

THE NATIONAL NATURAL GAS TRANSMISSION COMPANY TRANSGAZ SA

# REPORT ISSUED BY THE BOARD OF ADMINISTRATION

## SEMESTER I 2017

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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 the laws in force.*

*During its first mandate between 2013 and 2017, the Board of Administration, consisting of Mr **Ion Sterian**, as non-executive administrator and chairman of the Board of Administration, Mr **Petru Ion Văduva**, as executive administrator and director general, Mr **Bogdan George Iliescu**, Mr **Radu Cernov**, Mr **Andrei RizoIU**, as non-executive administrators, managed the company in accordance with the **Management Plan of Transgaz for 2013-2017**, a plan approved unanimously by the shareholders of the company through OGM Resolution 9/23.09.2013 and the Management Plan.*

*In proving their competence, professionalism, moral integrity, responsibility and commitment, the members of the Board of Administration proved by their outstanding results every year that they have become a strong team able to undertake and fulfil responsibilities of high and strategic importance, not only for the future of the company but also for the sustainable development of the national economy, and therefore desired the renewal of the mandate of administrators between 2017-2021, in order to continue with the same responsibility, efficiency, transparency and professionalism towards all stakeholders the way opened by the 2013-2017 mandate for the building and development of a solid and efficient future of the Romanian energy sector.*

By OGMS Resolution 1/27.04.2017 the mandate of Mr Ion Sterian, Mr Petru Ion Văduva and Mr Bogdan George Iliescu as administrators was renewed. The mandate of the other two administrators, Mr Radu Chernov and Mr Andrei Rizoïu expired on 9 July 2017.

Developed in accordance with the provisions of Article 30 (1) of Government Emergency Ordinance 109/2011 on the corporate governance of public enterprises, as further amended and supplemented, **the proposal for the Management Component of the Management Plan of SNTGN Transgaz SA for 2017-2021** is governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, state authorities and institutions, media, etc.) and reflects the administrators' vision on strategic redefining and company streamlining directions in line with the safety and energy security requirements of the European energy policy, with the competitiveness and sustainable development as well as with the future needs and opportunities of Romania to become a major player on the regional and European natural gas market.

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

In the context of profiling major new sources of natural gas supply, **the natural gas from the Caspian Sea region and those recently discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2014-2023, plan approved by the NREA by the Decision no. 2819/17.12.2014** are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.

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 1.6 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.

In this respect Transgaz developed under Art. 125 (6) of Law 123/2012 on electricity and gas and the National Energy Strategy the **2017 – 2026 TYNDP**, as a supplementation of the 2014-2023 TYNDP, approved by ANRE **Decision 910/22.06.2017**.

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

*Given the 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.*

***And because we want continuity, efficiency and performance, we shall lead, with your support, the destiny of this company over the next 4 years. Our guarantee for success in facing the challenges and constraints of the context in which the company will operate is the link between the optimal managerial strategies of the private, professional management, and the expertise and professional experience of the human resources employed with the purpose of implementing these strategies. Together, we shall focus our strategic decisions on the development and upgrading of national transmission infrastructure of natural gas, on competitiveness and capitalizing on existing and future opportunities, so as TRANSGAZ shall become a recognized carrier of natural gas on the international market of natural gas, a leader on the energy market in the region, an important link in the national and European energy chain.***

*In following 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.***

*At the end of the mandate undertaken for the period 2013-2017 and the beginning of the new mandate for the management of SNTGN Transgaz SA during 2017-2021, the Board of Administration and the management of the company thank the majority shareholder, the Romanian State by the Ministry of Economy, all other shareholders and stakeholders for all the support provided and for the entire contribution to the company's good operation and performance.*

*We are convinced that by ensuring effective corporate governance, we shall be able to continue together on the road to the performance and business excellence of our country's natural gas transmission operator and we shall be able to accomplish the mission of transforming TRANSGAZ into a natural gas transmission operator recognised on the international gas market, a leader of the energy market in the region, an important link in*



*the national and European energy chain and define Romania as a major energy gas corridor to Europe, as a reliable partner in strengthening the European energy solidarity and increasing energy security at the national, regional and European level.*

Yours sincerely,

**ION STERIAN**

***Administrator – Acting Director General***

***PETRU ION VĂDUVA – Administrator***

***BOGDAN GEORGE ILIESCU – Administrator***

***RADU CERNOV – Administrator***

***ANDREI RIZOIU – Administrator***

## 1. ISSUER IDENTIFICATION DATA

### 1.1 Report and issuer identification data

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

**For the semester concluded on:** 30 June 2017

**Report date:** 7 August 2017

**Company name:** The National Gas Transmission Company TRANSGAZ SA

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

**VAT Number:** R013068733

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

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

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

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

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

### 1.2 Main activities

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

#### Mission

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

### 1.3 Structure

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

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

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

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

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

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

- Transgaz registered office: Mediaş, 1 C. I. Motaş Square, Sibiu County, code 551130;
- Exploitation and Maintenance Department: Mediaş, 11 George Enescu Street, Sibiu County, code 551018;
- Design and Research Department: Mediaş, 6 Unirii Street, Sibiu County, code 550173;
- Bucharest Gas Market Operation Division: Bucharest, 30 Dorobanţi Blvd., District 1, code 010573;
- Transgaz Representative Office - Romania: Bucharest, 55 Primaverii Blvd.;
- Transgaz Representative Office - Brussels – Belgium: Brussels, 23 Luxembourg Street;
- Transgaz Representative Office - Chişinău – Republic of Moldova;
- European Funds and International Relations Division: Bucharest, 155 Victoriei Blvd., District 1, code 010073.
- Design and Research Workshops - Braşov, 2 Nicolae Titulescu Street.

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

- Arad Regional Office, 56 Poetului Street, Arad, Arad County, code 310369;



- Bacău Regional Office, 63 George Bacovia Street, Bacău, Bacău County, code 600238;
- Brăila Regional Office, 5 Ion Ghica Street, Brăila, Brăila County, code 810089;
- Braşov Regional Office, 12A Grigore Ureche Street, Braşov, Braşov County, code 500449;
- Bucharest Regional Office, 24 Lacul Ursului Street, District 6, Bucharest, code 060594;
- Cluj Regional Office, 12 Crişului Street, Cluj-Napoca, Cluj County, code 400597;
- Craiova Regional Office, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, code 200011;
- Mediaş Regional Office, 29 George Coşbuc Street, Mediaş, Sibiu County, code 551027;
- Constanţa Regional Office, 2 bis Caraiman Street, Constanţa, Constanţa County, code 900117;
- Mediaş Branch, 59 Sibiului Street, Mediaş, Sibiu County.

## 1.4 Shareholders

According to the provisions of Government Emergency Ordinance no. 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, it was established the Ministry of Economy, by the reorganising the activities of the Ministry of Economy, Trade and Relations with the Business Environment. Thus, on 02.03.2017 it was registered at Depozitarul Central S.A. the amending 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.

On 27 June 2017 the Transgaz's shareholding structure is as follows:

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by Ministry of Economy	6.888.840	58,5097
Free float - Other shareholders out of which:	4.885.004	41,4903
- natural persons	1.012.243	8,5974
- legal persons	3.872.761	32,8929
Total	11.773.844	100,00

*Table 1 –Transgaz's shareholding structure on 22.06.2017*

The share capital of Transgaz on 30 June 2017 is of RON 117.738.440 and is divided into 11.773.844 registered shares, each share having a nominal value of RON 10.

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

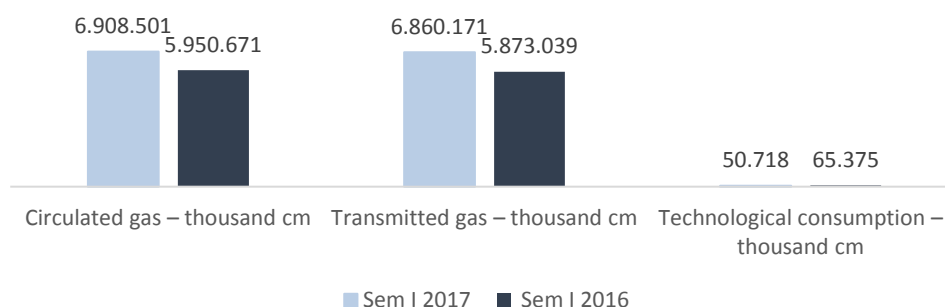
## 2. EXECUTIVE SUMMARY

### 2.1 Indicators of the operational activity

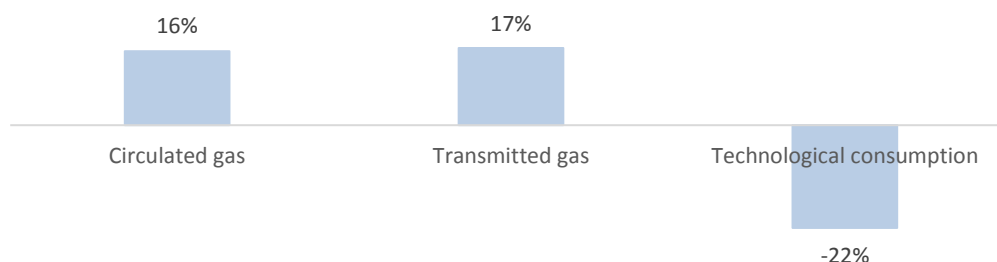
The evolution of the natural gas quantities circulated and transmitted through the National Natural Gas Transmission System (NTS) and of the technological consumption in semester I 2017, compared to semester I 2016 is as follows:

Indicator	Semester I 2017	Semester I 2016	+/-	%
1	2	3	4=2-3	5=2/3-1
Circulated gas – thousand m <sup>3</sup>	6.908.501	5.950.671	957.839	16%
Transported gas – thousand m <sup>3</sup>	6.860.171	5.873.039	987.132	17%
Technological consumption – thousand m <sup>3</sup>	50.718	65.375	-14.657	-22%
Share tech. consumption/circulated gas	0,73%	1,10%		

**Table 2 - Evolution of the quantities of circulated and transmitted natural gas and of the technological consumption in semester I 2017 vs. semester I 2016**



**Chart 1 - Quantities of circulated and transmitted natural gas and of the technological consumption for semester I 2017 vs. semester I 2016**



**Chart 2 - The evolution of the quantities of circulated and transmitted natural gas and of the technological consumption for semester I 2017 vs. semester I 2016**



Chart 3 – Share of technological consumption in the total circulated gas for semester I 2017 vs. semester I 2016

Thousand cm

Technological consumption gas amounts achieved vs. planned in semester I 2017							
	January	February	March	April	May	June	TOTAL
<b>PLANNED</b>	18.656	11.428	10.346	6.481	5.085	4.421	<b>56.417</b>
<b>ACHIEVED</b>	16.772	11.167	6.636	3.016	5.781	7.346	<b>50.718</b>

Table 3 - Technological consumption gas amounts achieved vs. planned in semester I 2017

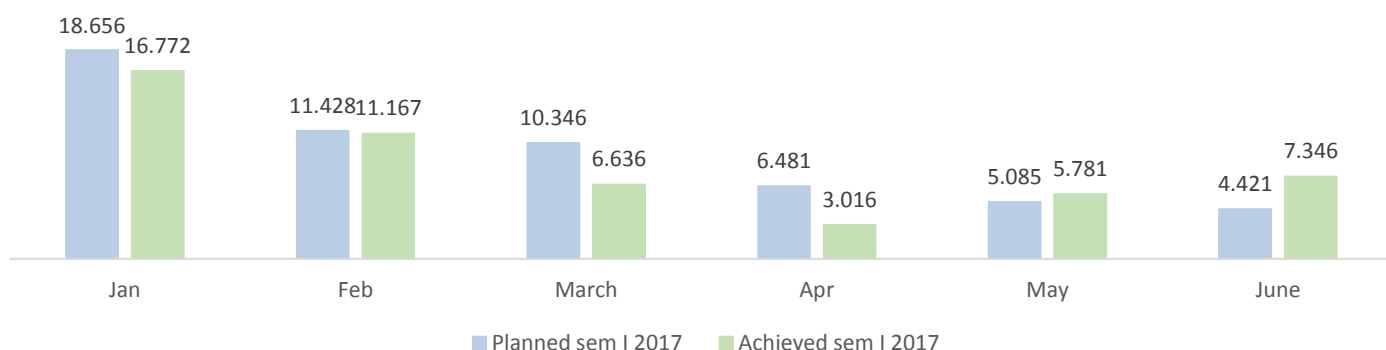


Chart 4 – Evolution of technological consumption achieved vs. planned in semester I 2017

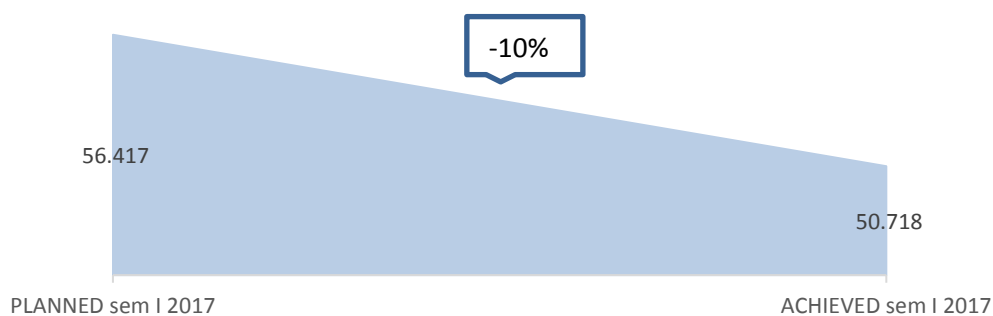


Chart 5 – Level of decreasing the technological consumption achieved vs. planned in semester I 2017

In semester I 2017 the evolution of the technological consumption on the NTS followed a downward trend, being by 10% lower than planned.

Thousand cm

Gas quantities circulated in semester I 2016 vs planned							
	January	February	March	April	May	June	TOTAL
ROMGAZ	487.465	426.176	401.363	443.122	385.886	382.946	2.526.958
PETROM	351.273	323.123	364.807	357.695	372.433	336.694	2.106.025
OTHERS	44.368	44.345	54.544	49.520	47.711	45.565	286.053
CURRENT IMPORT	356.387	248.214	69.212	4.580	2.505	3.938	684.836
WITHDRAWAL FROM STORAGES	691.869	384.459	192.471	35.830	0	0	1.304.629
ACHIEVED	1.931.362	1.426.317	1.082.397	890.747	808.535	769.143	6.908.501
PLANNED	1.593.955	1.052.399	1.007.812	740.334	827.419	790.538	6.012.457

Table 4 - Gas quantities circulated through the NTS in semester I 2017 vs planned (thousand cm)

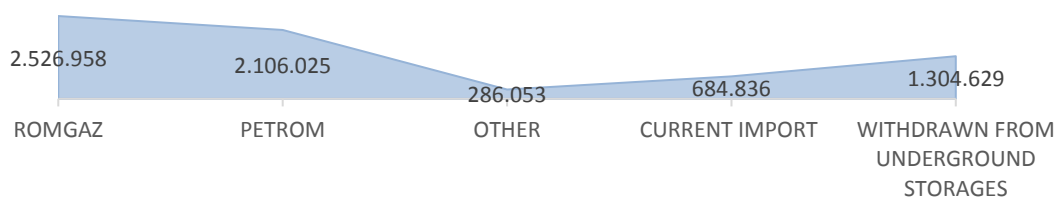


Chart 6 - The quantities of natural gas circulated in the NTS in semester I 2017 by sources (mil cm)

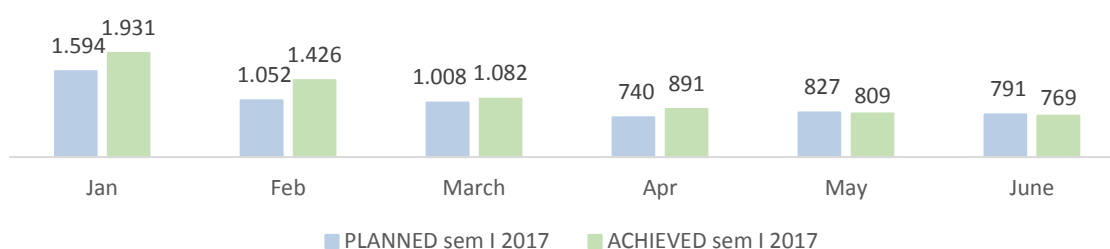


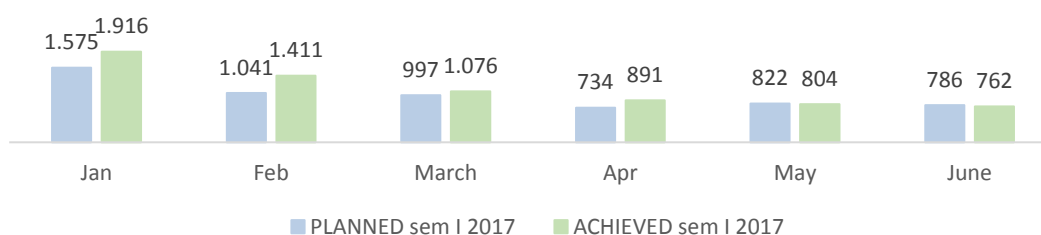
Chart 7 - The quantities of natural gas circulated in the NTS in semester I 2017 - achieved vs. planned (mil. cm)

thousand cm

The quantities of natural gas transported in semester I 2017 vs planned							
	January	February	March	April	May	June	TOTAL
PLANNED	1.575.299	1.040.971	997.466	733.853	822.334	786.117	5.956.040
ACHIEVED	1.915.795	1.410.720	1.075.797	891.435	804.073	762.351	6.860.171

Table 5- The quantities of natural gas transported to the direct consumers and distributions in the NTS

*in semester I 2017 – achieved (includes also the injection quantity ) vs. planned (thousand cm)*

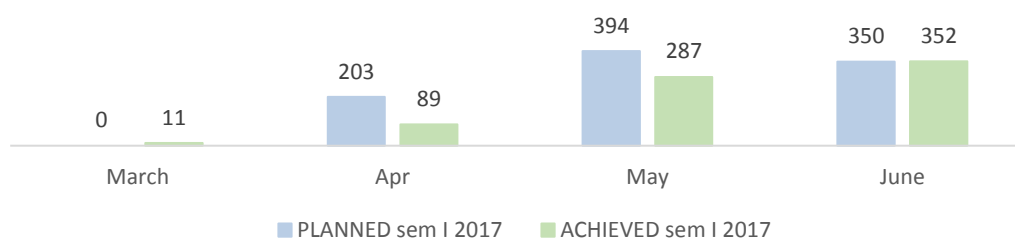


**Chart 8- The quantities of natural gas transported to the direct consumers and distributions in the NTS achieved vs planned in semester I 2017 (mil. cm)**

In semester I 2017, the natural gas quantity transmitted amounted to 6,86 billion cm, which is higher by 0,91 billion cubic meters than the planned quantity.

Quantities of gas for storage in semester I 2017 vs planned						
	Jan-Feb	March	April	May	June	TOTAL
<b>PLANNED</b>	0	0	203.078	394.090	349.900	947.068
<b>ACHIEVED</b>	0	11.220	89.102	286.701	351.803	738.826

**Table 6- The quantities of natural gas for storage in semester I 2017 achieved vs. planned (thousand cm)**



**Chart 9- The quantities of natural gas for storage in semester I 2017 achieved vs. planned (mil cm)**

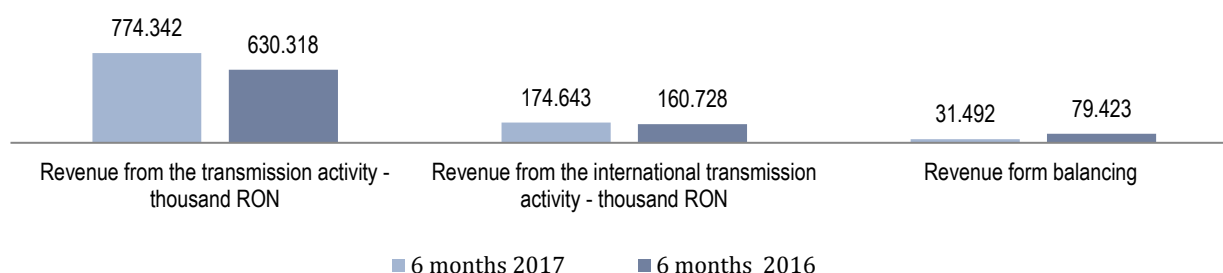
The natural gas quantities in storages in semester I 2017 are higher by 0,6% as compared to planned quantities.

The comparative evolution of the revenue from operations, before the balancing and construction activity according to IFRIC 12, obtained by the Company in semester I 2017 vs. semester I 2016 is presented in the table below:

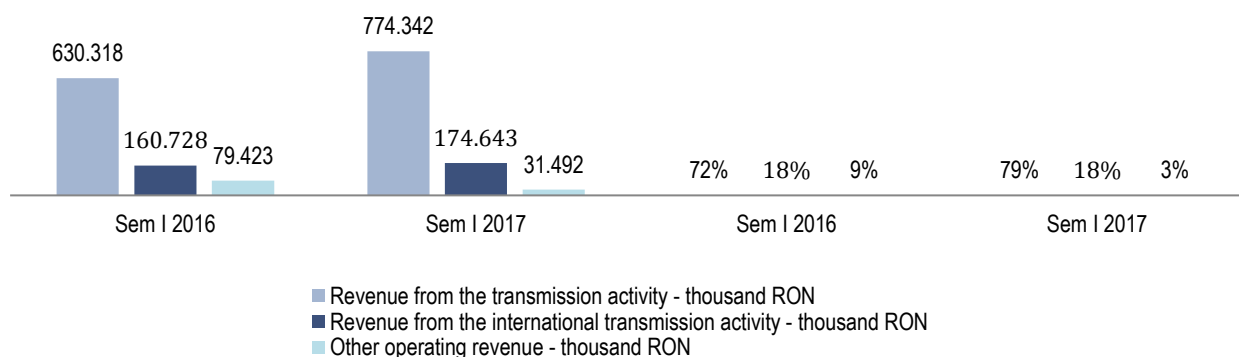
Specifications	Sem. I 2017	Sem. I 2016	Dynamics %
<b>Revenue from the transmission activity</b>			
- thousands RON	774.342	630.318	122,85
- MWh	73.670.134	62.987.973	116,96
- RON/MWh	10,51	10,01	105,04

- thousands cm	6.857.186	5.873.039	116,76
- RON/1000 cm	112,92	107,32	105,22
<b>Revenue from the international transmission activity</b>			
- thousands RON	174.674	160.728	108,66
<b>Other operating revenue</b>			
- thousands RON	31.492	79.423	39,65
<b>TOTAL OPERATING REVENUE before the balancing and construction activity according to IFRIC12</b>	<b>980.477</b>	<b>870.468</b>	<b>112,64</b>

*Table 7 – Comparative evolution of operating revenue in sem. I 2017 vs sem. I 2016*



*Chart 10 – Structure of operating revenue in sem. I 2017 vs. semester I 2016*



*Chart 11 – The share of the activities in the total operating revenue in sem. I 2017 vs sem. I 2016*

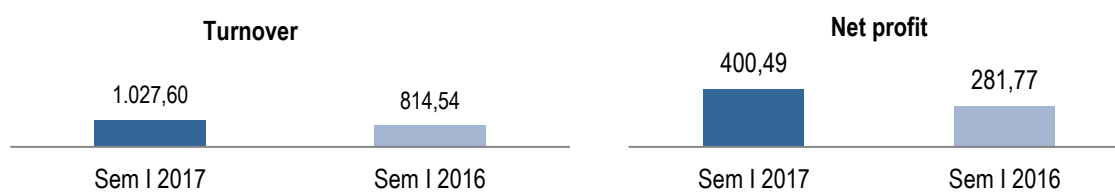
thousand Ron

No.	Indicator	Achieved semester I		Dynamics (%)
		2017	2016	
0	1	2	3	4=2/3*100
1	Turnover	1.027,60	814,54	126,16
2	Operating revenue before the balancing and the construction activity acc. to IFRIC12	980,48	870,47	112,64
3	Operating expense before the balancing and the construction activity acc. to IFRIC12	519,98	546,43	95,16
4	Operating profit before the balancing and construction activity acc. to IFRIC12	460,50	324,04	142,11



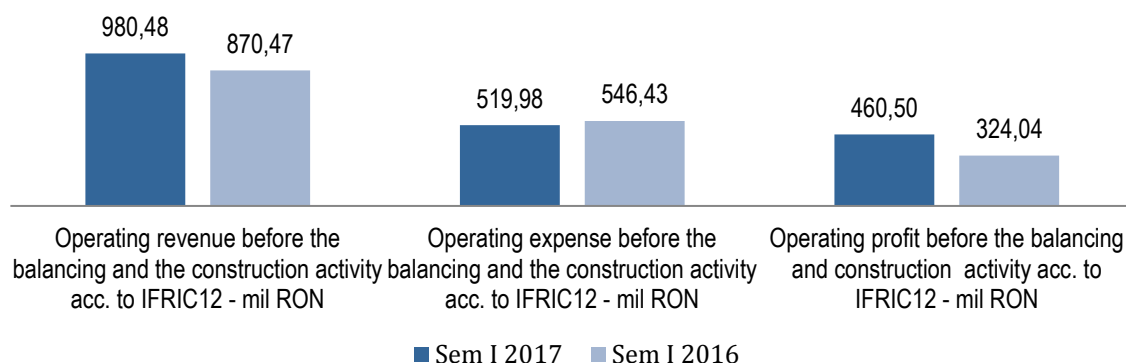
5	Revenue from balancing	76,69	22,01	348,41
6	Balancing expense	71,91	20,95	343,29
7	Revenue from the construction activity acc. to IFRIC12	17,53	33,67	52,07
8	Cost of assets built acc. to IFRIC12	17,53	33,67	52,07
9	Operating profit	465,28	325,11	143,12
10	Financial profit	13,10	11,70	111,90
11	Tax on profit	77,88	55,04	141,50
12	Net profit	400,49	281,77	142,14

**Table 8 – Evolution of the operational performance indicators for semester I 2017 vs. semester I 2016**



**Chart 12–Net turnover in semester I 2017 vs. semester I 2016 – mil. RON**

**Chart 13–Net profit in semester I 2017 vs. semester I 2016 – mil. RON**



**Chart 14 – Evolution of revenue, expense and operating profit in semester I 2017 vs. semester I 2016**

## 2.2 Indicators of financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. at 30 June 2017 was conducted based on the indicators included in the revenue and expense budget approved by Resolution no. 1/27.04.2017 of the Ordinary General Meeting of the Shareholders.

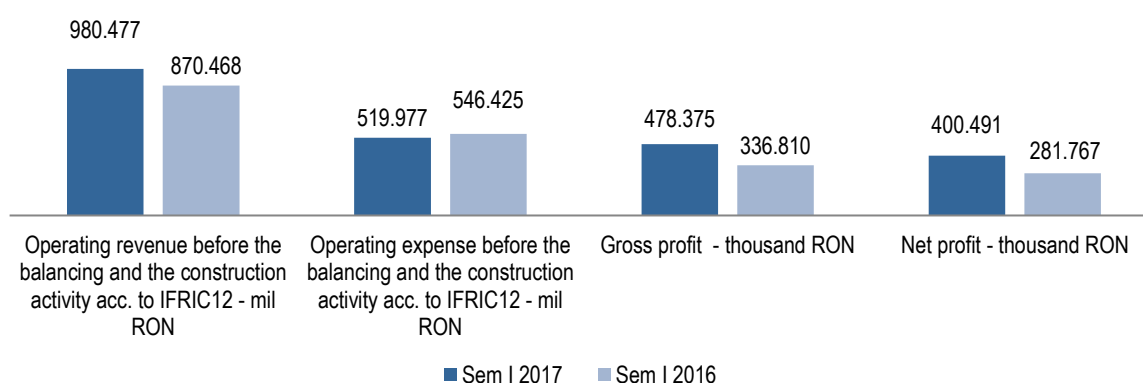
The main economic and financial indicators achieved in semester I 2017 as compared to semester I 2016 are as follows:

No.	Indicator	UM	Sem. I 2017	Sem. I 2016
1	Turnover	thousand RON	1.027.603	814.535

2	Operating revenue before the balancing and the construction activity acc. to IFRIC12	thousand RON	980.477	870.468
3	Operating expense before the balancing and the construction activity acc. to IFRIC12	thousand RON	519.977	546.425
4	Operating profit before the balancing and the construction activity acc. to IFRIC12	thousand RON	460.501	324.043
5	Revenue from balancing	thousand RON	76.692	22.012
6	Balancing expense	thousand RON	71.913	20.948
7.	Revenue from the construction activity acc. to IFRIC12	thousand RON	17.532	33.671
8.	Cost of assets built acc. to IFRIC12	thousand RON	17.532	33.671
9.	Operating profit	thousand RON	465.280	325.107
10.	Financial revenue	thousand RON	21.767	14.625
11.	Financial cost	thousand RON	8.672	2.921
12.	Gross profit	thousand RON	478.375	336.810
13.	Tax on profit	thousand RON	77.885	55.044
14.	Net profit	thousand RON	400.491	281.767
15.	Total comprehensive result for the period	thousand RON	400.491	281.767
16.	Transmitted gas	thousand cm	6.857.186	5.873.039
17.	Investment expenses	thousand RON	28.331	45.318
18.	Rehabilitation expenses	thousand RON	4.517	7.522
19.	Technological consumption	thousand RON	36.022	52.226
20.	Technological consumption	thousand cm	50.719	65.375

\*) transmitted quantity for which transmission services are invoiced

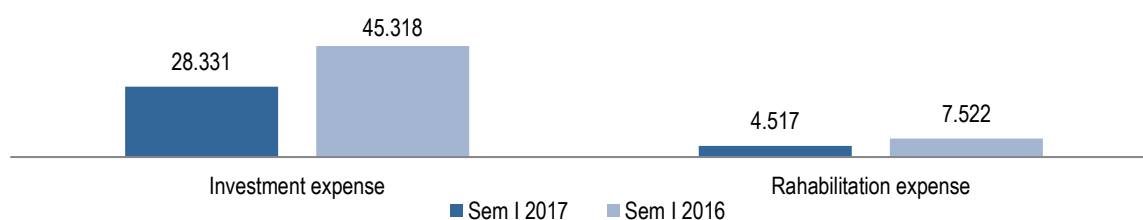
**Table 9 – Evolution of the main economic and financial indicators in semester I 2017 vs. semester I 2016**



**Chart 15–Evolution of the main economic and financial indicators in semester I 2017 vs. semester I 2016 thousand RON**

Transgaz holds the monopoly in Romania in terms of natural gas transmission and circulates approximately 90% of the total natural gas consumed. Approximately 13% of the total operating revenue achieved in semester I 2017 is in foreign currency and is achieved from the international gas transmission activity.

At 30 June 2017 the Company's assets in bank accounts amounted to RON 1.538.004 of which 46,31 were liquid assets denominated in foreign currency, most of them in EUR.

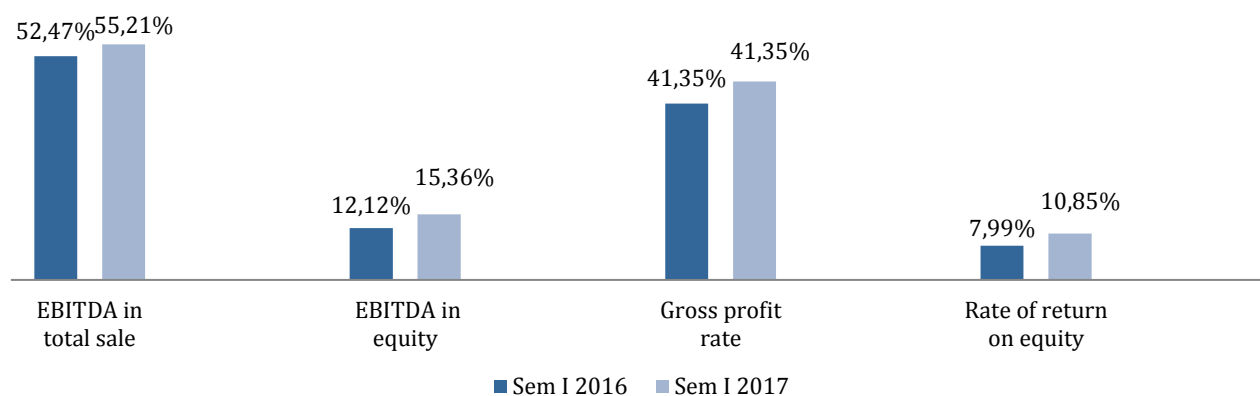


*Chart 16–The evolution of the investments and rehabilitation expenses in semester I 2017 vs. semester I 2016 – thousand RON*

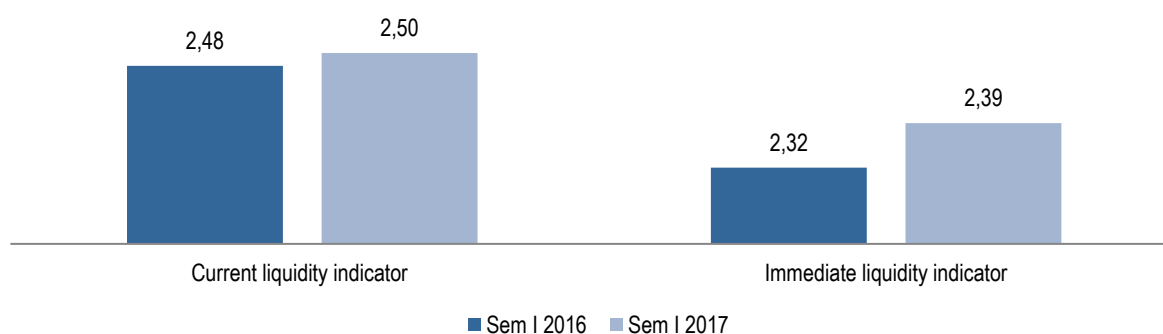
The Transgaz performance in semester I 2017 vs. semester I 2016 is also reflected by the evolution of the following indicators:

Indicators	Calculation formula	Sem. I 2017	Sem. I 2016
<b>Profitability indicators</b>			
EBITDA in total sales	$\frac{\text{EBITDA}}{\text{Turnover}}$	55,21%	52,47%
EBITDA in equity	$\frac{\text{EBITDA}}{\text{Equity}}$	15,36%	12,12%
Gross profit share	$\frac{\text{Gross profit}}{\text{Turnover}}$	46,55%	41,35%
Return on equity	$\frac{\text{Net profit}}{\text{Equity}}$	10,85%	7,99%
<b>Liquidity indicators</b>			
Current liquidity indicator	$\frac{\text{Current assets}}{\text{Short term debts}}$	2,50	2,48
Immediate liquidity indicator	$\frac{\text{Current assets} - \text{Stocks}}{\text{Short term debts}}$	2,39	2,32
<b>Risk indicators</b>			
Indebtness indicator	$\frac{\text{Borrowed capital}}{\text{Equity}}$	0,00%	0,00%
Interest coverage ration	$\frac{\text{EBIT}}{\text{Interest expense}}$	0	0
<b>Management indicators</b>			
Days sales outstanding - clients	$\frac{\text{Average accounts receivable} \times 360}{\text{Turnover}}$	116,18	98,75
Days payable outstanding - suppliers	$\frac{\text{Average accounts payable} \times 360}{\text{Turnover}}$	11,99	20,76

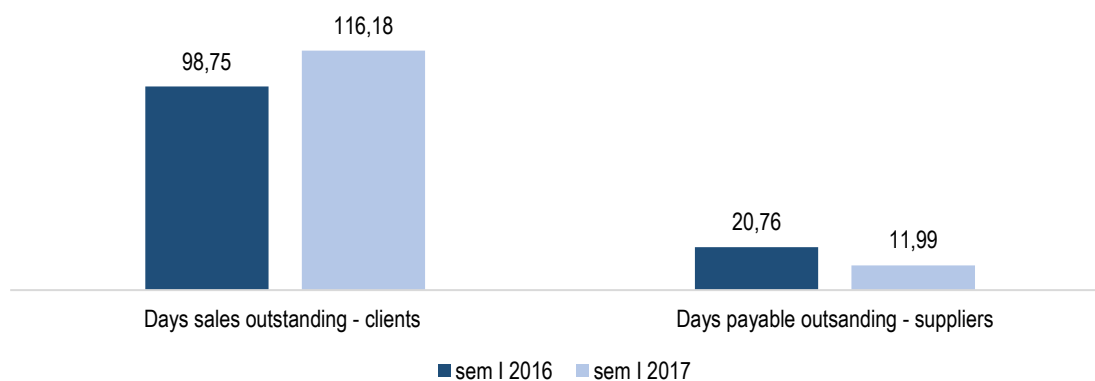
**Table 10 – Evolution of profitability, liquidity, risk and management indicators in semester I 2017 vs. semester I 2016**



**Chart 17- Evolution of profitability indicators for semester I 2017 vs. semester I 2016**



**Chart 18- Evolution of liquidity indicators for semester I 2017 vs. semester I 2016**



**Chart 19- Evolution of management indicators for semester I 2017 vs. semester I 2016**

## 2.3 Indicators of the investment activity

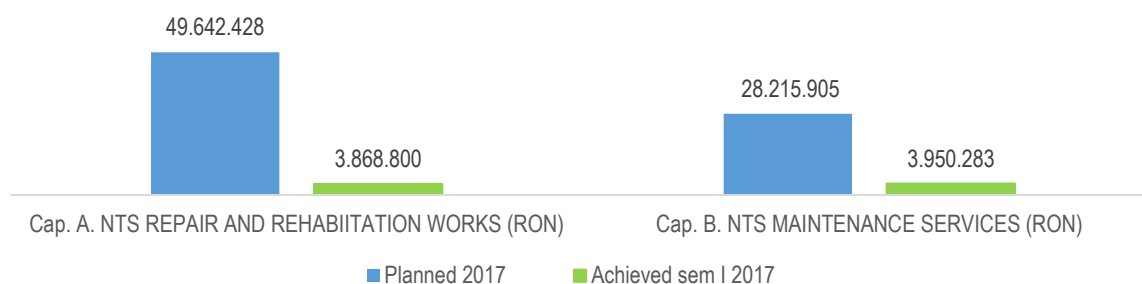
The investment activity in semester I 2017 was directed mainly towards the upgrading and development of the NTS in order to improve its efficiency, increase its capacity and develop new consumption areas.

**The implementation of the Repairs, Rehabilitation and Maintenance Plan for NTS in semester I 2017 compared to the planned level is as follows:**

No.	Chapter name	Plan 2017	Achievements sem I 2017	%
0	1	2	3	$4=3/2*100$
<b>Chap. A. REPAIR AND REHABILITATION WORKS FOR THE NTS (RON)</b>				
1	Planned repairs of main pipelines	46.478.345	3.698.780	7,9
2	Rehabilitation of Regulating and Metering Stations (MRS)			
3	Rehabilitation of Technological Nodes			
4	Rehabilitation of Compressor Stations			
5	Repairs of special MRSs and VCSs facilities			
6	Rehabilitation of cathodic protection systems (CPS)			
7	TC equipment and facilities repairs			
8	Repairs of buildings	3.164.083	170.020	5,3
<b>TOTAL WORKS</b>		<b>49.642.428</b>	<b>3.868.800*</b>	<b>7,8</b>
<b>Chap. B. MAINTENANCE SERVICES FOR THE NTS (RON)</b>				
<b>TOTAL SERVICES</b>		<b>28.215.905</b>	<b>3.950.283</b>	<b>14,0</b>
<b>TOTAL WORKS + SERVICES (third parties) PRRASM</b>		<b>77.858.333</b>	<b>7.819.083</b>	<b>10,04</b>

- The difference of Ron 648 thousand between cost of rehabilitation works in the accounting books amounting to Ron 4,517 thousand and the cost of rehabilitation works in PRRASM amounting to Ron 3,869 thousand is due to invoices registered in the accounting books in 2017 for PRRASM 2016 works.

*Table 11- Implementation of the Repairs, Rehabilitation and Maintenance Plan for the NTS in semester I 2017*



**Chart 20 - Level of fulfilment of the Repairs, Rehabilitation and Maintenance Plan for the NTS in semester I 2017 by chapters of the Plan**



**Chart 21- Fulfilment of the NTS Repairs, Rehabilitation and Maintenance Plan in semester I 2017 by chapters of the Plan**

The NTS Repairs, Rehabilitation and Maintenance Service Plan for year 2017, having an allocated value of **RON 77.858.333**, at the end of semester I 2017 being recorded achievements amounting to **RON 7.819.083**, has a level of achievement in a proportion of 10,04%.

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

- In the cold season (November – March), no current maintenance works or connection works are executed, requiring the interruption of gas supply for a continuous period of more than 12 hours, in accordance with Law no. 346/2007 Art. 12 (2); thus, all the works requiring the closing of the pipelines were ceased in order to provide the transmission capacity and safety in NTS operation;
- Difficulties were faced during the process for drawing up the documentation promoting the procurement procedures;
- Difficulties were faced in obtaining the construction permits from institutions and authorities;
- Termination of contracts from the constructors` fault;

### **NTS maintenance services**

For chapter B **Maintenance Services** the values of the achievements of semester I 2017 come from corrective maintenance services (repairs) and the provision of materials and equipment for the works contracted. These services have a low predictability and their budget represents an insurance in case of necessity.

### **Investment plan**



The value of the investment funds for 2017, approved under the revenue and expenditure budget for 2017, is of **RON 505.320.705**. The value of the achievements at the end of semester I 2017 is of **RON 15.430.235**, which includes the amount of RON 1.056.662, representing works for the connection of new consumers to the NTS, compliant with the rules of access to the NTS, approved by GD 1043/2004, of which RON 1.002.672 from funds allocated through the modernization and development plan and RON 53.990 being the NTS connection tariff.

The implementation of the investments modernization and development plan for semester I 2017 is presented in the table below:

Chapter	Works category	Plan 2017	Achieved in sem. I 2017	%
		Value (thousand RON)	Value (thousand RON)	
<b>Chap. A</b>	<b>NTS modernization and development works</b>	<b>393.308</b>	<b>6.154</b>	<b>1,56</b>
<b>1.</b>	<b>Modernization and retrofitting of the National Gas Transmission System</b>	<b>17.647</b>	<b>-1.413</b>	<b>-8,01</b>
<i>1.1.</i>	<i>Modernization of the National Gas Transmission System technological installations (MRS, VCS, MP, TN)</i>	<i>15.542</i>	<i>-1.503</i>	<i>-9,67</i>
<i>1.2.</i>	<i>Data acquisition and control system</i>	<i>2.105</i>	<i>90</i>	<i>4,28</i>
<b>2</b>	<b>Development of the National Gas Transmission System and related installations</b>	<b>375.661</b>	<b>7.567</b>	<b>2,01</b>
<i>2.1.</i>	<i>Natural gas transmission pipelines</i>	<i>92.830</i>	<i>617</i>	<i>0,66</i>
<i>2.2.</i>	<i>Transmission capacity increase</i>	<i>194.594</i>	<i>3.442</i>	<i>1,77</i>
<i>2.3.</i>	<i>Surface construction and installation works for MRS</i>	<i>44.889</i>	<i>661</i>	<i>1,47</i>
<i>2.4.</i>	<i>Cathodic protection stations</i>	<i>196</i>	<i>124</i>	<i>63,27</i>
<i>2.5.</i>	<i>Information technology and telecommunications installations</i>	<i>29.874</i>	<i>2.512</i>	<i>8,41</i>
<i>2.6.</i>	<i>Surface construction and installation works for odorization</i>	<i>4.460</i>	<i>38</i>	<i>0,85</i>
<i>2.7.</i>	<i>Works on operating natural gas pipelines located in areas of incidental risk</i>	<i>7.818</i>	<i>172</i>	<i>2,20</i>
<i>2.8.</i>	<i>Electrical installations and networks</i>	<i>1.000</i>	<i>1</i>	<i>0,10</i>
<b>Chap. B</b>	<b>Own assets modernization and development works</b>	<b>106.013</b>	<b>8.001</b>	<b>7,55</b>
<b>1.</b>	<b>Other works</b>	<b>42.558</b>	<b>107</b>	<b>0,25</b>
<b>2.</b>	<b>List of the devices, equipment and endowments</b>	<b>62.955</b>	<b>7.871</b>	<b>12,50</b>
<b>3.</b>	<b>Land procurement</b>	<b>500</b>	<b>23</b>	<b>4,60</b>
<b>Chap. C</b>	<b>Access works to NTS</b>	<b>6.000</b>	<b>1.057</b>	<b>17,62</b>
	<i>Works from previous years or transferred from PRRASM</i>	<i>0</i>	<i>218</i>	
<b>TOTAL planned investments</b>		<b>505.321</b>	<b>15.430</b>	<b>3,05</b>
<b>Expenses related to studies and projects</b>		<b>26.706</b>	<b>7.684</b>	<b>28,77</b>
<b>Other investment expenses</b>		<b>172.337</b>	<b>5.217</b>	<b>3,03</b>

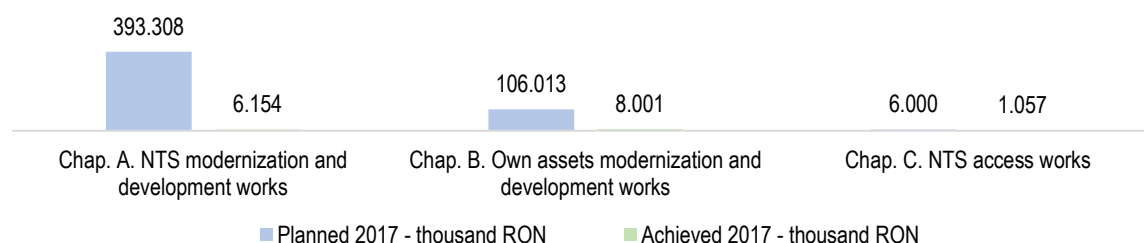
<b>TOTAL INVESTMENTS</b>	<b>704.364</b>	<b>28.331</b>	<b>4,02</b>
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*Table 12- Fulfilment of the Investment Plan in semester I 2017*

As compared to the total value of the investments modernization and development plan amounting to RON 505.321 thousand, the total value of the achievements is of RON 15.430 thousand, meaning that the plan was **3,05%** fulfilled.



*Chart 22- Planned PMDI 2017 vs Achieved PMDI in semester I 2017*



*Chat 23- Achievements in semester I 2017 vs total plan 2017 under the Modernisation and Investment Development Plan by chapters*

The investment plan was 3,05% fulfilled from reasons related to legal matters on field access, authorizations not obtained in due time, changes implemented by NARMPP in the tender validation procedures, and other.

**The causes that led to the fulfilment of the investment modernization and development plan for semester I 2017 in a percentage of only 3,05%, are detailed in Chapter 3.2.2.**

## SCADA

An important direction for the improvement of the quality of the execution and the efficiency of the operational activity of the National Gas Transmission Company Transgaz SA Mediaș was the implementation of the Data Control and Acquisition System (SCADA), which is also a legal obligation, provided initially in Art 25 of Gas Law no. 351/2004 and reiterated in Art. 130, point c, of Gas and Electricity Law no. 123/2012. The implementation was finalized in 2015, but, as the technical operator of the NTS, the company has to increase the security of natural gas supply.

In this respect, the Automation and SCADA Unit carried out a series of activities to maintain, develop and modernize the National Gas Transmission System according to the

intelligent network concept (SCADA) in order to ensure the compatibility of its operation with similar European transmission systems to integrate it on the European single market:

- **Maintenance of industrial systems**
  - inspection activities at the following locations: TN Onești, TN 89 Stalp, TN Podișoara, TN Dealul Frumos, TN Urziceni, TN Șendreni, GCS Siliștea and TN Sâmbotin, TN Horia, TN Paltin, TN Sarmasu, TN Ceanu Mare, TN Medieșu Aurit, TN Ungheni, GMS Horia - 70 measuring systems, in parallel with the maintenance plan, based on internal requests;
  - Intervention/defect remediation activities (according to the records of the incidents tracking application SCADA HelpDesk Transgaz – 133 incidents), were provided in order to maintain the SCADA system's functionality;
  - The following activities were provided:
    - Replacement of the ventilation grid filters in the SCADA automation panels, small MRSs, implementation stage II (52%);
    - Replacement of the accumulators in the SCADA automation panels, small MRSs, implementation stage II (46%);
    - Mounting of magnet reed contacts on the battery panels of the SCADA systems powered with photovoltaic energy (10%);
  - maintenance works with the unit personnel on the electric actuators at:
    - TN Ceanu Mare (100%);
    - TN Moșu (100%).
  - Checking disused electric actuators at TN Medieșu Aurit;
  - Intervention at Horia GMS to check/remedy dew point analyzer data transmission;
  - Intervention at Brazi CCCP in order to check/remedy the automation supervision computer.
- **Integration/execution of new locations/relocations /receptions of works**
  - Integration of new locations in the SCADA system:
    - MRS Cogeneration Oradea;
    - GMS Giurgiu.
  - Integration of additional equipment on existing SCADA locations:
    - Volume converters QED PTZ4 (MRS Vădeni, MRS Chimcomplex Borzești, MRS Craiova Sud, MRS Rovinari, MRS Târgu Ocna, MRS Cogevalac, MRS Balș, MRS Bobocu, MRS Govora, MRS Câmpulung Oraș, MRS Bacău I, MRS Onești, MRS Mangalia, MRS s of the Arad Sector;
    - Pressure transducers (MRS UM Bobocu, MRS Izovolta, MRS Dalkia Termo Brazi (Veolia), MRS Zagna Vădeni);
    - Flow computers EMERSON FLOBOSS (MRS Egger Rădăuți, MRS Cogenerare Oradea, MRS Botoșani);
    - Gas cromatographs ABB NGC8206 (MRS Cogeneration Oradea, MRS Chimcomplex, MRS Răzvad);
    - Gas cromatograph RMG at MRS CECC Brazi;
    - PLC local automations (GMS Giurgiu, MRS Oradea I).
  - SCADA equipment relocation on sites:
    - GMS Romos Orăștie;
    - GMS Oradea I;
    - GMS Căramidă Biharia;

- GMS Michelin Zalău;
- GMS Mănești + Cocorăști.
- Implementation of the Interconnection Agreement for IP Csanadpalota/2.12.2015/Annex 7 (TOC) by identifying technical variants for transmission of technological parameters between SMS Csanadpalota and GMS Horia;
- Participation in teams monitoring the execution works:
  - Modernization of TN Ceanu Mare - Power supply of actuators, automation and facility surveillance components;
  - Modernization of Moșu Technological Node, automation, anti-burglary and video surveillance installations";
  - Data Transmission and Integration System in SCADA for GMS Giurgiu;
  - Replacement of technological installations at MRS Timișoara 1;
  - Modernization of SRM Bârcea (Mounting MRS Cristur – Deva).
- Collaboration with the Design and Research Division for the preparation of the Site Order 1 for the work P.T. 678/2015 Moșu Technological Node - automation, anti-burglary, video surveillance and fire installations.
- Participation in reception committees at the end of the work for the following objectives:
  - TN Sâmbotin;
  - MRS Recaș;
  - MRS Oradea I.
- Participation in the reception committees for the commissioning of:
  - TN Sărmășel;
  - TN Band;
  - GMS Negru Vodă Transit 1;
  - GMS Giurgiu;
  - MRS Oradea 1.

➤ **Participation in technical committees/auctions**

- Participation in the technical actions carried out by the Coordination Committee for the activities for the ranging of the National Transmission System technological gas consumption within the approved limits and the execution of the following activities:
  - Configuration of ERZ2000 and RTU flow computers for the automated taking over of the gas composition (TN Paltin, NT 89, TN Dealu Frumos, TN Urziceni, TN Onești, TN Coroi - 12 flow computers and 6 RTU);
  - Configuration of ERZ2000, RTU and SCADA HIGH-LEIT flow computers for the automatic transmission of indexes and status parameters of the RMG measurement systems to the SCADA system (applied to all SCADA Integrated Technological Nodes - 109 flow computers and 28 RTU);
  - Configuration of ERZ2000, RTU/PLC SCADA flow computers for daily synchronization of the internal clock of the ERZ2000 flow computers with the SCADA clock in order to increase the accuracy of gas balances in NTS (applied to SCADA Integrated Technological Nodes - 93 flow computers, respectively 25 RTU);
  - Preparation of work instruction 01 PP DH05 `Accessing ERZ2000 flow computers archives`;

- Provision of technical support and preparation of gas balances for the technological nodes at the request of the gas transmission departments of the Arad, Mediaş and Bacău regional offices.
- Participation in the approval committees of the bid documentation for the work: BRUA - CS: Preparation of FEED for 3 compressor stations in the P.C.I. corridor. - the Romanian Sector.
- Participation in the committees for the preparation of clarifications to the bidders at: BRUA - CS: Preparation of FEED for 3 compressor stations in the P.C.I. corridor - the Romanian Sector. Batch 4 - Pipeline Automation and Security. "
- Participation in the bid assessment committees for the following works:
  - Repair, verification and repair service of the company electrical installations;
  - Repair, verification and repair service of the company electrical installations - bid resumed;
  - Repair of ø6 natural gas pipeline gas supply connection for GRM Elsid Titu;
  - Access Agreement - Connection and SRMP Gherceşti 2, Dolj County;
  - Systematization of natural gas supply to Işalniţa consumption area, Dolj County;
  - Modernization of MRS Bârcea (Mounting SRM Cristur – Deva);
  - Modernization of TN Drăgăşani: power supply of actuators, automation and objective surveillance components;
  - Modernization of TN Moişica: power supply of actuators, automation and objective surveillance components;
  - Modernization of TN Reaş: power supply of actuators, automation and objective surveillance components;
  - Access Agreement - Modernization/capacity extension of MRS Zagna Vădeni, Brăila county;
  - Systematization of natural gas supply to Işalniţa consumption area, Dolj County;
  - Access Agreement – Connection and SRMP Pieleşti, Dolj county;
  - Access Agreement - Modernization/extension of technological capacity of MRS Boureni, Iaşi County;
  - BATCH 1 Preparation of the basic design: Power supply - solution for the voltaic panels and electricity installations at MRS Căţelul;
  - BATCH 2 Preparation of the basic design regarding: Power supply - solution for the voltaic panels and electricity installations at MRS Mănăstirea Pasărea;
  - BATCH 3 Preparation of the basic design regarding: Power supply - solution for the voltaic panels and electricity installations at MRS Belciugatele;
  - Modernization and adaption to land at MRS Suceava;
  - Batch 1 Repair services for MRSs and Odorizing Installations within the company delivered or with Armax Gas type components;
  - Batch 2 Revision and repair services for MRSs and Odorization Installations within the company, delivered or with Total Gaz Industrie type of components;
  - Batch 1 Repair and intervention services for MRSs and Odorization Installations within the company delivered or with RMG Regel + Messtechnik Germany type of components;
  - Batch 2 Revision, repair and intervention services for MRSs and Odorization within the company, delivered or with Tartarini and Fiorentini components”;
  - Inspection services for piggable pipelines;
  - Sectoral contract for products having as object: 5kW power generator;

- Adaptation to land at MRS Fălticeni;
  - Access Agreement – Connection and S.R.M.P. Ghercești 2, Dolj county;
  - Access Agreement - Modernization/Capacity extension at MRS Zagna Vădeni, Brăila county;
  - CPS maintenance services;
  - Services for verification and repair of equipment for detection of underground pipelines;
  - Verification and recalibration services of C.I.P.S. devices;
  - Services for repair check of cathodic protection automatic cabins;
  - Power distribution cables;
  - Revision and repair services for MRS;
  - Modernization of territorial network exploitation assets –Stage II network assets redundancy.
  - Participation in technical work groups:
    - PMU Black Sea for the works at the Tuzla terminal (Exxon - OMV) and the Vadu terminal (Blacksea Oil and Gas);
    - BRUA Automations and pipeline security BATCH 4 for the preparation of documentation requirements: Minimum Requirements for Site Management and Requirements for Procurement of Execution Works;
    - Concerning the preparation of the Minimum technical requirements for the design and execution of the technological installations related to the natural gas regulation and measuring stations with a capacity exceeding 4000 m<sup>3</sup>/h;
    - Regarding the implementation of programs for the modernization/repair of MRS of the Regional Offices for increasing the operational safety and the corresponding resizing of the personnel needs for operating the technological installations.
- **Technical analysis reports (SCADA instrumentation etc. - listing of internal / external requests and solving mode)**
- Preparation of the technical report on Monitoring the automation systems for solving problems of defective electric actuators - GMS Giurgiu;
  - Technical analysis on Monitoring the systems for reporting problems related to the electric actuator and cathodic protection systems - Iași – Ungheni gas transmission pipeline.
- **Automation Department and SCADA - PMDI / PASET / Supply Plan / Maintenance Plan etc. achievement (description of status of approved and budgeted works)**
- Development and Investment Modernization Plan:
    - In order to maintain the functionality of the SCADA system:
      - Spare parts for the SCADA system of the Transgaz telecommunication equipment is in the acquisition stage
      - Remediation/completion works for damaged/stolen SCADA equipment,
      - SCADA system equipment relocation,
      - SCADA licenses supplementation are in the analysis / documentation phase.



