

THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ SA

**CONSOLIDATED  
REPORT ISSUED BY  
THE BOARD OF  
ADMINISTRATION**

**- 2018-**



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## THE ADMINISTRATORS' MESSAGE TO SHAREHOLDERS, INVESTORS

*Dear shareholders,*

*Dear investors,*

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

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

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

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

*In the context of profiling major new sources of natural gas supply, **the natural gas from the Caspian Sea region and those discovered in the Black Sea**, the investments proposed by Transgaz in the **Development Plan of the National Gas Transmission System (NTS) for 2018-2027, approved by ANRE Decision 1954/14.12.2018** are strategic investments in the energy field for the development of the natural gas transmission infrastructure of Romania and its compliance with the requirements of European legislation in the field.*

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

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

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

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

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

Yours sincerely,

**ION STERIAN - Administrator –Director General**

**PETRU ION VĂDUVA – Administrator**

**BOGDAN GEORGE ILIESCU – Administrator**

**REMUS GABRIEL LĂPUȘAN – Administrator**

**NICOLAE MINEA– Administrator**

## 1. ISSUER IDENTIFICATION DATA

### 1.1 Report and issuer identification data

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

**For the year ended:** 31 December 2018

**Report date:** 12 April 2019

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

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

**VAT Number:** RO13068733

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

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

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

### 1.2 Mission, Vision, Organizational Values

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

#### Mission

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

#### Transgaz's mission is:

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

## **Vision**

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

### **Vision as a message to the community**

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

### **Vision as a message to the shareholders**

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

### **Vision as a message to employees**

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

### **The organisational values defining Transgaz' business ethics are:**

- Tradition and professionalism;
- Professional ethics and conduct;
- Respect for the environment and for the people;
- Responsibility towards business partners and social dialogue, towards the state institutions and the community;

### **Transgaz' core strengths**

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

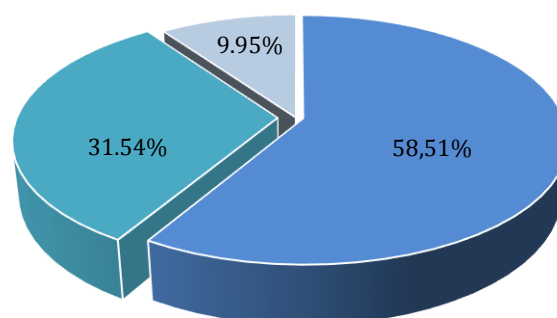
## **1.3 Shareholding**

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

Transgaz's shareholding structure on 31.12.2018 was as follows:

Shareholder's name	Number of shares	Percentage %
The State of Romania represented by the Ministry of Economy (ME)	6.888.840	58,5097
Free float - Other shareholders (natural and legal persons) out of which:	4.885.004	41,4903
- natural persons	1.171.039	9,9461
- legal persons	3.713.965	31,5442
<b>Total</b>	<b>11.773.844</b>	<b>100,00</b>

