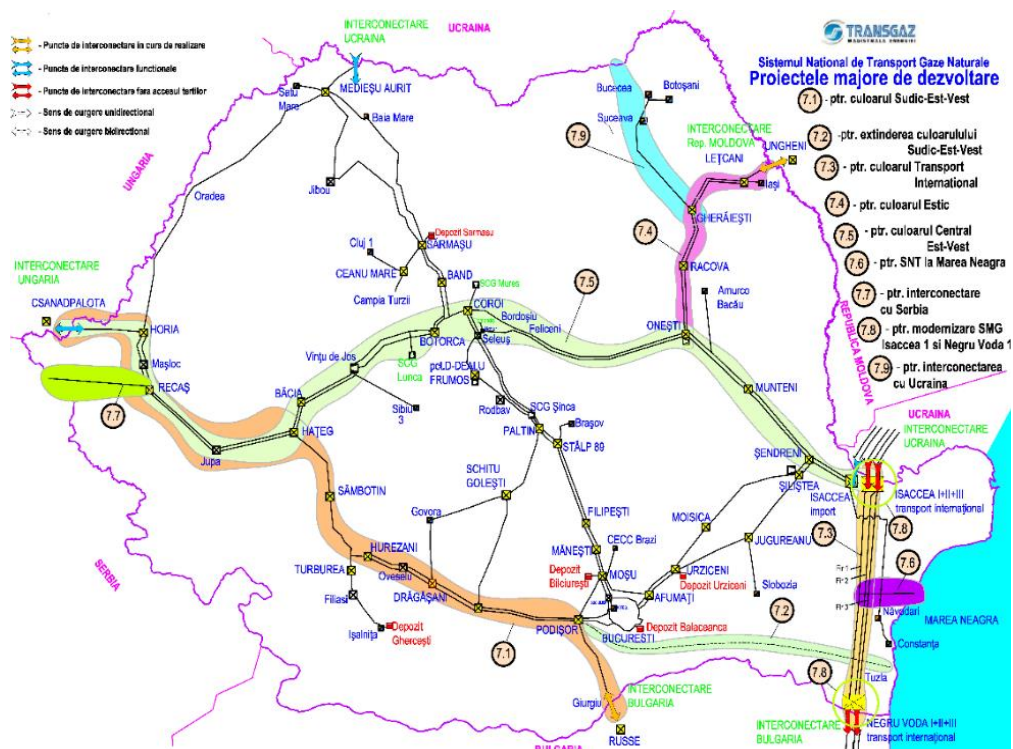


Figure 1-Map of the main NTS projects

## 1. Development on the Romanian territory of the National Gas Transmission System along 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 both of the Caspian gas and of the gas available from the LNG terminals to Central Europe is in progress:

- 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 transport Caspian gas to the Southern border of Romania.

Under such circumstances, the National Gas 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 along the Bulgaria – Romania – Hungary – Austria Corridor'**, aims at the development 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 the construction of a new transmission pipeline to connect the Podișor Technological Node to the Horia GMS.

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

- the deselection of the Nabucco project as the route preferred for the 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 interconnectivity at the European level;
- ensuring gas transmission capacities so that Black Sea gas can reach the Central European markets.

Moreover, 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 at sections 6.24.1, the second position and 6.24.4, the fourth position within "Group of projects involving the phased increase of the capacity of Bulgaria - Romania - Hungary - Austria bidirectional corridor (currently known as ROHUAT/BRUA) allowing for the transmission of 1.75 billion cm<sup>3</sup>/year in



the first phase and 4.4 billion cm/year in the second phase, with the possibility to also accommodate 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 along the Podișor-Recăș 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-BRUA Phase 1;
- Enhancement on the Romanian territory of the gas transmission capacity from Recăș 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 fourth position in List 3 PCI/2017-BRUA Phase 2.

Furthermore, 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 2018 European TYNDP identified with the code TRA-N-358.

The BRUA project with its two phases (Phase I and Phase II) is also included in the updated list of Projects of Common Interest adopted in 2017 (List 3/2017). The BRUA project is included in this list as two distinct projects with separate codes, as follows:

- Development of the transmission capacity in Romania from Podișor to Recăș, including, a new pipeline, metering station and three new compressor stations in Podișor, Bibești and Jupa – BRUA Phase 1 – 6.24.1 the second position in PCI/2017 third List-BRUA Phase I ;;
- Expansion of the transmission capacity in Romania from Recăș to Horia towards Hungary up to 4.4 bcm/a and expansion of the compressor stations in Podișor, Bibești and Jupa – BRUA Phase 2 - 6.24.4 the fourth position in PCI/2017 third List BRUA Phase II.

## 1. Development on the territory of Romania of the National Gas Transmission System along the Bulgaria–Romania–Hungary–Austria Corridor – Phase 1

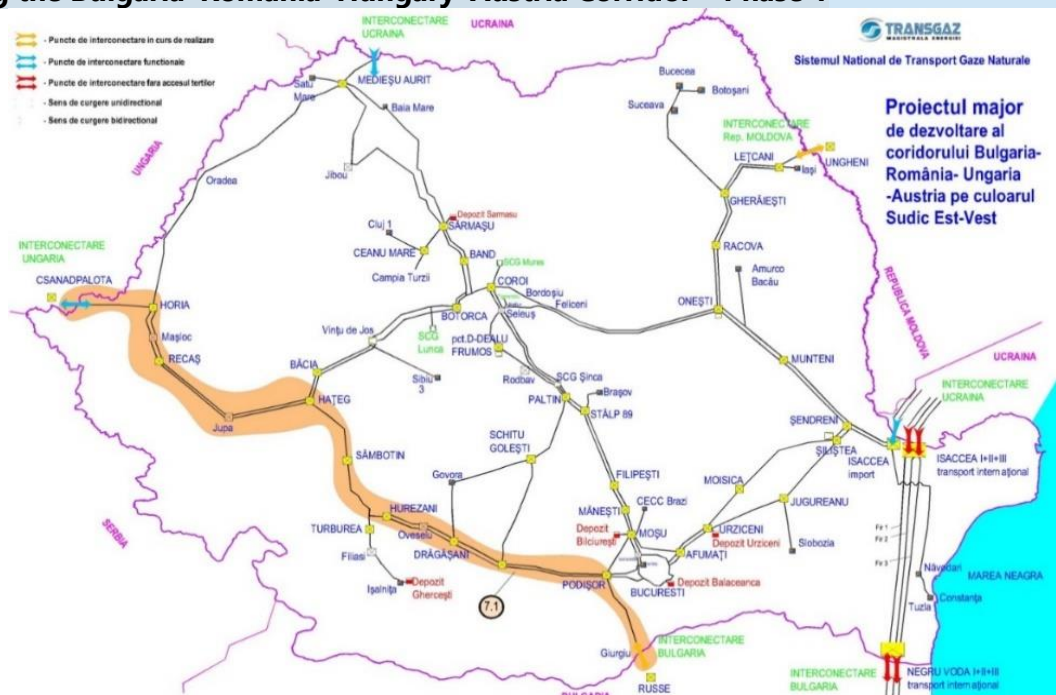


Figure 3 -Map of the key development project of the Bulgaria-Romania-Hungary-Austria Corridor – Phase 1

### Project description:

**BRUA Phase I** consists in the achievement of the following objectives:

- pipeline Podișor-Recaș 32" x 63 bar approximately 479 km long:
  - **LOT 1** from km 0 (in the vicinity of Podișor, Giurgiu county) to km 180 (in the vicinity of Valeni village, Zatreți locality, Valcea county)
  - **LOT 2** from km 180 in the vicinity of Valeni village, Zatreți locality, Valcea county) to km 320 (in the vicinity of Pui, Hunedoara county)
  - **LOT 3** from km 320 (in the vicinity of Pui, Hunedoara county) to km 479 (in the vicinity of Recas, Timis county).
- three gas compressor stations (Podișor CS, Bibești CS and Jupa CS) each station being equipped with two compressor units (one in operation and one back-up), with the possibility to ensure bidirectional gas flow.

The implementation of BRUA Phase 1 results in the provision of permanent bidirectional gas flows possibilities between the interconnections with Bulgaria and Hungary, the following gas transmission capacities being ensured:

- gas transmission capacity to Hungary of 1.75 bcm/a and of 1.5 bcma to Bulgaria

### Indicative project development schedule

| <b>Development stages</b>  | <b>Status/<br/>Estimated completion<br/>deadline<br/>acc. to 2018-2027 TYNDP</b> | <b>Status/<br/>Estimated completion<br/>deadline at the date of the<br/>Report</b> |
|--|--|--|
| Pre-feasibility study  | completed  | completed  |
| Feasibility study  | completed  | completed  |
| Environmental Impact Assessment  | completed  | completed  |
| FEED   | completed  | completed  |
| FID  | 2016   | obtained in 2016   |
| Environmental Permit   | obtained - December 2016   | obtained - December 2016   |
| Construction Permit  | obtained – February 2017   | obtained – February 2017   |
| Exhaustive decision  | obtained – March 2018  | obtained – March 2018  |
| Conclusion of contracts for the execution works  | November 2017  | November 2017  |
| Issuing of the pipeline execution works commencement order   |  | Issued on 04 June 2018   |
| Delivery of the pipeline site and Public consultation in the related territorial Administrative units            |  | May–June 2018  |
| Conclusion of the contract for the compressor station execution works  |  | March 2018   |
| Delivery to the constructor of the sites of the Compressor stations and Public consultations in the related TAUs |  | 11-13 April 2018   |
| Issue of the works commencement order for the execution of the three compressor station                          |  | Issued on 16 April 2018  |
| Conclusion of the contract for the execution works related to the pipeline automation and security               |  | July 2018  |
| Pipeline construction –Phase I   | 2018-2019  | 2018–2020  |
| – Section Jupa – Recaş (part of Lot 3)   |  | 2019   |
| – Lot 1, Lot 2 and Pui-Jupa section  |  | 2020   |
| Construction of the compressor stations –Phase I   | 2018-2019  | 2018– 2020   |
| – TCS Jupa   |  | 2019   |
| – TCS Podișor  |  | 2019   |
| – TCS Bibești  |  | 2020   |
| Start of operation Phase 1   | December 2019  | December 2020  |

**Estimated completion deadline: 2020**

**Estimated value: Euro 478.6 million**

### The inclusion of the project in international plans

- **PCI project** (first list of European Projects of Common Interests): BRUA 7.1.5;
- **PCI project** (second list of European Projects of Common Interests): BRUA Phase I: 6.24.2.
- **PCI project** (third list of European Projects of Common Interests): BRUA Phase I: 6.24.1–position 2;

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### Current project status

Considering the status of project of common interest even from the first PCI list, Transgaz received a grant through the Connecting Europe Facility (CEF) for the FEED related to the three compressor stations.

In May 2016 a Financing Contract was signed with **Innovation and Networks Executive Agency (INEA)** for a **grant in the amount of 1.519.342 EUR**, representing 50% of the total estimated FEED costs for the three compressor stations' (CS Podișor, CS Bibești and CS Jupa) FEED contract was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z.o.o.

In October 2015 Transgaz submitted a grant application to obtain financing for BRUA Phase I.

The grant request was submitted on the Innovation and Networks Executive Agency (INEA) portal on 12.10.2015. On 19.01.2016 the CEF Committee validated the list of proposed projects for receiving financial support through CEF. BRUA–Phase I was proposed for receiving a grant of EURO 179.3 million. On 9 September 2016 the Grant Agreement was signed.

### The strategy for the procurement of the long-lead items and of the construction works

Having carefully analysed the options available, Transgaz' management established the following procurement strategy:

- The long-lead items (compressor groups, pipes, bends, electrically insulated joints and valves) will be procured by Transgaz and made available to the constructors;
- Considering the length of the projects, the linear pipeline was split into 3 lots;
- The 3 compressor stations will be constructed by the same contractor;
- The pipeline automation and security works will be performed under a distinct contract.

### Status of the procurement procedures

In December 2016, Transgaz launched the sectoral tenders for the procurement of the following material and equipment related to BRUA phase I by the Electronic System for Public Procurements (SEAP):

- pipe material and curves;
- compressor units;
- valves;
- electro insulating joints.

In 2017 and 2018 the activities related to the preparation of the execution works for the implementation of the BRUA project –Phase I continued:

The status of the public procurement:

- the contract for the procurement of electro insulating joints was signed on **04.08.2017** and it is currently being completed;
- the contract for the procurement of the compressor units was signed on **24.08.2017** and it is ongoing, all the compressor units are already delivered;
- the contracts for the procurement of the execution works related to the linear pipe Lot 1, 2, and 3 were signed on **28.11.2017** and they are in progress;
- the contract for the procurement of the valves was signed on **28.02. 2018** and it is in progress;
- the contracts for the procurement of the execution works related to the compressor stations was signed **23.03.2018** and it is in progress;
- the contract for the procurement of the pipe material and of the curves was signed on **23.04.2018** and it is in progress;
- the awarding procedure related to the subsequent contracts for the BRUA project was completed and the contracts were signed on **23-24.08.2018** and it is in progress;
- the contract for the execution works related to the pipeline automation and security was signed on **24.07.2018** and it is in progress.

### Progress of the works for the construction of the pipeline

#### Works for the construction of the compressor stations

The works commencement order was issued on **16 April 2018**.

The works related to the compressor stations are executed by the **Association INSPET SA (LEADER) – PETROCONST SA – MOLDOCOR SA – HABAU PPS PIPELINE SYSTEMS SRL – IRIGC IMPEX SRL – SUTECH SRL – TIAB SA – ROCONSULT TECH SRL**, based on the works contract number **333/23.03.2018**.

The total amount of the contract is 288,742,446.15 lei (VAT excluded), split as follows:

- 96.271.656,96 lei for the construction works related to TCS Podișor;
- 96.446.619,30 lei for the construction works related to STC Bibești;
- 94.692.759,24 lei for the construction works related to STC Jupa;
- 1.331.410,64 lei for the maintenance services related to the 3 compressor stations.

In Semester I 2019, in the compressor stations *TCS Podișor and TCS Jupa* the following main works were achieved:

- Works for land arrangement on the station's premises
- Civil construction works (suprastructure, including finishes), inner power equipment and heating plants for the compressor room, administrative building, workrooms and storehouses, MRS combustion gas building, gasoline and oil management building, power building, oil and petrol for the facilities, Fire-fighting building;
- Sanitary installations, water supply and sewage at the administrative building and at the workshop building;
- Construction of the technological pipelines (main gas pipelines, instrumental air technological pipelines, nitrogen technological pipelines, depressurization

technological pipelines, oil technological pipelines, petrol technological pipelines, industrial water technological pipelines and fire water, drinking water pipelines including the supports for the pipelines);

- Mounting the main equipment (inlet station separator, separator filters, pig stations, oil coolers, etc);
- Tank assembly (technological leak tank, fire water tank, industrial water tank, clean oil tank, fire pump diesel fuel tank, dry air tank, wet-air tank, nitrogen tank, etc.);
- Hot water thermal system, domestic and pluvial sewerage system, industrial sewerage system, hydrant water system;
- Energy works in the compressor stations (grounding, underground cable routes and cable shafts, outdoor station lighting posts, etc.).
- works for the achievement of the power supply of the Compressor Stations
- works for the establishment of access road and fencing of the station;
- electrical works on the premises of the buildings (cable routes and cable assemblies, electrical equipment assembly)
- automation works (cable routes and cable assemblies).

The works for the construction of TCS Bibesti were influenced by the need to perform intrusive archaeological inspection works beforehand.

To this effect, the works to CS Bibesti started on 06 July 2018 in phases subject to the completion of the intrusive archaeological inspection of lands related to the compressor station, followed by preventive research and archaeological discharge works.

The main works launched to TCS Bibesti in semester I 2019:

- works of land arrangement inside the station (land transport, leveling and compaction in the area where the archaeological load land was unloaded, execution of mounting platforms separating filters and inlet gas station separators);
- extension of the site organization as a result of the archaeological discharge;
- the placement of the equipment on the earthworks (compressor units, gas coolers, gas exhaust flues, pig station);
- installation of leaking gas filter B, diesel generator tank, waste oil tank for civil construction works (infrastructure and superstructure) in compressor hall, administrative building, workshop and warehouse building, electric building, fuel gas building, oil and diesel household building;
- civil construction works (infrastructure) at the PSI building;
- energy works in the station (infrastructure) - digging and pouring concrete into fireplaces, pulling cables through PVC and Copex pipes, digging ditches between the tanks
- execution of technological pipelines (pre-machining main gas lines).

## **Works for the construction of the linear pipeline**

### **Situation of equipment and materials procured by TRANSGAZ**

Until the end of semester I 2019, **378.500 m** pipes have been unloaded in Constanta Harbour, representing **85 %** of the total necessary pipe.



At the same time, over 3.700 curves, all the 235 valves (different typo-dimensions of ball valves, balanced plug valves and regulating valves).

### Progress of the works for the construction of the pipeline

The works commencement order was issued on **04 June 2018**.

#### CONSTRUCTION WORKS PIPELINE LOT 1 (KM 0 – KM 180)

Construction works for the pipeline LOT 1 are executed from KM 0 (in the area of Podișor, the county of Giurgiu) at KM 180 (in the area of Văleni, Zătreni commune, the county of Vâlcea).

The construction of the pipeline related to LOT 1 is achieved by the **Association INSPET SA (leader) – PETROCONST SA – ARGENTA SA – IRIGC IMPEX SRL – COMESAD RO SA**, based on the works contract no **601/28.11.2017**.

The value of the contract is of 118.503.553,03 lei (VAT excluded).

In semester I 2019 the construction works for the pipeline related to LOT 1 continued.

Currently specific works for the preparation of the working strip are conducted, pipe laying on the route and mounting the pipe on the following sections:

- Section 1 (km 0 – 5),
- Section 2 (km 5 – 10)
- Section 3 (km 10 – 15)
- Section 5 (km 20 – 25),
- Section 6 (km 25 – 30)
- Section 7 (km 30 - 35)
- Section 8 (km 35 - 40)
- Section 10 (km 45 – 50)
- Section 11 (km 50 – 55)
- Section 12 (km 55 – 60)
- Section 13 (km 60 – 65)
- Section 16 (km 75 – 80)
- Section 19 (km 90 - 95)
- Section 20 (km 95 – 100)
- Section 21 (km 100 -105)
- Section 24 (km 115 – 120)
- Section 25 (km 120-125)
- Section 26 (km 125-130)
- Section 27 (km 130-135)
- Section 28 (km 135-140)
- Section 29 (km 140 – 145)
- Section 30 (km 145 -150)
- Section 31 (km 150 – 155)
- Section 32 (km 155-160)
- Section 35 (km 170-175)
- Section 36 (km 175 – 180)

The execution works were completed including the pressure tests on the following sections:

- Section 22 (km 105–110);
- Section 23 (km 110–115).

The situation of the execution works for **LOT 1** at the end of semester I 2019 is as follows:

| MAIN ACTIVITIES                | UM    | TOTAL LOT 1    |
|--------------------------------|-------|----------------|
| Pipeline laying on the route   | m     | <b>100.180</b> |
| Removal of the vegetal layer   | ml    | <b>103.840</b> |
| Dug ditch                      | ml    | <b>49.597</b>  |
| Executed welds                 | Piece | <b>7.199</b>   |
| Pipeline launched in the ditch | ml    | <b>47.686</b>  |
| Covered ditch                  | ml    | <b>33.308</b>  |

#### **CONSTRUCTION WORKS PIPELINE LOT 2 (KM 180 – KM 320)**

Construction works for the pipeline LOT 2 are executed from KM 180 (in the area of the locality Văleni, Zătreni commune, the county of Vâlcea) at KM 320 (in the area of the locality Pui, the county of Hunedoara).

The construction of the pipeline related to LOT 2 is achieved by the **Association HABAU PPS PIPELINE SYSTEMS SRL(LEADER) – INSPET SA – IPM PARTNERS ROMÂNIA SA – PETROCONST SA – MOLDOCOR SA – ARGENTA SA – ANTREPRIZĂ MONTAJ INSTALAȚII SA – ROMINSTA SA – COMESAD RO SA**, based on the works contract number **602/28.11.2017**.

The value of the contract is of 155.695.508,67 lei (VAT excluded).

In semester I 2019 the construction works related to the pipeline LOT 2 continued.

Currently the works related to the preparation of the working strip are executed as well as pipe laying on the route and pipe mounting on the following sections:

- Section 37 (km 180 – 186)
- Section 40 (km 196 – 200)
- Section 42 (km 205 – 210)
- Section 43 (km 210 – 215)
- Section 45 (km 220-225)
- Section 54 (km 260 – 265)
- Section 55 (km 265-270)
- Section 56 (km 270 – 275)
- Section 57 (km 275-277)
- Section 58 (km 277-280)
- Section 66 (km 311-316)

The situation of the execution works for **LOT 2** at the end of semester I 2019 is as follows:

| MAIN ACTIVITIES                | UM    | TOTAL LOT 2   |
|--------------------------------|-------|---------------|
| Pipeline laying on the route   | m     | <b>19.794</b> |
| Removal of the vegetal layer   | ml    | <b>22.795</b> |
| Dug ditch                      | ml    | <b>7.225</b>  |
| Executed welds                 | piece | <b>1.322</b>  |
| Pipeline launched in the ditch | ml    | <b>6.901</b>  |
| Covered ditch                  | ml    | <b>5.722</b>  |

### CONSTRUCTION WORKS PIPELINE LOT 3 (KM 320 – KM 479)

Construction works for the pipeline LOT 3 are executed from KM 320 (in the area of the locality Pui, the county of Hunedoara) at KM 479 (in the area of the locality Recaş, the county of Timiş).

The construction of the pipeline related to LOT 3 is achieved by the **Association HABAU PPS PIPELINE SYSTEMS SRL (LEADER) – IPM PARTNERS ROMÂNIA SA - MOLDOCOR SA - ANTREPRIZĂ MONTAJ INSTALAȚII SA - ROMINSTA SA**, based on the works contract number **603/28.11.2017**.

The value of the contract is 154.849.135,06 lei (VAT excluded).

In semester I 2019 the construction works related to the pipeline LOT 3 continued.

Specific works for the preparation of the working strip are executed as well as pipe laying on the route and pipe mounting on the following sections:

- Section 74 (km 347 – 352)
- Section 85 (km 402 – 407)
- Section 86 (km 407 – 412)
- Section 87 (km 412 – 417)
- Section 88 (km 417– 422)
- Section 89 (km 422– 427)
- Section 90 (km 427– 432)
- Section 91 (km 432– 437)
- Section 92 (km 437– 442)
- Section 93 (km 442 – 447)
- Section 94 (km 447 – 452 )
- Section 95 (km 452 – 457 )
- Section 96 (km 457 – 461)

The execution works were completed including the pressure tests on the following sections:

- Section 99 (km 472–477);
- Section 100 (km 477–479).
- Section 98 (km 467 – 472)
- Section 97 (km 461 – 467)

The situation of the execution works for **LOT 3** at the end of semester I 2019 is as follows:

| MAIN ACTIVITIES                | UM    | TOTAL LOT 3   |
|--------------------------------|-------|---------------|
| Pipeline laying on the route   | m     | <b>80.469</b> |
| Removal of the vegetal layer   | ml    | <b>77.846</b> |
| Dug ditch                      | ml    | <b>62.127</b> |
| Executed welds                 | piece | <b>6.468</b>  |
| Pipeline launched in the ditch | ml    | <b>59.507</b> |
| Covered ditch                  | ml    | <b>53.812</b> |

#### LOT 4 PIPELINE AUTOMATION AND SECURITY

The pipeline automation and security works on the entire section, from KM 0 (in the area of the locality Podișor, the county of Giurgiu) at KM 479 (in the area of the locality Recaș, the county of Timiș).

The conclusion of the contract on the execution of the pipeline automation and security works took place of 24 July 2018. The works are executed by the **Association SOCIETATEA S&T ROMÂNIA SRL – ADREM ENGINEERING SRL**, based on the works contract number **585/24.07.2018**.

The value of the contract is 42.381.616,86 lei (VAT excluded).

The works commencement order was issued on **30 August 2018**.

The Detailed Design had been prepared in the first semester 2019, and the main equipment (automation cabinets, HMI, communication electrical switchboard, video switch, application server [C1, C2, C3 and C4 type], data storage equipment, firewall equipment, Type I and Type II communication router, FO router and GSM router, Type I and Type II management switch, Access Point, fiber optic interface, GPS servers, CDI data center switch, switch (TCs), redundant voltage sources, virtualization software, IP voice terminals, KVM extender system, laptop for engineering, printers) had been ordered and purchased.

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

| BRUA CONTRACTS SIGNED |                                    |  |  |                 |                 |                          | Status      |
|-----------------------|------------------------------------|--|--|-----------------|-----------------|--------------------------|-------------|
| No.                   | Works contracts awarded            | Suppliers/ Contractors   | Country of origin  | Conclusion date | Contract value  | Works commencement order | Status      |
| 1                     | Monoblock electroinsulating joints | INDUSTRIAL M.D TRADING S.R.L   | Romania  | 04.08.2017      | 528.000,00 EUR  | 11.10.2017               | Completed   |
| 2                     | Compressor units                   | ASSOCIATION Solar Turbines Europa SA, Leader of the Association Sutech SRL   | Belgium<br>Romania   | 10.10.2017      | 37.851.326 EUR  | 10.10.2017               | Completed   |
| 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<br>Romania<br>Romania<br>Romania<br>Romania                                      | 28.11.2017      | 118.503.553 Lei | 04.06.2018               | In progress |
| 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<br><br>Romania<br>Romania<br>Romania<br>Romania<br>Romania<br>Romania<br>Romania | 28.11.2017      | 155.695.509 Lei | 04.06.2018               | In progress |

|   |                                     |  |   |            |                    |            |             |
|---|-------------------------------------|--|---|------------|--------------------|------------|-------------|
| 5 | Execution<br>LOT 3 Pipeline         | <b>ASSOCIATION</b><br><b>Associate 1 -</b><br><b>HABAU PPS</b><br><b>PIPELINE</b><br><b>SYSTEMS S.R.L.</b><br><b>Leader of the</b><br><b>Association</b><br><b>Associate 2 -</b><br><b>IPM PARTNERS</b><br><b>ROMANIA S.A.</b><br><b>Associate 3 -</b><br><b>MOLDOCOR</b><br><b>S.A.</b><br><b>Associate 4 -</b><br><b>ANTREPRIZA</b><br><b>MONTAJ</b><br><b>INSTALATII S.A.</b><br><b>Associate 5 -</b><br><b>ROMINSTA</b><br><b>S.R.L</b>  | Romania<br><br>Romania<br>Romania<br>Romania<br>Romania                   | 28.11.2017 | 154.849.135 Lei    | 04.06.2018 | In progress |
| 6 | Valves                              | <b>TOTALGAZ</b><br><b>INDUSTRIE</b><br><b>S.R.L.</b>   | Romania   | 28.02.2018 | 4.875.500 EUR      | 22.03.2018 | Completed   |
| 7 | Execution<br>Compressor<br>stations | <b>ASSOCIATION</b><br><b>Associate 1 -</b><br><b>INSPET S.A.</b><br><b>S.R.L. - Leader</b><br><b>of the</b><br><b>Association;</b><br><b>Associate 2 -</b><br><b>PETROCONST</b><br><b>S.A.;</b><br><b>Associate 3 -</b><br><b>MOLDOCOR</b><br><b>S.A.;</b><br><b>Associate 4 -</b><br><b>HABAU PPS</b><br><b>PIPELINE</b><br><b>SYSTEMS</b><br><b>Associate 5 -</b><br><b>IRIGC IMPEX</b><br><b>S.R.L</b><br><b>Associate 6 -</b><br><b>Sutech SRL</b><br><b>Associate 7 -</b><br><b>TIAB S.A.</b><br><b>Associate 8 -</b><br><b>ROCONSULT</b><br><b>TECH S.R.L.</b> | Romania<br>Romania<br>Romania<br>Romania<br>Romania<br>Romania<br>Romania | 23.03.2018 | 288.742.446 Lei    | 14.04.2018 | In progress |
| 8 | Pipes and<br>curves                 | <b>Tosçelik Spiral</b><br><b>Boru Üretim</b><br><b>Sanayi A.Ş</b>  | Turkey  | 23.04.2018 | 126.906.259<br>EUR | 12.05.2018 | In progress |

**Steps taken in order to obtain the necessary funds for the implementation of the BRUA project – Phase I from the European Reconstruction and Development Bank (EBRD) and the European Investment Bank (EIB)**

As of 2016, Transgaz As of 2016, Transgaz has worked closely with EBRD specialists to carry out the technical, economic and environmental due diligence process related to Transgaz and to the project. The environmental and social documentation prepared according to



EBRD's performance standards was published on 12.07.2017 for public debate for a period of 120 days according to the EBRD's policy on EBRD's and Transgaz web pages. On 13 December 2017 EBRD's Board approved the funding for BRUA project.

On February 23, 2018, Transgaz and EBRD signed a loan agreement under which the EBRD will provide the company with a loan amounting to up to 278 million lei, equivalent to EUR 60 million, with the following essential characteristics: duration-15 years, grace period 3 years. Until now no disbursements have been made.

On 27 October 2017 a Loan contract was concluded with the European Investment Bank for the amount of EUR 50 million with a 15 years maturity, 3 years grace period with a fixed interest negotiated for each disbursement. 3 disbursements were made summing up the entire contract amount.

A Loan Agreement was concluded with the European Investment Bank on 14<sup>th</sup> December 2017, for the amount of EUR 50 million with a maturity of 15 years, 3-year grace period with the fixed or variable interest to be negotiated at the date of the disbursement. There have been no disbursements up to this moment.

A loan contract for the amount of EUR 40 million, i.e. lei 186 million equivalent, was signed with Banca Comercială Română (Romanian Commercial Bank) on 24<sup>th</sup> April 2019, with disbursement and reimbursement in Lei, maturity of 15 years, the main loan's grace period for repayment being 3 years. No disbursements have been performed up to this moment.

## ASPECTS CONNECTED TO ARCHAEOLOGY

In August 2017, following the tender procedure 4 framework contracts were concluded for specific archaeological services necessary for the implementation of the BRUA project Phase 1.

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

- Archaeological surveillance of the above ground facilities;
- Intrusive archaeological diagnosis;
- Preventive archaeological research of the sites identified within the preparation of the FEED.

### **Activities have been carried out in the year 2019 for the conclusion of the following Subsequent Agreements for:**

- archeological monitoring for the execution works of the pipeline;
- preventive archeological research of the sites indentified within the stage of preparation of the FEED and those discovered after the performance of the intrustive archeological diagnose and archeological monitoring works;

**Archaeological surveillance services** - Subsequent contracts were signed for pipe storages, site arrangements and compressor stations, as follows:

| Contracts signed           | Contract conclusion date | Site arrangement/Storages/TCS | Works commencement order |
|----------------------------|--------------------------|-------------------------------|--------------------------|
| <b>ARVADA</b>              | 13.04.2018               | SA Căldăraru                  | 06.06.2018               |
|                            |                          | SA Turcinești                 | 22.06.2018               |
|                            |                          | Depo Frasin (Vladimir)        | 22.06.2018               |
|                            |                          | TCS Jupa                      |                          |
|                            |                          | SA Băuțar                     |                          |
|                            |                          | Depo Obreja                   | 18.06.2018               |
| <b>GAUSS</b>               | 16.04.2018               | TCS Podișor                   |                          |
|                            |                          | Depo Poeni                    | 13.06.2018               |
|                            |                          | Depo Lugoj                    | 13.06.2018               |
|                            |                          | SA Recaș                      |                          |
| <b>TOTAL BUSSINES LAND</b> | 16.04.2018               | Depo Corbu                    | 18.06.2018               |
|                            |                          | Depo Teslui                   | 18.06.2018               |
|                            |                          | SA Gușoieni                   | 18.06.2018               |
|                            |                          | Depo Vulcan                   | 18.06.2018               |
|                            |                          | Depo Sălașu de Sus (Pui)      |                          |

### Excavation works for the intrusive archaeological diagnosis:

| Contracts signed           | Contract conclusion date | Pipeline construction   |
|----------------------------|--------------------------|---|
| <b>ARVADA</b>              | 14.04.2018               | Pipeline construction:<br>Giurgiu<br>Dâmbovița<br>Teleorman<br>Caraș-Severin<br>Hunedoara |
| <b>GAUSS</b>               | 13.06.2018               | TCS Bibești<br>Pipeline construction: Vâlcea and Gorj                                     |
| <b>TOTAL BUSSINES LAND</b> | 29.05.2018               | Pipeline construction: Timiș  |

### Excavation works for the preventive archaeological diagnosis:

| Contracts signed   | Contract conclusion date | Objective/archaeological site      | Pipeline construction / county  |
|--|--------------------------|------------------------------------|---------------------------------|
| TOTAL BUSINESS LAND  | 31.08.2018               | Site 14                            | Pipeline construction:<br>Argeș |
|  | 31.08.2018               | Site 10                            |                                 |
| ASSOCIATION S.C.<br>GAUSS S.R.L. – S.C.<br>BANAT ARCHAEOSAVE<br>S.R.L. | 10.10.2018               | Site 1 (T99 – km 473+350-473+750)  | Pipeline construction:<br>Timiș |
|  | 10.10.2018               | Site 2 (T98 – km 470+000-470+120)  | Pipeline construction:<br>Timiș |
|  | 10.10.2018               | Site 3 (T98 – km 468+750-468+950)  | Pipeline construction:<br>Timiș |
|  | 10.10.2018               | Site 4 (T93 – km 446+300-446+500)  | Pipeline construction:<br>Timiș |
| TOTAL BUSINESS LAND  | 10.10.2018               | Gas compressor station Hurezani,   | Gorj                            |
| ARVADA   | 17.12.2018               | Site 12 (T93 – km 443+768-443+871) | Pipeline construction:<br>Timiș |
| ASSOCIATION S.C.<br>GAUSS S.R.L. – S.C.                                | 12.12.2018               | Site 5 (T94 - KM. 451+790-451+930) | Pipeline construction:<br>Timiș |

|   |            |  |                               |
|---|------------|--|-------------------------------|
| BANAT ARCHAEOSAVE S.R.L.                                      |            |  |                               |
| ARVADA  | 12.12.2018 | Site 6 (T94 - KM. 450+990-451+510)                                     | Pipeline construction: Timiș  |
|   | 12.12.2018 | Site 7 (T94 - km. 447+350-447+810)                                     | Pipeline construction: Timiș  |
|   | 12.12.2018 | Site 8 (T91 - km. 436+180-436+650)                                     | Pipeline construction: Timiș  |
|   | 12.12.2018 | Site 9 (T90 - km. 430+650-430+940)                                     | Pipeline construction: Timiș  |
|   | 12.12.2018 | Site 10 (T90 - km. 430+235-430+320)                                    | Pipeline construction: Timiș  |
|   | 12.12.2018 | Site 11 (T90 - km. 427+580-427+945)                                    | Pipeline construction: Timiș  |
| ASSOCIATION S.C. GAUSS S.R.L. – S.C. BANAT ARCHAEOSAVE S.R.L. | 18.02.2019 | Site 2, Hurezani (Km 199+380-199+650)" - 884,4 mc                      | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 4, Jupânești (km 222+280 – 222+380)" – 330 mc                     | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 1 T37-2018-km. 184+800 – 185+050 - 828,3 mc                       | Pipeline construction: Vâlcea |
| ROLOPLAST TEHNOCONSTRUCT                                      | 18.02.2019 | Site 3, Hurezani (km 197+340 – 197+700)" – 1188 mc                     | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 9, Jupânești (km 222+600 – 222+660)" – 198 mc                     | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 5, Turcinești, Schela/Sâmbotin (km 261+920 – 262+110)" – 607,2 mc | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 6 (Km 248+330-248+450) – 396 mc                                   | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 7 (Km 249+110-249+510) – 1320 mc                                  | Pipeline construction: Gorj   |
|   | 18.02.2019 | Site 8 (Km 245+820-246+130) – 1023 mc                                  | Pipeline construction: Gorj   |
|   | 26.02.2019 | Site 10 (Km 217+420-217+560) – 462mc                                   | Pipeline construction: Gorj   |
| ARVADA  | 26.02.2019 | Site 11 (Km 217+700-218+320) – 2046mc                                  | Pipeline construction: Gorj   |
|   | 26.02.2019 | Site 12 (Km 240+210-240+470) – 825mc                                   | Pipeline construction: Gorj   |
|   | 26.02.2019 | Site 13 (Km 238+940-239+000) – 198mc                                   | Pipeline construction: Gorj   |
|   | 26.02.2019 | Site 14 (Km 225+450-225+590) – 462mc                                   | Pipeline construction: Gorj   |

|   |            |   |                                      |
|---|------------|---|--------------------------------------|
| TOTAL BUSINESS LAND   | 25.02.2019 | Site 2 – Gușoieni (km. 146+180 - 146+380) - 650,1 mc  | Pipeline construction: Vâlcea        |
|   | 25.02.2019 | Site 3 – Gușoieni (km. 147+600 - 147+720) – 399,3 mc  | Pipeline construction: Vâlcea        |
|   | 25.02.2019 | Site 4 (T36) UAT Zătreni – 330,00 mc  | Pipeline construction: Vâlcea        |
|   | 27.05.2019 | Site 1  | Pipeline construction: Giurgiu       |
|   | 27.05.2019 | Site 2  | Pipeline construction: Giurgiu       |
|   | 27.05.2019 | Site 3  | Pipeline construction: Giurgiu       |
|   | 27.05.2019 | Site 1  | Pipeline construction: Dâmbovița     |
| ASSOCIATION S.C. GAUSS S.R.L. – S.C. BANAT ARCHAEOSAVE S.R.L. | 28.05.2019 | Site 1  | Pipeline construction: Hunedoara     |
| ARVADA  | 30.05.2019 | Area for the protection of the historical monument Colonia Ulpia Traian Augusta Dacica Sarmizegetusa, code LMI HD-I-s-A-03205 | Pipeline construction: Hunedoara     |
|   | 24.06.2019 | Drilling platforms achieved in the area of the protection of the archaeological site from Tibiscum - 4000 mp.                 | Pipeline construction: Caraș-Severin |
|   |            |   |                                      |

### Excavation works for archaeological survey:

| Contracts signed          | Contract conclusion date | Pipeline construction                                  |
|---------------------------|--------------------------|--|
| ARVADA                    | 31.08.2018               | Pipeline construction: Caraș-Severin                   |
| TOTAL BUSINESS LAND       | 31.08.2018               | Pipeline construction: Vâlcea                          |
| ROLOPLAST TECHNOCONSTRUCT | 30.07.2018               | Pipeline construction: Olt                             |
|                           | 31.08.2018               | Pipeline construction: Argeș                           |
|                           | 31.08.2018               | Pipeline construction: Teleorman                       |
|                           | 31.08.2018               | Pipeline construction: Giurgiu                         |
| ARVADA                    | 08.10.2018               | Pipeline construction: Timiș (T99, T98, T96, T95, T93) |
| ROLOPLAST TEHNOCONSTRUCT  | 10.10.2018               | Gas Compression Station Bibești, Gorj county           |
|                           | 10.10.2018               | Pipeline construction: Gorj                            |

|                          |            |   |
|--------------------------|------------|---|
|                          | 23.11.2018 | Pipeline construction: Gorj (according to the endorsement DJC Gorj no. 05/03.10.2018) |
| ARVADA                   | 17.12.2018 | Pipeline construction: Timiș (T89, T90, T91, T92, T94, T97, T100)                     |
| ROLOPLAST TEHNOCONSTRUCT | 18.06.2019 | Pipeline construction: Dâmbovița  |
|                          | 18.06.2019 | Pipeline construction: Hunedoara  |

## BIODIVERSITY ASPECTS

On 11 July 2018, the framework agreements with the five successful bidders for the biodiversity monitoring services for gas pipeline construction projects and related technical installations were concluded. Based on these framework agreements, sectoral contracts with biodiversity service providers were concluded for the three lots of the BRUA project, as follows:

- Contract no. 632 / 22.08.2018 with Unitatea de Suport pentru Integritate Ltd. - Biodiversity Monitoring Services for the project *Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor* - LOT 1;
- Contract no. 635 / 23.08.2018 with Multidimension - Terrasigna JV - Biodiversity Monitoring Services for the *Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor* - LOT 2;
- Contract no. 633 / 22.08.2018 Unitatea de Suport pentru Integritate Ltd for the project *Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor* - LOT 3;

The orders for the start of the biodiversity monitoring works were issued in the pre-construction and construction stages for all of the three lots (No 46250/12.09.2018, for Lot 1, No. 44533/04.09.2018, for Lot 2; 46252/12.09.2018 for Lot 3).

The biodiversity monitoring reports was finalized and submitted in the pre-construction stage for Lot 2, the final stage report included. The reports were accepted. For lots 1 and 3, the stage field data collection stage for the pre-construction was completed.

The biodiversity monitoring reports in the pre-construction stage were submitted and approved by PMU BRUA on 13.05.2019.

In the first half of 2019, the biodiversity monitoring service providers from all three lots of the project had supervised the execution of the construction works, performing trainings with site workers and issuing monthly monitoring reports.

The biodiversity monitoring activity in the construction stage is carried out according to the contractual provisions, both regarding the execution of the field operational activities and regarding the preparation of the requested documents, under the supervision and guidance of the BRUA PMU experts.

## NORMATIVE ACTS NECESSARY FOR THE IMPLEMENTATION OF THE PROJECT

Along the route of the BRUA Phase I project, the gas transmission pipeline crosses the following types of land in the 10 counties: arable, clean pastures, tree pastures, hedges and

bushes, wooded pastures, cultivated grasslands, vineyards, hybrid vineyards, noble vineyards, classical orchards, fruit nurseries, intensive orchard, orchard fruit bushes, clean meadows, grassy meadow and bushes, tree meadows, wooded meadows, garden, vegetable gardens, other lands.

In order to acquire the right to use agricultural and forest land for the execution of the works, it is necessary to issue two government decisions as follows:

**- Obtaining a government resolution for the temporary removal of the agricultural circuit of the agricultural land located outside of the built-up areas**

The Government of Romania issued Government Resolution 110/15.03.2018 for the approval of the list of agricultural land located outside of the built-up areas, for the project of common interest in the gas domain `Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor – the Podișor – Horia GMS pipeline and three new compressor stations (Jupa, Bibești and Podișor) (Phase 1).

**Obtaining a government resolution for the temporary occupation of the forest lands**

The Government of Romania issued Government Resolution **727/13.09.2018** on the approval of the temporary occupation of 42,1315 ha national forest area land by TRANSGAZ SA Mediaș, for the project of national importance in the gas domain `Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor`.

**The construction permit and the 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 on the Romanian territory of the National Gas Transmission System along 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 storage facilities.

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.

By issuing the Comprehensive Decision, the entire authorization process necessary to execute a project of common interest, according to the provisions of Regulation (EU) 347/2013 and the national legislation is applied.

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.