- In order to identify the objectives that require the building/refurbishment/modernization of the electrical supply, distribution, automation and video monitoring facilities, technical documentation actions and analyses were carried out at the objectives belonging to the Craiova, Constanța, Arad and Bucharest Regional Offices.
  - Supply Plan:
    - In order to support the maintenance and guarantee programs of the SCADA system, the following were started / finalized:
      - Procurement according to Contract 600/22.12.2016, "Electronic, electromechanical and electrotechnical accessories" - spare parts, equipment, SDV;
      - The tender book Electric accumulators - SCADA Transgaz System was submitted for publication;
      - The tender book Electronic, electromechanical and electrotechnical accessories - SCADA Transgaz system was submitted for publication - completion of procurement documentation phase;
      - Preparation of the tender book Materials, consumables, equipment, spare parts, tools, devices and verifiers necessary for carrying out the specific activities of maintenance, relocation, integration of new equipment in order to ensure the functioning in the projected parameters of the SCADA system - document preparation phase.
    - In order to maintain the functionality of the industrial actuation / automation systems, the following were started / finalized:
      - Preparation of the tender book Procurement of electronic measuring instruments, electronics kit, hand tools;
      - The tender books for the Procurement of air conditioning systems for the microclimate control of the automation rooms in the Ceanu Mare Technological Node and Sâmbotin Technological Node were submitted for publication.
- **Other activities carried out by the Automation Department and SCADA**
- ▶ Submitting the Investment Sustainability Report - 2016 as a contractual obligation to the Intermediate Body for Energy;
  - ▶ Internal training/schooling of the technical personnel of the Regional Offices;
  - ▶ Analyzing the possibility of obtaining new European funds.

In cooperation with the specialized departments at SNTGN TRANSGAZ SA, discussions were initiated (in March 2017) with the Management Authority within the Operational Programme for Large Infrastructure (AM POIM) regarding the possibility of financing Transgaz projects which are directly connected or related to the activity of the Automation and SCADA Unit from European grants. The technical and procedural discussions focused on the possibility of achieving some projects from POIM funds which were not used in other areas of activity between 2014 and 2017.

The projects proposed by TRANSGAZ that have been analyzed and showed potential for receiving European grants are:

- ➔ the creation of a National Cathodic Protection System;
- ➔ the use of microgenerators to transform kinetic energy into electrical energy.

As a prospective strategic aspect, in cooperation with the European Funds Unit, the opportunities for obtaining new grants are continuously monitored for other projects within the area of action and technical interest of the Automation and SCADA Unit:

- ▶ Developing the policies/requirements regarding the defining elements of the cyber security strategy for the industrial systems of Transgaz;
- ▶ Developing/expanding the technical intervention procedures through the HelpDesk software application;
- ▶ Initiation of strategy elements on maintenance in electrical installations and industrial actuation / automation.

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

	<b>2017 Plan</b>	<b>Achieved Sem. I 2017</b>
Investments of which:	704.364	28.331
-NTS access works	6.000	1.057
<b>TOTAL INVESTMENT EXPENSES</b>	<b>704.364</b>	<b>28.331</b>

*Table 13- Total investment expenses (thousands RON)- semester I 2017*

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

	<b>Plan Sem I 2017</b>	<b>Achieved Sem I 2017</b>
▪ Net profit allocated for own financing	106.879	190.628
▪ Amortization and depreciation	97.241	81.165
▪ Non-cash expenses		5.242
▪ Net profit allocated for own financing	883.072	885.038
<b>TOTAL FINANCING SOURCES</b>	<b>1.087.191</b>	<b>1.162.074</b>

*Table 14- Investment financing sources (thousands RON) 2017*

## European funds

The activity of obtaining European funds has developed mainly for:

- Identifying the financing possibilities of Transgaz projects, based on the programmes promoted directly by the European Commission and on the financing programmes under the Management Authorities of Romania;
- Supporting TRANSGAZ's projects with financing potential from non-reimbursable funds at the level of the national Managing Authorities as well as at the level of the European Commission and its structures managing these funds;
- Inter-department collaboration in order to issue the necessary documentation for the financing requests and information transmission in order to know the granting mechanisms of the European finances;
- The preparation of the funding requests and of the related documents;
- The preparation of the documents related to the interim/final funding requests;
- The monitoring of the implementation of the projects which received European grants;
- Inter-institutional engineering with the line ministries (Ministry of Economy, Ministry of Energy, Ministry of European Funds) and the financing institutions.

In addition, the documents related to the project promoted by EUSTREAM for the Action "*Feasibility Study for the Eastring project*" were analysed by the European Funds Division. The action was introduced and coordinated by Eustream as single promoter, 100% shareholder of Eastring B.V., based on mutual agreement and with the full support of the other three project promoters in question: FGSZ Zrt. (HU), SNTGN Transgaz SA (RO) and Bulgartransgaz EAD (BG). The application was analyzed by the European Commission's assessment structures and approved for receiving grants.

Some of the main activities performed in semester I 2017 (some of these in cooperation with other departments of the Company) are:

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

- Preparation of application drafts, progress reports, durability reports, letters which were sent regularly (resulted from the obligations of the funding contracts) to the funding bodies, for the management of Transgaz's projects which benefited from European grants, in accordance with the provisions of the funding decisions/contracts;
- Preparation of notification on points of view regarding the sensitivities found and the implications of possible changes to the work execution contracts terms, correlated with the provisions of the funding decisions/contracts;
- Providing support, collaboration, information additional to various forms of assessment/verification which the European non-repayable funding projects were subjected to.
- Supporting the auditing sessions of the activity of the European Funds Unit, regarding compliance with the quality requirements and the provisions of the Process Procedure.
- supporting the activity of managing European funds in the framework of the internal audit mission which took place between 24 April 2017 and 3 June 2017, which had as a general objective:
  - internal/managerial control system implementation assessment
  - European funds obtaining assessment
  - monitoring and implementing of projects having received EU grants

The purpose of the mission was to examine the responsibilities assumed by the European Funds Directorate during the period January 1 2014 – March 31 2017. The conciliation phase of the Final Internal Audit Report is underway.

### **The *Interconnection Bulgaria -Romania* project**

- ensuring the monitoring the eligible expenses related to the implementation of the Giurgiu – Ruse project, resulted from the contracts related to the execution of the works on the terrestrial and undercrossing sections of the Danube river;
- preparation of Technical Implementation Report no. 8, harmonized with BULGARTRANSGAZ and submitted to European Commission DG-ENER within the deadline set by the Financing Decision.

- Analysis of the documents generated during the implementation of the project and preparation of the Final Technical Implementation Report and the Financial Statement.
- preparation of the tender book, start/completion of the procurement procedures for the Financial Audit Services in order to obtain the Audit Certificate, a document necessary for the preparation of the Final Payment Application according to the Financing Decision;
- preparation the entire documentation submitted to the auditing process;
- obtaining the audit report following the independent auditing, and issuing of the External Audit Certificate, a binding document to be submitted to the final balance payment request;
- receipt of the Ministry of Economy's approval for: *Certification by the Member State of the expenses requested by the beneficiary and the Validation by the Member State of the Financial Technical Report.*
- Sending all documents related to the Final Payment Application to BULGARTRANGAZ in order to harmonize the data necessary for their joint submission for the settlement of the eligible costs.

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

- the documents requested by INEA (*the structure within the DGEER-DG ENER, granting the non-refundable financing*) were drawn up together with the project management structure in order to rectify the coordinates of the approved Financing Agreement;
- the permanent connection with the INEA has been maintained in order to clarify and detail all the necessary aspects for the approval of the documentation for the extension of the Financing Contract until 30 June 2017;
- the entire documentation for the procurement of the financial audit service (*Tender Book, Requirement Report*) was prepared;
- the documentation was sent for validation to the Project Manager and for the completion of the financial-accounting data, managed by the BRUA PMU structure.

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

- Continuous monitorisation of the laws, activity and decisions of the European Commission regarding the projects of common interest was ensured;
- Correspondence with the European and national institutions competent in the management of Projects of Common Interest was ensured;
- Permanent assistance was provided to the structures of the BRUA PMU regarding the Grant Agreement provisions and how/if they interfere in terms of eligibility with the costs generated by certain activities related to the implementation of the project;
- BRUA PMU is advised in relation to the aspects of the Financing Contract, especially regarding the eligibility/ineligibility of costs (at the request of this structure).

#### **The Upgrading TCS Şinca and the related installations project**

- The Durability Report for the first year of operation was prepared after the commissioning of the project and sent to the Financial Body for Energy,
- The Ministry of European Funds communicated through a Notice of Findings that following the auditing by the Court of Auditors of the procurement procedures for

the execution of the project, it will maintain the 5% financial correction on the amount of the grant.

- On the basis of the documents previously submitted to the Legal Division to initiate the action for challenging the financial correction in court, assistance was provided for proving the application of the financial correction ungrounded.
- Assessment of all documents at the basis of the payment requests, documents related to this project and being the basis of the internal audit mission; provision of additional information/answers to the audit questionnaires for the clarification of aspects for a real understanding of the project.

### **The SCADA project**

- In accordance with the provisions of the Financing Agreement, the Annual Durability Report was prepared together with the Automation and SCADA Unit and submitted to the Intermediate Body for Energy before due date, 15 January 2017;
- the relevant documents were analyzed and concluded to demonstrate the maintenance of the Result Indicators after the first year of operation of the project.

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

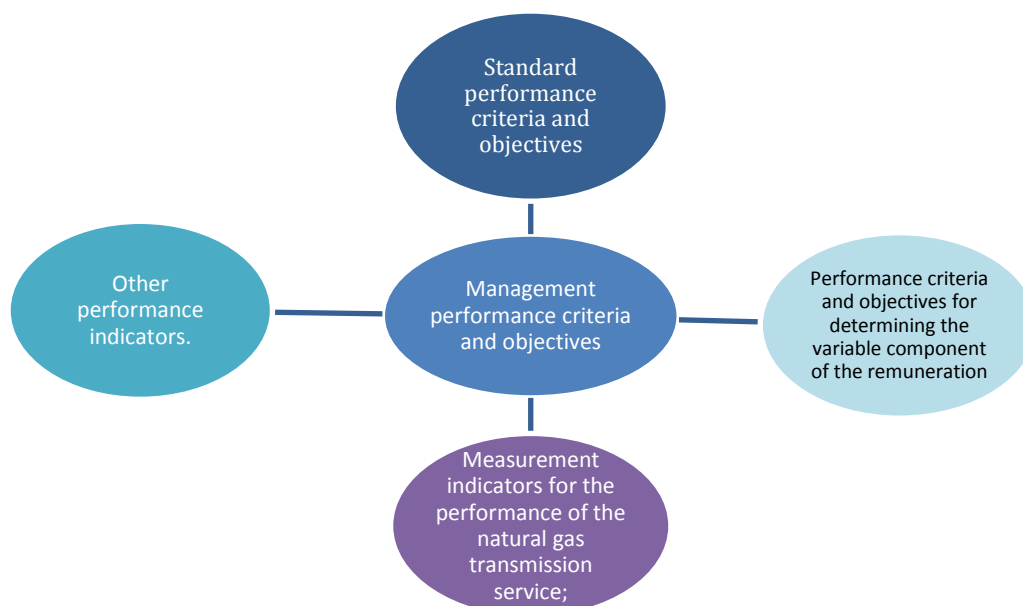
- the funding programs managed by the European Commission's dedicated structures as well as their websites regarding the opening of calls for the submission of applications were constantly monitored;
- the connection with the Large Infrastructure Programme Management Authority was maintained in order to complete the eligibility criteria of the Priority Axis 6 of the programme, in order to promote TRANSGAZ energy efficiency projects;
- There were updated the letters which information was sent to the TRANSGAZ division/unit management on the financing opportunities through the Financing Programs managed by the European Commission and the National Funding Bodies of the Conditions and Criteria for Accessing Structural Funds, for correlating their provisions with the Development and Research Programme of TRANSGAZ and promoting own investment objectives and communicating the projects with funding potential to the European Funds Unit;
- Actions were taken regarding additional allocation of funds in the financial years 2014–2020, for the gas transmission sector through the Large Infrastructure Operational Program;
- In accordance with the suggestions of the consultant of the Ministry of European Funds - JASPERS, the Feasibility Study related to the project regarding the NTS developments in North East Romania for enhancing gas supply to the region and ensuring transmission capacities to Moldavia was completed, in order to prepare the documents necessary for the submission of the application for grant approval through LIOP;
- Cooperate with the parties involved (Research and Design Division and Project Management Unit) in supplying the information, documentation, necessary forms for drawing up the Financing Requests and in the conduct and monitoring of the projects financed by European funds, national and international authorities;
- Analysis of compliance with the eligibility criteria of potential TRANSGAZ projects, according to the 2014 – 2020 Financing Programmes

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

- use of the kinetic energy of pipeline gas flow in order to obtain electricity;
- control and data acquisition system from the cathodic protection system of S.N.T.G.N. TRANSGAZ
- possibility to refurbish the Băţani CS, the first turbocompressor station in Europe, and to record it as historic monument;
- cooperation with EU companies (in France, Belgium, Italy) for the development of research topics enabling the obtaining of European funds through the Horizon 2020 programme;
- professional preparation by exchanging experiences or specialty courses within the Operational Program Human Capital – POCU, including in a potential partnership with the trade union organization in the branch.

## 2.4 Indicators of management performance

In compliance with Chapter 6 of the Management Plan of The National Gas Transmission Company Transgaz SA Mediaş for 2013-2017, named "*Performance Criteria and Objectives*", the performance criteria and objectives are defined and set as follows:



*Fig. 1 – Performance indicators*

### Standard performance criteria and objectives

Performance criteria	Performance objective	Management Plan 2017	Achieved Semester I 2017	Achievement degree
Implemented investments –thousand RON	Achieving the planned level	250.000	15.638	6,26%
EBITDA –thousands RON	Increasing EBITDA	713.346	567.370	79,54%
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel no.)	388.155	222.040	57,20%

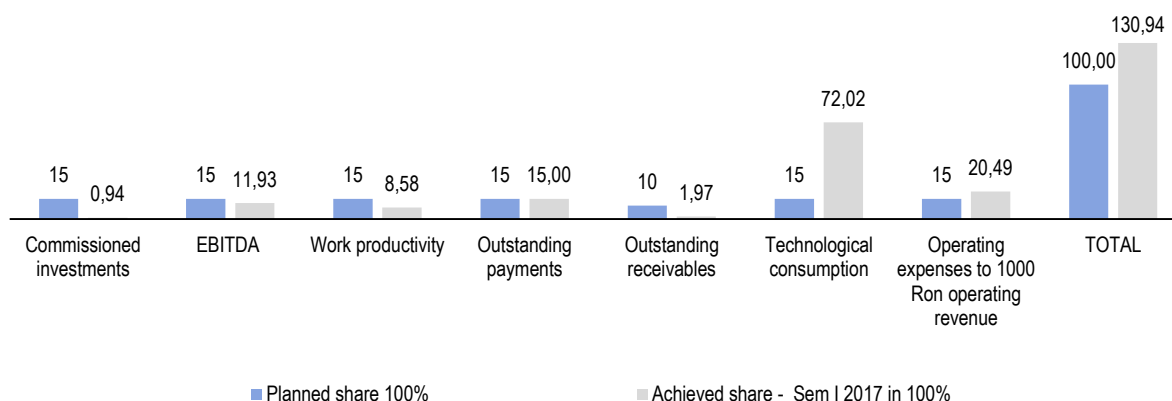


Overdue payments- thousand RON	Making payments according to contract terms (in current prices)	0	0	100,00%
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	61.821	313.768	19,70%
Technological consumption- %	Meeting the quantities of natural gas representing technological consumption	100%	21%	480,15%
Operating expenses for 1000 RON operating revenue - RON	Decreasing operating expenses for 1000 RON operating revenue	724,57	530,33	136,63%

**Table 15 –Fulfilment of standard performance indicators at 30 June 2017**

Performance criteria	Performance objective	Weighting coefficient %	Achievement degree Sem. I 2017 %	Fulfilment level in semester I 2017 according to the weighting coefficient
Commissioned investments –thousand RON	Achieving the planned level	15	6,26%	0,94
EBITDA –thousand RON	Increasing EBITDA	15	79,54%	11,93
Work productivity – RON/pers	Increasing work productivity in value units (turnover / average personnel no.);	15	57,20%	8,58
Overdue payments - thousand RON	Making payments according to contract terms (in current prices)	15	100,00%	15,00
Overdue receivables – thousand RON	Decreasing the volume of overdue receivables (in current prices)	10	19,70%	1,97
Technological consumption %	Meeting the quantities of natural gas representing technological consumption	15	480,15%	72,02
Operating expenses at 1000 RON operating revenue - RON	Decreasing operating expenses for 1000 RON operating revenue	15	136,63%	20,49
<b>TOTAL</b>		<b>100%</b>		<b>130,94</b>

**Table 16–Fulfilment of standard performance indicators for semester I 2017**

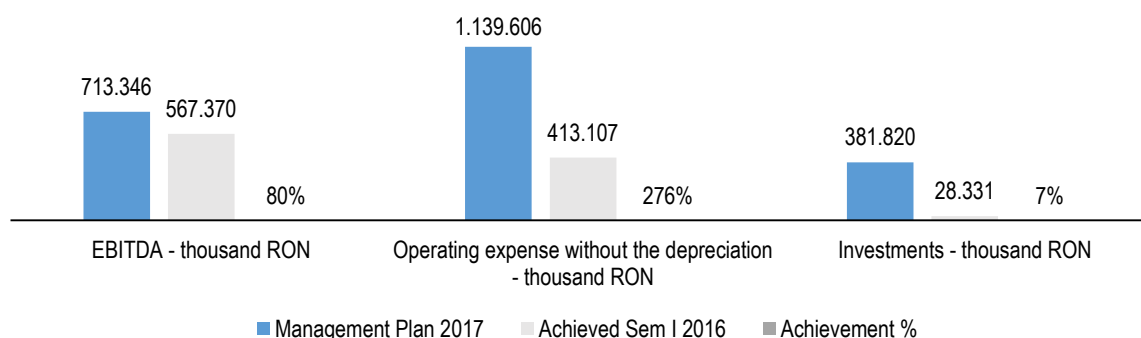


**Chart 24 – Aggregate level of fulfilment of standard performance indicators in semester I 2017**

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

PERFORMANCE CRITERION	PERFORMANCE OBJECTIVE	Management plan 2017	Achieved semester I 2017	Achievement degree %
EBITDA –thousand RON	Fulfilment of the EBITDA target undertaken in the Management Plan	713.346	567.370	80%
Operating expense without amortisation - thousand RON	Reducing the level of operating expense (without amortisation expenses) actually incurred in relation to the level undertaken in the Management Plan	1.139.606	413.107	276%
Investments – thousand RON	Increasing the level of investments actually made in relation to the level undertaken in the Management Plan	381.820	28.331	7%

**Table 17– Fulfilment of performance indicators for the calculation of the variable component of the remuneration for semester I 2017**



**Chart 25 –Fulfilment of performance indicators for the calculation of the variable component of the remuneration at 30 June 2017**

## Indicators underlying the performance of the natural gas transmission service

**The performance standard for the natural gas transmission service**, approved by Decision no. 1361/13.12.2006 of the ANRE President in the field of natural gas, published in Official Journal 27 bis on 16 January 2007, as further amended and supplemented by Order no. 45/24.04.2008 of ANRE President, regulates the commercial quality criteria, defined by the performance indicators in order to ensure the natural gas transmission services and the ancillary services performed by the transmission system operator (TSO).

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

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

Performance indicator (no. article)	Objective	Achievements 9 months 2016
<b>IP1</b> –Solve the access requests for the connection to the NTS (Art.5)	98%	100%
<b>IP2</b> –Execute the NTS connection installation related to the access requests (Art.6 lit(a) and (b))	98%	100%
<b>IP4</b> – Notification on the resumption of the service provision (Art.8 (1) letter (a) and (b))	95%	100%
<b>IP5</b> – Notification on the planned interruptions in the service provision and its resumption (Art.9 (1))	100%	100%
<b>IP6</b> –Solve the complaints of the NTS users on natural gas metering (Art.10 (1) letter (a) and (b))	98%	100%
<b>IP7</b> –Solve the referrals related to the integrity and NTS operation under safety conditions (Art.11 par. (2))	95%	100%
<b>IP8</b> –The obligations of the TSO to inform the applicants/users, according to other regulations of the National Regulatory Authority on natural gas (ANRGN) (Art.12)	95%	100%
<b>IP11</b> – Safety indicators (Art.15 (1) letter (a)) RCA  (Art.15 (1) letter (b)) NAP  (Art.15 (1) letter (c)) NAP <sub>T</sub>	maximum 8,3%	7,4%
	0.8	0.01
	0.1	0.00

*Table 18 –Achievement of the performance indicators related to the gas transmission service for 2015*

**IP10**- The toll-free phone number 0800872674 is mentioned on the web page of the company [www.transgaz.ro](http://www.transgaz.ro).

Total number of calls received in 9 months of 2016 is of 105 calls,

#### Content of the calls:

- Request for information on the method to obtain the opinions for the construction permits - 35 calls;
- Request for information on dividends – 6 calls;
- Request for the phone number of E-ON Gaz Mediaș/GDF SUEZ - 7 calls;
- Request for information connection to the gas transmission system – 9 calls;
- Request for information related to the route of a gas transmission pipeline on a private property – 11 calls;
- By mistake – 1 call;
- Notification of an event - 1 call;
- Resuming supply – 9 calls;
- Other issues – 26 calls.

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

### **Other performance indicators**

In semester I 2017, the Company's management has undertaken a number of technical organizational and economic measures that allowed optimization of both the image and reputation capital of the Company in relation to stakeholders and development of a more efficient, accountable and transparent organizational climate in terms of activity and management of employed resources, consistent with the requirements of the European and national regulations on natural gas transmission.

## **3. ANALYSIS OF THE COMPANY'S ACTIVITY**

### **3.1 Analysis of the operational activity**

#### **3.1.1 Regulatory framework**

The main object of activity of Transgaz - NACE Code 4950 –*Transport via pipelines* – is defined by law as the activity organized for the circulation of natural gas through the National Natural Gas Transmission System (NTS) or through other transmission systems.

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

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

The natural gas transmission activity is a public service of national interest and it is included in the regulated segment of the domestic natural gas market. The transmission

service has a natural monopoly status and is carried out based on a tariff regulated by ANRE.

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

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

In semester I 2017 Transgaz has managed together with its specialists the specific regulation projects launched in a public debate by ANRE and has participated both at the revision activities of the Network Code provisions within the different joint committees and working groups with ANRE and other involved institutions (*The Coordination/supervising committee of the activities regarding the provisions of the Network Code; the Working group for the revision of the Network Code coordinated by ANRE; the Operative working group for the modification of the Network Code; the Joint working group TRANSGAZ-OMV PETROM-EXXON*) and to the revision activity of the concession agreement.

For the semester I 2017, the following regulations are relevant for the activity of Transgaz:

1. **ANRE Order no. 116/2016** amending Annex to Order no. 11/2013 of ANRE President approving the Regulation for the authorization of electricians, project checkers, technical experts in charge of execution, as well as technical quality experts and extra-legal experts in electrical installations **published in Official Journal no 9/5.01.2017, Part I.**
2. **Government Decision no 27/2017** on the organization/functioning of the Ministry of Economy, **published in Official Journal no 574/18.01.2017, Part I.**
3. **Law no 7/2017** on the state social insurance budget for 2017, **published in Official Journal no 128/ 17.02.2017, Part I.**
4. **Law no 6/2017** on the state budget for 2017, **published in Official Journal no 127/17.02.2017, Part I.**
5. **ANRE Order no 10/2017** amending and supplementing the methodology for establishing the regulated revenue, total revenue and tariffs for gas transmission approved by Order of the President of the National Energy Regulatory no. 32/2014, **published in Official Journal no 135/22.02.2017, Part I.**
6. **Government Decision no 97/2017** amending Government Decision no 27/2017 on the organization and functioning of the Ministry of Economy **published in Official Journal no 163/6.03.2017, Part I.**
7. **Government Emergency Ordinance no. 19/2017** amending and supplementing Government Emergency Ordinance no 34/2015 on the regulation of measures for the stimulation of the absorption of external grants, **published in Official Journal no 163/6.03.2017, Part I.**

8. **ANRE Order no 15/2017** amending point II subpoint 8 of Annex no. 4 to ANRE Order no. 178/2015 approving tariffs and monetary contributions levied by ANRE in 2016, **published in Official Journal no 184/15.03.2017, Part I.**
9. **Law no 13/2017** approving Government Emergency Ordinance no 51/2013 amending and supplementing Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises **published in Official Journal no 194/20.03.2017.**
10. **Law no 26/2017** approving Government Emergency Ordinance no 46/2016 supplementing Law no 227/2015 on the Fiscal Code, **published in Official Journal no 210/28.03.2017, Part I.**
11. **Law no 24/2017** on issuers of financial instruments and market operations, **published in Official Journal no 213/29.03.2017, Part I.**
12. **Law no 39/2017** approving Government Emergency Ordinance no 77/2016 amending and supplementing Government Emergency Ordinance no 40/2015 on the financial management of European funds for the 2014-2020 programming period, **published in Official Journal no 219/30.03.2017, Part I.**
13. **Government Emergency Ordinance no 25/2017** amending the Annex to Government Ordinance no. 7/2013 on the levying of the tax on the extra income obtained as a result of the deregulation of prices in the natural gas sector, **published in Official Journal no 224/31.03.2017, Part I.**
14. **Order no 25/2017** approving the Regulation for the organization and conduct of the energy investigation activity regarding the operation of the wholesale energy market, **published in Official Journal no 260/ 13.04.2017, Part I.**
15. **Order no 30/2017** supplementing the Tariff Setting Methodology applied by end-to-end suppliers to end-customers, approved by Order no 92/2017 of ANRE President, **published in Official Journal no 260/ 13.04.2017, Part I.**
16. **ANRE Order no 29/2017** amending and supplementing ANRE Order no 118/2016 approving tariffs and monetary contributions levied by ANRE in 2017, **published in Official Journal no 262/13.04.2017, Part I.**
17. **Order no 591/2017** approving the model and content of the "Environmental Fund Obligations Statement" form and the instructions for completing and submitting it, **published in Official Journal no 288/ 24.04.2017, Part I.**
18. **Instruction no 2 /2017** of ANAP President issued in application of the provisions of Art. 178 and Art. 179 (a) and (b) of Law no 98/2016 regarding the public procurement, respectively the provisions of Art. 191 and Art. 192 (a) and (b) of Law no 99/2016 on sectoral procurement, **published in Official Journal no 300/27.04.2017, Part I.**
19. **Law no 82/2017** approving Government Emergency Ordinance no 84/2016 amending and supplementing certain normative acts in the financial-fiscal field **published in Official Journal no 313/02.05.2017, Part I.**
20. **Law no 87/2017** amending Law no 161/2003 on certain measures to ensure transparency in the exercise of high public positions, public positions and business environment, prevention and sanctioning of corruption, **published in Official Journal no 313/02.05.2017, Part I.**
21. **Government Decision no 284/2017** amending and supplementing methodological norms for the application of Law no 227/2015 regarding the Fiscal Code, approved by Government Decision no 1/2016, **published in Official Journal no 319/4.05.2017, Part I.**
22. **Decision no. 398/2017** amending point 13 of the Annex to the Prime Minister's Decision no. 135/2013 on the establishment of the Consultative Council of the National



*Regulatory Authority for Energy, published in Official Journal no 345/10.05.2017, Part I.*

23. **Order no 2940/2017** approving the special procedure for the authorization, construction, execution and operation of pipelines transporting natural gas from fields located off-shore in the Black Sea to pipelines under projects of national importance or, as the case may be, to other pipelines subject to the projects included in the development plans of the National Gas Transmission System, **published in Official Journal no 358/15.05.2017, Part I.**
24. **ANRE Order no 36/2017** supplementing the Network Code for the National Gas Transmission System, approved by ANRE Order no 16/2013, **published in Official Journal no 93/25.05.2017, Part I.**
25. **Decision no 40/2017** on the appointment of a Vice-President and two members of the Regulatory Committee of the National Regulatory Authority for Energy, **published in Official Journal no 391/24.05.2017, Part I.**
26. **Government Decision no 343/2017** amending Government Decision no 273/1994 approving the Regulation for the reception of construction works and related installations, **published in Official Journal no 406/30.05.2017, Part I.**
27. **Law no 119/2017** approving Government Emergency Ordinance no 53/2016 amending and supplementing Art. 14 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 shareholding, **published in the Official Journal of Romania, no. 408/30.05.2017, Part I.**
28. **Law no 128/2017** amending and supplementing Law no 161/2003 on measures to ensure transparency in the exercise of high public positions, public positions and business environment, prevention and sanctioning of corruption, **published in Official Journal no 421/7.06.2017, Part I.**
29. **Government Emergency Ordinance no 42/2017** amending and supplementing Law no 207/2015 on the Fiscal Procedure Code, **published in Official Journal no 438/13.06.2017, Part I.**
30. **Law no 138/2017** repealing Government Emergency Ordinance no 13/2014 amending the Annex to Government Ordinance no 7/2013 on the levying of the tax on the additional revenue obtained as a result of the deregulation of prices in the natural gas sector, **published in Official Journal no 444/14.06.2017, Part I.**
31. **ANRE Order no 54/2017** approving the Regulation on the organized trading framework on the centralized natural gas market administered by OPCOM SA, **published in Official Journal no 503/30.06.2017, Part I.**
32. **Government Emergency Ordinance no 49/2017** on measures to accelerate the implementation of transport infrastructure projects of national interest, amending and supplementing Government Emergency Ordinance no 40/2015 on the financial management of EU funds for the programming period 2014-2020, supplementing Law no 105/2011 on the management and the use of non-reimbursable external funding and national public co-financing for the European Territorial Cooperation objective, as well as amending and supplementing Government Ordinance no 17/2015 on the regulation of fiscal-budgetary measures and amending and supplementing certain regulations, **published in Official Journal no 507/30.06.2017, Part I.**

In semester I 2017 Transgaz made the following amendments to normative acts/ legislative proposals:

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

Stage: By Decision no. 187/2017 *on the setting up of a working group for the preparation of the NTS network code revision projects necessary for the establishing an virtual trading point (PVT) entry-exit gas market model*, a Transgaz working group (GL) was established for the preparation, among other things, of projects for the amendment/ supplementation of some chapters/articles of Title II of Gas Law 123/2012 in order to define the basic characteristics of a functional market model applicable in Romania, based on the entry-exit system with access on the VTP.

At the request of the Committee of Industries and Services of the Chamber of Deputies, GL developed comments, proposals for amendments and additions to Plx. 110/2017 regarding the approval of Government Emergency Ordinance no. 64/2016 for the amendment and completion of Electricity and Gas Law no.123 / 2012, to introduce the fundamental features of a functional market model applicable in Romania, based on the VTP entry-exit system, being of interest the introduction of:

- the definition of the VTP (proposed in Article 100 (93) in the draft amendments;
- obligations of the virtual trading point operator (Article 130<sup>1</sup>);
- modalities of trading of capacity products on the secondary market (Article 149<sup>2</sup>);
- access rules for the entry-exit system using the Virtual Trading Point;
- title transfer rules and balancing rules (Article 174<sup>1</sup>).

Transgaz's proposals were retained - according to the Report by the CDEP Committee of Industries and Services on Plx. 110/2017 regarding the approval of Government Emergency Ordinance no. 64/2016, amending and supplementing Electricity and Gas Law no.123/2012. The draft law was re-submitted to the Committee of Industries and Services for a new report within the plenary session of the Chamber of Deputies of June 27, 2017.

2. **Promotion of the draft of the Government Decision for approval of the list for removal from the agricultural circuit in accordance with the provisions of Law no. 185/2016 on measures necessary for the implementation of projects of national importance in the field of natural gas;**
3. **Promotion of the draft of the Government Decision on the establishing as project of national importance of the Project for new developments of the NTS for taking over Black Sea gas** - Extension of the NTS through the construction of the gas transmission pipeline from the Black Sea gas take-over point (Vadu town) - to the Transit 1 pipeline (Grădina area), in accordance with the provisions of Law no. 185/2016 *on measures necessary for the implementation of projects of national importance in the field of natural gas*;

Stage: The proposal was submitted by SNTGN Transgaz SA to the Ministry of Economy.

4. **Promotion of the draft Government Decision on the establishing as project of national importance of the Project for NTS Development in the**



**North-East of Romania** to enhance gas supply to the region and to provide transmission capacities to the Republic of Moldova, in accordance with the provisions of Law no. 185/2016 *on measures necessary for the implementation of projects of national importance in the field of natural gas*;

Stage: SNTGN Transgaz SA sent the proposal to the Ministry of Economy and it was submitted to public consultation on the Ministry's website.

#### **5. Amending of the Network Code (ANRE Order 16/2013)**

Stage: in progress

At the end of the first semester, the GL established by Decision 187/2017 finalized and submitted to ANRE the draft revised Network Code - Module A (Implementation of the preliminary phase of independent capacity booking in a VTP entry-exit system), with modifications/additions/removals, especially regarding Chapter III - Access to the NTS transmission services of the Network Code in force, having as main reference the following:

Chapter III - General Terms and Conditions of Access to the Entry-Exit System;

Framework contract for natural gas transmission - entry capacity services;

Framework contract for natural gas transmission - exit capacity services.

- Following the conclusions of the workshop on the Implementation of the European Network Codes in Romania, held in Bucharest on 8-9 June 2017, in which representatives of the European Commission, ACER and ENTSOG, ANRE participated, it was transmitted a proposal, as an intermediate step, to modify the Network Code in order to ensure the facility of receiving trade notifications without quantity limits for network users having contracts with VTP access.

On 30 June 2017, the proposals of SNTGN Transgaz SA were published for public consultation on ANRE's web site.

#### **6. Amendments to the Regulation for the organization and functioning of the day -ahead gas market managed by the Electricity and Gas Market Operator OPCOM - S.A.**

Stage: Amendments of S.N.T.G.N. Transgaz S.A. were sent to ANRE.

#### **7. Amendment of ANRE Order on the approval of the Regulation on the connection to the gas transmission system**

Stage: Amendments of S.N.T.G.N. Transgaz S.A. were sent to ANRE.

#### **8. Draft ANRE Order on the approval of the Regulation on the organization and performance of the energy investigation activity regarding the operation of the wholesale energy market**

Stage: The proposals of SNTGN Transgaz SA were sent to ANRE.

#### **9. Amendments to the standard BRM contract draft for the buying-selling of gas.**

Stage: Amendments of S.N.T.G.N. Transgaz S.A. were sent to ANRE.

#### **10. Draft ANRE Order on the approval of the Regulation on the organized framework for trading on the centralized gas market managed by OPCOM S.A. and repealing ANRE Order no. 52/2013 approving the Regulation on the organized framework for trading on the centralized gas market managed by OPCOM S.A.**

#### **11. Amendments to the Regulation on the organized framework for trading on centralized gas markets managed by the Romanian Commodities Exchange.**

Stage: Amendments of S.N.T.G.N. Transgaz S.A. were sent to ANRE.

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

- Participating in activities concerning the revision of the Network Code;
- Managing the internal consultations in order to develop the point of view of the Company on the draft normative acts initiated by ANRE and other relevant authorities to improve the national regulatory framework;
- Managing the work authorisation/re-authorisation of the technical staff of the Company that owns/will own the status of authorized installer for natural gas;
- Authorization and licensing in the natural gas domain;
- Negotiating interconnection agreements with Ukrtransgaz related to the interconnection points between the Romanian and Ukrainian transmission systems;
- Negotiating interconnection agreements with Bulgartansgaz for the interconnection points between the Romanian and the Bulgarian systems;
- Implementing Regulation (EU) no. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) no. 1348/2014 on data reporting, for the implementation of Article 8 (2) and (6) of Regulation (EU) no. 1227/2011, in cooperation with the Operating, ITC and SCADA divisions;
- Implementation of the provisions of Regulation (EU) 2017/459 establishing a network code for the capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) 984/2013 (the new CAM-NC);
- Implementation of the provisions of Regulation (EU) 2017/460 establishing a network code for harmonized charging structures for gas transmission (TAR-NC);
- Implementation of guidelines on the management procedures for capacity congestions in case of contractual congestion at the interconnection points (CMP GL);
- Participation in the discussions of the working group on the implementation of obligations under the new Regulation (EU), which shall replace Regulation (EU) no. 994/2010 on measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC
- Legal actions regarding the cooperation with ENTSOG.

The actions taken in the first semester to achieve these objectives were:

- **Revision of the Network Code**
  - ✓ Participation in the meetings of the working group established by Decision no. 187/27.02.2017, starting from March 2017; the aim of this working group is to develop the Network Code revision projects needed to set a VTP entry-exit gas market model.
- **Managing internal consultations to prepare the company's position on the drafts of normative acts initiated by ANRE and other relevant authorities for the improvement of the national regulatory framework**
  - ✓ Draft order for the amendment of Order no. 162 / 19.12.2014 of the ANRE President on the approval of the relevant NTS points.

The document was submitted for public consultation on ANRE website between 11 January 2017 and 20 January 2017.

No proposals and comments were centralized for this document.

The document was published in the Official Journal no. 219/30.03.2017.

- ✓ Draft order on the amendment and supplementing of the gas transmission regulated tariffs, total revenue and regulated revenue tariff setting methodology, approved by Order no. 32/2014 of the ANRE President.

The document was submitted for public consultation on ANRE website between 30 January 2017 and 8 February 2017.

Transgaz submitted proposals and comments on 8 February 2017.

- ✓ Draft order on the amendment of the regulation for the organization and conduct of the energy investigation activity for the operation of the wholesale energy market.

The document was submitted for public consultation on ANRE website between 13 February 2017 – 23 February 2017.

Transgaz submitted proposals and comments on 23 February 2017.

- ✓ Draft order on the amending and supplementing of the Methodology for establishing the unitary revenue related to the regulated supply activity carried out in a regulatory year, and on the approval of the regulated gas tariffs, starting with 2016, approved by the Order no. 182/2015 of the ANRE President.

The document was submitted for public consultation on ANRE website between 17 February 2017 – 27 February 2017.

No proposals and comments were centralized for this document.

The document was published in Official Journal 217/30.03.2017.

▪ **Managing the authorization/re-authorization activity of the technical personnel of the company which is/will be licensed plumber in the field of natural gas**

- ✓ Drawing up and sending to ANRE 40 files to support the licensed plumber exam for obtaining 43 permits.
- ✓ Permanent updating of the general database on the status of licensed plumbers in the company.

▪ **Authorization and licensing in the field of natural gas**

- ✓ Granting PPI and PT licenses:
  - The licenses were granted by the Decision no. 41/16.01.2017 of ANRE President and are valid until 15 January 2022
- ✓ Granting the modification of License no. 1933/2013 for the purpose of updating the technical characteristics of the objectives on 31 December 2015:
  - The modification of the license was granted by Decision no. 464/28.03.2017 of ANRE President.

▪ **Negotiation of the interconnection agreements with Ukrtransgaz for the interconnection points between the Romanian and Ukrainian transmission systems:**

- ✓ Conclusion of Addendum no. 2 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;
- ✓ Conclusion of Addendum no. 3 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;
- ✓ Conclusion of Addendum no. 4 for the extension of the non-application term of the commercial rules at the Isaccea 1 interconnection point;

- ✓ Establishment by Decision 568/14.06.2017 of the Transgaz Working Group for the negotiation of the interconnection agreements for Medieșu Aurit, Isaccea, Isaccea 2, 3 and Negru Vodă 2, 3 interconnection points and ensuring the conditions for capacity trading and allocation in accordance with the applicable European regulatory framework;
- ✓ Launching the public consultation for the commercial rules and communication procedures in the case of exceptional events for the preparation and negotiation of the Interconnection Agreement for Medieșu Aurit - Tekovo IP by the Working Group nominated by Decision no. 568/14.06.2017;
- ✓ Taking the necessary actions for the organization of the public consultation process regarding the draft Interconnection Agreement for Isaccea 2-3 VIP.
- **Negotiation of the interconnection agreements with Bulgartransgaz for the interconnection points between the Romanian and Ukrainian transmission systems:**
  - ✓ Conclusion of Addendum no. 2 on the extension of the gas day (6:00 - 6:00 UTC of the next day during winter and 5:00 - 5:00 UTC the next day during summer) at the Negru Vodă 1 interconnection point;
  - ✓ Taking the necessary actions for the organization of the public consultation process regarding the draft of the Interconnection Agreement for PIV Negru Vodă 2-3.
- **Preparing the necessary regulatory framework for the trading of the transmission capacity of the Transit 1 and Transit 2 pipelines in accordance with the European regulatory framework, starting with the 2016/2017 gas year;**
- **Supplementation of the RBP platform services procured based on the Cooperation and TSO Membership Agreement no. 570/ 09.11.2015, concluded between Transgaz and FGSZ Zrt., Hungary;**
- **Implementation of Regulation (EU) No. 1227/2011 on the integrity and transparency of the wholesale energy market, and Regulation (EU) No. 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011, in cooperation with the Operating, ITC and SCADA divisions;**
  - ✓ Conclusion of Addendum no. 1 to the TSO Cooperation and Membership Agreement concluded with the FGSZ, for FGSZ's REMIT reporting on behalf of Transgaz, of the capacities allocated by Transgaz through the RBP platform;
  - ✓ Successful registration of SNTGN Transgaz SA as Registered Reporting Mechanism (RRM) and obtaining the ARIS certification giving the possibility to report data under the REMIT obligations;
  - ✓ Transmission to ARIS of partial data, such as transmission contract data.
- **Participation in the discussions of the working group on the implementation of obligations under the new Regulation (EU), which will replace Regulation (EU) no. 994/2010 on measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC**
  - ✓ Participation in the working group coordinated by ENTSOG in order to submit proposals to the EC for amending Regulation no. 994/2010
  - ✓ Identification and inventory of Transgaz's requirements and obligations regarding the provision of gas supply;

- ✓ Participation in work exercises organized by ENTSOG at the EU level, aiming to train natural gas transmission operators for cooperation in emergency situations.
- **Implementation of the provisions of Regulation (EU) 2017/459 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) 984/2013 (new CAM-NC)**
  - ✓ Identification and inventory of TSO requirements / obligations;
  - ✓ Drawing up an action plan for the implementation of the requirements;
  - ✓ Setting deadlines and responsibilities for the action plan;
  - ✓ Implementation of the first stage of the action plan, namely the organization of the first incremental capacity process, by publishing an announcement on *Market demand assessment for incremental capacity at the interconnection points* (available on our website in the Media - Announcements section);
  - ✓ Preparing the next stage of the action plan (preparation of the *Joint Market Demand Assessment Reports - RECP*) by organizing a working meeting on 3 July 2017 in which DRL submitted to the Commercial Department the documents and correspondence between Transgaz and the neighbouring TSOs (Bulgartransgaz, FGSZ) from the period of the non-binding market capacity demands collection, with the purpose of preparing and publishing of RECPs by the DC.
- **Implementation of the provisions of Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas (TAR-NC)**
  - ✓ Identification and inventory of TSO requirements / obligations;
  - ✓ Drawing up an action plan for the implementation of the requirements;
  - ✓ Setting deadlines and responsibilities for the action plan;
- **Implementation of guidelines on procedures for capacity congestion management in case of congestion at the interconnection points (CMP GL)**
  - ✓ Initiation of preparation of a draft order on the establishment of the capacity congestion management procedures in the case of contractual congestion at the interconnection points between the Romanian National Gas Transmission System, the Isaccea - Negru Voda transmission pipelines and the Gas Transmission Systems of the European Member States neighbouring Romania;
- **Actions related to the cooperation with ENTSOG**
  - ✓ Active participation of the DRL Director, as Transgaz's representative, in the ENTSOG decision-making process within the board of directors and the general meeting of the organization;
  - ✓ Preparation and transmission of opinions requested from the members by the coordinators of ENTSOG working groups;
  - ✓ Participation in the Workshops for the implementation of the new CAM-NC and TAR-NC;
  - ✓ Participation in the preparation of the Regional Investment Plans for the Central Eastern European Regions, the Southern Corridor respectively;
  - ✓ Engaging in activities related to the promotion of relevant Transgaz projects on the 3rd list of projects of common interest;
  - ✓ Collection and transmission of data requested by the European Commission's consultants with regard to the possible investments in the gas transmission infrastructure in Romania, between 2020 and 2030.
  - ✓ Collection and submission of data for the preparation by ENTSOG of the *Annual Perspective on Natural Gas Supply for the winter 2017-2018*, according to the provisions of Regulation (EC) No. 715/2009;



- ✓ Participation in the Workshop on the Harmonization of Data Communication of Natural Gas Transmission at EU level;
- ✓ Participation in the workshop organized by the ENTSOG Working Group on the balancing of the natural gas transmission system.

DRL representatives participated in the preparation of the organizational and regulatory framework necessary for the commercialization of the transmission capacities which will be achieved through the implementation of projects for the development of the natural gas transmission infrastructure in Romania, both at cross-border interconnection points (the ROHUAT transmission corridor), as well as other types of NTS points (development projects for taking over Black Sea gas).

DRL representatives participated in the preparation and transmission of the response to the first request for information addressed to Transgaz by DG Competition within the investigation process initiated for the alleged abuse of dominant position with the purpose of preventing gas exports.

### ***3.1.2 The activity of domestic natural gas transmission***

From **1 October 2015 to 30 September 2016**, the regulated tariffs for the provision of natural gas transmission services through NTS were set based on ANRE Order No. 136/14 August 2015 on the approval of the regulated revenue, total revenue and transmission tariffs for gas transmission through the National Transmission System.

Between **1 October 2016 and 31 December 2016** the regulated tariffs for gas transmission through the NTS were established on the basis of **ANRE Order no. 39/10 August 2016** on the approval of the regulated income, the total income and the transmission tariffs for gas transmission through the National Transmission System.

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

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

Through the transmission services contracted in semester I 2017, the total amount of **3.702.144,302426 MWh (6.860.171,334 thousand cm)** was transmitted to:

	MWh	thousand cm	%
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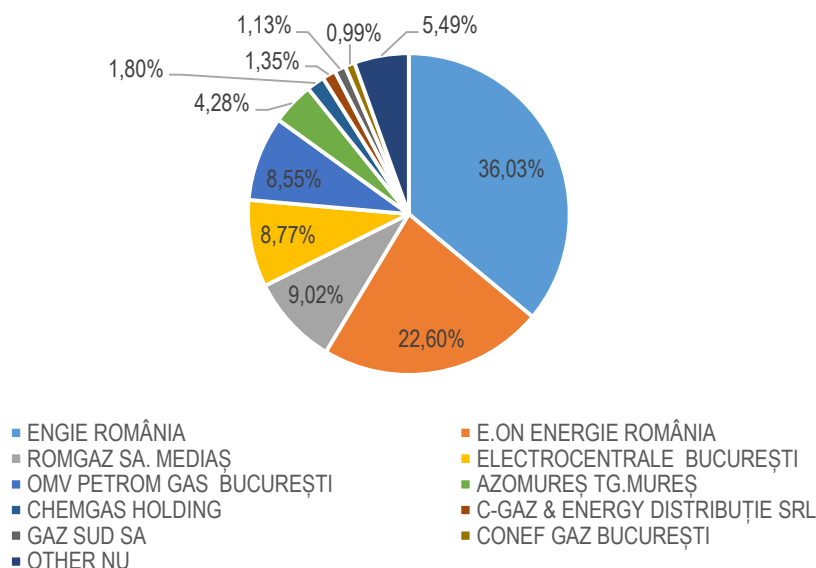
Distribution:	45.914.659,365654	4.263.277,169	62,15
Direct consumers	19.781.080,265806	1.851.557,250	26,99
Storage:	7.934.794,138434	738.825,911	10,76
Export Csanadpalota	71.610,532532	6.511,004	0,1

The main beneficiaries of the domestic gas transmission service at **30 June 2017** are:

TABLE OF INVOICES for the semester 1 2017			
No	The main network users	INVOICED VALUE EXCLUSIVE OF VAT (LEI)	%
1.	ENGIE ROMÂNIA	332.493.727,91	36,03%
2.	E.ON ENERGIE ROMÂNIA	208.529.703,96	22,60%
3.	ROMGAZ MEDIAȘ	83.232.391,18	9,02%
4.	ELECTROCENTRALE BUCUREȘTI	80.960.280,61	8,77%
5.	OMV PETROM GAS BUCUREȘTI	78.946.265,66	8,55%
6.	AZOMUREȘ TG. MUREȘ	39.496.094,42	4,28%
7.	CHEMGAS HOLDING	16.601.495,82	1,80%
8.	C-GAZ & ENERGY DISTRIBUȚIE SRL	12.432.203,44	1,35%
9.	GAZ SUD SA	10.391.523,52	1,13%
10	CONEF GAZ BUCUREȘTI	9.104.518,52	0,99%
11	Other NU	50.630.356,20	5,49%
	<b>TOTAL</b>	<b>922.818.561,25</b>	<b>100,00%</b>

*Table 19- The main users of the NTS at 30 June 2017*

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



**Chart 26 - The share of the main users of the NTS in semester I 2017**

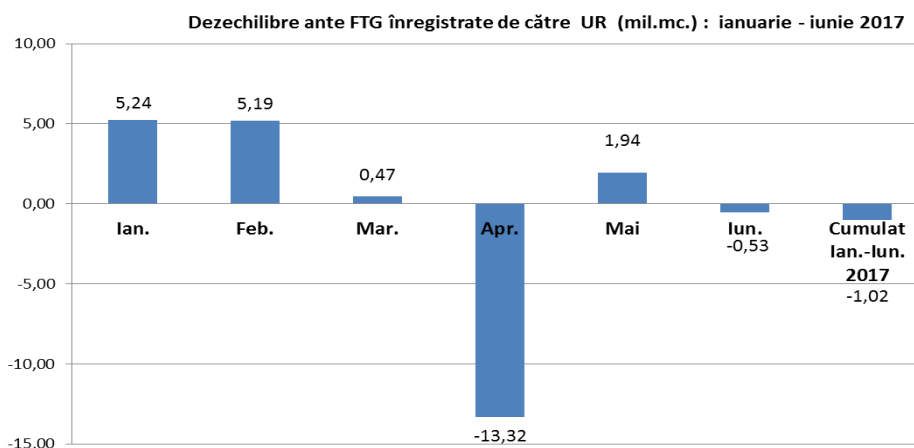
In semester 1 2017 the commercial activity consisted in:

1. Daily and monthly calculation and monitoring of technological consumption in the NTS and regional offices and its maintaining at the percentage approved, with regional office delimitation between the technological nodes connected to the SCADA system.
2. Making annual, monthly and daily auctions for daily, monthly and quarterly capacity product allocation at the Csanádpalota interconnection point for February-July of the current gas year, in accordance with the Auction Calendar agreed with FGSZ Zrt. under the TSO Cooperation and Membership Agreement, following the publication of ANRE Order 88/22.11.2016.
3. Making annual, monthly and daily auctions for daily, monthly, quarterly and annually capacity product allocation at the points located on the Isaccea 1 – Negru Vodă 1 pipeline for February-July of the current gas year, in accordance with the Auction Calendar agreed with FGSZ Zrt. under the TSO Cooperation and Membership Agreement, following the publication of ANRE Order 34 /19.07.2016.
4. Making annual, monthly and daily auctions for daily and monthly capacity product allocation at the Ruse-Giurgiu interconnection point for February-July of the gas year 2016-2017, according to the Auction Calendar published by ENTSOG, following the publication of ANRE Order 88 /22.11.2016.
5. In the semester I 2017, 184 long-term (annual) and short-term (quarterly, monthly, daily) gas transmission contracts for NTS entry/exit points were concluded and signed with network users.
6. As part of the Working Group for the revision of the Network Code established under Decision 187/27.02.2017, in order to create the VTP entry-exit market model, the Commercial Unit participated in the adaptation of the section regarding the access to the entry – exit system, according to EU regulations and the best practices in the developed markets of the member states.
7. Under the renewal of the Agreements on the establishment of the technological parameters of the National Gas Transmission System physical entry/exit points, according to Order 79/30.10.2014 of the ANRE President, 70% of the agreements were signed and returned to producers, distribution operators, storage operators and direct consumers.



8. The issuance, management and publication of national and international EIC codes on Transgaz's website at Client information < Transgaz roel in the gas market < EIC Codes <http://www.transgaz.ro/ro/content/coduri-eic>, for all participants on the Romanian gas market, for REMIT reporting (Regulation (EU) 1227/2011 on wholesale energy market integrity and transparency) on ARIS platform – for the monitoring of the European energy market.
9. Actions regarding the **fulfilling of the transparency requirements** under Regulation (EC) 715 /2009:
  - Publication of daily commercial information by relevant points of the Transit I, II and III pipelines;
  - Publication of trades notified at the VTP (Nomination) according to ANRE Order 160/2015, according to the Network Code, Art.102 (1) paragraph (6) at: <http://www.transgaz.ro/ro/content/tranzactii-notificate-pvt>;
  - Publication of NU imbalances calculated according to ANRE Order 160/2015 published at: <http://www.transgaz.ro/ro/informa%C8%9Bii-clien%C8%9Bi/platforma-gmois>;
  - Publication of TSO Balancing Activities between 01.01.2017 and 30.06.2017, according to the updated Network Code, at: <http://new.transgaz.ro/ro/content/actiuni-echilibrare-ots>;
  - Publication of the average weighted price calculated according to ANRE Order 160/2015 for 01.01.2017 – 30.06.2017 for the financial settlement of the daily imbalances of each NU after the GTF, posted at: <http://new.transgaz.ro/ro/informa%C8%9Bii-clien%C8%9Bi/platforma-gmois>.
10. Calculation of final daily imbalances and monitoring main NU in this regard, according to the Network Code, approved by Order 16/2013 of the ANRE President, supplemented by ANRE Order 160/26.11.2015.