**Table 1-** Shareholding on 31.12.2018

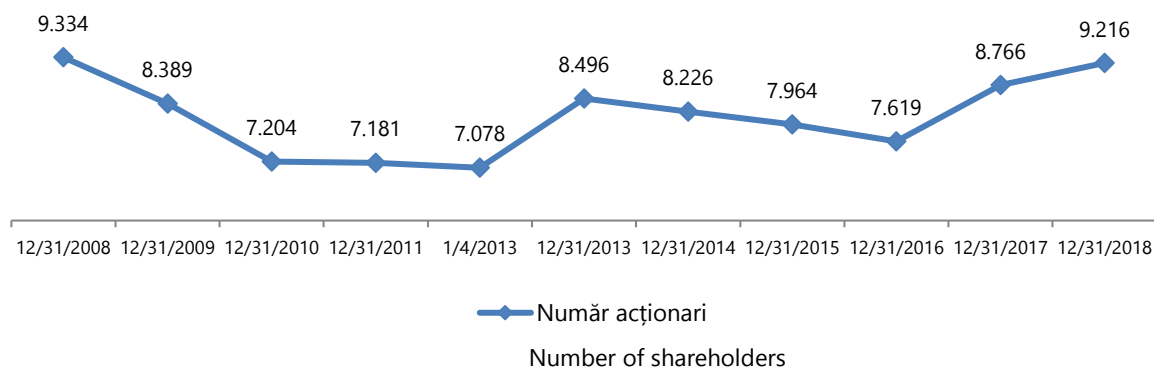


■ ME ■ Legal persons ■ Natural persons

**Chart 1-** Transgaz's shareholding on 31.12.2018

The share capital of Transgaz on 31 December 2018 amounted to 117.738.440 lei and is divided into 11.773.844 registered shares, each share having a nominal value of 10 lei.

Regarding the number of shareholders, according to Transgaz shareholders' register at the reference date of 31.12.2018, a number of 9.216 TGN shareholders were registered, namely 450 more shareholders than on 31.12.2017.



**Chart 2-** Number of Transgaz shareholders from the listing and until 31.12.2018

## 1.4 Structure

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

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

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

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

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

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

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

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



- Arad Regional Office, 56 Poetului Street, Arad, Arad County, code 310369;
- Bacău Regional Office, 63 George Bacovia Street, Bacău, Bacău County, code 600238;
- Brăila Regional Office, 5 Ion Ghica Street, Brăila, Brăila County, code 810089;
- Braşov Regional Office, 12A Grigore Ureche Street, Braşov, Braşov County, code 500449;
- Bucharest Regional Office, 24 Lacul Ursului Street, District 6, Bucharest, code 060594;
- Cluj Regional Office, 12 Crişului Street, Cluj-Napoca, Cluj County, code 400597;
- Craiova Regional Office, 33 Arhitect Ioan Mincu Street, Craiova, Dolj County, code 200011;
- Mediaş Regional Office, 29 George Coşbuc Street, Mediaş, Sibiu County, code 551027;
- Constanţa Regional Office, 2 bis Caraiman Street, Constanţa, Constanţa County, code 900117;
- Mediaş Subsidiary, 59 Sibiului Street, Mediaş, Sibiu County.

### 1.5 Vestmoldtransgaz

On 28 December 2017, SNTGN Transgaz SA Medias established the limited liability company EUROTRANSGAZ Ltd Chişinău (EUROTRANSGAZ Ltd.) in the Republic of Moldova. Transgaz SA Mediaş is the sole associate of EUROTRANSGAZ Ltd, established by EGMS Resolution 10/12 December 2017.

According to the EUROTRANSGAZ Articles of Association, the main object of activity of the company is:

- gas production; gas transmission; gas distribution; gas storage; gas supply;
- transmission through pipelines;
- storages;
- business and management consultancy.

In March 2018 the VESTMOLDTRANSGAZ privatization contract was signed with Eurotransgaz, which submitted a binding offer for the entire procurement of VESTMOLDTRANSGAZ.

Transgaz SA is the first Romanian company having a majority stock controlled by the Romanian State, which is expanding in the region.

EUROTRANSGAZ performs its activity according to the laws of the Republic of Moldova, state registration number – fiscal code 1017600052071, is headquartered at: 180 Ştefan cel Mare şi Sfânt Blvd. flat 506, MD-2004, Chişinău, Moldova, and decided to establish by reorganization the limited liability company VESTMOLDTRANSGAZ (VMTG).

According to the 2019-2021 Business Plan VESTMOLDTRANSGAZ intends to become the main gas transmission operator in the Republic of Moldova, and the mission of the company is to ensure security of gas supply to the region and enhancing the country's energy efficiency for household consumers and for industrial consumers, by expanding the Moldova-Romania interconnection pipeline, in the Chişinău direction.