### **Project promotion, information and stakeholder consultation meetings**

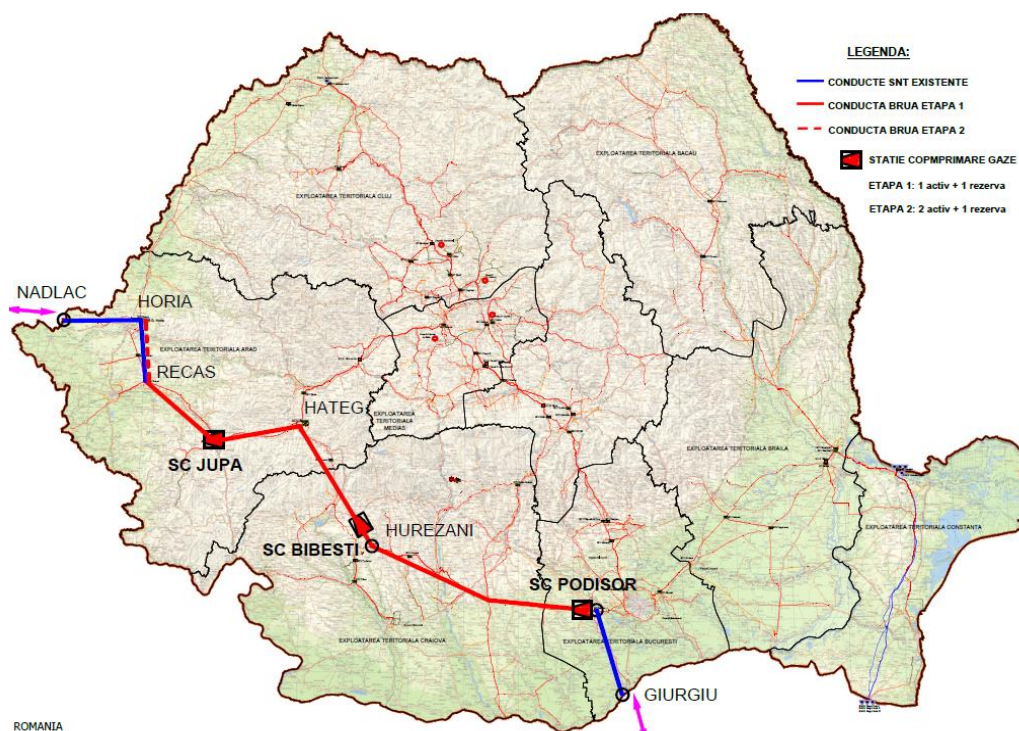
In view of information, stakeholder consultation and for the promotion of the BRUA Project Phase 1 during 2018 several information and stakeholder consultation meetings were held in the area of the territorial administrative units (TAUs) located on the route of the BRUA Phase 1 project.

As of April 2018, at which time Transgaz S.A. started the procedures for handing over the site to the constructor in order to start the construction works related to the project, a new series of public information and consultation meetings was initiated at the level of all 72 TAUs crossed by the project. Thus, these meetings started in the first part of April at the level of TAUs where the compressor stations will be located and continued throughout 2018, their basic objective being to inform the affected stakeholders and the general public in relation to the project and the compensation granted to the stakeholders whose land will be affected during the execution of the works.

Within these information and consultation meetings, Transgaz S.A. has provided information such as: details of the project and the execution technology, the benefits of the project, the estimated timing of the works and how the works will impact the land, the types of compensations granted and how to access them, the stages of the inventory process, the interdictions to be set up inside the working corridor as well as in the protection and safety area of the pipeline, project specific documents that can be consulted at the headquarters of the town halls of the TAUs, the contact details for requesting additional information and asking questions, concerns about the project, etc.



## 1.2 Development on the territory of Romania of the National Gas Transmission System on the Bulgaria–Romania–Hungary–Austria Corridor – Phase 2



**Figure 4**– Map of the main development project related to the Corridor Bulgaria-Hungary-Austria – Phase 2

### Project description:

**BRUA Phase II** Project consists in the construction of the following facilities:

- 32" x 63 bar Recaș–Horia gas transmission pipeline, approximately 50 km long;
- Expansion 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.

### Results:

The BRUA– Phase 2 project generates the possibility to enable permanent bidirectional gas flow between the interconnections with Bulgaria and with Hungary ensuring at the same time the following gas transmission capacities:

- Gas transmission towards Hungary of 4.4 bcm/year, respectively of 1.5 bcm/year towards Bulgaria.

### Indicative project implementation timeline:



| Development stages   | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline at the date of the<br>Report |
|--|---|--|
| Pre-feasibility study  | completed   | completed  |
| Feasibility study  | completed   | completed  |
| Environmental Permit   | completed   | completed  |
| FEED and technical documentation for obtaining the construction permit | completed   | completed  |
| FID Phase 2  | December 2018/February 2019*  | 2019*  |
| Construction Phase 2   | 2022*   | anul 2022*   |
| Commissioning Phase 2  | 2022*   | anul 2022*   |
| Operation start-up Phase 2   | 2022*   | anul 2022*   |

\*The completion of Phase 2 depends on procedure for capacity booking at Csanadpalota IP and on the timeline of this procedure.

### Estimated completion deadline: 2022

### Estimated value: Euro 68.8 million

### The inclusion of the project in international plans

- **PCI project** (first list of European Projects of Common Interests): 7.1.5;
- **PCI project** (second list of European Projects of Common Interests):  
Phase II: 6.24.7.
- **PCI project** (third list of European Projects of Common Interests):  
Phase II: 6.24.4–position 4;
- **TYNDP ENTSOG 2018**: TRA-N-358

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### Project status:

Since 2016 SNTGN Transgaz S.A., FGSZ – Hungary and Gas Connect – Austria and the regulatory authorities of Romania, Hungary and Austria prepared the documentation necessary for the Binding Open Season for the booking of capacity at the interconnection points between Romania and Hungary and Hungary and Austria, with the support and active participation of the European Commission.

In the autumn of 2017, FGSZ Hungary announced that the Binding Open Season procedure will be limited to the Romania – Hungary Interconnection Point, since there were available capacities at the interconnection pipelines of Hungary with the neighbouring countries, without any additional investments for the achievement of the Hungary – Austria interconnection being necessary.

Accordingly, SNTGN Transgaz S.A. together with FGSZ had developed at the end of the year 2017 the Binding Open Season Procedure for Romania - Hungary Interconnection Point. The offered capacity was over-subscribed, demonstrating thus the interest of the market and ensuring the commercial durability of BRUA project, Phase 2, the economic tests being passed successfully.

The network users who had booked capacity within the Open Season Procedure had exerted their step back right from the capacity booked up to the date of 14<sup>th</sup> December 2018; accordingly, the procedure will continue with the third period of submitting the capacity booking offers, in accordance with the provisions of the Binding Open Season Procedure Rulebook RO-HU.

Although SNTGN Transgaz S.A. wanted to finalize Phase II at the end of 2020 (as it was previously approved in the Company's 10 years Development Plan), FGSZ can finalize the corresponding project on the Hungarian territory only in the course of 2022, reason for which its commissioning is estimated in October 2022.

## **2. Development on the territory of Romania of the Southern Corridor for taking over Black Sea gas (Tuzla-Podişor pipeline)**

As Europe becomes more dependent on natural gas imports, the development on the Romanian territory of a gas transmission infrastructure from the Black Sea to the Romania/Hungary border is one of TRANSGAZ's major priorities for enabling access to Black Sea gas.

### **Project description:**

The project consists in the construction of a 308.3 km Tuzla-Podişor telescopic gas transmission pipeline to connect the gas resources available at the Black Sea shore and the BRUA corridor, enabling gas transmission to Bulgaria and Hungary through the existing interconnections, Giurgiu – Ruse (with Bulgaria) and Nădlac – Szeged (with Hungary). This pipeline will also be interconnected with the current international gas transmission pipeline - T1.

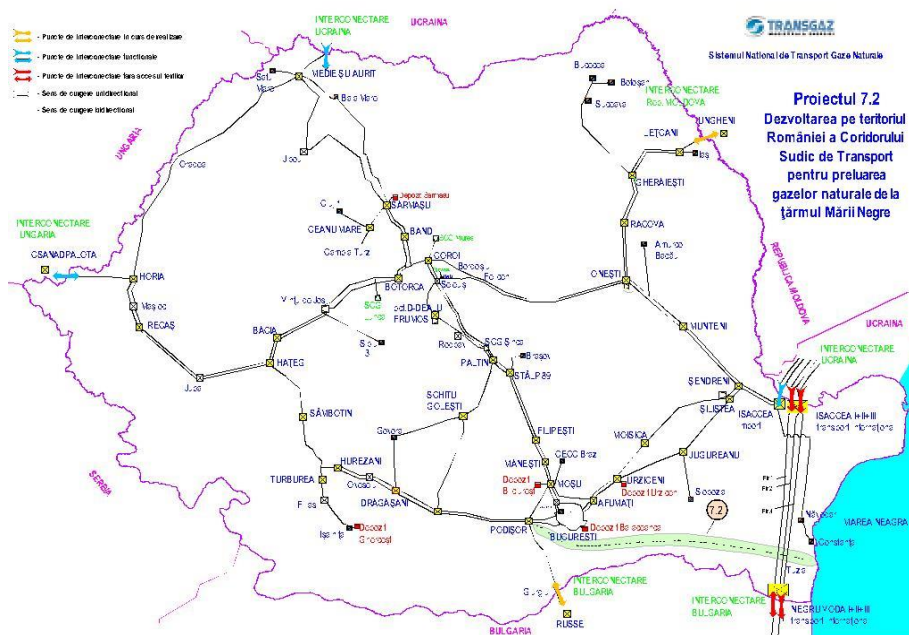


Figure 5-Southern Corridor Black Sea – Podișor

The pipeline is telescopic and consists of two sections, as follows:

- Section I, Black Sea shore – Amzacea, 32.4 km long, will have a diameter of Ø 48” (Dn1200) and the technical capacity of 12 bcm/y;
- Section II, Amzacea – Podișor, 275.7 km long, will have a diameter of Ø 40” (Dn1000) and the technical capacity of 6 bcm/y;

### Indicative project implementation schedule

| Development stages  | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027 TYNDP | Status/<br>Estimated completion deadline<br>at the date of the Report |
|---|--|---|
| Pre-feasibility study   | completed  | completed   |
| Feasibility study   | completed  | completed   |
| FEED  | completed  | completed   |
| Environmental assessment study                                | completed  | completed   |
| Environmental Permit  | completed  | completed   |
| Technical documentation for obtaining the construction permit | completed  | completed   |
| Construction permit   | completed  | completed   |
| Comprehensive decision  | 2018   | obtained – May 2019*  |
| Final Investment Decision                                     | 2018   | 2019*   |
| Construction  | 2019-2020  | 2019-2021*  |
| Commissioning/start-up  | July 2020  | 2021*   |

\* Subject to the final investment decision being taken

### Estimated completion deadline: 2021

The completion deadline depends on the upstream offshore projects implementation schedules.

### Estimated value: Euro 360.4 million

Given that the project will meet all the eligibility criteria set out in Regulation (EU) No. 347/2013, Transgaz intends to submit an investment application for a non-reimbursable grant for works through the Connecting Europe Facility mechanism.

### The inclusion of the project in international plans

- **PCI project (second list):** 6.24.8;
- **PCI Project (the third list):** 6.24.4-5: „Black Sea shore - Podișor (RO) Pipeline for taking over the gas from the Black Sea” within “The Group of Projects which imply the gradual increase of the capacity of the bidirectional transmission corridor Bulgaria–Romania–Hungary–Austria (known at present as ROHUAT/BRUA) which will allow 1.75 billion m<sup>3</sup>/year in the first stage and 4.4 billion m<sup>3</sup>/year in the second stage, with the possibility of taking over including new resources from the Black Sea in the second and third stage”;
- The list of conditioned priority projects issued within CESEC group;
- **TYNDP ENTSOG 2018:** TRA-N-362

**Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### The project status

- The **Feasibility study** was endorsed in the Technical-Economic Committee (CTE) of 26.01.2016;
- The archaeological investigations carried out in 2017 led to the modification of the pipeline route. Following these changes, the **Feasibility Study** was updated and reviewed by Transgaz's CTE on 11.05.2017;
- The **FEED** was endorsed by Transgaz's CTE. The documentation for the procurement of the execution works is being prepared.
- The activity related to the **identification of the land owners** affected by the execution works is ongoing:
  - The county of Constanța: 9 territorial administrative units - 100%;
  - The county of Călărași: 19 territorial administrative units - 99% (on the territory of the Territorial Administrative Unit Borcea there are no clear data on the situation of the land plots plans);

- The county of Giurgiu: 14 territorial administrative units - 99% (on the territory of the Greaca Territorial Administrative Unit there are no clear data on the situation of the land plots plans).
- The **Governmental Decision** no. 9/17.01.2019 on the approval of the list of agricultural lands located outside built up areas;
- Environmental Agreement no 1 of 10.05.2018 was obtained;
- Construction Permit no 5 of 17.05.2018 was obtained;
- The procurement procedure for the execution works was initiated;
- The **Notification in view of the initiation of the pre-submission procedure** was submitted to the Competent Authority for Projects of Common Interest (ACPIC) on 24.02.2017 and its approval was received on 23.03.2017;
- The **Stakeholder Engagement Plan** for the Project of Common Interest "*Black Sea Shore - Podisor (RO) for taking over Black Sea gas*" was submitted to the ACPIC on 24.05.2017 and approved by the Ministry of Energy through the Letter no.110800/27.06 .2017;
- Between 17-27.07.2017, public consultations were held on the basis of Regulation (EU) 347/2013 in the following locations: Tuzla, Amzacea, Cobadin, Alexandru Odobescu, Borcea, Frăsinet, Izvoarele, Baneasa and Stoenesti;
- The application file was submitted on 08.06.2018 in order to obtain the Comprehensive Decision. The application file was accepted by ACPIC on 12.07.2018;
- The Comprehensive Decision no 4 of 25.04.2019 was taken ;
- In 2018, the incremental **capacity booking process was carried out for MP Tuzla** and such process was completed by the capacity allocation and by the conclusion of gas transmission contracts; following the unilateral termination of the gas transmission contracts by the titleholders, the process was declared to be unsuccessfully completed.
- a new process started following the receipt of a new request for incremental capacity for the entry / exit point in /out of the NTS, which was planned to be created in the area of Tuzla locality; no additional requests were received in the secondary allocation phase, the minimum threshold was not reached, so the incremental capacity booking process ended without capacity allocation.
- the public procurement procedure for the execution of the works is in progress.

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

This project is very important because:

- By its implementation a transmission corridor is created between the markets of 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 Transit 1 pipeline expired on 1 October 2016. Starting with gas year 2016-2017, the transmission capacity of 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 Negru Voda 1 point in accordance with Regulation (EU) 1938/2017;
- Its implementation enables the taking over of the newly discovered Black Sea gas by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.

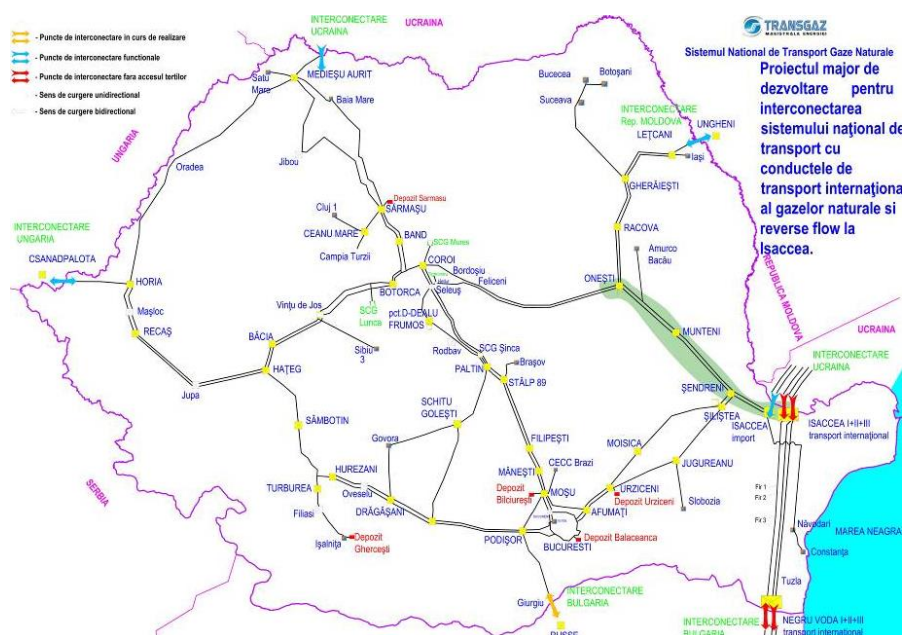


Figure 6 Map of the major development project for NTS interconnection with the international transmission pipeline Transit 1

### The project description:

The project consists of the following:

**Phase 1** – category of energy infrastructure *Gas and biogas transmission pipelines which are part of a network mainly comprising mainly high-pressure pipelines, with the exception of high-pressure pipelines used for upstream or downstream gas distribution, with the following investment objectives:*

- Isaccea Interconnection, location: Isaccea territorial administrative unit;
- Rehabilitation of the DN 800 Onești – Cosmești pipeline.

**Phase 2** – category of energy infrastructure *Any equipment or installations essential to the secure, efficient and safe operation of the system or to provide bidirectional capacity, including compressor stations, with the following investment objectives:*

- Upgrading the Siliștea Gas Compressor Station and the Siliștea Technological Node (TN), located within the Siliștea territorial administrative unit, Brăila County;

- Works within the Șendreni Technological Node, located within the Vădeni territorial administrative unit, Brăila County;
- Upgrading the Onești Gas Compressor Station and the Onești Technological Node, located within the Onești territorial administrative unit, Bacău County.

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

#### Indicative project implementation schedule:

| Development stages   | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline at the date of the<br>Report |
|--|---|--|
| <b>Phase I</b>   | <b>2018</b>   | <b>2018</b>  |
| Pre-feasibility study  | completed   | completed  |
| Feasibility study  | completed   | completed  |
| Environmental Impact Assessment  | completed   | completed  |
| Technical documentation for permitting                                 | completed   | completed  |
| Construction permits   | completed   | completed  |
| Comprehensive decision   | 2018  | obtained   |
| Construction   | 2018  | completed  |
| Commissioning/start up   | 2018  | completed  |
| <b>Phase II</b>  | <b>2019</b>   | <b>2020</b>  |
| Pre-feasibility study  | completed   | completed  |
| Feasibility study  | completed   | completed  |
| Technical specifications for the design and execution                  | December 2018   | completed  |
| Procurement of the works and signing the design and execution contract | January 2019  | 2019   |
| Comprehensive decision   | January 2019  | 2019   |
| Completion of basic design and execution details/Construction permits  | January 2019  | 2020   |
| Construction   | 2019  | 2020   |
| Commissioning/start up   | 2019  | 2020   |

#### Completion date: 2018 Phase I and 2020 Phase II

**Estimated investment value: Euro 77,7 million**



| Estimated investment value | Acc. to 2018-2027 TYNDP | Updated at the date of the Report |
|----------------------------|-------------------------|-----------------------------------|
| Phase 1                    | Euro 8,8 mil.           | Euro 8,8 3 million                |
| Phase 2                    | Euro 92,2 mil.          | Euro 68,9 million                 |
| <b>TOTAL</b>               | <b>Euro 101 mil</b>     | <b>Euro 77,7 million</b>          |

### The inclusion of the project in international plans

- **PCI Project (second list):** 6.15;
- **PCI project (third list):** 6.24.4–5 Black Sea shore — Podișor (RO) pipeline for taking over the Black Sea gas within **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 1<sup>st</sup> phase, 4.4 bcm/a in the 2<sup>nd</sup> phase, and including new resources from the Black Sea in the 2<sup>nd</sup> and/or 3<sup>rd</sup> phase;**
- **TYNDP ENTSOG 2018:** TRA-N-139
- **Priority Corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### Project status:

- The **Prefeasibility Study** (endorsed in 12.06.2017) and the **Feasibility Study** (03.11.2017) for the entire project were completed;
- In what concerns the authorization in accordance with the provisions of the Regulation (EU) no. (UE) 347/2013 for the project in its entirety, the following actions were performed:
  - The **Notification for the initiation of the procedure prior to the submission of the application** was submitted to the Competent Authority for the Projects of Common Interest (ACPIC) on 20.12.2017; it was approved by APCIC on 17.01.2018;
  - **The Stakeholder Engagement Concept** was submitted to A.C.P.I.C. on 21.03.2018 and was approved by the Ministry of Energy by Notice no. 110638/04.04.2018;
  - Between 07 and 11.05.2018, **public consultations** had been carried out in the following locations: Onești, Buciumi (Bacău county), Mărășești (Vrancea county), Cosmești (Galați county), Isaccea (Tulcea county), Siliștea, Vădeni (Brăila county);
  - **The Final Synthetic Report regarding the results of the stakeholder engagement activities** has been issued, published on the Company's website and sent to A.C.P.I.C. as part of the application files submitted for each stage of the project.

#### **Stage 1:**

- The **FEED** had been finalized the for Isaccea Interconnection, **the documentation for the endorsement of the intervention works** (DALI) and the **FEED** for the repair of DN 800 Onești–Cosmești pipeline;
- The owners of the lands affected by the repair of DN 800 Onești–Cosmești pipeline and of Isaccea interconnection have been identified; Government Decision no. 638/23.08.2018 for the approval of removal from the agricultural circuit of the lands

outside of built-up areas was issued and the process of obtaining the endorsement required by C.U. was finalized;

- **2 Regulating documents in environmental area** had been obtained, namely:
  - Isaccea interconnection– Decision of Screening Stage no. 144/06.03.2018 issued by APM Tulcea;
  - Repair of the pipeline DN 800 Onești–Cosmești (3 counties) – Decision of Screening Stage no. 27/16.05.2018 issued by ANPM.
- Building Permit no. 6/07.06.2018 was issued, in accordance with the provisions of Law 185/2016;
- On the date of 20.07.2018, **The Application File** was sent to ACPIIC and accepted on 03.08.2018;
- On the date of 05.09.2018 it was submitted to ACPIIC **Final Report** no. 44749/04.09.2018 regarding the authorization process and the consultation and participation process of the public for the Project of Common Interest „Consolidation of the Transport System from Romania between Onești–Isaccea and reverse flow at Isaccea” – Stage 1 (Reference number in the Union’s List: 6.24.10.–1), including the attached documents, in order to obtain the comprehensive decision;
- **Comprehensive Decision no.** 2/11.09.2018 was issued, document which certifies the ending of the authorization procedure in accordance with the provisions of the Regulation (EU) no. 347/2013 for Stage 1 of the Project.

#### **Stage 2**

- The **Tender book for the procurement of design and execution works** was finalized in August 2018;
- The owners of the lands from Șendreni Technological Node, Siliștea Gas Compressor Station, Onești Gas Compressor Station were identified;
- **The FEED** for the works at the existing Șendreni Technological Node was endorsed in Trangaz' Technical Economic Committee;
- **The endorsements and agreements** requested by CU were obtained, as well as the following **environmental regulating documents**, respectively:
  - Șendreni technological Node works – Screening decision 2907/09.03.2018 was issued by Environmental Protection Agency Brăila
  - Upgrading of the Siliștea Compressor Station and of the Siliștea Technological Node (existing) – Screening decision 5031/01.04.2019 was issued by Environmental Protection Agency Brăila
  - Upgrading of the Onești Compressor Station and of the Onești Technological Node (existing) - Screening decision 20/28.01.2019 was issued by Environmental Protection Agency Bacău.
- As a result of notifying A.P.M. Brăila regarding the application and obtaining the Town Planning Certificate no. 125 / 23.05.2019 (amendment to the Town Planning Certificate No. 276 / 16.11.2017 issued by the Braila County Council) and the Town Planning Certificate no. 119 / 21.05.2019 (modification to the Town Planning Certificate No. 277 / 16.11.2017 issued by Braila County Council) due to the reconfiguration of the temporarily occupied land areas during the execution of the works, there were also obtained:

- Notice no. 9126/12.06.2019 on maintaining the validity of the Decision of Screening Stage no. 2907/09.03.2018;
- Notice no. 9125/12.06.2019 on maintaining the validity of the Decision of Screening Stage no. 5031/01.04.2019.
- **Building Permit** no. 7/04.07.2019 was issued in accordance with the provisions of Law no. 185/2016;
- **Government Decision** no. 230/18.04.2019 for the approval of the temporary removal of the agricultural lands outside the build-up areas was issued;
- **The Application File** was sent to ACPIC for acceptance on the date of 04.07.2019 and it was accepted by the Ministry of Energy by issuing the Letter of Acceptance of Application File no. 110908/18.07.2019;
- The public procurement procedure for the design and execution of works at Onești Compressor Station and Siliștea Compression Station is in progress.

#### 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 to satisfy the consumption need of the relevant regions.

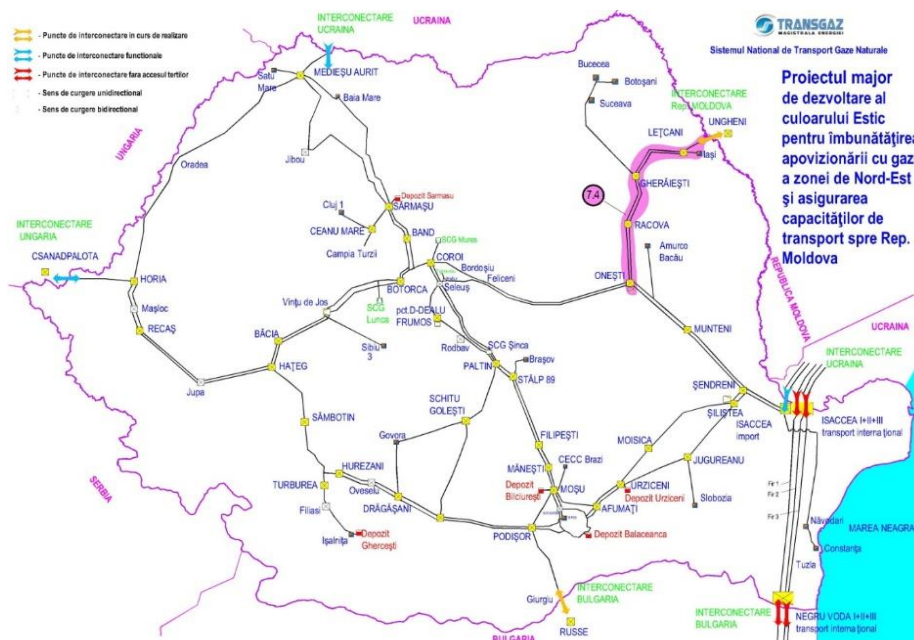


Figure 7 NTS developments in the North-Eastern area of Romania

#### 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 – Lețcani direction, 61.05 km long. This pipeline will replace the existing DN 400 pipeline Gherăești – Iași on the Gherăești – Lețcani 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 backup
- 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 backup.

#### Indicative project implementation schedule:

| Development stages  | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline at the date of<br>the Report |
|---|---|--|
| Pre-feasibility study   | completed   | completed  |
| Feasibility study   | completed   | completed  |
| FEED for the pipelines  | completed   | completed  |
| FEED for the Compressor stations                              | completed   | completed  |
| Obtaining the construction permits                            | completed   | completed  |
| Obtaining construction permits related to Compressor stations | completed   | completed  |
| Construction  | 2018-2019   | 2019-2021  |
| Commissioning/start-up  | 2019  | 2021   |

#### Estimated completion deadline: 2021

#### Estimated value: Euro 174,25 million, split as follows:

| Estimated investment value                                      | Acc. to PDSNT 2018-2027 | Updated at the date of the Report |
|---|-------------------------|-----------------------------------|
| Estimated amount for the procurement of materials               |                         | Eur 64,95 mil.                    |
| Construction of the gas transmission pipeline Onești–Gherăești  | Eur 51,01 mil           | Eur17,32 mil.                     |
| Construction of the gas transmission pipeline Gherăești–Lețcani | Eur 36,06 mil           | Eur15,19 mil.                     |
| Onești Compressor Station                                       | Eur 41,75 mil           | Eur 48,46 mil.                    |

|  |                        |                       |
|--|------------------------|-----------------------|
| Gherăești Compressor Station   | Eur 37,06 mil          |                       |
| Pipeline automation and securing   | Eur 8,37 mil           |                       |
| Other activities (land acquisition, design, technical consultancy, audit and technical assistance) |                        | Eur 28,32 mil.        |
| <b>TOTAL</b>   | <b>Eur 174,25 mil.</b> | <b>Eur 174,25 mil</b> |

By the achievement of this project, the necessary pressure and gas transmission capacity of 1.5 billion cubic meters/a can be ensured at the interconnection point between the gas transmission systems of Romania and the Republic of Moldova.

The project meets the eligibility criteria of the Large Infrastructure Operational Programme (POIM). Priority Axis 8 - Strategic Objective (OS) 8.2, programme developed by the Management Authority of the Ministry of European Funds and receiving a non-reimbursable funding through PAP8 - Intelligent and sustainable transport systems for electricity and natural gas amounting to lei 214,496,026.71 (EUR 46.3 million).

For this purpose on 22.11.2018 Grant Agreement 226 was signed with the Ministry of European Funds.

### The inclusion of the project in international plans

- **TYNDP ENTSOE 2018: TRA-N-357**

### Status of the project

- **The Feasibility Study** Rev 0 was completed in January 2016;  
Following the clarifications on the details related to the eligibility of the costs stipulated in the Applicant's Guide and JASPERS' recommendations the Feasibility Study was revised and completed in 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, automation and security of the pipeline** were completed in January 2018;
- **The environmental agreement** was obtained in 06.07.2017;
- **The decision of the screening stage** for the revision of the environmental agreement was obtained on 09.01.2018;

**Note:** it is not necessary to obtain other documents from the environmental authority

- In July 2018 the documentation for the issue of the Governmental Decision (according to Law no 185/2016) was submitted for the temporary removal from the agricultural circuit.
- The project was declared as **project of national importance** by GD no 562/2017;
- **The Construction permit** was obtained on 15.09.2017, according to Law no. 185/2016.

- Following the evaluation of the financing request, the financing of the project a fost aprobată finanțarea proiectului, și s-a semnat contractul de finanțare din the Large Infrastructure Operational Programme (POIM). Priority Axis 8 - Strategic Objective (OS) 8.2, programme developed by the Management Authority of the Ministry of European Funds and receiving a non-reimbursable funding through PAP8 - Intelligent and sustainable transport systems for electricity and natural gas amounting to lei 214,496,026.71 (EUR 46.3 million).
- The Government Decision no. 316/23.05.2019 for the approval of the temporary removal of the land outside builtup area from the agricultural circuit;

## PROCUREMENT

For the implementation of the project, Transgaz procures by public procurement procedures the following:

- the execution works related to the two compressor stations Onești and Gherăești, pipeline automation and security – ongoing procedure;
- execution of the gas transmission pipeline Onești – Gherăești – Lețcani (lot 1 and lot 2) - – ongoing procedure;
- pipes and curves – completed procedure;
- valves and electroinsulating monoblock joints– completed procedure, signed contract;
- compressor units – centrifugal compressors with actuated turbines - completed procedure, signed contract;

### 5. Enhancement of the bidirectional 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 BRUA Phase II, Transgaz envisaged the development of the **central corridor**, which follows the route of existing pipelines currently operated at technical parameters inadequate for main pipelines.

#### Project description

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 - 82.5 MW.
- Increasing gas transmission capacity towards Hungary by 4.4 bcm/year.



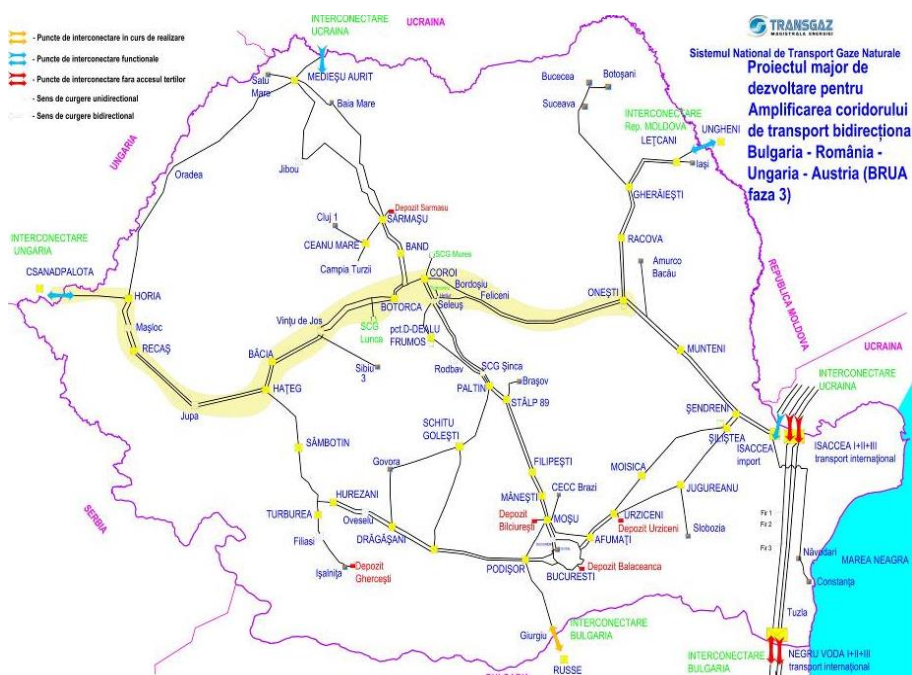


Figure 8 - Development of BRUA phase 3

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 was divided into two projects:

### The two projects are as follows:

1. Ensuring reverse flow on the Romania–Hungary interconnection:
  - **PCI Project (second list):** 6.25.3;
  - **PCI Project (third list):** 6.24.10–position 2;
  - **Priority corridor:** NSI EAST;
  - **TYNDP ENTSOG 2018:** TRA-N-959.

#### 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 (second list):** 6.25.3;
- **PCI Project (third list):** 6.24.10–position 2;
- **Priority corridor:** NSI EAST;
- **TYNDP ENTSOG 2018:** TRA-N-959.

#### The project consists in the following:

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



## Inclusion in international plans

The projects mentioned above were merged 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 **“Group of projects for the staged increase of the capacity on the bidirectional gas transmission corridor Bulgaria–Romania–Hungary–Austria (currently known as ROHUAT/BRUA) enabling 1.74 bcm/a in the first phase and 4.4 bcm/a in the second phase with the possibility to take over the new Black sea gas sources in the second and third phase”**.

**Estimated completion date: 2025**

**Estimated value: Euro 530 million.**

## Project Status

The pre-feasibility study has been completed.

SNTGN Transgaz SA will start the feasibility study when additional data and information from the title holders of the Black Sea blocks will be available (capacity requests confirmations, approximate availability of gas on the Black Sea shore, etc.).

**We reiterate that the development of this corridor still depends on the evolution of the capacity demand, respectively on the results of the exploration/operation processes of the Black Sea or other on-shore blocks, a final investment decision being taken only when the demand for additional capacity is confirmed by agreements and booking contracts.**

## 6. New NTS developments for taking over Black Sea gas

Taking into account the discovered Black Sea gas reserves, 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.

This project became necessary as a result of the discussions held/initiated by Transgaz during 2015 with holders of licenses for exploration and exploitation of the Black Sea blocks

## Project description

The project consists in the construction of a DN 500 gas transmission pipeline, about 25 km long, from the Black Sea shore to the existing T1 international gas transmission pipeline. The transmission capacity is 1.23 bcm/year according to the Open Season procedure published on Transgaz' website.



Figure 9- NTS developments related to the Black Sea

### Indicative project development calendar:

| Development stages   | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline at the date of<br>the Report |
|--|---|--|
| Pre-feasibility study  | completed   | completed  |
| Feasibility study  | completed   | completed  |
| Technical documentation for obtaining the construction permits | completed   | completed  |
| Construction permits   | completed   | completed  |
| Comprehensive decision   | obtained  | obtained   |
| Final Investment Decision                                      | 2018  | 2019   |
| Construction   | 2018-2019   | 2019-2020  |
| Commissioning/start up   | 2019  | 2021   |

**Estimated completion deadline:** 2021, depending on the upstream offshore project implementation schedules.

**Estimated value:** EUR 9.14 million

### The inclusion of the project in international plans

- **PCI project (third list): 6.24.10 – 3** within **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 1<sup>st</sup> phase, 4.4 bcm/a in the 2<sup>nd</sup> phase, and including new resources from the Black Sea in the 2<sup>nd</sup> and/or 3<sup>rd</sup> phase;***

- 
- **TYNDP ENTSOG 2018:** TRA-N-964
- **Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

#### **Project status:**

- The Pre-feasibility Study was completed and the endorsement of the Technical and Economic Committee of Transgaz was issued on 16.09.2016;
- The Feasibility Study was completed and approved by the Technical and Economic Committee of Transgaz on 31.05.2017.
- The town planning certificates (CU) were obtained in March 2017 from the Constanța County Council and the Grădina Territorial Administrative Unit, Constanța County;
- The environmental agreement was obtained on 24.11.2017;
- The Construction Permit from the Ministry of Energy was obtained based on Law 185/2016, on 20.12.2017. All permits and authorizations requested through the town planning certificates were obtained and the Final Report was issued on 29.06.2018 by the working group established according to Order 1081/15.12.2017 of the Ministry of Energy, confirming the fulfilment of all the legal conditions and requirements for Construction Permit 4/20.12.2017, according to Law 185/2016
- FEED was endorsed by the Technical and Economic Committee of Transgaz on 19.01.2018;
- The incremental capacity process for MP Vadu was completed with the allocation of the capacity and the conclusion of the gas transmission contract;
- In November 2018, Government Decision no. 890/9.11.2018 on the approval of the list of lands located outside the town built-up was issued;
- The notification for launching of procedure prior to bid submission was submitted to the Competent Authority for the Projects of Common Interest (ACPIC) on 06.07.2018 and was approved on 18.07.2018;
- The public consultation concept for the Project was submitted to ACPIC on 03.08.2018 and approved by the Ministry of Energy by Letter 111518/09.08.2018;
- The public consultations under Regulation (EU) 347/2013 were held on 11.09.2018 at Grădina and Săcele;
- The final synthetic report on the public participation activities results was prepared and published on the company's website (the project page)
- The application file was submitted to ACPIC on 10.10.2018 and was accepted on 22.10.2018.
- The Comprehensive Decision no. 3/12.12.2018 was issued.

- The public procurement procedure for the execution of the works is ongoing.

## 7. Romania–Serbia Interconnection between the Romanian and the Serbian gas transmission systems (including power supply, cathodic protection and optical fibre)

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 shows special interest to safeguarding energy security, the development of the energy infrastructure by the diversification of energy transmission sources and routes, by increasing solidarity between member states and by ensuring effective 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 for the interconnection between the gas transmission systems of Romania and Serbia is necessary.

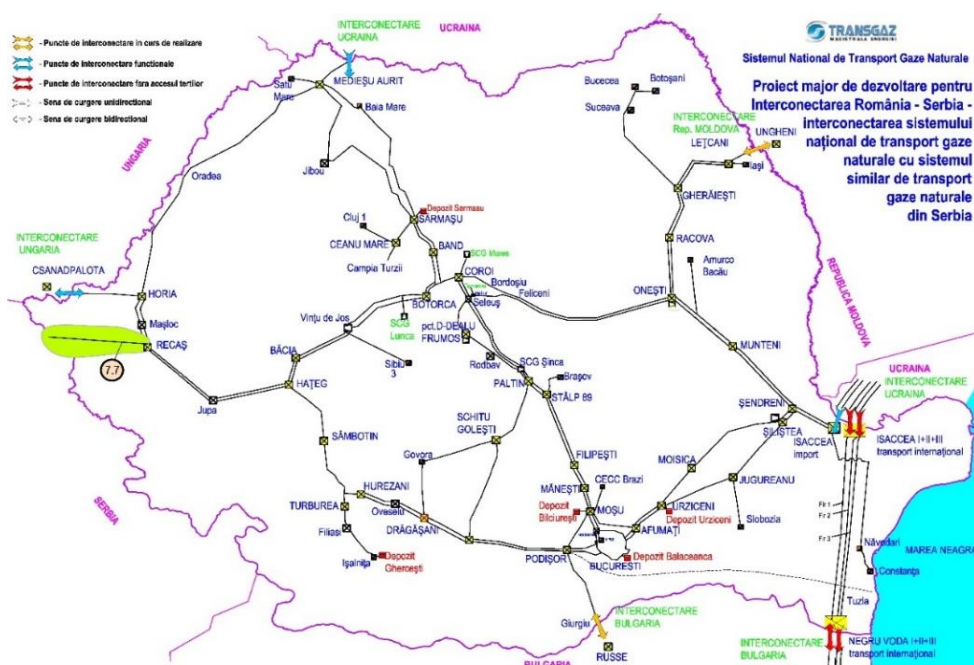


Figure 10- Interconnection of the NTS with Serbia in the Recas – Mokrin direction

The appraised gas export version towards Serbia is to take over gas from the future BRUA pipeline (Phase I).

### Project description:

The project *Interconnection Romania–Serbia Interconnection between the Romanian and the Serbian gas transmission systems* consists in the construction of a new gas transmission pipeline connecting BRUA main gas transmission pipeline to the Technological Node Mokrin in Serbia.

On the Romanian territory, the gas transmission pipeline will be connected to BRUA Phase 1 pipeline (Petrovaselo, Timis County) and will be 85.56 km long (Romanian-Serbian border – Comlosu Mare, Timis County).

The diameter determined based on the hydraulic calculations will be 24" (DN 600) at a design pressure of 63 bar.

The project consists in the following:

- Construction of an approximately 97 km long pipeline to interconnect the national gas transmission system in Serbia, in the Recas – Mokrin direction 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 Recaş area: 50 – 54 bar (PN BRUA – 63 bar);
  - Diameter of the interconnection pipeline: Dn 600;
  - Transmission capacity: max. 1 bcm/y (115,000 cm/h), pressure at Mokrin: 48.4 – 52.5 bar
  - Transmission capacity: 1.6 bcm/y (183,000 cm/h), pressure at Mokrin: 45.4- 49.9;
- Construction of a gas metering station (located on the Romanian territory).

#### Estimated project implementation schedule

| Development stages                                       | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline updated at the<br>date of the Report |
|--|---|--|
| Prefeasibility Study                                     | completed   | completed in February 2018   |
| Feasibility Study  | August 2018   | completed in November 2018   |
| FEED and Tender Books                                    | December 2018   | completed in January 2019  |
| Authority engineering                                    | December 2018   | 2019   |
| Start of the construction works<br>procurement procedure | 2019  | 2019   |
| Construction   | 2019 - 2020   | 2019 ÷ 2020  |
| Commissioning/start-up                                   | 2020  | 2020   |

#### Estimated completion date: 2020

The gas exports to Serbia will be possible as soon as BRUA (Phase I) has been completed.

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 – Recaş (25 bar) pipeline, at lower pressures than through the BRUA pipeline.

| Estimated investment value  | Acc. to 2018-2027 TYNDP | Updated at the date of the Report |
|---|-------------------------|-----------------------------------|
| Execution works   | Eur 42,4 mil.           | Eur 41,93 mil                     |
| Other activities (obtaining the land, designing, technical consultancy, audit and technical assistance) |                         | Eur 11,83 mil                     |
| <b>TOTAL</b>  | <b>EUR 42,4 million</b> | <b>Eur 53,76 million</b>          |

### Project status

- A Memorandum of Understanding was concluded between Transgaz and Srbijagas on 30.06.2017;
- Transgaz and Srbijagas prepared the Prefeasibility Studies for the facilities related to each country, the necessary data and solutions for their completion were agreed within the joint meetings;
- The procedure for obtaining the Environmental Agreement:
  - The Decision on the initial assessment stage no. 459/08.10.2018 was obtained
  - the following documentation was submitted to the Environmental Protection Agency Timis: the Presentation Report and the Notification prepared according to art. 3 of the Espoo Convention (in Romanian and English); the Environmental Protection Agency Timis submitted the documentation to the Ministry of Environment.
  - Following the transmission of the notification on the implementation of the project to the Republic of Serbia, in accordance with the provisions of the Espoo Convention, it was notified through the Ministry of Environment of the Republic of Serbia that it did not participate in the impact assessment procedure in a cross-border context, thus the environmental impact assessment procedure will continue according to the provisions of the national legislation;
  - The Decision of the Screening Stage no. 142 / 25.06.2019 was obtained;
- Following the meetings between the experts of Transgaz and Srbijagas, the following aspects were agreed/established:
  - The pipeline will be designed so as to ensure bidirectional flows of 1.6 bcm/year (183 000 Scm/h), which may be increased to up to 2.5 bcm/year (285 000 Scm/h), ensuring a 39 ÷ 45 bar pressure at Mokrin;
  - The construction on the Romanian territory (Territorial Administrative Unit Comloşu Mare, Timiş county), approximately 400 m distance from the border, of a Fiscal Gas Metering Station with two pig launching/receiving stations, one towards Petrovaselo and one towards Mokrin;
  - Configuration of the Fiscal Gas Metering Station;

- The border crossing point between Romania and Serbia (marking by poles and setting its coordinates);
- Mounting an electro insulating joint at the border, at the point of interconnection between the two gas transmission systems with the purpose to separate the two systems from a cathodic point of view.
- The Feasibility Study (endorsed in 08.11.2018) and the FEED (endorsed in 18.07.2019) were completed;
- The necessary documentation was submitted for the declaration of the project, by Governmental Decision, as project of national importance.