#### Ante GTF imbalances of the NU (mil.cm): January – June 2017



11. Calculation and invoicing of final daily deficit imbalances of the NU according to the Network Code approved by Order 16/2013 of the ANRE President, supplemented by ANRE Order 160/26.11.2015. In semester I 2017 232 invoices were issued amounting to a total RON 121.262.810,79, VAT included. 156 invoices were received as surplus amounting to a total RON 89.956.971,93, VAT included.
12. Monthly calculation and invoicing of the contracted gas transmission services and of the booked capacity surplus of the NU, according tot the Network Code approved by Order 16/2013 of the ANRE President, as further amended and supplemented:

- Gas transmission services – in semester I 2017 633 invoices were issued amounting to a total RON 755.476.146,13 without the VAT, meaning RON 898.814.170,52 without the VAT.
- Daily additional capacity surplus calculated according to Art.51 of the Network Code – in semester I 2017 85 invoices were issued amounting to a total RON 35.146.111,31 without the VAT, meaning RON 41.823.840,90 without the VAT.
- Booked capacity surplus calculated according to Art. 99 of the Network Code – in semester I 2017 241 invoices were issued amounting to a total RON 132.196.303, without the VAT, meaning RON 157.291.320,25 lei without the VAT.

For covering NTS loss and own technological consumption, in semester I 2017 Transgaz procured 50.718 thousand cm of gas.

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

In semester I 2017, as a result of the measures taken during the operation activity, the **National Gas Dispatching Centre** performed a series of activities as follows:

- the analysis of 22 solutions for third party power supplying from the NTS in terms of available transmission capacity and the pressure regime to be achieved without jeopardizing the NTS integrity;
- preparation of 23 access files to NTS for capacity requests for which the access conditions to NTS were met;
- checking of 10 design themes and technical sheets prepared by the Maintenance Operation Division;
- checking and approving 277 manoeuvre sheets prepared by the regional offices;
- checking and approving 9 work programmes regarding the internal cleaning and inspection of the main pipelines, prepared by the Maintenance Operation Division;
- continuous updating NTS topology and NTS's SIMONE model, taking into account changes in the transmission infrastructure in order to preserve the accuracy of LP-NTS calculations; there were received 37 topology update requests, and all of them were completed;
- keeping records of third party works regarding the NTS for pipeline relocations/deviations;
- publishing on the TRANSGAZ website of the limitation and interruption of the transmission services and informing the network users about such limitation and interruption by electronic mail, in accordance with the requirements of the Network Code;
- updating the calculation of N-1 formula for Romania;
- determination and analysis of transmission regimes necessary to establish a safe and economical operation of NTS transmission directions during the cold season and warm season using the SIMONE program;
- participation in meetings of the interdisciplinary working group for the implementation of Black Sea PMU projects and analysis of the relevant problems within its competence;

- managing the database (electronically) including the technological schemes of the NTS and its related facilities, as well as checking the updating of these schemes by the regional offices;
- analysing the calculation of natural gas loss related to scheduled and unscheduled works (including technical accidents caused by third parties) regarding the NTS and checking the records of the technological consumption determined on the basis of the reports drawn up by the regional offices; for a more efficient verification the harmonization of these reports is in progress;
- the unitary use of the <Determination Methodology and the software for calculating the technological consumptions and natural gas loss related to the execution of the works and the technical damages regarding the NTS> at Transgaz level;
- daily determination of the LP on the SNT, at even hours, by the SIMONE hydraulic calculation program, based on the pressures and temperatures of the NTS gas for the evaluation of NTS compliance with the set operating limits, including the LP at 06 hour used to close the balancing commercial equation of NTS); publishing of LP on the Transgaz website;
- continuous updating of the quality zones according to the changes in the NTS;
- starting the preparation of the procedure for determining the LP on the NTS;
- starting the preparation of the NTS dispatching procedure;
- daily operational information on the NTS status;
- short-term forecasts, 2 and 4 days respectively, of the consumption of gas provided by NTS;
- follow up of the NTS maintenance works according to the manoeuvring sheets.

### 3.1.3 International natural gas transmission

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

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



**Fig.2- International gas transmission pipelines**

Along the corridor mentioned there are 3 interconnections with the similar Ukraine international gas transmission system, which undercrosses Danube river with 5 pipelines, and 3 interconnections with the international gas transmission pipelines in Bulgaria at south of Negru Vodă.

The quantity of gas transmitted through the international transmission pipelines in semester I 2017 amounts to **772.153,890 thousand cm (106.469.709,867 Mwh)**.

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

- The international gas transmission pipeline is in the UA-RO-BG (LINE I) direction, with the following features: DN 1000, L = 183,5 km and technical capacity = 6,1 bcm/year;
- Two international gas transmission pipelines in the UA-RO-BG-TK-GR direction (LINE II and LINE III) each having the following features: DN 1200, L = 186 km and technical capacity = 9,6 bscm/year (LINE II) and DN 1200, L=183,5 km and 9,7 bscm/year (LINE III).

Starting with gas year 2016 – 2017, T1 pipeline capacity allocation is by auction, according to the applicable European regulations, the transmission contracts being according to ANRE Order 34/2016. Transmission through the T2 and T3 pipelines is not compliant with the European regulations on third party access, but with government agreements and contracts concluded with Gazprom Export. Setting the national regulatory framework for the T2 and T3 pipelines is a complex process, mainly because of factors beyond Transgaz.

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

In this respect, with the support of the European Commission, the discussions on the interconnection agreements for the Isaccea 2,3 and Negru Vodă 2,3 interconnection points will be resumed in 2017.

### **3.1.4 Other activities**

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

### **3.1.5 Evaluation of the provision of natural gas transmission service**

Transgaz is the only transmission system operator in Romania. In the table below is presented the evolution of the provision of domestic and international natural gas transmission services for semester I 2017 as compared to semester I 2016:

Specifications	Achieved Sem. I		Dynamics %
	2017	2016	
Revenue from the transmission activity			
- thousand RON	774.342	630.318	122,85
- MWh	73.670.134	62.987.973	116,96
- RON/MWh	10,51	10,01	105,04
- thousand cm	6.857.186	5.873.039	116,76
- RON/1000 cm	112,92	107,32	105,22

Revenue from the international transmission activity			
- thousand RON	174.643	160.728	108,66
Other operating revenue			
- thousand RON	31.492	789.423	39,65
<b>TOTAL OPERATING REVENUE before the balancing and the construction activity acc. to IFRIC12</b>	<b>980.477</b>	<b>870.468</b>	<b>112,64</b>

*Table 20- Evolution of revenue from domestic and international natural gas transmission in semester I 2017 vs. semester I 2016*

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

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

### Achievements - semester I 2017 versus achievements - semester I 2016

The situation of the financial results on 30 June 2017 as compared to results achieved in the similar period of year 2016 is as follows:

thousand RON			
Name	Achieved Sem I 2017	Achieved Sem I 2016	Changes
1	2	3	4=2/3x100-100
Operating revenue before the balancing and the construction activity acc. to IFRIC12	980.477	870.468	13%
Balancing revenue	76.692	22.012	248%
Revenue from the construction activity acc. to IFRIC12	17.532	33.671	-48%
Financial revenue	21.767	14.625	49%
Operating costs before the balancing and the construction activity acc. to IFRIC12	519.977	546.425	-5%
Balancing costs	71.913	20.948	243%
Cost of assets acc. to IFRIC12	17.532	33.671	-48%
Financial costs	8.672	2.921	197%
<b>GROSS PROFIT-total, of which:</b>	<b>478.375</b>	<b>336.810</b>	<b>42%</b>
· from operation	465.280	325.107	43%
· from the financial activity	13.095	11.703	12%
Tax on profit	<b>77.885</b>	<b>55.044</b>	41%
<b>NET PROFIT</b>	<b>400.491</b>	<b>281.767</b>	<b>42%</b>

*Table 21- Financial results in semester I 2017 vs financial results in semester I 2016*

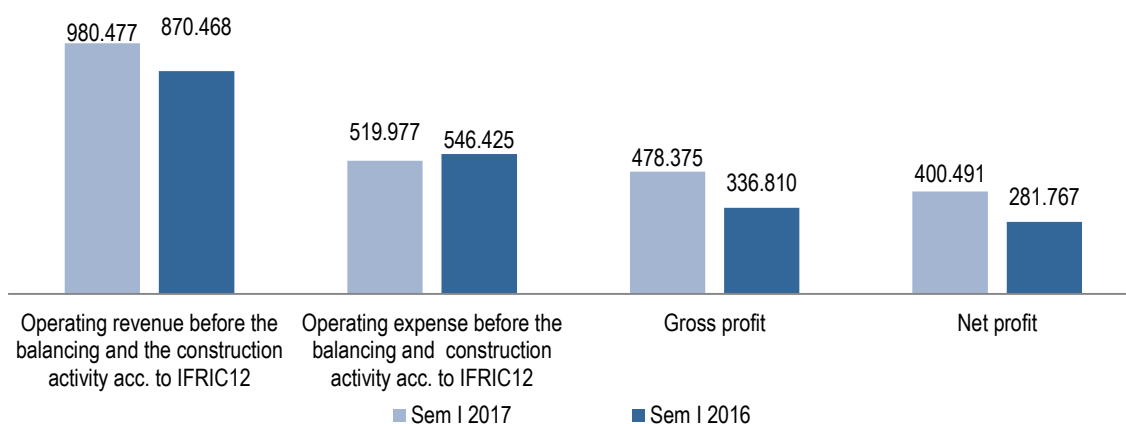


Chart 27- Financial results sem I 2017 vs sem I 2016 (thousand RON)

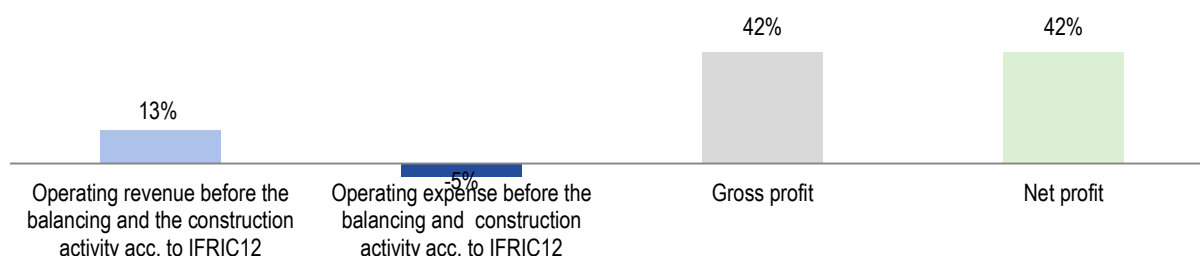


Chart 28- Financial results Sem I 2017 vs Sem I 2016 (%)

**Operating revenue before the balancing and the construction activity according to IFRIC12 increased by 13% as compared to the corresponding period of semester I 2016, which is higher by RON 110.009 thousand.**

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

- capacity booking revenue higher by RON 106.469 thousand due to :
  - the capacity booking tariff higher by Ron 0.85 /MWh (higher booked volumes over the short term), with a positive influence of Ron 165.478 thousand;
  - booked capacities lower by 35.092.656 MWh, with a negative influence of Ron 59,009 thousand.
- Revenue from the commodity component higher by Ron 144,025 thousand due to:
  - Higher amount of capacity transmitted as compared to semester I 2016 by 10,682,161 MWh/984,147 thousand cm (▲17%), detailed by category of consumers as follows:

		Sem I 2017	Sem I 2016	Differences
Quantity transmitted for direct consumers	MWh	27.755.475	22.507.108	5.248.367
	thousand m <sup>3</sup>	2.593.909	2.100.774	493.135
Quantity transmitted for distribution	MWh	45.914.659	40.480.865	5.433.794
	thousand m <sup>3</sup>	4.263.277	3.772.265	491.012
Total	MWh	73.670.134	62.987.973	10.682.161



	thousand m <sup>3</sup>	6.857.186	5.873.039	984.147
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\*) transmitted quantity for which transmission services are invoiced

**Table 22- Amount of gas invoiced - sem I 2017 vs sem I 2016**

- Revenue from international gas transmission higher by Ron 13,915 thousand due to the foreign exchange rates changes regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- Other operating revenue lower by Ron 47,930 thousand;
- Revenue from the balancing activity increased by Ron 54,680 thousand due to:
  - a quantity higher by 716,965 MWh with a positive influence of Ron 66,904 thousand;
  - a trading price lower by Ron 12.83/MWh, with a negative influence of Ron 12,224 thousand.
- Revenue from the construction activity lower by Ron 16,139 thousand, registered compliant with IFRIC 12, according to which revenue and expense related to the construction services or to the services for the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged according to IAS 11, Construction Contracts.
- Financial revenue with a positive influence of Ron **7,143** thousand due to the foreign exchange gain.

Operating costs before the balancing and the construction activity according to IFRIC12 decreased by 5% as compared to semester I 2016, which is higher by RON 26,449 thousand.

The Company made savings of RON 54,812 thousand, mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss decreased by RON 16.204 thousand due to the following factors:
  - gas amount for technological consumption lower by 192,124 MWh/15,094 thousand cubic meters (▼27%), with a positive influence of Ron 13,937 thousand;
  - average purchase price for semester I 2017 lower by RON 4.30/MWh as compared to semester I 2016, with a positive influence of Ron 2,267 thousand;
- maintenance and transmission: Ron 2,769 thousand;
- cost of provision for risks and expenses: Ron 25,100 thousand;
- other operating expense: Ron 13,927 thousand.

An expense surplus of RON 28,363 thousand was recorded mainly in relation to the following cost elements:

- cost of royalty: Ron 15,798 thousand;
- cost of taxes and other tax duties: Ron 4,520 thousand;
- cost of depreciation: Ron 3,485 thousand;
- cost of personnel: Ron 4,559 thousand.

The financial cost is higher by RON 5,751 thousand based on the foreign exchange gain.

As compared to the gross profit obtained semester I 2016 the gross profit in semester I 2017 increased by 42%, which is higher by RON 141,565 thousand.



## Achievements – semester I 2017 versus Budget – semester I 2017

The main financial and economic indicators obtained in semester I 2016, compared to revenue and expense budget approved by OGMS Resolution 1/27 April 2017 are presented in the following table:

thousand RON			
Name	REB Sem. I 2017	Obtained Sem. I 2017	Changes
1	2	3	4=3/2x100-100
Operating revenue before the balancing and the construction activity, according to IFRIC12	828.605	980.477	18%
Balancing revenue	42.312	76.692	81%
Revenue from the construction activity, according to IFRIC12	110.286	17.532	-84%
Financial revenue	16.038	21.767	36%
Operating costs before the construction activity, according to IFRIC12	588.859	519.977	-12%
Balancing costs	42.312	71.913	70%
Cost of assets built according to IFRIC12	110.286	17.532	-84%
Financial costs	4.318	8.672	101%
<b>GROSS PROFIT</b> , of which:	<b>251.466</b>	<b>478.375</b>	<b>90%</b>
• from operation	239.746	465.280	94%
• from the financial activity	11.720	13.095	12%
<b>Tax on profit</b>	<b>37.695</b>	<b>77.885</b>	<b>107%</b>
<b>NET PROFIT</b>	<b>213.771</b>	<b>400.491</b>	<b>87%</b>

Table 23- Financial results – sem. I 2016 vs Budget – sem. I 2017

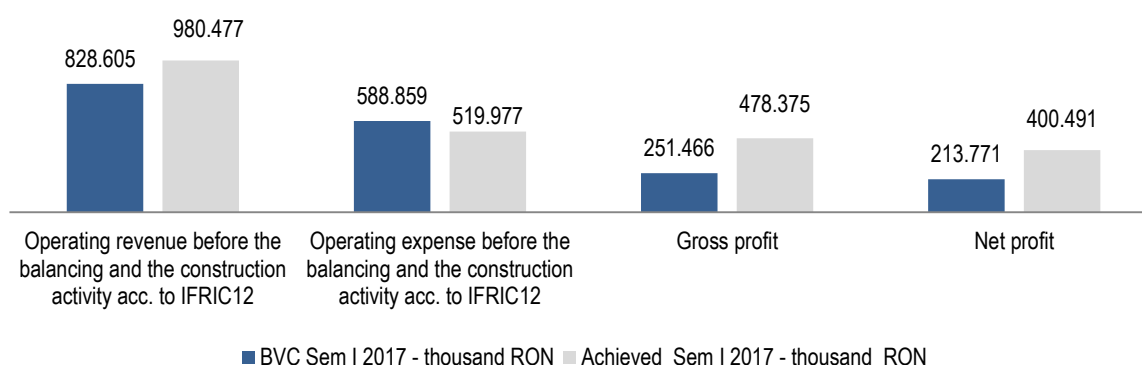
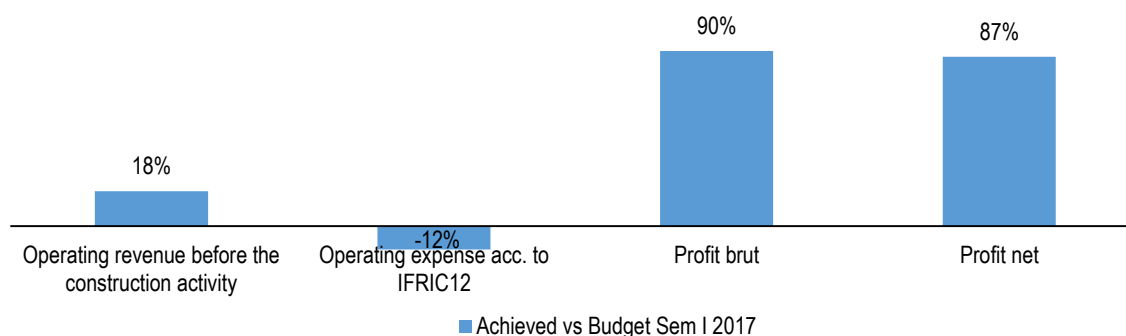


Chart 29 – Achieved vs. Budget sem. I 2017 (thousand RON)



**Chart 30- Achieved vs. Budget sem. I 2017 (%)**

Operating revenue before the balancing and the construction activity according to IFRIC 12 are higher by RON 151,872 thousand as compared to the REB. The revenue was influenced by the following factors:

- The gas transmission revenue increased by RON 148,246 thousand, due to:
  - Booked capacity higher by 22,739,775 MWh with a positive influence Ron 109,673 thousand, mainly due to the invoicing of the surplus of capacity booked for Q I 2017, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
  - the increasing of the quantity of transmitted gas by 10,238,308 MWh/901,146 thousand m<sup>3</sup> (▲ 16%) as compared to the plan, with a positive influence of RON 38,573 thousand.
- international gas transmission revenue higher by RON 11,375 thousand due to the changes in the foreign currency of the contracts and the application of ANRE 34/19 July 2016;
- revenue from the balancing activity higher by RON 34,380 thousand based on the following factors:
  - quantity higher by 472,539 MWh with a positive influence of Ron 41.627 thousand;
  - trading price lower by RON 7.60 /MWh, with a negative influence of RON 7,246 thousand;
- other operating revenue lower by RON 7,748 thousand as compared to the REB;

The financial revenue increased by RON 6,943 thousand as compared to the REB due to the foreign exchange gains.

Operating costs before the balancing and the construction activity, according to IFRIC12 decreased by 12% as compared to the plan approved, which is lower by RON cu 68,882 thousand compared to the REB.

Savings of RON 87,106 thousand were obtained mainly regarding the following cost elements:

- transmission system technological gas consumption and loss: RON 6,801 thousand, due to the following factors:
  - average purchase price obtained lower by RON 3.02 /MWh as compared to the REB, with a positive influence of RON 1,596 thousand;

- amount of gas for technological consumption lower by 73,024 MWh/6,136 thousand m<sup>3</sup> (▼19 %) as compared to the plan, with a positive influence of RON 5,205 thousand.
- cost of auxiliary materials and other material costs: RON 24,149 thousand;
- cost of personnel: RON 22,612 thousand;
- maintenance and transmission: RON 32,843 thousand;
- depreciation: RON 700 thousand.

A surplus of Ron 18,224 thousand, mainly to the following cost elements:

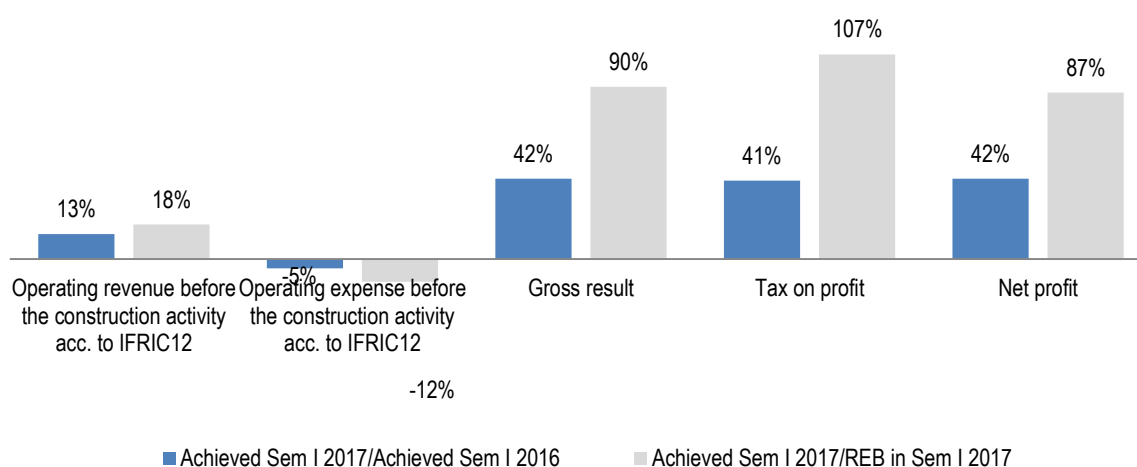
- NTS concession royalty: RON 15,962 thousand;
- tax on monopoly: RON 3,148 thousand;

The financial costs are higher by RON 4,354 thousand than budgeted based on the foreign exchange loss.

The gross profit is higher by 90% as compared to the plan, being higher by RON 226,909 thousand as compared to the REB, and the net profit increased by 87% as compared to the plan, which is higher by RON 186,720 thousand as compared to the REB.

	Achieved in sem. I 2017 vs Achieved in sem. I 2016	Achieved in sem. I 2017 vs REB - sem. I 2017
Operating revenue from the balancing and the construction activity acc. to IFRIC12	13%	18%
Operating expense before the balancing and the construction activity acc. to IFRIC12	-5%	-12%
Gross result	42%	90%
Tax on profit	41%	107%
Net profit	42%	87%

**Table 24– Achievements sem. I 2017 vs achievements sem. I 2016, REB in sem. I 2017 (%)**



**Chart 31 – Results of semester I 2017 vs. Results of semester I 2016, REB in semester I 2017**

### **3.1.6 Evaluation of the research and design activity**

The research and design division activity was carried out in semester I 2017 on two directions: design and scientific research.

#### **A. Design activity**

#### **Drawing up design works within the Design and Research Division**

In semester I 2017, 151 design works were performed within the division, out of which 11 works endorsed in Transgaz TEC, with a total value of the investment amounting to **RON 3.078.039.772**, as follows:

- 2 feasibility studies and 1 endorsement documentation for intervention works (DALI) having a value of RON 1.396.854.301;
  - 6 investment works having a value of RON 1.679.054.784;
  - 1 repair work having a value of RON 311.836;
  - 1 work for NTS access granting having a value of RON 1.818.851,

the rest of 140 works being in different development stages.

Moreover, the following were prepared and endorsed by Transgaz TEC in this period:

- 2 site orders for 2 works in execution, generated from the necessity to amend the designed solutions from objective reasons;
- 28 projects for the location of the odourisation facility of a total of 104 projects for installing odourisation facilities in execution, within the division.

Important works developed in this period:

- Feasibility study: the Black Sea shore – Podișor pipeline revised;
- Feasibility study regarding the extension of the NTS by building gas transmission pipeline from the Black Sea gas delivery point (the Vadu area)– to Transit 1 pipeline (the Gradina aria);
- Investment works endorsement documentation (DALI) - Safeguarding the gas transmission pipeline Ø20,5" Orăștie - Recaș (Vest I), aria Simeria Veche;
- Development on the Romanian territory of the National Gas Transmission System on the Bulgaria and Austria via Romania and Hungary corridor (BRUA) Phase 1: Batch 1,2,3,4;
- FEED: Securing the 8 "Ocna Mureș - Aiud transmission pipeline, Decea area;
- FEED: Câmpulung Moldovenesc - Vatra Dornei gas transmission pipeline, revision 1, Stage I, L=9,276 km, Câmpulung Moldovenesc - Pojorâta section;
- FEED: Connection and ASPHADIF Salva MRS;

Important works under development:

- Pre-feasibility study: Interconnection of the Jupa compressor station to the West I and West II gas pipelines;
- Feasibility study: Interconnection of the national transmission system with the international system and reverse flow at the Isaccea GMS;
- Feasibility study - Modernization of gas transmission infrastructure in NW Romania;
- FEED – NTS developments in the North - East of Romania for enhancing gas supply to the area and ensuring transmission capacities to the Republic of Moldova;

- FEED regarding the Black Sea shore – Podișor pipeline;
- FEED: Extension of NTS through the construction of a gas transmission pipeline from the Black Sea gas take over point (Vadu area) - to the transit 1 pipeline (Gradina area);
- Reverse flow Ukraine – necessary modifications to be executed in GMS Isaccea II in order to deliver gas to Ukraine;
- Reverse flow Bulgaria - Interconnection of NTS with the T1 gas transit pipeline at Beidaud for supplying gas to Bulgaria in emergency situations;
- FEED: Gas transmission pipeline for gas supply to the localities in the northern area of Prahova County;
- FEED regarding: Ø20" Albești-Urziceni pipeline repair following pigging.
- FEED: Ø 12" Negru Vodă - Techirghiol - Constanța gas transmission pipeline (Pecineaga - Techirghiol section) pipeline route diversion;
- FEED: Repair of Dn 1200 Isaccea - Negru Vodă pipeline, Transit 3, following PIG inspection;
- FEED: Installation of a pig receiving trap and preparation for Ø 20" Sărmășel Ceanu Mare Cluj I pipeline change into a piggable pipeline.

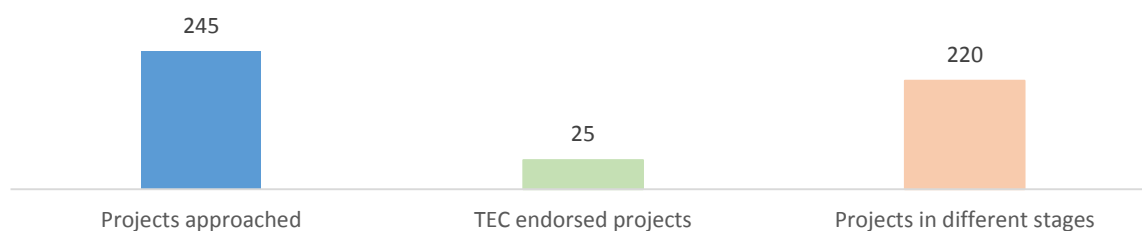
Of the 10 design units 4 design - research (APC): APC1, APC3, APC4, APC 8B in collaboration with design units in the electrical domain and with design unit for constructions, prepare strategic projects:

- Development of the Romanian Gas Transmission System along the Bulgaria - Austria - Romania - Hungary Route (BRUA);
- The Black Sea shore – Podișor pipeline;
- NTS developments in the North - East of Romania for enhancing gas supply to the area and ensuring transmission capacities to the Republic of Moldova.
- NTS extension by building gas transmission pipeline from Black Sea taking over point (the Vadu area) to the Transit 1 pipeline (the Gradina zone);
- NTS interconnection with the gas international transmission system and reverse flow at GSM Isaccea.

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

Out of 94 design works in progress in semester I 2017, 14 design works were endorsed by the TEC with a value of the investment of **RON 65.773.225**.

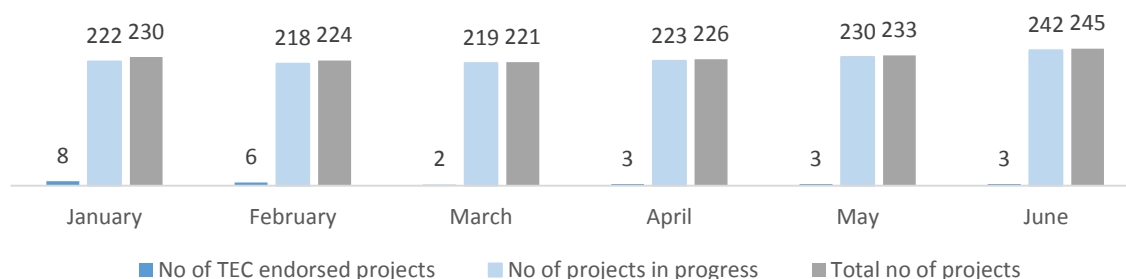
In semester I 2017, a total number of 245 design works were executed, of which 25 works were endorsed by the TEC, with a total investment value of **RON 3.143.812.997** (without the projects regarding the location of odorisation facilities).



**Chart 32– Number of design works approached and endorsed in TEC Transgaz in semester I 2017**

The evolution of the number of design works approached and endorsed in the TEC in semester I 2017 is as follows:

	January	February	March	April	May	June
No. of TEC endorsed projects	8	6	2	3	3	3
No. of projects in progress	222	218	219	223	230	242
<b>Total no. of projects</b>	<b>230</b>	<b>224</b>	<b>221</b>	<b>226</b>	<b>233</b>	<b>245</b>



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

	Semester I	
	2017	2016
No. of TEC projects endorsed	25	53
No. of projects in progress	220	193
<b>Total no. of projects</b>	<b>245</b>	<b>246</b>

### **B. The scientific research activity**

The scientific research activity was carried out according to the ***Scientific Research, Technological Innovation and Standardization Plan for 2017***. It includes 10 research themes, out of which 9 were carried out from 2016.

During semester I 2016, the TEC endorsed last 3 stages of research work, being recorded achievements amounting to a total of RON 31.300.

### **C. Other activities within the division:**

- preparation of the technical specifications necessary for concluding framework agreements, subsequent contracts and other contracts for design work such as:

geotechnical, hydrological studies, railway undercrossing, OSPA studies, archaeological services and others;

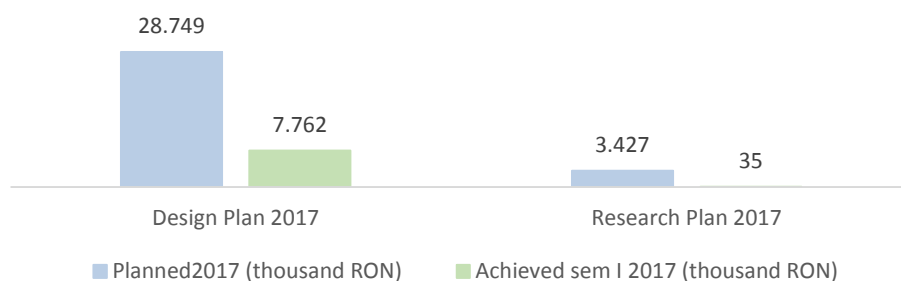
- participation in evaluation of bids for the procurement of services and works for projects developed within the department and for those developed by third parties;
- participation with the division staff for the BRUA project at the evaluation of bids on the procurement of pipes, bents, taps, electro-insulating joints and compressors for the three compressor stations;
- verification/issuing of point of view for projects developed by third companies;
- technical assistance for the works under execution;
- preparation of 2 risk analysis for the projects in progress prepared by the third party firms;
- preparation and monitoring of achievement of design and research plans of Transgaz.

#### **D. Achievement of the designs and research plans**

For the **Transgaz 2017 Design Plan** it was budgeted the amount of RON **36.542.799** lei, of which actual design of RON **28.749.299**. The difference between total and the actual design is guarantees for removal of land from farm-use classification. At the end of semester I 2017 the actual designing was **27%** achieved.

**The Transgaz 2017 Research Plan** has a budgeted value of RON **3.427.300**.

In semester I 2017 was **1%** achieved.



**Chart 34– Achievements of Research and Design Plan– sem. I 2017**



**Chart 35– Achievement of Research and Design Plan sem. I 2017**

### ***3.1.7 Evaluation of the procurement activity***



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

At the substantiation of the **PAAS 2017 the necessary of works, products and services, were calculated** as they are contained in the **Repair, Rehabilitation and Maintenance Services Plan; Design Plan; the Research Plan, and the Plan for other services executed by third parties** as approved through the **BoA Resolution 49/20.12.2016 and the Modernization and Investment Development Plan, approved by BoA Resolution 1/12.01.2017.**

The plan contains **the entire contracts/frame agreements** that the National Gas Transmission Company Transgaz SA Medias intended to **award/conclude in 2017. The procedures started in 2016 which were not awarded/concluded** until the end of the year, **were included in the 2017 plan as in progress from the previous years..**

The total value of the **Annual Sectorial Acquisitions Plan (PASS) for 2017**, initially approved on 30.01.2017 was of **RON 3.060.351.866,56** out of which **RON 1.887.726.368,00** related to the investment Development of the Romanian Gas Transmission System along the **BULGARIA - ROMANIA - HUNGARY- AUSTRIA Route (PHASE 1)- (PAAS 2017 for BRUA –PHASE 1))**.

**Following the 6 rectifications/updates** of the Annual Sectorial Acquisitions Plan for 2017 that became necessary due to the revision of the execution programmes on which is based the substantiation of the R.E.B, **the total value of the Annual Sectorial Acquisitions Plan for 2016** became **RON 3.143.024.704,54** out of which **RON 1.257.947.978,55** for the Annual Sectorial Acquisitions Plan (PAAS 2017) and **RON 1.885.076.726,00** for the Annual Sectorial Acquisitions Plan for the investment Development of the Romanian Gas Transmission System along the **BULGARIA - ROMANIA - HUNGARY- AUSTRIA Route (PHASE 1) (PAAS 2017 for BRUA – PHASE1).**

#### **PROCUREMENT PROCEDURES:**

Based on the provisions of the P.A.A.S. 2017 (procedures section, updated) respectively from 524 active positions, upon the requests of the interested divisions/units/departments 217 procedures were initiated out of which 111 were finalized and 106 procedures are in progress, in different stages.

Additionally, 55 procedures are not initiated, with documentations at DASC, **and up to the total of active positions in the plan, 252 positions are not requested by the interested divisions/units/departments** (representing 48,09%).

From a physical perspective of the total number of procedures stipulated in the updated P.A.A.S., the execution percentage is of 21,18%, and from the value perspective the execution degree is of 8,27% (the achieved value in relation to the total estimated value). In percentage, the 55 procedures that are not initiated and are under development represent 10,50 % of the total positions in the plan.

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

Procedures summary (physical)		
<b>Total positions on 30.06.2017, of which:</b>	<b>524</b>	<b>% achievement from P.A.A.S (procedures sections)</b>
- started	106	20,23%
- executed	111	21,18%
- not started (under development at the DAPC)	55	10,50%
- not requested	252	48,09%

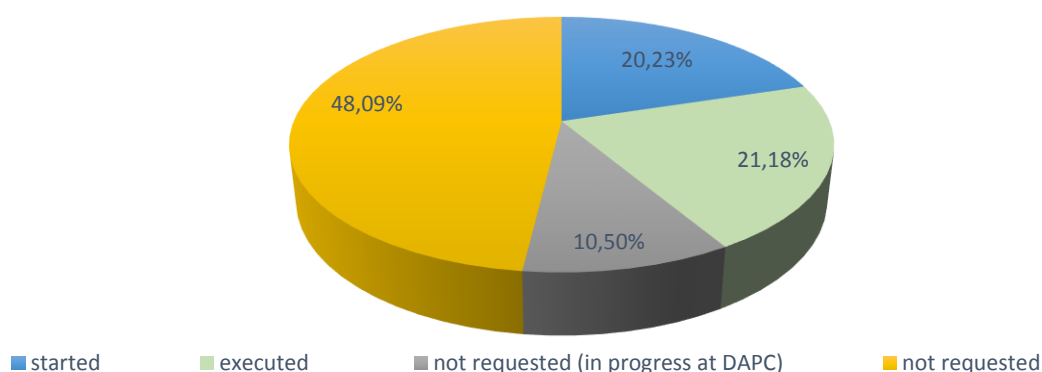


Chart 36 – Situation of procurement procedures – sem. I 2017

Procedures summary (value)-RON		
<b>Total value at 30.06.2017, of which:</b>	<b>1.240.808.014,45</b>	<b>% achievement from P.A.A.S (procedures sections)</b>
- started (estimated)	176.026.037,35	14,19%
- contacts concluded (achieved)	<b>102.626.625,59</b>	8,27%
- not started (under development at the DASC) (estimated)	137.426.739,79	11,08%
- not requested by the departments/units/divisions (estimated)	774.148.931,02	62,39%

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

For the 111 positions from PAAS, procedures section, the situation of the achievements as compared to the estimated ones is as follows:

No. of positions in PAAS	Estimated value	Achieved value	%
111	153.209.306,29	102.626.625,59	66,98

**The total situation of the contracts concluded** (including the subsequent contracts granted based on the frame agreements, according to Annex 1 to PAAS 2017) is presented in the following table:

Contract type	Total value of the contracts	Number of granted contracts/ frame agreements	Out of which, no. of subsequent contracts	Value of the subsequent contracts	PAAS Achievements
-	(RON without VAT)	-	-	(RON without VAT)	(RON without VAT)
Work contracts	59.174.818,72	19	0	0,00	59.174.818,72
Service contracts	27.449.607,24	81	31	9.434.531,95	18.015.075,29
Product contracts	27.952.106,58	40	4	2.515.375,00	25.436.731,58
<b>TOTAL CONTRACTS</b>	<b>114.576.532,54</b>	<b>140</b>	<b>35</b>	<b>11.949.906,95</b>	<b>102.626.625,59</b>

*Table 25 – Situation of the contracts concluded through procurement procedures in semester I 2017*

### **DIRECT PROCUREMENTS:**

Based on the provisions of the updated P.A.A.S., out of 376 active positions upon the requests of the interested divisions/units/departments 264 direct procurements were initiated out of which 223 direct procurements were finalized, and up to the total number of active positions of the plan 102 positions are not requested by the interested divisions/units/departments (representing 27,13%).

From the physical point of view of the total number of direct procurements from the approved plan the execution percentage of the direct procurements is of 59,31%, and the value is of 22,63% (achieved value in relation to the total estimated value).

Direct procurements summary (physical)		
<b>Total positions at 30.06.2017, of which:</b>	<b>376</b>	% achievement of direct procurements
- started	41	10,90%
- achieved	223	59,31%
- not started (entered by DASC)	10	2,66%
- not requested by the departments/unites/divisions	102	27,13%

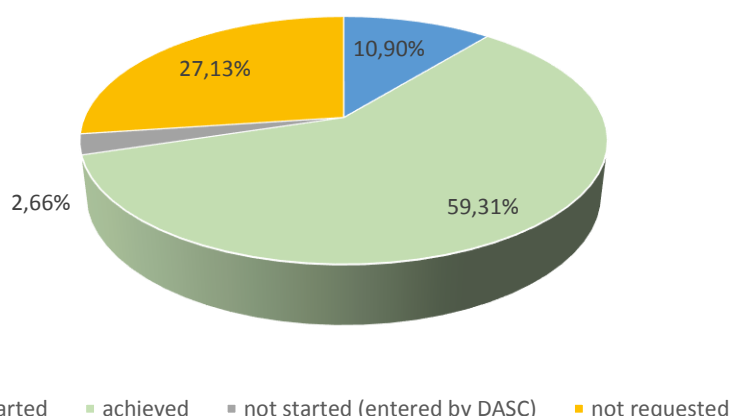


Chart 37 – Direct procurements – sem. I 2017

Direct purchases summary (value)		
<b>Total value 30.06.2017, of which:</b>	<b>17.139.964,09</b>	% achievement of direct procurements
- started (estimated)	1.870.894,41	10,92%
- contacts concluded (achieved)	<b>3.878.905,88</b>	22,63%
- not started (under development at the DASC) (estimated)	778.483,00	4,54%
- not requested by the departments/ units/ divisions (estimated)	7.746.190,12	45,19%

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

For the 223 positions in PAAS Direct Procurements, the situation of the achievements as compared to the estimated values, exclusively for these, is presented as follows:

No. positions from PAAS	Estimated value	Achieved value	%
223	6.744.396,57	3.878.905,88	57,51

### The total situation of the direct procurements

Based on the provisions of the updated P.A.A.S., and upon the requests of the interested divisions/units/departments, the situation of the direct procurements in semester I 2017 is as follows:

Contract type	Total value contracts/ Orders	No. of contracts concluded by the Procurement office	Value of contracts concluded by the Procurement office	No. of orders concluded by the Procurement office	Value of orders concluded by the Procurement office	Value of procurement not included in PASS-AD	No. of orders of the procurement Plan (Entities)	Value in procurement plan (Entities)	Value of achievements in PASS-AD
	(RON without VAT)		(RON without VAT)		(RON without VAT)	(RON without VAT)		(RON without VAT)	(RON without VAT)

Works	711.893,92	9	709.559,51	2	2.334,41	0,00	0	0,00	711.893,92
Services	1.567.198,99	49	1.460.006,23	19	107.192,76	0,00	0	0,00	1.567.198,99
Products	1.600.671,51	1	858,54	71	827.022,87	858,54	87	772.790,10	1.599.812,97
<b>TOTAL</b>	<b>3.879.764,42</b>	<b>59</b>	<b>2.170.424,28</b>	<b>92</b>	<b>936.550,04</b>	<b>858,54</b>	<b>87</b>	<b>772.790,10</b>	<b>3.878.905,88</b>

*Table 26 - Situation of the contracts concluded through direct procurements between 04.01-30.06.2016*

### **3.1.8 Procurement and disposals of assets**

Except for the procurement of assets necessary to carry out and develop the activity, as well as for the assets taken out of service under the law, the Company recorded no other similar operations in semester I 2017.

### **3.1.9 Internal and external audit of the Company's activity**

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

In the first semester of 2017 the Audit Department monitored:

- the reaching of the level of 100% implementation of the recommendations:
  - assessment of the necessity and opportunity of the space rental services according to contracts concluded with the SNG Mediaș Highschool and Mr. Mocanu Ovidiu;
  - evaluation of the work execution monitoring activity;
- implementation of 26 in-time recommendations, two off-track recommendations and one stand-by recommendation;
- entering the off - track stage of a total of 9 recommendations.

RECOMMENDATION IMPLEMENTATION DEVELOPMENT 2017

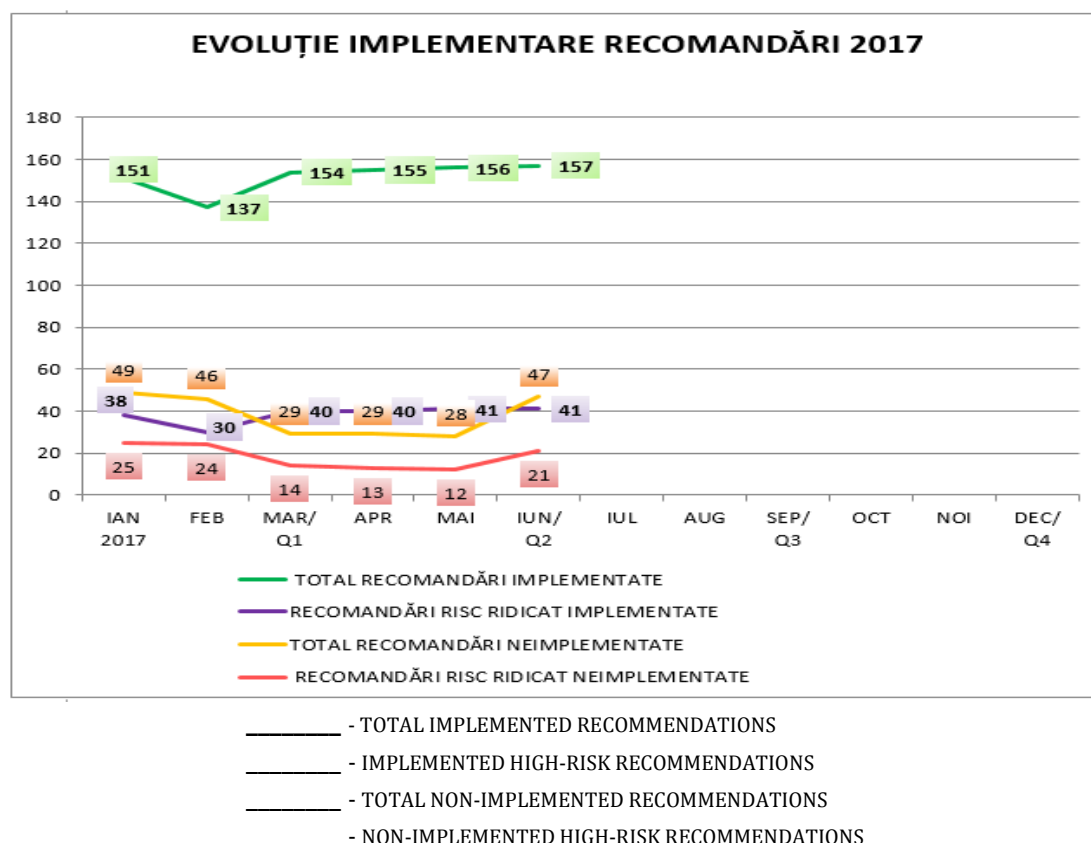


Chart 38 – Recommendation implementation 2017

The objectives of the Internal Audit Service are correlated with the strategic objectives assumed by the Director-General - *Competitiveness and Sustainable Development*. Through the internal audit missions carried out and implicitly through the correctly formulated and implemented recommendations there was an improvement of the audited activities, a progress highlighted at the second audit of the activities.

Indicators	Target	Achieved at 30.06.2017	Comments
Degree of achievement of the Annual Internal Audit Plan	100%	100%	The Internal Audit Mission on the <i>Evaluation of Formalities and Land Regulation Activities</i> , scheduled for 24 April 2017 – 14 July 2017, was not carried out due to the reorganization of the Land Regulation Unit within the Land Regulations and Land Forms Division according to BoA Resolution 5/27.02.2017, which implies updating of internal documents: job description, procedures. Instead, an internal audit mission was carried out on the evaluation of the way in which the European funds were managed, the annual Internal Audit Plan, according to Art. 2.4.1.6. of GD 1086/2013.
Preparation of Reports on the internal audit activity	100%	100%	Monthly reports, quarterly reports, and mission reports.

Indicators	Target	Achieved at 30.06.2017	Comments
within the requested deadline			
Degree of implementation of internal audit recommendations	80%	76,96%,	The reason for not achieving the proposed implementation was due to the June monitoring visit of the audit mission on the <i>Conformity Assessment between the technical projects and the works performed by third parties</i> , where 20 recommendations were formulated.

Table 27 - The objectives of the Internal Audit Service

### 3.1.10 Evaluation of the human resources and social dialogue activity

On 30 June 2017, the National Gas Transmission Company Transgaz SA had 4.607 employees with individual labour contracts, of which 4.545 for an undetermined period of time and 62 for a determined period of time.

The optimal dimensioning of the number of staff in the company is correlated with the real staff needs imposed by the operational activities carried out by the company, with the modernizations and refurbishments made for increasing the safety and efficiency in the operation of the NTS and the related facilities, as well as the achievement of the major development projects of company.

In semester I 2017 the policy of reducing the number of personnel in line with the retirements and layoffs from the elimination of the positions continued. Thus the number of Company employees at 30 June 2017 was down by 66 persons compared to 30 June 2016.

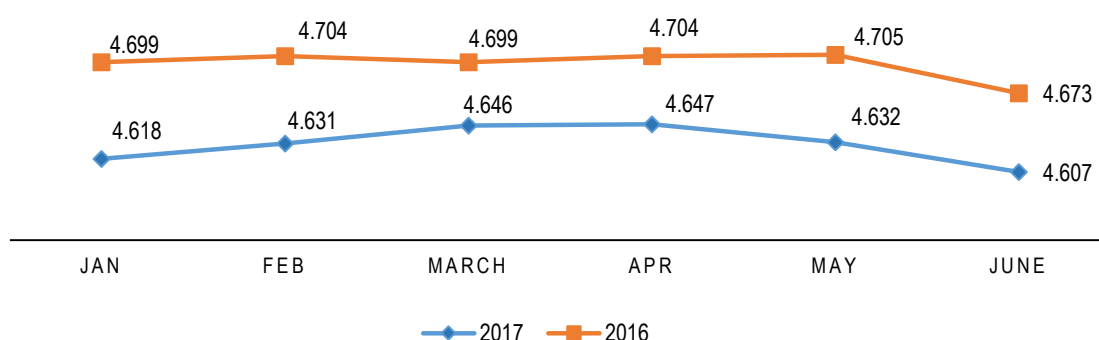


Chart 39- Evolution of no. of employees in sem. I 2017 vs 2016

The evolution of the number of employees in the first semester 2017 is as follows:

Specification	January	February	March	April	May	June
Number of employees at the beginning of the period	4.607	4.618	4.631	4.646	4.647	4.632



Number of newly employed persons	25	29	29	13	13	4
Number of people who stopped working for the company	14	16	14	12	28	29
<b>Number of employees at the end of the period</b>	<b>4.618</b>	<b>4.631</b>	<b>4.646</b>	<b>4.647</b>	<b>4.632</b>	<b>4.607</b>

*Table 28 – The evolution of the number of employees in semester I 2017*

In order to improve the use of the qualified personnel for performing the duties entirely in the new working conditions, according to the Management Plan of the National Gas Transmission Company TRANSGAZ S.A. 2013-2017, during the year 2017, 334 technical works are scheduled to be regulated.

The technical works rated up to now are the following:

<b>2017</b>	<b>Jan</b>	<b>Feb</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Total Sem. I 2017</b>
ARAD REGIONAL OFFICE		2	5				7
BACĂU REGIONAL OFFICE		3	3	2	6	4	18
BRAȘOV REGIONAL OFFICE				6			6
BRĂILA REGIONAL OFFICE		3	15	6	8	4	36
BUCUREȘTI REGIONAL OFFICE		5			1	6	12
CLUJ REGIONAL OFFICE		6	2	3	4	10	25
CONSTANȚA REGIONAL OFFICE			7		5	1	13
CRAIOVA REGIONAL OFFICE		1	7	6	1	7	22
MEDIAȘ REGIONAL OFFICE			1	1	3	3	8
THE MEDIAȘ SUBSIDIARY		9	9	11	26	29	84
Gas Compressor Station (SCG)			1	1	6		8
<b>Total works timed</b>	<b>0</b>	<b>29</b>	<b>50</b>	<b>36</b>	<b>60</b>	<b>64</b>	<b>239</b>

Time and staff norms validated in the first semester 2017:

	<b>Planned 2017</b>	<b>Validated sem. I 2017</b>
Regional Offices	210	115
Gas Compressor Stations	26	0
THE MEDIAȘ SUBSIDIARY	98	90

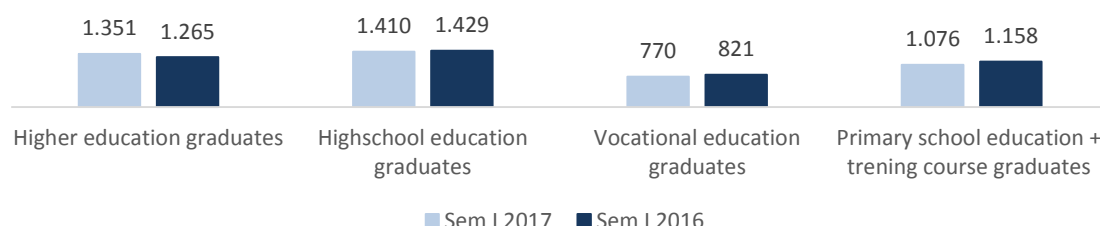
<b>TOTAL</b>	<b>334</b>	<b>205</b>
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The evolution of the personnel structure by category of studies shows the interest of the Company in covering the personnel requirements by employing highly qualified specialists and the continuous formation of the existing personnel, showing the higher education personnel increasing trend in parallel with the decreasing of the number of employees with high school, primary and vocational education personnel.

The evolution of the number of the Company's employees in semester I 2017 vs semester I 2016 is presented in the table below:

No.	Category	Sem I 2017	Sem I 2016
1	Higher education graduates	1.351	1.265
2	High school education graduates	1.410	1.429
3	Vocational education graduates	770	821
4	Primary school education + training course graduates	1.076	1.158
*	<b>TOTAL employees</b>	<b>4.607</b>	<b>4.673</b>

*Table 29- Evolution of personnel structure by category of studies in sem. I 2017 vs sem. I 2016*



*Chart 40- Evolution of personnel structure by category of studies in sem. I 2017 vs sem. I 2016*

## Improvement of the training and professional development of staff

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

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

Professional training and formation of employees follows:

- employee adaptation to job requirements by updating knowledge and skills specific to the job;
- professional training for basic job;
- acquiring advanced knowledge, modern methods and processes needed to achieve the higher level of professional activities;

- retraining determined by social and economic restructuring, reorganizing or retrofitting;
- preventing the risk of unemployment.

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

Through the Company's Training and Formation Centre training courses were held for the qualification of the employees as gas development, treatment, transmission and distribution operator, locksmith and welder for which the Company holds the CNFPA certificate, the degrees being recognized on the E.U. labour market. Also a large number of employees took an annual training course taught by the specialists of the Training and Formation Centre and lecturers co-opted from the company's specialists.

In the field of continuous training and improvement of employees in the first semester of 2017, training courses and training with external trainers from the country and from abroad were organized for 507 employees in specific fields and / or complementary to the field of activity of the company.

The number of training and formation courses for the Company employees in semester I 2017, compared to the same period of the year 2016:

No.	Category	Sem I 2017	Sem I 2016
1	No. of courses with internal trainers (through the Training and Formation Centre)	8	6
2	No. of courses with external trainers	43	80
	<b>TOTAL</b>	<b>51</b>	<b>86</b>

No.	Category	Semester I 2017					
		Jan	Feb	March	April	May	June
1	No. of courses with internal trainers (through the Training and Formation Centre)	5	1	-	-	1	1
2	No. of courses with external trainers	2	13	11	3	10	4
	<b>TOTAL</b>	<b>7</b>	<b>14</b>	<b>11</b>	<b>3</b>	<b>11</b>	<b>5</b>

Number of employees who completed qualification courses in semester I 2017 compared to the same period of the year 2016:

No.	Category	Sem I 2017	Sem I 2016
1	No. of qualified personnel through courses with internal trainers (through the Training and Formation Centre)	75	115
2	No. of qualified personnel through courses with external trainers	507	508
	<b>TOTAL</b>	<b>582</b>	<b>623</b>

At 30 June 2017 the degree of unionization of the workforce was 96,85% of the total 4.607 employees 4.462 were union members.

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

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

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

The relations between employer and employees are established in the Collective Labour Contract of the Company, registered at the Sibiu Regional Labour under no. 112/23.06.2015 in the Collective Contracts Register, and in the individual labour contracts of the employees. The validity period of the Collective Labour Contract at the company level was extended by 12 months until 25 June 2018 by the Addendum concluded on 26 June 2017.

The relations between employer and employees fall under the legal provisions in force in semester I 2017, with no conflicting elements regarding these relations.

### ***3.1.11 Evaluation of the activity of HSSEQ***

In semester I 2017, the actions carried out by Quality, Environment, Protection and Security Division mainly targeted the implementation of the measures included in the Management Plan, in the Policy Statement, the annual plans approved by the Board of Administration and/or director-general of the National Gas Transmission Company TRANSGAZ SA, and the fulfilment of the responsibilities set by the ROF and the legal provisions in the areas of activity.