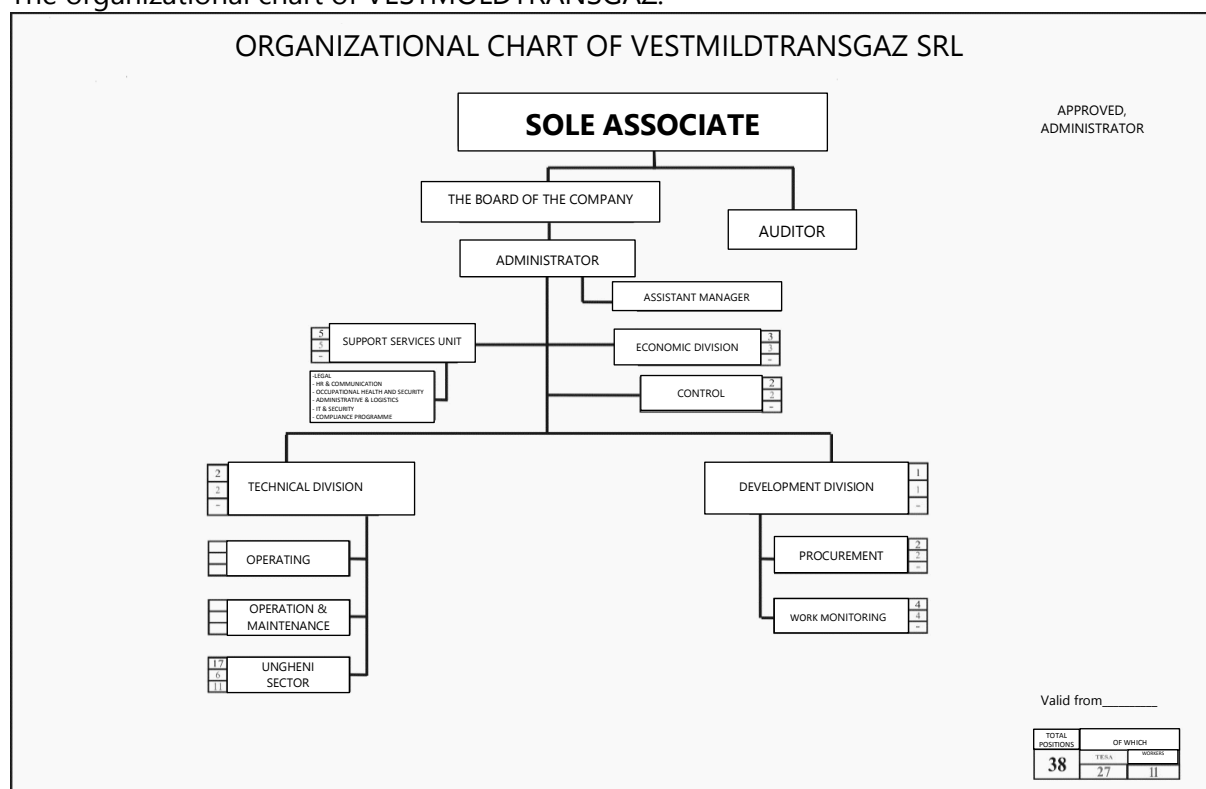
Below are the main objectives of Vestmoldtransgaz (VMTG) for the next three years:

- the construction of the Ungheni – Chişinău transmission network, the construction of two gas delivery stations located in Chişinău and of a gas delivery station located at Semeni, the Ungheni district;
- supply of furniture and office logistics necessary for the Dispatching and Control Centre at SP Ghidighici;
- equipping with vehicles, equipment and special units,

and in the future:

- the construction of the DN 500 gas transmission pipeline on the Ungheni – Bălţi section and the connection to the transmission network north of Ananiev-Cernăuţi-Bogorodicieni;
- the construction of the gas compressor station located in the Ungheni district.