### Project inclusion in international plans

- **TYNDP ENTSOG 2018:** TRA-N-1268

### 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 under these Agreements include the upgrading of the gas metering stations at the two interconnection points.

The project "Upgrading GMS Isaccea 1 and Negru Vodă 1" consists in the construction of two new gas metering stations to replace the current ones. In the case of the GMS Isaccea 1 the station will be constructed within the existing station, and in the case of GMS Negru Vodă 1 in a location near the one of the current station.



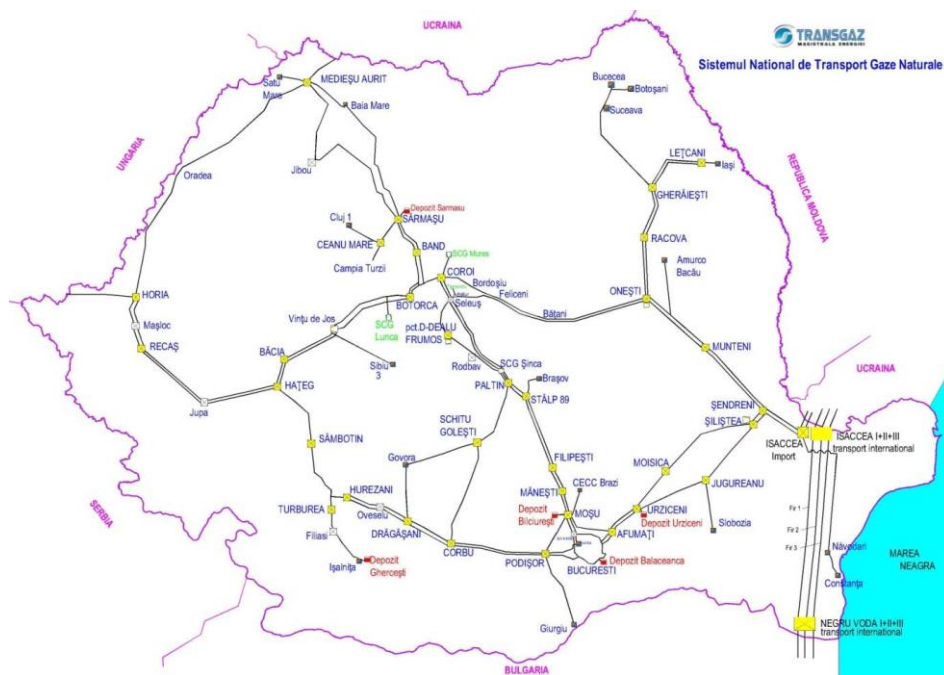


Figure 11- Upgrading GMS Isaccea 1 and Negru Vodă 1

**Project description:**

**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 equipment 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 malfunctions' causes are remedied.

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

**2. 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.

### Indicative project development calendar

| Development stages   | Status/<br>Estimated completion deadline<br>acc. to 2018-2027 TYNDP | Status/<br>Estimated completion deadline at the date of the Report |  |
|--|---|--|--|
|  |   | SMG Isaccea 1  | SMG Negru Vodă 1                         |
| Pre-feasibility study  | 2018  | completed  | 2019 (if the necessary land is obtained) |
| Engineering  | 2018  | completed  | 2019 (if the necessary land is obtained) |
| Technical documentation for obtaining the construction permits | 2018  | obtained   | 2019 (if the necessary land is obtained) |
| Construction   | 2018 - 2019   | 2019   | 2019 - 2021                              |

|                        |      |      |      |
|------------------------|------|------|------|
| Commissioning/start up | 2019 | 2020 | 2020 |
|------------------------|------|------|------|

**Estimated completion deadline:** 2020 for GMS Isaccea 1, 2021 for GMS Negru Vodă 1

| Total estimated investment value | acc. to 2018-2027<br>TYNDP | at the date of the<br>Report |
|----------------------------------|----------------------------|------------------------------|
| GMS Isaccea 1                    | EUR 13,9 mil.              | EUR 13,88 mil.               |
| GMS Negru Vodă 1                 |                            | EUR 12,77 mil.               |
| <b>TOTAL</b>                     | <b>EUR 13,9 mil.</b>       | <b>EUR 26,65 mil</b>         |

### Project status

The Feasibility Study and the FEED for the newly designed objective GMS Isaccea 1 as well as the feasibility study related to the newly designed facility GMS Negru Vodă 1. The FEED related to the newly designed facility GMS Negru Vodă 1 is being designed. The public procurement procedure for the execution of the works related to GMS Isaccea 1 is in progress.

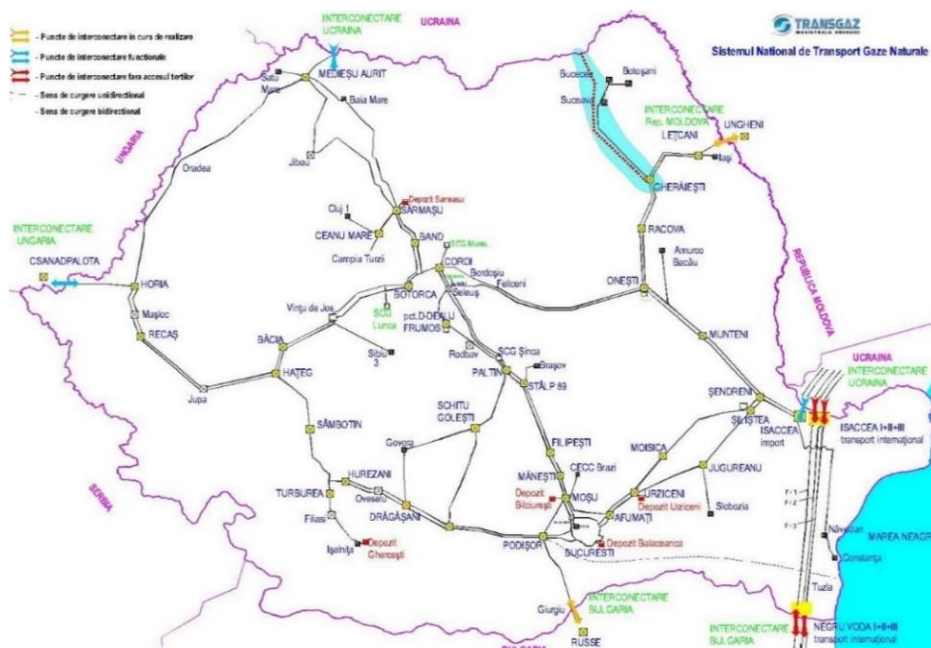
#### The inclusion of the project in international plans

- **TYNDP ENTSOG 2018:** TRA-N-1277

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

Through the Development Plan for the National Gas Transmission System, Transgaz has proposed to increase the interconnection capacity of the national gas transmission network to the European natural gas network.

In this respect, in addition to the Project for NTS developments in North-Eastern Romania for improving gas supply to the region and ensuring transmission capacities to Ukraine, Transgaz identified the opportunity to construct an interconnection between the NTS and the gas transmission system of Ukraine, in the Gherăești – Siret direction.



**Figure 12-** Interconnection between the National Gas Transmission System and the Ukrainian gas transmission system, in the direction Gherăești-Siret

### Project description:

The project consists of:

- the construction of a 130 km 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.

### Estimated project development calendar

| Development stages                | Status/<br>Estimated completion<br>deadline<br>acc. to 2018-2027<br>TYNDP | Status/<br>Estimated completion<br>deadline at the date of the<br>Report |
|-----------------------------------|---|--|
| Pre-feasibility study             | 2018  | completed  |
| Feasibility study                 | 2018-2019   | 2019 - 2020  |
| Engineering                       | 2019-2020   | 2020 – 2021*   |
| Procurement (materials and works) | 2021  | 2021*  |
| Construction                      | 2022-2024   | 2022 - 2024*   |
| Commissioning/start of operation  | 2025  | 2025*  |

\*It depends on setting the parameters for the interconnection point and on the schedule of implementation of the project on the territory of Ukraine.

### Estimated completion date: 2025

### Total estimated value of the investment: EUR 125 million

### Project status:

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







### Update and completion of the 2018-2027 TYNDP

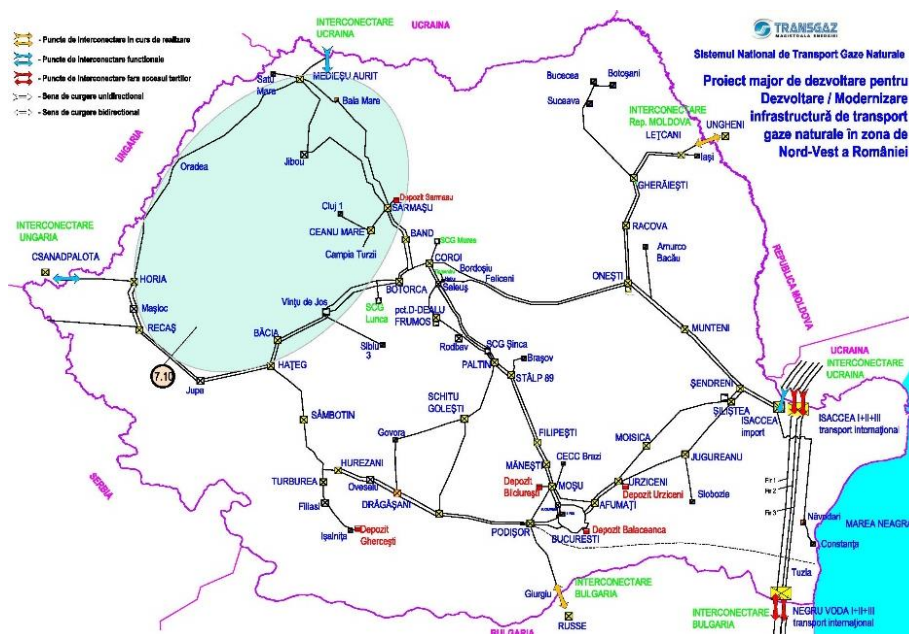
At the date of the preparation of the report the drawing up of the *Development Plan of the National Gas Transmission System for the period 2019-2028* is ongoing, including 5 new projects, as follows:

1. Development/modernisation of the gas transmission infrastructure in North-West of Romania;
2. Increasing gas transmission capacity of the Romania-Bulgaria interconnection in the Giurgiu-Ruse direction;
3. Eastring-Romania;
4. Supervisory, control and data acquisition system for the cathodic protection stations of the National Gas Transmission System;
5. Development of SCADA system for the National Gas Transmission System.

#### 1. **Development/Upgrading of the gas transmission infrastructure in the North-Western part of Romania**

The project aims to achieve/upgrade objectives related to the National Gas Transmission System in the North-Western part of Romania for the creation of new gas transmission capacities or for the increase in the existing ones.

-  Interconectare Romania - Serbia
-  Interconectare Romania - Ungaria
-  Proiect BRUA
-  Conducte existente
-  Nod Tehnologic
-  Statie de comprimare gaze



**Figure 13- Development/Upgrading of the gas transmission infrastructure in the North-Western part of Romania**

According to the Pre-Feasibility study, the project consists of:

- construction of a pipeline and of the related equipment in the direction Horia–Medieșu Aurit;
- construction of a pipeline and of the related equipment in the direction Sărmășel–Medieșu Aurit;
- construction of a pipeline and of the related equipment in the direction Huedin–Aleșd;
- construction of a Gas Compressor Station at Medieșu Aurit.

The project is to be developed taking into account the ongoing key importance projects to be implemented on the territory of Romania. The prioritization of this project is based on the evolution of the other projects.

Considering the large dimension of such project, it is supposed to be implemented in stages, as follows:

- **Stage 1:**
  - construction of the pipeline and of the related equipment in the direction Horia–Borș.
- **Stage 2:**
  - construction of the pipeline and of the related equipment in the direction Borș–Abrămuț;
  - construction of a Gas Compressor Station Medieșu Aurit;
  - construction of the pipeline and of the related equipment in the direction Huedin–Aleșd.
- **Stage 3:**
  - construction of the pipeline and of the related equipment in the direction Abrămuț–Medieșu Aurit;

- construction of the pipeline and of the related equipment in the direction Sărmășel–Medieșu Aurit.

**Estimated project implementation schedule:**

| Milestones             | Status / Estimated completion deadline |
|------------------------|--|
| <b>Stage 1</b>         | <b>2022</b>                            |
| Pre-feasibility study  | Completed                              |
| Feasibility study      | 2019-2020                              |
| FEED                   | 2020-2021                              |
| Public procurement     | 2021                                   |
| Construction           | 2021-2022                              |
| Commissioning/start up | 2022                                   |
| <b>Stage 2</b>         | <b>2025</b>                            |
| Pre-feasibility study  | Completed                              |
| Feasibility study      | 2019-2020                              |
| FEED                   | 2021-2022                              |
| Public procurement     | 2022                                   |
| Construction           | 2023-2025                              |
| Commissioning/start up | 2025                                   |
| <b>Stage 3</b>         | <b>2026</b>                            |
| Pre-feasibility study  | Completed                              |
| Feasibility study      | 2019-2020                              |
| FEED                   | 2022-2023                              |
| Public procurement     | 2023                                   |
| Construction           | 2024-2026                              |
| Commissioning/start up | 2026                                   |

**Estimated completion deadline: 2022 Stage 1, 2025 Stage 2 and 2026 Stage 3**

**Estimated value: Euro 405 million**

**Project status:**

The project is at an early phase – completed Pre-feasibility Study.

**2. Increase in the gas transmission capacity of the interconnection Romania-Bulgaria, in the Giurgiu-Ruse direction**

In July 2017, in Bucharest, Transgaz, Bulgartransgaz, DESFA, FGSZ and ICGB signed a Memorandum of Understanding on the Vertical Corridor. In order to achieve its scope, the



parties agreed to assess the technical requirements such as new pipelines, interconnections or enhancements of the national transmission systems.

The estimations in terms of the gas transport in the Southern part of Europe illustrate a rapid evolution and the new key projects to be achieved in Southern Europe envisage gas flows in the direction South-North.

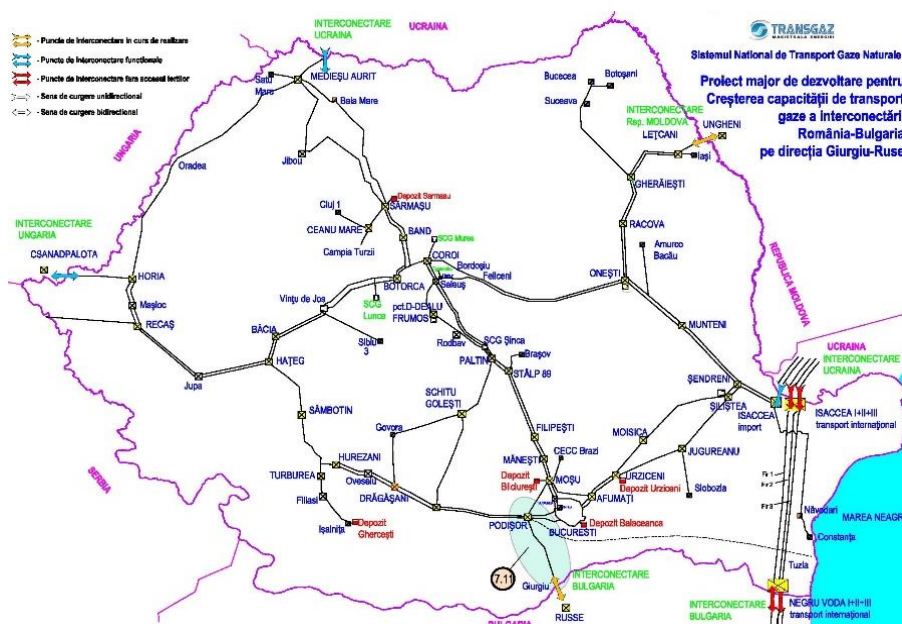


Figure 14 Increase in the gas transmission capacity of the interconnection Romania-Bulgaria, in the direction Giurgiu-Ruse

### Project description

Based on the capacities, the project consists of:

- construction of a new gas transmission pipeline and of the related facilities
- construction of a new Danube undercrossing
- enhancement of SMG Giurgiu

### Estimate project development schedule:

| Milestones             | Status / Estimated completion deadline |
|------------------------|--|
| Pre-feasibility study  | 2019-2020                              |
| Feasibility study      | 2020-2021                              |
| FEED                   | 2022-2024                              |
| Public procurement     | 2024                                   |
| Construction           | 2025-2027                              |
| Commissioning/start up | 2027                                   |

### Estimated completion deadline: 2027

**Estimated value: Euro 51.8**

**Project status:**

The project is at an early implementation stage, the capacities to be developed within this project will be later on established and the final technical solution will be based on such capacities.

**3. Eastring-România**

The Eastring project promoted by Eustream is a bidirectional gas transmission pipeline dedicated to Central and South-Eastern Europe which is meant to interconnect the gas transmission systems of Slovakia, Hungary, Romania and Bulgaria in order to ensure access to the Caspian and Middle East gas reserves.



**Figure 15 - Eastring**

**Project description**

EASTRING is a bidirectional gas transmission pipeline with an annual capacity between 225.500 GWh and 451.000 GWh (approx. 20 bcm up to 40 bcm) which connects Slovakia with the EU external border through Bulgaria, Hungary and Romania.

EASTRING will ensure the most cost-reflective and direct transmission route between the gas platforms from the Western European region and the Balkans/Western Turkey – a region with

very high potential to offer gas from various sources. The possibility to diversify transmission routes and gas supply sources will safeguard the regional security of gas supply to the region, mainly in the South-Eastern European countries.

According to the feasibility study, the project will be implemented in two stages as follows:

- Stage 1 – Maximum capacity 20 bcm/a;
- Stage 2 – Maximum capacity 40 bcm/a.

#### Estimated project implementation schedule:

| Milestones             | Status / Estimated completion deadline |
|------------------------|--|
| <b>Stage 1</b>         | <b>2025</b>                            |
| Pre-feasibility study  | Completed                              |
| Feasibility study      | Completed                              |
| FEED                   | 2019-2023                              |
| Public procurement     | 2022-2023                              |
| Construction           | 2023-2025                              |
| Commissioning/start up | 2025                                   |
| <b>Stage 2</b>         | <b>2030</b>                            |
| Pre-feasibility study  | Completed                              |
| Feasibility study      | Completed                              |
| FEED                   | 2025-2028                              |
| Public procurement     | 2028-2029                              |
| Construction           | 2028-2030                              |
| Commissioning/start up | 2030                                   |

#### Estimated completion deadline: 2025 Stage 1, 2030 Stage 2

#### Estimated investment:

- **Stage 1 - Euro 1,297 mil. for Romania (2.600 mil. Euro-total);**
- **Stage 2 - Euro 357 mil. for Romania (739 mil. Euro-total).**

#### Project status:

In 2018 the Feasibility Study was completed. The scope of the Feasibility Study was the design of a bidirectional pipeline to interconnect the Slovakian gas transmission system with the South-Eastern European border (Black Sea or Turkey) through Hungary, Romania and Bulgaria.

#### Project inclusion in international plans

- **PCI Project (List III): 6.25.1;**

- **2018 ENTSOG TYNDP (Eastring–Romania):** TRA-N-655.

#### ***4. Monitoring system, data control and acquisition for the cathodic protection stations related to the National Gas Transmission System***

The implementation of the data acquisition, control and monitoring system for the cathodic protection system will ensure increased durability and safety in the operation of the transmission pipelines based on the data acquired, will ensure simplicity in operation for a complex pipeline protection system with low maintenance costs.

At the same time, it will provide information about the electro-security of the pipeline as well as for the intrinsic cathodic protection (without external cathodic power source) by providing information at some points or sections for the limiting recovery of the induced alternating currents in the pipeline.

##### **Project description**

In the National gas transmission system TRANSGAZ SA, the cathodic protection stations are the main active protection system of the gas transmission pipelines.

There are currently approximately 1.038 cathodic protection stations recorded (CPS). The reduction in the corrosion of the pipelines maintaining them in operation for a longer period of time and the reduction in the maintenance costs are the main objectives.

The centralized cathodic protection system will provide the possibility the remotely set, monitor and operate clearly and precisely the points of interest in the system, it will eliminate costs related to data reading it will avoid the situations when because of the weather conditions it is impossible to read data and human errors, it will allow for the distributed control of the locations, it will reduce operation and maintenance costs and considerably reduce the configuration time.

The implementation of such a system will reduce the micro-management, the testing time and the commissioning.

The architecture distributed will offer minimum unavailability risks and it will offer maximum viability of the cathodic protection system.

The system will be intuitive, easy to use and acceptable in any SCADA system structure and the training requirements for the operators are short and simple.

The implementation of such a system will reduce personnel costs and will train the personnel responsible for operation and maintenance.

The decision on the system maintenance and the related regulation of the cathodic protection station in integrated system will be the decision of a well-trained dispatcher relying on the data received in real time and based on a historical data base.

The remote control of the parameters of the cathodic protection stations and corrosion monitoring in the critical points of the gas transmission system is mandatory for corrosion reduction and proper management of the power consumers in each location.

The implementation of the SCADA system for cathodic protection will ensure increased sustainability and safety in the exploitation of the gas transmission pipelines based on the data acquired it will ensure the simple operation of a complex pipeline protection system.

**Indicative project development calendar:**

| <b>Development stages</b>                                     | <b>Status/Estimated completion date</b> |
|---|---|
| Feasibility study   | 2019                                    |
| FEED  | 2019-2020                               |
| Environmental impact assessment                               | N/A                                     |
| Obtaining the Environmental Agreement =                       | N/A                                     |
| Technical documentation for obtaining the construction permit | N/A                                     |
| Obtaining the construction permit                             | N/A                                     |
| Making the final investment decision                          | 2020                                    |
| Construction  | 2020-2023                               |
| Commissioning/start up  | 2021-2023                               |

**Estimated completion deadline: 2023**

**Estimated investment value: EURO 8 million**

**Project status:**

Feasibility Study– is being prepared by the Researc Design Division

**5. Development of the SCADA system for the National Gas Transmission System**

Security of gas supply underlies any energy policy - any gas supply disruption has important consequences for the economies of EU Member States.

To strengthen this security, European Union countries need to diversify their energy drivers and energy sources, but at the same time to act for the modernization of natural gas transmission infrastructure.

The upgrading of the gas transmission infrastructure must be supported in the coming years by the development of an efficient and flexible SCADA system by modernizing the hardware

and software architecture by migrating to a decentralized architecture with control distributed on organizational administrative units in accordance with the structure of SNGG TRANSGAZ.

## Project description

SNTGN Transgaz has implemented and commissioned in 2015 a SCADA system structured as follows:

- 2 central dispatching centres, Mediaş and Bucharest;
- 9 local dispatching units;
- 948 MRSs;
- 106 line valves;
- 33 technological nodes;
- 3 compressor stations;
- 4 international transmission stations;
- 2 import stations;
- 7 underground storage facilities.

The National Gas Transmission System has a continuous evolution justified by the dynamics of the gas flows circulated and the strategic position Romania has in ensuring the national and European energy independence and security:

- Development of the Southern Transit Corridor on the territory of Romania for taking over the natural gas from the Black Sea shore;
- Interconnection of the national gas transmission system with the T1 natural gas international transmission pipeline and reverse flow at Isaccea;
- NTS developments in the North-East of Romania in order to improve the natural gas supply of the area and to ensure the transmission capacities to/from the Republic of Moldova;
- Enhancement of Bulgaria-Romania-Hungary-Austria bi-directional gas transmission corridor (BRUA-Phase III);
- Capitalization of Romania's technical and energy resources through the development of the NTS interconnection projects with other European transmission systems (Ukraine, Moldova, Serbia, Hungary, Bulgaria);
- Project on new NTS developments for taking over gas from the Black Sea shore;
- Romania-Serbia interconnection - interconnection of the National Gas Transmission System with the similar natural gas transmission system of Serbia;
- Upgrading GMS Isaccea 1 and GMS Negru Vodă 1;
- Interconnection of the national gas transmission system with the natural gas transmission system from Ukraine, on the Gherăesti-Siret direction;
- Expansion, development and upgrading of natural gas transmission infrastructure (development of the natural gas compressor stations, modernization of the storage system infrastructure, etc.);
- Meeting the legislative requirements imposed by the National Regulatory Authority for Energy (ANRE) regarding the integration into the SCADA system TRANSGAZ of all the exit

points from the NTS, which were not included in the SCADA System implemented by the Supply Contract no.17095 / 2009.

### Indicative project development timeline:

| Development stages  | Status/Estimated completion date |
|---|----------------------------------|
| Feasibility study   | 2019 - 2020                      |
| FEED  | 2020 - 2022                      |
| Environmental impact assessment                               | N/A                              |
| Obtaining the Environmental Agreement                         | N/A                              |
| Technical documentation for obtaining the construction permit | N/A                              |
| Obtaining the construction permit                             | N/A                              |
| Making the final investment decision                          | 2020                             |
| Construction  | 2020 - 2023                      |
| Commissioning/start up  | 2023                             |

**Estimated completion deadline: 2023**

**Estimated investment amount: EURO 5.5 million**

### Current status of the project: -

The Concept report and the Design theme are being prepared

## Degree of achievement of "the 10 year NTS Development " – Semester I 2019



| Tag no.      | Name of project  | Total estimated value mil.Euro | Planned                                       | Achievements 2013-2018 |                    | Achievements Sem. I 2019 (lei) | TOTAL 2013- sem. I 2019 |                    |
|--------------|--|--------------------------------|---|------------------------|--------------------|--------------------------------|-------------------------|--------------------|
|              |  |                                |   | lei                    | mil. Euro          |                                | lei                     | lei                |
| 1.1          | Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor <b>BRUA phase 1</b> |                                | Feasibility studies                           | 4.296.872              | 0,95               | -                              | 4.296.872               | 0,95               |
|              |  |                                | FEED (without guarantees-forests)             | 35.576.523             | 7,91               | 6.856.564                      | 42.433.087              | 9,36               |
|              |  |                                | Development                                   | 307.018.041            | 68,23              | 283.466.454                    | 590.484.495             | 128,0              |
|              |  |                                | <b>TOTAL BRUA phase 1</b>                     | <b>478,6</b>           | <b>346.891.436</b> | <b>77,09</b>                   | <b>290.323.018</b>      | <b>637.214.454</b> |
| 1.2          | Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor <b>BRUA phase 2</b> |                                | Feasibility studies                           | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | FEED (without guarantees-forests)             | 882.088                | 0,2                | 27.285                         | 909.373                 | 0,2                |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL BRUA phase 2</b>                     | <b>68,8</b>            | <b>882.088</b>     | <b>0,2</b>                     | <b>27.285</b>           | <b>909.373</b>     |
| 2            | Development on the Romanian territory of the <b>Southern Corridor</b> for taking over Black Sea gas  |                                | Feasibility studies                           | 935.391                | 0,21               | -                              | 935.391                 | 0,21               |
|              |  |                                | Third party FEED (without guarantees-forests) | 5.293.184              | 1,18               | 82.391                         | 5.375.575               | 1,2                |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>360,36</b>          | <b>6.228.575</b>   | <b>1,39</b>                    | <b>82.391</b>           | <b>6.310.966</b>   |
| 3            | NTS interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea   |                                | Feasibility studies                           | 765.438                | 0,17               | -                              | 765.438                 | 0,17               |
|              |  |                                | Third party FEED (without guarantees-forests) | 1.075.265              | 0,24               | 682.752                        | 1.758.017               | 0,38               |
|              |  |                                | Development                                   | 1.694.142              | 0,38               | 1.198.851                      | 2.892.993               | 0,63               |
|              |  |                                | <b>TOTAL</b>                                  | <b>77,7</b>            | <b>3.534.846</b>   | <b>0,79</b>                    | <b>1.881.603</b>        | <b>5.416.449</b>   |
| 4            | NTS development in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the <b>Republic of Moldova</b>    |                                | Feasibility studies                           | 3.826.351              | 0,85               | -                              | 3.826.351               | 0,85               |
|              |  |                                | Third party FEED (without guarantees-forests) | 7.179.783              | 1,6                | 814.458                        | 7.994.241               | 1,77               |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL MOLDOVA</b>                          | <b>174,25</b>          | <b>11.006.134</b>  | <b>2,45</b>                    | <b>814.458</b>          | <b>11.820.592</b>  |
| 5            | Extension of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3)   |                                | Feasibility studies                           | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | FEED (without guarantees-forests)             | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>530</b>             | <b>0</b>           | <b>0</b>                       | <b>0</b>                | <b>0</b>           |
| 6            | Project on new NTS developments the taking over Black Sea gas  |                                | Feasibility studies + Engineering             | 563.418                | 0,13               | 34.444                         | 597.862                 | 0,14               |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>9,14</b>            | <b>563.418</b>     | <b>0,13</b>                    | <b>34.444</b>           | <b>597.862</b>     |
| 7            | Romania - Serbia Interconnection   |                                | Feasibility studies + FEED                    | 504.027                | 0,11               | 62.923                         | 567.950                 | 0,12               |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>53,76</b>           | <b>504.027</b>     | <b>0,11</b>                    | <b>62.923</b>           | <b>567.950</b>     |
| 8            | Upgrading GMS Isaccea 1 and GMS Negru Vodă 1   |                                | Feasibility studies + FEED                    | 1.582.163              | 0,35               | 268.889                        | 1.851.052               | 0,41               |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>26,65</b>           | <b>1.582.163</b>   | <b>0,35</b>                    | <b>268.889</b>          | <b>1.851.052</b>   |
| 9            | Romania – Ukraine Interconnection in the Gherăești - Siret direction   |                                | Feasibility studies + FEED                    | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | Development                                   | -                      | -                  | -                              | -                       | -                  |
|              |  |                                | <b>TOTAL</b>                                  | <b>125</b>             | <b>0</b>           | <b>0</b>                       | <b>0</b>                | <b>0</b>           |
| <b>TOTAL</b> |  | <b>1.904,3</b>                 |   | <b>371.193.687</b>     | <b>82,5</b>        | <b>293.495.011</b>             | <b>664.688.698</b>      | <b>144,4</b>       |

**Table 7 - Degree of achievement of the major projects from the 10 year Network development plan-SEM I 2019**

### 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 grant application 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 grant agreement;
- 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;
- Operation of the platform MySMIS 2014+;
- Operation of the platform AEGIS - ACER Electricity and Gas Information System;
- Operation of the platform TENtec a INEA;
- Participation in events related to the European Funds field;
- Collaboration with the Management Authorities and Regional Infrastructure Unit Bacău, the Ministry of the European Funds, the Ministry of Economy, the Ministry of Energy, the Competent Authority for Projects of Common Interest, the General Directorates of the European Commission and the project partners, internal and external
- Management of the custom statements alternative proof, for gas transit to Greece;
- Filling in and submitting the Intrastat statement.

#### **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 Ministry of European Funds (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;
- Drawing up / submitting reports to TRANSGAZ management / departments on the financing opportunities based on the Financing Programs managed by the European Commission and National Bodies;
- The preparation 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", based on the Collaboration Protocol concluded between Transgaz and MFE.

TRANSGAZ' Projects co-financed from non-reimbursable funds, in process of implementation, are the following:

- A. *Development on the territory of Romania of the National Transmission System in Bulgaria-Romania-Hungary-Austria direction, Stage I execution works ("the action"), action number 7.1.5-0029-RO-W-M-15*

The project is co-funded by the Connecting Europe Facility. The European Funds Unit carried out the following activities:

- the transmission to INEA of the updated reports received from PMU BRUA,
- collaboration with the BRUA Project Management Unit personnel on the submission of the Balance Intermediary Payment Request and Procurement of Audit Services to complete the Audit Report.

- B. *Developments of the NTS in the North-East area of Romania in order to improve the natural gas supply of the region and to ensure transmission capacities to the Republic of Moldova.*

The project is co-funded through the Large Infrastructure Operational Program 2014-2020. The European Funds Unit carried out the following activities:

- tracking the fulfillment of TRANSGAZ obligations stipulated in the Financing Contract no. 226/22.11.2018, concluded with the Managing Authority for the Large Infrastructure Operational Program 2014-2020,
- preparation of the documents related to the monthly and weekly reports, according to the provisions of the Financing Contract no. 226/22.11.2018,
- preparation of the documents related to the changes during the implementation of the project, in order to inform/notify the Managing Authority for the Large Infrastructure Operational Program 2014-2020
- managing TRANSGAZ' account on the project's MySMIS platform,
- informing the departments involved in the project on the legislative provisions that have an impact on the implementation of the project,
- managing the communication relationship with the Managing Authority for the Large Infrastructure Operational Program 2014-2020.

**The following activities were performed in respect of the projects under implementation 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;
- Ensuring the communication between the Project management Unit and the Management Authority.

**For the project which obtained non-reimbursable financing from European Funds, which are in the post-implementation period, the following activities have been developed:**

- A. *Modernisation of Şinca Turbocompressor Station and related installations*

In accordance with the provisions of the Grant Agreement, the Report on Durability of Investment for the period January – December 2018, together with the attached documents, was issued and sent to the Ministry of Energy, The Intermediary Body for Energy (IBE).

*B. "Romania - Bulgaria Interconnection" Project*

*The Romania - Bulgaria Interconnection Project* is the only project that can ensure the gas transmission from the Southern Azerbaijan-Turkey-Greece gas route to Austria, through the transit of Bulgaria and the segment on the territory of Romania, "The gas pipeline from Bulgaria to Austria, via Romania and Hungary" (BRUA - code 7.15, according to List 1 Projects of Common Interest).

Following the submission of the documentation related to the Payment Request of the final balance and the payment made by the European Commission to the SNTGN TRANSGAZ account between 19<sup>th</sup> June and 21<sup>st</sup> June 2018, the Financial Audit Mission was held at the company's headquarters, in connection with the cost final statement for EEPR-2009-INTg-RO-BG-SI2.569565 / SI2.569582 Action - Interconnection of gas transmission systems in Romania and Bulgaria.

Based on the Interim Audit Report, the European Funds Division submitted proposals for updating / amending the findings, which were included in the Final Report.

The members of the audit team announced the completion of the audit mission and the Final Audit Report was made available to TRANSGAZ on 19<sup>th</sup> March 2019.

*C. "România – Hungary Interconnection" Project*

The Company's point of view on granting the access of a third party to the documents related to the project (documents corresponding to the Final Payment Request) was issued and submitted at the European Commission's request.

*D. Project: 7.1.5-0026-RO- S-M-14 – „FEED for the three Compressor Stations in the corridor PCI 7.1.5. – Romanian Section”*

Following the Notification sent by the Executive Agency for Innovation and Networks, by which it was communicated that in accordance with the provisions of Regulation No.1316 /2013 of the European Parliament and of the Council, it was decided to carry out the financial audit for the project: 7.1.5-0026-RO-SM-14 - „FEED for the three Compressor Stations in the PCI corridor 7.1.5. - Romanian Section”, the representatives of the European Funds Unit participated in:

- Collection of documents and information contained in the Audit Notification,
- Filling in the pre-audit questionnaires and sending them to the audit team,
- Verification together with the financial manager from PMU BRUA of the costs settled by the EC,
- Providing support during the audit mission.

**Activities carried out on the AEGIS (Agency for the Cooperation of Energy Regulators – ACER) platform for TRANSGAZ projects comprised in the Ten-Year Network Development Plan (TYNDP)**

- The documents / questionnaires on TRANSGAZ projects were extracted from 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.

### **Activity of monitoring and implementation of projects with financing from non-reimbursable funds**

The main activities developed focused on summarizing up and issuing a **Monitoring Manual** having as model a series of documents issued by the Government of Romania (and by other institutions of the State) and on the identification of new TRANSGAZ development lines which may be partially financed from EU funds or development projects which might be included in the future in financing from European funds. Other activities developed within this direction were the following:

- Issue, documentation and analysis on the work forms, methodology, planning and monitoring stages within TRANSGAZ projects financed by non-reimbursable funds.
- Technical analyses on the Site's Decisions regarding TP no. 1062/2015 Development on the territory of Romania of the Natural Gas Transmission National System on Bulgaria – Romania – Hungary – Austria corridor – lot 1.
- Granting the necessary support to the periodical training on Occupational Health and Safety and Emergency Situations.
- Documentation, information and analysis of technologies on CNG and LNG usage, including within some virtual gas transmission networks and possibilities of accessing non-reimbursable European funds.
- Documentation, information and analysis of technologies on the usage of non-explosive methods at digging the trenches in difficult land, taking into consideration the comparative study on the rock removal solutions with usage of mechanical equipment, respectively of explosible material, applied to the achievement of the erection platform of the ditch for laying the natural gas transmission pipelines placed in protected natural areas and their influence on environmental factors or other gas transit pipelines found in various implementation phases and which cross over rocky areas which are hardly accesible to conventional heavy equipment.
- Documentation and preparation of the country sheets requested promptly, with an emphasis on the gas economic sector.
- Analysis of new modern solutions with monitoring applications in the gas industry and the evolution of the available technologies for the construction and maintenance of gas pipelines.

### **3.3 International cooperation**

Meeting Transgaz strategic objectives requires a close Transgaz collaboration with the romanian institutions (ministries, agencies, intermediate bodies, competent authorities, etc.), 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**

**BULGARTRANSGAZ EAD (Bulgaria):**

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

Contact with the Bulgartransgaz representatives was kept for the joint operation of the Giurgiu-Ruse, Negru Vodă I, II and III cross-border IPs and for trading relevant capacity according to the applicable regulatory framework.

The cooperation between the parties is based on interconnection agreements for the Ruse/Giurgiu and Negru Voda I IPs, concluded in 2016. These agreements establish 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.

In this regard, the Parties have collaborated to:

Agree and sign the necessary amendments to the Interconnection Agreement for Ruse-Giurgiu Interconnection Point and the Interconnection Agreement for Negru Vodă 1 Interconnection Point.

As for the Interconnection Point Negru Vodă 2+3/Kardam, 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 the Negru Voda 2+3/Kardam virtual interconnection point. In this respect the parties are currently agreeing the text of the Interconnection agreement in view of launching the public consultation process for the business rules, part of the Interconnection Agreement.

As of June, TRANSGAZ together with Bulgartransgaz has been conducting public consultations on the Interconnection Agreement related to Negru Vodă 2, 3/Kardam Interconnection Point.

**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 regarding the coordinated development of the BRUA project was maintained by the Parties
- *Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT):*
  - Pursuant to the Interconnection Agreement concluded for the Csanadpalota Interconnection Point, concluded in 2015 between TRANSGAZ and FGSZ in



accordance with the provisions of Regulation no. 703 (EU) 2015/703 of the Commission dated 30<sup>th</sup> April 2015 for establishing a network code for the rules on interoperability and data exchange;

- The parties maintained contact regarding the updating of the Interconnection Agreement on IP Csanádpalota in accordance with the provisions of the applicable European regulations.
- *In order to harmonize the requirements regarding the quality of natural gas in the ROHU corridor, in May and June of the current year took place at the registered office of the Romanian Energy Regulatory Authority (ANRE) and respectively at the registered office of the the Hungarian Energy Regulatory Authority (MEKH), meetings of the working group consisting of representatives of ANRE, MEKH, TRANSGAZ and FGSZ. During these meetings, the analysis of the regulatory framework of the two states on gas quality was started and the discussions will be continued in order to identify a solution for harmonizing the quality of natural gas.*
- *Implementation of the requirements imposed by the EU Regulation no. 459/2017 (CAM NC - European Network Code on Capacity Allocation Mechanisms) establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) no. 984/2013:*
  - 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. With a view to maximizing bundled capacity offers, TRANSGAZ cooperates annually with FGSZ so as to annually agree on the technical capacities available at the joint Interconnection Point Csanadpalota. In this respect the Parties signed within May "Joint method for setting the technical capacity for IP Csanadpalota"

#### **UKRTRANSGAZ (Ukraine):**

- *Joint operation of the Isaccea 1 Cross-Border Interconnection Point under the Interconnection Agreement in accordance with applicable European regulations. Agreement between the parties on the addendum to the Interconnection Agreement is in progress.*
- *Operation of the Virtual Interconnection Point Isaccea 2,3/Orlovka. The Parties are currently agreeing the Interconnection Agreement related to this point.*
- *Operation of the Medieșu-Aurit-Tekovo Cross-Border Interconnection Point - the parties are in the process of negotiating an Interconnection Agreement.*
- *The parties are assessing the metering stations related to the cross border interconnection points between Romania and Ukraine.*

#### **VESTMOLDTRANSGAZ (Republic of Moldova):**

Based on the EGMS resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfilment of its core business, Eurotransgaz S.R.L. participated in the investment contest for Vestmoldtransgaz privatization. On 26 February 2018, the Commission for privatisation contests of the Republic of Moldova notified the result of the contest, declaring Eurotransgaz SRL the winner of the contest. On 28 March 2018 Eurotransgaz signed the contract for the taking over of Vestmoldtransgaz Chisinau.



In September 2018 the procedure for the procurement of the works related to the execution of the investment objective Interconnection gas pipeline between the natural gas transmission system in Romania and the natural gas transmission system of the Republic of Moldova in the Iasi - Ungheni direction, Phase II, was initiated.

A contract was signed with the winner of the Procurement Procedure "Works on the execution of the Interconnection Pipeline of the Natural Gas Transmission System from Romania with the Natural Gas Transmission System from the Republic of Moldova - Phase II - Iasi - Ungheni - Chisinau direction (7 lots)" - LOT 7 - ACI CLUJ SA - IMSAT SERVICE S.A. - ABCONY SERV S.R.L. Association on 14.01.2019 in Bucharest

TRANSGAZ and the European Investment Bank signed on 24 January 2019, in Luxembourg, the Loan Agreement for Ungheni-Chisinau Gas Pipeline Project for a total amount of 38 million euros.

Contracts were signed in April this year with the winners of the Procurement Procedure for Lot 1; Lot 2; Lot 3; Lot 4; Lot 6 of "Works on the execution of the Interconnection Pipeline of the Romanian Natural Gas Transmission System with the Natural Gas Transmission System of the Republic of Moldova - Phase II - Iasi - Ungheni - Chisinau direction". Currently, the construction works for the project are ongoing.

### **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 și Srbijagas completed the pre-feasibility and the feasibility studies and the FEED.

### ***Cooperation with other companies of the gas sector:***

#### **Regional gas shippers:**

(Gazprom Export, Bulgargaz, titleholders of on-shore și off-shore fields in Romania (ExxonMobil, Lukoil, OMV Petrom, Black Sea Oil and Gas, Romgaz)

#### **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.

**TRANSGAZ collaborates with the titleholders of the on-shore and off-shore fields in Romania** for a regular exchange of information of a technical, economic, financial and legal nature with the purpose of coordinating the necessary developments in the National Natural Gas Transmission System.

### **Cooperation with the European and neighbouring gas Transmission System Operators within the Trans Balkan Corridor project**

As part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative, under the patronage of the European Commission Transgaz together with other Gas Transmission System Operators signed the *Memorandum of Understanding on a joint approach and action plan to address bidirectional natural gas transportation via the Trans-Balkan pipelines to cope diversification and security of supply challenges (MoU on the Trans-Balkan Corridor)*.