The activity of the Environment Quality, Protection and Security Division comprises aspects regarding:

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

Activities carried out in the field of Labour Security and Health	In semester I 2017, the activity in the field of labour security and health was mainly focused on the compliance with the legislative provisions, taking all the measures in order to ensure the security and health of the workers, especially by accomplish those contained in the Prevention and Protection Plan. In order to diminish and/or eliminate the risks of accidents or professional illness in the company, specific actions were performed, contributing to the materialization of the planned
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	<p>measures, priority having those with technical, organisational and sanitary-medical character.</p> <p><b>In semester I 2017 there were 5 labour accidents, but there were no professional diseases recorded.</b></p> <p><b>The Company did not receive any penalty for breaching the labour security and health provisions.</b></p>
Activities carried out in the field of environment protection	<p>The activity in the field of environment protection was mainly focused on the conformity and compliance with the legislative regulations and with those imposed by the environment and water management authorizations. Thus, the Company holds:</p> <ul style="list-style-type: none"> <li>• 17 environment authorizations for 1.195 facilities of SNTGN Transgaz SA. According to the <i>Plan for the renewal of regulatory acts</i>, there were no requests submitted for renewal of environment authorizations, and</li> <li>• 130 water management authorizations for water crossings with gas transmission pipelines. In semester I 2017 documents for renewal 10 of these were submitted.</li> </ul> <p>In semester I 2017, as a result of the inspections performed by the Environmental Guard (7 inspections), the Company <b>was not penalized for failure to comply with environment protection laws.</b></p>
Activities carried out in the field of Environment Quality Management System	<p>In semester I 2017 – <i>The Process of Audit of the Integrated Quality-Environment-Health and Occupational Security Management System</i> was carried out according to the approved plan. Thus, in the first semester 2017, a total of <b>10 process audits</b> were proposed and carried out.</p>
Activities carried out in the field of Protection, Guard and Security	<p>The activity of the Protection, Guard and Emergency Situation Service (SPPSU) is focused on guarding the valuables and assets belonging to Transgaz, preventing and limiting the emergency situations, which can affect the integrity of the NTS, keeping the record and applying the actions of mobilizing the employees at the workplaces, and also the situation regarding the record of assets that can be seized and of the transportation vehicles.</p>
Activities carried out in the field of Document Management	<p>In semester I 2017, the activity in the field of document management was mainly focused on the compliance with the legislative provisions, and it was attempted to improve the procedures for the registration, correspondence and archiving of the documents created and held by the Company.</p>

### 3.1.12 Disputes

According to the Register of cases kept by the Legal and Litigation Division, in semester I 2017 a number of 58 cases were recorded, cases in which Transgaz acted both as plaintiff and defendant of which:

- 34 cases – as plaintiff;
- 24 cases – as defendant.

#### Resolutions:

- 2 cases with resolutions favourable for Transgaz (7 final) ;
- 1 adverse case (not final)
- 31 cases pending resolution.

#### Values:

- Values of cases in which Transgaz acts as plaintiff: RON **998.898,55**.
- Values of causes in which Transgaz acts as defendant: RON **11.749.890,36** and EURO **551.507,26**.

The number of cases involving our Company in sem. I 2017 as compared to sem. I 2016:

No.	Cases	Sem I 2017	Sem I 2016
1	As plaintiff	34	29
2	As defendant	24	43
	<b>TOTAL</b>	<b>58</b>	<b>72</b>

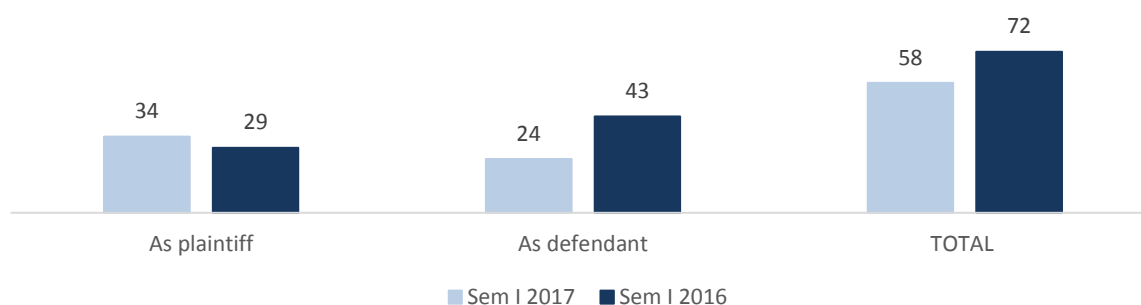


Chart 41- Structure and no. of cases involving our Company in sem I 2017 vs sem I 2016

### 3.1.13. Development of the Internal / Management Control system

#### 1. Background data

##### Definition of the internal/ management control

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

According to International Standards on Auditing issued by the Standards International Auditing and Assurance Board (IAASB) of the International Federation of Accountants (IFAC), internal control is defined as ***the process designed, implemented and maintained by those in charge with the governance, management and other staff categories in order to provide reasonable assurance regarding the achievement of***

*the objectives of the entity regarding the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. The term `controls` refers to any aspects of one or more components of the internal control.`*

## 2. Legal framework

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

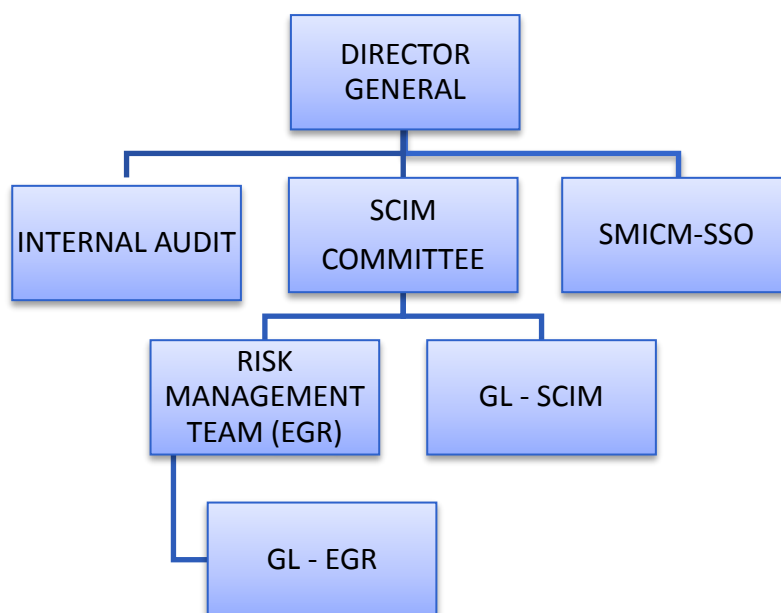
- **Ministry of Public Finance Order no. 946/2005** approving the Code of internal control/management, including internal control standards/managerial public entities and to develop internal control / Management systems, republished;
- **Order no. 1423 on 30.10.2012** on the amendment of the Order no.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

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

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

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





*Fig. 3- The organizational structure of the internal / managerial control system within SNTGN Transgaz SA*

**NOTE:**

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

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

For monitoring, coordination and methodological guidance for the implementation and development of the Internal/management control system, the general director of Transgaz approves by **Decision no. 519 of 19.07.2016** updated by Decision no 603/27.06.2017 the establishment of a structure to perform the necessary tasks, called **the Monitoring Committee**.

The organization and operation of the *Monitoring Committee* are set out in the SCI/M Monitoring Committee's Organization and Operation Rules and in the 'SCI/M Monitoring Committee' procedure, which is under development.

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

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

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

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

The *Monitoring Committee* Secretariat is provided by the Internal / Managerial Control System Implementation and Monitoring Department within the Budgeting Strategy Unit, the Strategy and Corporate Management Division.

*The Monitoring Committee* has the following main tasks:

- coordinates the process of updating the company's overall objectives, specific objectives and activities including also the performance or outcome indicators for their evaluation;
- monitors and evaluates annually the overall objectives of the company;
- Analyzes and prioritizes annually the significant risks that may affect the fulfilment of the overall goals, setting risk tolerance limits. They must be approved by the company management, they are mandatory and they are sent to all departments in order for them to be applied;
- analyses and approves the formalized procedures and forwards them for approval to the company director general (members involved in activities subject to review and approval);
- examines in view of approving the notification on the conduct of risk management process developed by the Risk Management Team;
- analyses in view of approving the notification related to the performance monitoring at the level of the entity, drafted by the secretary of the monitoring committee, based on annual reports for annual performance monitoring from the compartments;
- develops/updates/monitors annually the program for the implementation and development of the Internal/management control system of the company, a program that includes objectives, actions, responsibilities, deadlines;
- submits for approval to the Director General the program for the implementation and development of the Internal/management control system of the company;
- guides divisions in the company in terms of implementation and development of the Internal/management control system;
- presents to the Director General, whenever deemed necessary, but at least once a year, information on progress on the implementation and development of the internal control/management system in relation to the program adopted at the company level, the monitoring, coordination and methodological actions and guidance undertaken and other issues arising in connection with this field;
- performs annual self-assessment of the internal control/management system development within the company;
- prepares and submits annual reports on the state of implementation of the internal control/management system under GSG Order no. 400/2015 as amended and supplemented by Order GSG no. 200/2016 approving the Internal Control and Management Code related to public entities at the balance sheet date of the previous financial year, with the annual financial standing, to the hierarchical superior body (Ministry of Economy, Trade and Relations with Business environment as a higher public entity);
- prepares and submits to the hierarchical superior body (Ministry of Economy, Trade and Relations with the business Environment as a hierarchically superior public entity) on the terms set out therein, but not later than 15 March each year, the developed and updated programs for the implementation of internal

control/management system, including administrative provisions establishing a structure that deals with the development of the internal control /management system.

In order to manage risks in the company, the Director - General of Transgaz established by **Decision no. 518 of 19.06.2016, updated by Decision no 602/27.06.2017, the Risk Management Team** within Transgaz and *Risk Management Teams* within the divisions/independent departments / Medias Subsidiary / regional offices.

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

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

The president of the *Risk Management Team* sets the agenda of the meetings, chairs the meetings and prepares the minutes of the meetings, including the debates on risks and control measures established and sends them for structural entities for implementation. **The Risk Management Team Secretary** and her/his deputy are appointed by the President from the responsible persons by division/unit/department/Medias Subsidiary/regional office.

The organizing and working of the Risk Management Team is the responsibility of the President and is set by the Organization and Operation Rules and the 'Risk Management Team Activity' procedure, under development. The secretary of the company Risk Management Team prepares the company Risk Register by centralizing risk registers by division/unit/department/Medias Subsidiary/regional office.

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

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

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

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

- coordinates **risk management teams** established within the divisions/Independent departments / Medias Subsidiary / Regional offices they represent;

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

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

- Centralizes Risk Registers per Division/Independent Departments/ Medias Subsidiary/ Regional offices for all inherent risks identified and escalated and prepares the Risk Register per company for escalated risks, and updates it annually;
- Centralizes the Monitoring Report of the state of implementation of the actions to minimize risks per Division/Independent Departments/ Medias Subsidiary/ Regional offices;
- Centralizes the Program of actions for Risk Minimization for the Division/Independent Departments/ Medias Subsidiary/ Regional offices;
- Centralizes the Program of actions for Risk Minimization per company for the escalated risks;
- Prepares the Semester/Annual report for risk management at the level of the company.

#### 4. Internal control/management standards

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

Internal Control/management standards established under the **Order of the General Secretariat of the Government no. 400/2015** for the approval of the Code of Internal/management control of public entities, as last amended and supplemented by the **Order of the SGG No.200/2016** defining the minimum management rules that all public entities must comply with and represent a reference system, based on which Internal/management control systems are assessed and areas and directions of change are identified.

The standards are grouped in **five categories called key elements**

Key elements	Standards
<b>I. CONTROL ENVIRONMENT</b>	
Comprises issues related to organization, human resources management, ethics, deontology and integrity	Standard 1 - Ethics and integrity
	Standard 2 – Responsibilities, positions and tasks
	Standard 3 – Competence, performance
	Standard 4 – Organizational structure
<b>II. PERFORMANCE AND RISK MANAGEMENT</b>	
Refers to the target setting management, planning (multiannual planning), scheduling (management plan) and performance (monitoring performance).	Standard 5 - Targets
	Standard 6 - Planning
	Standard 7 – Monitoring performance
	Standard 8 –Risk management
<b>CONTROL ACTIVITIES</b>	
Refers to documentation of procedures, continuity of operations, recording exceptions, separation of responsibilities, monitoring, etc.	Standard 9 - Procedures
	Standard 10 - Surveillance
	Standard 11 – Continuity of activity
<b>III. INFORMATION AND COMMUNICATION</b>	
	Standard 12 – Information and communication

Refers to issues related to the creation of an informational system and of a reporting system regarding the execution of the management plan, budget, resource use and documentation management.	Standard 13 – Documentation management
	Standard 14 – Accounting and financial reporting
<b>IV. 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 15 – Internal/management control assessment
	Standard 16 – Internal audit

**The evolution of the implementation degree and development of the internal/management control system between 2013-2016 is as follows:**

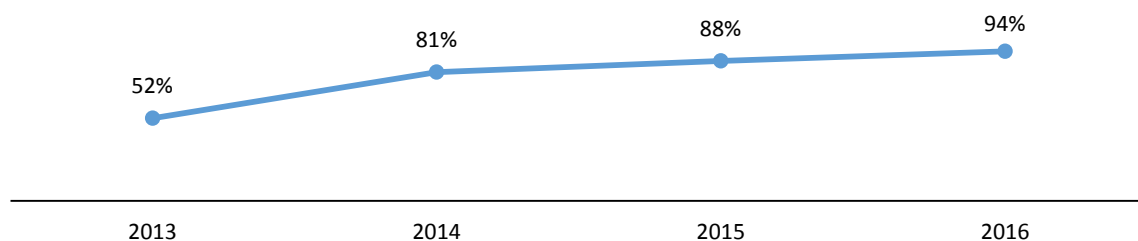


Chart 42 – The evolution of the implementation of SCI/M

## 5. Status of the implementation and development of the Internal control/management system within Transgaz on 31.12.2016

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

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

**The Order of the Ministry of Public Finance no. 946/2005** approving the Code of internal control/management, including internal control/management standards for public entities and to develop internal control/management systems referring to the

implementation of a series of 25 standards was repealed by SGS Order no. 400 /2015 approving the Internal Control/management Code of public entities, amended and supplemented by **GSG Order no.200/2016** according to which the number of the standards was reduced to 16.

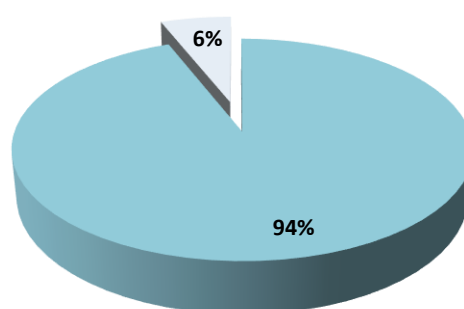
Annually, between September and October the self-assessment process related to the implementation of Internal /Management Control System (ICMS) is performed.

The conclusion, resulted from the analysis and centralization of data from the self-assessment questionnaires submitted by the organizational entities, is that the company internal control/management system is **partially compliant**, 15 standards being implemented out of the 16 standards set by the Order of the GSG No 400 / 2015 approving the Code of internal / management control of public entities, amended and supplemented by GSG order no. 200/2016.

Standard	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
No of compartments to which the standard applies	151	151	151	151	151	151	151	151	151	151	151	151	151	17	151	3
<b>Implemented I</b>	151	151	151	150	148	137	144	128	136	148	144	151	150	17	150	3
<b>Partially implemented PI</b>				1	2	14	2	18	15	3	7		1		1	
<b>Not implemented NI</b>					1		5	5								
<b>At the level of the company</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>PI</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>	<b>I</b>

Table 1- Implementation of internal management control standards at SNTGN Transgaz SA on 30.06.2017

Share of implemented standards %



■ Implemented    ■ Partly implemented

Chart 43 – Share of implemented standards on 31.12.2016

For the implementation of all standards related to Internal Control/Management throughout 2017 the following actions are provided:



The name of the standard	At the level of the company		
	I	PI	Actions
0	1	2	3
<b>I. CONTROL ENVIRONMENT</b>			
Standard 1 - Ethics, integrity	YES		
Standard 2 - Tasks, responsibilities	YES		
Standard 3 - Competence, performance	YES		
Standard 4 - Organizational Structure	YES		
<b>II. PERFORMANCE AND RISK MANAGEMENT</b>			
Standard 5 - Objectives	YES		
Standard 6 - Planning	YES		
Standard 7 - Monitoring performances	YES		
Standard 8 - Risk Management		YES	Preparation of system procedure, according to SR EN ISO 9001:2015 and PS 01 SMI.
<b>III. CONTROL ACTIVITIES</b>			
Standard 9 - Procedures	YES		
Standard 10 - Surveillance	YES		
Standard 11 - Continuing the activity	YES		
<b>IV. INFORMATION AND COMMUNICATION</b>			
Standard 12 - Information and communication	YES		
Standard 13 - Documents control	YES		
Standard 14 - Accounting and financial reporting	YES		
<b>V. AUDITING AND EVALUATION</b>			
Standard 15 - Evaluation of the internal control/management system	YES		
Standard 16 - Internal Audit	YES		

Table 31- Measures set up to implement IP standards

In order to comply with the provisions of **GSG Order no. 200/2016 completing the GSG Order no. 400/2015** in the first semester of 2017 the following actions were undertaken:

- The General Status regarding the Stage of Implementation and Development of the internal / managerial control system within SNTGN Transgaz SA on 31 December 2016 was prepared in accordance with the provisions of SGG Order no. 200/2016, amending and supplementing Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, and was submitted to the Ministry for Economy, Trade, Industry and the Business Environment";
- In order to report on the state of implementation of the Internal/Managerial Control System within SNTGN Transgaz SA on 31 December 2016 (as a result of analyzing and centralizing the data from the self-evaluation questionnaires sent

by the organizational entities), the Report of the Director General on the Internal / Managerial Control System according to the model provided in Annex no. 4.3. of the Instructions provided for in SGG Order no. 400/2015 on the approval of the Code of internal/managerial control of public entities, amended and supplemented by SGG Order no. 200/2016 and other attached documents were prepared and submitted to the Ministry for Economy, Trade, Industry and the Business Environment;

- The Plan for the Development of the Internal / Managerial Control System within SNTGN Transgaz SA - 2017, prepared according to the provisions of Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, amended and supplemented by OSGG no. 200 / 2016, Art.4, paragraph (1) corroborated with Art.8, paragraph (1), was approved and submitted to Ministry for Economy, Trade, Industry and the Business Environment;
- Ongoing preparation of the Procedure PP-106 **Risk management** in accordance with the requirements of SR EN ISO 9001:2015 and PS 01 SMI;
- The **Internal network system (Transgaz on intranet - ZoneInterDep -Control Intern Managerial)** was updated, with limited access of the members of the committee appointed by Decision and of the responsible persons within the department/division/regional office. This network system was created for a fast and effective communication for the preparation of all the necessary documents to prove the implementation of the ICMS within all entities belonging to the company;
- The activities to be performed according to the procedure within Transgaz were inventoried at 30.06.2017, and they summed up 194 and the system and process procedures prepared/updated at 30.06.2017, summed up 153;
- The performance indicators associated to the objectives specific to the departments, divisions, were set, summed up 104;
- The Risk Register of escalated risks per company and the Action Plan for the minimization of escalated risks updating is in progress.
- It was held the meeting of SCI/M Monitoring and Implementation Committee on 21.02.2017, analyzing the current SCI/M implementation and development stage within the independent/ Medias Subsidiary/regional offices divisions/units/departments on 31.12.2016 and it was submitted the Report of Transgaz risk management and monitoring -Year 2016";
  - by letter no. 13182/DSMC/21.03.2017 the updating / preparation of the following documents, according to PP-91 "Development / update of the risk register, was requested for all existing entities according to the last approved organizational structure:
    - specific objectives, activities, performance indicators, risks, level of risk and control instruments (Annex 1 and Annex 1a of PP-91 Development / update of the risk register);
    - the service/office risk register (Annex 5 of PP-91 Development / update of the risk register) for all existing services / offices according to the last approved organizational structure;
    - the risk register by the division / unit / independent department / Medias Subsidiary / regional office (Appendix 6 of PP-91 "Development / update of the risk register");

- the Risk Alert Form (Annex 2 of PP-91 Development / update of the risk register) for the escalated risks at the level of divisions / units at the company level;
- the Plan for the minimization measures of identified risks within the division / unit / independent department / Mediaș Subsidiary / regional office (Annex 3 of PP-91 Development / update of the risk register);
- Follow-up sheet regarding risk control measures (Annex 4 of PP-91 Development / update of the risk register)
- the update of the Risk Register for each company regarding Escalated Risks and of the Risk Minimization Measures Program for Company Escalated Risks for 2017;
- preparation of the Regulation for Organization and Operation of SCI/M Monitoring Committee;
- preparation of the Organization and Operation Rules of the Risk Management Team;
- preparation of the Statement - Commitment regarding the Risk Management preparation of the Director General;
- preparation of the Risk Management Methodology for SNTGN Transgaz SA;
- update of the Decision no. 519/19.07.2016 on the setting up of the *Commission for Monitoring, Coordination and Methodological Guidance on the Implementation and Development of the Internal Control / Managing System of SNTGN Transgaz SA* by Decision no. 603/06.27.2017;
- Updating of Decision no. 518/19.07.2016 on the establishment of the Risk Management Team within Transgaz, according to the provisions of GSG Order no. 400/2015 of 12 June 2015 amended and supplemented by SGG Order no. 200/2016 by Decision no. 602/2017;
- nomination / re-nomination of the persons responsible for the implementation and development of SCI/M within divisions / units / departments and newly established units;
- the establishment, within the organizational structure of the Budget Strategy Unit subordinated to the Strategy and Corporate Management Division, of a new functional entity under the name of SCI/M Implementation and Monitoring Department with the Risk Management Office, approved by the Transgaz BoA Resolution no.5/27.02.2017;
- the preparation of the report on the company risk management monitoring by the EGR on the basis of reports regarding the monitoring and management of risks at the level of independent divisions / units / departments according to Letter no. 27 317 / DSMC / 06.16.2017.

Within the Mediaș Subsidiary and the regional offices, the SCI/M implementation process is carried out, and for the preparation/updating of the objectives, performance indicators, risks, risk register according to the annexes to PP 91 - Preparation/update of the Risk Register, the deadline for completion is 1 September 2017.

In the next period, the following must be achieved:

- Updating Decision no. 548 of 26 July 2016 on the appointment of the SCI/M responsible in SNTGN Transgaz SA;
- Updating the Process Procedure PP 91 - **Development/ update of the Risk Register**;
- preparation of System Procedure PS-106 **Risk Management**, in accordance with the requirements of SR EN ISO 9001: 2015 and PS 01 SMI;

- preparation of the **Procedure on the SCI/M Monitoring Committee's activity**;
- preparation of the **Procedure on the activity of the Risk Management Team** at the company level;
- undertaking of all efforts for the implementation and development of SCI/M at regional office level, including the preparation of the documents according to the annexes provided in PP-91 – Development/update of the Risk Register;
- the self-assessment of the internal / managerial control system at the level of the company for year 2017, by submitting and centralizing the Self-evaluation questionnaires for the implementation stage of the internal/managerial control standards, completed according to the principle of truth by head of department within Transgaz SA, according to the last approved organizational structure.
- completing the self-assessment questionnaire on the stage of SCI/M implementation at the company level for 2017;
- completing the Analytical Sheets and Synthetic Sheets for each organizational entity within Transgaz SA for 2017;
- development of SCIM Development Program for 2018.

### 3.1.14 Risk Management

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

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

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

Interest rate;
Liquidities.

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

- preparation of procedure **PP- 91 Preparation/updating of risk register**;
- establishing specific objectives and performance indicators associated with specific work and objectives by divisions and units – **Annex 1** – Specific objectives and performance indicators by division/unit/department/Medias Subsidiary/regional office in PP-91 Preparation/updating of risk register;
- establishing performance indicators associated with specific activities and targets by divisions, units, the Black Sea PMU;
- establishing activities specific to the department/office within the division/unit/independent department to meet specific targets and the performance indicators and inherent risks by activities –Annex 1a – Department/office targets, activities, performance indicators, risks, risk level and control instruments in PP-91 Preparation/updating of risk register;
- preparation of Plans to minimize identified (inherent) risks for the risks identified by division/unit and until the department/office level;
- preparation and updating of the company Risk Register for escalating risks and the Plan of Measures to Minimize Risks for escalated risks for the top management.

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

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

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

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

### ***3.1.15 Other aspects of the company's activity***

The main activity of Black Sea PMU is to ensure the integrated management of the infrastructure development projects of the Romania's National Transmission System for Gas (NTS) to retrieve gas from the Black Sea in accordance with the NTS Development Plan 2017-2026.

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

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

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

Under the Cooperation Agreement signed in 2014 Transgaz continued the cooperation with ExxonMobil and OMV Petrom, the exchange of technical, economic, financial and legal information aiming at the coordination of NTS necessary developments and offshore developments in the Black Sea blocks.

In this respect, joint working groups were established to clarify/align all technical, economic, legal, commercial and regulatory issues. At the same time, the Board of Directors meets on a regular basis, consisting of Transgaz representatives and concessionaires. This is the forum for making all decisions related to the successful implementation of the projects covered by the Cooperation Agreement.

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

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

Steps were taken to declare the Vadu-T1 project a project of national importance so that it can benefit from the provisions of Law 185/20.10.2016 on the measures necessary for the implementation of projects of national importance in the field of natural gas.

➤ **Reports requested by ACER and CESEC**

For loading on ACER website, according to the annual reporting obligation of Transgaz as a promoter of projects of common interest, the Black Sea PMU was involved in filling in the forms Monitoring the implementation of projects of common interest in 2017 - Gas transmission pipelines - Progress Report for PCI project implementation according to Article 5 (4) of Regulation EU 347/2013 for the project 6.24.8 "*Black Sea shore — Podișor (RO) pipeline for taking over the Black sea gas*" (hereinafter the Project).

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

➤ **The process of obtaining the Environmental permit for the Project**



The environmental impact assessment was started according to Order no. 135/76/84/1284 of 10 February 2010 approving the Methodology for the implementation of the environmental impact assessment for public and private projects. In this respect, notifications regarding the intention to achieve the Project were submitted to the three County Environmental Protection Agencies (Constanța, Călărași and Giurgiu), the presentation report was prepared and the National Environmental Protection Agency issued the decision of screening stage. At the same time, the procedure for the procurement of environmental impact assessment services and for obtaining the environmental permit was finalized and the contract with the environmental consultant was signed.

The procedure for obtaining the environmental permit is in progress.

➤ **Documentation for capacity booking at future NTS entry/exit points**

Joint work meetings took place between Transgaz – Black Sea block concessionaires, and Transgaz – Black Sea block concessionaires– ANRE, having as object the completion of the documentation regarding capacity booking at future NTS entry / exit points. The National Gas Transmission System Incremental Capacity Booking was approved by ANRE and published on the Transgaz's website.

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

Within the authorization procedure cooperation relations are carried out with ACPIC for the Project to meet the obligations and responsibilities of each party in accordance with Art. 10 of Regulation (EU) 347/2013.

The Black Sea PMU prepared the notification to initiate proceedings before application for the Project. The notification was submitted to and approved by ACPIC this by issuing the notification letter of approval for initiation of proceedings before application.

Transgaz, by the Black Sea PMU and other units of the Company, maintain permanent contact to develop, review and finalize the documents required by Regulation 347/2013: Information Brochure, Non - Technical Summary, Manual for authorization procedure applicable to projects of common interest, etc., for the projects promoted by the company. At the same time, according to the provisions of Art. 10 of Regulation (EU) No. 347/2013, the procedure for engaging the public was initiated by drafting the Concept on Public Participation for the Project. The concept was finalized and submitted to the ACPIC, and the authority approved it by issuing Approval Letter no. 110 800 / 06.27.2017.

All relevant documents under Regulation (EU) No. 347/2013, related to the Project, were finalized and published on the company's website. Public consultations are scheduled for 17-27 July 2017.

➤ **Including Transgaz projects on the third list of projects of common interest**

In order to include Transgaz projects on the third list of projects of common interest, to be issued by the European Commission at the end of 2017, a joint working group was established, including representatives of the Black Sea PMU.

Cost benefit assessments have been developed for the following project groups:

- NSI East 18, which includes, together with the projects promoted by FGSZ Hungary and Gas Connect Austria, the Transgaz projects: BRUA (Phase 1 and Phase 2) and the Black Sea Coast – Podișor pipeline;



- NSI East 21, which includes Transgaz projects: BRUA Phase 3, SNT-T1 interconnection and reverse flow to Isaccea, Vadu-T1.

Within the working group, all the documents requested by ENTSG were prepared for the inclusion of the projects on the third list, their content was agreed with the external partners (FGSZ Hungary and Gas Connect Austria) for the NSI East 21 group and the final documents were submitted to the European Commission, ACER and regulators.

➤ **Obtaining non-reimbursable financing through the Large Infrastructure Operational Programme 2014-2020 (POIM)**

Efforts are made to obtain a grant through the 2014-2020 Large Infrastructure Operational Programme for the Black Sea coast- Podișor Pipeline project. In this respect, meetings were held with the representatives of the LIOP Managing Authority, of the Competition Council and of Jaspers (the financial consultant of AMPOIM- LIOP Managing Authority).

➤ **Voluntary liquidation of the company Nabucco Gas Pipeline International GmbH**

Transgaz through representatives appointed from the Black Sea PMU and the BRUA PMU continues to participate with the other associates in the voluntary liquidation process of Nabucco Gas Pipeline International GmbH (NIC).

➤ **Miscellaneous**

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

Support was also provided to the Budget Strategy Directorate for the updating of the project sheets and for the preparation of ANRE's replies to the comments submitted by ANRE with the purpose of finalizing the Transgaz 2016-2025 TYNDP, as well as for the preparation of the Monitoring Report of the NTS Development Plan of for the period 2014-2023 for the projects promoted by Transgaz through the Black Sea PMU.

The Black Sea PMU, together with the Technical and Economic Assessment Office, developed the cost – benefit analysis for the Vadu-T1 project as part of the feasibility study, for its endorsement by the Transgaz's Technical and Economic Council.

**The company's internal and external collaboration activity**

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

Meeting strategic objectives requires close a collaboration between Transgaz and the national (ministries, agencies, intermediate bodies, competent authorities, etc.) and European institutions, with the European Commission Directorate General for Energy,

the neighbouring gas transmission system operators (Bulgaria, Hungary, Moldova, Ukraine, Serbia), but also with companies in the natural gas sector and other European Union gas transmission system operators (Spain, France, Belgium, Greece, the Central Eastern European countries) and non-EU countries, but especially impacting the Balkans and the Southern Corridor for gas transmission (Turkey, Azerbaijan, Turkmenistan, Georgia and Iran).

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

***BULGARTRANGAZ EAD (Bulgaria):***

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

Contact with representatives of Bulgartransgaz was maintained for the operation of the Ruse / Giurgiu cross-border interconnection point and the Negru Voda I, II and III cross-border interconnection points, as well as in relation to the capacity trading in accordance with the applicable regulatory framework (Regulation (EU) 2015/703 establishing a network code on interoperability and data exchange rules and Regulation 459/2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013).

***FGSZ Ltd. (Hungary):***

1. The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:
  - The parties together with Gas Connect Austria and the national regulatory authorities, ANRE (Romania), HEA (Hungary) and E-Control (Austria) prepared the regulatory framework necessary for the implementation of a binding open season procedure for booking cross-border incremental transmission capacities at the Romania-Hungary and Hungary-Austria borders.
2. Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT)
  - According to the Interconnection Agreement concluded at the end of 2015 for the Csanadpalota IP, according to Regulation (EU) 2015/703;
  - According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the capacity of the cross-border IP, according to Regulation (EU) 459/2017 establishing a network code regarding the capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No. 984/2013.

***UKRTRANSGAZ (Ukraine):***

1. *Joint operation of the Isaccea 1 Cross-Border Interconnection Point under the Interconnection Agreement in accordance with applicable European regulations.*

2. *As regards the operation of the Medieșu-Aurit-Tekovo Cross-Border Interconnection Point*, the parties are in the process of negotiating an Interconnection Agreement and public consultations were initiated in this respect.
3. *As regards the modernization of the Isaccea 1 GMS as a commercial METERING station*, the technical solution proposed by Transgaz was validated by Ukrtransgaz.

**VESTMOLDTRANSGAZ (Moldova):**

TRANSGAZ evaluated / audited, including with the participation of DAFERI experts, the company Vestmoldtransgaz and prepared a Report on the technical, economic and financial situation of this company.

The technical discussions between the representatives of MEPIU within the Ministry of Economy of the Republic of Moldova, Vestmoldtransgaz, SNTGN Transgaz SA and ICPT Energoproiect Chișinău continue for the development of the project (development on the north-eastern side of Romania and construction of the Ungheni-Chișinău pipeline).

**SRBIJAGAS (Serbia):**

Transgaz and Srbijagas are analyzing the possibility of performing an interconnection between the Romanian and Serbian transmission systems in order to strengthen the regional gas market. In this regard, the Parties finalized discussions with a view to concluding a Memorandum of Understanding that would provide the framework for the development of the future collaboration relationship.

**Cooperation with other gas companies:**

- Regional Gas Shippers:

**GAZPROM EXPORT (the Russian Federation):**

Concerning the bilateral contractual relations for Transit II and Transit III pipelines.

**BULGARGAZ (Bulgaria):**

Concerning the bilateral contractual relations of the Transit I pipeline in accordance with the applicable European regulatory framework.

- **European and non-European gas transmission system operators such as:**

Discussions and meetings for identifying new business opportunities were held with: Eustream AS (Slovakia), ENAGAS (Spain), SNAM (Italy), Fluxys (Belgium), GRTGaz (France), DESFA (Greece), and SOCAR (Azerbaijan), EGAS (Egypt).

Following the signing at the meeting of the High Level CESEC Working Group (Budapest, September 8, 2016) of the Joint Statement between the Energy Ministers of Greece, Bulgaria, Romania and Hungary and the Joint Statement between the Natural Gas Transmission System Operators of the aforementioned states regarding the development of the Vertical Corridor, the Gas Transmission Vertical Corridor project is considered by Transgaz. In this respect, on 30 January 2017, the Board of Administration of the company approved the possibility for Transgaz to sign the Memorandum of Understanding with DESFA, Bulgartransgaz, ICGB and FGSZ. This document is due to be officially signed by the parties on 19 Jul 2017, in Bucharest at the invitation of Transgaz's management.

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

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

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

The EU Funds and International Relations Division manages most of the cooperation relations with the bodies where Transgaz is a member. Between 01.01.2017 – 30.06.2017, the cooperation relationship with the following associations was managed within the EU Funds and International Relations Division:

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

We consider it important to mention that, between January and June 2017, the management of the division, through the DAFERI director, Director of International Relations, Director of European Funds and the heads of the DAFERI structure, attended a series of meetings with various external partners and European organizations in the field, as well as national and international events dedicated to the gas sector that have a significant impact on the work and objectives of the Company.

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

Of these, we mention the following:

- Meetings with neighbouring transmission system operators to strengthen the joint operation at cross-border interconnection points (Bulgartransgaz, Ukrtransgaz)
- 10th European Gas Conference, Vienna, Austria, January 2017
- Meeting with Vestmoldtransgaz in connection with the interconnection project Romania-Republic of Moldova, Chişinău, Republic of Moldova, January 2017
- GIE meetings - Brussels, Belgium, January 2017
- Central and Eastern European Gas Conference", Zagreb, Croatia, February 2017; The DAFERI Director was invited as a speaker and presented, inter alia, Transgaz's investment approaches and their impact on the region
- Meeting with representatives of the Ministry of Economy of the Republic of Moldova, Vestmoldtransgaz and Energoproiect, Chişinău, Rep. of Moldova, February 2017

- Meeting of Regional Gas Working Groups, Brussels, Belgium, February 2017
- Shifting into a higher gear for Central and South East European energy market integration, Brussels, February 2017
- Meeting with representatives of IJF, SOCAR and GRT Gaz, February 2017
- Work meeting with Fluxys (Belgium) in accordance with the Memorandum of Understanding signed in 2015 and visit to the LNG terminal operated by the Belgian company at Zeebrugge, Brussels, Zeebrugge, February 2017
- Meeting of the GIE Board of Directors, February 2017
- Meeting organized by the Energy Institute on the occasion of the International Oil Week, Brussels, Belgium, February 2017
- Evaluation of documents for the internal audit procedure at the GIE headquarters in Brussels, Belgium, Brussels, Belgium, March 2017
- The 3rd EU Energy Summit, Brussels, Belgium, March 2017
- Brexit and the Energy Union. Are we prepared? Event organized by Interfax (UK), Brussels, Belgium, March 2017
- Business without corruption: good anti-corruption practices in the US adjusted to the needs of the Romanian business community, Bucharest, March 2017
- Meeting of Regional Groups coordinated by the European Commission with the purpose of drawing up list 3 CIP, Brussels, Belgium, May 2017
- Meeting of the NSI East Gas Regional Group, Brussels, Belgium, April 2017
- Working meetings with Bulgargaz and Bulgartransgaz, Sofia, Working meetings with representatives of VestMoldTransgaz, Chişinău, June 2017
- Joint Working Group meeting to implement Romanian-Moldovan energy projects, Chişinău, May 2017
- Metrologic Forum, Dresden, April 2017
- The 25th edition of the Dispatch Meeting of Representatives of Transit Companies for Russian Natural Gas in the Balkan Region, Samara, June 2017
- The work of the Mixed Intergovernmental Commission Romania-India, New Delhi, April 2017
- 9th Annual See Upstream Conference & Exhibition, Bucharest, May 2017
- Referees: Independence and Impartiality - Procedural Aspects Conference, Bucharest, June 2017
- The New Draft Rules of Arbitration Procedure Conference, Bucharest, June 2017
- The Energy trilemma and Energy Policies Conference. Emphasizing the difficulties faced by energy units to balance the essential elements of the Trilem: energy security, social equity and environmental impact, Bucharest, June 2017

At the same time, the participation, as speaker, of DAFERI Director, Ciprian ALIC, at the following events:

- Central and Eastern European Gas Conference International Conference, Zagreb, Croatia, February 2017
- Profit Energy Forum event, May 2017, Bucharest
- The Conference With the strategy on the table: Romania in the European energy equation and the impact on industry. Appropriate Policies, May 2017 Bucharest

contributed to promoting our company at a regional level.

The European Funds and International Relations Division was actively involved in the Company's Strategic Development Committee (CDS) through the work of the European Funds and International Relations Division Director as a CDS member and by ensuring by the Head of International Relations of the Secretariat of this Committee, including by preparing discussion reports and action plans further to CDS meetings.

At the same time, the DAFERI representatives provided the necessary methodological assistance to solve the administrative, technical and procedural problems associated with the Transgaz representation offices in Brussels and Chişinău, which, based on decision of the Board of Administration no. 4/2016 of 28.01.2016 was transferred to DAFERI.

### **Transgaz Representative Office at Brussels**

Sustained efforts have been made to identify and capitalize on new opportunities for strengthening, developing and diversifying the direct and constructive dialogue with both the EU institutions, major energy players and our partners in order to promote the mission and vision of the Company within the community and internationally, as well as to support the achievement of the main strategic objectives of TRANSGAZ.

Synthetically, the work of TRANSGAZ Brussels was carried out on the following coordinates:

#### **1. Representation of TRANSGAZ at official events / activities organized in Brussels:**

##### **JANUARY 2017**

Date	Activity	Organizer	TGN Participation	Remarks
January 23 this year	Presentation TYNDP 2017	ENTSO-G	Oana Niculescu, Eugen Mihalache Roxana Caliminte	Activity Report no. 3625/27.01.2017

##### **FEBRUARY 2017**

Date	Activity	Organizer	TGN Participation	Remarks
February 15-16	Gas Regional WG Meeting	COM/DG-ENER	O. Ilies	The Head of Transgaz Representative Office at Brussels was not nominated for participation, acc. To Art.5/BoA Resolution 3 of 30.01.2017
February 21-23	Workshop/TGN Delegation Visit at Fluxys	Fluxys Belgium	Ion Sterian President C.A. Ciprian Alic, Marius Stroia, Florian Várdol	The Head of the TGN Representation in Brussels was not included in the visit schedule

##### **MARCH 2017**

Date	Activity	Organizer	TGN Participation	Remarks
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<b>March 28</b>	<b>3rd EU Energy Summit</b>	<b>-Business Bridge Europe</b>	<b>Andrei Dumitru</b>	<b>Activity report no.14.987/31.03.2017</b>
<b>March 29</b>	<b>"Brexit and the Energy Union"-Are we prepared?</b>	<b>Interfax (GB)</b>	<b>Eugen-Costinel Mihalache</b>	<b>Activity report no.14.821/31.03.2017</b>

**APRIL 2017**

<b>Date</b>	<b>Activity</b>	<b>Organizer</b>	<b>TGN Participation</b>	<b>Remarks</b>
<b>April 6</b>	<b>AGA ENTSOG</b>	<b>ENTSOG</b>	<b>Gabriela Mareş</b>	The staff of Transgaz Representative Office at Brussels did not participate, although it was nominated by Decision 325
<b>April 24</b>	<b>Consultation CESEC Romania-COM/DG ENER+INEA</b>	<b>COM/DG-ENER</b>	<b>Paul Popescu, Marius Lupean, Alexandra Militaru, Wilhelm Untch</b>	The staff of Transgaz Representative Office at Brussels was not included in the activity schedule
<b>April 26</b>	<b>Gas Regional WG Meeting PCI List 3</b>	<b>COM/DG-ENER</b>	<b>Ovidiu Ilies Andrei Dumitru</b>	The Head of the Transgaz Representative Office at Brussels was not nominated to participate, according to Decision 380 of 21 April 2017 and related Mandate

**MAY 2017**

<b>Date</b>	<b>Activity</b>	<b>Organizer</b>	<b>TGN Participation</b>	<b>Remarks</b>
<b>May 16</b>	<b>Workshop-Network Codes</b>	<b>ENTSO-G</b>	<b>N. Rau, W. Untch, R. Ittu, A.Apostolescu</b>	The staff of the TGN Representative Office was not nominated for participation
<b>May 30</b>	<b>Meeting of the Regional Groups</b>	<b>COM/DG ENER</b>	<b>No info available</b>	The staff of the TGN Representative Office was not nominated for participation
<b>May 30</b>	<b>Romanian Energ Day</b>	<b>CRE+PE</b>	<b>A.Dumitru</b>	The Head of the Representative Office was not nominated for participation
<b>31.05</b>	<b>Workshop - SoS Regulation</b>	<b>GIE</b>	<b>A.Dumitru</b>	The Head of the Representative Office was not nominated for participation

**IUNIE 2017**



Date	Activity	Organizer	TGN Participation	Remarks
June 21-22	Transgaz delegation work visit	Transgaz	Ion Sterian-DG Petru Ion Văduva- President C.A. Ciprian Alic, Florian Vârdol, Gabriela Mareș, Bogdan Nicolae	The Head of the Representative Office was included in the visit schedule for logistics support/protocol

## 2. Events / actions / activities of potential interest regarding information / documentation and networking, organized in Brussels and reported to DAFERI:

- 21 March 2017: ETS and renewables: a win-win strategy? Organizer: EDF
- 22 March 2017: Global launch of the Energy Architecture Performance Index Report 2017, Organizer: COM
- 23 March 2017: North Seas Energy Forum, Organizer: Northern Seas Energy Cooperation
- 28 March 2017: 3rd EU Energy Summit, Organizer: Business Bridge Europe-participation of counsellor A.Dumitru
- 28 March 2017: An EU Policy benefiting Citizens, Consumers and Businesses, Organizer: EU ENERGY SUMMIT
- 22-23 May 2017: European Business Summit 2017
- 30-31 May 2017: Romanian ENERGY DAY 2017, org. CRE- participation of counsellor A.Dumitru
- 19-25 June 2017: Proposal for rental of spaces / slots for networking within EUSEW 2017 (Sustainable Energy Week) – regarding company image promotion
- 14 June 2017: 2017 CEF Energy Virtual Info Day, Organizer: COM
- 19-25 June 2017: EU Sustainable Energy Week 2017, Organizer: COM
- 22 May 2017: Conference Europe's Changing Energy Markets: Transition to New Realities, organized by 'Politico'
- 21 June 2017: Governance of the Energy Union — Energy and climate plans in the making, Organizer: Sustainable Energy Week
- 22 June 2017: Conference The role of Ukraine as a strategic EU Energy Partner, Organizer: COM

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

Within DAFERI the cooperation relationships with relevant ministries are managed.

In semester I 2017 information on the status of strategic projects undertaken by Transgaz, regional gas transmission projects impacting Romania and the cooperation relationships with external partners was sent to the Ministry of Economy, Ministry of Energy, Ministry of Foreign Affairs and Romanian Government.

Also through the Cooperation with National and International Bodies Department within DAFERI it is managed the relationship with the Competent Authority for Projects of Common Interest (ACPIC) to implement projects of common interest (PCI) on the European list of PCI and promoted by Transgaz, according to EU Regulation 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure repealing Decision No. 1364/2006/EC and amending Regulation (EC) No. 713/2009, (EC) No. 714/2009 and (EC) No. 715/2009. In this respect, during the period 1 January 2017 – 30 June 2017 the activity was carried out for:

- Acceptance of the application file for the project Development on the territory of Romania of the National Gas Transmission System on the corridor Bulgaria - Romania - Hungary - Austria, Podișor - Horia GMS and three compressor stations (Jupa, Bibesti and Podișor), Phase 1";
- Approval of the Notification to initiate the procedure preceding the submission of the application for the project Extension of transmission capacity from Romania to Hungary up to 4.4 billion m<sup>3</sup> / year, Phase 2;
- Approval of the Notification to initiate the procedure for the submission of the application for the project Black Sea Shore - Podișor Pipeline for the Black Sea gas supply.
- Approval of the Concept regarding Public Participation for the project Black Sea Shore - Podișor Pipeline for the Black Sea gas supply;
- Submission to the ACPIC of the Public Participation Concept for the project Extension of gas transmission capacity from Romania to Hungary up to 4.4 billion m<sup>3</sup> / year, Phase 2.

## 3.2 Analysis of the development activity

### 3.2.1 The main components of the NTS infrastructure

The main components of the National Gas Transmission System on 30 June 2017

Name of NTS objective/component	U.M.	Value
Transmission pipelines and connections of gas supply, of which international transmission pipelines	km	13.307 553
Metering regulating stations (MRS) in operation	pc	1.120 (1.227 metering stations)
Valve control stations (VCS, NT)	pc	59
Import gas measuring stations (GMS)	pc	6
Metering stations located on the gas transit pipelines (GMS)	pc	6
Gas compression stations (GCS)	pc	3
Cathode protection stations (CPS)	pc	1.043
Gas odorization stations (GOS)	pc	871

*Table 32 – Main components of the NTS on 30 June 2017*

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

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

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

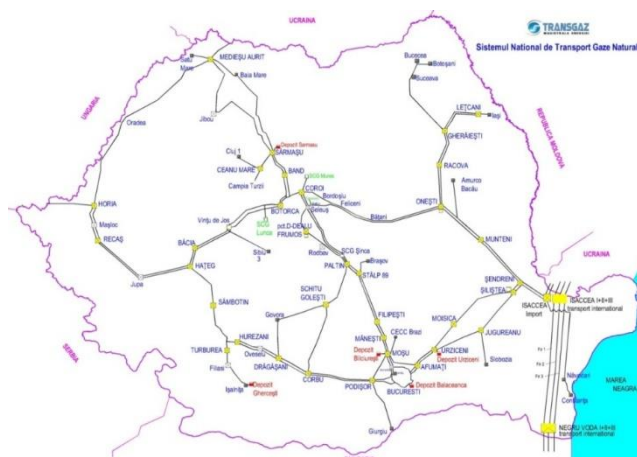


Fig. 4 - Map of the Natural Gas Transmission System

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

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

Service life	Transmission pipelines (km)	Supply fittings (km)	Number of Directions for Metering Regulating Stations
> 40 years	6.383	339	141
Between 30 and 40 years	1.996	131	61
Between 20 and 30 years	689	220	165
Between 10 and 20 years	1.723	931	610
< 10 years	735	160	250
TOTAL	11.526	1.781	1.120 MRSs (1.227 metering directions)
	13.307		

Table 33–Main components of the NTS on 30.06.20167 in terms of service life

Out of the **13,307 km** gas transmission pipelines in operation, about **73% have an effective service life higher than 20 years**, close to their normal service life.

The inspections performed until 2017 by intelligent PIG for about **2,495 km** (3,590 km taking into account multiple inspections, 282 km in 2016) reveal high levels of pipe material defects, mainly due to the technical state of the active insulation, made for about

79.5% of the pipelines of the system based on bitumen currently aged and damaged, which may increase the electricity consumption recorded in the 1,043 pipeline cathode protection stations.

In the first semester of 2017 no pig inspection was carried out. 604 km of pipelines were cleaned.

Approximately 95,7% of the pipelines and fittings that are in use have cathodic protection. Intensive metering were performed in semester I, 2016 for 68,38 km of pipelines.

The gas delivery to the distributors and end users is performed by the **1182** MRSs (metering directions), **45** 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. Of the 1.227 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. In semester I, 2017 modernization works on the fixed gas and smoke monitoring / detection systems at the compressor hall building at the Sinca TCS. The Technical Specifications were submitted to the Development Division for the promotion of the works foreseen in the PMDI.

For the Siliştea TCS the revision and repair works of the vibration monitoring systems at the Solar 1 and 2 compression groups were started under a service contract. Rehabilitation works were also carried out - technical revisions, scheduled for the compressors and the repair of the sub-assemblies with third parties. Checks and calibrations to automation systems at all compression stations were performed.

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

*Gas odorization* is ensured by a number of 871 odorization facilities of which 545 systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas. Of the 545 modern systems, a total of 28 are centralized - serving several delivery points. The other 326 'evaporation/drip' type systems are systems that cannot provide a continuous and controlled odorization and can lead to situations of under or overodorization and thus to an increased consumption of odorant. Out of these 15 facilities are centralized. In the first semester I a number of 6 old odorisation facilities were replaced with automatic machines and the procedure for the procurement of another 121 automatic odorization facilities was finalized, with a delivery deadline in Q4 2017.

It should be stressed however that although the infrastructure is quite out-dated, the technical condition of the NTS is maintained at an appropriate level due to the fact that

the operation is carried out based on a predominantly preventive planned and corrective maintenance system and based on some upgrading programs.

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

### Cross-border interconnection points

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

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

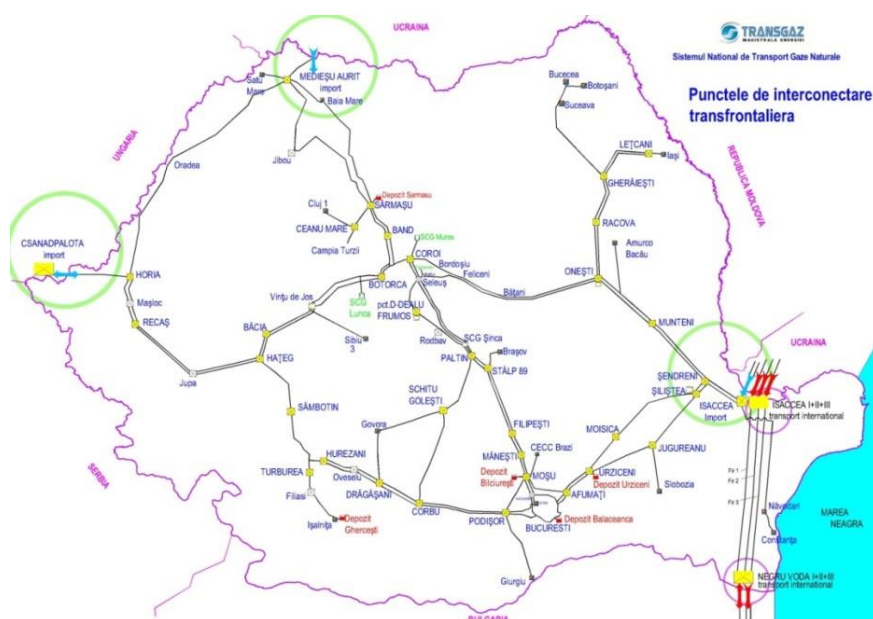


Fig. 5 – Cross-border interconnection points of the NTS

### 3.2.2 Investments made in 2017 versus Investments planned in 2017

The status of the achievements related to the ongoing objectives of the upgrading and development program at the end of semester 1 2017:

#### Modernization and automation of technological hubs

The status of the works for the 18 technological nodes included in Annex 1 is as follows:

- 2 technological nodes were completed ( Sâmbotin, Mănești);
- 2 technological nodes are in execution (Moșu, Ceanu Mare);
- 2 technological nodes are suspended for lacking building permit or legal status of land (Racova and Filipești);
- 9 technological nodes are under design power supply and automation (Drăgășani, Băcia, Recaș, Moisica, Schitu Golești, Corbu, Bogata 3, Lăzărești and Filipești Târg);
- 1 technological node is under design for mounting GLPG (Schitu Golești);
- for 2 technological nodes where gas chromatographs will be installed (Horia, Corbu), the necessary reports and technical specifications are being prepared.

#### **Gas and smoke detection system in the turbocompressor hall at the Șinca TCS**

Preparation of a report for the European Funds and International Relations Division to request the EC approval for the installation of the gas and smoke detection system, since the modernization of the Șinca TCS was carried out with European funds and it is necessary to obtain an opinion from the European Commission (EC)

#### **Data Procurement Order System (Annex 2)**

The implementation of the Giurgiu GMS data transmission system was finalized and the procedure for the procurement of the R53 Sarmisegetusa valve enclosure was resumed for the third time, and for the Feliceni TN enclosure efforts are being made for the updating of the Construction Permit. For the other works comprised in Annex 2, no necessity reports and technical specifications or design themes were submitted.

#### **The gas transmission pipeline Ø32" Crevedia – Podișor**

Promoting and approving a new project for completing the pipeline in this area considering the sentence of the Ploiesti Court of Appeal, which admitted the applicant Apostolache Laurențiu's appeal, and SNTGN TRANSGAZ SA Mediaș was obliged to dismantle a part of the natural gas pipeline. The work refers to butt weld in full line of the pipeline in the area of owner Apostolache over approx. 300 m. The pipe material has been supplied, following that the works be executed by the Medias Subsidiary. The litigation regarding the landowner is in progress. We mention that the planned route is in the corridor of CONPET Ploiești pipelines (there is an endorsement from CONPET Ploiești), therefore there is no encumbrance added to the land.

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

The initial contract concluded with SC BAT Mediaș was terminated following the insolvency of the constructor. It is necessary to restore the technical documentation according to the new conditions in the field and to resume the procurement procedure.

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

The pipeline was built and put into operation up to km 58 + 247. From km 58 + 247 approx. 1.700 m of the pipeline are not executed, as the pipeline crosses a forest area for which the approval of ROMSILVA has not yet been obtained. After obtaining the approval, the works will continue and pipeline will be completed up to km 69 + 000.

#### **Ø28" Gănești – Idrifaia – Coroi gas transmission pipeline**



The contracted execution works are in progress and from a total of 21 km of pipeline, up to now 20.5 km being mounted and buried. Two road undercrossings, the GLPG installation at the Coroi TN, the pipe thread re-integration and the pressure samples are still to be executed.