The organizational chart of VESTMOLDTRANSGAZ:



## 2. EXECUTIVE SUMMARY

### 2.1 Indicators of the economic and financial results

The economic and financial activity of the National Gas Transmission Company Transgaz S.A. in 2018 was conducted based on the indicators included in the revenue and expense budget approved by OGMS Decision No. 2/06.03.2018.

The value of the standard performance indicators achieved at 31 December 2018 as compared to their value as at 31 December 2017 is as follows:

No	Performance criteria	Performance objective	MU	Weighting factor	Achieved	
					2018	2017 – non treated
1.	<b>Commissioned investments</b>	Plan achieved	LEI thousand	0,15	113.334	54.286
2.	<b>EBITDA</b>	EBITDA increase	LEI thousand	0,15	746.134	849.097
3.	<b>Labour productivity</b>	Increasing labour productivity in units of value (turnover / average no. of employees);	LEI/ pers.	0,15	404.339	393.890
4.	<b>Outstanding payments</b>	Payments made during the contract duration (in current prices)	LEI thousand	0,15	0	0
5.	<b>Outstanding receivables</b>	Diminished amount of outstanding receivables (in current prices)	LEI thousand	0,1	315.637	307.210
6.	<b>Technological consumption</b>	Remaining within the gas quantities representing technological consumption	%	0,15	69,81%	90%
7	<b>OPEX at LEI 1000 operating revenue</b>	Diminishing of OPEX at LEI 1000 operating revenue	LEI	0,15	654	614

**Table 2–Performance standard indicators in 2018 vs 2017**

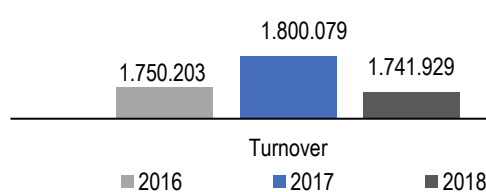
The main economic and financial indicators achieved during 2016-2018 are as follows:

Tag no.	Indicator	Achievements as at 31 December (lei thousand)			Dynamics (%)
		2016	2017	2018	
0	1	2	3	4	$5=4/3*100$
<b>1.</b>	Turnover	1.750.203	1.800.079	1.741.890	96,77

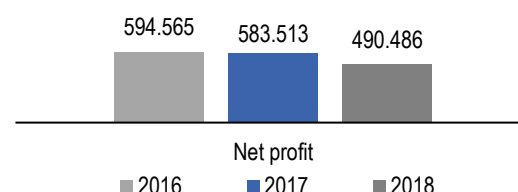
2.	Operating revenue before the balancing and the construction activity acc. to IFRIC12	1.815.385	1.719.993	1.608.398	93,51
3.	Revenue from balancing	57.404	120.686	235.427	195,07
4.	Revenue from the construction activity acc. to IFRIC12	118.504	63.950	405.794	634,55
5.	Financial revenue	32.231	190.548	48.634	25,52
6.	Operating expense before the balancing and the construction activity acc. to IFRIC12	1.125.268	1.055.371	1.052.177	99,70
7.	Balancing gas expense	56.093	120.686	235.427	195,07
8.	Cost of assets built according to IFRIC12	118.504	63.950	405.794	634,55
9.	Financial expense	9.683	150.228	26.973	17,95
10.	Gross Profit	713.975	704.942	577.882	81,98
11.	Tax on profit	125.079	125.305	98.132	78,31
12.	Revenue from deferred income tax	5.669	3.876	10.736	276,99
13.	Net Profit	594.565	583.513	490.486	84,06
14.	Total comprehensive result of the period	593.539	601.338	487.868	81,13
15.	Transmitted gas*	12.074.677	12.869.908	12.975.921	100,82
16.	Investment expense	140.179	95.599	422.783	442,25
17.	Cost of rehabilitation	16.546	13.954	21.645	155,12
18.	Technological consumption	84.406	73.831	70.003	94,81
19.	Technological consumption thousand cm	108.874	95.243	81.034	85,08