On the sidelines of the CESEC High Level Group meeting held in Budapest, 8-9 September 2016, the MoU on the Trans-Balkan Corridor was concluded between the TSOs of Greece, Bulgaria, Romania and Ukraine (i.e. DESFA, Bulgartransgaz, Transgaz and Ukrtransgaz) in the presence of high officials from Brussels and of Ministers of Energy from the CESEC countries.

This MoU defines the common intention of the Trans-Balkan TSOs to ensure, by coordinated actions (infrastructure projects included), physical reverse flows in the direction Greece-Bulgaria-Romania-Ukraine by means of the Trans-Balkan pipelines beyond 2019 and allows for the increase in the regional gas supply.

The kick-off meeting on the MoU was hosted by Transgaz in Bucharest, on 28 September 2017, in the margins of the CESEC High-Level Group Meeting, under the patronage of the European Commission and under the coordination of DG ENER. The Moldavian company Moldovagaz that operates a gas transmission system integrated with the Trans-Balkan Corridor was also invited to attend the meeting chaired by Mr. Klaus-Dieter Borchardt (Director DG ENER).

Based on this Memorandum, a joint working group was set up to identify efficient solutions to the capacity of Trans-Balkan pipelines. Transgaz actively participates in the activity of the Working Group by contributing to the preparation of the relevant documents.

In order to extend its activity **TRANSGAZ is considering the development of new partnerships with relevant international companies in the energy field** and in this respect is carrying discussions for the conclusion of cooperation agreements.

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

SNTGN Transgaz S.A. became member or kept its quality of member within gas national and international bodies. The advantages and benefits of such membership are mainly: promoting the company and its objectives and interests, access to the updated information in the gas regulatory, policy, innovation, standards and products domain, and the participation in national and international events (conferences, seminars, forums, 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), Piggings Products and Services Association (PP&SA) of UK.
- National associations: CNR- CME, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, Romanian Fracture Mechanics Association ARME, the Romanian Energy Centre (CRE), American Chamber (AmCham), the ICC National Committee Romania.

All membership fees and taxes have been paid to date according to the association contracts. The membership in the national and international organizations and bodies was extended and the company was represented at the meetings organized by the structures in which TRANSGAZ is a member.

The possibility of TRANSGAZ's affiliation to the Oil and Gas Employers' Federation (FPPG) was introduced in the internal approval process. According to the decision of the Board of Administration no. 23/31.06.2019, the introduction for approval within the Extraordinary General Meeting of Shareholders of the report on the affiliation to the FPPG was endorsed.

Within DAFERI, the following were ensured:

- Annual reporting of the progress of PCI projects to ACER
- Reporting of BRUA Project's progress to INEA
- Reporting of PMI projects to the European Energy Community
- Collaboration with ENTSOG in order to finalize TYNDP (Ten Year Network Development Plan)
- Registration of TRANSGAZ projects for the 4<sup>th</sup> PCI list and their promotion.

In the first semester of 2019, Transgaz representatives participated in a series of meetings with external partners and with European profile organizations, as well as to international and national events dedicated to the gas sector with a significant impact on the company's activity and objectives.

Out of these, we emphasize the following:

- January 2019 Abu Dhabi – Participation to “The Abu Dhabi International Petroleum Exhibition & Conference”
- January 2019 Brussels – Meetings with representatives of DG ENER, of the Ministry of Economy and Infrastructure from the Republic of Moldova
- January 2019 Vienna - Participation to the 12<sup>th</sup> Annual European Gas Conference
- February 2019 Baku – The 5<sup>th</sup> Ministerial Reunion of the Consultative Council on the Southern Gas Corridor
- February 2019 Athens – Reunion at expert level for finalizing the text of the Protocol which will be signed.
- March 2019 Vienna – Meeting between TRANSGAZ - OMV and OMV Petrom.
- March 2019 Brussels – Meeting of Regional Groups from Gas area
- June 2019 Brussels – Meeting between TRANSGAZ and INEA
- May 2019 Brussels – USA-EU Energy Forum
- May 2019 Brussels – Reunion of TEN-E Gas Regional Groups
- May 2019 Kirkovo, Bulgaria – Ceremony for starting the execution works for Greece-Bulgaria Interconnection
- June 2019 Brussels – Meeting of the Consultative Committee of the Energy Charter Secretariat (IAP) Investments for Energy sector with Low Carbon Emissions
- June 2019 Brussels – Meeting with INEA representatives
- June 2019 Vienna – Meeting with the representatives of the World Bank and with CEGH and OMV Petrom representatives
- June 2019 Ljubljana – Business Forum: The Initiative of the Three Seas
- June 2019 Belgrade – Meeting with the representatives of Srbjagaz Gas National Company
- June 2019 Brussels – Meeting of the TEN-E Regional Groups for Gas

### **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:**

- 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, 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 mainly to develop partnerships and infrastructure projects in the gas field in cooperation with Moldova. It carried out intensive activities in cooperation with other entities within the company and in particular with Vestmoldtransgaz for the development of the Ungheni-Chisinau gas pipeline project on the territory of Moldova.

At present, considering the fact that starting with the month of October 2018, SNTGN TRANSGAZ SA has a subsidiary in Chisinau (Eurotransgaz SRL) and entirely controls Vestmoldtransgaz SRL, the duties and responsibilities of Chişinău Representative Office being taken over by Eurotransgaz SRL and Vestmoldtransgaz SRL.

### Cooperation with the relevant ministries

In semester I 2019 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' 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:

- **The Operation Agreement for the Ungheni IP**, concluded with Vestmoldtransgaz, the Republic of Moldova, on 14.08.2014;
- **The Interconnection Agreement for the Csanadpalota Interconnection Point**, concluded with FGSZ Zrt., Hungary on 02.12.2015;
- **The Interconnection Agreement for the Point Isaccea 1 Interconnection**, concluded with PJSC Ukrtransgaz, Ukraine on 19.07.2016;
- **Interconnection Agreement for the Point Negru Voda 1 Interconnection**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016;
- **Interconnection Agreement for the Ruse - Giurgiu Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 22.12.2016.

In 2017 - 2019 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).
- Amendment no. 1/30.04.2019 to the Interconnection Agreement for IP **Ruse-Giurgiu** (on the new business rules applicable in the IP Ruse-Giurgiu as of 01.05.2019);
- Amendment no. 3/30.04.2019 to the Interconnection Agreement for IP **Negru Vodă 1/Kardam** (on the new business rules applicable in the IP Negru Vodă 1/Kardam as of 01.05.2019);
- Amendment no. 1/30.05.2019 to the Interconnection Agreement for IP **Csanádpalota** (on the amendment of the technical conditions for gas transmission through IP Csanádpalota as of 01.10.2019);
- Amendment no. 2/25.06.2019 to the Interconnection Agreement for IP **Csanádpalota** (on the temporary replacement of metering at GMS Csanádpalota with the metering from GMS Algyő).

### 3.5 Retrofitting and automation - SCADA

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

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

- Ensures the transmission, in real time, of the technological parameters (pressure, flow, temperature, gas quality, calorific power) to the National and all Regional Dispatching Centres;
- Exports technological values to a new data base to 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;
- 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:

Thus, in semester I 2019, technical activities for the integration of new SCADA equipment:

- Works of integration in SCADA System were executed within 22 NTS locations (20 of MRS type and 2 of Technologic Node type) from 30 planned NTS locations.
- Works for the integration in the SCADA System were executed for:
  - 2 alarm signals from gas odorizers within 2 MRS-type locations;
  - 1 PLC programmable automatic machine - local automation within 1-NT type location;
  - 1 water dew point analyzer within 1 NT-type location;
  - 1 hydrocarbon dew point analyzer within 1 NT-type location;
  - 27 volume convertors (type PTZ4) within 19 MRS-type locations;
  - 2 new MRS at the Regional Operating Centre Brasov (2 GMOIS codes);
  - 1 redundant supply panel 220Vca as 1 MRS-type location with solar panels;
  - 3 relative pressure transducers at 3 MRS-type locations.

Status of technological parameters at the interconnection points on 30.06.2019

| 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 <i>(the technological parameters are present also in the Giurgiu GMS).</i>    | Fulfilled                                     |
| GMS Negru Vodă        | Fulfilled   | Fulfilled                                     |
| GMS Kardam            | Fulfilled <i>(the technological parameters are also present at the Negru Vodă GMS).</i> | Under analysis                                |
| GMS Medieșu Aurit     | Fulfilled   | Fulfilled                                     |
| GMS Isaccea           | Fulfilled   | Fulfilled                                     |



|  |  |                |
|--|--|----------------|
| Automation centre Iași-Ungheni: TN LEȚCANI | Fulfilled  | Fulfilled      |
| Automation Centre 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 |

In semester I 2019 a series of activities were performed for the maintenance, development and modernisation of the National Gas Transmission System, according to the intelligent network concept (SCADA), the maintenance program for the SCADA equipment is entirely completed, according to the planning:

| TOTAL STATIONS /Regional Office | Regional Office |       |        |        |           |       |           |         |        |                |
|---------------------------------|-----------------|-------|--------|--------|-----------|-------|-----------|---------|--------|----------------|
|                                 | Ara d           | Bacău | Brăila | Brașov | București | Cluj  | Constanța | Craiova | Mediaș | Total Stations |
|                                 | 100             | 107   | 65     | 121    | 118       | 207   | 21        | 87      | 257    | 1083           |
| Planned Sem.I                   | 100             | 107   | 65     | 121    | 118       | 207   | 21        | 87      | 257    | 1083           |
| Achieved Sem.I                  | 100             | 107   | 65     | 121    | 118       | 207   | 21        | 87      | 257    | 1083           |
| Achieved percentage Sem.I       | 100 %           | 100 % | 100 %  | 100%   | 100%      | 100 % | 100%      | 100%    | 100%   | 100%           |

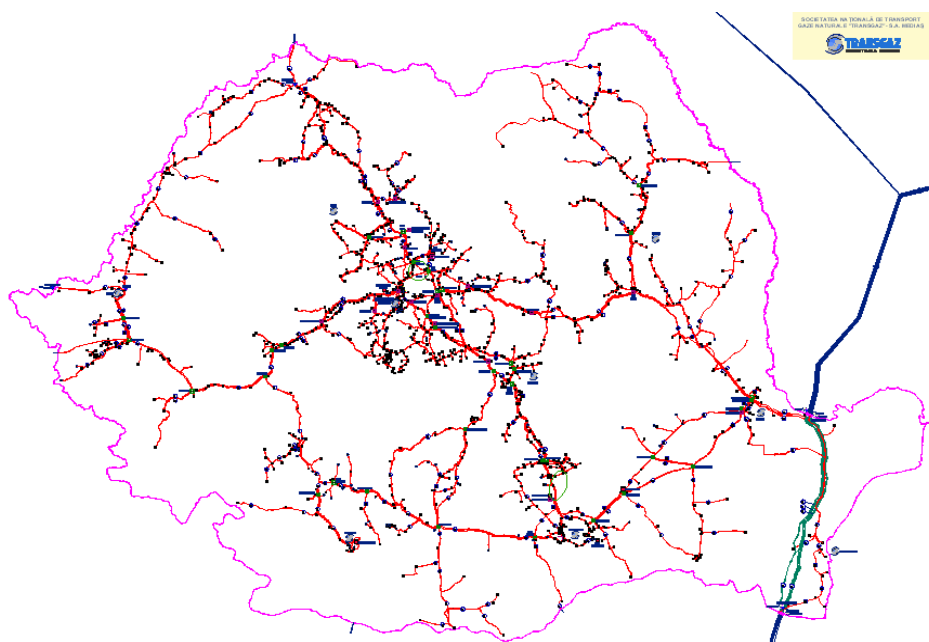
### 3.6 Operation, development, repair, rehabilitation and maintenance of NTS maintenance services

#### 3.6.1 Main Components of NTS Infrastructure

The main components of the National Gas Transmission System on 30 June 2019 are as follows:

| Name of the NTS objective / component  | U.M. | Value                                |
|--|------|--------------------------------------|
| Main pipelines and gas supply connections, of which international transmission pipelines | km   | 13.428<br>369                        |
| Operating metering-regulating stations (MRS)   | pc.  | 1.125<br>(1.231 metering directions) |
| Valve control stations (VCS, TN)   | pc.  | 59                                   |
| Import gas metering stations (GMS)   | pc.  | 7                                    |
| Gas metering stations located on the gas transit pipelines (GMS)                         | pc.  | 4                                    |
| Gas compressor station (CS)  | pc.  | 3                                    |
| Cathodic protection stations (CPS)   | pc.  | 1.036                                |
| Gas odorising stations (GOS)   | pc.  | 902                                  |

Table 8 – Main components of the NTS on 30.06.2019



**Figure 16 - 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:

| <b>Service life</b>     | <b>Transmission pipelines (km)</b> | <b>Supply pipelines (km)</b> | <b>Number of directions of MRSs</b>               |
|-------------------------|------------------------------------|------------------------------|---|
| > 40 years              | 6.902                              | 351                          | 148   |
| Between 30 and 40 years | 1.727                              | 164                          | 60  |
| Between 20 and 30 years | 692                                | 302                          | 250   |
| Between 10 and 20 years | 1.505                              | 852                          | 568   |
| < 10 years              | 569                                | 102                          | 161   |
| < 5 years               | 239                                | 23                           | 44  |
| <b>TOTAL</b>            | <b>11.634</b>                      | <b>1.794</b>                 | <b>1.125 MRSs<br/>(1.231 metering directions)</b> |
|                         | <b>13.428</b>                      |                              |   |

**Table 9-** The main components of the NTS on 30.06.2019, from the perspective of the service life

With regard to natural gas pipelines and connections, of the **13.428 km** in operation, approx. **76% have an effective service life of more than 20 years**, close to their normal service life. The pig inspection services conducted until 2018 (included) for approx. **2,726 km (4,432 km** due to multiple inspections) reveal quite high levels of pipe defects, mainly due to the long pipeline operation.

In semester I 2019 the PIG inspection was performed for the determination of the geometry of the 40" 54 km long Isaccea-Şendreni pipeline, activity representing the preliminary stage of achievement of the inspection for the determination of the flaws of the pipes. Inner cleaning was performed on **334 km** of pipelines.

79.4% 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 **1,036** pipeline cathodic protection stations.

Approximately **95.5%** of the pipelines and fittings that are in use have cathodic protection. Until 30.06.2019 intensive metering was performed for **58,78** km of pipelines.

*The gas delivery* to the distributors and end users is performed by the **1.231** MRSs (metering directions), **46** 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 **1.231** 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. Two of the 3 compressor stations, namely GCS Oneşti and GCS Siliştea, have entered into a modernization program, which involves replacing the existing compressor groups and the related technological installations. In this sense, until the completion of the modernization process, respectively 31.03.2020, the two compressor stations will be inoperative. In order to ensure the continuity of the maintenance activities at Şinca Compressor Station in the first semester of 2019, maintenance works were performed on the basis of the service contracts in force, as follows:

- Verification of automation and vibration lines at Şinca Compressor Station, SOLAR B and Ingersoll Rand 1 and 2 Compressor Units
- Technical revisions and service at the instrumental air installation at TCS Şinca (SOLAR units).

In order to ensure full safety conditions during the interventions on the gas transmission pipelines, to ensure a considerable reduction of the technological consumptions and, at the same time, to achieve the objective regarding the minimization of the natural gas emissions in the atmosphere by using the "Portable gas compressor - recovery station", an opportunity analysis was performed regarding the intervention with this machine, based on the repair-

rehabilitation works conducted within the NTS, included in the specific programs (with third parties or with their own forces) for the year 2019. In this sense, the following works of recovery by pumping over for natural gas transfer through the portable gas compressor/pump over station (SMCTG) had been performed until 30.06.2019:

- Pumping over from the Dn800 Onești-Cosmesti pipeline section to Dn500 Onești-Adjudu Vechi section, by coupling the Portable Gas Compressor / Recovery Station in SCV Onești. Volume of recovered gas = 186159 Nmc
- Pumping over from Dn500 Hațeg-Bouțari pipeline section into Dn500 Hațeg-Paroseni pipeline, by coupling the Portable Gas Compressor / Recovery Station in TN Hațeg. Recovered Gas Volume = 67264 Nmc

Also, the recovery work by natural gas pump over using the Portable Gas Compressor / Pump Over Station (SMCTG) at TN Podișor location in the Dn500 Podișor-R10 pipeline section, in Dn 800 Podișor-Crevedia pipeline, where it is estimated the recovery of a gas volume of 115000 Nmc, is being prepared.

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 **902** odorization facilities of which **602** systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas.

Out of the **602** modern systems, a total of **37** are centralized - serving several delivery points. **300** `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 **12** facilities are centralized.

In semester I 2019 a number of 3 old odorisation facilities were replaced with automatic odorization installations.

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 <sub>max</sub> =55 bar      |
|  | Tekovo (UA)–Medieșu Aurit (RO) - DN 700, Capacity =4.0 bcma, P <sub>max</sub> =70 bar |

|                            |  |
|----------------------------|--|
| <b>HUNGARY</b>             | <b>Szeged (HU)–Arad(RO)–Csanadpalota</b> - DN 700, Capacity = 1.75 bcma, P <sub>max</sub> = 63 bar |
| <b>REPUBLIC OF MOLDOVA</b> | <b>Ungheni (MO) – Iași (RO)</b> - DN 500, Capacity = 1.5 bcma, P <sub>max</sub> = 50 bar           |
| <b>BULGARIA</b>            | <b>Ruse (BG)–Giurgiu (RO)</b> - DN 500, Capacity = 1.5 bcma P <sub>max</sub> =40 bar               |

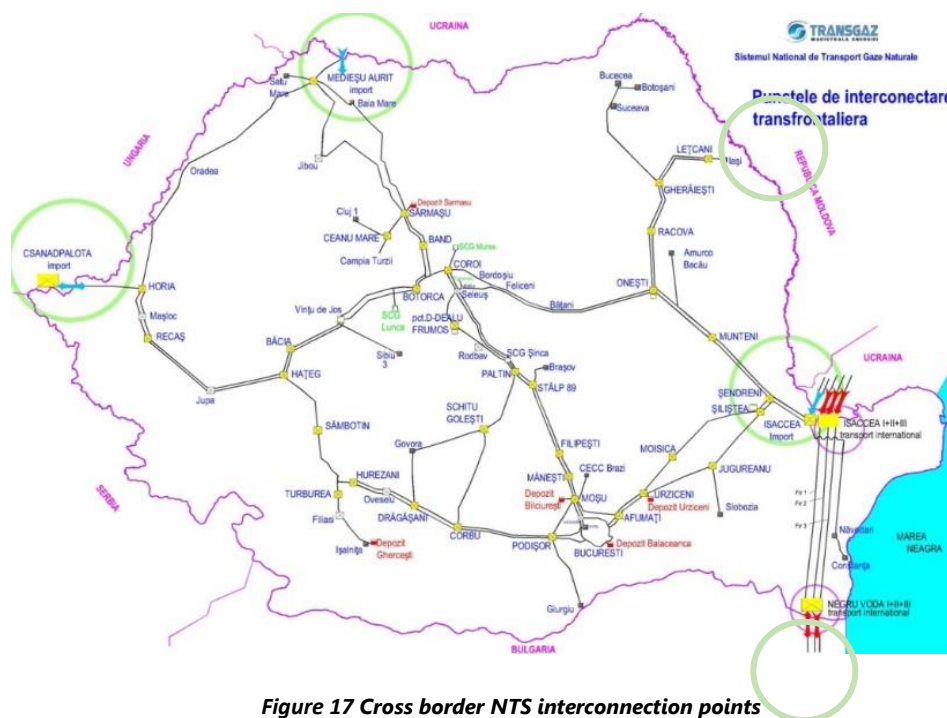


Figure 17 Cross border NTS interconnection points

### 3.6.2. The operation activity

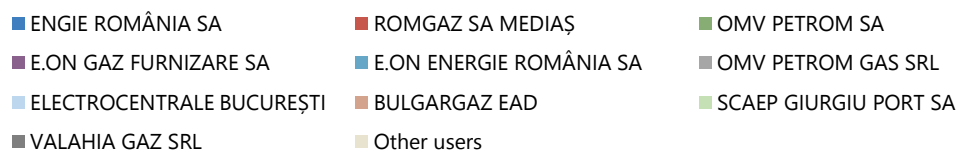
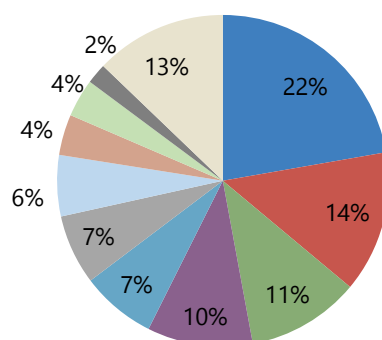
Between **1 October 2018–31 June 2019** the regulated tariffs for gas transmission for gas transmission through the National Gas Transmission System were set based on **ANRE Order 98/29 May 2018 on the approval** of regulated revenue, total revenue and transmission tariffs for gas transmission through the National Gas Transmission System.

**Domestic gas transmission** ensures the fulfilling of all obligations of Transgaz to provide NTS access to network users in equivalent, non-discriminatory and transparent conditions and contract clauses.

**The main beneficiaries** of the gas transmission service between 1 January – 30 June 2019:

| No. | Main network users      | INVOICE AMOUNT WITHOUT WATT (LEI) | %      |
|-----|-------------------------|-----------------------------------|--------|
| 1   | ENGIE Romania SA        | 158.705.035,70                    | 22,38% |
| 2   | SNGN ROMGAZ SA          | 98.563.086,86                     | 13,90% |
| 3   | OMV PETROM SA           | 78.686.769,00                     | 11,10% |
| 4   | E.ON GAZ FURNIZARE SA   | 73.440.999,26                     | 10,36% |
| 5   | E.ON ENERGIE ROMANIA SA | 52.196.494,17                     | 7,36%  |

| No. | Main network users           | INVOICE AMOUNT WITHOUT WATT (LEI) | %              |
|-----|------------------------------|-----------------------------------|----------------|
| 6   | OMV PETROM GAS SRL           | 48.653.314,53                     | 6,86%          |
| 7   | ELECTROCENTRALE BUCURESTI SA | 38.476.884,50                     | 5,43%          |
| 8   | BULGARGAZ EAD                | 28.310.346,39                     | 3,99%          |
| 9   | SCAEP GIURGIU PORT SA        | 26.476.099,29                     | 3,73%          |
| 10  | VALAHIA GAZ SRL              | 14.155.413,03                     | 2,00%          |
| 11  | OTHER NETWORK USERS          | 91.544.689,87                     | 12,91%         |
|     | <b>TOTAL</b>                 | <b>709.209.132,59</b>             | <b>100,00%</b> |



**Chart 9 - Main NTS users between 1 January -30 June 2019**

**674 contracts** were concluded and signed in semester I 2019 with the network users for transmission services including annual, quarterly, monthly and daily capacity products for the NTS entry/exit points, including the Csanadpalota, Ruse–Giurgiu, Negru Voda 1, Negru Voda–locality, Mangalia-locality interconnection points.

Total number of NTS contracts between January-June 2019:

| Contract type    | Annual | Quarterly | Monthly | Daily | Total      |
|------------------|--------|-----------|---------|-------|------------|
| No. of contracts | 4      | 68        | 331     | 47    | <b>450</b> |

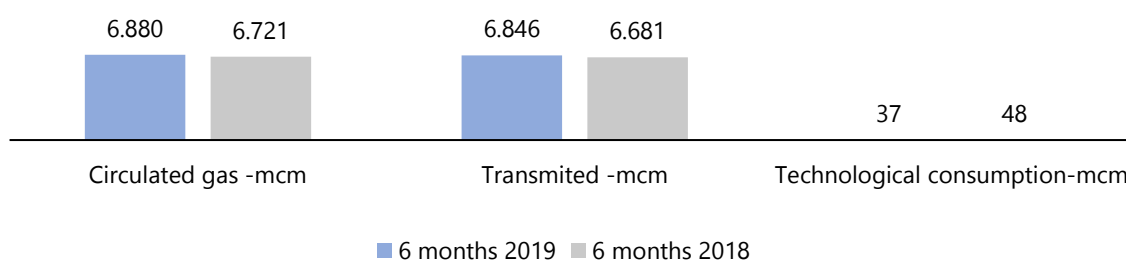
Total contracts in the interconnection points concluded on the RBP during January-June 2018:

| Contract type    | Annual | Quarterly | Monthly | Daily | Total      |
|------------------|--------|-----------|---------|-------|------------|
| No. of contracts | -      | 17        | 50      | 157   | <b>224</b> |

Gas quantities circulated and transmitted through the National Gas Transmission System and the technological consumption in the first 6 months of 2019 compared to the similar period of last year is the following:

| Indicator                                       | MU          | Sem. I 2019 | Sem. I 2018 | +/-     | %       |
|---|-------------|-------------|-------------|---------|---------|
| 0   | 1           | 2           | 3           | 5=4-3   | 6=4/3-1 |
| <b>Circulated gas</b>                           | Thousand cm | 6.880.328   | 6.721.242   | 159.086 | 2%      |
| <b>Transmitted gas</b>                          | Thousand cm | 6.845.935   | 6.681.288   | 164.647 | 2%      |
| <b>Technological consumption</b>                | Thousand cm | 36.517      | 48.309      | -11.792 | -24%    |
| <b>Technological consumption/circulated gas</b> | %           | 0,53%       | 0,72%       |         | -26%    |

**Table 10 - Gas quantities circulated and transmitted and the technological consumption in semester I 2019 vs. semester I 2018**



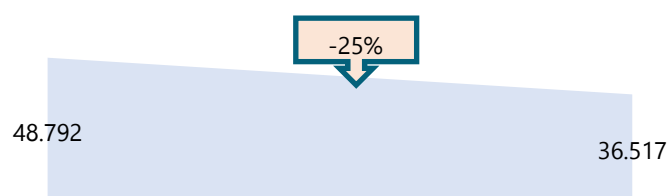
**Chart 10 - Gas quantities circulated and transmitted and the technological consumption in Sem. I 2018 vs. Sem. I 2019**



**Chart 11 - Technological consumption share in total circulated gas in Sem. I 2018 vs. Sem. I 2019**

|  | Jan   | Feb   | Mar   | Apr   | May   | Jun   | TOTAL 2019    |
|--|-------|-------|-------|-------|-------|-------|---------------|
| <b>PLANNED TECHNOLOGICAL CONSUMPTION-thousand cm</b> | 9.298 | 9.705 | 9.169 | 7.758 | 7.029 | 5.833 | <b>48.792</b> |
| <b>ACTUAL TECHNOLOGICAL CONSUMPTION- thousand cm</b> | 8.049 | 6.776 | 6.116 | 6.084 | 4.909 | 4.583 | <b>36.517</b> |

**Table 11 - Gas quantities for technological consumption achieved vs. planned in Q I 2019**



Planned technological consumption sem. I 2019 (thousand cm) Actual technological consumption sem. I 2019 (thousand cm)

**Chart 12 - Total technological consumption actual in Semester I 2019 vs. planned in semester I 2019**



Therefore, as it may be noticed, in semester I 2019, compared to the same period of the previous year, the evolution of the technological consumption in the NTS had an downward trend being 24% lower than the one recorded in semester I 2018 and 25% lower than the level planned for semester I 2019.

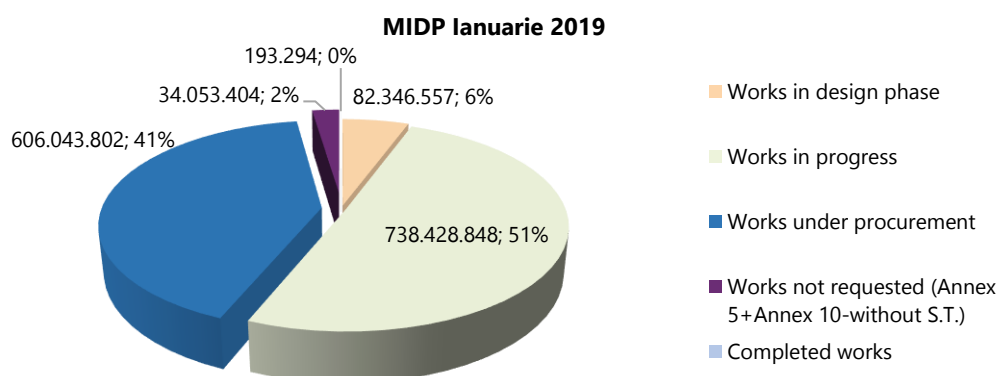
### 3.6.3 The investment policy

#### Modernization and Investment Development Plan (MIDP)

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.

As compared to the total approved value of the Investment Upgrading and Development plan related to 2019 of **lei 1,461,066 thousand**, the total value of the achievements is of **lei 324.306 thousand** representing thus a fulfilment of the plan in the end of semester I of **22,2%**.

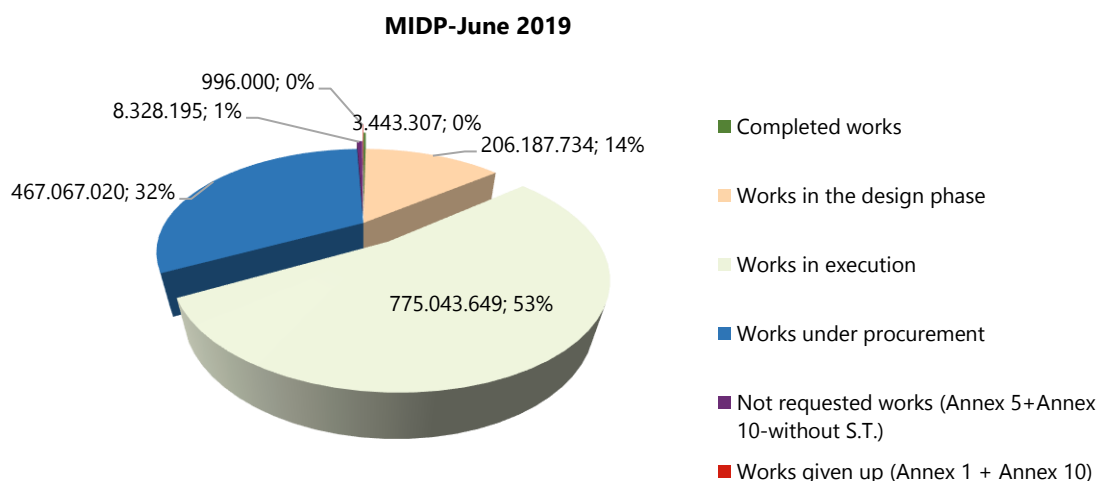
Of the total budgeted amount of MIDP for 2019, in January 2019, works in progress represented 51%, works under procurement 41% and works in design phase 6%.



**Chart 13 - MDIP- January 2019**

At the end of semester I 2019, the works in execution represent 53%, the design works 14%, the works under procurement 32%, and the works for which the necessary documentation was not sent for the launching of the procurement, 1% din valoarea totală a programului.

The increase of the percentage of design works may be noticed, motivated by the necessity to supplement by lei 140,000,000 of the works scheduled at Chapter D – *NTS Development according to Law 123/2012 (updated), Art.130, paragraph e<sup>1</sup> and e<sup>2</sup>*, funds ensured by redistribution from the works in progress or in procurement stage, mentioning that the works from Chapter D are still in the Design Phase.



**Chart 14 – MIDP - June 2019**

**The main works finalized in Semester I 2019 are:**

- Connection pipe DN700 MRS SIDEX GALATI;
- Works on ensuring the security of the MRS BRĂILA natural gas supply connection, Agricultural Farm area;
- Works on ensuring the security of Bogdana rivulet undercrossing with DN 800 Onești- Han Domnești pipeline, in Bogdana area;
- Replacement of technological installations at MRS Timișoara I (only the technological installation);
- MRS Dej II (technological installation) ;
- Mounting of the pig receipt trap on DN800 Bățani-Onești pipeline, Bogdănești area
- Ensuring the safety of the aerial crossing of DN500 Rotbav-Șinca pipeline and DN700 Bărcuț-Șinca, in Toderița area;
- Works to secure the abovecrossing crossing of the Vețca River with the DN600 Coroi-Bordoșiu pipeline, Bordoșiu area;

**The main works in progress:**

- Development on the Romanian territory of the Bulgaria-Romania-Hungary-Austria Corridor (BRUA)
- Compressor stations execution works (Podișor, Bibești, Jupa);
- Pipeline execution works (Phase 1);
- pipeline automation and security works
- NTS interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea
- Enhancement of the Romanian gas transmission system between Onesti and Isaccea and reverse flow Isaccea - Phase 2 (NTS interconnection with the international gas transmission pipeline and reverse flow at Isaccea)-Phase 2 upgrading GCS Onești and upgrading GCS Siliștea

- Gas transmission pipeline Ø20" Craiova - Segarcea - Băilești - Calafat, Craiova – Segarcea
- Undercrossing of the Olt River with the ø 12" Drăgășani-Caracal pipeline (gas supply pipeline for Caracal);
- The ø 12" Mintia-Brad-Ștei gas pipeline, phase I Mintia-Brad;
- Gas transmission pipeline DN600 Mașloc - Recaș - phase I, (part II – area through the forestry fund)
- Gas transmission pipeline for the interconnection of DN250 Țeline-Sighișoara and DN700 Coroi-Bărcuț
- Gas transmission pipeline DN400 Vaslui - Iași (tr. Vaslui - Mogoșești) – reunification in the area of the Bârnova forest

**The main works undergoing the procurement procedure are:**

- NTS developments in the North-Eastern area of Romania so as to improve gas supply in the area and to ensure transmission capacities to the Republic of Moldova
  - The gas transmission pipeline DN700 Onești - Gherăiești – Lețcani
  - pipeline automation and security
  - Procurement of the compressor units
  - Procurement of the pipes and curves
- Development on the territory of Romania of the Southern Corridor for taking over gas from the Black Sea shore (Black Sea shore - Podișor)
- NTS Interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea – stage II- works in the existing TN Șendreni
- GMS Isaccea 1 upgrading
- New developments for taking over gas from the Black Sea shore (Vadu-T1)
- Gas transmission pipeline DN400 Vaslui - Iași (tr. Vaslui - Mogoșești) – reunification in the area of the Bârnova forest
- Gas transmission pipeline DN600 Mașloc - Recaș - stage I, (part II – the area of the forestry fund)

There are still difficulties in achieving investment objectives such as:

- Lack of the necessary permits to obtain the Construction Authorization from ROMSILVA and the local authorities for the following investment objectives:
  - DN 700 Moșu - Buciumeni gas transmission pipeline;
  - DN 500 Plătărești-Bălăceanca gas transmission pipeline;
  - Ensuring the safety of the pipeline DN350 Luna - Aiud, DN250 Luna-Ocna Mureș (pipeline I) and DN250 Luna-Ocna Mureș (pipeline II), the Războieni area;
  - deviation of DN350 Tisăuți gas pipeline - Bucecea, Salcea area.

**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:**

- 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.

We would like to mention that most of the investment objectives for which no achievements have been registered are in the design or procurement stage.

### 3.6.4 NTS maintenance policy

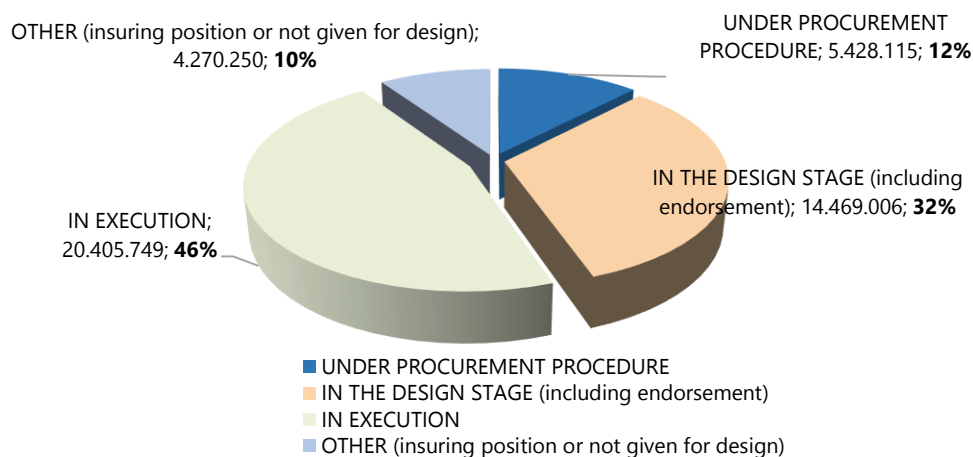
#### Repair, Rehabilitation and Maintenance Services Plan

The **2019 Maintenance, Repair and Maintenance Services Plan (update 4)** has an allocated amount of **80.283.391 lei**, out of which 43.909.811 lei for NTS Repair and Rehabilitation Works and 36.373.579 lei for NTS Maintenance Services.

#### A. NTS repair and rehabilitation works

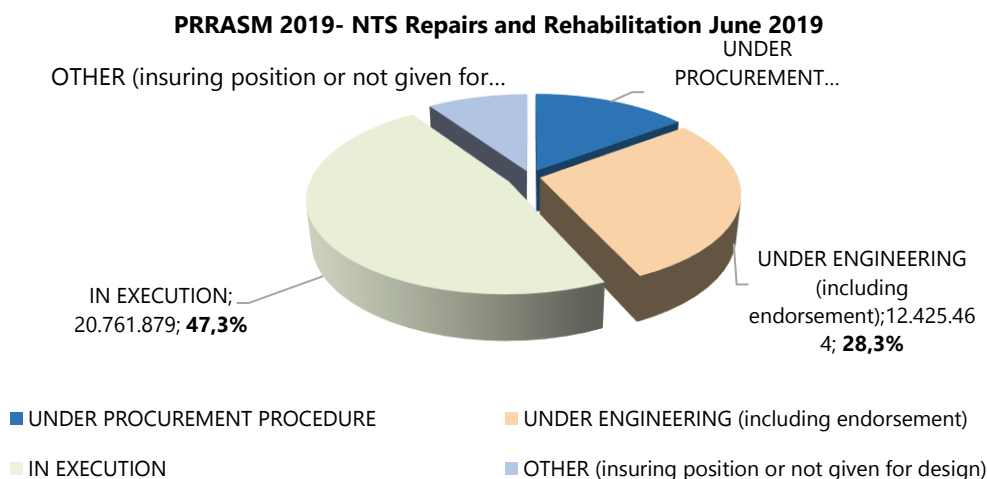
Of the total NTS Repair and Rehabilitation Works budgeted amount, in January 2019, the executed works represented 46%, (works contracted in the previous years) works being designed 32%, works during the procurement procedure stage 12%, and the works not included in the previous categories (Security positions or works which were not sent for design) 10%;

**PRRASM 2019-Cap.A -Repairs and NTS Upgrading January 2019**



**Chart 15 - PRASM 2018 - NTS Repair and Rehabilitation - January 2019**

On 30 June 2019, the repair and rehabilitation works (Annexes 1, 7 and 8 of PRRASM 2019) in progress have a share of 47,3%, works during the procurement procedure 14,8% and the ones which are being designed 28,3%.



- The following procurement procedure are in advanced stages:
  - Securing of 12" Vlădeni - Mănești pipeline
  - Ø24" Paltin Schitu - Golesti pipeline (Brasov county)
  - Visa river aerial crossing by Ø 10 " - 12" pipe connection PM Soala, Agârbiciu area;
  - Pipeline insulation works in fixed stations.

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

- Problems with the ownership agreements for the following objectives:
  - Repair pipeline Ø 32" Cosmești-Onești;
  - Ø48" Isaccea - Negru Voda pipeline - TRANSIT 3;
  - Ø24" Paltin Schitu - Golesti pipeline (Arges stage I)
- 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;
  - Ø24" Paltin Schitu - Golesti pipeline (Arges)
  - Ø48" Isaccea-Negru Vodă-TRANZIT 3 gas transmission pipeline.
- The necessity to apply the provisions of GEO 114/2018 has made it difficult to carry out and settle the works for some of the objectives under execution:
  - Pipeline 20" Adjudul Vechi, areas Branistea, Schela and Independența;
- The need to re-design some works (following normative changes) / documentation revision:
  - Ø12" pipeline bypass of Piatra Neamt, hydro 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" Onești-Racova-Gherăiești Line II.

**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;
- Addendums to contracts have been drawn up (and reports have been prepared) for maintenance work (for the application of GEO 114/2018).
- Unfinished works by contractors were approached with their own forces (Mediaş Subsidiary and RO).
- The priority works were achieved inhouse (Mediaş Subsidiary and Regional Operating centre);
- It was proposed to approach the procurements by counties to obtain authorizations, in order not to condition the works where all the conditions are created on the difficulties encountered in the areas having approval/authorization issues from the local administration;

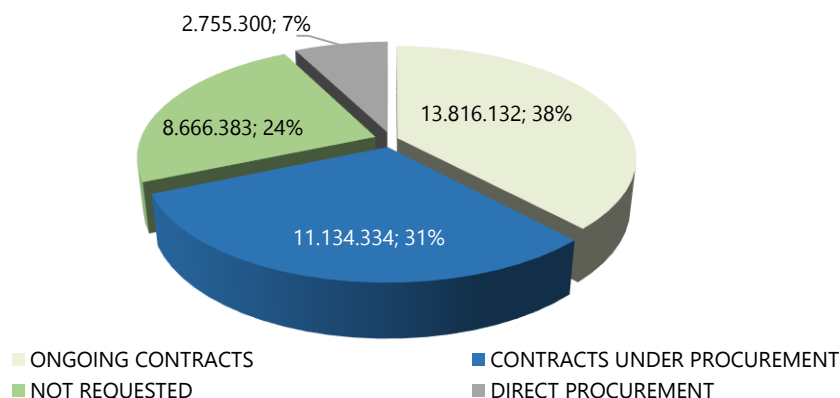
## **B. NTS Maintenance Assurance Services**

Chap. B. PRSASM NTS Maintenance Services includes a budget projection of external executions needs for maintenance (maintenance, repairs, service, logistics facilities, etc.). As a rule, these executions 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 **36.372.579** lei, representing **45,3%** of the total amount of the Maintenance Program.

Of the total budgeted amount of the NTS Maintenance Services, between January and March 2019, out of the 95 budget lines ensured executed services contracts accounted for 38%, 31% contracts under procurement procedures, and unsolicited services accounted for 24%.

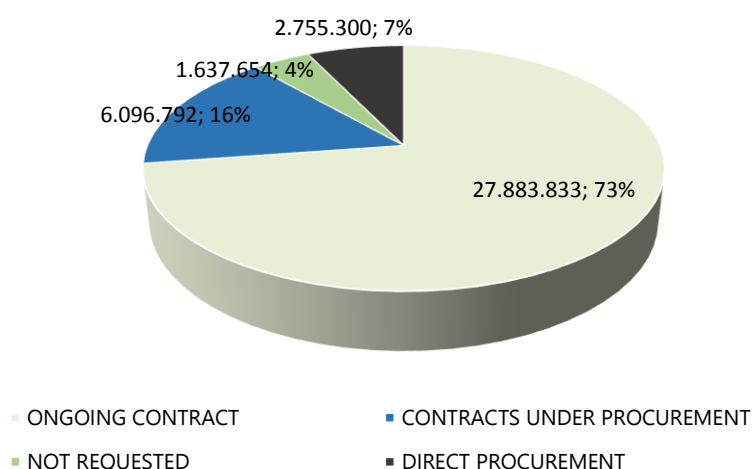
**PRRASM 2019-Services for ensuring NTS maintenance Quarter I 2019**



**Chart 17 - PRASM 2018 - NTS Maintenance Services – Quarter I 2019**

As of semester I 2019, in relation to the budgeted amount, **the value of ongoing NTS maintenance services increased from 38% to 73%**, the services under procurement decreased to 16%, and the proportion of unsolicited services is only 4%, mainly representing amounts ensured for unpredictable situations.