**Ø16" Vaslui - Lețcani gas transmission pipeline (Mogoșești - Lețcani)**

Pipe thread execution works were completed and received. The GLPG assembly and the deviation of the pipeline between the CF 610 railroad and the DN 28 national road are still to be executed, after which the coupling in the Lețcani TN can be performed.

**Mureș undercrossing with pipeline Ø20" Fântânele - Arad, Fântânele area**

Execution works and NTS couplings were partially completed. Dismantling works for the old abovecrossing are still to be executed and they are scheduled to be completed by 14 July 2017.

**Ø12" Moinești - Dărmănești deviation pipeline, Dărmăneasca area**

The contracted execution works were completed and received. Due to problems with landowners, it was decided to move the pipeline coupling point 200 m downstream from the problem area. The coupling works were executed, and with regard to the 200m of unreplaced pipeline, court actions were opened for three owners because of whom the technical documentation and the Construction Permit could not be complied with.

After completing court actions, work to replace the unfinished pipeline section will be resumed.

**Securing Ø28" Plateau Izvor Sinaia – Filipești pipeline, Talea – Breaza area (stage II)**

The site was handed over to the IMI Baia Mare builder, the execution works being in progress.

**The Ø10" Luduș MRS connection pipeline**

Execution work was completed and received.

**Ø12" Negru Vodă – Techirghiol gas transmission pipeline, stage II (Pecineaga – Techirghiol section)**

Execution works were contracted but the Commencement Order will be issued only after the contracting of the archaeological surveillance services.

**Ø20" Plătărești – Bălăceanca gas transmission pipeline**

The overall estimate of the project is being restored, given that Transgaz will provide 12,600 m of procured pipeline. Also, steps are being taken to renew the Construction Permit.

**The Ø 28" SIDEX Galați MRS connection pipeline**

Execution works are in progress

**Ø24" Mașloc – Recaş gas transmission pipeline, stage I (part II – forest fund area)**

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

**The Ø28" Moșu – Buciumeni gas transmission pipeline**

The technical documentation is completed and approved by the TEC. The construction permit is obtained for Dâmbovița County (based on notifications sent to landowners), but for obtaining the building permit in Ilfov County, the Buftea Municipality (mayor



G. Pistol) requests the legalized agreement of the owner, because of disagreeing with text of the law establishing the issuing of the building permit based on the notifications to landowners, without another previous formality.

**Ø10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline (C. Moldovenesc – Pojorâta section)**

The building permit was obtained for 9.2 km of which 8.2 km were executed. For the 1-kilometer gap a new contract was concluded in June, the site was handed over and the Commencement Order will be issued on July 17, 2017.

**Ø10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline (Pojorâta – Vatra Dornei section)**

The ROMSILVA approval for the state owned forest areas is currently obtained and the documentation is submitted to the Suceava Forest Guard. After obtaining the approval from the Forest Guard, because the affected areas are more than 10 ha, the necessary steps will be taken to obtain a Government Decision to remove the surfaces necessary for the construction of the pipeline from the forest fund.

The Pojorâta - Vatra Dornei section represents the second stage of the construction of the Ø10 "Câmpulung Moldovenesc - Vatra Dornei" pipeline for a length of 35 km. This section, 25.8 km long, crosses the land belonging to the Forest Directorate of Iași, which to this day did not issue the ROMSILVA approval, necessary for the issuance of the Building Permit.

**Ø20" Craiova – Segarcea – Băilești – Calafat gas transmission pipeline, stage I, Craiova – Segarcea section**

Work on the development of technical documentation is in progress.

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

Execution works were initially contracted with SC CONDMAG Brașov, but due to some problems of the constructor, the contract was terminated and the technical design is being remade and the procedure will be resumed.

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

The execution works are ongoing.

**Systematization of pipelines in the area of the Moșu Technological Node**

The execution works were contracted, the site was handed over, the Commencement Order was issued on July 17, 2017

**Modernization of the gas supply of Ploiești city**

The execution works were contracted in June, the site was handed over and the works Commencement Order was issued.

**Replacement of CF sub-crossing with the gas transmission pipeline Turburea – Ișalnița Fir III, Florești area**

Execution work is complete.

**Works for securing of the Ø20" Schitu Golești – Govora pipeline, Budești zone, Vâlcea county**

Execution work was completed and partly received. Pressure couplings works are still to be carried out.

**The securing of Ø32" Şendreni - Siliştea - Bucureşti pipeline, Scorţaru Vechi - Comăneasca area**

The procurement procedure for the execution works is in progress.

**The deviation of the Ø16" Mogoşesti - Leţcani gas transmission pipeline between railway 610 and DN 28, at 613 railway undercrossing (Leţcani - Dorohoi)**

The procurement procedure for undercrossing of two railways and of a national road is in progress. The installation works of 1600 m of pipeline will be carried out by the Mediaş Subsidiary with the procured pipe material.

**The deviation of the Ø14" Tisăuţi - Bucecea gas transmission pipeline , Salcea area**

The technical documentation is under developed. There are problems in obtaining the Construction Permit, because the Salcea Municipality considers the concluded agreements incomplete (the amounts due to the owners and the execution period are not included).

**The deviation of the Ø28" Băţani - Oneşti gas transmission pipeline , to the Valea Roşie river crossing in Bixad area**

Technical documentation is under preparation. There are problems in obtaining the approval of the Bixad Forest Guards for the land taken out of the forest circuit, which is necessary for the issuance of the Construction Permit.

**Installation of the DN 500 pig receiving trap on the Şendreni - Albeşti pipeline**

The procurement procedure for the execution works is in progress.

**Olt river undercrossing with Ø12" Drăgăşani – Caracal pipeline (gas supply connection of Caracal town)**

Technical documentation is under preparation.

**Rehabilitation of the Vulcăniţa river undercrossing with Ø28" Paltin - Vârf Diham and Ø20" STC Şinca - Pillar 89 pipelines, points 1,2,3 and 4 Vulcăniţa**

The procurement procedure for the execution works is in progress.

**Installing pig receiving/launching traps at Posada for Ø20" Pillar 89 - Posada and Ø20" Posada – Moşu pipelines**

The procurement procedure for the execution works is in progress.

**Securing the Horoiala river abovecrossing with Ø16" pipeline gas supply connection of Vaslui MRS, Bârlad – SRM Vaslui section, km 18+260 of the pipeline**

The execution works were contracted in June, the site was handed over and the Commencement Order was issued.

**Rehabilitation of Ø20" Hurezani - Haţeg pipeline, Gorj and Hunedoara counties: Construction works (valve enclosures, connection couplings and pressure dischargers)**

The procurement procedure for the execution works is in progress.

**Rehabilitation of Ø20" Hurezani - Haţeg pipeline, Hunedoara county: DN 66 undercrossing**

The procurement procedure for the execution works is in progress.

### **Development of the NTS transmission capacity to ensure gas flow in the Romania - Republic of Moldova direction**

Technical documentation is under preparation.

### **Development of the Romanian NTS along the Bulgaria - Romania - Hungary - Austria corridor (the BRUA Project)**

The procurement procedure for the compression groups and identification and mapping services of sensitive areas with regard to biodiversity is in progress.

### **Archaeological services**

Under procurement procedure;

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

- MRS Işalniţa – contract is concluded, the updating of the Construction Permit is in progress;
- MRS Sângeorgiu de Mureş – under procurement procedure;
- MRS Batch 3 – the MRSs procurement contract is in progress;
- Relocation, re-sizing and adaptation to land of the technological facility from MRS Câlnic to MRS Drăgăneşti Olt, Olt county- in progress;
- Relocation, re-sizing and adaptation to land of the technological facility MRS SUPERCOM Afumaţi to MRS Dragomireşti - under procurement procedure;
- Replacement of technological facilities at MRS Timişoara I - contracted, site handed over;
- Modernization of MRS IZVIN – in the design stage;
- Modernization of MRS Chişineu Cris – in the design stage;
- Modernization and terrain adaption of MRS Suceava – in progress;
- Modernization of MRS Bârcea – in progress;
- MRS Câmpina (PETROUTILAJ P. Câmpina) – in the design stage;
- Adaptation to land (11 MRSs) –MRSs Fălticeni and Dej II are in the bidding stage, the rest are in the design stage;
- adaptation to land and gas supply connection of MRS Cornăţel – to be executed by the Mediaş Subsidiary;
- Modernization and relocation of MRS Bistriţa – in the design stage;
- MRS Clinceni – making the measuring system more efficient by completing the technological equipment with the corresponding elements / equipment - in the design stage;
- MRS Fântânele (Mureş) – the work is completed and received;
- Oradea I MRS – the execution works were finalized and received.

### **Cathodic protection stations**

The cathodic protection station execution works on the Turburea – Turceni pipeline and Merfuleşti CPS were completed and received.

### **The works related to the information technology and telecommunication**

The works on the electrical network related to IT/CT equipment and redundant circuit at the Mediaş Regional Office are in progress. The achievements of Semester I represent the equivalent value of procurement of calculation technology, software and equipment.

## **Surface construction and installation works for the odorization installations.**

Contracts are in progress.

## **Works on gas transmission pipelines in operation located in incident risk areas**

- **Works for the safeguarding of pipeline Ø20" Hurezani – Bucharest (thread I), Momotești area** – in progress;
- **Works for the safeguarding of airway crossing of Ațintiș stream with pipeline DN 500 Ozd - Câmpia Turzii, in the Ațintiș area** –the works for safeguarding the crossing are partially completed and received and the coupling works will be carried out by the Mediaș Branch;
- **Works for the safeguarding of the natural gas supply connection Ø10" SRM Breaza** – works were not started due to landowners who do not allow access to the field;
- **Works for securing Ø8" Cornățel – Avrig gas transmission pipeline, Avrig area** –work procurement was not started, discussions on demolition are currently taking place with the owner of the building built without the consent of Transgaz;
- **Works for securing gas supply connection of Răcăciuni MRS, the Dumbrava tourist stop area** – work procurement was not started, discussions are currently taking place with the owner of the buildings built without the consent of Transgaz in order to remedy the situation;
- **Works for securing natural gas supply connection of Brăila MRS, the Agricultural Farm area** – work procurement was not started, discussions are currently taking place with the owner of the buildings built without the consent of Transgaz in order to remedy the situation;
- **Works for securing natural gas supply connection Vaslui MRS, Râpa Albastră area** – in the design stage;
- **The securing of Ø10" Frasin - Spătărești pipeline, Spătărești area** – in the design stage;
- **The securing of Ø8" Ocna Mureș - Aiud pipeline, zona Decea** – in the design stage;
- **The securing of Ø12" Agârbiciu - Sibiu pipeline, Slimnic area**– in the design stage;
- **Works for securing Valea Șerpilor river abovementioned with Ø24", Ø28" Șinca - Paltin and Ø20" Șinca TCS - Pillar 89 pipelines, Șinca Nouă area** – in the design stage.

## **Connections, networks and thermal installations at the administrative offices and MRSs**

The 20 thermal power plants and 19 convectors are purchased and will be installed in the administrative offices and planned MRS buildings. The other objectives in the annex are in design stage.

## **Administrative offices and production units at the Regional Offices**

The procurement procedure for the modernization works of the Cluj Sector building is in progress. The other objectives in the annex are in design stage.

## **Security and surveillance systems**

The procurement procedure is in progress.

#### **NTS access works**

Achievements of the first semester represent the equivalent of the works for the execution of the connections and MRSs for Cramele Recaș CS and SCANDIC DISTILLERIES CS. The execution works regarding the connection and the MRS for the Banca locality, Vaslui County are in progress.

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

- At the **Ø 10" Câmpulung Moldovenesc – Vatra Dornei gas transmission pipeline**, the continuing of the works in the forest area on the section designed for Pojorâta at Vatra Dornei with a length of 26,47 km, depends upon the ROMSILVA permit, necessary for obtaining the building permit, not issued until now;
- At the **Ø16" Vaslui – Iași (Vaslui – Mogoșești section) gas transmission pipeline** – the execution works are suspended because of problems related to the ROMSILVA permit for the lands located in forested area, the permit being necessary in order to obtain the building permit;

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

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

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

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

### ***3.2.3. NTS strategic development projects***

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

**transmission system during the period 2017-2026 by updating and completing the 2014-2023 TYNDP.**

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

**2017 - 2026 TYNDP** prepared in accordance with **Art. 125 (6) of Law No.123/2012 of electricity and gas**, with the objectives set in the Romania's Energy Strategy for the period 2016 to 2030 with estimations for 2050 meet the European energy policy on:

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

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

In this context, the preparation of the 2017 - 2026 TYNDP envisaged the coordination with the TYNDP, GRIP and 10 year development plans envisaged by other operators in the region.

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

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

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

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



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

**The TYNDP was approved by ANRE by Decision no. 910/22.06.2017 and is published on the company's website.**

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

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

Given the estimated potential of the natural gas reserves in the Black Sea, in order to provide transmission of the volumes retrieved from the off-shore production, needed for the domestic consumption and in case of excess volumes to ensure their export on the markets of the European Union and the Republic of Moldova, **SNTGN TRANSGAZ S.A.** intends to implement in the coming years, an ambitious plan for the development of the gas transmission infrastructure of about EURO 1,6 billion which aims to contribute to the development of a regional energy corridor.

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



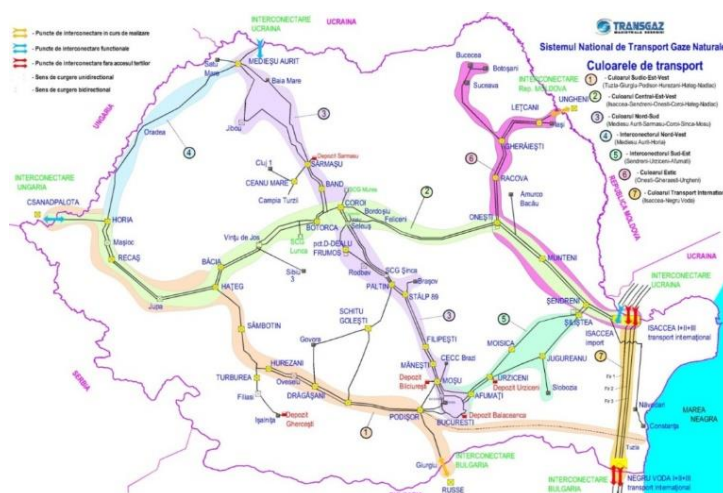


Fig. 6- NTS gas transmission routes

## 1. Development on the national gas transmission system on the Bulgaria – Romania – Hungary – Austria corridor

The project aims to create gas transmission capacity between the interconnection points of the Romanian and the Hungarian systems, and the Romanian and Bulgarian systems. For this purpose it is necessary to construct a pipeline approximately **529 km** long on the **Podisor - Corbu - Hateg - Horia** route and **3 new compression stations at Jupa, Bibesti and Podisor**.

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

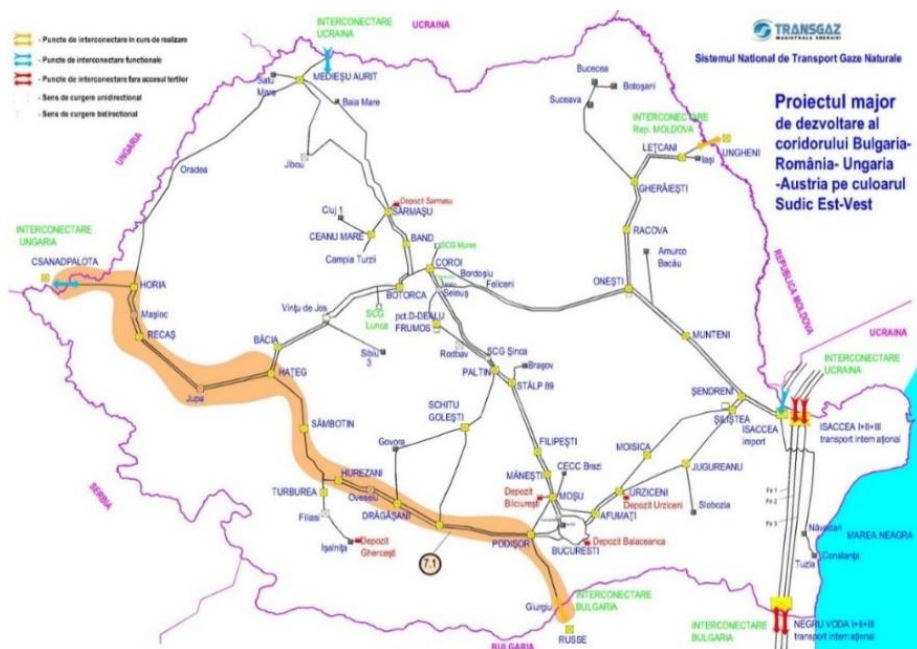


Fig. 7- BRUA Corridor

Transgaz envisages the staged development of the BRUA Project:

### Stage I

- Podișor-Recaș 32" x 63 bar gas transmission pipeline, approximately 479 km-long;
- Three gas compressor stations (CS Podișor, CS Bibesti, CS Jupa) each station being equipped with two compressor units with the possibility to ensure bidirectional gas flow.

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

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

### Stage II

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

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

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

### Project development updated calendar

Development stages	Status/Estimated completion date
Pre-feasibility study	completed
Feasibility Study	completed
Obtaining the environmental permit	completed
Technical documentation for obtaining construction permits	completed for the pipeline and for the compressor stations
Obtaining construction permits	February 2017 for the pipeline February 2017 for the compressor stations
Taking the final investment decision Stage 1	2016
Construction Stage 1	November 2019
Commissioning Stage 1	December 2019
Start of operation Stage 1	December 2019
Taking the final investment decision Stage 2	December 2018/February 2019*
Construction Stage 2	2020*
Commissioning Stage 2	2020*
Start operation Stage 2	2020*

\* The completion of Stage 2 will depend on the successful Open Season.

**Estimated completion date:** 2019 for Stage 1, respectively 2020 for Stage 2

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

- Stage 1: Euro 478,6 million

- Stage 2: Euro 68,8 million

#### **Inclusion of the Project in international plans**

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

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

#### **Current status**

##### ***Obtaining of permits and authorizations necessary for the initiation of the execution works***

As a result of the successful completion of the environmental procedure according to the specific legislation, in December 2016, the National Environmental Protection Agency issued the Environmental Permit for the BRUA Project (Phase 1 and Phase 2). Also, based on the technical documentation submitted, the Construction Authorization issued by the Ministry of Energy for Phase 1 of the project was obtained in February 2017, authorizing the execution of the construction works for both the pipeline and the compressor stations.

On 19 December 2016, Transgaz sent the BRUA Phase 1 project application file to the Ministry of Energy's Competent Authority for PCIs (ACPIC), with a view to issuing an exhaustive decision (under EU Regulation 347/2013). The exhaustive decision is the decision or the set of decisions taken by the ACPIC which determines whether or not the project promoter is granted the authorization to construct the energy infrastructure for the project. The Competent Authority for PCIs is responsible for facilitating and coordinating the authorization procedure for the Projects of Common Interest. The application file was accepted by ACPIC at the end of February 2017.

##### ***Completion of design documents***

The FEED for the pipeline was developed and finalized by Transgaz through the Design and Research Division.

The FEED for the compression stations was completed in June 2017 by Gornicze Biuro Projektow PANGAZ Sp. z.o.o.

The FEEDs will be the basis for the procurement of the execution works both the pipeline and the compressor stations.

##### ***Procurement of long lead materials and equipment***

In December 2016 the procurement procedures for the following materials were launched on the Electronic Public Procurement Platform (SEAP):

- Pipe material and bents;
- Valves;
- Compressors;
- Electroinsulating joints.

At the end of semester I 2017 the four of procurement procedures above are in the bid assessment phase.

### **Procurement of execution works**

In May 2017 the procurement procedures for the following materials were launched on the Electronic Public Procurement Platform (SEAP):

- Pipeline execution works;
- Pipeline automation and securing works.

At present the procedures are in the awarding documentation clarification stage, as clarifications requested by potential bidders were requested before bid submission. The bid submission deadline is 28 July 2017.

At the same time completion of awarding documentation for the execution of the compressor stations is in progress.

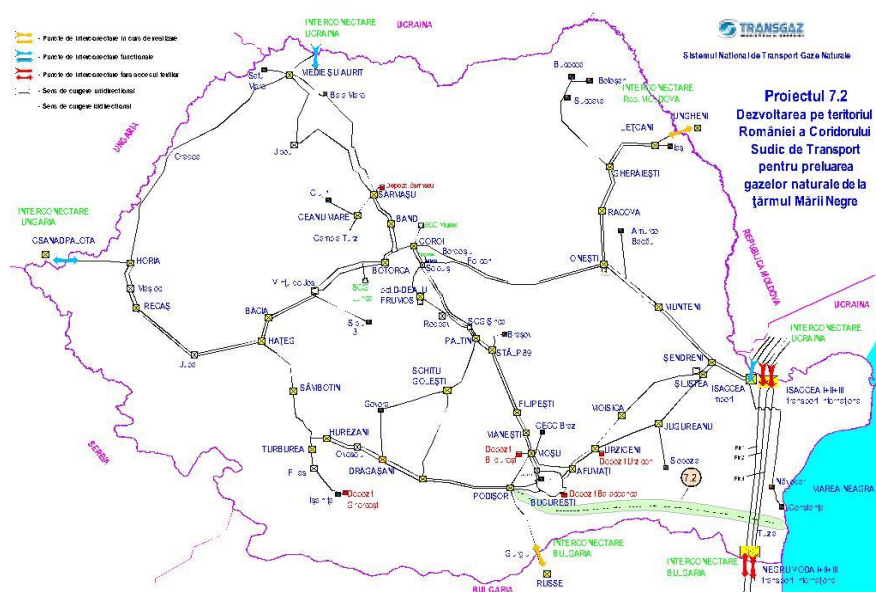
### **Project financing**

For the financing of the three compressor stations for the BRUA Project SNTGN Transgaz SA signed with INEA, Department C- CEF the grant agreement for EUR 1,519,342, which is 50 % of the estimated eligible costs for the designing of the compressor stations.

On 9 September 2016 Transgaz and the European Commission represented by INEA signed the grant agreement at Budapest, for a grant amounting to EUR 179.32 million for the implementation of BRUA Phase 1.

In order to obtain the project financing, Transgaz, together with external consultants, made an additional environmental impact assessment as well as various management plans which meet the International Financial Institutions (IFI) requirements and standards of social and environmental performance.

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



**Fig. 8 – Black Sea - Podișor Southern Corridor**

The major goal of this investment is to create a transmission infrastructure connecting the natural gas available at the Black Sea to the corridor BULGARIA - ROMANIA -

HUNGARY - AUSTRIA, thus ensuring the possibility of steering gas towards Bulgaria and Hungary through existing interconnectors Giurgiu - Ruse (Bulgaria) and Nădlac - Szeged (Hungary).

This pipeline will also be interconnected with the current T1 international gas transmission pipeline.

### **Project development updated calendar**

<b>Development stages</b>	<b>Status/Estimated completion date</b>
Prefeasibility study	completed
Feasibility study	completed
Environmental impact assessment	December 2017
Technical documents for obtaining the construction permits	February 2018
Obtaining the construction permits	March 2018
Taking the final investment decision Stage 1	2018
Construction	2020
Commissioning/ Start of operation	2020

### **Estimated completion date: 2020**

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

**Estimated value:** Euro 278, 3 million.

### **Inclusion of the Project in international plans**

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

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

### **Current status**

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

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

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



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

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

This project is very important because:

- By its implementation it is created a transmission corridor between the markets in Greece, Bulgaria, Romania and Ukraine, in the conditions in which the new interconnection between Greece and Bulgaria is achieved;
- The transmission contract for the capacity of the Transit 1 pipeline expired on 1 October 2016. Starting with gas year 2016-2017, the transmission capacity of the Transit 1 pipeline is auctioned according to the European Code on capacity allocation mechanisms at the cross-border interconnection points and to ANRE Order no. 34/2016;
- Physical reverse flows could be ensured at the Negru Voda 1 point in accordance with Regulation (EU) 994/2010;
- The project is necessary also in the context of the taking over of the newly discovered gas in the Black Sea by the Romanian gas transmission system, in order to sell them on the Romanian market and on the regional markets.

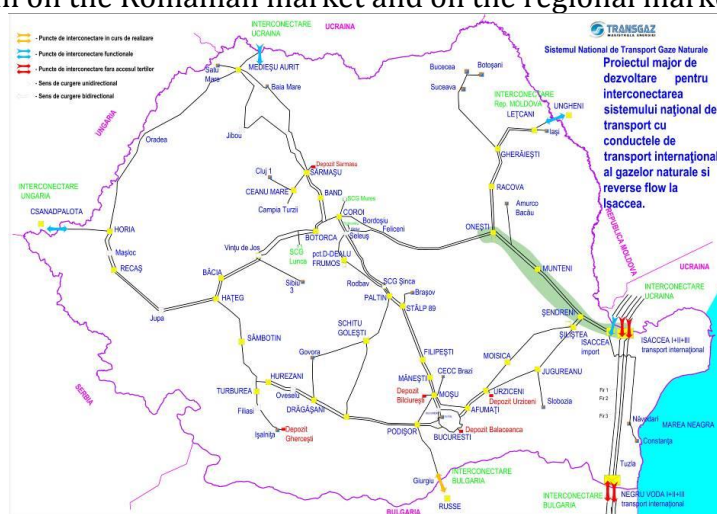


Fig. 9 – NTS/Transit 1 Interconnector at Isaccea

The project **description**:

The projects consists of the following:

- Upgrading and extension of the Siliștea compressor station;
- Upgrading and extension of the Onești compressor station;
- Isaccea 1 GMS interconnection (NTS with Transit 1);
- Rehabilitation of the pipe sections Cosmești – Onești (66, 2 km) and Siliștea - Șendreni (11, 3 km).

### Estimated project development calendar:

Development stages	Status/Estimated completion date
Prefeasibility study	completed
Feasibility study	in progress
Environmental impact assessment	November 2017
Technical documents and obtaining the construction permit	November 2017
Obtaining the construction permit	December 2017
Taking the final investment decision	2017
Construction	2019
Commissioning/Start of operation	2019

**Completion deadline:** 2019

**Estimated value:** EURO 65 million

### Cost break down:

Upgrading and extension of Siliștea CS	Euro 27,5 million
Upgrading and extension of Onești CS	Euro 27,5 million
Developments GMS Isaccea	Euro 1 million
Rehabilitation of pipeline sections	Euro 9 million
<b>TOTAL</b>	<b>Euro 65 million</b>

This project was included in the TYNDP edition of 2017 and is also on the second list of **European projects of common interest with no. PCI 6.15, part of the NSI EAST Priority Corridor.**

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

As far as funding is concerned, Transgaz intends to obtain non-reimbursable European funds.

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

Considering the necessity to improve the gas supply of the north-eastern region of Romania and taking into account the perspective offered by the new interconnection pipeline between Romania and the Republic of Moldova (Iași - Ungheni) to provide transmission capacities to/from the Republic of Moldova, a series of developments are necessary with regard to the Romanian gas transmission system for ensuring technical parameters appropriate to the consumption requirements of the regions concerned.



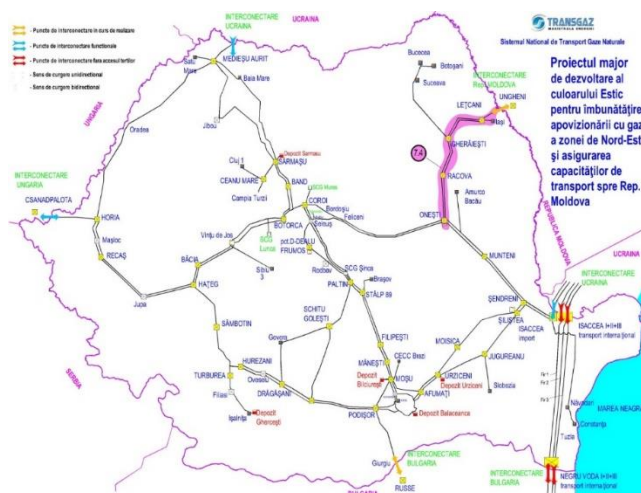


Figure 2 - NTS developments in North - Eastern Romania

## Project Description:

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

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

## The project development calendar

Development stages	Status/Estimated completion date
Solution study	completed
Feasibility study	updated and submitted to Jaspers
Completion of FEED for pipelines	in progress
Completion of FEED for compressor stations	in progress
Obtaining pipeline construction permits	2017
Obtaining construction permits for the compressor stations	2017
Construction	2018 - 2019
Commissioning/Start of operation	2019

**Estimated completion date: 2019**

**Estimated value:** EUR 131,7 million, broken down as follows:

Onești-Gherăiești gas transmission pipeline	EUR 59,8 million
Gherăiești-Lețcani gas transmission pipeline	EUR 33,8 million
Onești compressor station	EUR 19,8 million
Gherăiești compressor station	EUR 18,3 million
<b>TOTAL</b>	<b>EUR 131,7 million</b>

### **Inclusion of the project in international plans**

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

### **Current status**

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

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

The procedure related to the environmental impact assessment was completed and the environmental permit was obtained.

Currently, within Transgaz' Research and Design Division **the FEED is being prepared** for the gas transmission pipeline. The registered progress is approximately 65%.

As for the design and execution of the Compressor Stations the **Tender Book** is being prepared.

## **5 Extension of the Bulgaria - Romania - Hungary - Austria bidirectional gas transmission corridor (BRUA Phase 3)**

Assuming that the transmission capacity necessary for transmission Black Sea gas to the Central and Western European markets exceeds the transmission potential of the BRUA Corridor Phase 2 TRANSGAZ planned the development of the **central corridor**, which basically follows the pipeline route of the current system, but currently operates at inappropriate technical parameters for a main pipeline.

### **Project description:**

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

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

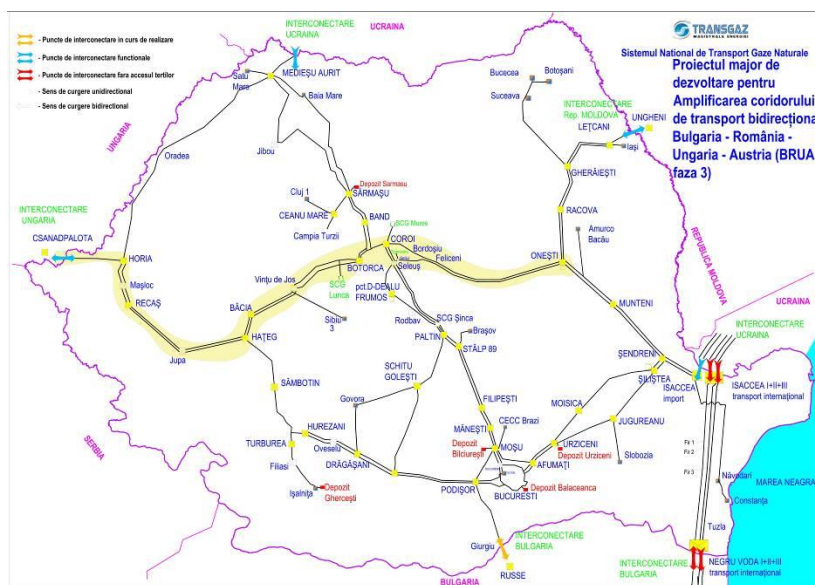


Fig. 3 - BRUA Phase 3 development

Transgaz developed the pre-feasibility study for the development of **this gas transmission corridor**, and in order to enhance and streamline both the implementation process and the possibilities of obtaining a grant, the **corridor** was divided into two projects the implementation of which will meet the goals set for the achievement of this gas transmission corridor.

#### The two projects are:

1. Ensuring reverse flow on the Romania-Hungary interconnection:
  - **PCI Project:** 6.25.3;
  - **Priority corridor:** NSI EAST.

#### The project will consist of the following:

- New Băcia – Hătege – Horia - Nădlac gas transmission pipeline approximately 280 km-long;
  - Two new gas compressor stations located on the route.
2. Development of NTS between Onești and Băcia:

- **PCI Project:** 6.25.3.
- **Priority corridor:** NSI EAST

#### The project will consist of the following:

- Rehabilitation of pipeline sections;
- Replacement of existing pipelines with new pipelines with higher diameter and operating pressures;
- Two or three new gas compressor stations

The above projects were grouped into the updated list (List 2/2015) of projects of common interest published in November 2015 as an annex to Regulation 347/2013 and

are included at position 6.25.3 as *Further enlargement of the Bulgaria — Romania — Hungary — Austria bidirectional transmission corridor (BRUA, phase 3)*.

**Estimated completion date: 2023**

**Estimated value: EURO 530 million**

**Status of the project**

Until now the **pre-feasibility study was completed**.

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

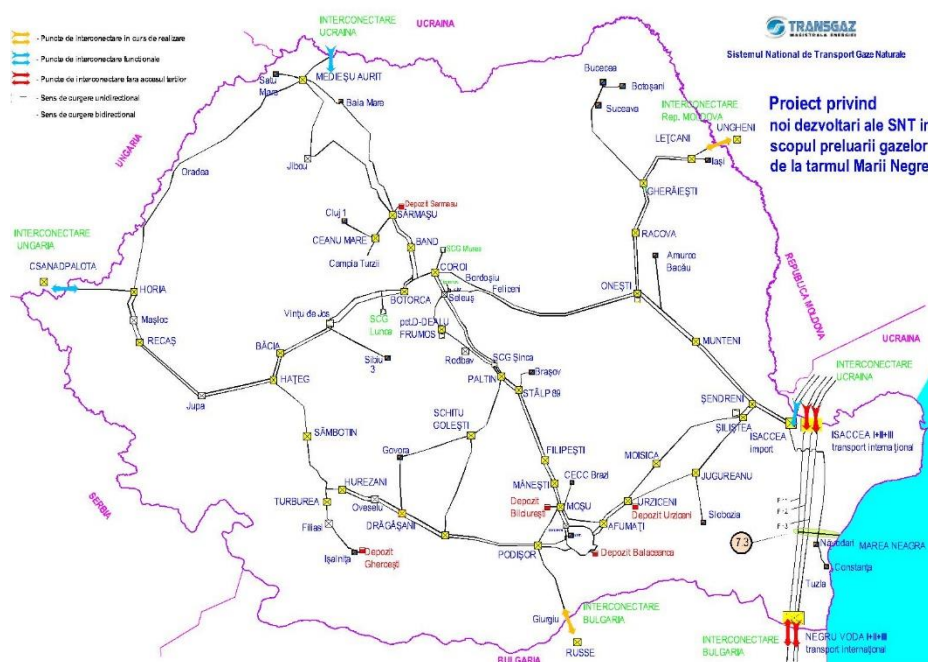
This project promoted by Transgaz was included in the updated list of Projects of Common Interest published on the European Commission's website on 18 November 2015.

## 6 Project on new NTS developments the taking over Black Sea gas - new project

Considering the gas resources recently discovered in the Black Sea, Transgaz intends to extend the NTS to create additional point for taking over Black Sea gas from the offshore Black Sea blocks.

This project became necessary following the discussions had/initiated by Transgaz in 2015 with Black Sea block exploration and development license holders.

Transgaz completed the pre-feasibility study for a Dn 500 25 km transmission pipeline from the Black Sea shore to the existing T1 international transmission pipeline. The study analyses two routes of the gas transmission pipeline and different diameters depending on the transmission capacity.



*Fig. 4 – NTS Black Sea developments*

**Estimated project development schedule:**

Development stages	Stage / Estimated completion date
Pre-feasibility study	completed
Feasibility study	completed
Technical documentation for obtaining construction permits	October 2017
Obtaining Construction permits	October 2017
Taking the final investment decision	October 2017
Construction	Q III 2019
Commissioning / start of operation	Q III 2019

**Estimated completion deadline:** 2019, depending on the offshore upstream project schedules.

**Estimated investment value:** EUR 9 million.

***7. Romania - Serbia interconnection - interconnection of the national gas transmission system with the similar natural gas transmission system in Serbia - new project***

In order to increase the level of energy security in the region, Romania will sign in Lujy 2017 a memorandum of understanding with Serbia for the construction of an interconnection pipeline.

The analyzed option of natural gas export to Serbia is the taking over of gas from the future BRUA pipeline (Phase I, II and III). The closest BRUA pipeline point on the border between Romania and Serbia is Mokrin, in the Arad area.

**The project Interconnection of the national gas transmission system with the similar natural gas transmission system in Serbia** consists of the construction of an approximately 80 km-long pipeline for the interconnection of the national natural gas transmission system with the similar natural gas transmission system in Serbia on the Arad-Mokrin direction.



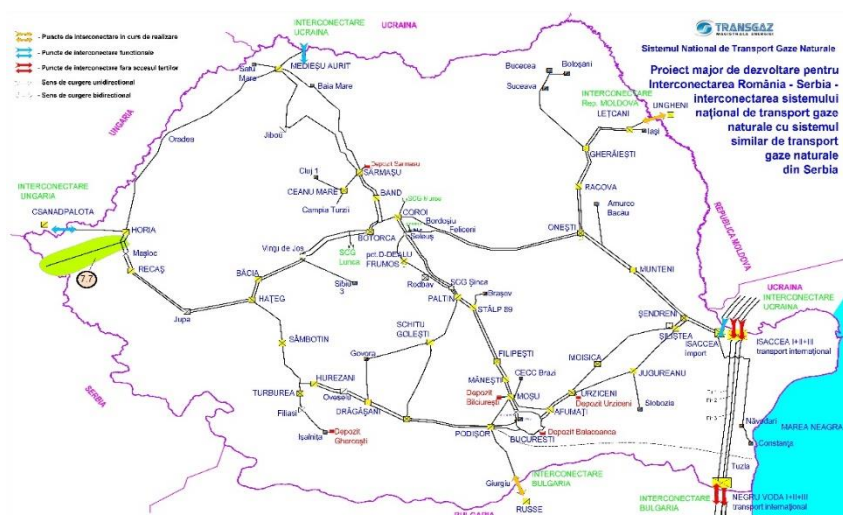


Fig. 5. Interconnection of NTS with Serbia in the Arad - Mokrin direction

### Project description:

The project will consist of the following:

- Construction of a new interconnection pipeline in the Arad - Mokrin direction, approximately 80 km long, of which approximately 74 km on the territory of Romania and 6 km on territory of Serbia, with the following characteristics:
  - ✓ BRUA pipeline pressure in the Arad area: 47 bar (NP BRUA – 63 bar);
  - ✓ Interconnection pipeline diameter : 500 mm ;
  - ✓ Transmission capacity: max. 1 bcm/year (115, 000 Smc/h), pressure at Mokrin: 42 bar ;
  - ✓ Transmission capacity: max. 1,6 bcm/year (183 000 Smc/h), pressure at Mokrin: 35 bar.
- Construction of a gas metering station (can be located in Romania or in Serbia).

### Estimated project development schedule

Development stages	Stage / Estimated completion date
Feasibility Study	2019
Design	2020
Technical documentation for obtaining construction permits and the Construction Permit	2021
Bidding and procurement documentation	2022
Construction	2023 - 2025
Commissioning / Start of operation	2026

### Estimated completion deadline: 2026

### Total investment estimated: EUR 43 million (25 Euro/inch-m) of which :

- EUR 37 million for the pipeline on Romanian territory
- EUR 3 million for the pipeline on Serbian territory

- EUR 3 million for the gas metering station (can be located in Romania or in Serbia)

The export of natural gas to Serbia will be achieved after the completion of the BRUA project.

If natural gas is taken over from Serbia to Romania, it can be directed to consumption in the Timișoara - Arad area via the DN 600 Horia - Mașloc - Receaș (25 bar) pipeline, at lower pressures than in the BRUA pipeline.

## 7.8 Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS– new project

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

- **Interconnection Agreement for the Isaccea 1 Interconnection Point**, concluded with PJSC Ukrtransgaz, Ukraine, on 19 July 2016;
- **Interconnection Agreement for the Negru Vodă 1 Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 19 May 2016.

The modernization of the gas metering stations at the two interconnection points is included in these Agreements.

**The project Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS** consists of the construction of two new gas metering stations within the existing premises of the metering stations.

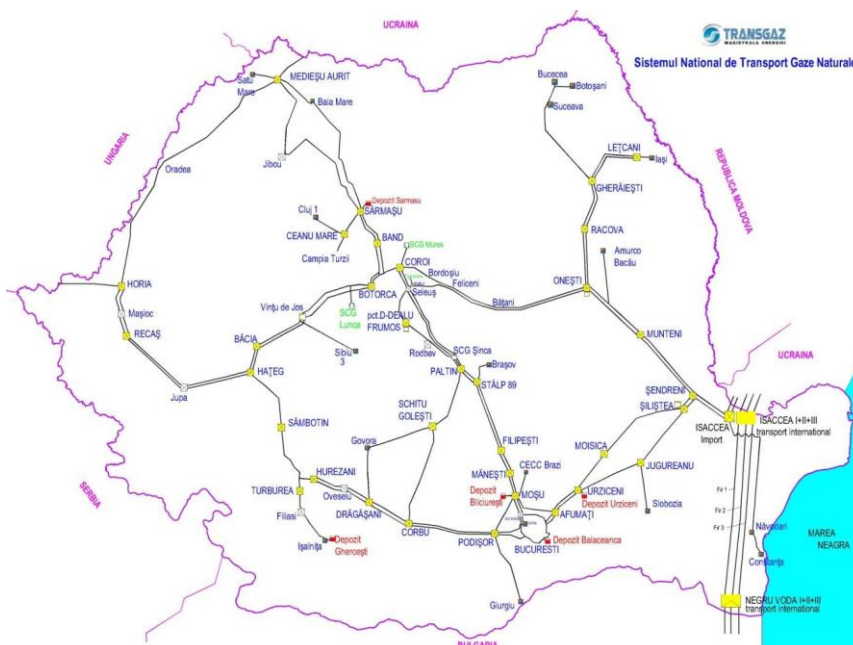


Fig. 6- Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS

### Project description:

#### 1. Isaccea 1 Gas Metering Station



The upgraded metering station will be equipped with a separation / filtering installation and a metering installation:

- Separation / filtering is provided by a separation / filtration battery. Filtration fineness will be of 10-12 microns.
- The metering installation will consist of several parallel (operating and backup) metering lines provided with ultrasonic meters for metering the quantities of gas delivered, each line having three independent measurement systems (Pay, Check and Control). The Pay and Check independent systems will use dual ultrasonic meters, and the Control systems will use a simple ultrasonic meter.

The number of metering lines is sufficient to allow metering of gas to be delivered through the GMS. The number of operating lines will depend on the gas quantities to be circulated through the SMG. In order to verify the traceability of ultrasonic meters on the metering lines, ultrasonic meters will be periodically connected in series with a reference meter line provided with a turbine meter.

If one of the systems no longer complies with established standards and / or error limits, the relevant metering line will be closed and withdrawn from normal operation until the remediation of the causes which led to the relevant disfunctionalities.

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

## **2. Negru Vodă 1 Gas Metering Station**

The upgraded metering station will be provided with a separation / filtering installation and a metering installation:

- Separation / filtering is provided by a separation / filtration battery. Filtration fineness will be of 10-12 microns.
- The metering system will consist of several parallel metering (operating and backup) lines provided with ultrasonic meters for metering the quantities of gas delivered, each line being provided with two independent metering systems (Pay and Check). The Pay and Check independent systems will use dual ultrasonic meters.

The number of metering lines is sufficient to allow metering of gas to be delivered through the GMS. The number of operating lines will depend on the gas quantities to be circulated through the SMG. In order to verify the traceability of ultrasonic meters on the metering lines, ultrasonic meters will be periodically connected in series with a reference meter line provided with a turbine meter.

If one of the systems no longer complies with established standards and / or error limits, the relevant metering line will be closed and withdrawn from normal operation until the remediation of the causes which led to the relevant disfunctionalities.

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

**Estimated completion deadline: 2019**

**Estimated total investment: EUR 13.9 million of which:**

- EUR 7,1 million for the modernization of Isaccea 1 GMS
- EUR 6,8 million for the modernization of Negru Vodă 1 GMS

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

### ***3.3 Analysis of the corporate activity***

#### ***3.3.1 Activity on the capital market***

**SNTGN TRANSGAZ SA**, a dynamic company capable of aligning its business with the current domestic and international requirements, managed to perform on the capital market, occupying **in the first 6 months of 2017 the 5th place in traded value and the 4th place in number of transactions in Top 10 trading on the Bucharest Stock Exchange.**

**The TGN share** is a portfolio, attractive share, because of the object of activity of the company, the status of monopoly held by Transgaz in the transmission of natural gas, the position of the company on the national and international energy market, the robust financial profile and the company's ability to generate performance, stable and predictable income and an attractive dividend policy. For 2016 it was approved in the 27.04.2017 OGMS a gross dividend per share amounting to RON 46.33, applying the rate of 90,00473 of the accounting profit remaining after the deduction of the income tax, according to GO 64/2001 and the provisions of OMPF no.144/2005, and by the Government Memorandum approved on 27 January 2017, the state representatives were mandated in the General Meeting of the Shareholders/Board of Administration to decide on the allocation of minimum 90% of the net profit obtained in 2016 as dividends.

#### **TGN Share**

In the first 6 months of 2017, TGN's share followed an upward trend, with the exception of the most recent period when it had a 13% depreciation on 26 June 2017. Thus, on the last trading day of January 2017, the closing price of the TGN share was RON 323,00/ share, 24% more than at the end of January 2016. Then in February the closing price of the TGN share had floating values, registering at the end of February 2017, amid the publication of the preliminary financial results for the year 2016, the value of RON 362.00 / share. Subsequently, in March, the upward trend continued, reaching RON 379.00 / share on 31 March 2017, which is 41% more than in the same period of the previous year. In April 2017, TGN's share stood at around RON 379 / share, after which in May it started to increase constantly, **reaching the value of RON 459/ share on 6 May 2017, the historical maximum from the listing until the present time.**

The high values recorded by TGN's share were mainly due to the following factors: 18% increase of the gross profit for 2016 compared to the achievements of 2015, the announcement regarding the payment of a gross dividend per share for the financial year 2016 amounting to RON 46.33, By applying a 90.00473% share of the remaining profit after deducting the profit tax and publishing the information on the distribution of dividends from the reserves and the result carried forward on 31 December 2016.

Subsequently, amid the non-approval by Transgaz General Meeting of the Shareholders of 19 June 2017 of the allocation of additional dividends and the disbursement of the TGN share after the dividend payment date of 27 June 2017, TGN's share registered a constant depreciation, reaching, RON 358 / share at the end of the semester I 2017, a value higher than RON 272 / share recorded at the end of the semester I 2016.

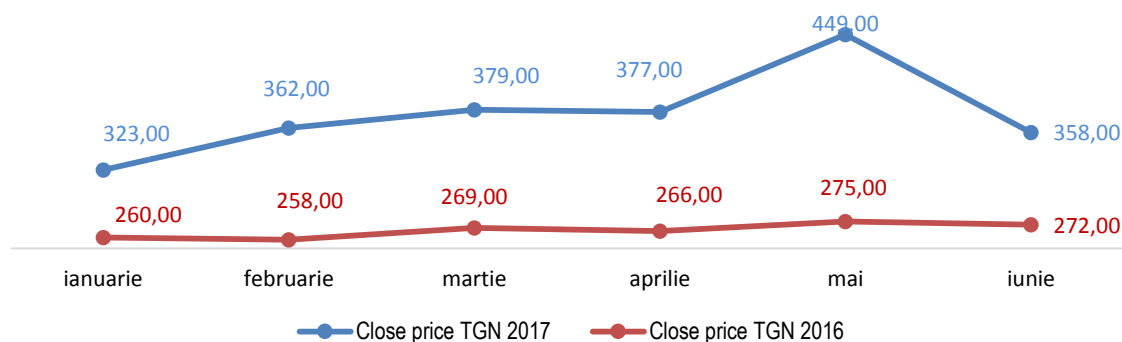
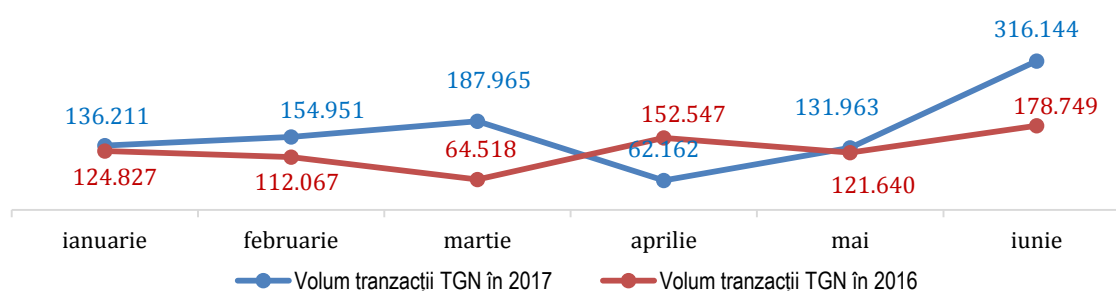


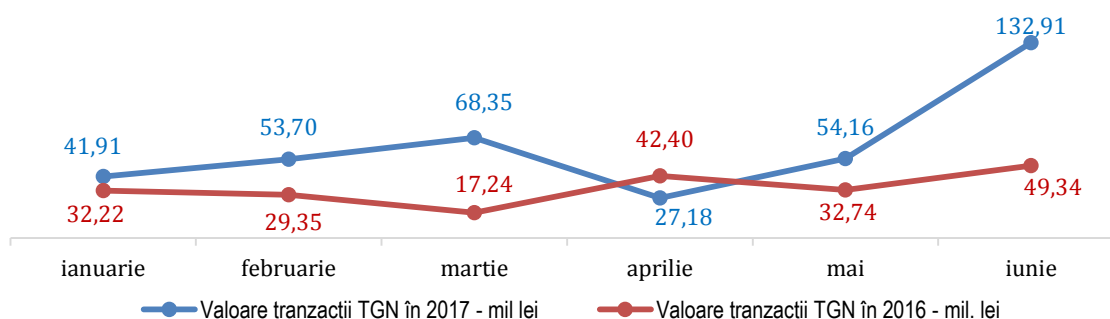
Chart 1 - Average closing price of the TGN share in 2017 versus 2016

Traded volumes and transaction values recorded increased in the period ended on 30 June 2017, mainly due to the high dividend paid to shareholders for financial year 2016. Compared to the semester I 2016, the traded volumes and transaction values in the period ended on 30 June 2017 recorded higher values, except for April when they declined significantly, with the investors' waiting for the approval of the annual financial statements and the dividend value for financial year 2016.



TGN transaction volume in 2017 TGN transaction volume in 2016

Chart 2 - Volume of TGN Transactions in the Sem I 2017 vs Sem I 2016



TGN transaction volume in 2017 - RON mil. TGN transaction volume in 2016 RON mil

Chart 3 - Volume of TGN Transactions in the Sem I 2017 vs Sem I 2016

## The main corporate events that influenced the share price in Sem. I 2017

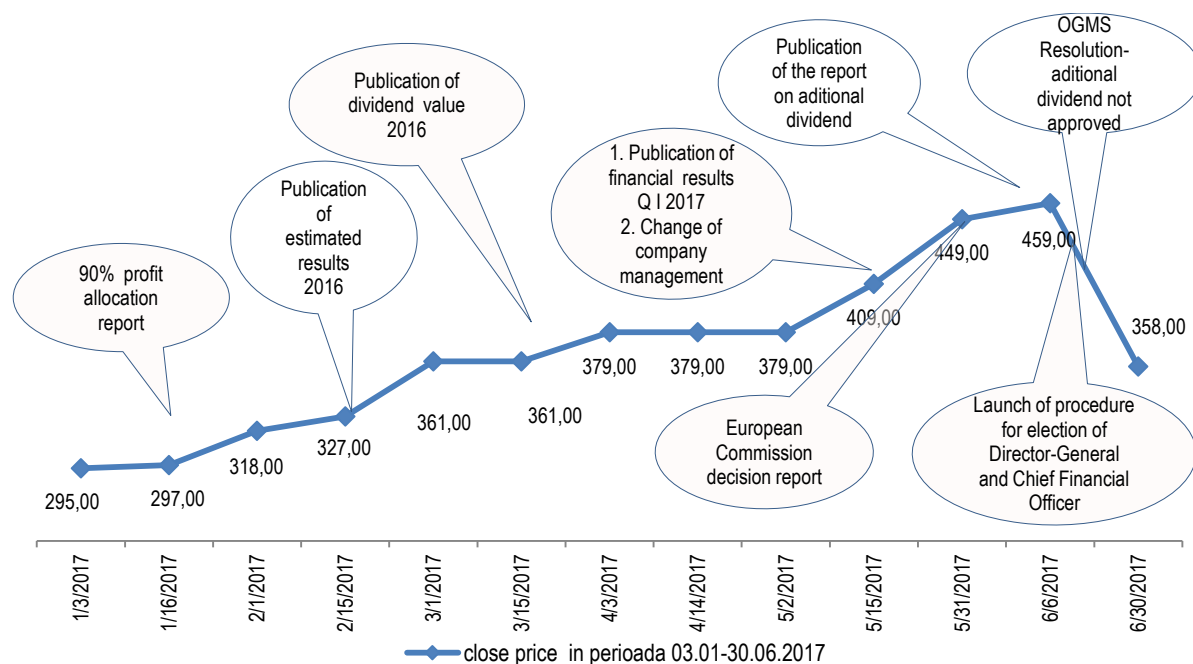


Chart 4 – The main corporate events which influenced the share price in Sem. I 2017

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

Date	P/BV	PER*	DIVY	EPS
30.06.2017	1,10	7,09	12,94	50,50
30.06.2016	0,90	6,55	10,15	41,51

\*values reported on 31 December 2016 and 31 December 2015

Where:

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

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

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

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

In the period ended 30 June 2017 the four stock exchange indices P/BV (ratio between price and accounting value of a share), PER stock indicators (stock price/earnings per share) and dividend yield (DIVY) as well as EPS (profit per TGN share) recorded increases compared to the same period of 2016.

Increased dividend yield (DIVY) is due to increased distribution rate applied at the breaking down of the company's profit s dividends, from 65.01977% in 2016 to 90.00473% of the accounting profit remaining after deduction of income tax in 2017.