\*) the transmitted quantity for wich transmission services are invoiced

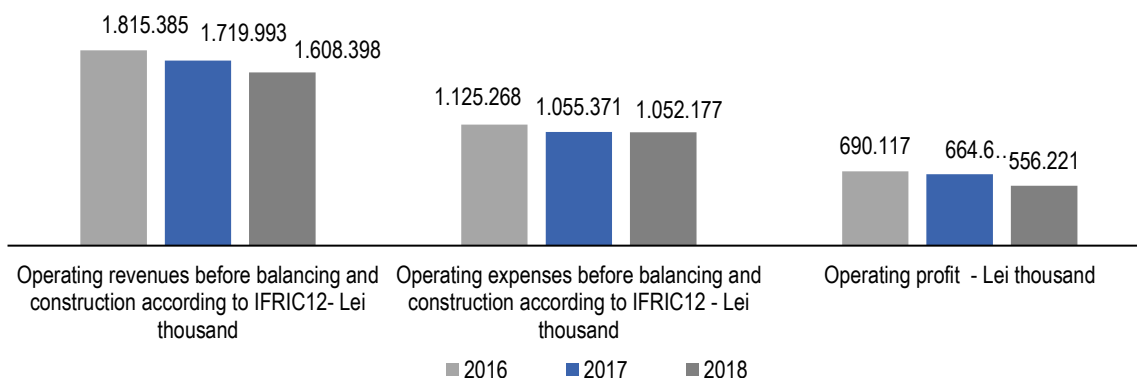
**Table 3- Main economic and financial indicators during 2016 - 2018**



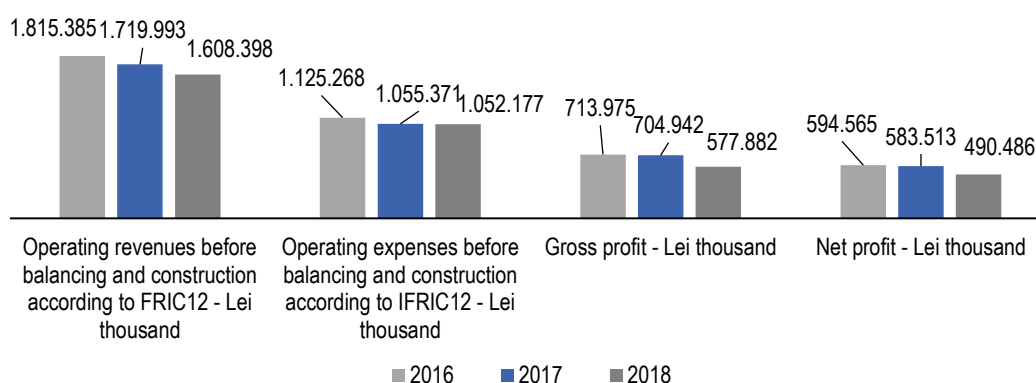
**Chart 1 - Turnover 2016-2018 (lei thousand)**



**Chart 2- Net profit in 2016-2018 (lei thousand)**



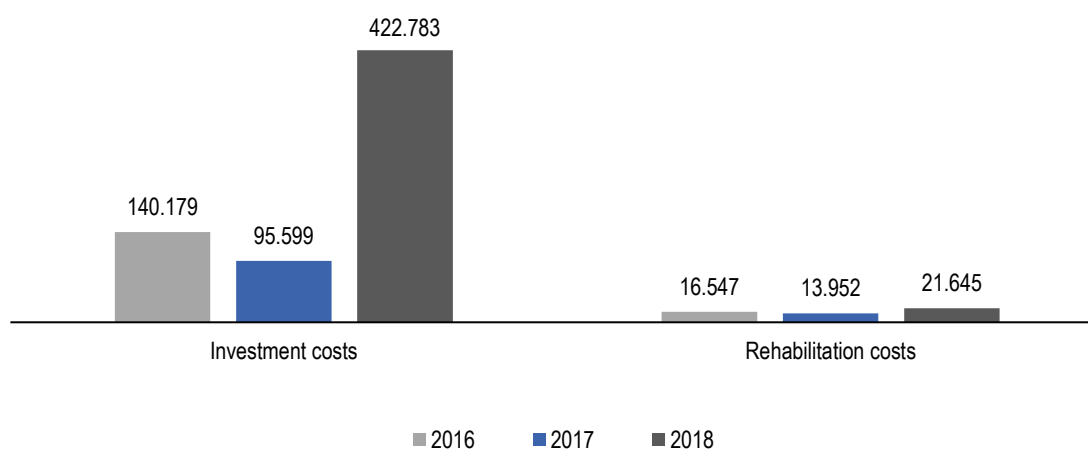
**Chart 3** – Evolution of the perating revenue, expense and profit before construction according to IFRIC 12