**PRRASM 2019-Services for NTS maintenance Semester I 2019**



**Chart 18 - PRASM 2018 – NTS maintenance services – Semester I 2019**

**Main contracts concluded in semester I 2019:**

- 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;
- Instrumentation services, revisions, repair, calibration, conformation controls, for the measuring system and gas quality and quantity checks;
- Revision and maintenance services for the car park.
- Authorization or certification services in the field of welding



The regulatory services are in the procurement stage as the ISCIR ones and the ones required by the laws in the field of river transmission safety, namely the inspection of the Danube river crossing by gas transmission pipelines.

### 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

The **PAAS (Sectoral Procurement Annual Program) 2019 includes** all the contracts/framework agreements that SNTGN Transgaz S.A. Medias intends to award/conclude in 2019. Also, PAAS 2019 contains procedures started in 2018, which were not awarded/ not completed by the end of the 2018, were taken over in the 2019 program, with the indication that they are in progress in previous years.

The total value of the **Sectoral Procurement Annual Program for 2019 (PASS 2019)**, approved by Resolution of the Board of Administration no 3/31.01.2019, was of **lei 2.723.171.227,46**, and the value for the Annual Program of Sectoral procurement for 2019- The development of the NTS in the North Eastern part of Romania to enhance gas supply to the area and to ensure transmission capacity to Republic of Moldova (PASS 2019 – Moldova) was of **890.330.194 lei;**

At the substantiation of PAAS 2019/PAAS 2019 - Moldova, **the necessary works, products and services** were taken into account, as they were included in:

- **Program of Repairs, Rehabilitation and Assurance of Maintenance Services**
- Research Program
- The Program regarding Other Services Performed by Third Parties
- Investment Upgrading Development Program
- **Supply Program**
- The Design Program, approved by the Decision of the BoA no. 1/18.01.2019.

Following 9 (nine) updates of PAAS 2019 prepared until 30.06.2019 which became necessary after the revision of the execution programs underlying the substantiation of the REB the total value of the PAAS became **lei 2.810.115.934,76** and the value of the PAAS 2019 – Moldova became **lei 901.037.415,00**.

The total value of the achievements as at 30.06.2019 is 98,148,609.07 lei (procedures, subsequent contracts and direct procurement from PAAS), out of which 67,913,617.81 lei corresponding to those 151 contracts concluded by procurement procedures, 24,834,516.54 lei corresponding to those 78 subsequent contracts and 5,400,474.72 lei corresponding to those 257 direct procurements.

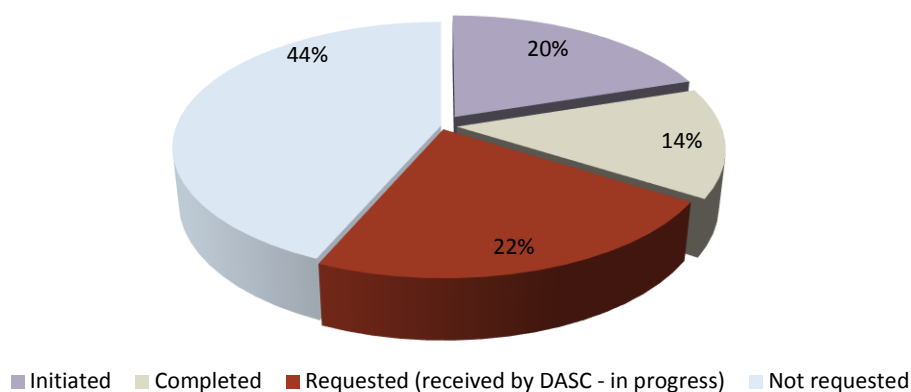
#### **PROCUREMENT PROCEDURES:**

On the basis of the PAAS 2019 (Procedures section, updated) out of the **432 active positions**, 147 procedures were launched, of which 61 procedures were finalized (14.12%) and 86 procedures are started (19.91%), in progress at different stages.

In addition, a total of **97** procedures (**22.45%**) are currently **requested** with DASC documents, and up to the total number of active positions in the program a total of **188 positions** are not requested by interested departments/ divisions/offices a percentage of **43.52%**) according to the tables presented in Annexes 1 and 2 hereto.

Schematically the status of the procurement procedures is as follows:

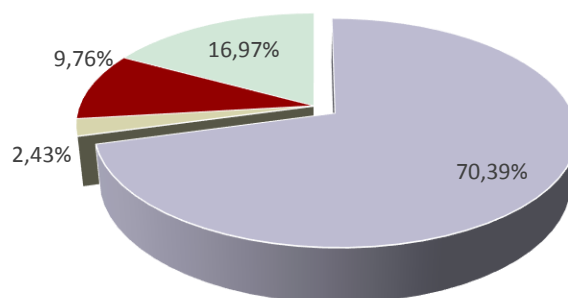
| <b>Procedures centralizer (physical)</b>         |            |   |
|--|------------|---|
| <b>Total procedures as of 30.06.2019, where:</b> | <b>432</b> | % realized through PAAS (procedure section) |
| - initiated                                      | 86         | 19,91 %                                     |
| - completed                                      | 61         | 14,12 %                                     |
| - requested (entered into DASC-in progress)      | 97         | 22,45 %                                     |
| - not requested                                  | 188        | 43,52 %                                     |



**Chart 19- Procurement procedures as at 30.06.2019 - physical**

| <b>Procedures centralizer (value) - lei</b> |                         |   |
|---|-------------------------|---|
| <b>Total value as of 30.06.2019, where:</b> | <b>2.793.770.638,46</b> | PAAS % achievement (procedures section) |
| - started                                   | 1.966.425.731,11        | 70,39 %                                 |
| - realized                                  | 67.913.617,81           | 2,43 %                                  |
| - requested (in progress at DASC)           | 272.807.481,36          | 9,76 %                                  |
| - not requested                             | 474.007.550,46          | 16,97 %                                 |

*NOTE\* From the value point of view, the sum of the percentages is less than 100%, for the value differences from the estimated values to those awarded (lower than the estimated value).*



■ Initiated ■ Completed ■ Requested (received by Ia DASC- in progress) ■ Not requested

**Chart 20. Procurement procedures as at 30.06.2019 - value**

For the 61 positions made in the PAAS 2019 procedure section, the situation of the achievements against the estimated values is presented according to the following table:

| No. positions in PAAS | Estimated value | Achieved value | %     |
|-----------------------|-----------------|----------------|-------|
| 61                    | 79.429.875,53   | 67.913.617,81  | 85,50 |

**The total number of contracts concluded** (including the subsequent contracts awarded under the framework agreements as set out in Annex 1-AC to PAAS 2019) is presented schematically in the following table:

| Contract type                | Total value contracts | Number of contracts/<br>Frame agreements assigned | Out of which number of subsequent contracts | Value of subsequent contracts | Value achievement from PAAS |
|------------------------------|-----------------------|---|---|-------------------------------|-----------------------------|
|                              | (lei without VAT)     |   |   |                               |                             |
| 0                            | 1                     | 2   | 3   | 4                             | 5=1-4                       |
| <b>Contract of works</b>     | 22.517.176,49         | 8   | 0   | 0                             | 22.517.176,49               |
| <b>Contracts of services</b> | 41.621.257,81         | 104   | 70  | 11.889.881,44                 | 29.731.376,37               |
| <b>Contracts of products</b> | 28.609.700,05         | 39  | 8   | 12.944.635,1                  | 15.665.064,95               |
| <b>TOTAL CONTRACTS</b>       | <b>92.748.134,35</b>  | <b>151</b>  | <b>78</b>                                   | <b>24.834.516,54</b>          | <b>67.913.617,81</b>        |

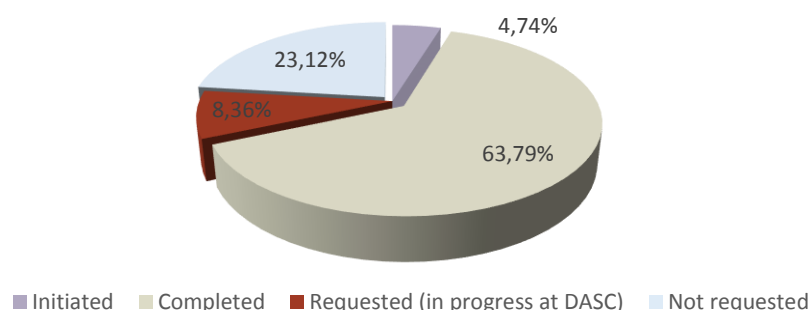
**Table 12 - The situation of the contracts concluded through procurement procedures – between 01.01 and 30.06.2019**

### **DIRECT PURCHASES:**

On the basis of the updated PAAS 2019, out of **359 active positions**, **246 direct purchases** were initiated, out of which **229 direct purchases** were completed (63,79%), and **17 direct purchases started (4.74%)**, ongoing in different stages.

In addition, a total of **30 direct purchases (8.36%)** are currently requested, with DASC documentation, and up to the total active positions in the program **83 positions** are not requested by interested departments / divisions/ offices (representing a percentage of **23.12%**).

| <b>Centralizer of direct purchases (physical)</b> |            |                                       |
|---|------------|---------------------------------------|
| <b>Total pos. at 30.06.2019, where:</b>           | <b>359</b> | <b>% realization direct purchases</b> |
| - initiated                                       | 17         | 4,74%                                 |
| - achieved  | 229        | 63,79%                                |
| - requested (in progress at DASC)                 | 30         | 8,36%                                 |
| - not requested                                   | 83         | 23,12%                                |



**Chart 21**-Situation of direct procurements as at 30.06.2019

| <b>Centralizer of direct purchases (value)</b>                   |                     |                                       |
|--|---------------------|---------------------------------------|
| <b>Total value as of 30.06.2019, where:</b>                      | <b>16.345.296,3</b> | <b>% realization direct purchases</b> |
| - initiated  | 678.274,94          | 4,15 %                                |
| - achieved   | <b>5.400.474,72</b> | 33,04 %                               |
| - requested (in progress at DASC)                                | 969.223,73          | 5,93 %                                |
| - not requested by the departments, units, divisions (estimated) | 6.045.986,05        | 36,99 %                               |

*NOTE\** From the value point of view, the sum of the percentages is less than 100%, for the value differences from the estimated values to those awarded (lower than the estimated amount).

For the **229 positions achieved** from PAAS 2019 - Direct Purchases, the situation of the achievements against the estimated values is presented in accordance with the following table:

| <b>No. positions from PAAS</b> | <b>Estimated value</b> | <b>Achieved value</b> | <b>%</b> |
|--------------------------------|------------------------|-----------------------|----------|
| 229                            | 8.651.811,58           | 5.400.474,72          | 62,42    |

**The situation of the contracts concluded by direct procurement** in the period 01.01-30.06.2019 is presented 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)                    |
| <b>0</b>         | <b>1=3+5+8</b>   | <b>2</b>                                   | <b>3</b>  | <b>4</b>                                | <b>5</b>                                  | <b>6</b>  | <b>7</b>   | <b>8</b>  | <b>9=1-6</b>                         |
| <b>Works</b>     | 1.018.744,23   | 8  | 1.004.548,22                                    | 1                                       | 14.196,01                                 | 0,00  | 0  | 0,00  | 1.018.744,23                         |
| <b>Services</b>  | 2.344.571,89   | 38   | 1.974.357,77                                    | 38                                      | 207.850,88                                | 1.217,91  | 12   | 162.363,24  | 2.343.353,98                         |
| <b>Products</b>  | 2.038.376,51   | 2  | 184.840,03                                      | 53                                      | 395.873,54                                | 0,00  | 105  | 1.457.662,94  | 2.038.376,51                         |
| <b>TOTAL</b>     | <b>5.401.692,63</b>  | <b>48</b>                                  | <b>3.163.746,02</b>                             | <b>92</b>                               | <b>617.920,43</b>                         | <b>1.217,91</b>   | <b>117</b>   | <b>1.620.026,2</b>  | <b>5.400.474,7</b>                   |

**Table 13 - Situation of contracts concluded through direct purchases during the period 01.01-30.06.2019**

### **PURCHASE PROCEDURES-PAAS 2019 (Moldova)**

On the basis of the PAAS 2019 (Moldova), from **5 active positions**, following the requests of the departments/ divisions/offices concerned, **5 procedures were initiated (100%), 2 procedures were completed (40%)**.

| <b>Centralizer of procedures PAAS-Moldova (physical)</b> |          |                                    |
|--|----------|------------------------------------|
| <b>Total pos. at 30.06.2019, where:</b>                  | <b>5</b> | <b>% of achievement procedures</b> |
| - started  | 3        | 60,0%                              |
| - achieved   | 2        | 40,0%                              |
| - requested (in progress at DASC)                        | 0        | 0,00%                              |
| - not requested  | 0        | 0,00%                              |

The schematical situation of the achievement of the procurement procedures for PAAS 2019 Moldova is as follows:

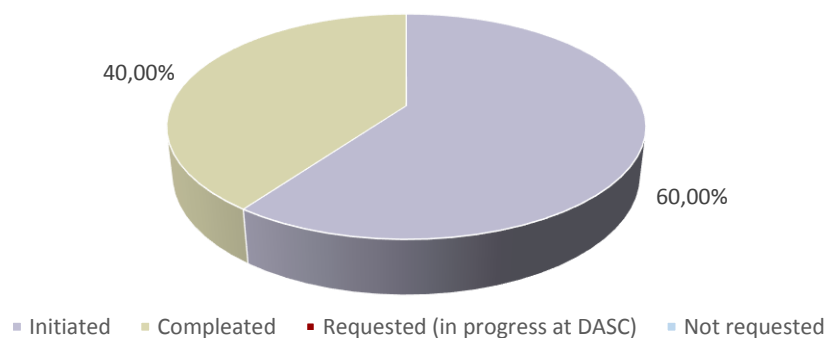


Chart 22 - *Situation of PAAS procedures for Moldova as at 30.06.2019 (physical)*

| <b>Procedures centralizer Moldova (value)</b> |                       |                                    |
|---|-----------------------|------------------------------------|
| <b>Total value at 30.06.2019, where:</b>      | <b>901.037.415,00</b> | <b>% of realization procedures</b> |
| - started (estimated)                         | 752.030.194,00        | 83,46%                             |
| - realized (concluded contracts)              | 147.089.251,00        | 16,32%                             |
| - requested (in progress at DASC)             | 0,00                  | 0,00%                              |
| - not requested                               | 0,00                  | 0,00%                              |

*NOTE. In terms of value, the sum of percentages is less than 100%, the difference resulting from the estimated value of the procedures and the awarded value (different from the estimated value).*

## 4. FINANCIAL REPORTING

### 4.1 Financial 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.

The statement of the financial standing as at 30.06.2019 as compared to 2018 is as follows:

| Indicator  | 31.12.2018       | 31.12.2017       | Dynamics (%)   |
|--|------------------|------------------|----------------|
|  | Thousand lei     | Thousand lei     |                |
| 0  | 1                | 2                | 3=1/2          |
| Intangible Assets                                    | 2.569.439        | 2.301.805        | 111,63%        |
| Rights of use of the assets acquired by leasing      | 9.986            | 0                | x              |
| Tangible Assets                                      | 494.770          | 513.263          | 96,40%         |
| Financial assets                                     | 68.246           | 45.601           | 149,66%        |
| Trade receivables and other receivables              | 641.650          | 629.755          | 101,89%        |
| Deferred tax   | 6.009            |                  | x              |
| <b>Fixed assets</b>                                  | <b>3.790.101</b> | <b>3.490.424</b> | <b>108,59%</b> |
| Inventories  | 380.813          | 255.241          | 149,20%        |
| Commercial receivables and other receivables         | 280.945          | 541.390          | 51,89%         |
| Cash and cash equivalent                             | 879.420          | 708.752          | 124,08%        |
| <b>Current assets - TOTAL</b>                        | <b>1.541.178</b> | <b>1.505.383</b> | <b>102,38%</b> |
| <b>TOTAL ASSET</b>                                   | <b>5.331.279</b> | <b>4.995.807</b> | <b>106,72%</b> |
| Debts to be paid over a one-year period              | 676.955          | 418.788          | 161,65%        |
| Debts to be paid over a period of more than one year | 1.001.114        | 864.288          | 115,83%        |
| <b>Total debts</b>                                   | <b>1.678.069</b> | <b>1.283.076</b> | <b>130,78%</b> |
| <b>Equity</b>  | <b>3.653.211</b> | <b>3.712.731</b> | <b>98,40%</b>  |
| 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                                    | 1.580.778        | 1.640.299        | 96,37%         |
| <b>Total equity and debts</b>                        | <b>5.331.279</b> | <b>4.995.807</b> | <b>106,72%</b> |

Table 14-The Company`s statement of financial in Semester I 2019

### **Intangible Assets**

#### *IT Programmes*

The purchased licenses related to the rights to use the IT programmes are capitalized on based on the costs incurred with the procurement and commissioning of the respective IT programmes.



Such costs are depreciated over their estimated useful life (three years). Costs related to the development or maintenance of the IT programmes are recognized as costs during the period when they are registered.

#### *Concession agreement*

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 unrecognized 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 increased by lei 267.634 thousand** as compared with the value as at 31.12.2017, this increase being mainly due to the investment works related to the main projects under the TYNDP.

#### **Rights of use of the asset acquired by leasing**

As of 1 January 2019 the company applies IFRS 16 for lease contracts complying with the recognition criteria and recognized as intangible asset a right of use related to the lease contracts and thus the recorded amount for the right of use is lei 9.986.

#### **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 18.493 thousand** as compared to the value as at 31.12.2018, mainly due to the fact that the tangible assets inflow did not exceed the depreciation cost for tangible assets.

#### ***Financial assets***

**The financial assets increased by Lei 22.645** as compared to 31.12.2018 and it is the increase of the share capital of the company EUROTRANSGAZ SRL Chisinau, established by Resolution EGSM no. 10 dated 12.12.2017 of SNTGN Transgaz SA.

#### ***Trade receivables and other receivables***

**The increase of the receivables to ANRM on 30 June 2019 by the amount of LEI 11.895 thousand**, calculated after the entry into force of Law 127/2014 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 increase by lei **11.895 thousand** compared to the one as at 31 December 2018 is determined mainly by the updating of the receivables with the modifications registered in the RAB.

#### ***Deferred tax***

**Is the recovered deferred tax** determined mainly by the reduction in the differences between the accounting base and tax base of the tangible and intangible assets owned by Transgaz and of the deferred tax related to the provision for receivables and litigations.

#### ***Inventories***

**As at 30 June 2019, stocks increased by lei 125.572 thousand** compared to the value as at December 31, 2018, mainly due to the increase in the stock of the materials necessary for the implementation of the project: "Development on the Romanian territory of the National Gas Transmission System Bulgaria-Romania-Hungary-Austria" (BRUA Phase 1).

#### ***Commercial receivables and other receivables***

**As at 30 June 2019** the balance of the trade receivables and other receivables increased by lei **256.246 thousand** as compared to 31 December 2018, mainly due to the following factors:

- **Decrease of the client receivables balance by lei 123.350 thousand** mainly generated by the decrease in the balance of the receivables resulted from the gas transmission and international transit activity;
- **Increase in the provisions for the impairment of the trade receivables and of other receivables by lei 50.177 thousand;**
- **Decrease in the balance of other receivables by lei 86.918 thousand.**

#### ***Cash at bank and in hand***

**As at 30 June 2019 the company's cash increased by lei 170.668 thousand** as compared to the end of 2018. The cash in bank accounts denominated in lei increased by lei 116.640 thousand and the cash in bank accounts denominated in currency increased by lei 53.834.

Other cash elements and cash equivalent registrar a increase by lei 194 thousand compared with 2018.

### **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 2018:

- **increase in the balance of the commercial debt and other debt by lei 250.683 thousand;**
- **decrease in the provision for risks and expenses by lei 7.996 thousand** on account of reconsideration in the revenue of the provision for the employees' share in to profit and for the mandate contract which exceeded the value of the provision established for the participation of employees to profit related to semester 2019 and of the litigations recorded in semester I 2019.
- **Increase in the profit tax debt by lei 15.480 thousand.**
- **Long-term debts**

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

- **Increase in loans by lei 3.560 thousand;**
- **Increase in the advance revenue and in the subsidies by lei 130.554 thousand.**
- **The decrease in the debt related to the deferred income tax by lei 4.302 thousand** is caused mainly by the reduction of the differences between the accounting base and the fiscal base of Transgaz' tangible and intangible assets of the deferred tax related to the provision for claims and litigations.

### **Equity**

The subscribed and paid up capital remained unchanged. The decrease in retained earnings by lei 59.521 thousand is determined by the allocation of the profit related to 2018 to dividends owed to shareholders which exceeded the profit registered in semester I 2019.

## **4.2 Comprehensive result**

The situation of the profit and loss account on 30 June 2019 as compared to the achievements of the similar period of 2018 is illustrated in the table below:

| No.       | Specification   | Achievements |             | Dynamics (%) |
|-----------|---|--------------|-------------|--------------|
|           |   | Sem. I 2019  | Sem. I 2018 |              |
| 0         | 1   | 3            | 2           | 4            |
| <b>1.</b> | <b>REVENUE</b>  |              |             |              |
| 1.1       | Revenue from the construction and balancing activity according to IFRIC12 | 774.994      | 808.806     | -4%          |
| 1.2       | Revenue from the construction activity according to IFRIC12               | 297.898      | 34.919      | 753%         |
| 1.3       | Revenue from the balancing activity                                       | 183.208      | 90.483      | 102%         |
| 1.4       | Financial revenue   | 33.199       | 21.978      | 51%          |
| <b>2.</b> | <b>EXPENSES</b>   |              |             |              |

|           |   |                |                |             |
|-----------|---|----------------|----------------|-------------|
| 2.1       | Operating expenses before the construction and balancing activity according to IFRIC12      | 560.033        | 491.046        | 14%         |
| 2.2       | Cost of assets constructed according to IFRIC12   | 297.898        | 34.919         | 753%        |
| 2.3       | Expenses with balancing gas   | 183.208        | 90.483         | 102%        |
| 2.3       | Financial expenses  | 16.433         | 8.878          | 85%         |
| <b>3.</b> | <b>GROSS PROFIT, of which:</b>  | <b>231.726</b> | <b>330.860</b> | <b>-30%</b> |
| 3.1       | Resulted from operating before the construction and balancing activity according to IFRIC12 | 214.961        | 317.761        | -32%        |
| 3.2       | Resulted from the balancing activity  | 0              | 0              | -           |
| 3.3       | Financial Result  | 16.765         | 13.100         | 28%         |
| <b>4.</b> | <b>TAX ON PROFIT</b>  | <b>36.225</b>  | <b>50.590</b>  | <b>-28%</b> |
| <b>5.</b> | <b>NET PROFIT</b>   | <b>195.501</b> | <b>280.270</b> | <b>-30%</b> |
| <b>6.</b> | <b>Comprehensive result related to the period</b>   | <b>195.501</b> | <b>280.270</b> | <b>-30%</b> |

Table 15 – Statement of the profit and loss account in Sem I 2019 vs Sem I 2018

### Operating revenue

Operating revenue before the balancing and the construction activity according to IFRIC 12 obtained during 01.01-30.06.2019 is as follows:

| Specification  | Achievements Semester I (lei thousands) |                | Dynamics (%) |
|--|---|----------------|--------------|
|  | 2019                                    | 2018           |              |
| 0  | 1                                       | 2              | 3=1/2*100    |
| <b>Revenue from the transmission activity</b>  |   |                |              |
| - Lei thousand   | 582.317                                 | 631.399        | 92,23        |
| - MWh  | 73.279.756                              | 71.483.634     | 102,51       |
| - Lei/MWh  | 7,95                                    | 8,83           | 89,97        |
| <b>Revenue from the international transmission activity</b>  |   |                |              |
| - Lei thousand   | 170.431                                 | 159.911        | 106,58       |
| <b>Other operating revenue</b>   |   |                |              |
| - Lei thousand   | 22.246                                  | 17.497         | 127,15       |
| <b>TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12</b> | <b>774.994</b>                          | <b>808.806</b> | <b>95,82</b> |

Table 16 - Revenue from the operating activity –Achievements Sem. I 2019 vs. Achievements Sem I 2018

### Operating expense

The operating expense obtained between 01.01-30.06.2019 as compared to the same period of 2018 is as follows:

| No.  | Specification   | Sem. I<br>(lei thousand) |                | Dynamics<br>(%) |
|--|---|--------------------------|----------------|-----------------|
|  |   | 2018                     | 2017           |                 |
| 0  | 1   | 2                        | 3              | 4=2/3*100       |
| 1.   | Depreciation  | 96.778                   | 92.888         | 104,19          |
| 2.   | Indemnities, salaries, other expenditures related to salaries and benefits to employees | 189.003                  | 186.989        | 101,08          |
| 3.   | Technological consumption, materials and consumables used, of which:                    | 58.981                   | 53.456         | 110,34          |
|  | - Transmission system technological consumption and loss                                | 39.228                   | 39.745         | 98,70           |
|  | Technological consumption amount MWh  | 389.039                  | 504.476        | 77,12           |
|  | - Auxiliary materials   | 17.605                   | 11.999         | 146,71          |
|  | - Other material expenditures   | 2.148                    | 1.711          | 125,55          |
| 4.   | Expenditures related to royalties   | 75.275                   | 79.131         | 95,13           |
| 5.   | Maintenance and transport, of which:  | 10.777                   | 14.336         | 75,18           |
|  | - Works, services performed by third parties  | 3.014                    | 6.828          | 44,14           |
| 6.   | Taxes and other amounts due to the State, of which:                                     | 48.026                   | 36.447         | 131,77          |
|  | - The fee for obtaining the license for gas transmission and international transit      | 16.677                   | 5.631          | 296,15          |
|  | - Monopoly tax  | 28.160                   | 27.749         | 101,48          |
| 7.   | Expenditures related to the provision for risks and expenses                            | -7.996                   | -7.762         | 103,01          |
| 8.   | Other operating expenditures  | 89.188                   | 35.560         | 250,81          |
| <b>TOTAL OPERATIONAL REVENUE before the balancing and the construction activity according to IFRIC12</b> |   | <b>560.033</b>           | <b>491.046</b> | <b>114,05</b>   |

Table 17 - Operating activity expenses achieved in Sem I 2019 vs. Sem I 2018

### 4.3 Cash flow statement

Cash flow statement on 30 June 2019 is presented below:

| INDICATOR                               | Financial year ended<br>30 June (lei thousand) |         |
|---|--|---------|
|   | 2019   | 2018    |
| Profit before tax                       | 231.726  | 330.860 |
| <i>Adjustments for:</i>                 |  |         |
| Depreciation                            | 96.778   | 92.888  |
| Gain/(loss) on disposal of fixed assets | -124   | 101     |
| Provisions for risks and charges        | -7.996   | -7.762  |
| Provisions for investments              | 2.129  | 0       |

| INDICATOR  | Financial year ended<br>30 June (lei thousand) |                  |
|--|--|------------------|
|  | 2019   | 2018             |
| Revenue from connection fees, grants and goods taken free of charge            | -11.137  | -11.537          |
| Loss on account of debts and various debtors                                   | 0  | 4                |
| Adjustments for the impairment of assets                                       | 50.177   | 3.044            |
| Cost of interest   | 0  | 973              |
| Interest revenue   | -12.023  | -13.826          |
| Loss/(Igain) on inventory depreciation   | -373   | -1.976           |
| The effect of the currency exchange variation on other elements than operation | 3.338  | -76              |
| <b>Operating Profit before the changes in working capital</b>                  | <b>352.495</b>                                 | <b>392.694</b>   |
| (Increase)/decrease in trade and other receivables                             | 174.045  | -16.056          |
| (Increase)/decrease in inventories   | -125.199                                       | -13.020          |
| (Increase)/decrease in commercial debt and other debt                          | 19.314   | -15.318          |
| <b>Cash generated from operations</b>  | <b>420.656</b>                                 | <b>348.301</b>   |
| Received interest  | 1.263  | 2.519            |
| Paid profit tax  | 0  | -30.772          |
| <b>Net cash inflows generated from operating activities</b>                    | <b>421.918</b>                                 | <b>320.048</b>   |
| <b>Cash flow from investments</b>  |  |                  |
| Payments for the acquisition of tangible and intangible assets                 | -368.757                                       | -55.697          |
| Financial investments/shares   | -22.645  | -42.651          |
| Receipts from the disposal of intangible assets                                | 165  | 0                |
| Cash from connection fees and non-reimbursable funds                           | 141.691  | 66.868           |
| <b>Net cash used in investment activities</b>                                  | <b>-249.547</b>                                | <b>-31.480</b>   |
| <b>Cash flow from financing activities</b>                                     |  |                  |
| Disbursements long term loans  | 0  | 163.160          |
| Dividends paid   | -1.704   | -1.583           |
| <b>Net cash used in financing activities</b>                                   | <b>-1.704</b>                                  | <b>161.576</b>   |
| <b>Net change in cash and cash equivalents</b>                                 | <b>170.668</b>                                 | <b>450.144</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b>                  | <b>708.752</b>                                 | <b>1.062.352</b> |
| <b>Cash and cash equivalents at the end of the period</b>                      | <b>879.420</b>                                 | <b>1.512.496</b> |

Table 18 – Statement of cash flow –Sem. I 2019 vs. Sem. I 2018

The analysis of the cash flow as of 30 June 2019 show **a decrease in liquid assets by lei 633.076 thousand** as compared to 30 June 2018.

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

- cash flow generated from the operation is of lei 420.656 thousand, lower by lei 72.355 thousand than in first 6 months of 2018;
- cash flow used in investment activity is of lei - 249.547 thousand, by lei -218.067 thousand higher than in the first 6 months of 2018;
- cash flow used in financing activity is of lei -1.704 thousand, by lei -163.280 thousand lower than in first 6 months of 2018.

As at 30 June 2019 the balance of the resources available in the bank accounts of the company was of lei 879.064 thousand, of which 69% are available resources denominated in foreign currency, mostly in EURO.

#### 4.4 Factor analysis of the activity

##### Achievements 2018 vs. Achievements 2017

The financial results obtained at 31 December 2018, compared to the same period in 2017, are presented in the following table:

| <i>Thousand lei</i>  |                      |                      |                            |
|--|----------------------|----------------------|----------------------------|
| <i>Name</i>  | <b>Achieved 2018</b> | <b>Achieved 2017</b> | <b>Changes</b>             |
| 0  | 1                    | 2                    | $3 = 1/2 \times 100 - 100$ |
| Operating revenue before the balancing and construction activity, according to IFRIC12 | 774.994              | 808.806              | -4%                        |
| Revenue from the balancing activity  | 183.208              | 90.483               | 102%                       |
| Revenue from the construction activity according to IFRIC12                            | 297.898              | 34.919               | 753%                       |
| Financial revenue  | 33.199               | 21.978               | 51%                        |
| Operating costs before balancing, according to IFRIC12                                 | 560.033              | 491.046              | 14%                        |
| Costs of balancing gas   | 183.208              | 90.483               | 102%                       |
| Cost of assets according to IFRIC12  | 297.898              | 34.919               | 753%                       |
| Financial costs  | 16.433               | 8.878                | 85%                        |
| <b>Total GROSS PROFIT</b> , of which:  | <b>231.726</b>       | <b>330.860</b>       | <b>-30%</b>                |
| • from operation   | 214.961              | 317.761              | -32%                       |
| • from the financial activity  | 16.765               | 13.100               | 28%                        |
| Income tax   | 36.225               | 50.590               | -28%                       |
| <b>NET PROFIT</b>  | <b>195.501</b>       | <b>280.270</b>       | <b>-30%</b>                |

Table 19– Financial results, Sem. I 2019 vs. Sem. I 2018

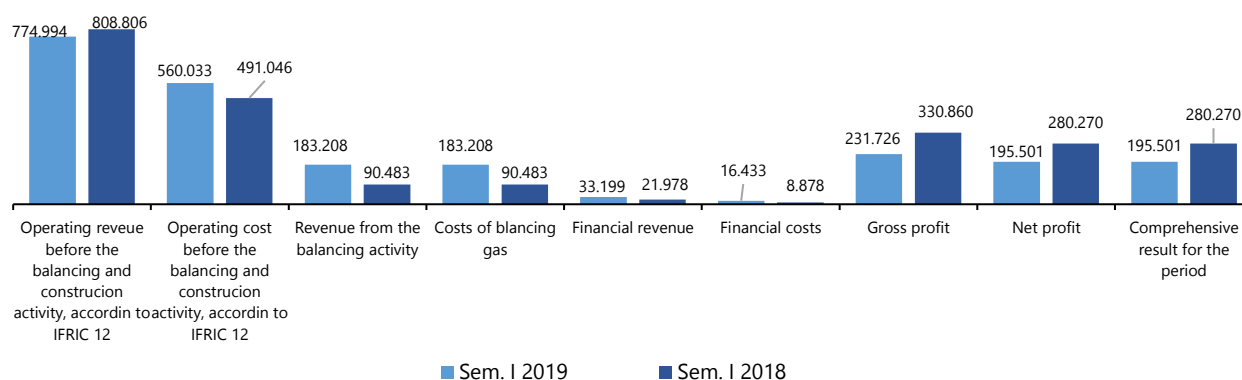


Chart 23 - 2018 vs. 2017 financial results (thousand lei)



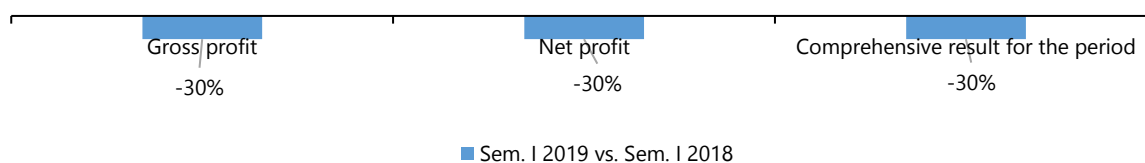


Chart 24 - 2018 vs. 2017 financial results (thousand lei) (%)

**Operating revenue before the balancing and construction activity, according to IFRIC12** decreased by 4% as compared to semester I 2018, which is lower by **LEI 33.812 thousand**.

**The revenue was influenced mainly by the following factors:**

- commodity component revenue lower by **LEI 30.543 thousand** due to:
- commodity transmission tariff lower by Lei 0,48/MWh with a negative influence of LEI 35.175 thousand;
- the gas transmitted capacities higher by 1.796.122 MWh (2,5%), with a positive influence of LEI 4.632 thousand, as compared to semester I 2018, detailed by categories of consumers as follows:

|   |     | Sem. I 2019 | Sem. I 2018 | Differences |
|---|-----|-------------|-------------|-------------|
| Quantity transmitted for direct consumers | MWh | 27.775.663  | 27.466.959  | 308.704     |
| Quantity transmitted for distribution     | MWh | 45.504.092  | 44.016.675  | 1.487.417   |
| Total*)                                   | MWh | 73.279.756  | 71.483.634  | 1.796.122   |

\*) transmitted quantity for which transmission services are invoiced

Table 20- Quantity of gas invoiced in Sem I 2019 vs. Sem I 2018

The tariffs for semester I 2019 as opposed to semester I 2018 decreased mainly due to:

- a lower approved revenue in gas year October 2018 - September 2019 (Lei 882.983 thousand) as compared to the revenue approved in gas year October 2017 - September 2018 (Lei 954.322 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2018-2019 (the efficiency gain redistribution component, the correction component of the total revenue, etc).
- The commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing of Order 32/2014 of ANRE President on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariffs Methodology, which establishes the increasing by 5% per year of the percentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2017 - 2018 the variable component of the total revenue at the basis of the commodity tariffs is 35% of the total revenue and in gas year 2018-2019 it decreased to 30% of the total revenue.

- *Revenue from capacity booking* lower by lei **18.539 thousand**, mainly because:
- Overruns of the capacity booked from the first semester of 2019 summing up lei 27.952 thousand compared to lei 56.011 thousand recorded in the same period of 2018.
- revenue from capacity booking higher by **LEI 10.520 thousand** due to appreciated currency gain regarding the contract currency;
- other operating revenue higher by **LEI 4.750 thousand**.

*Revenue from the balancing activity* increased by **LEI 92.725 thousand** based on the following factors:

- quantity higher by 794.519 MWh with a positive influence of LEI 76.314 thousand;
- trading price higher by LEI 9,45 /MWh, with a positive influence of LEI 16.411 thousand.

*Revenue from the construction activity* higher by **LEI 262.979 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 IFRS 15, "Revenue from contracts with clients".

*Financial revenue* have a positive influence of **Lei 11.221 thousand** due to revenues from exchange differences.

**Operating costs before the balancing and construction activity according to IFRIC12** increased by **14%** as compared to semester I 2018, which is higher by **LEI 68.987 thousand**.

**The company made savings of LEI 8.166 thousand**, mainly in relation to the following cost elements:

- cost of royalty: Lei 3.856 thousand;
- cost of maintenance and transmission: LEI 3.558 thousand;
- technological consumption: LEI 517 thousand;
- costs for the risk and expense provision: LEI 234 thousand.

**Overruns of lei 77.153 thousand** were recorded especially at the following expense elements:

- expenses with auxiliary materials and other material expenses: lei 6.043 thousand;
- personnel expenses: lei 2.014 thousand;
- amortization expenses: lei 3.890 thousand;
- expenses with tax and other sums owed to the state: lei 11.579 thousand, mainly on account of the money contribution to ANRE in the amount of 2% of the turnover instituted by GEO no.114 of 2018;
- other operating costs: LEI 53.628 thousand, mainly due to establishment of adjustments for depreciation of current assets registering an increase by lei 48.735 thousand.

**The financial cost** is higher by **LEI 7.555 thousand** based on expenses from exchange rate differences.

**As compared to semester I 2018 the interim gross profit obtained in semester I 2019 decreased by 30%, which is lower by LEI 99.134 thousand.**

## Achievements Semester I 2019 versus Budget Semester I 2019

The main economic and financial indicators achieved between 01.01.-30.06.2019 as compared to the REB approved by OGMS 3/16 May 2012019 are as follows:

(thousand LEI)

| Name   | BVC<br>6 months 2019 | Achieved<br>6 months 2019 | Modificări    |
|--|----------------------|---------------------------|---------------|
| 0  | 1                    | 2                         | 3=1/2x100-100 |
| Operating revenue before the balancing and construction activity, according to IFRIC12 | 705.800              | 774.994                   | 10%           |
| Revenue from the balancing activity  | 13.257               | 183.208                   | 1282%         |
| Revenue from the construction activity, according to IFRIC12                           | 172.551              | 297.898                   | 73%           |
| Financial revenue  | 17.858               | 33.199                    | 86%           |
| Operating costs before the balancing and construction activity, according to IFRIC12   | 604.957              | 560.033                   | -7%           |
| Costs of balancing gas   | 13.257               | 183.208                   | 1282%         |
| Cost of assets according to IFRIC12  | 172.551              | 297.898                   | 73%           |
| Financial costs  | 7.500                | 16.433                    | 119%          |
| <b>Total GROSS PROFIT, of which:</b>   | <b>111.200</b>       | <b>231.726</b>            | <b>108%</b>   |
| • from operation   | 100.842              | 214.961                   | 113%          |
| • from the financial activity  | 10.358               | 16.765                    | 62%           |
| <b>Income tax</b>  | <b>12.767</b>        | <b>36.225</b>             | <b>184%</b>   |
| <b>NET PROFIT</b>  | <b>98.433</b>        | <b>195.501</b>            | <b>99%</b>    |

Table 21 - Financial results - 6 months 2019 vs. Budget - 6 months 2019

**Operating revenue before the balancing and construction activity according to IFRIC12** increased by **LEI 69.194 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **LEI 99.897 thousand** due to:
  - Capacities booked higher by 23.530.145 MWh, with a positive influence of **LEI 66.607 thousand**, increase influenced also by the invoicing of the value of the overruns fo capacity booking related to semester I of 2019, in line with ANRE order no1/18.01.2016, ANRE Order no. 14/30 March 2016 and ANRE Order no. 160/26 November 2015;
  - the gas transmitted capacities higher than planned by 461.147 MWh, with a positive influence of **LEI 1.048 thousand**;
- Revenue from international gas transmission services increased by **LEI 3.684 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 iulie 2016;
- Other operating revenue decreased by **Lei 34.386 thousand** as compared to the REB; in the financial statements Transgaz does not present the value of the revenues from

the production of tangible assets, nor the value of their corresponding expenses according to Order 2.844/2016 for the approval of the Accounting Regulations in accordance with the International Financial Reporting Standards, applicable to the companies whose securities are admitted to trading on a regulated market.

**Revenue from the balancing activity** increased by **LEI 169.952 thousand** based on the following:

- Quantity higher by 1.620.193 MWh, with a positive influence of LEI 184.573 thousand.
- Trading price higher by LEI 8,42 /MWh, with a negative influence of LEI 14.621 thousand;

**Financial revenue** increased by **LEI 15.341 thousand** as compared to the REB, due to the foreign currency revenue.

**The operating costs before the construction activity according to IFRIC12** decreased by **7%** as compared to the plan approved, which is lower by **LEI 44.924 thousand** as compared to the REB.

**Savings amounting to LEI 91.733 thousand** were recorded mainly the following cost elements:

- transmission system technological gas consumption and loss amounting to **LEI 8.169 thousand**, due to the following:
  - average purchase price higher by LEI 0,83 /MWh as compared to the REB, with a negative influence of LEI 324 thousand;
  - gas quantity meant for technological consumption lower than the program by 84.930 MWh (18%), with a positive influence of lei 8.493 thousand;
- depreciation costs: lei 2.566 thousand;
- personnel costs: lei 33.865 thousand;
- costs of auxiliary materials and other materials: LEI 21.470 thousand;
- expenses related to maintenance and transport: lei 23.690 thousand;
- cost of taxes and duties: LEI 1.974 thousand.

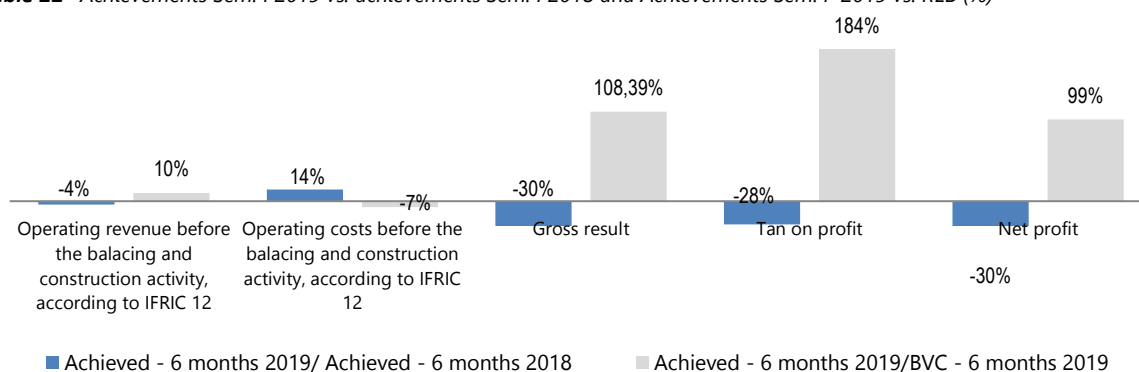
**An expense surplus of LEI 46.808 thousand** was recorded mainly at the following expense elements:

- royalty for the concession of the NTS: lei 10.358 thousand;
- cost of provision for risks and costs: Lei 9.871 thousand;
- other operating constns: Lei 26.579 thousand;

**The financial cost** is higher than the REB **by lei 8.933 thousand** due to the foreign currency loss. **The gross profit increased by 108,39% as compared to the plan, which is higher by LEI 120.526 thousand as compared to the REB, and the net profit increased by 98,61% as compared to the plan, which is higher by LEI 97.068 thousand as compared to the REB.**

|  | <b>Achieved 6 months 2019<br/>vs.<br/>Achieved 6 months 2018</b> | <b>Achieved 6 months 2019<br/>vs.<br/>REB 6 months 2019</b> |
|--|--|---|
| Operating revenue before the balancing and construction activity, according to IFRIC12 | -4%  | 10%   |
| Operating costs before the balancing and construction activity, according to IFRIC12   | 14%  | -7%   |
| Gross result   | -30%   | 108,39%   |
| Tax on profit  | -28%   | 184%  |
| Net profit   | -30%   | 99%   |

**Table 22– Achievements Sem. I 2019 vs. achievements Sem. I 2018 and Achievements Sem. I 2019 vs. REB (%)**



**Chart 25- Achievements Sem I. 2019 vs. achievements Sem. I 2018 and Achievements Sem. I 2019 vs. 2019 REB**

### Achievements for 6 months 2019 versus Management Plan 2019

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   | Management Plan 2019 | Achieved 6 months 2019 | 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 | 1.070.891            | 421.446                | 254%       | -649.445   |
| 3.  | Acid test ratio  | 0,91                 | 1,71                   | 188%       | 0,80       |
| 4.  | Net debt-to-equity ratio   | 5,50                 | 0,76                   | 724%       | -4,74      |
| 5.  | EBITDA – lei thousand  | 329.594              | 311.739                | 95%        | -17.855    |

**Table 23 – Achievements – 6 months 2019 vs. Management Plan 2019**

## 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 2019 | 31 December 2018 |
|--|--------------|------------------|
| <i>Impact on profit and loss and on equity of:</i> |              |                  |
| USA dollar appreciation by 10%                     | 119.711      | 121.191          |
| USA dollar depreciation by 10%                     | (119.711)    | (121.191)        |
| Euro appreciation by 10%                           | 36.963.226   | 36.181.580       |
| Euro depreciation by 10%                           | (36.963.226) | (36.181.580)     |

#### 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 1.647.591 in June 2019 (June 2018: lei 1.669.301).

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 764.660 lower/higher (December 2018: lei 3.051.941 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 accounting value of the receivables without the adjustments for uncertain receivables represents the maximum value exposed to credit risk.