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	13,0	2,4	10,9
SNAM SpA	Italy	14,6	2,0	12,0
Fluxys	Belgium	32,9	2,5	11,5
<b>Media</b>		<b>20,16</b>	<b>2,3</b>	<b>11,4</b>
<b>Transgaz</b>	<b>Romania</b>	<b>11,1</b>	<b>1,2</b>	<b>5,1</b>
Premium /Discount		45%	48%	55%

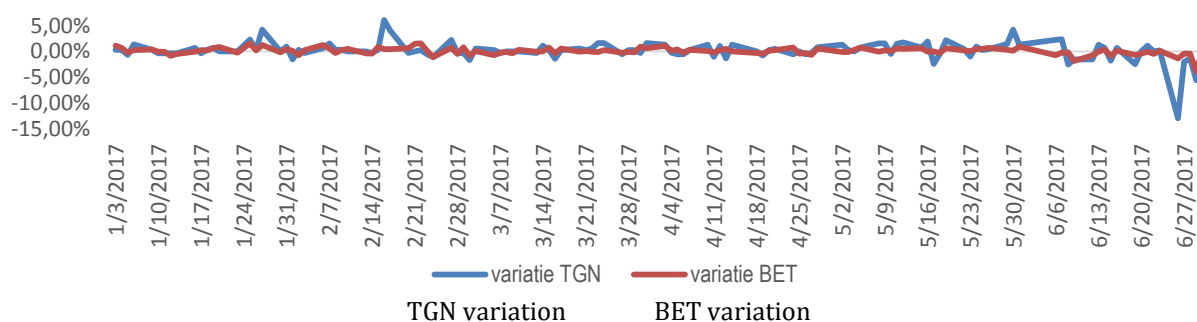
Source: Bloomberg 17.07.2017

Table 34 - The value of Transgaz stock exchange indices compared to similar companies in Europe

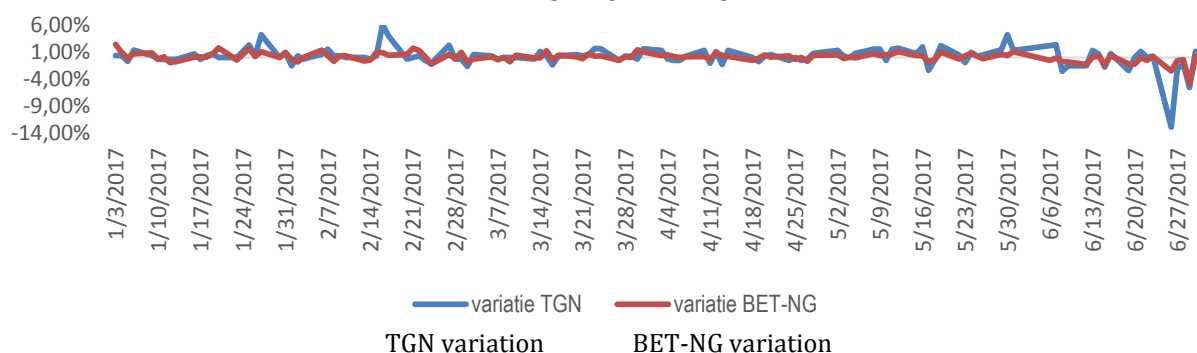
### TGN weight in the composition of stock indices (BET, ROTX, BET-NG, BET-TR, BET-XT, BET-BK)

STOCK EXCHANGE INDEX	TGN Share on 30 June 2017	Position occupied in index
<b>BET</b> (BVB reference index, represents the 10 most liquid companies listed on BVB)	6,36%	7
<b>ROTX</b> (weighted price index with free float capitalization and real-time movement of "blue chip" shares traded on BVB)	4,44%	8
<b>BET-NG</b> (sectoral index / energy - utilities)	13,13%	4
<b>BET-TR</b> (yield index refers to the free-float of each company and limits to 20% the maximum share of a company in the index)	6,89%	7
<b>BET-XT</b> (blue-chip index, reflects the evolution of the most liquid 25 traded companies)	5,86%	7
<b>BET-BK</b> (benchmark index, calculated as a weighted price index with the free float capitalization of the most traded companies listed on the BVB regulated market)	4,46%	17

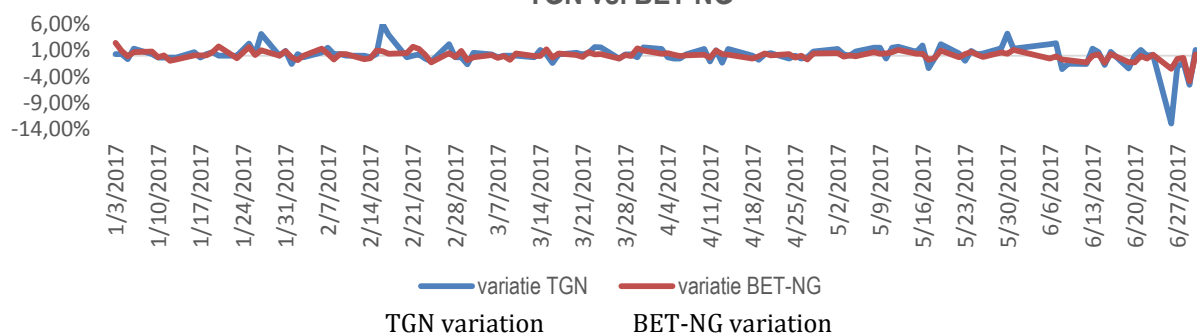
### TGN vs. BET



### TGN vs. BET-NG



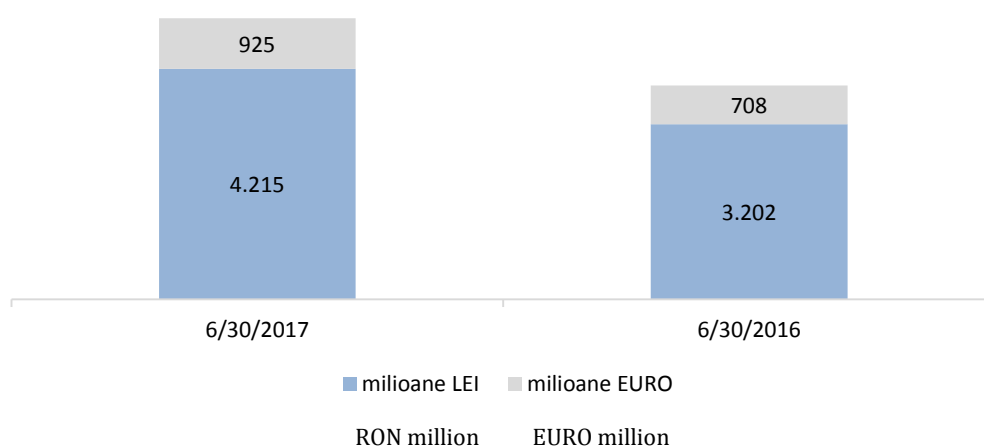
### TGN vs. BET-NG



## Stock exchange capitalisation

Currency	2017		2016	
	03.01.2017	30.06.2017	04.01.2016	30.06.2016
RON	3.473.283.980	4.215.036.152	3.237.807.100	3.202.485.568
EURO	768.850.909	925.588.211	716.820.629	708.357.790
Euro/BNR rate of exchange	4,5175	4,5539	4,5169	4,5210

The stock market capitalization of the company on 30 June 2017 was RON 4.21 billion (EUR 925 million), meaning RON 1.012 million (~ EUR 217 million) above the level recorded at 30 June 2016.



*Chart 5 –Evolution of Transgaz Stock Market Capitalization in Sem I 2017 vs Sem I 2016*

## Shareholding structure

According to GEO no. 1/04.01.2017 on measures in the central public administration, amending and supplementing certain normative acts, **the Ministry of Economy** was created by the reorganizing of the Ministry of Economy, Trade and Relations with the Business Environment. On 02.03.2017 the amending of the identification data of the account holder the Romanian State through the Ministry of Economy, Trade and Relations with the Business Environment in the Romanian State through Ministry of Economy was registered at S.C. Depozitarul Central S.A

Transgaz shareholding structure on 27.06.2017

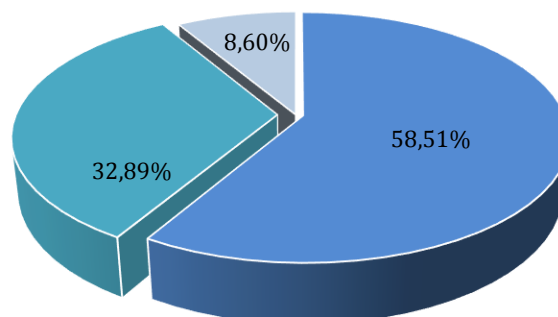
Shareholder name	Number of shares	Percentage %
The Romanian State represented by the Ministry of Economy	6.888.840	58,5097
Free float – Other shareholders of which:	4.885.004	41,4903
natural persons	1.012.243	8,5974
legal persons	3.872.761	32,8929
Total	11.773.844	100,00

*Table 35 - Transgaz Shareholding Structure*

Share capital of Transgaz as on 30 June 2017 is of RON 117,738,440 and is divided into 11,773,844 nominative shares, each share having a nominal value of RON 10.



## TGN Shareholding structure at 27 June 2017

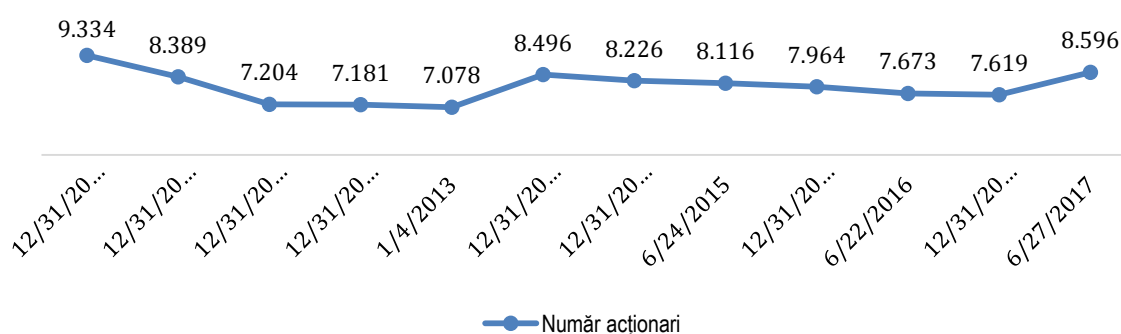


■ ME ■ Legal Persons ■ Natural persons

Chart 6 – Shareholding structure

## Evolution of the number of shareholders:

Regarding the **number of shareholders**, according to the Transgaz shareholders' register at the reference date of 27 June 2017, 8,596 shareholders are registered, meaning 923 more shareholders than on 22 June 2016.



—●— Număr acționari

Number of shareholders

Chart 7-Number of Transgaz shareholders from the listing and until 27 June 2017

## Dividend policy

In 2017, the proposal for setting the dividend value for financial year 2016 was made by applying 90.00473% to the allocation of profit as dividends. The allocation share according to the 2016 revenue and expense budget approved by OGMS Decision no. 1/21 March 2016 was 50% and by the Government Memorandum, the state representatives were mandated in the General Meeting of the Shareholders / Board of Administration to decide on the allocation of a share of at least 90% of the net profit obtained in 2016 as dividends / payments to the state budget.

Thus, according to Decision no. 1 of the Ordinary General Meeting of Shareholders dated 27 April 2017, published in Official Journal of Romania, Part IV, no.1638/15.05.2017 Transgaz will pay the dividends for financial year 2016 through Depozitarul Central SA

and BRD Groupe Societe Generale, the designated payment agent, starting from 18 July 2017 (date of payment) for the shareholders registered on the registration date 27 June 2017, the gross dividend/share being RON 46,33.

By comparison, the gross dividend value for financial year 2016 is almost double the value of RON 27.61/ share, related to the gross dividend for financial year 2015, thus yielding a return of 12.94% of the closing price at 30 June 2017.

#### **Transgaz's intention to purchase own shares**

Not applicable

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

Not applicable.

#### **Bonds and/or other debt securities**

Decision no. 4 of the Extraordinary General Meeting of Shareholders as of June 16<sup>th</sup> 2015 approved the commencement of the procedure on the issue of corporate, unsecured, non-convertible in stock bonds with a maximum value of RON 500 million, with a fixed interest of maximum 4, 5% with a due date within minimum 5 years in order to finance the 2014-2023 TYNDP.

#### **3.3.2 Significant mergers or reorganizations during the financial year**

In semester 2017 no mergers or reorganizations took place at the company level.

#### **3.3.3 Corporate Governance**

*Corporate governance refers to the division of rights and responsibilities between the categories of participants to the company activity, such as the board of administration, managers, shareholders and other interest groups, while specifying how decisions are made as regards the company activity, how strategic objectives are defined, which are the means of attaining them and how is economic performance monitored.*

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

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

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

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

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

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

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

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

Thus, on **22 September 2015** a **new Corporate Governance Code** was launched related to the listed companies on the main market. The new code was designed by BSE with the support of the European Bank for Reconstruction and Development (EBRD) as part of a new corporate governance framework applicable as of 4 January 2016 and aims to promote higher standards of governance and transparency of listed companies.

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

sections entitled "Provisions to be observed" will be reported to the market as of 4 January 2016 as a current report.

Transgaz is in full compliance with most provisions of the new Code and the provisions the company does not yet comply with, respectively A.2., A.6., A.8., C.1., D.1.4., D.2., and D.3 were presented explicitly in a current report submitted to BSE in January 2016, published on the company's website in the section: Investor Relations / Current Reports / 2016.

In the OGMS of 23 June 2016 Transgaz shareholders approved at Art. 1 the new Rules of procedure and organization of TRANSGAZ's Board of Administration, including provisions for the management of conflicts of interest, the company also complying with the provisions of A.2. and A.6. of the new Code. Any subsequent compliance that the company will achieve in this regard will be reported to the capital market.

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

In Semester I 2017, the Company concluded the following juridical documents with companies in which the Romanian State exercises direct or indirect control and whose total value represents at least the RON equivalent of EUR 50,000:

<b>Contract data</b>	<b>Contract clauses</b>
<b>Contract Parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>S.N.G.N. ROMGAZ S.A</b>
Contract date and type	<b>Contract no. 30T/ 2017</b> (1 January 2017 – 1 April 2017)
Contract scope	Transmission services
Contract value	<b>3,889,872.00</b> - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p><b>Guarantees:</b></p> <p>Art. 10. (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code.</p> <p>(2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating.</p> <p>The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA.</p> <p>(3) The payment guarantee in amount of RON 193,138.91 representing 5% of the countervalue of the firm and uninterrupted transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall</p>

Contract data	Contract clauses
	<p>be a letter of bank guarantee (Annex 4) or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.</p> <p>(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.</p> <p>(5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfills its contract obligations completely or partly or if it delays fulfilling such obligations.</p> <p>(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.</p> <p>(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).</p> <p>(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.</p> <p>(9) The Network User shall be exempter from the provision of the guarantee instrument also if it pays in advance the monthly countervalue of the capacity booked.</p> <p><b>Penalties:</b></p> <p>Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under paragraph (5) of Art. 5/Art.5<sup>1</sup>, par. (5), letter b) shall incur:</p> <p>a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay the budgetary obligations in due time, for each day of delay, starting with the 16th calendar day from the invoice issuing date until its full payment, the payment date included, or until the execution of the guarantee stipulated by the contract, in case of failure to meet the payment obligation within 15 calendar days from the maturity date;</p> <p>b) in case of failure to meet the payment obligation, the limitation/interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 15 calendar days foreseen at letter a).</p> <p>(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.</p>

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

Contract data	Contract clauses
	transmission services obligation as well as any other obligations established by this Contract.
Payment terms and modalities	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15<sup>th</sup> day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:</p> <ul style="list-style-type: none"> <li>a) an invoice for the transmission services provided for the previous month, set based on the final allocations;</li> <li>b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102<sup>2</sup> and 102<sup>4</sup> of the Network Code;</li> <li>c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable</li> <li>d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.</li> </ul> <p>(5) Invoices issued according to the Network Code shall be paid within 15 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.</p> <p>(6) The payment obligation is considered to be fulfilled on the date the total respective amounts enter the account of the transmission system operator.</p>
<b>Contract Parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>S.N.G.N. ROMGAZ S.A</b>
Contract date and type	<b>Contract no. 51L/ 2016</b> (1 January 2017 –1 February 2017)
Contract scope	Transmission services



Contract data	Contract clauses
Contract value	<b>610,898.40</b> - estimated amount of the legal act VAT included (RON)
Mutual debts	-
Guarantees established and penalties stipulated	<p><b>Guarantees:</b></p> <p>Art. 10. (1) For the purpose of fulfilling their obligations under the contract, either party shall establish a guarantee for the other party in accordance with the Network Code.</p> <p>(2) For fulfilling the obligation under paragraph (1) of this Article, the TSO shall provide the credit rating. The NU is exempted from the obligation to provide the payment guarantee to the TSO conditional on the submission of a credit rating issued by a rating agency agreed by both parties, equivalent with that of Transgaz SA.</p> <p>(3) The payment guarantee in amount of 5% of the value of the firm transmission capacity booked over the entire contract duration, calculated based on the regulated tariffs, shall be a letter of bank guarantee (Annex 3) or shall be established in cash as a guaranteed account (collateral deposit) and shall be valid 60 calendar days from contract expiration.</p> <p>(4) The financial guarantee shall be activated by the parties within 48 hours from the agreement and signature of the transmission contract.</p> <p>(5) The TSO shall be entitled to make claims against the guarantee under this Article within the limits of the damage incurred, unless the NU fulfills its contract obligations completely or partly or if it delays fulfilling such obligations.</p> <p>(6) Prior to making any claim against such guarantee, the TSO shall notify the NU on the non-fulfilled obligations.</p> <p>(7) The TSO shall send the guarantee execution notification by fax within 24 hours from the expiration of the period set at Art.13, paragraph (1), letter a).</p> <p>(8) If the guarantee is executed partly or completely, the NU shall re-establish the guarantee according to paragraph (3) of this Article, within 5 days from execution.</p> <p><b>Penalties:</b></p> <p>Art.13. Art. 13. (1) Failure to meet the invoice payment obligation as stipulated under Art. 5 (5) shall incur:</p> <p>a) delay penalties related to the unpaid amount, equal to the delay interest due for failure to pay State obligations in due time, for each day of delay, starting with the 16th calendar day from</p>

Contract data	Contract clauses
	<p>the invoice issuing date until its full payment, the payment date included, in the case of failure to meet payment obligation within 15 calendar days from the maturity date.</p> <p>b) in case of failure to meet the payment obligation, the limitation / interruption of the gas transmission service, with a prior notice of 3 calendar days, starting with the day following the period of 15 calendar days foreseen at letter a).</p> <p>(2) If the due date or the day following the warranty expiration date is a bank holiday, the terms foreseen at paragraph (1) shall be shifted accordingly.</p> <p>Art. 14 – (1) If, during the delivery month, the network user does not ensure at NTS entry points the gas quality specifications at least at the level established by the Technical Conditions, the transmission system operator shall be entitled to request and receive an amount equal to 0.5% of the value of gas delivered at NTS entry and of a quality non-compliant with the Technical Conditions; the gas value shall be calculated by multiplying the gas quantity, expressed in energy units, corresponding to the invoicing period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by ANRE for the relevant period.</p> <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, the transmission system operator shall be entitled to request and receive damages additionally, up to full coverage of the prejudice incurred when the network user, due to its own fault, does not meet the relevant obligations as well as any other obligations established by this Contract.</p> <p>Art. 15 – If, upon the request of the transmission system operator, the network user does not voluntarily use the booked and not used capacity transfer facility, thus the mandatory capacity transfer being applied, the network user shall pay 5% of the transferred capacity for the period between the date of mandatory capacity transfer and the date of Contract expiry.</p> <p>Art. 16. (1) Art. 16 - (1) The Network User shall be entitled to request and receive:</p> <p>a) an amount established based on the under-nomination delivery tariff, according to the Network Code, in case of delivery at NTS exit points under the approved nomination/re-nomination.</p> <p>b) an amount established based on the tariff for delivery under the capacity booked, according to the Network Code, in case the transmission system operator does not keep at the network user's disposal the entire transmission capacity booked by the latter.</p> <p>c) an amount equal to 0.5% of the value of gas, delivered at NTS exit and of a quality non-compliant with the Technical</p>

Contract data	Contract clauses
	<p>Conditions, calculated by multiplying the gas quantity, corresponding to the invoicing period, with the unitary fixed amount used to cover the gas purchase costs, expressed in RON/energy units and estimated by ANRE for the relevant period.</p> <p>(2) If the amount in paragraph (1) does not cover the entire prejudice incurred, the network user shall be entitled to request and receive damages additionally, up to full coverage of the prejudice incurred when the transmission system operator, due to its own fault, does not fulfil the gas transmission service provision obligation as well as any other obligations established by this Contract.</p>
Payment terms and modalities	<p>Art.5 (1) The network user shall pay to the transmission system operator the value of the firm and interruptible transmission services provided, calculated based on the regulated transmission tariffs.</p> <p>(2) The network users shall pay the transmission system operator, as appropriate, the extra amounts according to the Network Code.</p> <p>(3) The tariffs referred to in paragraphs (1) and (2) are set out in Annex 1 to the Contract.</p> <p>(4) Until the 15<sup>th</sup> day of the month following the month for which the transmission service was provided, the TSO shall send to the NU separate invoices (hereinafter `monthly invoices`) drawn up based on the final allocations, as follows:</p> <ul style="list-style-type: none"> <li>a) an invoice for the transmission services provided for the previous month, set based on the final allocations;</li> <li>b) an invoice for the final daily imbalances, for the previous month, the amount of which was calculated in line with the methodology under Art. 102<sup>2</sup> and 102<sup>4</sup> of the Network Code;</li> <li>c) an invoice for the booked capacity exceeding tariff value, calculated in accordance with Art. 99, and/or for the tariff value for failure to ensure the capacity booked, calculated in accordance with the provisions of Art. 101 of the Network Code, if applicable</li> <li>d) an invoice for the amount of the additional capacity, calculated according to Art. 51 of the Network Code, resulting after the nomination by the NU of a gas quantity exceeding the NU capacity booked at a NTS entry/exit point.</li> </ul> <p>(5) Invoices issued according to the Network Code shall be paid within 15 calendar days from the date of issuance. If the due date is not a business day, the deadline is set on the next business day.</p>



Contract data	Contract clauses
	<p>of payment, in the event of default, within 15 calendar days of the due date;</p> <p>b) interruption of natural gas injection/extraction services to/ from underground storage facilities, with a 3 calendar days' notice, as of the 31st calendar day from the invoice issue date;</p> <p>c) the execution of the guarantee established in accordance with Article 15, with a prior notice, sent after the expiry of the 15 days of the grace period and at least 3 days prior to the date of the actual execution;</p> <p>d) Exercising the right of retention on the quantity of natural gas stored.</p> <p>(3) The exercise of the right to execute the guarantee under the conditions laid down in Article 24 paragraph 2 letter c of this contract as well as the right of retention may also be made in case of non-fulfillment of the contractual obligations of the beneficiary, other than those stipulated in paragraph (2).</p> <p>(4) Should the measures provided for in paragraph (2) and (3) not ensure the full coverage of the damage suffered by the supplier, the beneficiary shall pay damages to him/her in accordance with the legal provisions in force.</p>
Payment terms and modalities	<p><b>Art.9.</b> The Beneficiary shall pay the supplier the value of the Underground Natural Gas Storage Services, calculated on the basis of the Regulated Tariff for Underground Storage Services, as set out in Annex 7, in accordance with the legislation in force.</p> <p><b>Art.10. - (1)</b> According to the formula and tariff set out in Annex no. 7 to the present contract, the supplier will charge monthly the beneficiary, the equivalent of the provided storage services. The payment of the value of the storage services shall be made in the order of the maturity of the issued invoices, by a Payment Order or by any other legal payment instrument agreed between the parties and deemed to be made when the sums are released to the account of the provider no. <b>R074 RNCB 0205 0448 6013 0001, opened at BCR-Ploiesti Branch.</b></p> <p>(2) The payment of the value of the underground natural gas storage services is effected monthly within 15 calendar days from the date when the invoice was issued by the SUPPLIER. THE SUPPLIER shall send the invoice issued in accordance with the provisions of this contract to the BENEFICIARY by fax / e-mail at the date of issue and subsequently by post. If the due date is a non-working day, the term is deemed to be fulfilled on the next business day.</p> <p>(3) The Parties agree that at the end of the injection and extraction cycles, to perform the adjustment/revision of the obligations/payment entitlements/ receipts related to the</p>

Contract data	Contract clauses
	capacity booking depending on the total quantity of natural gas actually stored by the beneficiary.

### 3.4 Analysis of the financial activity

#### 3.4.1 Financing standing

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

On 30 June 2017, the financial statement status is as follows:

Indicator name	Sem. I 2017	31 December 2016	Dynamics (%)
	Thousands RON	Thousands RON	
0	1	2	3=1/2
Intangible Assets	2.522.146	2.583.473	97,63%
Tangible Assets	570.341	588.078	96,98%
Financial assets available for sale	0	0	0%
Trade receivables and other receivables	644.643	626.403	102,91%
<b>Current assets</b>	<b>3.737.130</b>	<b>3.797.954</b>	<b>98,4%</b>
Inventories	81.292	83.715	97,11%
Commercial receivables and other receivables	313.463	523.488	59,88%
Cash and bank accounts	1.538.468	949.293	162,06%
<b>Circulating assets -TOTAL</b>	<b>1.933.223</b>	<b>1.556.496</b>	<b>124,2%</b>
<b>TOTAL ASSETS</b>	<b>5.670.353</b>	<b>5.354.450</b>	<b>105,9%</b>
Debts to be paid over a one-year period	773.981	305.333	253,49%
Debts to be paid over a period of more than one year	1.203.663	1.211.416	99,36%
<b>Total debts</b>	<b>1.977.644</b>	<b>1.516.749</b>	<b>130,39%</b>
<b>Equity</b>	<b>3.692.709</b>	<b>3.837.701</b>	<b>96,22%</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	1.620.277	1.765.269	91,79%
<b>Total equity and debts</b>	<b>5.670.353</b>	<b>5.354.450</b>	<b>105,90%</b>

Table 2 – Transgaz statement of financial position in sem I 2017 vs. 31 December 2016

### ***Intangible Assets***

From 2012, in accordance with the EU approval process, the Company started to apply IFRIC 12 ***Service Concession Arrangements***, adopted by the EU. The scope of IFRIC 12 includes: the existing infrastructure at the time of signing the concession agreement and, also, modernization and improvement brought to the pipeline system, which are transferred to the regulatory authority at the end of the concession agreement.

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

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

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

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

**Intangible assets decreased by RON 61.327 thousand** as compared with 31.12.2016, this decrease being mainly due to the fact that the developments brought to the national transmission system do not exceed the depreciation expense registered for this type of intangible assets.

### ***Tangible Assets***

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

**Tangible assets decreased by RON 17.737 thousand** as compared to 31.12.2016, mainly due to the fact that the tangible assets inflow and the reclassification of the tangible assets did not exceed the depreciation cost for tangible assets.

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

**At the end of the first semester of 2017 the value of the financial fixed assets in the company's balance sheet was zero**, a value determined by the 100% provisioning of all shareholding interest.



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

Although there is a chance the company may have an inflow of additional amounts from NIC liquidation, due to the high uncertainty of such inflow the company's investment of RON 138.544.435 in NIC was fully provisioned as at 31 December 2014, remaining unchanged as at 30 June 2017.

### ***Trade receivables and other receivables related to fixed assets***

**The increase of the debt to ANRM on 30 June 2017 by the amount of RON 18.240 thousand**, calculated subsequent to 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 conceding on payment of a compensation equal to the regulated depreciated value established by ANRE.

The company recognized as of 2014 a receivable related to the residual regulated value and an advance income. The advance income is recognized in the profit and loss account over the remaining life of the concession agreement.

The Ron 18.240 thousand increase compared to 31 December 2016 is determined mainly by the updating of the receivables with the modifications registered in the RAB.

### ***Inventories***

**On 30 June 2017 stocks decreased by RON 2.423 thousand** compared to 31 December 2016, mainly on account of the use of the stock of natural gas necessary for balancing the NTS. The balancing activity, performed as at 1 December 2015 is regulated by ANRE Order no. 160/2015 on the amendment of the Network Code for the National gas Transmission System, approved by Order of the President of the National Energy Regulatory no. 16/2013, which establishes the obligation of the company to ensure the activity of balancing the national transmission system, as operator of the transmission system.

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

As at 30 June 2017 the balance figure of the trade receivables and other receivables decreased by RON **210.026** as compared to 31 December 2016, mainly due to the following factors:

- A decrease of the customer receivable balance by RON 207.879 mainly because of the decrease of the receivable balance from transmission and international transmission, and the increase of the following the increase of the uncollected receivable balance in semester I 2017 as compared to 2016;
- Increase of advance payments to suppliers by RON 493 thousand;

- Registration of subsidies received amounting to Ron 8.578 thousand;
- An increase of provision allowances for impairment of trade receivables and other receivables by RON 12.784 thousand.
- Increase of the balance of other trade receivables by RON 1.566 thousand.

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

As at 30 June 2017 the company's cash increased by RON **589.175** thousand as compared to the end of 2016, this increase is due to the fact that the holdings in the bank and in hand increased by RON 157.396 thousand and the bank deposit accounts increased by RON 431.540 thousand, in the cash equivalents accounts an increase of RON 239 thousand is registered

### ***Debts due in one year***

In the structure of debts due in one year, the following changes were noticed compared to 31 December 2016:

- A balance increase in trade payables and other payables by RON 462.801 thousand mainly due to the registration of the dividends due to shareholders from the 2016 profit by Ron 544.206 thousand, the decrease of trade receivables by Ron 20.274 thousand, the decrease of the debts related to royalties by RON 22.117 thousand, the decrease of the payable VAT by RON 9.953 thousand, the decrease of the undue VAT by Ron 29.895 thousand, the decrease of balance of other taxes by RON 2.941 thousand, the decrease of the amounts payable to employees by RON 4.269 thousand, the increase of other debts by RON 8.046 thousand;
- A decrease of the provision for risk and charges by RON **8.588** thousand due to the cancellation of the provision for the participation of employees to profit for 2016, which is exceeded by the value calculated and registered for semester I 2017;
- An increase of the debt related to tax on current profit by RON **14.435** thousand as a result of the calculation of the tax on profit as at 30 June 2017;

### ***Long-term debts***

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

- **The decrease of registered revenue and subsidies by RON 5.411**, mainly due to the recording at revenue of the portion corresponding to the current period of the public domain debt and which is exceeded by the recalculation of the debt acknowledged after the legislation change according to which the Company is entitled to recover the remaining un-depreciated value of the goods afferent to the company's investments as titleholder of the National Gas Transmission System;

- **The decrease of deferred tax liabilities by RON 2.343 thousand** is mainly due to the decrease of the variation between the basis of accounting and the tax base for Transgaz' tangible and intangible assets.

Transgaz has no other loans as at 30 June 2017.

### **Equity**

The subscribed and paid up capital remained unchanged. The decrease in retained earnings by RON 144.991 thousand is determined in particular by the allocation of the profit related to 2016 which exceeded the profit related to semester I 2017.

### **3.4.2 Comprehensive income**

The statement of the comprehensive income at 30 June 2017 is as follows:

Specification	Achievements Sem. I (thousand Ron)		Dynamics (%)
	2017	2016	
1	2	3	4=2/3
Operational revenue before the balancing and the construction activity according to IFRIC12	980.477	870.468	112,64%
Revenue from the balancing activity	76.692	22.012	348,41%
Revenue from the construction activity according to IFRIC12	17.532	33.671	52,07%
Financial revenue	21.767	14.625	148,84%
Operating costs before the balancing and the construction activity according to IFRIC12	519.977	546.425	95,16%
Balancing cost	71.913	20.948	343,29%
Cost of assets built according to IFRIC12	17.532	33.671	52,07%
Financial costs	8.672	2.921	296,85%
<b>GROSS PROFIT, of which:</b>	<b>478.375</b>	<b>336.810</b>	<b>142,03%</b>
Operating result	465.280	325.107	143,12%
Financial result	13.095	11.703	111,90%
<b>PROFIT TAX</b>	<b>77.885</b>	<b>55.044</b>	<b>141,50%</b>
<b>NET PROFIT</b>	<b>400.491</b>	<b>281.767</b>	<b>142,14%</b>

Table 37- Statement of the comprehensive income in Sem. I 2017 vs. Sem. I 2016

### **Operating revenue**

Operating revenue before the balancing and the construction activity according to IFRIC 12 achieved in semester I 2017 is as follows:

Specifications	Sem. I 2017	Sem. I 2016	Dynamics %
<b>Revenue from the transmission activity</b>			
- RON thousand	774.342	630.318	122,85
- MWh	73.670.134	62.987.973	116,96

- RON/MWh	10,51	10,01	105,04
- RON thousand	6.857.186	5.873.039	116,76
- RON/1000 cm	112,92	107,32	105,22
<b>Revenues from the international transmission activity</b>			
- RON thousand	174.643	160.728	108,66
<b>Other operational revenue</b>			
- RON thousand	31.492	79.423	39,65
<b>TOTAL OPERATIONAL REVENUE before the balancing and the construction activity according to IFRIC12</b>	<b>980.477</b>	<b>870.468</b>	<b>112,64</b>

Table 38 – Revenue from operating activities achieved in sem I 2017 vs. sem I 2016

### Operating expense

Operating expense before the balancing and the construction activity according to IFRIC 12 achieved in semester I 2017 is as follows:

Tag no	Specifications	Achievements in the 1st semester (RON thousand)		Dynamics (%)
		2017	2016	
0	1	2	3	$4=3/2*100$
1.	Amortization	106.869	103.384	103,37
2.	Indemnities, salaries, other expenditures related to salaries and benefits to employees	184.475	179.916	102,53
3.	Technological consumption, materials and consumables used, of which:	51.346	64.362	79,78
	Transmission system technological consumption and loss	36.022	52.226	68,97
	Technological consumption amount MWh	527.817	719.940	73,31
	Technological consumption amount thousands m <sup>3</sup>	50.281	65.375	76,91
	Auxiliary materials	11.388	9.570	118,99
	Other material expenditures	3.938	2.567	153,40
4.	Expenditures related to royalties	94.899	79.100	119,97
5.	Maintenance and transport, of which	11.055	13.824	79,97
	Works, services performed by third parties	4.517	7.522	60,05
6.	Taxes and other amounts due to the State, of which:	34.373	29.852	115,14
	The fee for obtaining the license for gas transmission and international transit	3.753	3.637	103,17
	Monopoly tax	28.184	23.179	121,59
	Special construction tax	0	709	X
7.	Expenditures related to the provision for risks and expenses	-8.588	16.512	X
8.	Other operating expenditures	45.548	59.475	76,58
<b>TOTAL OPERATIONAL REVENUES before the balancing and the construction activity according to IFRIC12</b>		<b>519.977</b>	<b>546.425</b>	<b>95,16</b>

Table 3-Operating costs in sem I 2017 vs sem I 2016

### 3.4.3 Cash flow statement

Cash flow statement on 30 June 2017 is presented below:

Indicator	Financial year ended June 30 (thousand RON)	
	2017	2016
Profit before tax	478.375	336.810
Adjustments for:		0
Amortization	106.869	103.384
Profit/(loss) from disposal of fixed assets	-33	83
Provisions for risks and expenses	-8.588	16.512
Revenue from connection fees, non-reimbursable funds and goods taken over free of charge	-11.179	-8.805
Provisions for impairment of receivables	12.784	26.104
Interest revenue	-11.512	-11.215
Loss / (profit) from depreciation of stocks	1.047	1.202
Losses related to receivables		2.263
The effect of changes in exchange rates on items other than those in operation	34	-7
Revenue from the rights of claim to the regulated amount remained unamortised upon termination of the concession agreement	-14.923	-14.203
<b>Operating profit before changes in circulating capital</b>	<b>552.864</b>	<b>452.129</b>
(Increase) / decrease in commercial receivables and other receivables	195.455	-27.673
(Increase) / decrease of stocks	1.375	-15.206
(Increase) / decrease of commercial debts and other debts	-72.778	-47.476
<b>Cash generated from operation</b>	<b>676.917</b>	<b>361.773</b>
Interest paid	0	0
Interest received	2.979	2.377
Profit tax paid	-65.792	-62.617
<b>Net cash inflows generated from operating activities</b>	<b>614.103</b>	<b>301.533</b>
<b>Cash flow from investments</b>		
Payments for the acquisition of tangible and intangible assets	-34.840	-39.583
Cash from transfer of tangible assets	136	0
Cash from connection fees and non-reimbursable funds	11.051	1.333
<b>Net cash used in investment activities</b>	<b>-23.652</b>	<b>-38.250</b>
<b>Cash flow from financing activities</b>		
Dividends paid	-1.277	-660
Repayments of long-term loans	0	0
<b>Net cash used in financing activities</b>	<b>-1.277</b>	<b>-660</b>
<b>Net change in cash and cash equivalents</b>	<b>589.175</b>	<b>262.623</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>949.293</b>	<b>700.798</b>

Cash and cash equivalents at year-end	1.538.468	963.421
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*Table 39 – Cash flow statement in sem I 2017 vs sem I 2016*

The analysis of the cash flow as of 30 June 2017 show an increase in liquid assets by RON 575.047 thousand as compared to 30 June 2017.

The changes brought to the structure of cash flow for **semester I 2017 compared to semester I 2016**

- cash flow generated from the operation is of RON 614.103 thousand, by RON 312.570 thousand higher than in semester I 2016;
- cash flow used in investment activity is of RON 23.652 thousand, by RON 14.597 thousand lower than in semester I 2016;
- cash flow used in financing activity is of RON 1.277 thousand, by RON 616 thousand lower than in semester I 2016.

### **3.4.4 Evaluation of the activity related to the financial risk management**

#### **Financial risk factors**

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

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

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

#### ***Market risk***

##### ***Currency risk***

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

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

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

	30 June 2017 (unaudited)	31 December 2016
<i>Impact on profit and loss and on equity of:</i>		
USA dollar appreciation by 10%	133.011	150.839
USA dollar depreciation by 10%	(133.011)	(150.839)
Euro appreciation by 10%	49.933.886	36.308.626
Euro depreciation by 10%	(49.933.886)	(36.308.626)

### Price risk

The Company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to period would have been lower/higher by RON 1.512.907 (December 2016: RON 3.545.065).

### Interest rate risk on cash flow and fair value

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

For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by RON 2.346.860 lower/higher (December 2016: RON 2.946.452 lower/higher), as a net result of the interest rate variation for bank deposits, and the interest rate variation for floating rate obligations.

### **Credit risk**

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company has drawn up a number of policies, through their application ensuring that sales of products and services are made to proper customers.

The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 61% of the trade receivable balances on 30 June 2017 (31 December 2016: 71%).

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

Cash is with financial institutions, which are considered as associated to a minimum performance risk.

	30 June 2017	31 December 2016
Without rating	4.447.455	5.265.922
BB	495.640.985	335.096.959
BB +	-	4.192.200
BBB-	2.808.409	974.762
BBB	617.549.614	495.423.597



BBB+	417.279.252	107.867.942
A	138.816	139.154
A+	-	-
AA	140.425	193.562
	<b><u>1.538.004.956</u></b>	<b><u>949.154.098</u></b>

All financial institutions are presented at the Fitch rating or an equivalent.

### ***Liquidity risk***

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

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

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

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

The table below shows the obligations on 30 June 2017 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 30 June 2017:

	<b>Total amount</b>	<b>less than 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>
Commercial debts and other debts	<u>623.753.023</u>	<u>623.753.023</u>	-	-
	<u>623.753.023</u>	<u>623.753.023</u>		-

Maturity analysis of financial liabilities on 31 December 2016:

	<b>Total amount</b>	<b>less than 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>
Commercial debts and other debts	<u>91.358.089</u>	<u>91.324.224</u>	-	-

	<u>91.358.089</u>	<u>91.324.224</u>	-	-
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Trade payables and other liabilities include trade payables, suppliers of fixed assets, dividends payable and payables to the Ministry of Economy and other payables.

Categories of financial instruments:

<b>Financial assets</b>	<b>30 June 2017</b>	<b>31 December 2016</b>
Cash and cash equivalents	361.970.085	204.335.217
Term bank deposits	1.176.497.701	744.958.019
Credits and receivables	918.888.377	1.115.871.835
Financial assets available for sale	163.122.672	163.122.672
Provisions for available-for-sale financial assets	<u>-163.122.672</u>	<u>-163.122.672</u>
	<b>2.457.356.163</b>	<b>2.065.165.071</b>
<b>Financial liabilities</b>	<b>30 June 2017</b>	<b>31 December 2016</b>
Debts measured at the fair value	-	-
Financial guarantees related to contracts	<u>13.278.021</u>	<u>4.724.822</u>
Commercial debts and other debts	<u>610.475.002</u>	<u>86.633.267</u>
	<b>623.753.023</b>	<b>91.358.089</b>

## Capital risk management

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

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

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

In 2017, the Company's strategy which remained unchanged compared to 2016, was to keep the debt leverage degree as low as possible to keep a significant capacity to borrow funds for future investments.

The leverage was zero as at 30 June 2017 and 31 December 2016.

	<b>30 June 2017</b>	<b>31 December 2016</b>
Less: cash and cash equivalents	<u>(1.538.467.787)</u>	<u>(949.293.236)</u>
Net cash position	<u>(1.538.467.787)</u>	<u>(949.293.236)</u>

## **Fair value estimate**

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

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

It is considered that the book value less the impairment provision of trade receivables and payables to approximate their fair value.

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

## **4. THE MANAGEMENT OF THE COMPANY**

### **4.1 The Board of Administration**

**The administrators of the company as at 30.06.2017:**

- **STERIAN ION** – *executive administrator - Director General;*
- **VĂDUVA PETRU ION** – *non-executive administrator;*
- **ILIESCU BOGDAN-GEORGE** – *non-executive administrator;*
- **CERNOV RADU ȘTEFAN** - *non-executive administrator;*
- **RIZOIU ANDREI** - *non-executive administrator*

**In semester I 2017 no changes were made to the membership of the Board of Administration**

- By Decision no. 1 of 27 April 2017 of the Ordinary General Meeting of the Shareholders, the renewal of the mandate of the following administrators was approved: Mr. Ion Sterian, Mr. Petru Ion Văduva and Bogdan George Iliescu and their appointment as members of the Board of Administration of SNTGN Transgaz SA .
- At the meeting on 16 May 2017, the Board of Administration of SNTGN TRANSGAZ SA took note of the statement of resignation from the position of Director General of Mr. Petru Ion Văduva, and appointed Mr. Ion Sterian as Interim Director General, and decided to amend the Internal rules on the organization and functioning of the advisory committees set up at the level of the Board of Administration of SNTGN Transgaz SA, in order to rectify componence of the Nomination and Remuneration Advisory Committee, so that from 17 May 2017 it consists of the following members:
  - Mr. Petru Ion Văduva
  - Mr. Radu Ștefan Cernov
  - Mr. Bogdan George Iliescu.

## The administrators' resumes

The administrators' resumes may be found on Transgaz webpage at [www.transgaz.ro](http://www.transgaz.ro)

## Agreements/understandings or special family ties

According to the information provided by administrators, there is no agreement or family tie between the respective person and another person due to which that person was appointed administrator.

## Administrators' participation to Transgaz capital

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

## Litigations or administrative procedures

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

## 4.2 Executive management

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

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

Name and first name	Position	Number of shares as at 27.06.2017	Interest share (%)
Rusu Ioan	Director	2.508	0,021301
Duțu Tudor Alexandru	Head of Transgaz Representative Office in Chișinău	230	0,001953
Lața Ilie	Director	46	0,000390
Tătaru Ion	Director	25	0,000212
Lupean Marius	Director	20	0,000169
Șai Alexandru	Director	10	0,000084
Comaniță Adela	Director	7	0,000059
Niță Viorel	Director	5	0,000042

*Table 40- Members of the executive management holding shares in Transgaz at 30.06.2017*

The following persons represent the Company's executive management:

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

43	Țandău Marcel	Director	Cluj Regional Office
44	Andrei Romeo	Director	Constanța Regional Office
45	Niță Viorel	Director	Craiova Regional Office
46	Dumitru Nicusor	Director	Brăila Regional Office
47	Cristoloveanu Gheorghe	Director	Brașov Regional Office
48	Gurgu Victor	Director	Bucharest Regional Office
49	Bachioș Gheorghe	Director	Arad Regional Office

*Table 41–SNTGN Transgaz SA Mediaș executive management*

## 5. OTHER ASPECTS

### *The list of all entities Transgaz holds shares in*

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

The lack of perspective of the Nabucco project in the context of its non-selection by the Shah Deniz Consortium and the uncertainty of putting the new gas fields into operation in the foreseeable future in the Caspian Sea and Middle East area made the Nabucco partners to take the decision to liquidate the project company and the Nabucco National Companies (NNCs), a voluntary liquidation and controlled by NIC associates through a liquidator.

In the following period, there is a prospect to receive additional amounts from the NIC liquidation, but due to the uncertainty level, the Company's investment in NIC of RON 138,544,435 was fully provisioned;

- **SC MEBIS SA Bistrița**, based in Bistrița, (J06/150/1991) in which Transgaz owns a 17.47% stake, whose object of activity is the development of metal structures and complex welded assemblies, assemblies and hydraulic products. The company is under liquidation proceedings, reason due to which SC MEBIS SA share was entirely provisioned. Transgaz has no obligations towards SC MEBIS SA;
- **SC Resial SA** based in Alba Iulia (J01/77/1991) in which Transgaz owns a 68.16% stake, whose main activity is the manufacture and marketing of alumina silicate refractory products. The company has entered the liquidation procedure in 2006; the procedure is performed by a court enforcement officer appointed by the court of law and cannot be controlled by Transgaz, therefore the share is not consolidated and is registered at a cost less the provision for impairment set up at 100% of the cost.

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

**Sponsorship activity, financial aid according to CCM and partnerships concluded in the semester I 2017**

## SPONSORSHIPS

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

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

The level of sponsorship expenditures for SNTGN Transgaz SA is regulated in the REB for 2017, approved by **OGMS Decision No.1/27.04.2017**, in the following structure:

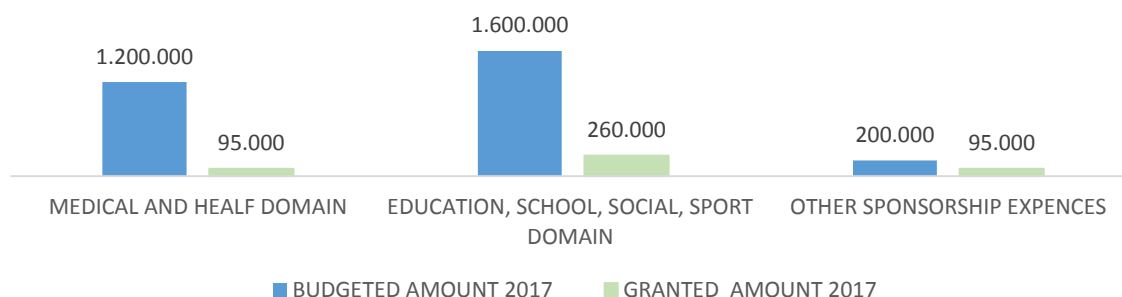
		(thousand RON)
SPONSORSHIP CATEGORY		REB 2017
Expenditures related to sponsorship in the medical and health fields		1,200
Expenditures related to sponsorship in the fields of education, learning, social, sport, of which:		1,600
-for sports clubs		1,100
Other sponsorship expenditures		200
<b>TOTAL</b>		<b>3,000</b>

							(lei)
No.	SPONSORSHIP CATEGORY	BUDGETED AMOUNT YEAR 2017	BUDGETED AMOUNT FOR SEMESTER I 2017	AMOUNT GRANTED FOR SEMESTER I 2017	REMAINING AMOUNT Sem I 2017	TOTAL REMAINING AMOUNT 2017	
0	1	2	3	4	5=3-4	6=2-4	
1.	HEALTH AND MEDICAL FIELD	1.200.000	700.000	75.000	625.000	1.125.000	
2.	EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which:	1.600.000	900.000	260.000	640.000	1.340.000	
	- for sports clubs	1.100.000	600.000	-	600.000	1.100.000	
3.	OTHER SPONSORSHIP EXPENDITURES	200.000	95.000	95.000	0.000	105.000	



<b>TOTAL SPONSORSHIP EXPENDITURES</b>	<b>3,000,000</b>	<b>1.695.000</b>	<b>430.000</b>	<b>1.265.000</b>	<b>2.570.000</b>
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*Table 42 - Statement of sponsorship budget 2017 and budgeted / granted amounts up to 30 June 2017*



*Chart 50- Statement of the sponsorship budget for 2016 and budgeted / granted sums up to June 30, 2016*

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

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

In semester I 2017, sponsorship was granted in the following fields: **medical and health, amounting to RON 75,000, education and social/sports field - amounting to RON 260,000, and other sponsorship expenditures - amounting to RON 95,000.**

Beneficiaries of the sponsorship in the Medical and Health Domain:

No	BENEFICIARY	AMOUNT APPROVED IN SEMESTER I 2017
0	1	2
1.	"Dr.Dan Rusu" Foundation Medias, Sibiu county	3.000
2.	Association of Persons with Neuromotor Disability Medias, Sibiu county	2.000
3.	Corbu Municipality, Olt county	50.000
4.	"Casa Tuturor" Association, Bucharest	10.000
5.	"Autism, Terapie, Sport și Arte" Association, Bucharest	10.000
<b>TOTAL SPONSORSHIP GRANTED</b>		<b>75.000</b>

Beneficiaries of the sponsorship in the Education, School, Social and Sport Domain

No	BENEFICIARY	AMOUNT APPROVED IN SEMESTER I 2017
0	1	2
1.	"Grigore Geamănu" primary school, Turcinești Gorj county	20.000
2.	"TEOFOR" Association for Education, Bucharest	10.000
3.	Association ASPES, Bucharest	20.000
4.	Municipal Direction for Culture, Sport, Tourism and Youth Mediaș, Sibiu county	40.000
5.	".M.Keynes Cluj Napoca" Foundation, Cluj county	70.000
6.	"OMENIA "International Fundation, Bucharest	10.000
7.	ASE Foundation, Bucharest	20.000
8.	The Institute "Eudoxiu Hurmuzachi for Romanians everywhere", Bucharest	40.000
9.	Cultural Association Potcoava, Olt County	5.000
10.	"Young Leaders Club" Association, Bucharest	20.000
11.	"American Chamber of Commerce in Romania", Bucharest	5.000
<b>TOTAL SPONSORSHIP GRANTED</b>		<b>260.000</b>

Beneficiaries of the sponsorship fields **OTHER EXPENDITURES:**

No	BENEFICIARY	AMOUNT APPROVED IN SEMESTER I 2017
0	1	2
1.	"National Grand Lodge of Romania" Association, Bucharest	25.000
2.	" National Grand Lodge of Romania" Association, Bucharest	25.000
3.	"Sfântul Dumitru" Parish, Iazu Nou, Iași county	5.000
4.	"Buna Vestire" Monastery, Bolintin Vale, Giurgiu county	20.000
5.	Gușoeni Municipality, Vâlcea county	20.000
<b>TOTAL SPONSORSHIP GRANTED</b>		<b>95.000</b>

## FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

At the level of SNTGN TRANSGAZ SA Mediaș, the granting of financial aid to employees is regulated through the PP-52 process procedure 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 Collective Labour Contract) and submits them for approval to the Board of Administration.

In semester I 2017, 28 applications for financial aid amounting to 191,899.69 lei were handled, namely:

(lei)

No	Name, Surname	AMOUNT REQUESTED
1.	Mitrică Marin	15.000
2.	Cioban Aurelia Livia	4.273

No	Name, Surname	AMOUNT REQUESTED
3.	Mudure Ioan	1.442
4.	Crețu Vasile	1.440
5.	Sima Laurențiu Eugen	0
6.	Busuioc Lidia Anneliese	2.600
7.	Ciobanu Ion	16.000
8.	Babinsky Robert-Hans	1.200
9.	Muntean Adina Lavinia	4.000
10.	Alexe Monica Alina	4.266
11.	Kis Arpad	0
12.	Matei Alexandru Adrian	7.400
13.	Vasilescu Constantin Florin	1.482
14.	Canahai Adam Lucian Grigore	1.650
15.	Glogovețan Rodica	1.300
16.	Glogovețan Rodica	1.200
17.	Stoica Crișan	0
18.	Dragomir Ioan Teodor	0
19.	Mușcheru Răducu Costel	9.496,20
20.	Molnar Liliana Denisa	3.600
21.	Muntean Aurel	32.950
22.	Sălcudean Daniel	2.075
23.	Togan Andrei Paul	3.479
24.	Deleanu Mihail	0
25.	Lascu Sergiu Aurelian	3.231,49
26.	Bodea Sorin Nicolae	6.750
27.	Bachioș Gheorghe	55.895
28.	Nicoară Gelu Petru	11.170
<b>TOTAL</b>		<b>191.899,69</b>

Until **31 June 2017** no application for social assistance was submitted to the Board of Administration for analysis and approval.

Social assistance applications submitted in 2016, included in the table above, between no. 1 and 10, amounting to RON 50,221, could not be submitted for analysis and approval to the Board of Administration on 20 December 2016 due to the fact that their preparation was finalized. As a result, they will be submitted for analysis and approval to the Board of Administration in 2017.

The social assistance file of Mr. Sima Laurențiu Eugen was closed due to the fact that the supporting documents (invoices, receipts, etc.) requested in accordance with Art. 12 of BoA Resolution no. 1/2009 were not submitted.

The application for social assistance of Mr. Dragomir Ioan-Teodor is under analysis at the Legal Unit for granting the legal endorsement as a result of the death of the employee.

Applications for social assistance with regard to which the requested amount is not specified in the table above do not meet the conditions set out in Art. 12, paragraph 2, of BoA Resolution no. 1/2009 and as such are analyzed in order to clarify the situation.