**Chart 4** - Evolution of the main economic and financial indicators during 2016-2018

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

As at 31 December 2018 the Company's cash in bank accounts amounted to lei 711,318 thousand of which 77.94 % was cash denominated in foreign currency, most of it in EUR.



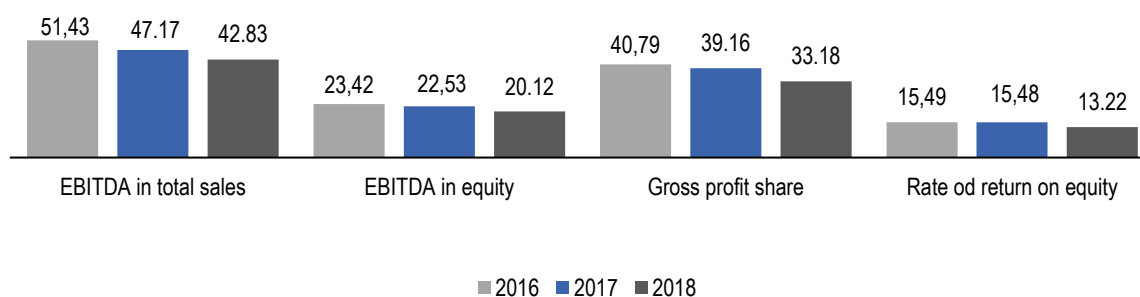
**Chart 5** – Evolution of investment and rehabilitation costs during 2016-2018 (lei thousand)

The values of the profitability, liquidity, risk and management indicators for the period 2016-2018 are as follows:

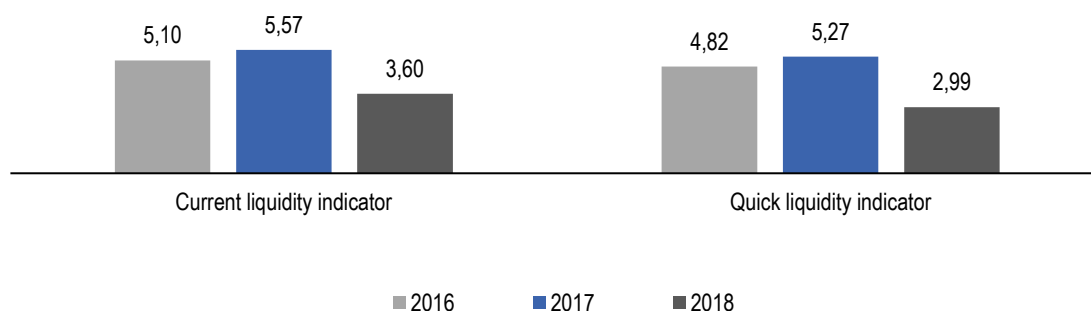
No.	Indicators	Calculation formula	2016	2017	2018
1.	<b>Profitability indicators</b>				
	EBITDA in total sales	EBITDA	51,35%	47,17%	42,83%
Turnover					