The Company's credit risk is concentrated on the 5 main customers, which together account for 50% of the trade receivable balances as at 30 June 2018 (31 December 2018: 50%).

Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made.

The cash is placed in financial institutions which are considered to be associated with a minimum performance risk.

|                | 30 June 2019       | 31 December 2018   |
|----------------|--------------------|--------------------|
| Without rating | 724.052            | 2.106.827          |
| BB             | -                  | -                  |
| BB+            | 177.800.909        | 347.913.691        |
| BBB-           | 45.665.308         | 13.569.848         |
| BBB            | -                  | -                  |
| BBB+           | 654.146.796        | 344.645.980        |
| A              | 137.550            | 137.989            |
| AA             | -                  | -                  |
| AA-            | 589.457            | 216,037            |
|                | <b>879.064.072</b> | <b>708.590.372</b> |

*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 the 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 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 31 December 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 2019 in terms of maturity:

|                                  | <b>Total amount</b>       | <b>Less than 1 year</b>   | <b>1-5 years</b>  | <b>over 5 years</b> |
|----------------------------------|---------------------------|---------------------------|-------------------|---------------------|
| Loans                            | 261.652.156               | 3.168.966                 | 80.350.078        | 178.133.112         |
| Commercial debts and other debts | <u>542.165.576</u>        | <u>542.165.576</u>        | -                 | -                   |
|                                  | <b><u>803.817.732</u></b> | <b><u>545.334.542</u></b> | <b>80.350.078</b> | <b>178.133.112</b>  |

Analysis of financial liabilities as at 31 December 2018 in terms of maturity:

|                                  | <b>Total amount</b> | <b>Less than 1 year</b> | <b>1-5 years</b>  | <b>over 5 years</b> |
|----------------------------------|---------------------|-------------------------|-------------------|---------------------|
| Loans                            | 259.278.444         | 3.121.315               | 70.206.550        | 185.950.579         |
| Commercial debts and other debts | 258.674.859         | 258.674.859             | -                 | -                   |
|                                  | <b>517.953.303</b>  | <b>261.796.174</b>      | <b>70.206.550</b> | <b>185.950.579</b>  |

Commercial and other debts comprise trade payables, suppliers of fixed assets, dividends payable and other debts which are not included > debt generated as a result of the legal provisions imposed by the authorities, debts to employees and advanced revenue.

Categories of financial instruments:

|   | <b>30 June 2019</b>  | <b>31 December 2018</b> |
|---|----------------------|-------------------------|
| <b>Financial assets</b>                             |                      |                         |
| Cash and cash equivalents                           | 575.931.502          | 417.345.117             |
| Term bank deposits                                  | 303.488.916          | 291.407.201             |
| Credits and receivables                             | 867.769.582          | 1.295.387.229           |
| Financial assets available for sale                 | 93.062.871           | 70.417.542              |
| Adjustments for available-for-sale financial assets | (24.816.713)         | (24.816.713)            |
|   | <b>1.815.436.158</b> | <b>2.049.740.376</b>    |
|   | <b>30 June 2019</b>  | <b>31 December 2018</b> |
| <b>Financial liabilities</b>                        |                      |                         |
| Debts measured at depreciated cost                  | -                    | -                       |
| Loans   | 236.755.000          | 233.195.000             |
| Debts assessed at the fair value:                   |                      |                         |
| -Financial guarantees related to contracts          | 91.431.921           | 6.311.084               |
| -Commercial debts and other debts                   | 450.733.655          | 252.363.775             |
|   | <b>778.920.576</b>   | <b>491.869.859</b>      |

In the loans and receivables category the receivables from the relationship with employees and advance expenses are not included.

### 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 2019, the Company's strategy which remained unchanged compared to 2018, was to keep the debt leverage degree as low as possible to keep a significant borrowing capacity for future investments.

The net leverage was negative at 30 June 2019 and negative at 31 December 2018.

|                                 | 30 June 2019  | 31 December 2018 |
|---------------------------------|---------------|------------------|
| Total loans                     | 236.755.000   | 233.195.000      |
| Less: cash and cash equivalents | (879.420.418) | (708.752.317)    |
| Net cash position               | (642.665.418) | (475.557.317)    |

### 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 adjustment 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.

#### 4.6 Indicators of the economic and financial results in the period 2017-2021

In line with the provisions of sub-chapter 5.4 of Transgaz' Management Plan in the period 2017-2021 entitled "performance indicators in the period 2017-2021" the criteria and the performance objectives are defined and set as follows:

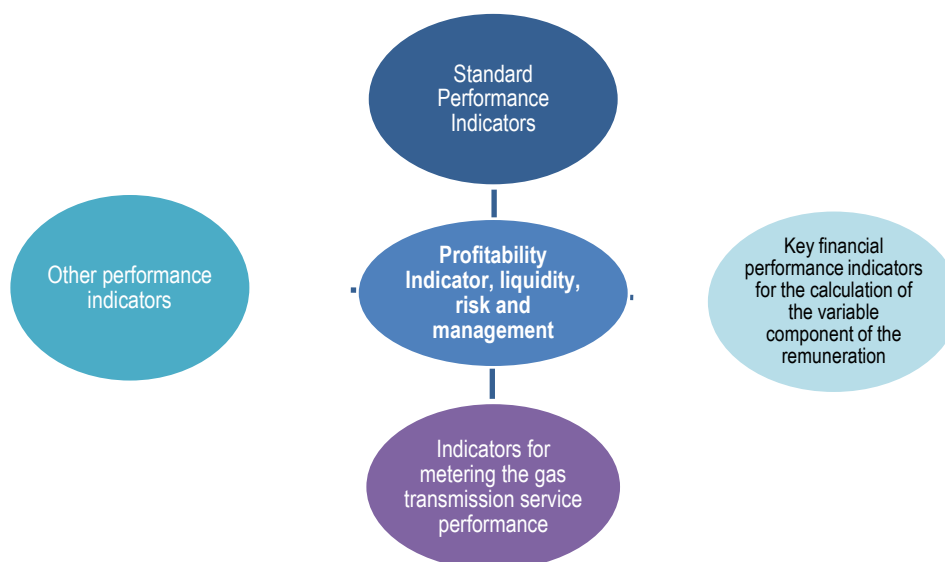


Figure 18– Performance Indicators

##### 4.6.1. Standard performance indicators

| Performance criteria                     | Performance objective   | Achieved Sem. I 2019 | Achieved Sem. I 2018 | %    |
|--|---|----------------------|----------------------|------|
| Commissioned investments lei thousand    | Plan achieved   | 10.202               | 18.391               | 55%  |
| EBITDA– lei thousand                     | EBITDA increase   | 311.739              | 410.649              | 76%  |
| Labour productivity – lei thousand/pers. | Increasing labour productivity in units of value (turnover / average no. of employees); | 220.429              | 203.156              | 109% |
| Outstanding payments – lei thousand      | Payments made during the contract duration (in current prices)                          | 0                    | 0                    | -    |
| Outstanding receivables – lei thousand   | Diminished amount of outstanding receivables (in current prices)                        | 392.473              | 301.240              | 130% |
| Technological consumption -%             | Remaining within the gas quantities representing technological consumption              | 32%                  | 41%                  | 77%  |
| OPEX at LEI 1000 operating revenue       | Diminishing of OPEX at LEI 1000 operating revenue                                       | 723                  | 607                  | 119% |

Table 24 – Evolution of the standard performance indicators in Sem I 2019 vs. Sem I 2018

#### 4.6.2. Profitability, liquidity, risk and management indicators

Achievements between 2017- Sem.I 2019 and estimation Transgaz performance between 2020-2021:

| No.       | Indicators                      | Calculation formula                   | 2017     | 2018   | Achieved Sem. I 2019 | 2020   | 2021   |
|-----------|---------------------------------|---------------------------------------|----------|--------|----------------------|--------|--------|
| <b>1.</b> | <b>Profitability Indicators</b> |                                       |          |        |                      |        |        |
|           | EBITDA in total sales           | EBITDA                                | 37,71%   | 33,04% | 33,21%               | 45,75% | 55,28% |
|           |                                 | Turnover                              |          |        |                      |        |        |
|           | EBITDA in equity                | EBITDA                                | 15,70%   | 12,47% | 8,53%                | 17,14% | 23,72% |
|           |                                 | Equity                                |          |        |                      |        |        |
|           | Gross profit share              | Gross profit                          | 24,76%   | 18,35% | 24,68%               | 16,17% | 25,42% |
|           |                                 | Turnover                              |          |        |                      |        |        |
|           | Return on equity                | Net profit                            | 8,65%    | 5,80%  | 5,35%                | 5,17%  | 9,20%  |
|           |                                 | Equity                                |          |        |                      |        |        |
| <b>2.</b> | <b>Liquidity indicators</b>     |                                       |          |        |                      |        |        |
|           | Current liquidity indicator     | Current assets                        | 3,09     | 1,58   | 2,28                 | 1,29   | 1,14   |
|           |                                 | Short term debts                      |          |        |                      |        |        |
|           | Immediate liquidity indicator   | Current assets - Stocks               | 2,97     | 1,39   | 1,71                 | 1,11   | 1,09   |
|           |                                 | Short term debts                      |          |        |                      |        |        |
| <b>3.</b> | <b>Risk indicators</b>          |                                       |          |        |                      |        |        |
|           | Indebtness indicator            | Borrowed capital                      | 1,86%    | 16,78% | 6,48%                | 85,28% | 47,83% |
|           |                                 | Equity                                |          |        |                      |        |        |
|           | Interest coverage ration        | EBIT                                  | 1.343,88 | X      | 136,16               | 3,62   | 5,24   |
|           |                                 | Interest expense                      |          |        |                      |        |        |
| <b>4.</b> | <b>Management indicators</b>    |                                       |          |        |                      |        |        |
|           | Speed of debit - clients        | Average accounts receivable x 90 days | 99,81    | 70,04  | 124,04               | 67,38  | 71,86  |
|           |                                 | Turnover                              |          |        |                      |        |        |
|           | Speed of credit - suppliers     | Average accounts payable x 90 days    | 62,62    | 74,29  | 38,12                | 79,08  | 37,90  |
|           |                                 | Turnover                              |          |        |                      |        |        |

**Table 25 – Profitability, liquidity, risk and management indicators in 2017-2021**

### 4.6.3. Key performance indicators for the calculation of the variable component of the remuneration

#### A. Key financial performance indicators

| No | Indicator   | Scope   | 2019      |                     | Achievement degree |
|----|---|---|-----------|---------------------|--------------------|
|    |   |   | Budget ed | Achieved Semester I |                    |
| 1. | <b>Outstanding payments</b>   | <i>Maintaining outstanding payments at zero.</i>  | 0         | 0                   | 100%               |
| 2. | <b>Operating expenses</b> (less 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 Management Plan</i>   | 1.070.891 | 421.446             | 254%               |
| 3. | <b>Current liquidity rate "Acid Test"</b>   | <i>Current liquidity rate (test acid) to register annual values over 1.</i>   | 0,91      | 1,71                | 188%               |
| 4. | <b>Net leverage rate</b>  | <i>Maintaining the level of the net leverage rate below the limita set for obtaining bank financing, namely: 3 -2017; 3- 2018; 5,5 -2019; 5,5 -2020; 4-2021</i> | 5,50      | 0,76                | 724%               |
| 5. | <b>EBITDA (thousand lei)</b>  | Achievement of the EBITDA target undertaken in the management plan  | 329.594   | 311.739             | 95%                |

Table 26 – The value of the key financial performance indicators for the calculation of the variable component of the remuneration as at 30 June 2019

## 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, 492<sup>1</sup>, par. (1)) or shall draw up a separate report (art I, item 2, 492<sup>4</sup>, 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 fulfilment 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.

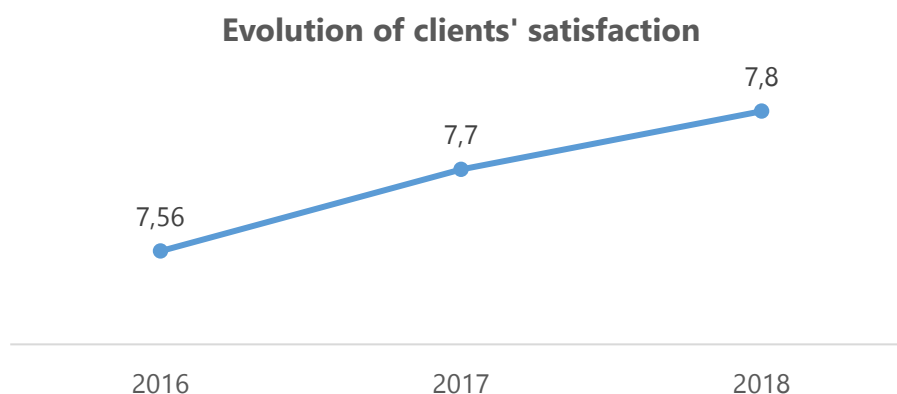
The advantages of OHS implementation are:

- 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.

### 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 2019, aiming to maintain a customer satisfaction rating of more than 7, the target being 7.9. (*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.





According to the PP 15 procedure Customer Satisfaction Survey, in semester I 2019, **97 questionnaires were sent to the users of the natural gas transmission network.**

The analysis of the questionnaires highlighted the following:

- no customer complaints were received;
- **Excellent scores were given by clients to the professionalism and appropriate behaviour 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 activities in the field of environmental protection in semester I 2019 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 **2 requests for renewal of environmental permits** were not submitted for the Cluj and Bacău regional offices.

In the case of the Regional operating centre Cluj the revision of the environment permit was already obtained and for the regional office Bacău is still during the working procedure.

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 in semester I, **renewal documentation has been submitted for 24 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, namely 5 projects.

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, Counselling**

In semester I 2019, the environmental prevention and counselling action was launched. This action was attended by environmental inspectors within the Environmental Management Department, establishing the working method, organizing specific documents and counselling the job managers.

### **Internal assessment**

According to the yearly planning of the integrated internal inspections, a series of 3 internal inspections to Bacău, Brăila and Arad regional operating centres had been performed, being imposed conformity measures in waste and dangerous substances management area.

### **External assessment**

In semester I 2019, S.N.T.G.N. Transgaz S.A was subjected to 7 external inspections listed in the table below. These were carried out by the control structures within the Romanian Water Administration and National Environmental Guard.

#### **Table including the external inspections**

| <b>No.</b> | <b>Name of inspection authority</b> | <b>Inspected site</b>                | <b>Date of inspection</b> |
|------------|-------------------------------------|--------------------------------------|---------------------------|
| 1.         | ABA OLT                             | Regional Office Braşov–Băţani Sector | 09.01.2019                |
| 2.         | ABA DOBROGEA                        | Regional Office Constanţa            | 16.01.2019                |
| 3.         | ABA DOBROGEA                        | Regional Office Constanţa            | 29.01.2019                |
| 4.         | GNM DOLJ                            | Regional Office Craiova              | 30.01.2019                |
| 5.         | GNM DÂMBOVIȚA                       | Regional Office Bucureşti            | 26.03.2019                |
| 6.         | ABA SIRET- SGA IAŞI                 | Regional Office Bacău                | 12.04.2019                |
| 7.         | ABA JIU                             | Regional Office Craiova              | 28.06.2019                |

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, waste and dangerous substances management.

### **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.

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;
- physical-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;
- Air environment factor analysis services;
- Soil environment factor analysis services;
- Decontamination services

In the first semester, the procurement of the *Physical and Chemical Analysis Services for the characterization and classification of the liquid / solid waste generated from the activity of pigging / cleaning at the filtering / separating elements* was completed and two other procurements were started, respectively *Physical and Chemical Analysis Services for Wastewater and Services for drawing up technical documentation for obtaining water management authorizations*.

Through the Procurement Program for 2019, environmental protection materials and products were requested at each regional operating centre.

#### **E. Certification of the Environmental Management System to the ISO 14001:2015 standard**

The review of the documents related to the system, respectively the specific environmental protection procedures has continued in the first semester of 2019.

#### **F. Activity carried out by the Environmental Factors Monitoring Laboratory**

The planning of the activities carried out in semester I 2019 by the Environmental Factors Monitoring Laboratory consisted of the following:

- monitoring the pollution sources on sites within the regional offices;
- identifying and evaluating the environmental aspects for 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<sub>x</sub>, SO<sub>2</sub>) 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.

On the basis of the endowment with equipment, 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**. 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.

| Type of activity/ Reporting period– S 1 / 2019  | Number of proposed monitoring | Number of achieved monitoring | Achievement degree (%) |
|---|-------------------------------|-------------------------------|------------------------|
| Monitoring the pollution sources and evaluating the environmental aspects – Q I 2019  | 144                           | 135                           | 93,75                  |
| Monitoring the pollution sources and evaluating the environmental aspects – Q II 2019 | 181                           | 173                           | 95,58                  |
| <b>TOTAL Semester I</b>   | 325                           | 308                           | 94,76                  |

*Table 27 Degree of achievement of the monitoring of the pollution sources in Semester I 2019*

### **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:

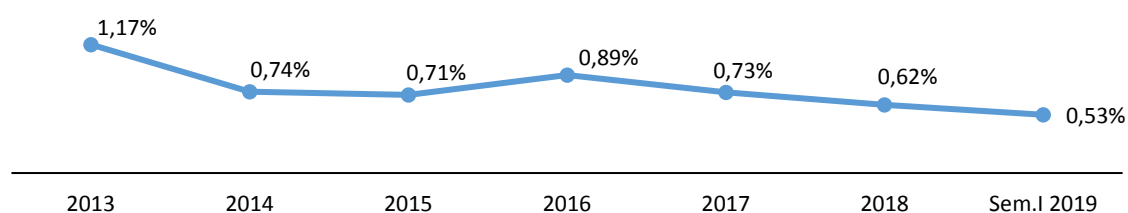
| Determined technological consumptions                            | Technological consumptions not determined   |
|--|---|
| Consumption at the compressor stations                           | Technological consumption of equipment in technological installations (NT, SRMP.s, a) - replacement, verification, 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 semester I 2019, the share of technological consumption in the total natural gas flowing through NTS was the following:

| Indicator   | UM          | 2013       | 2014       | 2015       | 2016       | 2017       | 2018       | Sem.I 2019 |
|---|-------------|------------|------------|------------|------------|------------|------------|------------|
| 0   | 1           | 2          | 3          | 4          | 5          | 6          | 7          |            |
| <b>Natural gas circulated</b>                             | Thousand cm | 13.696.258 | 13.082.740 | 12.383.825 | 12.201.157 | 12.974.819 | 13.074.676 | 6.880.328  |
| <b>Technological consumption</b>                          | Thousand cm | 160.140    | 96.940     | 88.103     | 108.874    | 95.242     | 81.034     | 36.517     |
| <b>Share of technological consumption / gas emissions</b> | %           | 1,17%      | 0,74%      | 0,71%      | 0,89%      | 0,73%      | 0,62%      | 0,53%      |



**Chart 26 - Share of technological consumption in total natural gas transmitted through the NTS between 2013- sem. I. 2019**

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 0.53% in semester I 2019, is the result of the efficient management of NTS operation and use of the technical means used in this respect

### 5.2.3. Human resources

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.

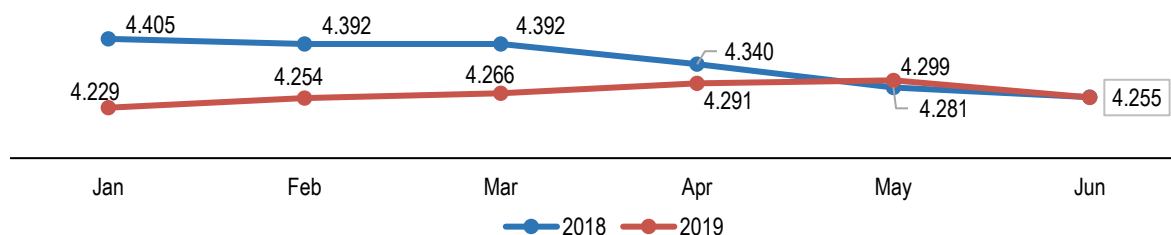
The number of personnel in semester I 2019:

| Specification   | Jan          | Feb          | Mar          | Apr          | May          | Jun          |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Number of employees at the beginning of the period                | 4.202        | 4.229        | 4.254        | 4.266        | 4.291        | 4.299        |
| Number of newly employed persons                                  | 35           | 31           | 19           | 28           | 18           | 23           |
| Number of persons who have ceased work relations with the company | 8            | 6            | 7            | 3            | 10           | 67           |
| <b>Number of employees at the end of the period</b>               | <b>4.229</b> | <b>4.254</b> | <b>4.266</b> | <b>4.291</b> | <b>4.299</b> | <b>4.255</b> |

*Table 28-Development of the number of employees in 6 months 2019*

On 30 June 2019, SNTGN TRANSGAZ S.A. registered 4,255 employees with individual labour agreements, out of which 4,171 for an indefinite term and 84 for a determined term.

The evolution of the number of staff in the first semester of 2019 compared to the same period of the previous year is as follows:

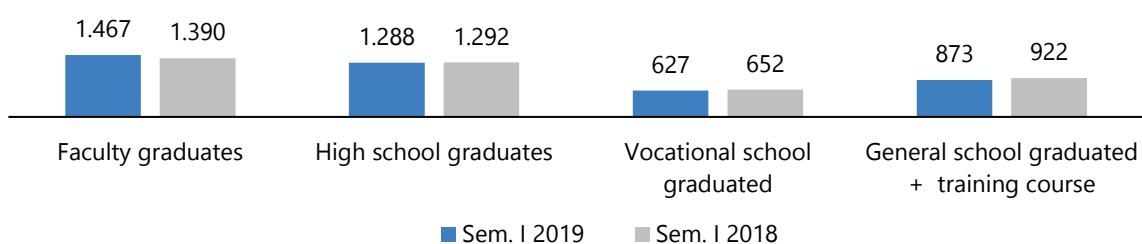


*Chart 27 -The evolution of the number of employees in Sem. I 2019 vs. Sem.I 2018*

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.

| No                     | Category                                   | Sem. I 2019  | Sem. I 2018  |
|------------------------|--|--------------|--------------|
| 1.                     | Faculty graduates                          | 1.467        | 1.390        |
| 2.                     | High school graduates                      | 1.288        | 1.292        |
| 3.                     | Vocational school graduates                | 627          | 652          |
| 4.                     | General school graduates + training course | 873          | 922          |
| <b>TOTAL employees</b> |  | <b>4.255</b> | <b>4.256</b> |

**Table 29** - Evoluția structurii personalului pe categorii de studii –Sem. I 2019 vs. Sem. I 2018



**Chart 28**- Development of the staff structure by categories of education in Sem. I 2019 vs. Sem I 2018

In order to make more efficient the use of the qualified personnel to carry out in full the duties of the jobs in the new working conditions, in accordance with the Management Plan of SNTGN Transgaz SA, during 2019 through the "Plan of staggering the normation of the technical works within SNTGN "TRANSGAZ " approved by the Director General, the time and personnel norms for 206 technical works were planned to be extracted, out of which 201 executed by the Mediaș Branch and 5 executed at the Gas Compressor Stations.

In the first semester of 2019 because of the low frequency or occasional technical works to be standardized, their validation conditions were not complied with namely minimum three meterings in different conditions for each technical work.

Therefore, although in the first semester 228 timings were made out of a total of 368 for the year 2019 (respectively 62%), for none of the works was the scale of three timings under different conditions was fulfilled and the Validation Commission of the technical works established at the company level did not validate time and personnel norms for the technical works expected to be standardized in 2019.

Time and personnel standards validated in semester I 2019:

| Unit                | Planned in 2019 | Validated semester I |
|---------------------|-----------------|----------------------|
| Regional offices    | 0               | 0                    |
| Compressor stations | 5               | 0                    |
| Mediaș subsidiary   | 201             | 0                    |
| <b>Total</b>        | <b>206</b>      | <b>0</b>             |

**Table 30** - Technical works planned/ technical works standardized in Sem. I 2019



According to the Standardization Plan approved for 2019, 368 timings for technical works were planned to be executed, the standardization team succeeding after the activity carried out to time at the end of the first semester of 2019, 228 technical works, staggered as follows:

| 2019                     | Jan       | Feb       | Mar       | Apr       | May       | June      | TOTAL Sem. I 2019 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-------------------|
| Regionl Office ARAD      |           |           |           |           |           |           |                   |
| Regionl Office BACĂU     |           |           |           |           |           |           |                   |
| Regionl Office BRAȘOV    |           |           |           |           |           |           |                   |
| Regionl Office BRĂILA    |           |           |           |           |           |           |                   |
| Regionl Office BUCUREȘTI |           |           |           |           |           |           |                   |
| Regionl Office CLUJ      |           |           |           |           |           |           |                   |
| Regionl Office CONSTANȚA |           |           |           |           |           |           |                   |
| Regionl Office CRAIOVA   |           |           |           |           |           |           |                   |
| Regionl Office MEDIAȘ    |           |           |           |           |           | 9         | 9                 |
| MEDIAȘ Subsidiary        | 44        | 70        | 32        | 31        | 18        | 24        | 219               |
| CS                       |           |           |           |           |           |           |                   |
| <b>Total timed works</b> | <b>44</b> | <b>70</b> | <b>32</b> | <b>31</b> | <b>18</b> | <b>33</b> | <b>228</b>        |

*Table 31 - Total timed works-Sem. I 2019*

### **Improving the training and professional development process of staff**

The high level of professional competence of the employees is considered a premise in achieving the objectives of any organization, which is why the investment in human resources is considered profitable in all areas of activity.

This is regulated by the following legislative documents: Law 53/2003 (Labor Code), republished, as subsequently amended and supplemented; Government Ordinance no. 129/2000 on the professional training of adults, republished, as subsequently amended and supplemented, approved by Law no. 375 / 2002, as amended; Law no. 227 / 2015 on the Fiscal Code, as subsequently amended and supplemented.

The training aims to develop the theoretical and practical knowledge common to most professions and to develop the theoretical and practical knowledge specific to certain activity areas, both objectives being necessary in order to carry out the activity, in order to fulfill the job's tasks.

The training, improvement and professional development of the employees within the company is carried out based on the "Annual training and professional development program for employees", drawn up at the company level, taking into account the provisions of articles 194 and 195 of Law 53/2003 (Labor Code), republished, as subsequently amended and supplemented, according to which the employer-legal entity that has more than 20 employees elaborates annual training programs and has the obligation to ensure the participation of the employees to courses at least every two years.

In the field of continuous training and development, the programs focus on the areas of interest for the development of the company's activity, respectively the following fields: Engineering, Management of Gas Transmission Systems, including SCADA, Research and Design, Economic, Legal, Human Resources, Strategy and Corporate Management, Information Technology and Communication and Quality - Environment, Occupational Health and Safety, Guard, Security, Internal Audit, Internal Control and Financial Management Control, as well as other topics of general interest which are necessary for carrying out the activity of the Company.

In this respect, through the **Vocational Training Office**, in the first semester - 2019, **56 vocational training and development courses** were organized with local and foreign external trainers for **588 participants**, out of which invoices for 53 courses attended by 520 people had been sent for payment up to 30.06.2019.

The participation of the employees in the courses organized within the Company through internal trainers from the Center for Vocational Training and Development and other specialists coopted from the structures of the company envisages either acquiring the skills specific to another profession which is different or related to the one practiced (qualification courses), or development / improvement of professional skills within the same occupation or related occupations (training and improvement courses).

Accordingly, through the **Center for Vocational Training and Development**, in the first semester of 2019, **3 qualification courses began for 83 employees**, with internal trainers, out of which:

- **27 employees** (1 group – series 9) for „*Mechanical fitter for maintenance and universal repairs*” profession – Classification Code 7214.2.3;
- **56 employees** (2 groups – series 6 and series 7) for „*Security Agent*” profession - Classification Code 5169.1.1;

professions for which SNTGN TRANSGAZ SA holds authorizations issued by AJPIS Sibiu, the Qualification Certificates obtained being nationally acknowledged. The qualification course for „*Mechanical fitter for maintenance and universal repairs*” profession – Classification Code 7214.2.3 has a training duration of 720 hours, and the qualification course for „*Security Agent*” profession - Classification Code 5169.1.1 has a training duration of 360 hours, their development being highlighted in the following table.

The statement on the number of courses organized, respectively sent for payment, for the Company's employees, for each month of semester I 2019 is presented in the following tables:

| No. | Category   | Sem. I 2019       |           |           |           |           |           | Sem. I 2019  |          |          |           |           |           |
|-----|--|-------------------|-----------|-----------|-----------|-----------|-----------|--------------|----------|----------|-----------|-----------|-----------|
|     |  | Organized courses |           |           |           |           |           | Paid courses |          |          |           |           |           |
|     |  | Jan               | Feb       | Mar       | Apr       | May       | June      | Jan          | Feb      | Mar      | Apr       | May       | June      |
| 1.  | No. of courses with external trainers (organized through the Professional Training Office) | 2                 | 7         | 14        | 10        | 13        | 10        | 2            | 7        | 6        | 12        | 16        | 10        |
| 2.  | No. of courses with internal trainers (through our own Training Centre)                    | -                 | 3*        | 3*        | 3*        | 2*        | 1*        | -            | -        | -        | -         | -         | -         |
|     | <b>TOTAL</b>   | <b>2</b>          | <b>10</b> | <b>17</b> | <b>13</b> | <b>15</b> | <b>11</b> | <b>2</b>     | <b>7</b> | <b>6</b> | <b>12</b> | <b>16</b> | <b>10</b> |

\* The courses with 3 internal trainers were held over several months

**Table 32- The status of training and improvement courses in Sem. I 2019**

The courses organized and paid for the Company employees in semester I 2019, as compared to semester I 2018 are presented below:

| No. | Category   | Sem. I 2019             |                       | Sem. I 2018             |
|-----|--|-------------------------|-----------------------|-------------------------|
|     |  | Total organized courses | Of which paid courses | Total organized courses |
| 1.  | No. of courses with external trainers (organized through the Professional Training Office) | 56                      | 53                    | 75                      |
| 2.  | No. of courses with internal trainers (through our own Training Centre)                    | 3                       | -                     | 11                      |
|     | <b>TOTAL</b>   | <b>59</b>               | <b>53</b>             | <b>86</b>               |

**Table 33- Training/formation courses for the Company employees-Sem. I 2019 vs. Sem. I 2018**

The situation of the number of employees who graduated qualification / improvement courses in semester I 2019 as compared to the same period of time in 2018 is the following:

| No. | Category   | Sem. I 2019                              |  | Sem. I 2018                              |
|-----|--|--|--|--|
|     |  | No. of participants in organized courses | Of which no. of participants in paid courses | No. of participants in organized courses |
| 1.  | No. of trained staff by courses with external trainers (through our own Training Centre) | 588                                      | 520  | 587                                      |
| 2.  | No. of trained staff by courses with internal trainers (through our own Training Centre) | 83                                       | -  | 183                                      |
|     | <b>TOTAL</b>   | <b>671</b>                               | <b>520</b>                                   | <b>770</b>                               |

**Table 34-The situation of the personnel who graduated qualification / improvement courses Sem. I 2019 vs. Sem. I 2018**

**At the end of semester I 2019**, the trade union members rate was 95.86% of the total of 4,255 employees, and 4,079 were trade union members.

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

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

The "Gaz Mediaş" 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 Labour 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 2019, 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 company, which 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 2019

### SPONSORSHIPS

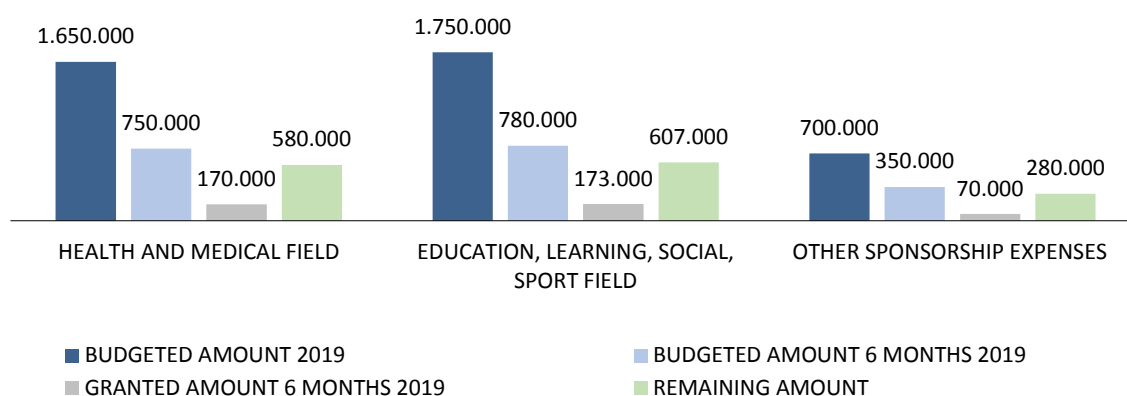
In line with art. **XIV** of **GEO. 2/2015**, amending and supplementing certain normative acts and other actions, it was provided that economic agents referred to in Article 1 of Government Ordinance no. 26/2013 on strengthening financial discipline at the level of economic operators where the state 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 semester I 2019, in the following structure:

| No                                    | SPONSORSHIP CATEGORY                                 | BUDGETED AMOUNT 2018 | BUDGETED AMOUNT SEMESTER I 2019 | AMOUNT GRANTED IN SEMESTER IN 2019 | REMAINING AMOUNT |
|---------------------------------------|--|----------------------|---------------------------------|------------------------------------|------------------|
| 0                                     | 1  | 2                    | 3                               | 4                                  | 5=3-4            |
| 1.                                    | HEALTH AND MEDICAL FIELD                             | 1.650.000            | 750.000                         | 170.000                            | 580.000          |
| 2.                                    | EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which: | 1.750.000            | 780.000                         | 173.000                            | 607.000          |
|                                       | - for sports clubs                                   | 800.000              | 400.000                         | 0                                  | 400.000          |
| 3.                                    | OTHER SPONSORSHIP EXPENDITURES                       | 700.000              | 350.000                         | 70.000                             | 280.000          |
| <b>TOTAL SPONSORSHIP EXPENDITURES</b> |  | <b>4.100.000</b>     | <b>1.880.000</b>                | <b>413.000</b>                     | <b>1.467.000</b> |

Table 35 - Statement of sponsorship budget 2019 and budgeted/granted amounts until 30.06.2019



**Chart 29 - Statement of the sponsorship budget for 2019 and granted amounts in semester I 2019.**

In semester I 2019, 13 sponsorship aids were granted, totalling 413,000 lei - the health and medical field – 170,000 lei, education, learning, social, sport fields -173,000 lei, other sponsorship expenditures -70,000 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 2019**, 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. 1270/26.11.2018 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 2019, 32 applications for social aid were processed, following to be submitted for analysis and approval to the Board of Administration in 2019.

### 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  |
|--|--|
| <b>Developing a culture of transparency for good corporate governance</b>  | Increasing institutional transparency and the transparency of decision-making processes  |
|  | Increasing the transparency of public resource management processes  |
| <b>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</b> | Enhancing the ability to manage management failure by correlating tools that impact early identification of institutional risks and vulnerabilities. |
| <b>Strengthening integrity, reducing vulnerabilities and corruption risks in priority sectors and areas of activity</b>  | Increasing integrity, reducing vulnerabilities and corruption risks in the business environment  |
| <b>Increasing the level of knowledge and understanding of integrity standards by employees and beneficiaries of public services</b>  | Increasing the degree of anti-corruption education of the company's staff  |
|  | Raising public awareness of the impact of corruption   |
| <b>Strengthening the combat ability against corruption by criminal law and administrative means</b>  | Strengthening administrative control mechanisms  |
| <b>Increasing the degree of implementation of anti-corruption measures by approving the integrity plan and regular self-assessment at the company level</b>  | 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](http://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 Mediaş 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-fulfilment 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 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 Mediaș;
- 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 was prepared;
- System Procedure PS 06 SMI Prevention of Corruption was developed
- The Code of Ethics was updated according to legal changes;
- The integrity, corruption and fraud training courses for the execution personnel were carried out according to the training and professional development plan;

## 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 analysing 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, analyses 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 on internal/managerial control and preventive financial control , republished, as further amended and supplemented;
- Order No. 600/20.04.2028 of the General Secretary of the Government on the approval of the Managing Internal Control Code of Public Entities, published in Official Journal No. 387/07.05.2018, Part I;
- Order no. 201/2016 of the General Secretariat of the Government 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 Journal no. 387 / 07.05.2018, Part I, (applicable from 07.05.2018)
- International regulations issued by:
  - TEADWAY (US) -COSO Public Sponsorship Committee;
  - Canadian Authorized Institute (CRITERIA OF CONTROL) -COCO;
  - THE EUROPEAN COMMISSION;
  - The International Organization of Supreme Audit Institutions (INSOSAI).

## 3. Organizational structure of the Internal Control/Management System

The organizational structure, established according to the Order of the General Secretariat of the Government No. 600/ 2016 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, este prezentată în figura:

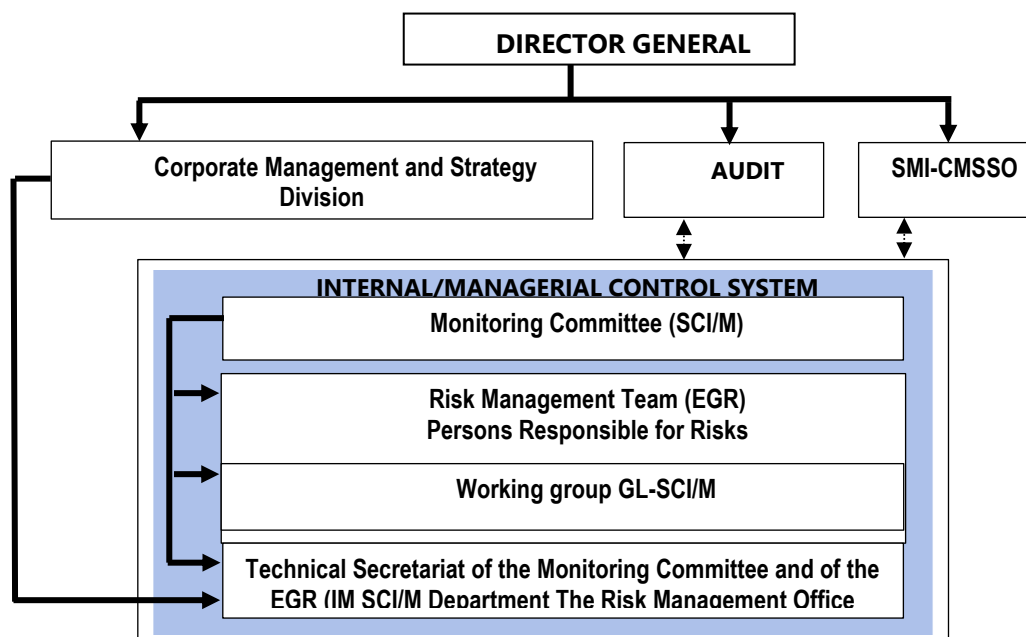


Figure 19 - Organizational structure of the Internal Control/Management System within SNTGN Transgaz SA

**NOTE: GL-SCI/M** – Work group per Division/Unit/ Independent Department / Mediaș Subsidiary / Regional Office, for SCI/M development;

Taking into consideration Order SGG 600/2018, an internal decision document on the establishment of the Committee for Monitoring and Updating the Regulation on the Organization and Functioning of the SCI/M Monitoring Commission was issued and submitted to the approval of the Director General, according to the provisions of the order in force.

Accordingly, the Monitoring Commission was established by **Decision no. 751/23.07.2018 amended by Decision no. 283/15.03.2019** and the **Rules governing the functioning and organization of SCI/M Monitoring Commission**, updated, was registered with no. 37020/23.07.2018.

**The Monitoring Commission (MC) has the following structure:**

- 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 Technical **secretariat** is provided by the SCI / M Implementation and Monitoring Service, within the Budget Strategy Division, the Strategy and Corporate Management Department.

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**. The activity of SCI/M Monitoring Committee is advised by the Head of the Internal Audit Department.

By Decision **282/15.03.2019** the persons responsible of the SCI/M within SNTGN Transgaz SA were appointed.

#### 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 Secretary of the Government no. 600/2018** for the approval of the Code of Internal/management control of public entities.