The statement related to the social aid requested / granted in the first semester of 2017 compared to the first semester of 2016 is as follows:

No	Category	Requested Sem. I		Granted Sem. I	
		2017	2016	2017	2016
1.	Social support	28	18	0	0

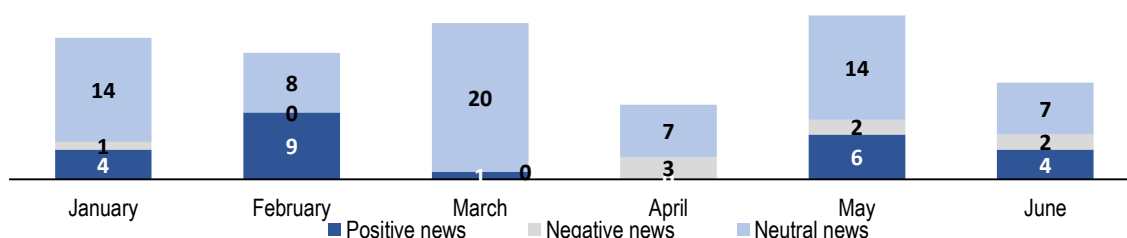
### **Computer graphics monitoring of the news related to Transgaz' activity in semester I 2017**

Subsequent to the monitoring of the news related to Transgaz's activity which were broadcast in the media in the semester I 2017, we mention that this year their number was 102, of which:

No.	News category	Semester I		%	Share	
		2017	2016		2017	2016
1.	Neutral news	70	86	-19	69%	53%
2.	Positive news	24	64	-63	24%	40%
3.	Negative news	8	12	-33	7%	7%
	<b>Total News</b>	<b>102</b>	<b>162</b>	<b>-37</b>	<b>100%</b>	<b>100%</b>

*Chart 47- Share of positive, neutral, negative, news on Transgaz Activity in Semester I 2017*

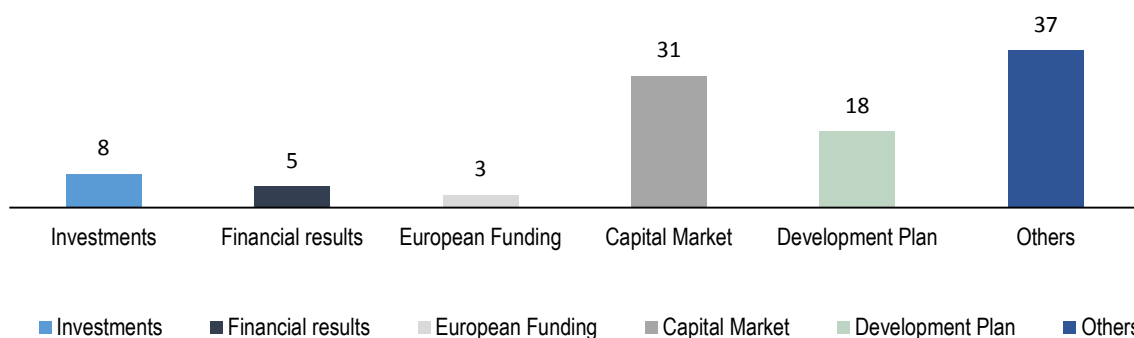
The **monthly distribution** in the semester I 2017 of positive, neutral, negative media references is the following:



*Chart 51- Monthly distribution of positive, neutral, negative news on Transgaz Activity in Semester I 2017*

The total distribution per semester I of 2017 of references based on the theme, investments, financial results, European financing, capital market, development plan is as follows:

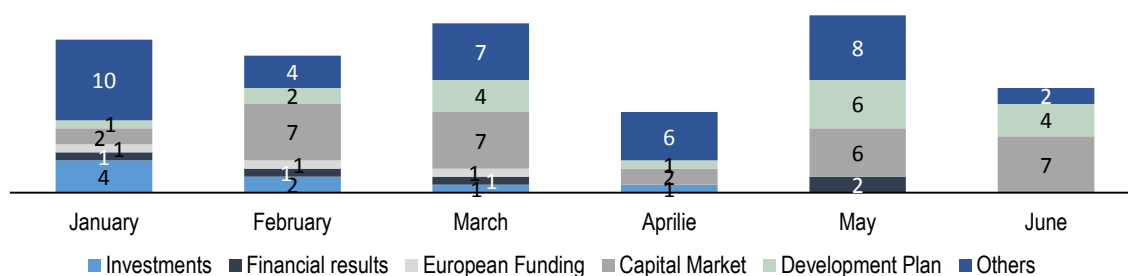
**Monitoring news by theme in 30.06.2017**



*Chart 52- Monitoring of news by theme in sem I 2017*

Distribution by months in semester I 2017 of references appeared depending of the approached theme is as follows:

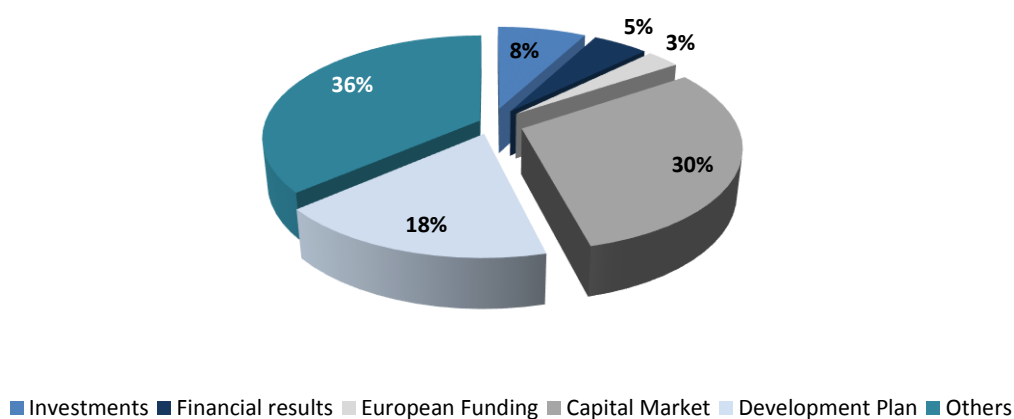
**Monitoring of news by theme by months**



*Chart 53 - Monitoring of news by theme per months in semester I 2017*

The share of the references published in semester I 2017 depending on the theme addressed is as follows:

**Monitoring of new by theme**



### **Review of Transgaz' Rating**

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

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

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

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

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

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

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

In order to optimize the business activity, the company's management will continue to act with the utmost responsibility and will use efficient modern management methods and techniques suitable for optimizing all processes and activities carried out by the company.

**ION STERIAN – Executive Administrator –Director General**

**PETRU ION VĂDUVA – Non-executive Administrator**

**RADU ȘTEFAN CERNOV – Non-executive Administrator**

**BOGDAN GEORGE ILIESCU – Non-executive Administrator**

## ANDREI RIZOIU - Non-executive Administrator

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**THE NATIONAL GAS TRANSMISSION COMPANY  
`TRANSGAZ` S.A.**

**INTERIM FINANCIAL STATEMENTS FOR SIX MONTHS  
ENDED 30 JUNE 2017  
(UNAUDITED)**

**PREPARED IN ACCORDANCE WITH  
THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE  
EUROPEAN UNION**

This version of the interim financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## **INTERIM FINANCIAL STATEMENTS**

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Interim Statement of Financial Position

Interim Statement of Comprehensive Income

Interim Statement of Changes in Equity

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**INTERIM STATEMENT OF THE FINANCIAL POSITION****(Expressed in RON, if not specified otherwise)**

	<u>Note</u>	<u>30 June 2017</u> (unaudited)	<u>31 December 2016</u>
<b>ASSET</b>			
<b>Fixed assets</b>			
Intangible Assets	9	2.522.146.040	2.583.472.652
Tangible Assets	7	570.341.051	588.078.005
Financial assets available for sale	10	-	-
Trade receivables and other receivables	12	<u>644.642.635</u>	<u>626.403.203</u>
		<b>3.737.129.726</b>	<b>3.797.953.860</b>
<b>Current assets</b>			
Inventories	11	81.292.621	83.714.634
Commercial receivables and other receivables	12	313.462.702	523.488.266
Cash and cash equivalent	13	<u>1.538.467.787</u>	<u>949.293.236</u>
		<b>1.933.223.110</b>	<b>1.556.496.136</b>
<b>Total asset</b>		<b>5.670.352.836</b>	<b>5.354.449.996</b>
<b>EQUITY AND DEBTS</b>			
<b>Equity</b>			
Share capital	14	117.738.440	117.738.440
Hyperinflation adjustment of share capital	14	441.418.396	441.418.396
Share premium	14	247.478.865	247.478.865
Other reserves	15	1.265.796.861	1.265.796.861
Retained earnings	15	<u>1.620.277.240</u>	<u>1.765.268.873</u>
		<b>3.692.709.802</b>	<b>3.837.701.435</b>
<b>Long-term debts</b>			
Provision for employee benefits	21	109.128.058	109.128.058
Deferred revenue	17	1.031.209.023	1.036.619.965
Deferred tax payment	18	<u>63.325.541</u>	<u>65.668.155</u>
		<b>1.203.662.622</b>	<b>1.211.416.178</b>

Notes 1 to 32 are part of these financial statements.

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## INTERIM STATEMENT OF THE FINANCIAL POSITION

(Expressed in RON, if not specified otherwise)



	<u>Note</u>	<u>30 June 2017</u> <u>(unaudited)</u>	<u>31 December 2016</u>
<b>Current debts</b>			
Commercial debts and other debts	19	713.911.516	251.110.230
Provision for risks and charges	20	6.791.188	15.379.511
Current tax payment	18	48.519.846	34.084.780
Provision for employee benefits	21	<u>4.757.862</u>	<u>4.757.862</u>
		<u><b>773.980.412</b></u>	<u><b>305.332.383</b></u>
<b>Total debts</b>		<u><b>1.977.643.034</b></u>	<u><b>1.516.748.561</b></u>
<b>Total equity and debts</b>		<u><b>5.670.352.836</b></u>	<u><b>5.354.449.996</b></u>

Endorsed and signed on behalf of the Board of Administration on 10 August 2017 by:

Chairman of the Meeting  
Petru Ion Văduva

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

Notes 1 to 32 are part of these financial statements.

This version of the interim financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



# INTERIM STATEMENT OF THE COMPREHENSIVE INCOME

(expressed in RON, if not specified otherwise)



		The six months period ended <b>30 June 2017</b> <b>(unaudited)</b>	The six months period ended <b>30 June 2016</b> <b>(unaudited)</b>
	<b>Note</b>		
Revenue from the domestic transmission activity		774.342.254	630.318.247
Revenue from the international transmission activity		174.642.830	160.727.757
Other revenue	22	<u>31.492.238</u>	<u>79.422.567</u>
<b>Operational revenue before the balancing and construction activity according to IFRIC12</b>		<b>980.477.322</b>	<b>870.468.571</b>
Depreciation	7,9	(106.869.486)	(103.384.256)
Employees costs	24	(184.475.413)	(179.915.930)
Technological consumption, materials and consumables used		(51.346.118)	(64.362.448)
Expenses with royalties		(94.898.509)	(79.100.122)
Maintenance and transmission		(11.054.976)	(13.824.044)
Taxes and other amounts owed to the state		(34.372.663)	(29.852.315)
Revenue/ (Expenses) with provisions for risks and expenses		8.588.323	(16.511.542)
Other operating expenses	23	<u>(45.547.836)</u>	<u>(59.474.536)</u>
<b>Operational profit before the balancing and construction activity according to IFRIC12</b>		<b>460.500.644</b>	<b>324.043.378</b>
Revenue from the balancing activity		76.691.831	22.012.034
Expenses with balancing gas		(71.912.519)	(20.948.122)
Revenue from the construction activity according to IFRIC12	32	17.531.795	33.671.167
Cost of assets constructed according to IFRIC12	32	<u>(17.531.795)</u>	<u>(33.671.167)</u>
<b>Operational profit</b>		<b>465.279.956</b>	<b>325.107.290</b>
Financial revenue	25	21.767.336	14.624.562
Financial expenses	25	<u>(8.671.971)</u>	<u>(2.921.371)</u>
<b>Financial revenue, net</b>		<b><u>13.095.365</u></b>	<b><u>11.703.191</u></b>
<b>Profit before tax</b>		<b>478.375.321</b>	<b>336.810.481</b>
Profit tax expense	18	<u>(77.884.762)</u>	<u>(55.043.643)</u>
<b>Net profit for the period</b>		<b><u>400.490.559</u></b>	<b><u>281.766.838</u></b>
Earnings per share, basic and diluted (expressed in RON per share)	28	34,02	23,93
<b>Total comprehensive income for the period</b>		<b><u>400.490.559</u></b>	<b><u>281.766.838</u></b>

**INTERIM STATEMENT OF THE COMPREHENSIVE  
INCOME**

**(expressed in RON, if not specified otherwise)**

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Chairman of the Meeting  
Petru Ion Vaduva

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

INTERIM STATEMENT OF CHANGES IN EQUITY  
(expressed in RON, if not specified otherwise)



	<u>Note</u>	<u>Share Capital</u>	<u>Share capital adjustments</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance on 1 January 2016,</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.496.805.410</u></b>	<b><u>3.569.237.972</u></b>
Net profit for the period, reported						281.766.838	281.766.838
Transactions with shareholders:							
Dividends related to 2015	15	-	-	-	-	(325.075.833)	(325.075.833)
<b>Balance on 30 June 2016 (unaudited)</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.453.496.415</u></b>	<b><u>3.525.928.977</u></b>
Net profit for the period		-	-	-	-	312.798.092	312.798.092
Actuarial gain/loss for the period		-	-	-	-	(1.025.634)	(1.025.634)
Transactions with shareholders:							
Dividends for 2015		-	-	-	-	-	-
<b>Balance on 31 December 2016</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.765.268.873</u></b>	<b><u>3.837.701.435</u></b>
Net profit for the period		-	-	-	-	400.490.559	400.490.559
Transactions with shareholders:							
Dividends for 2016	15	-	-	-	-	(545.482.192)	(545.482.192)
<b>Balance on 30 June 2017 (unaudited)</b>		<b><u>117.738.440</u></b>	<b><u>441.418.396</u></b>	<b><u>247.478.865</u></b>	<b><u>1.265.796.861</u></b>	<b><u>1.620.277.240</u></b>	<b><u>3.692.709.802</u></b>

Chairman of the Meeting  
Petru Ion Vaduva

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

**CASH FLOWS INTERIM STATEMENT**  
(expressed in RON, if not specified otherwise)



		The six months period ended <u>30 June 2017</u> (unaudited)	The six months periods ended <u>30 June 2016</u> (unaudited)
	<u>Note</u>		
<b>Cash generated from operations</b>	26	<b>676.916.578</b>	<b>361.772.984</b>
Interest received		2.979.078	2.376.871
Profit tax paid		<u>(65.792.310)</u>	<u>(62.616.707)</u>
<b>Net cash inflow from operation activities</b>		<b>614.103.346</b>	<b>301.533.148</b>
<b>Cash flow from investment activities</b>			
Payments to acquire tangible and intangible assets		(34.839.524)	(39.582.528)
Receipts from transfer of tangible assets		136.220	-
Cash flows from connection fees and grants		<u>11.051.061</u>	<u>1.332.836</u>
<b>Net cash used in investment activities</b>		<b>(23.652.243)</b>	<b>(38.249.692)</b>
<b>Cash flow from financing activities</b>			
Dividends paid		<u>(1.276.552)</u>	<u>(660.081)</u>
<b>Net cash used in financing activities</b>		<b>(1.276.552)</b>	<b>(660.081)</b>
<b>Net change in cash and cash equivalents</b>		<b><u>589.174.551</u></b>	<b><u>262.623.375</u></b>
<b>Cash and cash equivalent in the beginning of the year</b>	13	<b><u>949.293.236</u></b>	<b><u>700.797.782</u></b>
<b>Cash and cash equivalent as at the end of the period</b>	13	<b><u>1,538.467.787</u></b>	<b><u>963.421.157</u></b>
Chairman of the Meeting Petru Ion Vaduva			
Director - General Ion Sterian			
Chief Financial Officer Marius Lupean			

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **1. GENERAL INFORMATION**

The National Gas Transmission Company - SNTGN Transgaz SA (‘Company’) has as main activity the transmission of natural gas. Also, the Company maintains and operates the national gas transmission system and carries out research and design activities in the area of natural gas transmission. On 30 June 2017, the majority shareholder of the Company is the Romanian state, through the Ministry of Economy.

The Company was established in May 2000, following several reorganizations of the gas sector in Romania: its predecessor was part of the former national gas monopoly SNGN Romgaz SA (‘Predecessor Company’), which was reorganized under Government Decision 334/2000.

The natural gas sector is regulated by the ‘National Energy Regulatory Authority’ - ‘ANRE’. ANRE's main responsibilities are the following:

- issuing or withdrawing licenses for companies operating in the natural gas sector;
- publishing framework contracts for the sale, transmission, acquisition and distribution of natural gas;
- setting the criteria, requirements and procedures related to the selection of eligible consumers;
- setting the pricing criteria and the calculation methods for the natural gas sector.

The Company is headquartered at 1 C.I. Motaş Square, Mediaş, Romania.

From January 2008, the Company is listed on the Bucharest Stock Exchange, as a Tier 1 Company, under the TGN symbol.

### **2. OPERATIONAL FRAMEWORK OF THE COMPANY**

#### **Romania**

The Romanian authorities continued the economic reforms as this follow –up is necessary for the consolidation of the internal macro-financial framework. Thus the premises of the correct administration of the possible unfavourable evolutions are created, evolutions that may appear if the high aversion towards risk occurs again in the financial markets. The positive performances the Romanian economy registered must be consolidated by the application of a coherent mix of policies. Within this context one may notice that:

- (i) In the meeting of 3 July 2017, the Board of administration of the National Bank of Romania decided to maintain the monetary policy interest rate at 1.75 percent per year, to continue the proper management of liquidity in the banking system and maintain the current levels of the minimum mandatory rates of applicable to the liabilities in RON and currency of the credit institutions.

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## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **2. OPERATIONAL FRAMEWORK OF THE COMPANY**

- (ii) According to the most recent Inflation Report published by the National Bank of Romania, annual CPI inflation is projected to increase, reaching 1.6% at the end of 2017, 3.1% at the end of 2018 and 3.4% at the forecast horizon (quarter I 2019).
- (iii) Moody's rating agency maintained the Baa3 rating for the long-term debt and P-3 for the short-term debt, but changed the outlook from positive to stable, similar to that of other rating agencies - Standard & Poor's, Fitch, and JCRA

At the end of semester I 2017 as compared with the end of 2016 the RON depreciated as compared to Euro (‘EUR’) by 0.28% (1 EUR = 4.5539 RON on 30 June 2017, 1 EUR = 4.5411 RON on 31 December 2016) and appreciated by 7.81% as compared with the US dollar (‘USD’) (1 USD = 3.9915 RON on 30 June 2016, 1 USD = 4.3033 RON on 30 December 2016).

At the end of semester I 2016 as compared with the end of 2015 the RON appreciated as compared to Euro (‘EUR’) by 0.08% (1 EUR = 4.5210 RON on 30 June 2016, 1 EUR = 4.5245 RON on 31 December 2015) and by 2.10% as compared with the US dollar (‘USD’) (1 USD = 4.0624 RON on 30 June 2016, 1 USD = 4.1477 RON on 31 December 2015).

Romania's future economic orientation depends largely on the effectiveness of the economic, financial and monetary measures taken by the government, and on the fiscal, legal, regulatory and policy development. The management is unable to estimate the evolution of the economic environment which could have an impact on the Company's operations and neither the possible impact on the Company's financial position.

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES**

The main accounting policies applied in the preparation of these financial statements are set out below. These policies were consistently applied to all the financial years presented, unless otherwise stated.

#### **3.1 Basis of preparation**

The financial statements of the Company were prepared in accordance with the International Financial Reporting Standards adopted by the European Union (‘EU IFRS’). The financial statements were prepared based on the historical cost convention, except for the financial assets available for sale, which are presented at fair value.

The preparation of the financial statements in accordance with EU IFRS requires the use of critical accounting estimates. Also, the management is required to use judgment in applying the Company's accounting policies. Areas with a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are presented in Note 5.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **New accounting regulations**

##### **(a) Standards and interpretations applicable from 2016**

The following standards and amendments of the current standards, issued by the International Accounting Standard Board (IASB) and adopted by the European Union (EU) became applicable in the current period:

- The amendments to IFRS 10 'Consolidate financial statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the Consolidation Exception – adopted by the the UE on 22 September 2016 (applicable for the financial periods as of 1 January 2016);
- The amendments to IFRS 11 'Joint Arrangements' – Accounting for Acquisitions of an Interest in a Joint Operation– adopted by the the UE on 24 November 2015 (applicable for the annual periods beginning on or after 1 January 2016);
- The amendments to IAS 1 'Presentation of Financial Statements' – Disclosure initiative – adopted by the the UE on 18 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);
- The amendments to IAS 16 'Tangible Assets' and IAS 38 'Intangible assets' – Clarifying acceptable methods of depreciation and amortization - adopted by the the UE on 2 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);
- The amendments to IAS 19 'Employee Benefits' – Defined Benefit Plans: Employee Contributions - adopted by the the UE on 17 December 2014 (applicable for the annual periods beginning on or after 1 February 2015);
- The amendments to IAS 27 'Separate Financial Statements' - Equity Method in Separate Financial Statements - adopted by the the UE on 18 December 2015 (applicable for the annual periods beginning on or after 1 January 2016);
- Amendments to various standards 'Improvements to IFRSs 2010–2012 Cycle' resulting from the annual project to improve IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) mainly to eliminate inconsistencies and to clarify certain formulations – adopted by the EU on 17 December 2014 (applicable for the annual periods beginning on or after 1 January 2016);



## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to various standards `Improvements to IFRSs 2012-2014 Cycle` resulting from the annual project to improve IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) mainly to eliminate inconsistencies and to clarify certain formulations – adopted by the EU on 15 December 2015 (applicable for the annual periods beginning on or after 1 January 2016).

#### **(b) Standarda and interpretations issued by IASB and adopted ny the EU, but not applicable**

At the date of the reporting of these Financial Statements, the following standards, revisions and interpretations are issued by IASB and adopted by the EU, but are not applicable yet:

- IFRS 9 `Financial Instrumentse` - adopted by the the UE on 22 November 2016 (applicable for the annual periods beginning on or after 1 January 2018);
- IFRS 15 `Revenue from Contracts with the Customers`, with further amendments, and the amendments to IFRS 15 `Effective Date of IFRS 15` – adopted by the the UE on 22 September 2016 (applicable for the annual periods beginning on or after 1 January 2018);

IFRS 9 includes the requirements on financial instruments referring to recognition, clasification, evaluation, depreciation loss, derecognition and hedge accounting against risks:

- *Classification and evaluation:* IFRS 9 introduces a new approach to the classification of financial assets and comprises three main categories of financial assets: measured at amortized cost, at fair value through other comprehensive income elements, at fair value through profit or loss. The IFRS 9 classification is determined by the cash flow and business model in which an asset is held. This unitary approach based on principles eliminates the financial asset classification categories in IAS 39: held-to-maturity, loans and advances and available-for-sale financial assets. The new model will also determine the existence of a single depreciation model applicable to all financial instruments.

According to IFRS 9, derivatives incorporated into contracts, where the host instrument is a financial instrument for the purpose of this standard, are not separate, but the entire hybrid instrument is considered for classification.

- *Depreciation loss:* IFRS 9 introduces a new impairment loss model based on expected loss, which will require faster recognition of expected losses from impairment of receivables. The standard requires entities to recognize the expected impairment losses on receivables from the time of initial recognition of financial instruments, and to recognize more rapidly the expected impairment losses over their lifetime.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Hedge accounting:* IFRS 9 introduces a significantly improved hedge accounting model which includes additional disclosure requirements for risk management activity. The new model is a significant revision of the hedge accounting principles, which allows the alignment of the accounting treatment with the risk management activities.
- *Own credit risk:* IFRS 9 eliminates the volatility in the profit or loss account due to the change in credit risk related to the debt at fair value. Changing the accounting requirements for these liabilities implies that gains arising from the impairment of an entity's own credit risk will no longer be recognized through profit or loss.

#### (c) Standards and interpretations issued by IASB, but not adopted yet by the EU

At the date of the reporting these Financial Statements, IFRS as adopted by the EU are not very different from the provisions adopted by IASB, except for the following standards, amendments and interpretations, the application of which has not been approved by the EU until the date of authorization of these financial statements:

- IFRS 14 'Regulatory Deferral Accounts' (applicable for the annual periods beginning on or after 1 January 2016) – the European Commission decided not to initiate the process of adopting this interim standard, but to wait for the issuing of the final standard;
- IFRS 16 'Leases' (applicable for the annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 'Share-based Payment' – Classification and measurement of share-based payment transactions (applicable for the annual periods beginning on or after 1 January 2018), to be adopted in the second half of 2017;
- Amendments to IFRS 4 'Insurance Contracts' - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or when IFRS 9 'Financial Instruments' is applied for the first time), to be adopted in the 2017;
- Amendments to IFRS 10 'Consolidate financial statements' and IAS 28 'Investments in Associates and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture and its further amendments (the effective date was deferred indefinitely until completion of the research on the equity method);
- Amendments to IFRS 15 'Revenue from Contracts with the Customers' - Clarifications to IFRS 15 Revenue from Contracts with the Customers (applicable for the annual periods beginning on or after 1 January 2018), to be adopted in Q II;

This version of the interim financial statements is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- Amendments to IAS 7 `Statement of Cash-Flow` – the disclosure initiative (applicable for the annual periods beginning on or after 1 January 2017;
- Amendments to IAS 12 `Income taxes` – Recognition of Deferred Tax Assets for Unrealised Losses (applicable for the annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 `Investment Property` – transfer of investment property (applicable for the annual periods beginning on or after 1 January 2018), to be adopted in the second half of 2017;
- Amendments to various standards `Improvements to IFRSs 2014-2016 Cycle` resulting from the annual project to improve IFRSs (IFRS 1, IFRS 12 și IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (the amendments to IFRS 12 are applicable for the annual periods beginning on or after 1 January 2017, and the amendments to IFRS 1 and IAS 28 are applicable for the annual periods beginning on or after 1 January 2018), to be adopted in the second half of 2017;
- IFRIC 22 `Foreign Currency transactions and Advance Considerations` (applicable for the annual periods beginning on or after 1 January 2018), to be adopted in the second half of 2017.

#### **3.2 Reporting on segments**

Reporting on business segments is made consistently with the internal reporting by the main operating decision-maker. The main operating decision-maker, which is in charge with resource allocation and assessment of business segments' performance, was identified as being the Board of Administration, which makes the strategic decisions.

#### **3.3 Transactions in foreign currency**

*a) Functional currency*

The items included in the financial statements of the Company are valued using the currency of the economic environment where the entity operates (`functional currency`). The financial statements are presented in Romanian leu (`lei`), which is the functional currency and the currency of Company presentation.

*b) Transactions and balances*

Transactions in foreign currency are converted into functional currency using the exchange rate valid on the date of transactions or valuation at the balance sheet date. Profit and loss resulting from exchange rate differences following the conclusion of such transactions and from the conversion at the exchange rate at the end of the reporting period of monetary assets

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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and liabilities denominated in foreign currency are reflected in the statement of the comprehensive income.

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Accounting for the effects of hyperinflation**

Romania has gone through periods of relatively high inflation and was considered hyperinflationary under IAS 29 `Financial Reporting in Hyperinflationary Economies`. This standard required financial statements prepared in the currency of a hyperinflationary economy to be presented in terms of purchasing power as of 31 December 2003. As the characteristics of the economic environment in Romania indicate the cessation of hyperinflation, from 1 January 2004, the Company no longer applies IAS 29.

Therefore, values reported in terms of purchasing power on 31 December 2003 are treated as basis for the accounting values of these financial statements.

#### **3.5 Intangible Assets**

##### *Computer Software*

Licenses acquired related to rights of use of the computer software are capitalized on the basis of the costs incurred with the acquisition and operation of the software in question. These costs are amortized over their estimated useful lives (three years).

Costs associated with developing or maintaining computer software are recognized as expenses in the period in which they are registered.

##### *Service Concession Agreement*

From 2010, the Company started to apply IFRIC 12, `**Service Concession Commitments**`, 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.

As presented in Note 8, the Company is entitled to charge the users of the public service and, consequently, an intangible asset was recognized for this right.

Due to the fact that the Service Concession Agreement (`SCA`) had no commercial substance (i.e. nothing substantial changed in the way the Company operated assets; cash flows changed only with the payment of royalties, but, on the other hand, the transmission tariff increased to cover the royalty), the intangible asset was measured at the remaining net value of the derecognized assets (classified in the financial statements as tangible assets on the date of application of IFRIC 12). Consequently, the Company continued to recognize the asset, but reclassified it as intangible asset. The company tested the intangible assets recognized at the time without identifying depreciation.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

#### 3.6 Tangible Assets

Tangible assets include buildings, land, assets used for the non-regulated international transmission activity (e.g. pipelines, compressors, filtering installations, devices).

Buildings include particularly ancillary buildings of operating assets, a research centre and office buildings.

Further expenses are included in the book value of the asset or recognized as separate asset, as the case may be, only when the entry of future economic benefits for the Company associated to the item is likely and the cost of the respective item can be valued in a reliable manner. The book value of the replaced asset is highlighted. All the other expenses with repairs and maintenance are recognized in the statement of the comprehensive income in the financial period when they occur.

Land is not depreciated. Depreciation on other items of tangible assets is calculated based on the straight line method in order to allocate their cost minus the residual value, during their useful life, as follows:

	<u>Number of years</u>
Buildings	50
Assets of the gas transmission system	20
Other fixed assets	4 - 20

Before 31 December 2008, costs of indebtedness were incurred as they occurred. As of 1 January 2009, costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are capitalized as part of the cost of the respective asset. Costs of indebtedness attributable directly to the acquisition, construction or production of an asset with a long production cycle are those costs of indebtedness that would have been avoided if expenses with the asset hadn't been made. To the extent that funds are borrowed specifically for obtaining a long-cycle production asset, the borrowing costs eligible for the capitalization of the respective asset is determined by the actual cost generated by that borrowing during the period, minus the revenue from the temporary investments of those borrowings. To the extent that funds are generally borrowed and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for achieving production of a qualifying asset.

Assets' residual values and useful lives are reviewed and adjusted as appropriate, at the end of each reporting period.

The book value of the asset is written down immediately to its recoverable amount if the book value of the respective asset is greater than its estimated recoverable amount (Note 3.7).

Gains and losses on disposal are determined by comparing amounts to be received with the book value and are recognized in the statement of comprehensive income in the period in which the sale took place.

#### **3.7 Impairment of non-financial assets**

Assets subject to depreciation are reviewed for impairment losses whenever events or changes in circumstances indicate that the book value may not be recoverable. The impairment loss is the difference between the book value and the recoverable amount of the asset. The recoverable amount is the greater of the asset's fair value minus costs to sell and value in use. An impairment loss recognized for an asset in prior periods is reversed if there are changes in the estimates used to determine the recoverable amount of the asset at the date the last impairment loss was recognized. For the calculation of this impairment, assets are grouped at the lowest levels for which there are identifiable independent cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### **3.8 Assets of public domain**

In accordance with Public Domain Law No. 213/1998, pipelines for gas transmission are public property. Government Decision 491/1998, confirmed by Government Decision 334/2000, states that fixed assets with a gross historical statutory book value of RON 474,952,575 (31 December 2016: RON 474,952,575) representing gas pipelines are managed by the Company. Therefore, the Company has the exclusive right to use such assets during the concession and shall return them to the state at the end of this period (see Note 8). The Company receives most of the benefits associated with the assets and is exposed to most of the risks, including the obligation to maintain network assets over a period at least equal to the remaining useful life, and the financial performance of the Company is directly influenced by the state of the network. Therefore, before 1 January 2010, the Company recognized those assets as tangible assets, with a proper reserve in the shareholders' equity (see Note 5.2.). Accounting policies applied to these assets were the same as those applied to the Company's tangible assets (Notes 3 and 3.6).



## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As shown in Note 3.5, the Company adopted IFRIC 12 as of 1 January 2010 and reclassified these assets and the subsequent improvements as intangible assets (except for international transmission pipelines).

In accordance with Public Concession Law No. 238/2004, a royalty is due for public goods managed by companies other than state-owned. The royalty rate for using the gas transmission pipelines is set by the government. As of October 2007, the royalty was set at 10% of the revenue. The duration of the concession agreement is 30 years, until 2032.

#### **3.9 Financial assets**

The Company classifies its financial assets into the following categories: valued at fair value through profit or loss, loans and receivables and available for sale. Classification is made depending on the purpose for which the financial assets were acquired. The management sets the classification of these fixed assets upon initial recognition.

##### *(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. They are included in the current assets, except for those which have a maturity greater than 12 months after the end of the reporting period. These are classified as fixed assets. Loans and receivables of the Company include `trade receivables and other receivables` and cash and cash equivalent in the statement of the financial position (Notes 3.11 and 3.13).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The company recognized for the investments made until the balance sheet date a receivable related to the regulated value remained valid at the end of the concession agreement, at the current value at the balance sheet date, and a deferred revenue. The discount rate used to calculate the present value of the debt is long-term government bonds, zero coupon, over a period close to the remainder of the concession agreement. The initial measurement of the compensation is made at the fair value which reflects the credit risk which applies to the regulated amount remaining unamortized at the end of the contract. Subsequent valuation is done at amortized cost using the effective interest method. The actual interest rate used is based on historical data and does not change according to market interest rate.



## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *(b) Financial assets available for sale*

Financial assets available for sale are non-derivative instruments that are either classified specifically in this category or they don't fall with any of the other categories. They are included in the fixed assets, except the situation when the management plans to alienate investments within 12 months from the end of the reporting period.

Regular acquisitions and sales of financial assets are recognized at the trading date - date when the Company commits to buy or sell the respective asset. Investments are initially recognized at the fair value plus trading expenses for all the financial assets that are not registered at fair value through profit or loss. The financial assets available for sale are subsequently recorded at fair value. The loans and receivables are registered at amortized cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other items of the comprehensive income.

When the titles of value categorized as available for sale are sold or depreciated, the cumulated adjustments of the fair value recognized in the equity are included in the profit and loss account at `gains and losses from investment securities`.

Dividends related to financial assets available for sale are recognized in profit or loss in other items of the comprehensive income when determining the Company's right to receive them.

#### *(c) Impairment of financial assets*

At each reporting date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets suffered impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a `loss generating event`) and if such event (or events) which generates loss has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or debtor;
- breach of contract, such as default or delinquency in interest or loan payment;
- the company, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the lender would not otherwise have had in view;
- it is likely that the debtor will go bankrupt or enter another form of financial reorganization;

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

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**3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- disappearance of the active market for that financial asset because of financial difficulties; or
- observable data indicate that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified for individual financial assets in the portfolio, including:
- adverse changes in the payment status of debtors in the portfolio; and
- economic conditions, at national or local level, that correlate with defaults, relating to the assets in the portfolio.

The Company assesses first whether objective evidence of impairment exists.

*i) Assets registered at amortized cost*

Impairment testing of trade receivables is described above.

For loans and receivables, the amount of the loss is measured as the difference between the asset's book value and the updated value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the asset's original rate; the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. In practice, the Company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the borrower), the resumption of impairment loss recognized previously recognized in profit or loss.

*ii) Assets classified as available for sale*

The Company evaluates for each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity instruments classified as available for sale, a significant or prolonged decline in the value of financial assets below their cost is considered an indicator that the assets are impaired. If any such evidence exists, financial assets available for sale, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, minus any impairment loss on the financial asset previously recognized in profit or loss - are removed from other items of the comprehensive income and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed subsequently and any subsequent gain is recognized in other items of the comprehensive income.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.10. Inventories**

Inventories are stated at the lower of cost and net achievable value.

The components recovered from disassemblings and repairs of pipelines built by the Company are recorded as stocks at a value determined by a technical committee. The amount so determined does not exceed the net achievable value.

The cost is determined based on the first in, first out method. Where necessary, provision is made for obsolete and slow moving inventories. Individually identified obsolete inventories are provided for the full value or written off. For slow moving inventory, an estimate is made of the age of each main category on inventory rotation.

The cost of natural gas used for the balancing activity related to the transmission system is determined based on the average weighted cost method.

#### **3.11. Trade receivables**

Trade receivables are amounts due from customers for services rendered in the ordinary course of business. If the collection period is one year or less (or in the normal operating cycle of the business), they are classified as current assets. If not, they are presented as fixed assets.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, minus the provision for impairment.

#### **3.12. Value Added Tax**

The value added tax must be paid to tax authorities based on the monthly VAT declaration by the 25th of the following month, regardless of the collection of receivables from customers. Tax authorities allow the settlement of VAT on a net basis. If the deductible VAT is higher than the output VAT, the difference is refundable at the request of the Company. That VAT can be refunded after a tax audit, or, even in its absence, if certain conditions are met. VAT on sales and purchases which are not settled at the end of the reporting period is recognized in the statement of financial position at net value and disclosed separately as a current asset or liability. In cases where provisions were made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including the VAT. The related VAT must be paid to the state and can be recovered only in the event of debtor prescription, as a result of bankruptcy decision.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.13. Cash and cash equivalent**

Cash and cash equivalents comprise cash on hand, availability in current accounts with banks, other short-term investments with high liquidity and with maturity terms of up to three months and overdrafts from banks. In the statement of financial position, overdraft facilities are highlighted in loans, under current liabilities.

#### **3.14 Equity**

##### *Share capital*

Ordinary shares are classified as equity.

Additional costs directly attributable to issue of new shares or options are shown in equity as a deduction, net of tax, from the receipts.

##### *Dividends*

Dividends are recognized as liabilities and deducted from equity at the end of the reporting period if they are declared before or at the end of the reporting period. Dividends are recognized when they are proposed before the end of the reporting period, or when they were proposed or declared after the end of the reporting period but before the date the financial statements were approved for issue.

#### **3.15 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs recorded. Subsequently, borrowings are stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss during the borrowings, based on the effective interest method.

Borrowings are classified as current liabilities, unless the Company has an unconditional right to defer payment of debt for no less than 12 months after the end of the reporting period.

#### **3.16 Current and deferred profit tax**

Tax expense for the period includes the current tax and the deferred tax and is recognized in profit or loss, unless it is recognized in other items of the comprehensive income or directly in equity because it relates to transactions that are, in turn, recognized in the same or in a different period, in other items of the comprehensive income or directly in equity.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Current profit tax expense is calculated based on the tax regulations in force at the end of the reporting period. The management periodically evaluates positions on tax returns regarding situations where the applicable tax regulations are subject to interpretation and establishes provisions, where appropriate, based on the estimated amounts due to tax authorities.

The deferred profit tax is recognized based on the liability method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the financial statements. However, the deferred profit tax arising from the initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction does not affect the accounting profit and the taxable revenue is not recognized. The deferred profit tax is determined based on tax rates (and legal regulations) in force until the end of the reporting period and which are expected to apply in the period in which the deferred profit tax asset is realized or the deferred profit tax liability is settled.

Deferred revenue tax assets are recognized to the extent that it is probable that future taxable profit be derived from temporary differences.

#### **3.17 Commercial payables and other payables**

Suppliers and other payables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. Commercial payable accounts and other payables are closed as a result of the payment of debts, offsetting with receivables or their write-off through the profit and loss account.

#### **3.18 Deferred revenue**

Deferred revenue is recorded for connection fees applied to customers upon their connection to the gas transmission network, for the objectives received free of charge, for grants collected and for the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator.

The grants collected and the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator are assimilated to the governmental subsidies.

The governmental subsidies are acknowledged to their market value when there is a reasonable assurance that they will be received and that the relevant conditions will be met.

The connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge from the clients represents the basis for the continuation of the providing of the service in accordance with the IFRIC 18.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

For the connection fees applied to the clients for their connection to the gas transmission network and to the facilities received free of charge, for the grants collected and for the right to recover the unamortised regulated value of the assets related to the investments achieved as an operator, the Company chose to record the total asset value and a deferred revenue. The deferred revenue is recorded in the profit and loss account for the useful life of related assets (connection pipes, metering - regulating stations, meters).

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor on payment of compensation equal to the regulated value which was not depreciated fixed by ANRE. The Company recognized for the investments made until the balance sheet date a receivable related to the remaining regulated value at the end of the concession agreement, at the current value at the balance sheet date and a deferred revenue. The deferred revenue is recognized in the profit and loss account for the remaining duration of the concession agreement. The Company has the obligation to modernize and maintain the national transmission system at certain operating parameters.

#### **3.19 Employee benefits**

In the normal course of business, the Company makes payments to the Romanian state on behalf of its employees, for health funds, pensions and unemployment benefits. All the Company employees are members of the pension plan of the Romanian state, which is a fixed contribution plan. These costs are recognized in the profit and loss account with the recognition of salary expenses.

##### *Benefits granted on retirement*

Under the collective agreement, the Company must pay the employees on retirement a compensatory amount equal to a certain number of gross salaries, depending on the time worked in the gas industry, working conditions etc. The company recorded a provision for such payments (see Note 21). The obligation recognized in the balance sheet represents the present value of the obligation at the balance sheet date. The obligation is calculated annually by independent experts using the Projected Unit Credit Method. The present value is determined by discounting future cash flows with the interest rate of the long-term government bonds.

The current service cost is recognized in the profit and loss account in the employee costs. Interest expense is included in the profit and loss account in the financial costs.

Actuarial gain or loss due to changes in actuarial assumptions is recognized in the statement of comprehensive income in the period for which the actuarial calculation is made.

## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *Social insurance*

The Company records expenses related to its employees, as a result of granting social insurance benefits. These amounts mainly include the implicit costs of employing workers and, therefore, are included in the salary expenses.

#### *Profit sharing and bonuses*

The Company recognizes an obligation and expense for bonuses and profit sharing, based on a formula taking into account the profit attributable to the Company's shareholders, after certain adjustments. The Company recognizes an obligation where it is required under contract or where there is a past practice which created an implicit obligation.

#### **3.20 Provisions for risks and charges**

The provisions for risks and charges are recognized when the Company has a legal or implicit obligation as a result of past events, when for the settlement of the obligation an outflow of resources is required, which incorporates economic benefits and for which a credible estimate can be made in terms of the obligation value. Where there are similar obligations, the probability for an outflow of resources to be necessary for settlement is set after the assessment of the obligation class as a whole. The provision is recognized even if the probability of an outflow of resources related to any item included in any obligation class is reduced. Where the Company expects the reimbursement of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is theoretically certain.

Provisions are measured at the discounted value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **3.21 Revenue recognition**

Revenue covers the fair value of amounts received or receivable from the sale of services and/or goods in the normal course of business of the Company. Revenue is recorded net of value added tax, returns, rebates and discounts.

The Company recognizes the revenue when their amount can be estimated with certainty, when it is probable that the entity collects future economic benefits and when certain criteria are met for each of the Company's activities as described below. The amount of revenue is not considered reliably estimated until all contingencies relating to the sale are settled. The Company bases its estimates on historical results, taking into account the type of customer, type of transaction and the specifics of each commitment.

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## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*a) Revenue from services*

Internal and international gas transmission revenue is generated from transmission capacity booking and transmission through the NTS of the gas quantities, expressed in energy units, over the validity of a gas transmission contract and is acknowledged at the moment of delivery. Over the duration of the transmission contract the TSO issues and sends to the NU an invoice based on the final allocations, an invoice for the final daily imbalance of the previous month and an invoice for the booked capacity surplus, until the 15th day of the month following the transmission month.

*b) Revenue from the sale of goods*

Revenue from the sale of goods is registered when the goods are delivered.

*c) Interest revenue*

Interest revenue is recognized proportionally, based on the effective interest method.

*d) Revenue from dividends*

Dividends are recognized when the right to receive payment is recognized.

*e) Mutual compensation and barter transactions*

A relatively reduced part of the sales and purchases are compensated by mutual agreements, barter or non-cash agreements. These transactions generally occur in the form of cancellation of balances, either bilaterally or through a chain involving several companies (see Note 29).

Sales and purchases that are intended to be offset by mutual agreements, barter or non-cash agreements are recognized based on management's estimates of their fair value to be received or disposed of in non-cash compensation. Fair value is determined based on the available market information.

Non-cash transactions were excluded from the cash flow statement, so investing activities, financing activities, and all operational activities represent current cash flows.

*f) Revenue from penalties*

Revenue from penalties for late payment is recognized when future economic benefits are expected for the Company.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 4. 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. 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.

#### (a) *Market risk*

##### (i) Currency risk

The Company is exposed to currency risk by exposures to various foreign currencies, especially to EUR. Currency risk is associated to assets (Note 12) 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 the foreign currency incoming payments (mainly revenue from international transmission) are used to settle liabilities denominated in foreign currency.

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

	<u>30 June 2017</u> (unaudited)	<u>31 December 2016</u>
<i>Impact on profit and loss and on equity of:</i>		
USD appreciation by 10%	133.011	150.839
USD depreciation by 10%	(133.011)	(150.839)
EUR appreciation by 10%	49.933.886	36.308.626
EUR depreciation by 10%	(49.933.886)	(36.308.626)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (ii) Price risk

The Company is exposed to the commodity price risk related to gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by RON 1.512.907 (December 2016: 3.545.065 RON).

#### (iii) Interest rate risk on cash flow and fair value

The Company is exposed to interest rate risk by its bank deposits. The Company did not conclude any commitment to diminish the risk. For the average exposure of the period, if the interest rates had been lower/higher by 50 basis points, with all the other variables maintained constant, the profit related to the period and equity would have been lower/higher by RON 2.346.860 (December 2016: RON 2.946.452 lower/higher) as a net result of reducing the interest rate for bank deposits.

#### (b) Credit risk

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company drew up a number of policies, through their application ensuring that sales of products and services are made to proper customers. The book value of receivables, net of provisions for doubtful debts, represents the maximum value exposed to credit risk. The Company's credit risk is concentrated on the 5 main customers, which together account for 61% of the trade receivable balances on 30 June 2017 (31 December 2016: 71%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the provisions already made.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
No rating	4.447.455	5.265.922
BB	495.640.985	335.096.959
BB+	-	4.192.200
BBB-	2.808.409	974.762
BBB	617.549.614	495.423.597
BBB+	417.279.252	107.867.942
A	138.816	139.154
AA	140.425	193.562
	<b>1.538.004.956</b>	<b>949.154.098</b>

All the financial institutions are presented in the Fitch rating or equivalent.

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (c) *Liquidity risk*

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

The company projects cash flows. The financial function of the Company continually monitors the Company's liquidity requirements to ensure that there is sufficient cash to meet operational requirements, while maintaining a sufficient level of unused borrowing facilities (Note 16) at any time, so the company does not violate the limits or loan agreements (where applicable) for any of its borrowing facilities. These projections take into account the Company's debt financing plans, compliance with agreements, compliance with internal targets on the balance sheet indicators and, where appropriate, external regulations or legal provisions - for example, restrictions on currency.

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

The table below shows obligations on 30 June 2017 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 30 June 2017 is as follows:

	<u><b>Total amount</b></u> <b>(unaudited)</b>	<u><b>Less than 1 year</b></u> <b>(unaudited)</b>	<u><b>1-5 years</b></u>	<u><b>over 5 years</b></u>
Commercial payables and other payables	<u>623.753.023</u>	<u>623.753.023</u>	_____ -	_____ -
	<u>623.753.023</u>	<u>623.753.023</u>	===== -	===== -

Maturity analysis of financial liabilities on 31 December 2016 is as follows:

	<u><b>Total amount</b></u>	<u><b>Less than 1 year</b></u>	<u><b>1-5 years</b></u>	<u><b>over 5 years</b></u>
Commercial payables and other payables	<u>91.358.089</u>	<u>91.358.089</u>	_____ -	_____ -
	<u>91.358.089</u>	<u>91.358.089</u>	===== -	===== -

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables to the Ministry of Economy and other payables (see Note 19) and are not included: payables generated as a result of the legal provisions imposed by the authorities, payables to the employees and advance registered revenue.

Financial instruments categories:

	<b><u>30 June 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>31 December 2016</u></b>
<b>Financial assets</b>		
Cash and cash equivalents	361.970.085	204.335.217
Term bank deposits	1.176.497.701	744.958.019
Loans and receivables	918.888.377	1.115.871.835
Financial assets available for selling	163.122.672	163.122.672
Provisions related to financial assets available for selling	<u>(163.122.672)</u>	<u>(163.122.672)</u>
	<b><u>2.457.356.163</u></b>	<b><u>2.065.165.071</u></b>

	<b><u>30 June 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>31 December 2016</u></b>
<b>Financial liabilities</b>		
Liabilities evaluated at fair value		
Financial securities for contracts	13.278.021	4.724.822
Commercial liabilities and other liabilities	<u>610.475.002</u>	<u>86.633.267</u>
	<b><u>623.753.023</u></b>	<b><u>91.358.089</u></b>

In the category including loans and liabilities, the liabilities related to employees and payables registered in advance are not included.

**Capital risk management**

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

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

As for the other companies in this sector, the Company monitors the capital based on the indebtedness degree. This coefficient is calculated as net debt divided by total capital. The net debt is calculated as total borrowings (including `current and long-term borrowings`, according to the statement of financial position), except for cash and cash equivalent. The total capital is calculated as `equity`, according to the statement of the financial position, plus the net debt.

In 2017 the Company's strategy, unchanged since 2016, is to keep the indebtedness degree as low as possible, to keep a significant capacity to borrow funds for future investments. The net indebtedness degree on 30 June 2017 and on 31 December 2016 was null:

	<b><u>30 June 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>31 December 2016</u></b>
Total borrowings	-	-
Except: cash and cash equivalents (Note 13)	<u>(1.538.467.787)</u>	<u>(949.293.236)</u>
Net cash position	<u>(1.538.467.787)</u>	<u>(949.293.236)</u>

#### **Fair value estimate**

The fair value of the financial instruments traded on an active market is based on market prices quoted at the end of the reporting period. The fair value of the financial instruments that are not traded on an active market is set using valuation techniques.

It is considered that the book value less the impairment provision of trade receivables and payables approximate their fair values. 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.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

#### Critical accounting estimates and assumptions

The Company develops estimates and assumptions concerning the future. Estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including predictions of future events that are believed to be reasonable under certain circumstances.

The resulting accounting estimates will, by definition, seldom equal the actual results. Estimates and assumptions that have a significant risk of causing an important material adjustment to the book value of assets and liabilities within the next financial year are presented below.

#### 5.1 Assumptions for the determination of the provision for retirement benefits

This provision was calculated based on estimates of the average wage, the average number of employees and the average number of wage payment at retirement, as well as based on the benefits payment scheme. The provision was brought to the present value by applying a discount factor calculated based on the risk-free interest rate (i.e. interest rate on government bonds).

The present value of the obligations at 31 December 2016: RON 113.885.920 (Note 21).

The changing of the current value depending on the following variables:

#### 31 December 2016

Discount rate +1%	101.660.373
Discount rate -1%	128.360.255
Wage growth rate +1%	128.132.825
Wage growth rate -1%	101.611.023
Increasing longevity with 1 year	114.189.786

Benefits payment maturity survey:

#### 31 December 2016

Up to one year	4.757.862
Between 1 and 2 years	4.542.881
Between 2 and 5 years	20.946.737
Between 5 and 10 years	44.955.350
Over 10 years	237.615.444

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## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

#### **5.2 The accounting treatment of the concession agreement**

As indicated in Note 8, in May 2002 the Company concluded a Concession Agreement with the National Agency for Mineral Resources (`NAMR`), which entitles the Company to use the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the Company according to Public Domain Law No. 213/1998, Government Decision (`GD`) No. 491/1998 and GD No. 334 from 2000 by which the Company was established. According to the provisions of this agreement, the Company receives most of benefits associated to assets and is exposed to most of the risks. Therefore, the Company recognized these assets in the statement of the financial position, with an appropriate reserve in equity. Regarding the already existing infrastructure on the date of signing the Concession Agreement, given that the Company has no payment obligations at the time of terminating the Concession Agreement (but only obligations on maintenance and modernization, investments in new pipelines), the Company's management considered that it is, in substance, an equity component, defined as the residual interest in the Company's assets after the deduction of all debts. In addition, because the Company and its predecessor, SNGN Romgaz SA, were controlled by the Romanian state, the publication of Public Patrimony Law (i.e. loss of property) and the reorganization of SNGN Romgaz SA into 5 companies can be treated as transactions with shareholders, in its capacity of shareholder, which supports the recognition of transactions in equity. As of 2010, the Company applied IFRIC 12 (Note 3.5).

#### **5.3 The accounting treatment of royalties payable for using the national gas transmission system**

As indicated in Note 8, the Company pays royalties, calculated as percentage of the gross revenue achieved from the operation of pipelines of the national gas transmission system. These costs were recognized as expenses, rather than deduction from revenue, because they are not of the nature of taxes collected from customers and sent to the state, given the nature of activity and the regulatory framework:

- the Company's revenue is based on tariffs approved by another regulator than the one setting the level of royalties;
- expense with royalties is an item taken into consideration at the calculation of the transmission tariff;

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)**

**5.4 Long-term receivables**

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or another grantor in exchange for the payment of a compensation equal to the unamortized regulated value set by ANRE. The Company believes that the legislative change represents a compensation registered as a subsidy for the value of the investments made, which the Company will not recover through the tariff, implicitly the value of the intangible asset not recovered through the tariff, recognized for the right to charge users. The Company recognized for the investments made by the balance sheet date a debt related to the remaining regulated value valid at the end of the concession agreement, at the present value at the balance sheet date. The present value was determined for the remaining period of the concession contract, because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)). Investments in progress are recognized in the regulated asset base after completion. For investment in progress the remaining regulated value at the end of the concession agreement was estimated at depending on the expected date of commissioning. The Company also recognized a deferred revenue (see Note 3.18).

**6. INFORMATION ON SEGMENTS**

Reporting segments are set according to the nature of the activities conducted by the company: the regulated activity, the unregulated activity and other activities. As transmission system operator, the company reported annually to the National Regulatory Authority on the activity performed on the four reporting segments.

The segment information provided to the board of administration that makes strategic decisions for reportable segments, for the period ended 30 June 2017 are:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	774.342.254	-	-	-	774.342.254
Revenue from international transmission	-	174.642.830	-	-	174.642.830
Other revenue	21.433.836	-	-	10.058.402	31.492.238
<b>Operating revenue before the construction activity according to IFRIC12</b>	<b><u>795.776.090</u></b>	<b><u>174.642.830</u></b>	<b><u>-</u></b>	<b><u>10.058.402</u></b>	<b><u>980.477.322</u></b>
Depreciation	(88.350.682)	(17.096.323)	-	(1.422.481)	(106.869.486)
Operating expenses other than depreciation	<u>(372.997.242)</u>	<u>(25.923.880)</u>	<u>-</u>	<u>(14.186.070)</u>	<u>(413.107.192)</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**Profit from operation before  
the balancing and  
construction activity  
according to IFRIC12**

	-	-	-	-	<b>460.500.644</b>
Revenue from the balancing activity	-	-	76.691.831	-	76.691.831
Cost of balancing gas	-	-	(71.912.519)	-	(71.912.519)
Revenue from the construction activity according to IFRIC12	-	-	-	17.531.795	17.531.795
Cost of assets built according to IFRIC12	-	-	-	(17.531.795)	(17.531.795)
<b>Operating profit</b>	-	-	-	-	<b>465.279.956</b>
Net financial gain	-	-	-	-	13.095.365
<b>Profit before tax</b>	-	-	-	-	<b>478.375.321</b>

Profit tax	-	-	-	-	<u>(77.884.762)</u>
<b>Net profit</b>	-	-	-	-	<b>400.490.559</b>
Assets on segments	3.664.579.855	388.999.067	39.762.631	1.577.011.282	5.670.352.835
Liabilities on segments	1.268.830.709	23.644.401	25.539.791	659.628.133	1.977.643.034
Capital expenditure - increases in assets in progress	28.308.354	-	-	-	28.308.354
Non-cash expenses other than depreciation	4.910.278	363.665	-	(31.728)	5.242.215

Assets shown for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts. Assets shown for the balancing segment comprise mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

*Unallocated assets include:*

Tangible and intangible assets	37.798.387
Cash	1.538.467.787
Other assets	<u>745.108</u>
	<b>1.577.011.282</b>

*Unallocated liabilities include:*

Deferred tax	63.325.541
Tax payable	48.519.846
Dividends payable	547.308.824
Other debts	<u>473.922</u>
	<b>659.628.133</b>

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 6. INFORMATION ON SEGMENTS (CONTINUED)

Liabilities presented for the two main operating segments consist of payables and borrowings contracted by the Company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial debts from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the impairment of inventories, other risk provisions.

International transmission services are provided for several foreign clients, while the domestic transmission activity is performed for several domestic clients.

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	774.342.254	-	774.342.254
Revenue from international transmission	270.876	174.371.954	174.642.830
Other revenue	<u>30.736.198</u>	<u>756.040</u>	<u>31.492.238</u>
	<u>805.349.328</u>	<u>175.127.994</u>	<u>980.477.322</u>

#### *Domestic clients with over 10% of the total revenue include:*

#### Percentage of the total revenue

ENGIE ROMANIA S.A.	26%
E.ON ENERGIE ROMANIA SA.	18%

All Company's assets are located in Romania. All Company's activities are carried out in Romania.

The Company has receivables from foreign clients amounting to RON 32.334.034 (31 December 2016: RON 27.298.854).