No.	Indicators	Calculation formula	2016	2017	2018
	EBITDA in equity	EBITDA	23,42%	22,53%	20,12%
		Equity			
	Gross profit share	Gross profit	40,79%	39,16%	33,18%
		Turnover			
	Return on equity	Net profit	15,49%	15,48%	13,22%
		Equity			
<b>2.</b>	<b>Liquidity indicators</b>				
	Current liquidity indicator	Current assets	5,10	5,57	3,60
		Short term debts			
	Quick liquidity indicator	Current assets - Stocks	4,82	5,27	2,99
		Short term debts			
<b>3.</b>	<b>Risk indicators</b>				
	Leverage indicator	Borrowed capital	0,00%	1,85%	6,29%
		Equity			
	Interest coverage ration	EBIT	X	8.932,75	220,69
		Interest expense			
<b>4.</b>	<b>Management indicators</b>				
	Sppeed of debit - clients	Average accounts receivable x 365 days	125,88	142,85	141,49
		Turnover			
	Speed of credit - suppliers	Average accounts payable x 365 days	17,64	19,43	35,55

**Table 4-** Evolution of the profitability, liquidity, risk and management indicators during 2016-2018



**Chart 6 -** Profitability indicators during 2016-2018



**Chart 7 – Evolution of the liquidity indicators during 2016-2018**

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

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

No.	Indicator	Objective	2018		Achievement
			Budgeted	Achieved	
1	<b>Outstanding payments</b>	Maintaining outstanding payments to zero	0	0	100%
2	<b>Operating expenses</b> (except for depreciation, balancing, construction activity and provisions for the impairment of assets and for risks and expenses) (LEI thousand)	Maintaining the level of the operating expenses at the level undertaken in the Administration Plan	1.002.101	829.116	121%
3	<b>Current liquidity rate</b> `Acid Test`	Current liquidity rate (acid test) to register annual values over 1.	1,39	2,99	215%
4	<b>Net leverage rate</b>	Maintaining a net leverage rate under the limits set in the loan agreement (EIB) for obtaining bank financing, namely: 3 –2017; 3- 2018; 5,5 –2019; 5,5 -2020; 4-2021	3,00	0,31	960%
5	<b>EBITDA</b> (lei thousand)	Achieving the EBITDA target undertaken in the Administration Plan	458.599	746.134	163%

**Table 5 –Key financial performance indicators for the calculation of the variable component of the re018 achieved vs.**

*budgeted*

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

No	Indicator	Objective	No	2018		Achievement
				Planned	Achieved	
<b>Operational</b>						
6	<b>Monitoring the investment and implementation strategy</b>	<p><b>Implementation of the FID Project under the TYNDP</b></p> <p><i>I = (achieved + initiated) / proposed actions</i></p> <p><b>1. Development on the Romanian territory of the National Gas Transmission System on the Corridor Bulgaria-Romania-Hungary-Austria (BRUA Phase 1).</b></p>	6.1	- Obtaining of comprehensive decision (acc. to Regulation EU 347/2013)	Achieved (March 2018)	100%
7	<b>Increasing energy efficiency</b>	Maintaining the share of the technological consumption in the total circulated gas below 1%	7.1	<1	0,62	161,3%