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 sections, referred to in the OSGG 600/2018 as components of the internal/management control elements, closely interdependent components, arising from the manner in which activities are managed and integrated into these activities, as presented in the table below:

| Internal/management control elements   | Standards   |
|--|---|
| <b>I. CONTROL ENVIRONMENT</b>  |   |
| Comprises issues related to organization, human resources management, ethics, deontology and integrity   | Standard <b>1</b> - Ethics and integrity                    |
|  | Standard <b>2</b> – Responsibilities, positions and tasks   |
|  | Standard <b>3</b> – Competence, performance                 |
|  | Standard <b>4</b> – Organizational structure                |
| <b>II. PERFORMANCE AND RISK MANAGEMENT</b>   |   |
| Refers to the target setting management, planning (multiannual planning), scheduling (management plan) performance (monitoring performance) and risk management.                                 | Standard <b>5</b> - Targets                                 |
|  | Standard <b>6</b> - Planning                                |
|  | Standard <b>7</b> – Monitoring performance                  |
|  | Standard <b>8</b> –Risk management                          |
| <b>III. CONTROL ACTIVITIES</b>   |   |
| Refers to development of procedures, continuity of processes and activities, separation of responsibilities, monitoring.   | Standard <b>9</b> - Procedures                              |
|  | Standard <b>10</b> - Surveillance                           |
|  | Standard <b>11</b> – Continuity of activity                 |
| <b>IV. INFORMATION AND COMMUNICATION</b>   |   |
| 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 <b>12</b> – Information and communication          |
|  | Standard <b>13</b> – Documentation management               |
|  | Standard <b>14</b> – Accounting and financial reporting     |
| <b>V. AUDIT AND ASSESSMENT</b>   |   |
| Refers to the development of the capacity of assessment of the internal/management control for ensuring continuity of its improvement.   | Standard <b>15</b> – Internal/management control assessment |

## 5. Actions taken in the first six months of 2019

In order to comply with the provisions of **GSG Order no. 600/2018** , in the first 6 months of 2019 the following actions were undertaken:

- a) The la 21.01.2019 updated list of Transgaz processes prepared by the Quality Management Department was noted, including **287 activities/processes for which procedures may be prepared**; out of them, **7 system procedures** and **124 process procedures** were prepared on 10.01.2019. **45,64 %** represent documented activities for which proceduraa may be prepared.
- b) The 2018 performance monitoring Reports was analyzed and centralized by the SCI/M Implementation and Monitoring Department and the Report to the Director – General of SNTGN Transgaz SA on Performance Monitoring within SNTGN Transgaz for 2018 was prepared. It presents an analysis of the achievement of the objectives based on the established performance indicators through the activitiers monitoring system, in general, and an assessment of the target achievement degree, based on the performance indicators established for 2018;
- c) The Report to the Director – General of SNTGN Transgaz SA on the status of implementation of the Internal / Managerial Control System within SNTGN Transgaz for the year 2018 was prepared as a result of analysing and centralizing the data from the self-assessment 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 fulfilment 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 284 organizational structures was analysed at the level of each internal/managerial control standard within the 5 components of internal/managerial control;
- d) It was performed the assessment of compliance of own management control system with the internal management control systems standards with regard to the number of implemented standards.
- e) The conclusions of the Report to the Director – General of SNTGN Transgaz SA on the status of implementation of the Internal / Managerial Control System at SNTGN Transgaz level for 2018 were established as follows:
  - **the degree of compliance of the internal / managerial control system in SNTGN Transgaz is 100%**; evolution of the SCI / M compliance rate over previous years is shown in the figure below:



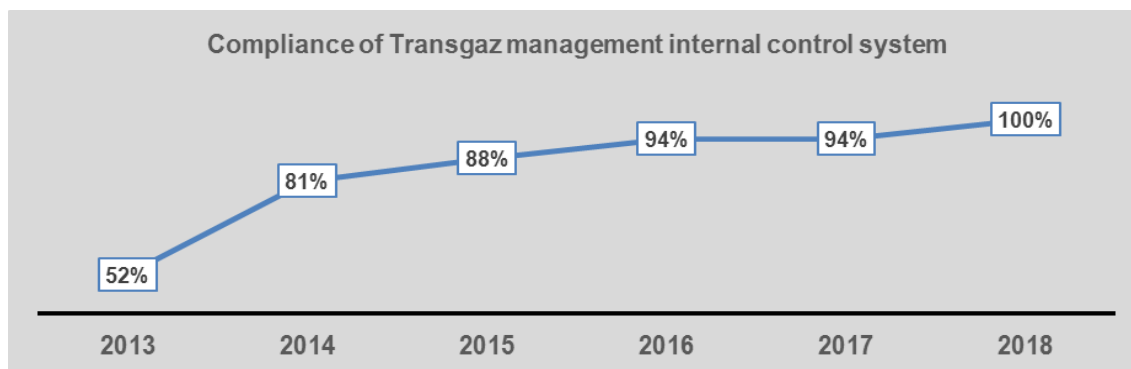


Chart 30- Compliance of Transgaz SCI/M

- **the average degree of implementation of the internal / managerial control standards** at the level of the 284 structures, on 31.12.2018 is 99.19% implemented standards, increasing by 1.01% as compared to 2017;

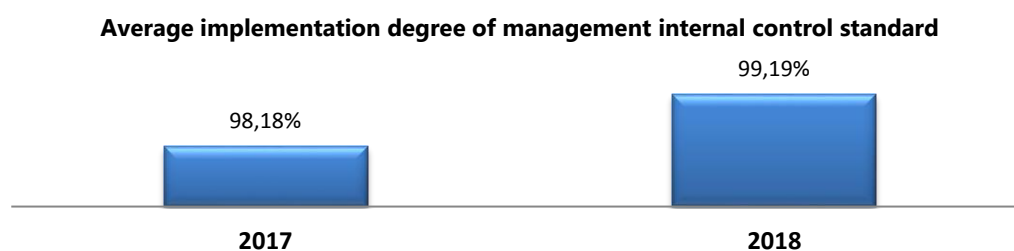


Figure 20 -Average degree internal/management control standards implementation 2018 vs 2017

Note - the verification operation 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 data from the Self-assessment Questionnaires transmitted by the organizational entities were analyzed and centralized by the SCI / M Monitoring and Implementation Department;
  - The conclusion resulting from the action from point f) has been established; The conclusion was that at the Company's level, the Internal / Managerial Control System **is in compliance**, 16 standards are implemented out of the 16 standards provided by the Order of the Secretary General of the Government no. 600/2018 on the approval of the Internal / Managerial Control Code of public entities. The centralizing documents on the results of the self-assessment were prepared.
  - The meeting of the Monitoring Committee was organized and held, the Minutes no. 6239/02.01.2019 were concluded. The documents endorsed within the meeting of the Monitoring Committee were sent for information purposes/for approval to the Director General, as follows:

- *Information to the General Director of SNTGN Transgaz SA* regarding the implementation phase of SCI/M on 31.12.2018, registered under no. 5734/30.01.2019;
  - *Information to the General Director of SNTGN Transgaz SA* regarding the monitoring of the performances at Company level for the year 2018, registered under no. 7137 / 05.02.2019;
  - "The SCI / M development program from SNTGN Transgaz SA" for the year 2019
  - Company's Risk Registry - 2019, registered under no. 1330/01.10.2019;
  - The plan of measures for minimizing the major risks identified within SNTGN TRANSGAZ SA - Year 2019, registered under no. 2877 / 01.16.2019;
  - Information regarding risk monitoring and management at the level of SNTGN Transgaz SA for the year 2018, registered under no. 7541 / 06.02.2019;
  - Risk profile and Risk tolerance limit registered under no. 3885 / 21.01.2019.
- i) The documents submitted for approval to the General Director were sent to the Ministry of Economy by Notice no. 4786 / 25.01.2019, as follows:
- **"Consolidated report of self-assessment results as of 31<sup>st</sup> December 2018"**, prepared according to the model provided in Annex no. 4.2. from the instructions provided by the Order of the General Secretariat of the Government no. 600/2018 on the approval of the Internal / Managerial Control Code of Public Entities;
  - **"Self-assessment questionnaire of the implementation stage of the Internal / Managerial Control Standards"** for the self-evaluation of the implementation stage of the Internal / Managerial Control System within the SNTGN Transgaz SA" as at 31.12.2018, drawn up according to the model provided in Annex no. 4.1. from the Instructions provided by the Order of the Secretary General of the Government no. 600/2018 regarding the approval of the Internal / Managerial Control Code of Public Entities;
  - **" Director General's Report on the Internal / Managerial Control System as at 31<sup>st</sup> December 2018"**, according to the model provided in Annex no. 4.3 from the instructions provided by the Order of the Secretary General of the Government no. 600/2018 regarding the approval of the Internal / Managerial Control Code of Public Entities.
- j) Also, the documents regarding the development of the Internal / Managerial Control System within SNTGN Transgaz SA as at 31.12.2018 were prepared and transmitted to the Ministry of Economy by the Report no. 5737 / 30.01.2019, as follows:
- **"Consolidated Report on the stage of implementation and development of the Internal/Managerial Control System within SNTGN Transgaz SA, as at 31<sup>st</sup> December 2018"**, according to the format of Annex no. 3 of the SGG Order no. 600/2018;
  - **"The development program of the Internal/Managerial Control System according to the Order of the General Secretariat of the Government no. 600/2018 from 07.05.2018, for the development of SCI/M within Transgaz SA"**, for the period 2018-2021.
- k) The documents presented at point i) and j) were posted in the public area at the address: <http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/>.

- l) Annex 1 of the Decision establishing the Monitoring Commission no. 751 dated 23.07.2018 was updated by **Decision no. 283 of 15.03.2019**.
- m) By Notice no. 7953/08.02.2019 the update/preparation of the documents of the Internal / Managerial Control System **for the year 2019 was requested**, in accordance with the current organizational structure, with the general / strategic objectives established at the company level and in consideration of:
- The Order of the Secretary General of the Government no. 600/2018 which provides **for the annual updating of SCI / M documents**;
  - **“The development program of the Internal/Managerial Control System, in the period 2018 - 2021”**, approved by the management of the company.
- n) The posting of the requested documents according to point m) was monitored, both in editable format and in pdf format, in the folders dedicated to the year 2019 in the W: \ZoneInterDep\ControllInternManagerial area; the contents of the posted documents were verified and the necessary corrections were sent.
- o) For the Regional operating centres, the “List of objectives and performance indicators - Year 2019, Annex 1, code PS 05 SMI” was updated, so as to take into account the organizational structure approved by the Decision of the BoA 38/2018 establishing the Energy Department, SCADA Automation, Telecommunications and Territorial Dispatches which pass from the National Gas Dispatch to the supervision of the Director of the Regional Office.
- p) The situations that may generate interruptions in carrying out the activities have been inventoried for the elaboration by the General Inspection Directorate of the Continuity Plan at SNTGN Transgaz SA level;
- q) The counselling of 12 divisions, 7 independent units, 4 independent departments and Bucharest Regional Operating Center was performed, having as objectives:
- Presentation of the Internal / Managerial Control System (SCI/M)
    - Order SGG 600 / 20.04.2018 on the approval of the Internal Managerial Control Code of Public Entities;
    - Internal Managerial Control Standards;
  - The need to raise awareness of the company's staff regarding:
    - Compliance with the provisions of OSGG 600/2018;
    - Compliance with the provisions of the system procedure - PS 05 SMI Risk Management;
    - Compliance with the provisions of the system procedure - PS 07 SMI SCI / M Management.
- r) By Notice 35702 / 18.06.2019, it was reconsidered the request to implement the actions provided in SCIM Development Program for the year 2019 and to take the necessary corrective measures in order to increase the degree of implementation of Standard 3: Competence, Performance, Standard 6: Planning and of Standard 9: Procedures.

## 6. Actions to be performed in the future period

- Updating whenever necessary the Decision 751 / 23.07.2018 on the appointment of the Monitoring Commission and the Decision 282 / 15.03.2019 on the appointment of the SCI / M Experts within SNTGN Transgaz SA;
- Chronologically and successively completing the stages related to the SCI / M implementation and development process according to the System Procedure: Management of the Internal / Managerial Control System, code PS 07 SMI.
- Continuation of the training / counseling regarding the provisions of the System Procedure: PS 07 SMI Management of the Internal / Managerial Control System;
- Giving recommendations within the trainings / counseling regarding:
  - Establishing / implementing corrective measures by the organizational structures, to increase the degree of implementation of Standard 3: Competence, Performance, Standard 6: Planning and Standard 9: Procedures (where applicable)
  - Analyzing objectives, performance monitoring indicators and their relevance;
  - Establishing actions within each Department / Independent Directorate / Independent Division / Territorial Exploitations / Mediaș Branch, regarding the unachieved performance indicators and the monitoring of their achievement;
  - Establishing some directions of action / measures within the organizational structures, which will lead to the fulfillment of SCIM Development Program 2018-2021;
- Further verification of the drafting / updating and posting of SCI / M documents for the year 2019, in compliance with the organizational structure of the company and in accordance with the request transmitted by the Notice no. 7953 / 02.08.2019;
- Real-time completion of the analytical files by all the organizational structures, related to the internal / managerial control standards according to the System Procedure: SCIM Management, code PS 07 SMI.
- Purchase of an electronic platform for the management of the entire Internal / Managerial Control System, implicitly achieving:
  - Real-time reporting of the degree of achievement of the performance indicators;
  - Warning that indicators are not achieved, so that corrective measures can be taken in a timely manner.
- Adaptation to the ever-changing circumstances of the performance monitoring / evaluation system
- Transformation of the monitoring / evaluation system into a self-assessment and learning system within the company, which would lead to the achievement of the framework for reviewing the objectives and defining future strategies.

### 5.2.8 Risk Management

Given the size and complexity of the processes in which TRANSGAZ is involved, the dynamics of external factors, the threats of the cyber environment, the complexity and duration of the investment projects, the changes generated by the environmental factors on the good functioning of the company, the dynamics of the changes that take place in the energy markets

and among the contractual partners with volatile financial performance, a very complex picture is created, with potential areas of risks and threats to the company. Therefore, the need for **risk management** to become an integral part of general management is an important objective of the company.

## 1. Legislative framework

The main normative acts underlying the regulation of risk management are the following.

- Government Ordinance no. 119/2015 on internal/managerial control and preventive financial control, as further amended and supplemented;
- 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.
- 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 internal Decision no. 750 / 23.07.2018, 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. Târsac Grigore;
- **Members** of the EGR are the Risk Officers assigned by the managers of the divisions/units/ Medias Subsidiary/regional offices and departments;
- **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 no 37021/23.07.2018**.

## 3. TRANSGAZ' policies and objectives on Risk Management

For the optimization of the Risk Management process, the following are established:

- *Statement – Commitment of the Director General on Risk Management*, by which the following objectives have been established:
  - Effective treatment of the risks to which the Company is exposed;

- Integrating Risk Management into the Company's strategy and development programs;
  - Increasing the degree of information on Risk Management, with emphasis on the benefits of implementing Risk Management within the Company;
  - Anticipating and increasing the ability to respond to the requirements of the context in which the Company operates;
  - Increasing the degree of involvement of each employee in actions regarding Risk Management.
- *The Risk Management Strategy* is approved by the Decision of BoA no. 41/2018. The time horizon of this strategy is 4 years, as well as for SNTGN TRANSGAZ *Administration Plan*. It establishes both the actions necessary to optimize the risk management process and 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 it is established the risk tolerance in relation to risk exposure, using a **3-step scale** resulting in a **matrix with 9 "values"** for risk exposure.
  - System procedure PS 05 SMI *Risk Management* was approved on 31.07.2018. PS 05 SMI System procedure establishes a unitary set of rules for risk management and for drafting and updating of the Risk Register.

#### 4. Actions undertaken in the first 6 months of the year 2019

The essence of the risk management process within SNTGN Transgaz SA is represented by a series of five subprocesses:

- Setting the context
- Risk identification
- Risk assessment
- Risk management
- Monitoring, revision and periodical reporting of risks.

Monitoring and ongoing review of risk registers ensures that identification, analysis, assessment and risk management are always updated.

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 "ZoneInterDep" and "zonapublica.transgaz.ro".

In first 6 months of 2019, the following actions were taken:

- a) The necessity of counseling the organizational structures was identified in 2018. In this sense, the *Counseling Program on Risk Management* was issued, registered under no. 1648/11.01.2019. The themes established are:
  - Applicable legislation: OSGG 600/2018. Managerial Internal Control Standards;
  - Legal framework;
  - Roles and responsibilities; the Pillars of Risk Management;
  - What is Risk Management?

- The benefits of Risk Management;
- Proactive Risk Approach;
- The tolerance limit. Company's risk profile;
- The importance of Risk Management in the Company's Development strategy;
- Risk Management, a systematic process;
- The stages of Risk Management;
- Risk's life cycle;
- Communication and Information;
- *Case study for a risk occurred, particularized for each structure.*

In first 6 months of 2019:

- Energy Management, Automation and SCADA Division;
  - Sectoral Procurement and Contract Division;
  - Development Division
  - Economic Division
  - Organizing, Human Resources Division;
  - Information Technology and Communication Division;
  - Supply and Transmission Unit;
  - Environment, Protection and Security Division;
  - Land Regulations and Formalities Division;
  - Eu Funds and International Relations Division;
  - Operation and Maintenance Division.
  - Operating Division
  - General Control Unit
  - Research and Design Division
  - Strategy and Corporate Management Division
  - Project Analysis, Verification and Approval Unit
  - Legal Unit
  - Quality Management Department
  - Assets and Concessions Department
  - Secretariat Of Boa and Gms
  - Archaeological Unit
  - Cyber Risk Assessment Office
  - Brua PMU
  - Regional Office București
- b) By letter no. DSMC 351 / 04.01.2019, the action of evaluating the risk portfolio existing in SNTGN Transgaz has started. In this respect, all the Departments / Independent Units / Independent Divisions/ Regional Operating Centres/ Mediaș Branch (according to the organization chart valid as at December 2018) were requested to submit the *Reports regarding the Risk Management Process for 2018*.
- c) Based on the *Reports regarding the Risk Management Process for 2018*, it was issued by the Secretariat of the Risk Management team the document *Report on the Company's risk management and monitoring - 2018*.
- d) It was proposed the keeping of the *Tolerance Limits for 2019*, set by the Risk Management Strategy.



- e) The Secretariat of the Risk Management Team prepared the Company's *Risk Profile*, December 2018.
- f) The Secretariat of the Risk Management team issued the *Strategic Risk Analysis*, comprised in the Risk Registry at Company level for the year 2018, finalized by the reformulation and grouping of *strategic risks* (taking into consideration the internal and external context) in the categories defined in the table below:

|  |
|--|
| <b>External source</b>   |
| <b>Category: the public domain</b>   |
| Changes in the macroeconomic environment   |
| Geopolitical framework, political factors which may affect the conclusion of international transmission contracts                      |
| Government intervention in the sector of activity  |
| <b>Category: regulatory/legislative</b>  |
| Partial implementation/failure to implement European regulations   |
| Changing the regulatory framework specific to the natural gas market   |
| Changes in natural gas prices in Romania.  |
| Legislative restrictions regarding the possibility to diversify the profit generation activity   |
| Remuneration of performed investments and their introduction in the RAB is performed only if accepted by ANRE.                         |
| Reduced possibility to obtain a higher profit than the regulated profit during a regulatory period                                     |
| <b>Category: competitional</b>   |
| Impact of competing projects on gas transmission activity at European level.   |
| <b>Category: commercial</b>  |
| Seasonal fluctuation of the gas consumption.   |
| Changes in gas price purchased by the SNTGN Transgaz   |
| <b>Category: financial</b>   |
| Lending  |
| Currency   |
| Interest rate  |
| Liquidity  |
| Capital market   |
| <b>Category: hazard</b>  |
| The NTS may be affected by natural catastrophes (earthquake, flood, land slide, extreme temperatures, heavy snowfall) , crisis or war. |

- g) The *Risk Register at Company level* was prepared for the year 2019. It includes the strategic risks, from the table and the major operational risks (score 6 and 9), escalated by the organizational structures, selected by the Secretariat of the Risk Management Team.
- h) Based on the analysis of the implementation stage of the control measures to minimize the risks for the year 2018 and of the *Risk Register at company level, for the year 2019*,

the *Plan of measures for risk minimization, at company level, for the year 2019*, was elaborated by the Secretariat of the Risk Management Team.

- i) The meeting of the Risk Management Team was organized and held and the Minutes no. 6239 / 01.02.2019 were concluded, during which the following documents were endorsed:
  - *Tolerance limits for 2019 no. 3885/ 21.01.2019*
  - *Transgaz`s Risk Profile*, December 2018, no. 3885/21.01. 2019
  - The Company`s *Strategic Risk Analysis* included in the Risk Register - 2018 no. 2738/16.01.2019 and the reclassification of strategic risks;
  - *The 2019 Company`s Risk Register* no. 2740/16.01.2019
  - *The 2019 Risk Mitigation Action Plan* no. 2877/16.01.2019.
- j) Endorsement/approval of the documents from point i) by the SCI/M Monitoring Commission / the Director General.
- k) By Notice no. 7953 / 08.02.2019, the action of updating / elaborating the documents was initiated in accordance with the System Procedure PS 05 SMI *Risk Management*.
- l) The organizational structures, according to the organizational chart in force, have posted the following documents in the dedicated database:
  - List of Specific Objectives and Performance Indicators code F 01 00/PS 05 SMI;
  - List of Operational Objectives, Indicators, Activities and Risks, code F 02 00 / PS 05 SMI;
  - Department Risks Register, RegR-RR Office, code F 03 00/PS 05 SMI;
  - Registry of Risks at department level RegR-RD code F 05 00 / PS 05 SMI;
  - Risk minimization plan code F 06 00 / PS 05 SMI;
  - Annex 7 FUR Risk Fact Sheet code F 07 00 / PS 05 SMI.
- m) verification of the documents posted by the structures, in accordance with the requirements of PS 05 SMI System Procedure;
- n) Annex 1 of the Decision for establishing the Risk Management Team no. 750 of 23.07.2018 was updated by Decision no. 284 of 15.03.2019;
- o) *The Information on the analysis of the progress on achieving the specific objectives and on the program of implementation of the measures established in the Risk Management Strategy - SNTGN Transgaz* was issued.
- p) The Strategic Risk Tracking sheets have been completed with the stage of implementation of the control measures and with proposed new actions;
- q) The operational risk categories were defined.

## 5. Actions to be taken for the upcoming period

- Updating as necessary Decision 750/23.07.2018 on the appointment of the Risk Management Team;
- Chronologically and successively completion of the risk management process stages according to the Risk Management System Procedure, code PS 05 SMI.
- Advising the following structures on risk management:
  - Craiova Regional Office
  - Bacău Regional Office
  - Brăila Regional Office

- Braşov Regional Office
- Cluj Regional Office
- Constanţa Regional Office
- Mediaş Regional Office
- Mediaş Subsidiary
- Purchasing an electronic platform for the management of the entire Internal / Managerial Control System, by implicitly achieving:
  - Real-time reporting of the degree of achievement of the performance indicators and the application of risk management on specific objectives and performance criteria, automatically performing the necessary calculations;
  - Automatic application of calculation matrices in risk management for risk assessment and treatment.
- Monitoring the implementation stage of the internal / managerial control measures, established in the *Risk Minimization Measure Plan, at company level, in 2019*;
- Completion of the final stage of annual risk review and reporting.

### 5.2.9 Communication

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.

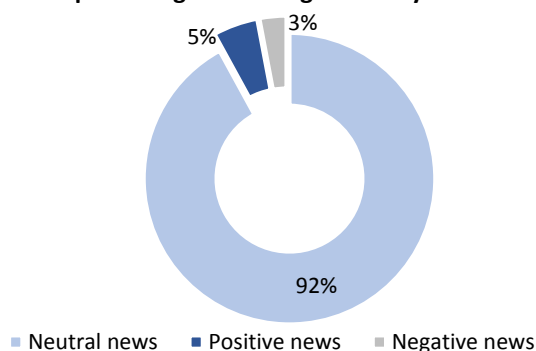
Under the slogan **`A RESPONSIBLE COMPANY IS A FOUNDATION OF THE FUTURE`**, the entire internal and external communication activity of the company is modelled on and is carried out in accordance with the principles of professional deontology, ethics, transparency and good business and collaboration practices, culture and organizational values .

### Infographic monitoring of news on Transgaz activity in Semester I 2019

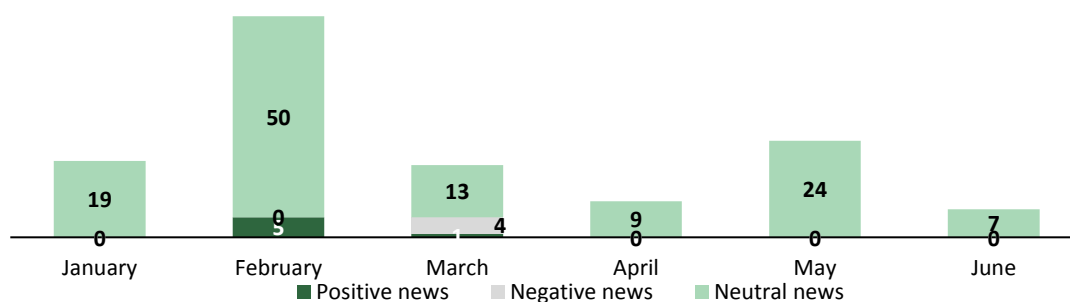
Following the monitoring of news on Transgaz's activity, which appeared on media channels in semester I 2019, we mention that this year there were 132 of which:

| No.               | News category | Number of news | Percentage % |
|-------------------|---------------|----------------|--------------|
| 1.                | Neutral news  | 122            | 92%          |
| 2.                | Positive news | 6              | 5%           |
| 3.                | Negative news | 4              | 3%           |
| <b>Total news</b> |               | <b>132</b>     | <b>100%</b>  |

**News percentage on Transgaz activity in 2019**



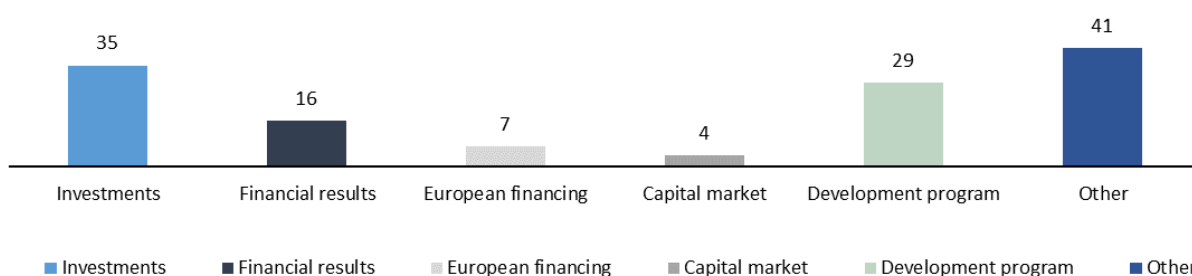
The monthly distribution in semester I 2019 of positive, neutral, negative media references is the following:



**Chart 31 –Positive, negative and neutral news regarding the activity of Transgaz in semester I 2019**

**The total distribution in semester I 2019** of the references made by the topic, investments, financial results, European financing, capital market, development program is presented:

**Nees monitoring per topic as of 30.06.2019**



**Chart 32 – News monitoring per issue in semester I 2019**

Monthly distribution in semester I 2019 of the references made by the topic is presented:

News monitoring by topic pe month

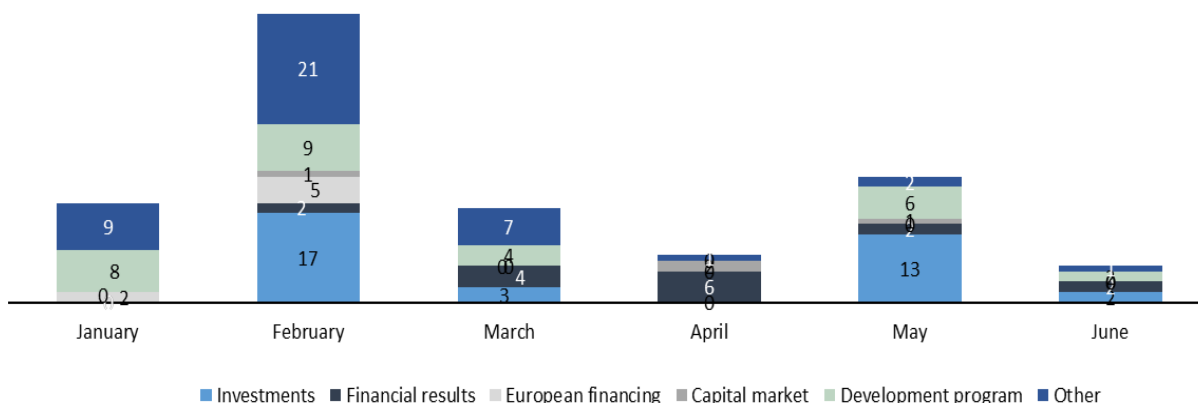


Chart 33 -Monthly monitoring of news by topic in semester I 2019

The share of the references which occurred in semester I 2019 depending on the approached theme is as follows:

News monitoring per topic

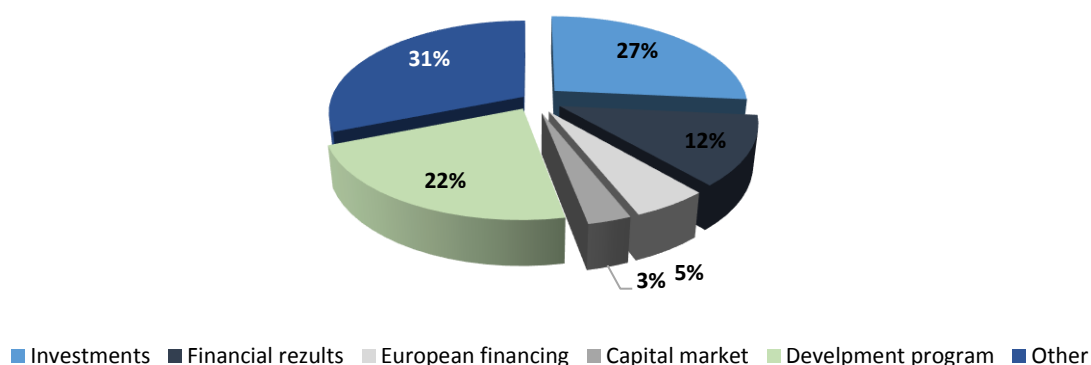


Chart 34 -News by topic in semester I 2019

### 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 Methodological 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:

| No                                      | Indicator   | Objective   | No   | Semester I 2019  |                                | Achievement degree           |
|---|---|---|------|--|--------------------------------|------------------------------|
|   |   |   |      | Planned  | Achieved                       |                              |
| <b>Operational</b>                      |   |   |      |  |                                |                              |
| 6                                       | <b>Monitoring the Implementation and Investment Strategy</b>          | <b>Achievement of the FID projects from the 10 years Development Plan</b> $I=(achieved+initiated\ actions)/proposed\ actions$   |      |  |                                |                              |
|   |   | <b>Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).</b>                     | 6.1  | Construction Phase I<br>PIF Phase I  | In progress                    | <i>Is monitored annually</i> |
|   |   | <i>Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea</i>                                      | 6.2  | Procurement of design and execution works<br>- Obtaining of comprehensive decision – phase 2 | - In progress<br>- In progress |                              |
|   |   | <i>Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;</i>   | 6.3  | Isaccea I – construction and PIF<br>Negru Vodă 1 – construction work start                   | In progress                    |                              |
| 7                                       | <b>Increasing energy efficiency</b>                                   | <i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>  | 7.1  | <1   |                                | <i>Is monitored annually</i> |
| <b>Oriented towards public services</b> |   |   |      |  |                                |                              |
| 8                                       | <b>Performance indicators related to the gas transmission service</b> | <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  | $IP_0^1 \geq 90\%$   | 88,15%                         | <i>Is monitored annually</i> |
|   |   |   | 8.2  | $IP_1^1 \geq 95\%$   | 100%                           |                              |
|   |   |   | 8.3  | $IP_1^2 \geq 95\%$   | -                              |                              |
|   |   |   | 8.4  | $IP_1^3 \geq 95\%$   | 100%                           |                              |
|   |   |   | 8.5  | $IP_1^4 \geq 95\%$   | 100%                           |                              |
|   |   |   | 8.6  | $IP_1^5 \geq 95\%$   | -                              |                              |
|   |   |   | 8.7  | $IP_2^1 \geq 95\%$   | 100%                           |                              |
|   |   |   | 8.8  | $IP_2^2 \geq 95\%$   | -                              |                              |
|   |   |   | 8.9  | $IP_3^1 \geq 95\%$   | 100%                           |                              |
|   |   |   | 8.10 | $IP_3^2 \geq 95\%$   | -                              |                              |
|   |   |   | 8.11 | $IP_3^3 \geq 95\%$   | -                              |                              |

|                             |   |   |      |   |   |                       |
|-----------------------------|---|---|------|---|---|-----------------------|
|                             |   |   | 8.12 | $IP_3^4 \geq 95\%$  | -   |                       |
|                             |   |   | 8.13 | $IP_4^1 \geq 95\%$  | -   |                       |
|                             |   |   | 8.14 | $IP_5^1 \geq 98\%$  | 100%  |                       |
|                             |   |   | 8.15 | $IP_5^2 \geq 98\%$  | 100%  |                       |
|                             |   |   | 8.16 | $IP_6^1 \geq 98\%$  | 100%  |                       |
|                             |   |   | 8.17 | $IP_6^2 \geq 98\%$  | 100%  |                       |
|                             |   |   | 8.18 | $IP_7^1 \geq 80\%$  | 95,00 %   |                       |
|                             |   |   | 8.19 | $IP_8^1 \geq 98\%$  | 100%  |                       |
|                             |   |   | 8.20 | $IP_8^2 \geq 98\%$  | -   |                       |
|                             |   |   | 8.21 | $IP_9^1 \geq 90\%$  | -   |                       |
| <b>Corporate governance</b> |   |   |      |   |   |                       |
| <b>9</b>                    | <b>Implementing the internal/managerial control system</b>      | <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 = implemented standards/standards provided by Order 600/2018*100</p>          | 9.1  | 100%  | <p><b>Achieved</b><br/>Letter no. DSMC/4786/25. 01.2019</p>   | 100%                  |
| <b>10</b>                   | <b>Clients satisfaction</b>                                     | <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 | 7,9   | <p><b>Achieved</b> Letter SMC 9610/15.02.2019 for 2019</p>  | Is monitored annually |
| <b>11</b>                   | <b>Setting the risk management policies and risk monitoring</b> | <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          | <p><b>Achieved</b><br/>The Risk Management Strategy is registered by no DSMC/39870/0 6.08.2018 and approved by the BoA Resolution 41/2018</p> | 100%                  |
|                             |   |   | 11.2 | Preparation of the procedure related to Risk Management System; | <p><b>Achieved</b><br/>The Risk Management System procedure PS 05 SMI is approved and circulated by</p>                                       |                       |



|    |   |  |      |  |  |
|----|---|--|------|--|--|
|    |   |  |      |  | publication in the "Zonapublică" database  |
|    |   |  | 11.3 | Preparation of the procedure for the conduct of the EGR activity                                   | <b>Achieved</b><br>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" approved by no. 37021/ 23.07.2018 |
| 12 | <b>Timely reporting of the key performance indicators</b> | Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100 | 12.1 | Financial communication calendar to BSE  | <b>Achieved</b>  |
|    |   |  | 12.2 | Status of achievement of the 10 year National transmission system development plan                 | <b>Achieved</b><br>Letter 16016/ 15.03.2018<br>Reporting deadline 15 march 2019  |
|    |   |  | 12.3 | SCIM reporting   | <b>Achieved</b><br>Letter no DSMC/4786/25 /01.2019 – reporting for 2018 (reported annually)  |
|    |   |  | 12.4 | Reporting related to the achievement of the performance indicators of the gas transmission service | <b>Achieved</b><br>Letter no. 63288/28.11.2018<br>Reporting ANRE for gas year 2017 - 2018  |
|    |   |  | 12.5 | Reporting form S1100 on the monitoring of the  | <b>Achieved</b><br>Letter DSMC 38243/28.06.2019  |

|    |   |  |      |  |   |                       |
|----|---|--|------|--|---|-----------------------|
|    |   |  |      | application of the provisions of GEO 109/2011  | Reporting for Semeste I 2019  |                       |
| 13 | Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans | Compliance with the measures undertaken by the approved Integrity Plan<br><i>I = measures achieved within the deadline /proposed measures *100</i> | 13.1 | Publication of the SCIM assessment results   | <b>Achieved</b><br>Publicat Raport anual 2018 la adresa:<br><a href="http://zonapublica.ansgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20Evaluare%20inter%20si%20raport%20anual%20al%20SCII/Raportare%20SCII%20la%2031.12.%202018.pdf">http://zonapublica.ansgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20Evaluare%20inter%20si%20raport%20anual%20al%20SCII/Raportare%20SCII%20la%2031.12.%202018.pdf</a> | Is monitored annually |
|    |   |  | 13.2 | Identification of high fraud and corruption risk zones of the Company (external consultant)  | 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<br>Identification is in progress acc. to the prevention procedure approved in December 2018.  |                       |
|    |   |  | 13.3 | - Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities | <b>Achieved</b><br>The annual assessment was performed, and the 17.01.2019 Report on the assessment the TRANSGAZ Integrity Plan, the Situation of the 2017 Integrity Incidents (Annex 1) and National Anti-Corruption Strategy Measure Implementation Report (Annex 2) were sent to the Ministry of Economy by Letter DG 3328/18.01.2019;   |                       |

|  |  |  |      |   |   |  |
|--|--|--|------|---|---|--|
|  |  |  | 13.4 | -Annual publication of the performance indicators monitored within the company's Integrity Plan | <b>Achieved</b> (by the publication of the Annual Evaluation of the Integrity Plan on intranet) |  |
|--|--|--|------|---|---|--|

**Table 36 - Estimates of the key non-financial performance indicators for the calculation of the variable component of the remuneration in semester I 2019**

## 6. CORPORATE GOVERNANCE

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.

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 provide, by Own Corporate Governance Regulation, a rigorous framework for sizing and regulating corporate governance 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- <b>Transparency, financial reporting, internal control and risk management:</b> transparency and financial reporting.            |
| - Chapter 5 - <b>Conflict of interests and transactions with persons involved:</b> conflict of interests; transactions with persons involved. |
| - Chapter 6 - <b>Corporate Information Regime.</b>  |
| - Chapter 7 - <b>Social Responsibility.</b>   |
| - Chapter 8 - <b>Administration system.</b>   |
| - Chapter 9 - <b>Final Provisions.</b>  |

## 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*.

On October 12, 2016, SNTGN TRANSGAZ SA, sent a Current Report to the BSE, bringing to the attention of the stakeholders the compliance with the new provisions of the CGC of the BSE as follows:

| Section | CGC provisions   | Comments regarding compliance  |
|---------|--|--|
| 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. | Provision included in the Rules for organization and functioning of the BoA, Art. 17, approved by OGMS Resolution 4/ 23.06.2016. |

### 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 |
|-----------------------------------|---|-----------|--------------------------------------|---------------------------|
| <b>Section A-Responsibilities</b> |   |           |                                      |                           |
| 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 which applies, inter alia, the General Principles of Section A.   | X         |                                      |                           |
| 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         |                                      |                           |

| The provisions of the new Code   | Compliant | Non-compliant or partially compliant | Reason for non-compliance          |
|--|-----------|--------------------------------------|------------------------------------|
| <b>A.4.1.</b> 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         |                                      |                                    |
| <b>A.4.2.</b> 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         |                                      |                                    |
| <b>A.4.3.</b> 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         |                                      |                                    |
| <b>A.4.4.</b> 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         |                                      |                                    |
| <b>A.4.5.</b> 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         |                                      |                                    |
| <b>A.4.6.</b> 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         |                                      |                                    |
| <b>A.4.7.</b> 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         |                                      |                                    |
| <b>A.4.8.</b> He/she has not been a non-executive administrator of the company for more than 12 years.   | X         |                                      |                                    |
| <b>A.4.9.</b> He/she has no family ties with a person in the cases mentioned in A.4.1 and A.4.4.   | X         |                                      |                                    |
| <b>A.5</b> 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         |                                      |                                    |
| <b>A.6</b> Any member of the Board must report to the Board any relationship with a shareholder directly or  |           | X                                    | Information will be requested from |

| The provisions of the new Code |   | Compliant | Non-compliant or partially compliant | Reason for non-compliance  |
|--------------------------------|---|-----------|--------------------------------------|--|
|                                | 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.  |           |                                      | Board of Administration members Transgaz will send to the BSE a current report at the time of compliance.  |
| <b>A.7</b>                     | The company must designate a Board Secretary responsible for supporting the work of the Council.  | X         |                                      |  |
| <b>A.8</b>                     | 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 regard to the purpose, criteria and frequency of the assessment process. |           | X                                    | The activity of the Board of Administration is evaluated on the basis of the performance criteria included in the management plan as 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. |
| <b>A.9</b>                     | 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         |                                      |  |
| <b>A.10</b>                    | The corporate governance statement should include information on the exact number of independent members of the Board of Administration or the Supervisory Board.   | X         |                                      |  |



| The provisions of the new Code  |  | Compliant | Non-compliant or partially compliant | Reason for non-compliance |
|---|--|-----------|--------------------------------------|---------------------------|
| <b>A.11</b>   | 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         |                                      |                           |
| <b>Section B - Risk Management System and Internal Control System</b> |  |           |                                      |                           |
| <b>B.1</b>  | 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 members of the audit committee must be independent. | X         |                                      |                           |
| <b>B.2</b>  | The Chairman of the Audit Committee should be an independent non-executive member.   | X         |                                      |                           |
| <b>B.3</b>  | Within its responsibilities, the audit committee must carry out an annual assessment of the internal control system.   | X         |                                      |                           |
| <b>B.4</b>  | 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>B.5</b>  | 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>B.6</b>  | The audit committee should assess the effectiveness of the internal control system and risk management system.   | X         |                                      |                           |
| <b>B.7</b>  | 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>B.8</b>  | Whenever the Code mentions reports or analyses initiated by the Audit Committee, they should be  | X         |                                      |                           |

| The provisions of the new Code                 |  | Compliant | Non-compliant or partially compliant | Reason for non-compliance  |
|--|--|-----------|--------------------------------------|--|
|  | followed by regular reports (at least annually) or ad-hoc reports to be submitted to the Board.  |           |                                      |  |
| <b>B.9</b>                                     | 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>B.10</b>                                    | 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 category of events subject to reporting requirements.  |           | X                                    | This policy will be developed and approved in accordance with the Board of Administration ROF and the Articles of Incorporation. |
| <b>B.11</b>                                    | Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.   | X         |                                      |  |
| <b>B.12</b>                                    | 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         |                                      |  |
| <b>Section C - Fair rewards and motivation</b> |  |           |                                      |  |
| <b>C.1</b>                                     | <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</p> |           | X                                    | Transgaz partially applies this provision by observing the provisions of GEO 109/2011 art.39 and art. 55 (2).                    |

| The provisions of the new Code  | Compliant   | Non-compliant or partially compliant | Reason for non-compliance |   |
|---|---|--------------------------------------|---------------------------|---|
| <p>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> |   |                                      |                           |   |
| <b>Section D-Building value by the relationship with investors</b>  |   |                                      |                           |   |
| <b>D.1</b>  | 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 website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:                             | X                                    |                           |   |
|   | <b>D.1.1.</b> Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.   | X                                    |                           |   |
|   | <b>D.1.2.</b> 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                                    |                           |   |
|   | <b>D.1.3.</b> 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                                    |                           |   |
|   | <b>D.1.4.</b> 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 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. |
|   | <b>D.1.5.</b> 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   | X                                    |                           |   |

| The provisions of the new Code   | Compliant | Non-compliant or partially compliant | Reason for non-compliance   |
|--|-----------|--------------------------------------|---|
| information will be published within a time frame that will allow investors to make investment decisions.  |           |                                      |   |
| <b>D.1.6.</b> Names and contact details of a person who will be able to provide relevant information upon request.   | X         |                                      |   |
| <b>D.1.7.</b> Company presentations (e.g., investor presentations, quarterly results presentations, etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.   | X         |                                      |   |
| <b>D.2</b> The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the Director General 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.  |           | X                                    | The distribution of the company's profits is made in 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.   |
| <b>D.3</b> 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 |

| The provisions of the new Code |   | Compliant | Non-compliant or partially compliant | Reason for non-compliance  |
|--------------------------------|---|-----------|--------------------------------------|--|
|                                |   |           |                                      | performance targets.   |
| <b>D.4</b>                     | 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         |                                      |  |
| <b>D.5</b>                     | External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.  | X         |                                      |  |
| <b>D.6</b>                     | 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, drawn up in accordance with art. 30 of the Accounting Law no. 82/1991. |
| <b>D.7</b>                     | 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         |                                      |  |
| <b>D.8</b>                     | 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         |                                      |  |
| <b>D.9</b>                     | 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         |                                      |  |
| <b>D.10</b>                    | 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 November 27, 2018, 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.138<sup>2</sup> 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 Board of Administration, from among its, 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 November 27, 2018 and approved by the Board of Administration by Decision no. 49/27.11.2018, 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. 2 of the Decision of the Ordinary General Meeting of the Shareholders no. 8 of December 17, 2018.