The *domestic gas transmission* segment includes information related to the activity of domestic gas transmission, which is regulated by the National Regulatory Authority as well as the operating and financial revenue for the regulated value liability which remained depreciated of the regulated asset base at the end of the Concession Agreement; the *international gas transmission* segment includes information related to the activity of pipeline gas transmission without the transshipment of the Romanian territory, of which the activity performed through the Isaccea 2 – Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipeline is not regulated, the related tariffs being set on commercial bases by negotiation between the parties, and the activity performed through the Isaccea 1 – Negru Vodă 1 pipeline is regulated starting from 1 October 2016; the *balancing* segment includes expenses and revenue related to the balancing activity of the national transmission system, activity developed starting with 1 December 2015 neutral in financial terms, any profit or loss from this activity will be distributed to clients for whom domestic transmission services are provided; the *unallocated* segment includes activities with a low share in the company's revenue such as sales of assets, rents, royalties.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**6. INFORMATION ON SEGMENTS (CONTINUED)**

The information on segments provided to the Board of Administration, who makes strategic decisions for the reporting segments, related to the financial year ended 31 December 2016, is as follows:

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.360.354.729	-	-	-	1.360.354.729
Revenue from international transmission	-	328.571.017	-	-	328.571.017
Other revenue	12.462.236	-	-	113.996.642	126.458.878
Operating revenue before the construction activity according to IFRIC12	<u>1.372.816.965</u>	<u>328.571.017</u>	=	<u>113.996.642</u>	<u>1.815.384.624</u>
Depreciation	(172.300.374)	(33.447.035)	-	(2.915.947)	(208.663.356)
Operating expense other than depreciation	<u>(832.721.913)</u>	<u>(55.266.592)</u>	-	<u>(28.615.743)</u>	<u>(916.604.248)</u>
Profit from operation before the balancing activity according to IFRIC12	-	-	-	-	<b>690.117.020</b>
Revenue from the balancing activity according to IFRIC12	-	-	57.403.603	-	57.403.603
Cost of balancing gas	-	-	(56.093.235)	-	(56.093.235)
Revenue from the construction activity according to IFRIC12	-	-	-	118.503.527	118.503.527
Cost of assets constructed according to IFRIC12	-	-	-	(118.503.527)	(118.503.527)
Profit from operation	-	-	-	-	<b>691.427.388</b>
Net financial gain	-	-	-	-	22.547.308
Profit before tax	-	-	-	-	<b>713.974.696</b>
Profit tax	-	-	-	-	<u>(119.409.766)</u>
Net profit	-	-	-	-	<b>594.564.930</b>
Assets on segments	3.906.668.023	406.877.171	51.429.832	989.474.970	5.354.449.996
Liabilities on segments	1.360.420.874	17.034.710	35.903.437	103.389.540	1.516.748.561
Capital expenditure - increases in assets in progress	139.833.794	-	-	29.489	139.863.283
Non-cash expenses other than depreciation other than depreciation	103.356.130	5.117.973	-	593.200	109.067.303

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 6. INFORMATION ON SEGMENTS (CONTINUED)

Assets indicated for the two main operating segments mainly comprise tangible and intangible assets, inventories and receivables, and mainly exclude cash and bank accounts.

*Unallocated assets include:*

Tangible and intangible assets	39.217.589
Cash	949.293.236
Other assets	<u>964.145</u>
	<b>989.474.970</b>

*Unallocated liabilities include:*

Deferred tax	65.668.155
Tax payable	34.084.780
Dividends payable	3.103.183
Other debts	<u>533.422</u>
	<b>103.389.540</b>

Liabilities shown for the two main operating segments consist of payables and borrowings contracted by the Company for the acquisition of assets for the respective segments. Liabilities shown for the balancing segment comprise mainly commercial liabilities from the balancing activity.

Non-cash expenses other than depreciation consist of the expense with the impairment of receivables and the expense with the impairment of inventories, other risk provisions.

International transmission services are provided for two foreign clients, while the domestic transmission activity is performed for several domestic clients.

	<u><b>Domestic Clients</b></u>	<u><b>Foreign Clients</b></u>	<u><b>Total</b></u>
Revenue from domestic transmission	1.360.354.729	-	1.360.354.729
Revenue from international transmission	-	328.571.017	328.571.017
Revenue from balancing	57.403.603	-	57.403.603
Other revenue	<u>123.069.661</u>	<u>3.389.217</u>	<u>126.458.878</u>
	<u><b>1.540.827.993</b></u>	<u><b>331.960.234</b></u>	<u><b>1.872.788.227</b></u>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

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**6. INFORMATION ON SEGMENTS (CONTINUED)**

<i>Domestic clients with over 10% of the total revenue include:</i>	<b><u>Percentage of the total revenue</u></b>
ENGIE ROMANIA S.A.	22%
E.ON ENERGIE ROMANIA SA.	18%

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.



**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**7. TANGIBLE ASSETS**

	<b><u>Lands and buildings</u></b>	<b><u>Assets of the transmission system</u></b>	<b><u>Other fixed assets</u></b>	<b><u>Assets in progress</u></b>	<b><u>Total</u></b>
<b>On 30 June 2016 (unaudited)</b>					
Cost on 1 January 2016	280.589.451	982.191.304	242.947.392	12.350.195	1.518.078.342
Accumulated depreciation on 1 January 2016	<u>(133.298.492)</u>	<u>(560.848.140)</u>	<u>(196.191.275)</u>	-	<u>(890.337.907)</u>
	<u>147.290.959</u>	<u>421.343.164</u>	<u>46.756.117</u>	<u>12.350.195</u>	<u>627.740.435</u>
Initial net book value					
Inflows/Re-classification	-	-	-	11.447.502	11.447.502
Transfers	33.271	-	9.491.127	(9.524.398)	-
Outflows (net book value)	(2.007)	-	(79.354)	-	(81.361)
Expense with depreciation	<u>(4.060.447)</u>	<u>(16.976.732)</u>	<u>(7.213.151)</u>	-	<u>(28.250.330)</u>
Final net book value	143.261.776	404.366.432	48.954.739	14.273.299	610.856.246
Expense with depreciation	280.512.326	982.131.560	248.304.055	14.273.299	1.525.221.240
Accumulated depreciation	<u>(137.250.550)</u>	<u>(577.765.128)</u>	<u>(199.349.316)</u>	-	<u>(914.364.994)</u>
Final net book value	<u>143.261.776</u>	<u>404.366.432</u>	<u>48.954.739</u>	<u>14.273.299</u>	<u>610.856.246</u>

**On 31 December 2016**

Initial net book value	<u>143.261.776</u>	<u>404.366.432</u>	<u>48.954.739</u>	<u>14.273.299</u>	<u>610.856.246</u>
Inflow	86.122	-	-	9.307.150	9.393.272
Inventory value re- classification	(2.030.244)	(24.688.508)	(2.419.565)		(29.138.317)
Transfers	146.823	-	7.731.395	(7.878.218)	-
Outflow (net book value)	-	-	(83.229)	-	(83.229)
Depreciation re- classification	1.238.937	22.501.436	2.383.805	-	26.124.178
Expense with depreciation	<u>(4.045.204)</u>	<u>(16.958.866)</u>	<u>(8.070.075)</u>	-	<u>(29.074.145)</u>
Final net book value	138.658.210	385.220.494	48.497.070	15.702.231	588.078.005
Cost	278.715.005	957.443.052	246.397.056	15.702.231	1.498.257.344
Accumulated depreciation	<u>(140.056.795)</u>	<u>(572.222.558)</u>	<u>(197.899.986)</u>	-	<u>(910.179.339)</u>
Final net book value	<u>138.658.210</u>	<u>385.220.494</u>	<u>48.497.070</u>	<u>15.702.231</u>	<u>588.078.005</u>

**On 30 June 2017 (unaudited)**

Initial net book value	<u>138.658.210</u>	<u>385.220.494</u>	<u>48.497.070</u>	<u>15.702.231</u>	<u>588.078.005</u>
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

Inflow /Reclassification	588.439	-	59.293	10.701.745	11.349.477
Transfers	83.390	-	10.641.373	(10.724.763)	-
Outflow (net book value)	(4.618)	(28.693)	(69.950)	-	(103.261)
Expense with depreciation	<u>(3.804.144)</u>	<u>(16.877.945)</u>	<u>(8.301.081)</u>	-	<u>(28.983.170)</u>
Final net book value	135.521.277	368.313.856	50.826.705	15.679.213	570.341.051
Cost	279.531.310	957.229.136	250.455.745	15.679.213	1.502.895.404
Accumulated depreciation	<u>(144.010.033)</u>	<u>(588.915.280)</u>	<u>(199.629.040)</u>	-	<u>(932.554.353)</u>
Final net book value	<u>135.521.277</u>	<u>368.313.856</u>	<u>50.826.705</u>	<u>15.679.213</u>	<u>570.341.051</u>

By ANRE Order no. 34/2016 the transmission activity carried out on the Isaccea 1 - Negru Voda 1 pipeline is regulated from 1 October 2016. The related assets amounting to RON 29,138,316 and the accumulated depreciation amounting to RON 26,124,177 were re-classified to intangible assets, according to the IFRIC12classification criteria.

The gross book value of the fully depreciated assets, still used, is RON 181,033,699 (31 December 2016: RON 182,515,051).

Regarding the assets developed by the Company that are complementary to the provision of services according to the concession agreement, the state has the option to acquire these assets at the end of the concession agreement. The Company does not have the obligation to keep these assets until the end of the concession agreement and it is allowed to sell them. These assets do not fall within the scope of IFRIC 12. All the other assets related to the domestic transmission activity and that are part of the national gas transmission system, including improvements made after signing the concession agreement and which must be handed over to the NAMR at the end of the concession agreement fall within the scope of IFRIC 12.

The assets used for the provision of international transmission services through the Isaccea 2 - Negru Vodă 2 and Isaccea 3 – Negru Vodă 3 pipelines do not fall within the scope of IFRIC 12.

## 8. SERVICE CONCESSION AGREEMENT

In May 2002, the Company concluded a service concession agreement (`SCA`) with the NAMR, which entitles the Company to operate the main pipelines of the national gas transmission system for a period of 30 years. Before concluding this agreement, the pipelines were managed by the Company according to Public Domain Law No. 213/1998, GD No. 491/1998 and GD No. 334/2000 by which the Company was established. All modernizations and improvements made by the Company to the system are considered part of the system and become property of the NAMR at the end of their useful life. The Company cannot sell or discard any asset part of the national transmission system; withdrawals can only be made with the approval of the state.

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## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **8. SERVICE CONCESSION AGREEMENT (CONTINUATION)**

Upon expiration of the agreement, the assets belonging to the public domain existing upon signing the agreement and all investments made in the system will be returned to the state. The Company owns and will develop other assets that are not part directly of the national gas transmission system, but are complementary assets for gas transmission operations. The NAMR has the option to buy these assets at the end of the concession agreement, at the fair value.

The main terms of the concession agreement are the following:

- The Company is entitled to operate directly the assets subject to the concession agreement and to apply and collect tariffs for domestic and international transmission from clients in exchange for services provided; the Company is the only entity authorized to operate the pipelines of the national gas transmission system, no sub-concession being allowed;
- Any change of tariffs must be proposed by the Company and then approved by the ANRE;
- The Company is exempt from the payment of import duties for the assets acquired for operation, improvement or development of the system;
- The Company must annually publish by 30 October the available capacity of the system for the following year;
- The Company must annually respond to the clients' orders by 30 November and the NAMR must be informed on all rejected orders decided by the Company's management;
- The Company must keep a specific level of functioning (guaranteed through a mandatory minimum investment programme);
- royalties are paid as percentage (by 30 September 2007: 5%, as of October 2007: 10%) of the gross revenue from the operation of the national transmission system (domestic and international transmission);
- all operating expenses for operating the system are incurred by the Company;
- The Company may cancel the agreement by notifying the NAMR 12 months in advance;
- The NAMR may cancel the agreement by a 6-month prior notice, if the Company fails to comply with the contractual conditions; it also has the option to cancel the agreement with a 30-day prior notice for 'national interest' reasons; in this case, the Company will receive compensation equal to the average net profit of the past 5 years multiplied by the remaining duration of the agreement.

The concession agreement does not include an automatic renewal clause.

The terms of the concession agreement haven't been amended after June 2003, except for the approval of the minimum investment plans.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**9. INTANGIBLE ASSETS**

	<b>SCA related assets</b>	<b>Computer software</b>	<b>Intangible assets in progress</b>	<b>Total</b>
<b>On 30 June 2016</b>				
<b>(unaudited)</b>				
Cost on 1 January 2016	5.886.450.613	51.571.742	168.427.149	6.106.449.504
Accumulated amortization at 1 January 2016	(3.449.478.182)	(49.510.466)	-	(3.498.988.648)
Provisions for impairment	-	-	(806.244)	(806.244)
Initial net book value	<u>2.436.972.431</u>	<u>2.061.276</u>	<u>167.620.905</u>	<u>2.606.654.612</u>
Inflows/Re- classifications	-	-	33.870.123	33.870.123
Transfers	38.478.197	131.457	(38.609.654)	-
Outflows	(2.157)	-	-	(2.157)
Depreciation	(74.482.431)	(1.002.741)	-	(75.485.172)
Provisions for impairment	-	-	-	-
Final net book value	<u>2.400.966.040</u>	<u>1.189.992</u>	<u>162.881.374</u>	<u>2.565.037.406</u>
Cost	5.924.910.020	49.753.589	163.687.618	6.138.351.227
Accumulated depreciation	(3.523.943.980)	(48.563.597)	-	(3.572.507.577)
Provisions for impairment	-	-	(806.244)	(806.244)
Net book value	<u>2.400.966.040</u>	<u>1.189.992</u>	<u>162.881.374</u>	<u>2.565.037.406</u>
<b>On 31 December 2016</b>				
Initial net book value	<u>2.400.966.040</u>	<u>1.189.992</u>	<u>162.881.374</u>	<u>2.565.037.406</u>
Inflows	9.098.356	-	85.238.508	94.336.864
Inventory value re- classifications	29.138.316	-	-	29.138.316
Transfers	87.178.456	90.205	(87.268.661)	-
Outflows	-	-	-	-
Depreciation	(76.072.081)	(639.768)	-	(76.711.849)
Depreciation re- classification	(26.124.177)	-	-	(26.124.177)
Provisions for impairment	-	-	(2.203.908)	(2.203.908)
Final net book value	<u>2.424.184.910</u>	<u>640.429</u>	<u>158.647.313</u>	<u>2.583.472.652</u>
Cost	6.050.325.148	49.842.900	161.657.465	6.261.825.513

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

Accumulated depreciation	(3.626.140.238)	(49.202.471)	-	(3.675.342.709)
Provisions for impairment	-	-	(3.010.152)	(3.010.152)
Final net book value	<u>2.424.184.910</u>	<u>640.429</u>	<u>158.647.313</u>	<u>2.583.472.652</u>

**On 30 June 2017 (unaudited)**

Initial net book value	<u>2.424.184.910</u>	<u>640.429</u>	<u>158.647.313</u>	<u>2.583.472.652</u>
Inflows/Re-classifications	(624.733)	-	17.606.609	16.981.876
Transfers	4.440.973	43.513	(4.484.486)	-
Outflows	-	-	-	-
Depreciation	<u>(78.159.330)</u>	<u>(149.158)</u>	<u>-</u>	<u>(78.308.488)</u>
Final net book value	<u>2.349.841.820</u>	<u>534.784</u>	<u>171.769.436</u>	<u>2.522.146.040</u>
Cost	6.054.141.388	48.691.015	174.779.588	6.277.611.991
Accumulated depreciation	(3.704.299.568)	(48.156.231)	-	(3.752.455.799)
Provisions for impairment	-	-	(3.010.152)	(3.010.152)
Final net book value	<u>2.349.841.820</u>	<u>534.784</u>	<u>171.769.436</u>	<u>2.522.146.040</u>

The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**10. FINANCIAL ASSETS AVAILABLE FOR SALE**

Financial assets available for sale consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	<u>%</u>	<u>%</u>	<u>30 June</u>	<u>31 December</u>
		<u>owned</u>	<u>owned</u>	<u>2017</u>	<u>2016</u>
		<u>2017</u>	<u>2016</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Resial SA	Production	68,16	68,16	18.116.501	18.116.501
Mebis SA	Gas production distribution and supply	17,47	17,47	6.461.736	6.461.736
Nabucco Gas Pipeline International Gmbh	Gas transmission	17,93	17,93	138.544.435	138.544.435
Minus provision for impairment of investments in:					
Resial SA and Mebis SA				(24.578.237)	(24.578.237)
Nabucco Gas Pipeline International Gmbh				(138.544.435)	(138.544.435)
				<u>-</u>	<u>-</u>

*Shares in Resial SA*

Shares owned in Resial SA were obtained in December 2003, as a result of a procedure for the recovery of claims due from a client. Resial SA went into liquidation in 2006; the procedure is carried out by a bailiff appointed by the court and is outside the control of the Company, which is why the stake is not consolidated and is recorded at cost less the provision for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully provisioned. The management does not expect the Company to recover any amount of this stake and the Company does not guarantee any type of residual obligations for Resial SA.

*Shares in Mebis SA*

Shares owned in Mebis SA were obtained in February 2004, as a result of a procedure for the recovery of claims due from a client. Mebis SA is in the liquidation procedure, which is why the stake in Mebis SA was fully provisioned. The Company has no obligations to Mebis SA.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

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**10. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)**

*Shares in Nabucco Gas Pipeline International Gmbh*

Nabucco Gas Pipeline International Gmbh (‘NIC’) is a limited liability company, based in Vienna, Austria, established to build a gas transmission pipeline from the Caspian Sea through Turkey, Bulgaria, Romania and Hungary to Austria.

The Company participated with BOTAS - Turkey, Bulgargaz - Bulgaria, MOL - Hungary and OMV Gas & Power GmbH - Austria to the share capital of NIC, each company holding a 20% stake in the share capital. In February 2008, the share capital of NIC was increased by the contribution of a new shareholder, RWE Gas Midstream Germany.

The Company's stake in the Nabucco project at the end of 2012 was 17.38%, as a result of refusal of shareholder FGSZ Hungary to ensure the future funding for the project.

On 30 June 2017, NIC's ownership structure was the following: Botas - Turkey 17.93% (31 December 2016: 17.93%), Bulgargaz - Bulgaria 17.93% (31 December 2016: 17.93%), SNTGN Transgaz SA - Romania 17.93% (31 December 2016: 17.93%), MOL - Hungary 10.35% (31 December 2016: 10.35%), OMV Gas & Power GmbH - Austria 35.86% (31 December 2016: 35.86%).

In June 2013, the final decision of the Shah Deniz group, the Azerbaijani gas supplier, was made, deselecting the Nabucco West project as an option to carry natural gas from the Shah Deniz 2 field, which prompted NIC shareholders to make the decision to close, in a controlled manner, the Nabucco companies (NIC and subsidiaries).

During 2014 revenue was obtained from the liquidation of NIC amounting to EUR 959,350,39. At the same time, after the reconciliation of the amounts transferred in an escrow account by the Shah Deniz Consortium the amount of EUR 1,468,500 was received.

In the near future there is the prospect of collecting additional amounts from the liquidation of NIC, but due to the uncertainty level, the investment of the company in NIC of RON 138,544,435 was fully provided.



**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**11. INVENTORIES**

	<u><b>30 June 2017</b></u> <u><b>(unaudited)</b></u>	<u><b>31 December 2016</b></u>
Gas inventories	16.448.803	19.682.519
Spare parts and materials	77.395.633	75.537.278
Provisions for slow moving inventories	<u>(12.551.815)</u>	<u>(11.505.163)</u>
	<u><b>81.292.621</b></u>	<u><b>83.714.634</b></u>

ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

Movements in the provision account are analysed below:

	<u><b>30 June 2017</b></u> <u><b>(unaudited)</b></u>	<u><b>31 December 2016</b></u>
Provision on 1 January	11.505.163	9.806.906
(Revenue)/expense with the provision for the impairment of the stocks (Note 23)	<u>1.046.652</u>	<u>1.698.257</u>
Provision in the end of the period	<u><b>12.551.815</b></u>	<u><b>11.505.163</b></u>

During 2017 and 2016 provisions for the impairment of the stocks were constituted according to Note 3.10.

**12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES**

	<u><b>30 June 2016</b></u> <u><b>(unaudited)</b></u>	<u><b>31 December 2015</b></u>
Trade receivables	555.645.544	763.524.342
Advance payments to suppliers	653.227	159.785
Loan to Resial SA (Note 10)	1.770.346	1.770.346
Receivable related to the unamortized regulated value at the end of the concession agreement	644.642.635	626.403.203
Non-refundable loans as subsidies	11.705.173	3.127.035
Other receivables	60.454.649	58.889.109
Provision for impairment of trade receivables	(275.934.817)	(262.984.485)
Provision for impairment of other receivables	<u>(40.831.420)</u>	<u>(40.997.866)</u>
	<u><b>958.105.337</b></u>	<u><b>1.149.891.469</b></u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)**

The company challenged administratively the tax decision on additional tax payment obligations in the amount of RON 25,409,833 issued by ANAF consisting of revenue tax, VAT, penalties and late payments, and set up a provision. The company paid the amounts mentioned in the tax decision in order to be able to carry out the activities in the directions set by the management and to facilitate the financing of future projects.

On 30 June 2017, the amount of RON 32.463.188 (31 December 2016: RON 25.335.973) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 4% in USD (31 December 2016: 5%) and 96% in EUR (31 December 2016: 96%).

The analysis based on the quality of the trade receivables and other receivables is as follows:

	<b>30 June 2017</b>	<b>31 December 2016</b>
	<b><u>Trade receivables</u></b>	<b><u>Trade receivables</u></b>
	<b><u>(unaudited)</u></b>	
<b>Current and not impaired (1)</b>	241.417.996	431.827.408
Overdue but not impaired		
- overdue less than 30 days	11.451.182	63.908.430
- overdue between 30 and 90 days	10.717.871	1.638.736
- overdue more than 90 days	<u>16.123.678</u>	<u>3.165.283</u>
<b>Due, but not impaired - total (2)</b>	<u>38.292.731</u>	<u>68.712.449</u>
<b>Impaired (gross)</b>		
- outstanding less than 30 days	-	-
- overdue between 30 and 90 days	2.484.289	9.558.108
- overdue between 90 and 360 days	44.911.659	117.022.047
- overdue more than 360 days	<u>228.538.869</u>	<u>136.404.330</u>
<b>Total impaired (3)</b>	<u>275.934.817</u>	<u>262.984.485</u>
<b>Except the provision for impairment (4)</b>	<u>275.934.817</u>	<u>262.984.485</u>
<b>Total trade receivables and other receivables (1+2+3-4)</b>	<u>279.710.727</u>	<u>500.539.857</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES (CONTINUED)**

Analysis according to the quality of the receivables, of the current and not impaired financial assets can be made based on historical information on issues related to the recovery of these receivables.

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Group 1	193.598.897	375.276.053
Group 2	<u>47.819.099</u>	<u>56.551.355</u>
Trade receivables	<u>241.417.996</u>	<u>431.827.408</u>

Group 1 - existing clients/related parties where there were no recovery problems.

Group 2 - existing clients/related parties where payment delays were recorded in the past.

Movements in the provision account are analysed below:

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Provision on 1 January	303.982.351	204.562.839
(Revenue)/expense with the provision for doubtful debts (Note 23)	<u>12.783.885</u>	<u>99.419.512</u>
Provision at the end of the period	<u>316.766.236</u>	<u>303.982.351</u>

In semester I 2017 and in 2016 provisions for receivables from insolvent companies or from companies in significant financial difficulties were established. The increase of the provision for the impairment of the trade receivables in semester I 2017 is mainly due to the additional provision with SNGN Romgaz SA Medias, Chemgaz Holding Corporation S.R.L. and Complex Energetic Hunedoara.

**13. CASH AND CASH EQUIVALENT**

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Cash at bank in RON	1.051.188.112	605.720.529
Cash at bank in foreign currency	486.816.844	343.433.569
Other cash equivalents	<u>462.831</u>	<u>139.138</u>
	<u>1.538.467.787</u>	<u>949.293.236</u>

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 13. CASH AND CASH EQUIVALENT (CONTINUED)

Cash at bank in foreign currency is mostly denominated in EUR.

The weighted average of the effective interest related to short-term bank deposits was of 0.40% on 30 June 2017 (0.48% on 30 June 2016) and these deposits have an average maturity of 30 days.

On 30 June 2017, the Company established a mortgage on a collateral deposit account amounting to RON 6,379,137, in favor of the creditor Banca Comerciala Romana SA, in order to guarantee the obligations under Contract no. DGLC 9166/23.09.2016. The maturity date of the mortgage is 11 December 2017.

### 14. SHARE CAPITAL AND SHARE PREMIUM

	<u>Number of ordinary shares</u>	<u>Share capital</u>	<u>Share premium</u>	<u>Total</u>
<b>IFRS</b>				
On 31 December 2016	11.773.844	117.738.440	247.478.865	365.217.305
On 30 June 2017 (unaudited)	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	-	441.418.396	-	441.418.396
On 31 December 2016, 30 June 2017 (unaudited)	<u>11.773.844</u>	<u>559.156.836</u>	<u>247.478.865</u>	<u>806.635.701</u>

The authorized number of ordinary shares is 11,773,844 (31 December 2016: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 30 June 2017 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value (RON)</u>	<u>Percentage (%)</u>
The Romanian state, represented by the Ministry of Economy, Trade and Business Environment Relations	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**14. SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)**

The ownership structure on 31 December 2016 is the following:

	<b><u>Number of ordinary shares</u></b>	<b><u>Statutory value (RON)</u></b>	<b><u>Percentage (%)</u></b>
The Romanian state, represented by the Ministry of Economy, Trade and Business Environment relations	6.888.840	68.888.400	58,5097
Other shareholders	<u>4.885.004</u>	<u>48.850.040</u>	<u>41,4903</u>
	<u>11.773.844</u>	<u>117.738.440</u>	<u>100,0000</u>

By Government Emergency Ordinance 1 of 4 January 2017 the Ministry of Economy was established through the reorganizing of the Ministry of Economy, Trade and Business Environment. The transfer of the shares held by the Romanian State from the account of the Ministry of Economy, Trade and Business Environment to the account of the Ministry of Economy was recorded at SC Depozitarul Central SA on 10 march 2017.

In the statutory accounting, before 1 January 2012, the Company included in the share capital certain reserves from revaluation for revaluations made before 31 December 2001. In order to prepare these financial statements according to EU IFRS, such increases were not recognized, because adjustments to hyperinflation for fixed assets were annually recognized in the statement of comprehensive income by 31 December 2003. Therefore, in these financial statements, the Company recorded only the share capital from cash or in-kind contribution, adjusted to inflation from the date of the initial contribution on 31 December 2003 and the increase in the share capital that took place after 1 January 2004 was recognized in nominal terms.

**15. OTHER RESERVES, LEGAL RESERVES AND RETAINED EARNINGS**

***Other reserves***

Before the adoption of IFRIC 12, a proper reserve related to assets belonging to the public domain (Notes 3.8 and 5.2) was included in equity as `Reserve of the public domain` at the value of the respective assets restated depending on inflation until 1 January 2004. It was recalled `Other reserves` upon adoption of IFRIC 12 (Note 3.5), to reflect the change in the statute of related assets.

***Legal reserve***

In accordance with the Romanian legislation and the Company's Articles of Incorporation, it must transfer five percent of the profit from the statutory financial statements in a statutory reserve of up to 20% of the statutory share capital. The balance of the statutory reserve, which is not available for

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 15. OTHER RESERVES, LEGAL RESERVES AND RETAINED EARNINGS

allocation on 30 June 2017, amounts to RON 23,547,688 (31 December 2016: RON 23,547,688). The legal reserve is included in the `Retained earnings` in these financial statements.

#### *Dividend allocation*

In 2017, the Company declared and allocated a dividend of RON 46.33/share, related to the profit of the previous year (2016: RON 27.61 per share). The total dividends declared from the profit of 2016 are RON 545,482,192 (dividends declared from the profit of 2015: RON 325,075,833).

### 16. LONG-TERM BORROWINGS

The company has no long term borrowing.

### 17. DEFERRED REVENUE

Deferred revenue consists of connection fees charged to clients for their connection to the national gas transmission system, of assets taken over for free for connection to the network, grants and the right to recover the unamortized regulated value of the assets related to the investments made as operator. The Company uses the connection fee to achieve the connection to the national transmission system of the client's objectives. Deferred revenue (presented as `revenue from the connection fees`) is registered as revenue for the period when the related assets are depreciated and estimating the duration of the relationship with the client (Note 22).

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Initial balance	<u>1.036.619.965</u>	<u>930.578.140</u>
Increase referring to the regulated value remained unamortized at the end of the concession agreement	9.640.453	29.205.149
Increases	11.051.061	125.988.900
Reimbursed amounts	-	-
Amounts recorded in the revenue (Note 22)	<u>(26.102.456)</u>	<u>(49.152.224)</u>
Final balance	<u>1.031.209.023</u>	<u>1.036.619.965</u>

The Company is entitled to recover the unamortized regulated value of the investments made as operator of the National Transmission System (see also Note 3.18). The deferred revenue is recognized in the profit and loss account for the remained duration of the concession agreement (Note 22).

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**17. DEFERRED REVENUE (CONTINUED)**

The balance of the deferred revenue consists of:

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Deferred revenue related to the regulated value remained unamortized at the end of the concession agreement	522.246.004	527.528.941
Connections and assets received free of charge	287.516.296	293.361.138
Grants	<u>221.446.723</u>	<u>215.729.886</u>
	<u>1.031.209.023</u>	<u>1.036.619.965</u>

In September 2016 Transgaz received from the European Commission the amount of EUR 25,834,490 as the pre-financing under the Financing Agreement for the project Development of the Romanian National Transmission System along the Bulgaria–Romania–Hungary–Austria corridor - BRUA Phase 1.

**18. PROFIT TAX**

**Profit tax expense**

	<b>The six months period ended</b> <b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b>The six months period ended</b> <b><u>30 June 2016</u></b> <b>(unaudited)</b>
Expense with the profit tax - current	80.227.376	57.297.625
Deferred tax - impact of temporary differences	<u>(2.342.614)</u>	<u>(2.253.982)</u>
Profit tax expense	<u>77.884.762</u>	<u>55.043.643</u>

In 2017 and 2016, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian legislation.

	<b>The six months period ended</b> <b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b>The six months period ended</b> <b><u>30 June 2016</u></b> <b>(unaudited)</b>
Profit before tax	478.375.321	336.810.481
Theoretical expense with the tax the statutory rate of 16% (2015: 16%)	76.540.051	53.889.677

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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Non-taxable expenses, net	<u>1.344.711</u>	<u>1.153.966</u>
Profit tax expense	<u>77.884.762</u>	<u>55.043.643</u>
Profit tax related liability, current	<u>48.519.846</u>	<u>29.966.214</u>

Depreciation of tangible assets hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
(expressed in RON, unless otherwise stated)

**18. PROFIT TAX (CONTINUED)**

**Deferred tax**

Deferred tax payment and recoverable tax are valued at the actual tax rate of 16% on 30 June 2017 (31 December 2016: 16%). Deferred tax payment and recoverable tax, as well as expenses with/(revenue from) deferred tax recognized in the statement of comprehensive income are attributable to the following items:

	<u>30 June 2017</u>	<u>Movement</u>	<u>31 December</u>	<u>Movement</u>	<u>30 June 2016</u>	<u>Movement</u>	<u>1 January</u>
	<u>(unaudited)</u>		<u>2016</u>		<u>(unaudited)</u>		<u>2016</u>
<b>Deferred tax payment</b>							
Tangible and intangible assets	81.547.288	(2.342.614)	83.889.902	(2.375.034)	86.264.936	(2.253.982)	88.518.918
<b>Deferred tax recoverable</b>							
Provision for employee benefits	(18.221.747)	-	(18.221.747)	(1.040.231)	(17.181.516)	-	(17.181.516)
	<u>63.325.541</u>	<u>(2.342.614)</u>	<u>65.668.155</u>	<u>(3.415.265)</u>	<u>69.083.420</u>	<u>(2.253.982)</u>	<u>71.337.402</u>

Deferred revenue tax liability related to tangible and intangible assets is determined by the fact that: a) the fiscal value of intangible assets does not include inflation update; and b) the nature of public domain property does not represent depreciable assets from a tax perspective, regardless of how they are reflected in the accounts.

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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**18. PROFIT TAX (CONTINUED)**

The amounts presented in the statement of the financial position include the following:

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Deferred tax liabilities payable in more than 12 months as reported	<u>63.325.541</u>	<u>65.668.155</u>

**19. TRADE PAYABLES AND OTHER PAYABLES**

	<b><u>30 June 2017</u></b> <b>(unaudited)</b>	<b><u>31 December 2016</u></b>
Trade payables	54.521.311	67.842.305
Suppliers of fixed assets	5.907.864	12.861.215
Dividends payable	547.308.824	3.103.183
Debts related to royalties	32.510.845	54.627.779
Other taxes	16.818.210	19.758.749
Amounts payable to employees	12.030.658	16.300.594
VAT payable	10.606.441	20.559.485
VAT not applicable	10.071.901	39.967.165
Other debts	<u>24.135.462</u>	<u>16.089.755</u>
	<u>713.911.516</u>	<u>251.110.230</u>

On 30 June 2017, of the total trade payables and other debts the amount of RON 12,003,355 (31 December 2016: RON 3,147,245) is expressed in foreign currency, especially in EUR.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**20. PROVISIONS FOR RISKS AND CHARGES**

	<u><b>30 June 2017</b></u> <b>(unaudited)</b>	<u><b>31 December 2016</b></u>
<i>Current provision</i>		
Provision for litigation	296.341	296.341
Provision term contract	-	3.588.610
Provision for employee participation in profits	<u>6.494.847</u>	<u>11.494.560</u>
	<u><b>6.791.188</b></u>	<u><b>15.379.511</b></u>

Employees' profit share is calculated within the limit of 10% of the net profit, but not more than a monthly average salary achieved in the relevant financial year.

**21. PROVISION FOR EMPLOYEE BENEFITS**

**Employee benefits**

According to the collective labour contract, the Company must pay to employees upon retirement a compensatory amount equal to a certain number of salaries, calculated as the average of the monthly salary average achieved during the last 12 months, depending on the period worked in the gas industry, working conditions etc. The present value of the provision was determined based on the Projected Unit Credit Method. Retirement benefits received by an employee were first raised by the contributions of the employer and then every benefit was updated taking into account the rotation of employees, layoffs and the probability of survival until retirement. Number of years until retirement was calculated as the difference between retirement age and age at time of reporting. The expected average of the remaining work period was calculated based on the number of years until retirement, also taking into account the rate of layoffs, employee rotation rate and the probability of survival.

The main actuarial assumptions used for calculation at the date of 31 December 2016 were as follows:

- a) Discount rate:
  - The following values were used: long-term estimated inflation rate 2% per year, effective long-term estimated rate of return for government bonds 2.2% per year, forward discount rate 4.20% per year;
- b) The inflation rate estimated based on statistics issued by NIS and NBR forecast in 2016 is - 2.10%; 2.50% in 2018-2030 and following a downward trend in the coming years;
- c) The growth rate of salaries - for 2016 and subsequent years was estimated at a salary growth rate of 2% above the consumer price index;
- d) The mortality rate among employees is based on the Population Mortality Table in Romania for 2013 issued by the National Institute of Statistics of Romania.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

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**21. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)**

**Movement in the provision for employee benefits**

1 January 2016	<u>107.384.474</u>
of which:	
Short-term	4.436.875
Long-term	102.947.599
Interest cost	4.038.488
Current service cost	4.262.223
Past service cost	61.816
Payments from provisions during the year	(2.886.715)
Actuarial gain/loss related to the period	1.025.634
31 December 2016	<u>113.885.920</u>
of which:	
Short-term	4.757.862
Long-term	109.128.058
	<u>113.885.920</u>
30 June 2017	
of which:	
Short-term	4.757.862
Long-term	109.128.058

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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**22. OTHER REVENUE**

	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
Revenue from penalties for late payment to clients	2.632.716	1.555.578
Revenue from connection fees, grants and goods taken free of charge	11.179.065	8.804.852
Revenue from the receivable related to the remaining regulated value recognized ANRE at the end of the concession agreement	14.923.391	14.202.925
Revenue from the sale of residual materials	22.114	709.629
Rental revenue	706.433	724.703
Revenue from recovered materials	462.433	311.715
Other operating revenue	<u>1.566.086</u>	<u>53.113.165</u>
	<u>31.492.238</u>	<u>79.422.567</u>

In 2016 the company accrued at other operating revenue the amount of RON 51,717,515 representing delay penalties related to the dividends paid in delay in the period 2000-2003, prescribed.

**23. OTHER OPERATING EXPENSES**

	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
Loss on impairment of receivables	12.783.885	26.103.830
Security and protection expenses	6.083.291	6.227.330
Utilities	3.242.677	3.211.544
Penalties and fines	677.639	247.523
Telecommunications	1.785.856	2.194.946
Gas storage capacity booking	2.534.700	2.336.904
Sponsorship expenses	430.000	605.500
Maintenance expenses	329.493	675.212
Rent	2.337.278	2.602.547
Professional training	437.972	532.617
Marketing and protocol expenses	401.494	364.533
Research and studies expenses	1.279.559	327.610
Insurance premia	722.032	576.363
Bank charges and other fees	89.163	190.813
Loss/(gain) from the impairment of stocks	1.046.652	1.202.203
Loss on disposal of fixed assets	(32.968)	83.493
Loss on receivables	-	2.263.026
Other	<u>11.399.113</u>	<u>9.728.542</u>
	<u>45.547.836</u>	<u>59.474.536</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**24. COST OF EMPLOYEES**

	Period of six months ended <u>30 June 2017</u> (unaudited)	Period of six months ended <u>30 June 2016</u> (unaudited)
Salaries and benefits	141.545.889	138.054.309
Cost of insurance and social security	39.751.225	38.909.457
Other employee costs	<u>3.178.299</u>	<u>2.952.164</u>
	<b><u>184.475.413</u></b>	<b><u>179.915.930</u></b>

Average number of employees in financial year:

	Period of six months ended <u>30 June 2017</u> (unaudited)	Period of six months ended <u>30 June 2016</u> (unaudited)
Blue collars	3151	3302
White collars	<u>1477</u>	<u>1395</u>
	<u>4628</u>	<u>4697</u>

**25. NET FINANCIAL REVENUE/(EXPENSES)**

	The six months period ended <u>30 June 2017</u> (unaudited)	The six months period ended <u>30 June 2016</u> (unaudited)
Revenue from foreign exchange differences	10.245.822	3.402.817
Interest revenue	11.521.514	11.214.863
Other financial revenue	-	<u>6.882</u>
<b>Financial revenue</b>	<b>21.767.336</b>	<b>14.624.562</b>
Expenses from foreign exchange differences	(8.672.018)	(2.921.371)
Other financial expenses	<u>47</u>	-
<b>Financial expenses</b>	<b><u>(8.671.971)</u></b>	<b><u>(2.921.371)</u></b>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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**26. CASH FROM OPERATION**

	The six months period ended <b>30 June 2017</b> <b><u>(unaudited)</u></b>	The six months period ended <b>30 June 2016</b> <b><u>(unaudited)</u></b>
<b>Profit before tax</b>	<b>478.375.321</b>	<b>336.810.481</b>
<i>Adjustments for:</i>		
Amortization	106.869.486	103.384.256
Gain/(loss) on disposal of fixed assets	(32.968)	83.493
Provisions for risks and charges	(8.588.323)	16.511.542
Revenue from connection fees, grants and goods taken free of charge	(11.179.065)	(8.804.852)
Provisions for impairment of claims	12.783.885	26.103.829
Interest revenue	(11.521.514)	(11.214.864)
Loss / (gain) from the impairment of stocks	1.046.653	1.202.203
Loss from receivables		2.263.026
Effect of exchange rate fluctuation on other items than operating	33.581	(7.468)
Revenue from the right to collect receivables over the regulated value which remained non-harmonized upon the termination of the concession agreement	(14.923.391)	(14.202.925)
<b>Operating Profit before the changes in working capital</b>	<b><u>552.863.665</u></b>	<b><u>452.128.721</u></b>
(Increase)/decrease in trade and other receivables	195.455.111	(27.673.140)
(Increase)/decrease in inventories	1.375.360	(15.206.142)
Increase/(decrease) in trade payables and other debts	<u>(72.777.558)</u>	<u>(47.476.455)</u>
<b>Cash generated from operations</b>	<b><u>676.916.578</u></b>	<b><u>361.772.984</u></b>

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 27. TRANSACTIONS WITH RELATED PARTIES

The Parties are considered related if one of the parties has the ability to control the other party, to exercise a significant influence over the other party in financial or operational decision making, if they are under the common control with another party, if there is a joint venture in which the entity is an associate or a member of the management as described in the IAS 24 `Related Party Disclosures`. In evaluating each possible related party relationship, the focus is on the essence of this relationship and not necessarily on its legal form.

Related parties may enter into transactions which unrelated parties cannot conclude, and transactions between related parties will not apply the same terms, conditions and values as for unrelated parties.

During the periods ended 30 June 2017 and 31 June 2016 the following transactions with related parties were performed and the following balances were payable / receivable from related parties at the respective dates.

#### i) Benefits granted to the members of the Board of Administration and of the management

	The six months period ended <b>30 June 2017</b> <b>(unaudited)</b>	The six months period ended <b>30 June 2016</b> <b>(unaudited)</b>
Salary paid to the members of the Board of Administration and management	8.867.630	8.421.753
Social contribution of the Company	<u>1.988.579</u>	<u>1.887.926</u>
	<u>10.856.209</u>	<u>10.309.679</u>

In the periods ended 30 June 2017 and 30 June 2016, no advance payments and loans were granted to the Company's administrators and management, except advance payments from salaries and those for business trips, and they don't owe any amount to the Company at the end of the period coming from such advance payments.

The provision for the mandate contract is presented in Note 20.

The Company has no contractual obligations regarding pensions to former directors and administrators of the Company.

#### ii) Loan to a related party

	<b>30 June 2017</b> <b>(unaudited)</b>	<b>31 December 2016</b>
Loan to Resial SA	1.770.346	1.770.346
Minus the provision for loan impairment	<u>(1.770.346)</u>	<u>(1.770.346)</u>
	<u>-</u>	<u>-</u>

Dividends allocated are presented in Note 15. Royalties paid are presented in Note 3.8.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**iii) Revenue from related parties – services supplied (VAT excluded)**

		<u>Six months</u> <u>period ended</u> <u>30 June 2017</u> <u>(unaudited)</u>	<u>Six months</u> <u>period ended</u> <u>30 June 2016</u> <u>(unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	79.478.877	45.115.389
Electrocentrale Deva SA	Entity under common control	3.768.668	1.262.050
Electrocentrale București SA	Entity under common control	66.542.384	58.336.807
Electrocentrale Galați SA	Entity under common control	-	4.229.079
Electrocentrale Constanța	Entity under common control	-	6.406.040
Energoterm Tulcea SA	Entity under common control	-	1.035.256
Termo Calor Pitești	Entity under common control	-	1.945.214
		<u>149.789.929</u>	<u>118.329.835</u>

**iv) Sales of goods and services (VAT excluded)**

		<u>Six months</u> <u>period ended</u> <u>30 June 2017</u> <u>(unaudited)</u>	<u>Six months</u> <u>period ended</u> <u>30 June 2016</u> <u>(unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	31.234	50.702
Termo Calor Pitesti	Entity under common control	-	530
Energoterm Tulcea SA	Entity under common control	8.551	-
Electrocentrale Deva SA	Entity under common control	177.353	942
Electrocentrale Galati SA	Entity under common control	216.088	134.844
Electrocentrale Constanta	Entity under common control	<u>117.908</u>	<u>49.516</u>
		<u>551.134</u>	<u>236.534</u>

**v) Gas sales – the balancing activity (without the VAT)**

		<u>Six months</u> <u>period ended</u> <u>30 June 2017</u> <u>(unaudited)</u>	<u>Six months</u> <u>period ended</u> <u>30 June 2016</u> <u>(unaudited)</u>
	<u>Relationship</u>		
SNGN Romgaz	Entity under common control	17.785.821	-
Electrocentrale Deva SA	Entity under common control	57.305	-
Electrocentrale Bucuresti	Entity under common control	<u>2.567.740</u>	-
		<u>20.410.866</u>	-

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**vi) Receivables from related parties (without the provision)**

	<b>Relationship</b>	<b>30 June 2017 (unaudited)</b>	<b>31 December 2016</b>
SNGN Romgaz	Entity under common control	30.627.214	30.082.437
Electrocentrale Deva SA	Entity under common control	3.599.266	-
Electrocentrale București SA	Entity under common control	31.264.843	46.564.667
Electrocentrale Galați SA,	Entity under common control	162.066	756.332
Electrocentrale Constanța	Entity under common control	194.238	2.292.341
Energoterm Tulcea SA	Entity under common control	<u>5.812</u>	<u>69.291</u>
		<u>65.853.439</u>	<u>79.765.068</u>

**vii) Client receivables – the balancing activity (without the provision)**

	<b>Relationship</b>	<b>30 June 2017 (unaudited)</b>	<b>31 December 2016</b>
SNGN Romgaz	Entity under common control	11.019.005	7.802.777
Electrocentrale Deva SA	Entity under common control	2	-
Electrocentrale Bucuresti	Entity under common control	<u>3.055.610</u>	<u>-</u>
		<u>14.074.617</u>	<u>7.802.777</u>

**viii) Procurement of gas from related parties (VAT excluded)**

	<b>Relationship</b>	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
SNGN Romgaz	Entity under common control	<u>36.021.585</u>	<u>629.581</u>

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**ix) Procurement of services from related parties (other services – VAT excluded)**

	<b><u>Relationship</u></b>	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
SNGN Romgaz	Entity under common control	20.195	1.577.350
Electrocentrale București SA	Entity under common control	2.388	2.600
Termo Calor Pitești	Entity under common control	<u>2.369</u>	<u>2.186</u>
		<u>24.952</u>	<u>1.582.136</u>

**x) Procurement of gas – the balancing activity (VAT excluded)**

	<b><u>Relationship</u></b>	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
SNGN Romgaz	Entity under common control	6.587.793	-
Electrocentrale București SA	Entity under common control	<u>3.863</u>	<u>-</u>
		<u>6.591.656</u>	<u>-</u>

**xi) Services supply – the balancing activity (VAT excluded)**

	<b><u>Relationship</u></b>	<b>The six months period ended 30 June 2017 (unaudited)</b>	<b>The six months period ended 30 June 2016 (unaudited)</b>
SNGN Romgaz	Entity under common control	<u>2.709.023</u>	<u>-</u>

**xii) Debts to gas suppliers (VT included)**

	<b><u>Relationship</u></b>	<b>30 June 2017 (unaudited)</b>	<b>31 December 2016</b>
SNGN Romgaz	Entity under common control	11.331.160	19.510.104

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**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**xiii) Debts to third parties from services (other services – VAT included)**

	<b><u>Relationship</u></b>	<b><u>30 June</u></b> <b><u>2017</u></b> <b><u>(unaudited)</u></b>	<b><u>31 December</u></b> <b><u>2016</u></b>
SNGN Romgaz	Entity under common control	3.485	576.377
Electrocentrale București	Entity under common control	-	800
Termo Calor Pitești	Entity under common control	<u>139</u>	<u>586</u>
		<u>3.624</u>	<u>577.763</u>

**xiv) Debts to suppliers – the balancing activity (VAT included)**

	<b><u>Relationship</u></b>	<b><u>30 June</u></b> <b><u>2017</u></b> <b><u>(unaudited)</u></b>	<b><u>31 December</u></b> <b><u>2016</u></b>
SNGN Romgaz	Entity under common control	14.081.390	6.044.680
Electrocentrale Deva SA	Entity under common control	<u>3.387</u>	<u>-</u>
		<u>14.084.778</u>	<u>6.044.680</u>

**28. EARNINGS PER SHARE**

The Company shares are listed on the first category of the Bucharest Stock Exchange.

Basic earnings per share are calculated by dividing the profit attributable to the Company's equity holders to the average number of ordinary shares existing during the year.

	<b><u>The six months</u></b> <b><u>period ended</u></b> <b><u>30 June 2017</u></b> <b><u>(unaudited)</u></b>	<b><u>The six months</u></b> <b><u>period ended</u></b> <b><u>30 June 2016</u></b> <b><u>(unaudited)</u></b>
Profit attributable to the Company's equity holders	400.490.559	281.766.838
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (RON per share)	34,02	23,93

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## **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**(expressed in RON, unless otherwise stated)**

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### **29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH**

#### *Compensations*

Approximately 0.2 % of the receivables were settled by transactions that haven't involved cash outflows during the six months period ended 30 June 2017 (31 December 2016: 0.12%). Transactions mainly represent sales of products and services in exchange for raw materials and services or offsets with clients and suppliers within the operating cycle.

#### *Barter transactions*

No barter transactions were made in 2017 and 2016.

### **30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS**

#### **i) Commitments**

The Service Concession Agreement (S.C.A. - Note 8) provides that, at the end of the agreement, the NAMR is entitled to receive back, all goods of public property existing when the agreement was signed and all investments made into the national transmission system, in accordance with the investment program stipulated in the service concession agreement. The Company also has other obligations related to the concession agreement, which are described in Note 8.

Law 127/2014 entered into force on 5 October 2014 states that if the concession contract is terminated for any reason, or upon contract termination, the investment made by the national transmission system operator shall be transferred to the national transmission system owner or to another grantor on payment of compensation equal to the unamortized regulated value established by ANRE, as presented in Note 3.18.

On 30 June 2017 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of RON 255.121.398.

#### **ii) Taxation**

The taxation system in Romania is in a phase of consolidation and harmonization with the European law. However, there are still various interpretations of the tax law. In Romania, the tax year remains open for fiscal verification for 5 years. The Company's management believes that fiscal obligations included in these financial statements are properly presented.



## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)

In accordance with the Order of the Ministry of Public Finance No. 881/2012, Transgaz prepares statutory IFRS financial statements as of 2012, these statements also being the base for determining the fiscal obligations of the Company. Because the tax rules for taxpayers that apply the accounting regulations according to IFRS are new, there is a risk that a subsequent fiscal control could have another interpretation than the Company on how to determine the tax base.

iii) Insurance policies

The Company does not have insurance policies related to operations, complaints on products, or for the public debt. The company has insurance policies for buildings and mandatory civil liability policies for the car fleet. Moreover, the company has contracted professional liability insurance services for the members of the Board of Administration and for 30 managers (30 managers in 2016).

iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 30 June 2017 and 31 December 2016 related to anticipated expenses that include legal and consulting fees, analysis of locations, preparing and implementing recovery measures related to environmental protection. The management of the company believes there are no significant obligations related to environmental aspects.

v) Lawsuits and other actions

During the normal activity of the Company, there were complaints against it. The company has pending disputes for the lack of use of lands occupied with NTS objectives. Based on its own estimates and internal and external consulting, the Company's management believes there will be no material losses exceeding the provisions established in these financial statements and is not aware of circumstances that give rise to potentially significant obligations in this regard.

In 2012, the Company received a request for data and information within the investigation of the Competition Council opened under Order 759 of 29 September 2011 and extended by Order 836 of 1 November 2011. In 2015 additional requests for data and information within the investigation of the Competition Council was received. The Company provided the requested data and information. Based on its own estimates, the Company's management believes there are no circumstances to give rise to significant potential obligations in this regard.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**(expressed in RON, unless otherwise stated)**

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**30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS**

As of 6 June 2016, the Company is subject to an inspection carried out by the European Commission - Directorate General for Competition under art. 20, paragraph (4) of Regulation (EC) No 1/2003 of the European Union Council on the implementation of EU rules on competition laid down in Art. 81 and 82 of the EC Treaty which became art. 101 and 102 respectively of the Treaty on the Functioning of the European Union.

vi) Government policies in the gas sector in Romania

The ANRE is an autonomous public institution and sets tariffs for the natural gas transmission activity charged by the Company. It is likely that the Agency decides the implementation of changes of the government strategies in the gas sector, determining changes in the tariffs approved for the Company and, thus, having a significant impact on the Company's revenue. At the same time, the Romanian government could decide to change the royalty applied to the Company for using the assets part of the public domain according to SCA. (Note 8).

Currently, the effects cannot be determined, if they exist, of the future government policies in the gas sector in Romania on the Company's asset and liability.

There are various interpretations of the legislation in force. In certain situations, ANRE may treat differently certain aspects, proceeding to the calculation of additional tariffs and of delay penalties. The Company's management believes that its obligations to ANRE are properly presented in these financial statements.

vii) The political and economic situation in Ukraine

In 2014 the economic and political situation in Ukraine witnessed an accentuated deterioration. The Company has contracts for gas transmission from Russia to Bulgaria, Turkey, Greece and other countries. Also, Romania annually imports part of the necessary transported gas through the Company's pipelines. It's likely that Gazprom Export stops the supplies of gas transported domestically or internationally through Romania or that Ukraine prevents the transit of gas supplied by Gazprom Export on its territory. The Company cannot estimate at this point the impact of such events on its activity of domestic and international transmission.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

(expressed in RON, unless otherwise stated)

### 30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS

#### viii) Grants for the Giurgiu – Ruse interconnector

The Company received grants for the building of the Giurgiu - Ruse interconnector. From technical reasons, the initial execution contract was terminated, the auction procedure being reinitiated for the completion of the work. The Company did not receive any request for reimbursement of funds and submitted a request for the extension of the deadline for work completion. The objective was accepted and commissioned at the end of 2016.

### 31. FEES OF THE STATUTORY AUDITOR

The fees related to the financial year ended as at 31 December 2016 charged by Deloitte Audit SRL, invoiced in semester I 2017 are: RON 190,865 for statutory audit services and RON 17,738 for services other than the statutory audit.

### 32. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS

In accordance with IFRIC 12 the revenue and costs of network construction, in return for which the intangible asset is recorded should be recognized in accordance with IAS 11, Construction Contracts.

	<b>The six months period ended <u>30 June 2017</u> <u>(unaudited)</u></b>	<b>The six months period ended <u>30 June 2016</u> <u>(unaudited)</u></b>
Revenue from the construction activity according to IFRIC12	17.531.795	33.671.167
Cost of assets constructed according to IFRIC12	(17.531.795)	(33.671.167)

The related costs were equal to the revenue. The Company did not obtain any profit from the construction of the intangible asset.

Chairman of the Meeting  
Petru Ion Văduva

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

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**SOCIETATEA NAȚIONALĂ DE TRANSPORT  
GAZE NATURALE "TRANSGAZ" SA MEDIAȘ**  
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No. Dec 37856/10.08.2017

## DECLARATION

**of the SNTGN Transgaz SA persons responsible, in accordance with Art. 113, letter D,  
paragraph (1), letter c of Regulation 1/2006 of the Romanian National Securities  
Commission, supplemented by Regulation 31/2006 of the Romanian National Securities  
Commission**

We, the undersigned, according to Art. 113, letter D, paragraph (1), letter c of Regulation 1/2006 of the Romanian National Securities Commission, supplemented by Regulation 31/2006 of the Romanian National Securities Commission, declare the following:

- ✓ To the best of our knowledge, the semestrial financial statement at 30 June 2017 is compliant with the International Financing Reporting Standards adopted by the European Union and offers a true and correct image of the assets, liabilities, financial position, profit and loss account of the Company;
- ✓ The Report Issued by the Board of Administration presents issuer information correctly and completely.

### **SNTGN Transgaz SA Management**

**Director – General**

**Ion Sterian**

Signature

Stamp

**Chief Financial Officer**

**Marius Lupean**

Signature

To the shareholders of,  
S.N.T.G.N. Transgaz S.A.

## **REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS**

### Introduction

1. We have reviewed the accompanying interim financial statements of S.N.T.G.N. Transgaz S.A. (the "Company") which comprise the interim statement of financial position as at June 30, 2017, and the interim statement of comprehensive income, the interim statement of changes in equity and interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information. These interim financial statements are prepared in accordance with the International Financial Standards as adopted by the European Union and are the Company's management responsibility. Our responsibility is to express a conclusion on these interim financial statements based on our review.

### Scope of review

2. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not give a true and fair view, in all material respects, of the interim financial position of the Company as at June 30, 2017, and the interim financial performance and interim cash flows for the six-month period then ended, in accordance with the International Financial Standards as adopted by the European Union.

Deloitte Audit S.R.L.

Bucharest, Romania

August 10, 2017