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 competence 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](http://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.

The Board of Administration is chaired by the Chairperson. If the Chairperson is temporarily unable to perform his/her duties, the Board of Administration may appoint another Administrator to act as President for the relevant duration.

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 2019 there were 55 meetings of the Board of Administration.



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 Board of Administration shall delegate the management of the company to the Director General of the National gas transmission company Transgaz SA. The Director General of the National gas transmission company Transgaz SA represents the company in its relations with third parties.

The Director shall prepare and submit to the Board of Administration a proposal for the management component of the management plan for the duration of the mandate in order to achieve the financial and non-financial performance indicators.

The Board of Administration may require that the management plan be amended or revised if it does not provide for measures to achieve the objectives set out in the letter of expectation and does not include the expected results to ensure the assessment of the financial and non-financial performance indicators.

After the approval of the management plan by the board of administration, the management component or, as appropriate, the approved financial and non-financial performance indicators are an annex to the mandate contract concluded with the director.

The assessment of the directors' activity by the board of administration will concern both the execution of the mandate contract and the management plan management component.

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 November 27, 2018, 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 Meeting 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 27 May 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;
- NTS Safety and Security Committee;
- 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  |
|---|--|---|
| <p><b>NOMINATION AND REMUNERATION COMMITTEE</b></p> | <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 independent</p> | <ul style="list-style-type: none"> <li>▪ coordinates the process of appointing the members of the Board of Administration;</li> <li>▪ elaborates and proposes to the Board of Administration the Procedure for the election of the members of the Board of Administration;</li> <li>▪ addresses recommendations on both the position of administrator and the filling of vacant positions within the Board of Administration;</li> <li>▪ assesses the cumulative professional skills, knowledge and experience at the level of the Board of Administration, directors and other management functions;</li> <li>▪ establishes the requirements for occupying a certain position in the management of the company;</li> <li>▪ elaborates and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and other management positions;</li> </ul> |

| ADVISORY COMMITTEE                       | REMARKS  | DUTIES   |
|--|--|--|
|  | <p>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"> <li>▪ recommends to the Board of Administration candidates for the listed positions;</li> <li>▪ apply best practices of corporate governance by improving knowledge of the company's business and constantly updating the professional competencies of board members;</li> <li>▪ develops the remuneration policy for administrators;</li> <li>▪ submits such remuneration policy for approval to the General Meeting of Shareholders;</li> <li>▪ formulates proposals on the remuneration of directors and other management functions;</li> <li>▪ informs about the remuneration policy in the Corporate Governance Statute / Regulations of the company;</li> <li>▪ 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;</li> <li>▪ 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;</li> <li>▪ 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;</li> <li>▪ may, where appropriate, call on external experts to assist with the tasks they are required to perform.</li> </ul> |
| <p><b>AUDIT AND RATING COMMITTEE</b></p> | <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</p> | <ul style="list-style-type: none"> <li>▪ assists and recommends the Board of Administration, proposes the establishment of the accounting and financial control system and approves the financial and budgetary planning;</li> <li>▪ 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;</li> <li>▪ 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;</li> </ul>  |

| ADVISORY COMMITTEE | REMARKS   | DUTIES   |
|--------------------|---|--|
|                    | <p>be an independent non-executive administrator;</p> <p>at least one member of the committee must have proven and appropriate 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> | <ul style="list-style-type: none"> <li>▪ performs an annual assessment of the internal control system and presents relevant reports to the Board of Administration;</li> <li>▪ assesses conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties;</li> <li>▪ monitors the application of generally accepted legal standards and internal audit standards;</li> <li>▪ receives and evaluates internal audit team reports;</li> <li>▪ submits regular reports to the Board of Administration;</li> <li>▪ 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 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;</li> <li>▪ 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;</li> <li>▪ checks the compliance of the audit reports with the approved audit plan at the company level;</li> <li>▪ provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by</li> <li>▪ reviewing the relevance and consistency of accounting standards applied by the Company;</li> <li>▪ 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;</li> <li>▪ 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;</li> <li>▪ 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</li> </ul> |

| ADVISORY COMMITTEE                                 | REMARKS   | DUTIES  |
|--|---|---|
|  |   | <p>that are not audit to the audited entity in accordance with Article 5 of that Regulation;</p> <ul style="list-style-type: none"> <li>▪ 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;</li> <li>▪ monitors the financial reporting process and submits recommendations or proposals to ensure the integrity thereof;</li> <li>▪ fulfils 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.</li> </ul>   |
| <p><b>SAFETY AND SECURITY COMMITTEE OF NTS</b></p> | <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"> <li>▪ periodically reviews the critical infrastructure criteria list of Transgaz and the established security measures;</li> <li>▪ 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;</li> <li>▪ monitors / updates its own programs for preventing and combating terrorism through optimal physical and organizational protection measures, with recommendations to the Board of Administration;</li> <li>▪ 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.</li> </ul> |
| <p><b>STRATEGY AND DEVELOPMENT COMMITTEE</b></p>   | <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>  | <ul style="list-style-type: none"> <li>▪ 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;</li> <li>▪ analyses the opportunities identified for business development and issues recommendations to the Board of Administration on these;</li> <li>▪ analyses and assists the Board of Administration on the direction of international development and cooperation of the company;</li> <li>▪ 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;</li> </ul>   |



| ADVISORY COMMITTEE   | REMARKS   | DUTIES  |
|--|---|---|
|  | the tasks of this Committee are set out in the Corporate Governance Code.   | <ul style="list-style-type: none"> <li>▪ develops proposals for improving and streamlining strategic activity, development and collaboration;</li> <li>▪ addresses recommendations to the Board of Administration on the effective operation of strategic and action plans / programs;</li> <li>▪ monitors and analyses the performance indicators of the transport system and the economic and financial performance of the company's activity.</li> </ul>   |
| <b>REGULATORY AND PUBLIC AUTHORITY RELATIONS COMMITTEE</b> | <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"> <li>▪ assists the Board of Administration in analysing the regulatory activity and legal obligations of the company in this field;</li> <li>▪ monitors the fulfilment by the company of the obligations stipulated by the regulations that are incident to the performed activity;</li> <li>▪ analyses and submits proposals to the Board of Administration on the regulatory framework;</li> <li>▪ monitors collaborative relationships with public authorities and assists the Board of Administration in establishing and managing the collaboration policy.</li> </ul> |

### Composition of advisory committees set up at the level of the company's Board of Administration

Following OGMS resolution no. 3/19.06.2017 and OGMS Resolution no. 13/28.12.2017 appointing new administrators, namely Mrs Nicolae Minea and Remus-Gabriel Lăpușan, at the meeting of the Board of Administration dated 11 July 2017 it was decided to change the composition of the advisory committees established at the level of the Board of Administration 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 2019 by the five advisory committees set up at the level of the Board of Administration on the basis of:

- Law no. 31/1990, as subsequently amended and supplemented, republished, Art. 138<sup>1</sup> (2), Art. 138<sup>2</sup> (2), Art. 140<sup>2</sup> (1) and (2);
- GEO no 109/2011 on corporate governance of public companies, Art. 34 and Art. 55 (2) and (3);
- Law no 162/2017 on the statutory audit of the annual financial statements and consolidated annual financial statements and on the amending of some normative acts;
- The Corporate Governance Code of the Bucharest Stock Exchange;
- The updated Articles of Incorporation of Transgaz SA, Chapter V, Art.19 (11);
- The Board of Administration resolutions 22/11.07.2017, 15/16.05.2017, 39/17.12.2015, 43/19.11.2014, 21/ 16.06.2014, 2/ 10.02.2014, 13/ 29.07.2013, 7/ 27.05.2013, 16/ 30.10.2009, 13/ 24.09.2009.

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 2019 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.  | <b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and June 2018              | Nomination and Remuneration Advisory Committee               | Văduva Petru Ion<br>Minea Nicolae<br>Iliescu Bogdan George                |
| 2.  | <b>Activity Report</b> of the Strategy and Development Advisory Committee during January-June 2018                      | Strategy and Development Advisory Committee                  | Sterian Ion<br>Văduva Petru Ion<br>Iliescu Bogdan George<br>Minea Nicolae |
| 3.  | <b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-June 2018     | Regulatory and Public Authority Relations Advisory Committee | Sterian Ion<br>Văduva Petru Ion<br>Lăpușan Remus Gabriel                  |
| 4.  | <b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-June 2018                    | Safety and Security Advisory Committee of NTS                | Sterian Ion<br>Văduva Petru Ion<br>Lăpușan Remus Gabriel                  |
| 5.  | <b>Activity Report</b> of the Audit and Rating Advisory Committee during January-June 2018                              | Audit and Rating Advisory Committee                          | Iliescu Bogdan George<br>Minea Nicolae<br>Lăpușan Remus Gabriel           |
| 6.  | <b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and December 2018          | Nomination and Remuneration Advisory Committee               | Văduva Petru Ion<br>Minea Nicolae<br>Iliescu Bogdan George                |
| 7.  | <b>Activity Report</b> of the Strategy and Development Advisory Committee during January-December 2018                  | Strategy and Development Advisory Committee                  | Sterian Ion<br>Văduva Petru Ion<br>Iliescu Bogdan George<br>Minea Nicolae |
| 8.  | <b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-December 2018 | Regulatory and Public Authority Relations Advisory Committee | Sterian Ion<br>Văduva Petru Ion<br>Lăpușan Remus Gabriel                  |
| 9.  | <b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-December 2018                | Safety and Security Advisory Committee of NTS                | Sterian Ion<br>Văduva Petru Ion<br>Lăpușan Remus Gabriel                  |
| 10. | <b>Activity Report</b> of the Audit and Rating Advisory Committee during January-December 2018                          | Audit and Rating Advisory Committee                          | Iliescu Bogdan George<br>Lăpușan Remus Gabriel<br>Minea Nicolae           |

## 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 a 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 cannot 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.

## **Transparency**

Transgaz performs regular continuous reports on the important events related to the company, including, without limitation, the financial standing, performance, ownership structure and management both in mass media and on its own webpage ([www.transgaz.ro](http://www.transgaz.ro)).

The company prepares and disseminates regular continuous and relevant information on the International Financial Reporting Standards (IFRS) and other reporting standards, namely environmental, social and governance (ESG –Environment, Social and Governance). The information is disseminated both in Romanian and English.

The company organizes regular meetings with financial analysts, brokers, market specialists and investors for the presentation of the financial results (annual, quarterly, half-yearly), 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 security, 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 substantiating and implementing corporate business strategies and 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 with shareholders and stakeholders.

Transgaz administrators appreciate that, acting in the spirit of the best corporate governance practices, the proposed objectives can be attained and the stakeholders' confidence can be increased in the capabilities of the company to maximize the efficiency of the activity.

## **Corporate social responsibility (CSR)**

Corporate social Responsibility is an aspect of corporate governance through which companies have initiated a range of socially responsible actions that can be quantified in terms of sustainability and sustainable performance.

The national gas transmission company TRANSGAZ SA Mediaș, consistent with the principle of applying a responsible management in fulfilling the undertaken mission, is aware of the importance 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, it is actively involved in community life, demonstrating his status as a "*good citizen*".

Corporate social Responsibility is an aspect of corporate governance, with TRANSGAZ' key role in the energy field in Romania and Europe being naturally complemented by the desire to support the real needs of all those who are constantly contributing to the smooth way of its activity.

As part of Transgaz' sustainable development strategy, the social responsibility policy aims to increase the company's commitment to employees, shareholders, partners, the community and the environment, as well as streamlining the impact of social responsibility programs initiated for this purpose.

The commitment undertaken by the company's management through the "*Environmental Quality Management System Policy Statement*" is a definite proof that TRANSGAZ acknowledges the importance of ensuring an organizational climate where all stakeholders: employees, shareholders, customers, suppliers, community and the environment can effectively and responsibly network both from an economic and social point of view.

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

Complying with the principles of financial prudence and transparency, the communication and CSR actions proposed for semester I 2019 were rigorously quantified both in structure and value and responded to Transgaz' reporting requirements as a securities issuer, but also to the requirements related to the company's image and reputation. Detailed information on social responsibility is available on the Transgaz website at: <http://www.transgaz.ro/responsabilitate-sociala>.

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

In semester I 2019 Transgaz concluded the following legal documents with companies directly or indirectly controlled by the Romanian State and which have a cumulated value of at least the LEI equivalent of EUR 50,000:

| <b>Contract data</b>       | <b>Contractual clauses</b>  |
|----------------------------|---|
| <b>Contracting parties</b> | <b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>                   |
| Contract date and type     | <b>Contract no. 70T/2018</b> for Q 1 2019                                       |
| Contract scope             | quarterly transmission services related to NTS entry points                     |
| Contract value             | <b>Lei 14.781.004,88</b> – estimated amount of the legal act VAT included (lei) |
| <b>Contracting parties</b> | <b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>                   |
| Contract date and type     | <b>Contract no. 71T/2018</b> for Q 1 2019                                       |
| Contract scope             | quarterly transmission services related to NTS exit points                      |
| Contract value             | <b>Lei 6.227.865,00</b> - estimated amount of the legal act VAT included (lei)  |
| <b>Contracting parties</b> | <b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>                   |
| Contract date and type     | <b>Contract no. 257L/ 2018</b> for January 2019                                 |
| Contract scope             | monthly transmission services related to NTS entry points                       |
| Contract value             | <b>Lei 3.156.784,28</b> - estimated amount of the legal act VAT included (lei)  |
| <b>Contracting parties</b> | <b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>                   |
| Contract date and type     | Contract no. <b>259L/ 2018 for January 2019</b>                                 |
| Contract scope             | monthly transmission services related to NTS exit points                        |
| Contract value             | <b>Lei 2.465.609,55</b> - estimated amount of the legal act VAT included (lei)  |



| Contract data              | Contractual clauses   |
|----------------------------|---|
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE CONSTANȚA SA</b>                 |
| Contract date and type     | <b>Contract no. 25T/2018</b> for Q 1 2019.  |
| Contract scope             | Quarterly transmission services related to NTS exit points  |
| Contract value             | <b>Lei 794.661,29</b> - estimated amount of the legal act VAT included (lei)                          |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b> |
| Contract date and type     | <b>Contract no. 76T/2018</b> for Q1 2019  |
| Contract scope             | quarterly transmission services related to NTS exit points  |
| Contract value             | <b>Lei 15.099.339,17</b> - estimated amount of the legal act VAT included (lei)                       |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b> |
| Contract date and type     | Contract no. <b>266L / 2018</b> for January 2019.   |
| Contract scope             | monthly transmission services related to NTS exit points  |
| Contract value             | <b>Lei 3.369.880,63</b> - estimated amount of the legal act VAT included (lei)                        |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>                                  |
| Contract date and type     | Contract no. <b>326L/23.01.2019</b> for February 2019.  |
| Contract scope             | monthly transmission services related to NTS entry points   |
| Contract value             | <b>Lei 2.391.421,38</b> – estimated amount of the legal act VAT included (lei)                        |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>                                  |
| Contract date and type     | <b>Contract no. 327L/23.01.2019</b> for February 2019   |
| Contract scope             | monthly transmission services related to NTS exit points  |
| Contract value             | <b>Lei 2.950.925,82</b> – estimated amount of the legal act VAT included (lei)                        |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b> |
| Contract date and type     | <b>Contract no. 273L/23.01.2018</b> for February 2019.  |
| Contract scope             | monthly transmission services related to NTS exit points  |
| Contract value             | <b>Lei 3.358.634,6</b> – estimated amount of the legal act VAT included (lei)                         |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>                                  |
| Contract date and type     | <b>Contract no. 380L/20.02.2019</b> for March 2019  |
| Contract scope             | annually transmission services related to NTS entry points  |
| Contract value             | <b>Lei 303.420,25</b> – estimated amount of the legal act VAT included (lei)                          |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>                                  |
| Contract date and type     | <b>Contract no. 381L/20.02.2019</b> for March 2019  |
| Contract scope             | annually transmission services related to NTS exit points   |
| Contract value             | <b>Lei 2.214.462,43</b> - estimated amount of the legal act VAT included (lei)                        |

| Contract data              | Contractual clauses   |
|----------------------------|---|
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>               |
| Contract date and type     | <b>Contract no. 360L/20.02.2019</b> for March 2019  |
| Contract scope             | annually transmission services related to NTS exit points   |
| Contract value             | <b>Lei 2.174.262,93</b> - estimated amount of the legal act VAT included (lei)                                      |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>  |
| Contract date and type     | <b>Contract no. 430L/20.03.2019</b> for April 2019  |
| Contract scope             | annually transmission services related to NTS entry points  |
| Contract value             | <b>Lei 852.569,55</b> – estimated amount of the legal act VAT included (lei)  |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>  |
| Contract date and type     | <b>Contract no. 431L/20.03.2019</b> for April 2019  |
| Contract scope             | annually transmission services related to NTS exit points   |
| Contract value             | <b>Lei 1.052.012,60</b> – estimated amount of the legal act VAT included (lei)                                      |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>               |
| Contract date and type     | <b>Contract no. 411L/20.03.2019</b> for April 2019  |
| Contract scope             | NTS exit points annual transmission services  |
| Contract value             | <b>Lei 2.419.923,73</b> - estimated amount of the legal act VAT included (lei)                                      |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE CONSTANȚA SA</b>                               |
| Contract date and type     | <b>Contract no. 429L/20.03.2019</b> for April 2019  |
| Contract scope             | NTS exit points annual transmission services  |
| Contract value             | <b>Lei 260.989,85</b> - estimated amount of the legal act VAT included (lei)  |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>  |
| Contract date and type     | <b>Contract no. 428L/17.04.2019</b> for May 2019  |
| Contract scope             | NTS entry points monthly transmission services  |
| Contract value             | <b>Lei 977.913,32</b> - estimated amount of the legal act VAT included (lei)  |
| <b>Contracting parties</b> | Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>  |
| Contract date and type     | <b>Contract no. 483L/17.04.2019</b> for May 2019  |
| Contract scope             | NTS exit points monthly transmission services   |
| Contract value             | <b>Lei 4.260.595,79</b> - estimated amount of the legal act VAT included (lei)                                      |
| <b>Contracting parties</b> | <b>Beneficiary</b><br>Vestmoldtransgaz S.R.L.   |
|                            | <b>Provider</b><br>SNTGN Transgaz S.A.  |
| Contract date and type     | Providing Services Contract no. 223 , concluded on the date of 24.09.2018   |
| Contract scope             | Support Services for the creation and continuous operation of the Procurement Commissions of Vestmoldtransgaz S.R.L |

| Contract data              | Contractual clauses  |
|----------------------------|--|
| Contract value             | <p>The value of the contract was calculated according to Art. 1.1. and Art. 4.4. from the Contract, respectively <b>948,776.58 lei</b></p> <p><i>"1.1. In exchange for the provision of the Services, the Beneficiary undertakes to pay to the Provider a price consisting of the costs recorded by the Provider according to art. 4.4 of the Contract as a result of providing the Services, plus a profit margin of 5% of the wage costs thus recorded.</i></p> <p><i>4.4. During the term of this Contract, the Provider will bear the expenses for the remuneration of its employees designated to provide services for VMTG, including the expenses with their delegation (accommodation, transport, daily allowance)."</i></p> |
| <b>Contracting parties</b> | concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>   |
| Contract date and type     | <b>Contract no. 546L/22.05.2019</b> for June 2019  |
| Contract scope             | monthly transmission services related to NTS entry points  |
| Contract value             | <b>Lei 931.770,00</b> – estimated amount of the legal act VAT included (lei)   |
| <b>Contracting parties</b> | concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>   |
| Contract date and type     | <b>Contract no. 547L/22.05.2019</b> for June 2019  |
| Contract scope             | monthly transmission services related to NTS exit points   |

## 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 9 by the traded value in Top 10 Trading on the Bucharest Stock Exchange in the first 6 months of 2019, and ranking 6 by market capitalization in Top 15 Listed Companies in June 2019.

**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 2018, a gross dividend per share of MDL 21,66 was approved at the OGMS on 06.06.2019, subject to the application of the 50,00875% share of the profit after the profit tax deduction, based on GO no. 64/2001, on the profit distribution 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.

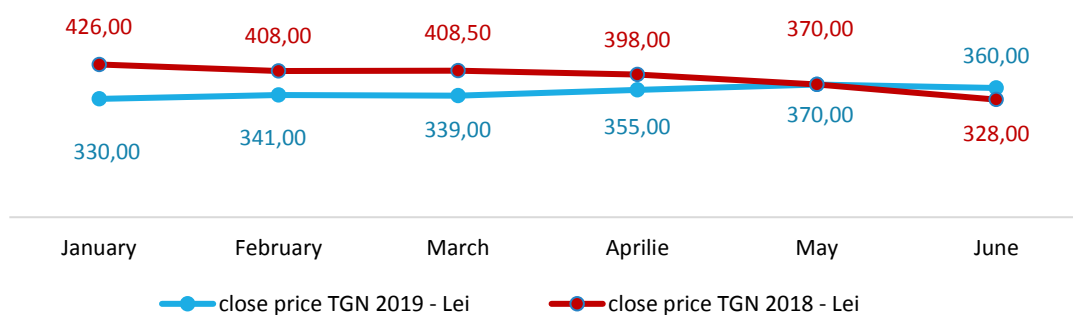
### TGN shares

In the first semester of 2019, the closing price of TGN share followed a slightly ascending trend, but with values inferior to those recorded in the similar period of the year 2018.

Accordingly, in the last trading day of January 2019, the closing price of TGN share was 333.00 lei/share, by 22% less than at the end of January 2018. Afterwards, in February, the closing price of the TGN share had oscillating values, registering the value of 346.00 lei/share on the date of 18.02.2019, based on the publication of the preliminary financial results for the financial year 2018.

Subsequently, TGN share had an ascending trend in March and April, but with values below those of 2018, registering at the end of March the value of 339.00 lei/share and on the date of 30.04.2019 the value of 355.00 lei/share, by 20% respectively 12% less than the similar period of the previous year. The price of Transgaz' share had continued to rise and in May, it reached a value equal to the one registered in the year 2018, of 370.00 lei/share.

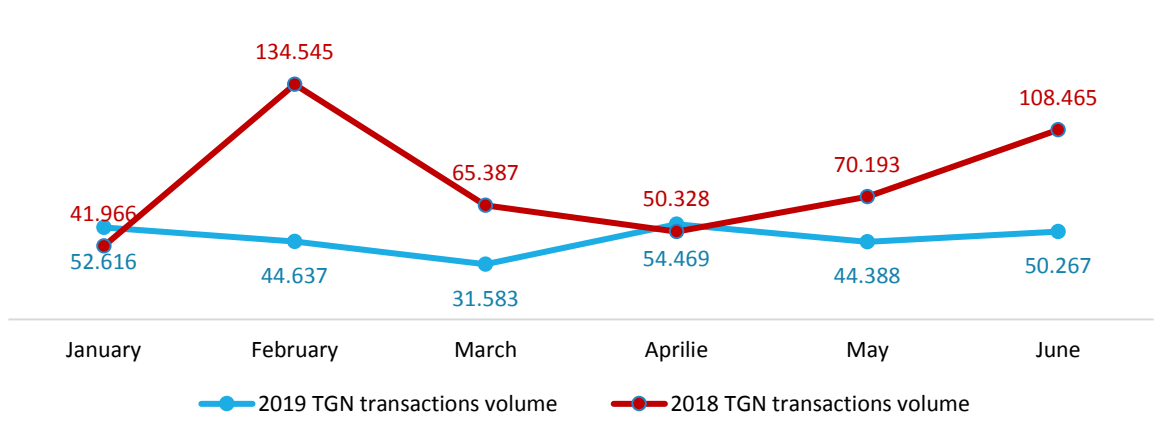
The maximum of the 6 months period ended as at 30.06.2019 was reached on the date of 3<sup>rd</sup> June 2019, based on investor's expectance on the approval by GMS of the dividend's value for the financial year 2018.



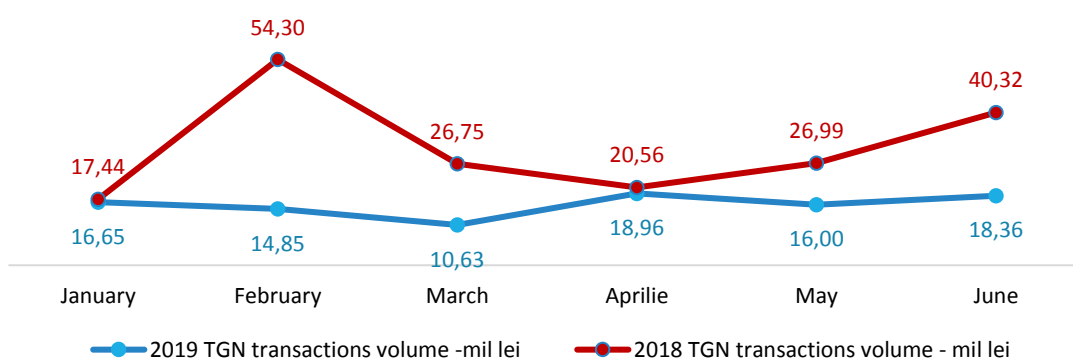
**Chart 35 - The closing price of TGN shares between 01.01.2019 – 30.06.2019 vs. 01.01.2018 – 30.06.2018**

The traded volumes, as well as transaction values fluctuated over the entire period ended at 30 June 2019. As compared to Semester 1 2018 the traded volumes and the values of the transactions in the period ended at 30 June 2019 were lower, except for January and Aprilie, when they were closed to the values recorded in the same period of 2018 amid investors expecting approval of the annual financial statements and of the dividend for financial year 2018.

Accordingly, the traded volumes had decreased in average by approximatively 30%, and the values of the transactions by 40%, in the first semester of the year 2019, but they reached the maximum values of the period on the date of 05.02.2019, with a volume of 12,731 traded shares and a value of 4,191 million lei.

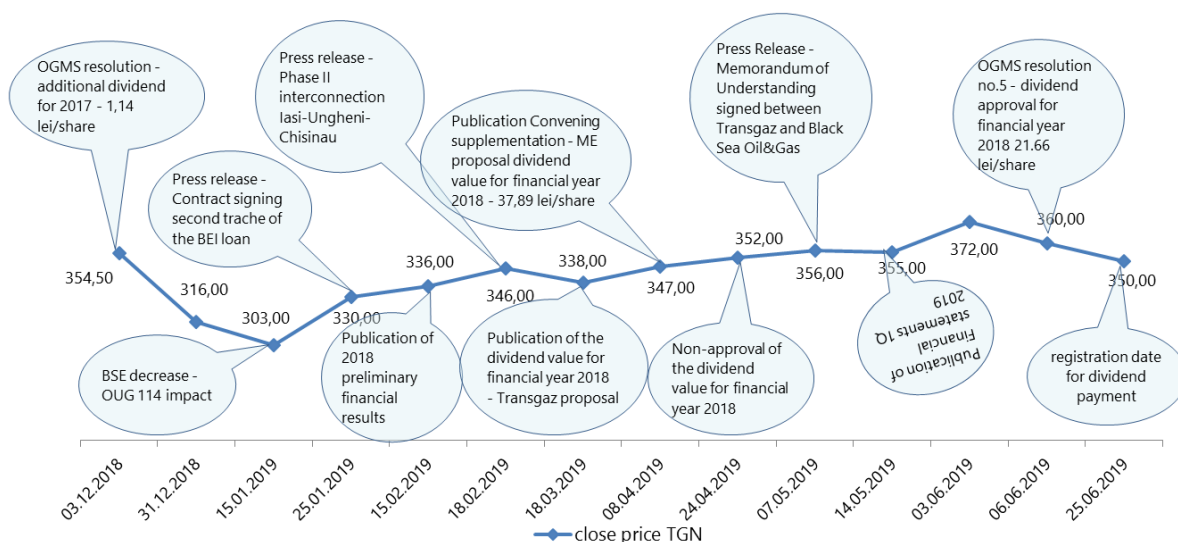


**Chart 36 - TGN transactions volume between 01.01.2019 – 30.06.2019 vs. 01.01.2018 – 30.06.2018**



**Chart 37 TGN transaction value – mil lei between 01.01.2019 – 30.06.2019 vs. 01.01.2018 – 30.06.2018**

### Main corporate events with an impact upon the share price in semester I 2019



## Stock Market Indices: P/BV, EPS, PER, DIVY

| Date       | P/BV | PER  | DIVY  | EPS   |
|------------|------|------|-------|-------|
| 30.06.2019 | 1,14 | 8,55 | 6,02  | 42,10 |
| 30.06.2018 | 1,04 | 6,63 | 13,84 | 49,44 |

*\*values reported on 31 December 2018 and on 31 December 2017*

In the period ended as at 30<sup>th</sup> June 2019, **P/BV stock index** (report of price per the accounting value of a share) increased as compared to the same period of the year 2018, the value of 1.14 registered indicating the fact that TGN share is a share which is correctly evaluated on the market.

At the same time, in the first semester of 2019, the **PER indices** (price of the share/profit per share) registered an increase due to the higher price of the TGN share on 30.06.2019, of 360.00 lei/share, as compared to the price recorded on 30.06.2018, of 328.00 lei/share.

The decrease in **dividend yield (DIVY)**, as compared to the first half of 2018, is due to the lower value of the dividend for the financial year 2018, respectively 21.66 lei / share (according to OGMS dated 06.06.2019).

Also, from the presented data it can be observed that the **EPS (profit per share)** registered a decrease in the first semester of 2019 as compared to the same period of the year 2018 registering the value of 42.10.

| Company           |                | P/E         | P/BV        | EV/EBITDA    |
|-------------------|----------------|-------------|-------------|--------------|
| Enagas            | Spain          | 10,6        | 1,9         | 9,5          |
| SNAM SpA          | Italy          | 14,8        | 2,5         | 12,5         |
| Fluxys            | Belgium        | N/A         | 2,7         | 12,03        |
| <b>Media</b>      |                | <b>12,7</b> | <b>2,37</b> | <b>11,34</b> |
| <b>Transgaz</b>   | <b>Romania</b> | <b>8,55</b> | <b>1,1</b>  | 11,72        |
| Premium /Discount |                | 33%         | 54%         | 3%           |

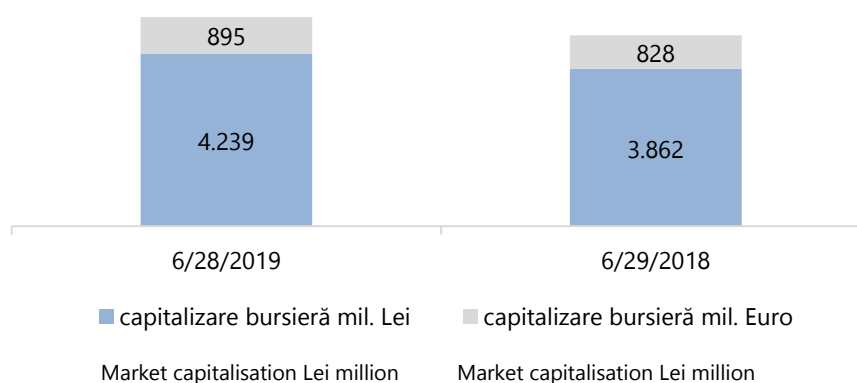
*Source: Bloomberg: 18.07.2019*

**Table 37 - The value of Transgaz stock exchange indices compared to similar companies in Europe**

## Stock market capitalization

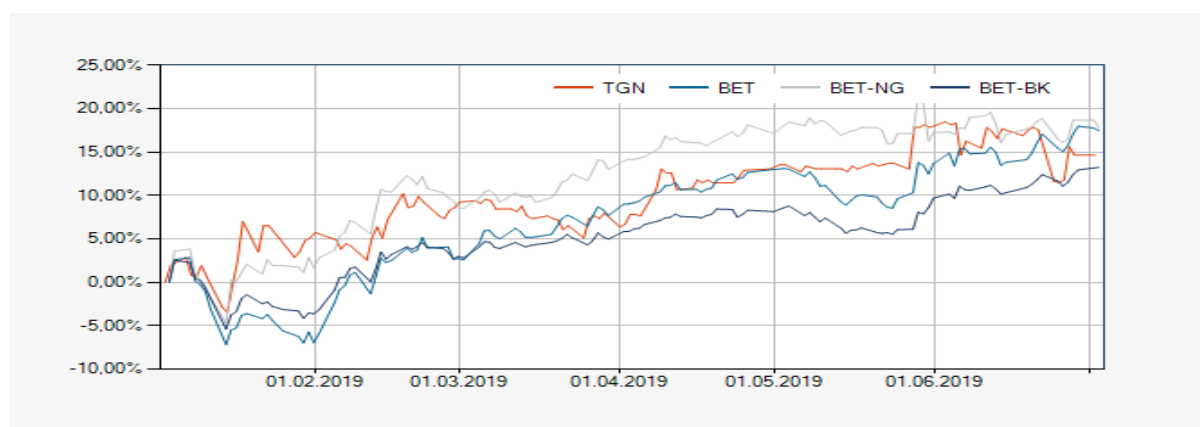
The stock market capitalization of the company on 28.06.2019 was lei 4,24 billion (~ EUR 895 million) namely lei 377 million (~ 66 million euro) over the level recorded on 29.06.2018.

| Currency               | 2019          |                  | 2018          |               |
|------------------------|---------------|------------------|---------------|---------------|
|                        | 03.01.2019    | 28.06.2019       | 03.01.2018    | 29.06.2018    |
| LEI                    | 3.696.987.016 | 4.238.583.840,00 | 4.627.120.692 | 3.861.820.832 |
| EURO                   | 792.392.622   | 895.141.357      | 996.966.451   | 828.521.343   |
| Euro/BNR exchange rate | 4,6656        | 4,7351           | 4,6412        | 4,6611        |



**Chart 38. Stock market capitalization of Transgaz on de 28.06.2019 vs. 29.06.2018**

### Evolution of TGN shares versus BET, BET-NG and BET-BK stock market indices in semester I 2019



**Chart 39 – Evolution of TGN share compared to stock exchange indices BET, BET-NG and BET-BK in semester I 2019**

### 6.3 Dividend policy

In 2019, the proposal for the determination of the value of the dividends for financial year 2018 was made by applying the 50.00875% on the net profit after adding to it the costs for the employees participation in the profit, which affected the gross profit before taxation, based on Government Ordinance no. 64 /2001 and the specifications approved by Order 144/2005 of the Ministry of Public Finance.

Thus, in accordance with Ordinary General Meeting of the Shareholders Decision No. 5/06.06.2019, Transgaz SA pays the dividends for the financial year 2018 through Depozitarul Central and BRD Groupe Societe Generale, the appointed paying agent, starting with 16 July 2018 (date of payment) for the shareholders registered at the registration date of 25 June 2018, **the value of the gross dividend/share amounting to 21.66 lei.**

#### Transgaz' intent to purchase own shares

Not applicable.



## **The number and nominal value of the shares issued by the mother company held by the branches**

Not applicable.

### **Review of Transgaz's 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 revenue, from lower capex than currently envisaged, from a lower dividend payout or other supportive measures from the shareholders.

The contractual relationship with S&P Global Ratings was terminated on 28<sup>th</sup> February 2019, due to the expiration of the contract for rating services.

Following the internal analysis and observing all legal provisions regarding the procurement of these services, the company concluded with Fitch Rating Agency a contract on 28.03.2019 for granting a private rating at a certain time (PPIT).

### **6.4 Mergers or significant reorganisations**

In semester I 2019 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 GEMS resolution No. 10 of 12.12.2017); the subsidiary purchased in 2018 Vestmoldtransgaz State Enterprise operating the Iasi-Ungheni pipeline on the territory of Moldova.

## **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:

|  |
|--|
| <b>Perspective of the stakeholders</b>   |
| STRATEGIC OBJECTIVE 1: The continuity of the activity and ensuring energy safety and security  |
| Lines of action  |
| <ul style="list-style-type: none"> <li>▪ Increasing the level of NTS security and ensuring the security of gas supply</li> <li>▪ Competitive energy markets – by creating the necessary technical conditions for the development of the gas market</li> <li>▪ Upgrading the Corporate Governance System</li> </ul> |
| <b>Internal perspective/ processes</b>   |
| STRATEGIC OBJECTIVE 2: Increasing the degree of the company's COMPETITIVITY  |
| Lines of action  |
| <ul style="list-style-type: none"> <li>▪ Development and upgrading of all of the operational processes</li> <li>▪ Increasing energy efficiency and reducing the negative impact of the technological processes upon the environment</li> </ul>   |
| <b>Development perspective/staff</b>   |
| 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  |
| <ul style="list-style-type: none"> <li>▪ Optimization of the management processes of human resources</li> <li>▪ Alignment to European regulations related to the activity of the company and ensuring sustainability.</li> </ul>   |
| <b>Financial outlook</b>   |
| STRATEGIC OBJECTIVE 4: Maintaining the financial balance and the operational stability   |
| Lines of action  |
| <ul style="list-style-type: none"> <li>▪ Ensuring the sustainable financial, economic and social performance</li> </ul>  |

The actions of the executive management are directed towards the meeting of the strategic goals of the Company by the implementation of the measures set in the management component.

## 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 31.12.2018:

| No | Name and first name | Position | Number of shares as at 31.12.2018 | Interest share (%) |
|----|---------------------|----------|-----------------------------------|--------------------|
| 1. | Lupean Marius       | Director | 20                                | 0,000169           |
| 2. | Tătaru Ion          | Director | 25                                | 0,000212           |
| 3. | Comaniță Adela      | Director | 25                                | 0,000212           |
| 4. | Șai Alexandru       | Director | 10                                | 0,000084           |
| 5. | Lața Ilie           | Director | 46                                | 0,000390           |
| 6. | Rusu Ioan           | Director | 2.508                             | 0,021301           |
| 7. | Nita Viorel         | Director | 5                                 | 0,000042           |

**Table 38** - Members of Transgaz' executive management owning shares in the company as at 31.12.2018

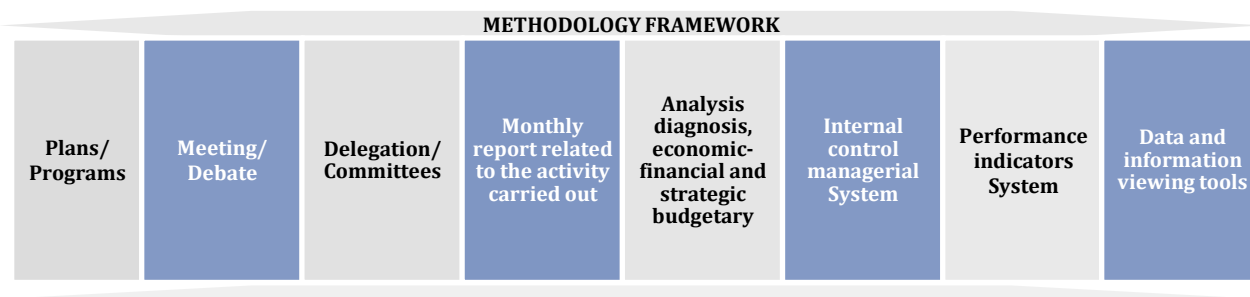
The executive management of the company on 30.06.2019:

| No. | Name and surname        | Position                           | Division/Unit   |
|-----|-------------------------|------------------------------------|---|
| 1.  | Sterian Ion             | Director General                   | SNTGN Transgaz SA   |
| 2.  | Gheorghe Hațegan        | Deputy Director General            | SNTGN Transgaz SA   |
| 3.  | Târsac Grigore          | Deputy Director General            | SNTGN Transgaz SA   |
| 4.  | Marius Vasile Lupean    | Chief Financial Officer            | Economic Division   |
| 5.  | Ghidiu Elisabeta        | Director                           | Strategy and Corporate Management Division                          |
| 6.  | Tătaru Ion              | Director                           | Development Division  |
| 7.  | Leahu Mihai Leontin     | Director                           | Engineering and Research Division                                   |
| 8.  | Stroia Gheorghe Marius  | Director                           | Operation Division  |
| 9.  | Cosma Emil Florin       | Director                           | Exploitation and Maintenance Division                               |
| 10. | Beldiman Ion            | Director                           | Energy Management, Automation and SCADA Division                    |
| 11. | Luca Bogdan Avram       | Director                           | Sectoral Procurement and Contracting Division                       |
| 12. | Mateș Angela Aneta      | Director                           | HR Organization Division  |
| 13. | Gruia Daniel            | Director                           | IT and Communication Division                                       |
| 14. | Sasu Elena              | Director                           | Budgeting Finances Unit   |
| 15. | Comănița Adela Marinela | Director                           | Accounting Unit   |
| 16. | Niculaie-Faranga Dan    | Director                           | Financing, Representative Offices Support and Special Projects Unit |
| 17. | Niculescu Oana Cristina | Director                           | Budgeting Strategy Unit   |
| 18. | Mihai Cornel            | Director                           | Corporate Activities and Representation Unit/țentare                |
| 19. | Mocanu Daniela Meri     | Director                           | EU Funds Unit   |
| 20. | Fodor Alexandra         | Director with delegation of powers | International Relations Unit  |
| 21. | Banu Larisa             | Director                           | VTP Operation Unit  |
| 22. | Bunea Florin            | Director                           | The National Gas Dispatching Centre                                 |

|     |                                  |  |  |
|-----|----------------------------------|--|--|
| 23. | Rău Ioan                         | Director   | Commercial Unit                                  |
| 24. | Șai Alexandru                    | Director   | Gas Metering, Gas Quality Unit                   |
| 25. | Dragoman Irina Georgiana         | Director   | Gas Regulation Unit                              |
| 26. | Barbu Viorel                     | Director   | NTS Rehabilitation Unit                          |
| 27. | Petrescu Monica Alexandra        | Director   | Special Projects Procurement Unit                |
| 28. | Grăjdan Vasilica                 | Director   | HR Planning and Organization Unit                |
| 29. | Sârbu Ionel                      | Director   | Land Regulation and Acquisition Division         |
| 30. | Ene Alin                         | Director   | General Inspection Unit                          |
| 31. | Drăghici Aurelian                | Director   | Projects Analysis, Checking and Endorsement Unit |
| 32. | Achim Viorel Ciprian             | Director   | HSQE Unit  |
| 33. | Iuga Alexandru                   | Director   | Supply and Transmission Unit                     |
| 34. | Lupu Emil                        | Manager  | Archaeological Research Unit                     |
| 35. | Iancu Cristina Daniela           | Deputy Director  | Legal Unit                                       |
| 36. | Muntean Aurel                    | Deputy Director  | Gas Metering, Gas Quality Unit                   |
| 37. | Vlahbei Andra Ioana              | Deputy Director  | Gas Regulation Unit                              |
| 38. | Ilie Lața                        | Subsidiary Director  | Mediaș Subsidiary                                |
| 39. | Velicea Angela                   | Financial Director   | Mediaș Subsidiary                                |
| 40. | Gurgu Victorel                   | Regional Office Director / Director with delegation of powers for BRUA PMU Manager | Regional Office Bucharest                        |
| 41. | Alexandru Ionel                  | Director   | Regional Office Arad                             |
| 42. | Cristoloveanu Gheorghe           | Director   | Regional Office Brașov                           |
| 43. | Schmidt Hăineală Eduard-Cristian | Director   | Regional Office Bacău                            |
| 44. | Dumitru Nicușor                  | Head of Department with delegations of power for Director of Regional Office       | Regional Office Brăila                           |
| 45. | Niță Viorel                      | Director   | Regional Office Craiova                          |
| 46. | Țandău Marcel Stelian            | Director   | Regional Office Cluj                             |
| 47. | Andrei Romeo                     | Chief Engineer with delegations of power for Director of Regional Office           | Regional Office Constanța                        |
| 48. | Rusu Ioan                        | Director   | Regional Office Mediaș                           |

**Table 39 -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**

**REMUS GABRIEL LĂPUȘAN– Non-executive Administrator**

**NICOLAE MINEA– Non-executive Administrator**

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