<b>Oriented towards public services</b>						
<b>8</b>	<b>Performance indicators of the gas transmission service</b>	<i>Achievement of the targets under the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 applicable as of October 2016)</i>	8.1	$IP_0^1 \geq 90\%$	98,43%	100%
			8.2	$IP_1^1 \geq 95\%$	100%	
			8.3	$IP_1^2 \geq 95\%$	100%	
			8.4	$IP_1^3 \geq 95\%$	99,53%	
			8.5	$IP_1^4 \geq 95\%$	-	
			8.6	$IP_1^5 \geq 95\%$	-	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	100%	
			8.10	$IP_3^2 \geq 95\%$	100%	
			8.11	$IP_3^3 \geq 95\%$	-	
			8.12	$IP_3^4 \geq 95\%$	100%	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	99,7%	
			8.15	$IP_5^2 \geq 98\%$	100%	
			8.16	$IP_6^1 \geq 98\%$	100%	
			8.17	$IP_6^2 \geq 98\%$	100%	
			8.18	$IP_7^1 \geq 80\%$	92,04%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
<b>Corporate governance</b>						
<b>9</b>	<b>Implementation of the internal/managerial control system</b>	<i>Implementation of the provisions of SGG Order no. 600/2018 for the approval of the Internal/Managerial Control Code for public entities as further amended I = implemented standards /provided standards in Order 600/2018 *100 Achievement of the measures provided for in the Program for the implementation of the SCI/M I = measures achieved within the deadline /proposed measures *100</i>	9.1	94%	<b>Achieved</b> Letter no DSMC/4786/25.01.2019	100%

10	<b>Client satisfaction</b>	Achievement of the targets provided for in the administration plan (According to PP 165 Client satisfaction evaluation a score between 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly)	10.1	7.8	Achieved Letter.SMC 9610/15.02.2019	100%
11	<b>Establishing the risk management policies and risk monitoring</b>	Achievement of the targets provided for in the administration plan for the implementation of the requirements of Standard 8 of Order SGG no. 600/2018 on the approval of the Internal/management control Code for public entities as further amended.	11.1	-Preparation of the risk management strategy	<b>Achieved</b> The Risk Management Strategy, registration no DSMC/39870/06.08.2018, was approved by BoA Resolution 41/2018	100%
			11.2	- Preparation of the Risk Management system procedure;	<b>Achieved</b> The Risk Management System procedure PS 05 SMI was approved and circulated by publication on "Zonapublică".	
			11.3	- Preparation of the EGR activity procedure;	<b>Achieved</b> Following the impact analysis of the entry into force of Order 600/2018 of the General Secretariat of the Government on the approval of the Internal Management Control Code of Public Entities, it was decided that the Activity of the Risk Management Team process procedure should no longer be developed. The performance of the EGR activity is set out in the Risk Management System Procedure and in the Rules for the Organizing and Functioning of the Risk Management Team, approved by Letter no. 37021/23.07.2018.	
12	<b>Timely reporting of the key performance indicators</b>	Compliance with the legal reporting deadlines I = actual reporting deadlines/provided reporting deadlines *100	12.1	Financial communication Calendar to the Bucharest Stock Exchange	<b>Achieved</b>	100%
			12.2	Status of the achievement of the TYNDP	<b>Achieved</b> Letter no. DSMC 10014/01.03.2018 Deadline 15 March 2018 Letter no. DSMC 16016/15.03.2019 Deadline 15 March 2019	
			12.3	SCI/M reporting	<b>Achieved</b> Letter no. DSMC/4786/25/01.2019 reporting for 2018	

			12.4	Reporting on the achievement of the performance indicators of the gas transmission service	<b>Achieved</b> Letter no. 63288/28.11.2018 reporting to ANRE for gas year 2017-2018	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<b>Achieved</b> Letter DSMC30292/19.06.2018 Letter DSMC34773/11.07.2018 Letter DSMC68544/21.12.2018	
<b>13</b>	<b>Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans</b>	Compliance with the measures undertaken by the approved Integrity Plan $I = \text{measures achieved within the deadline/proposed measures} * 100$	13.1	Preparation of a corruption prevention procedure	<b>Achieved</b> The prevention procedure was prepared, approved and published on the Transgaz intranet platform.	100%
			13.2	Preparation of a corruption risk assessment methodology	<b>Achieved</b> The methodology is part of the procedure at point 13.1	
			13.3	Publication of SCIM assessment results	<b>Achieved</b> 2017 Annual Report published at: <a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/5.%20Documente%20de%20evaluare%20interna%20si%20raportare/2.%20Raport%20anual%20al%20SCIM/">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/5.%20Documente%20de%20evaluare%20interna%20si%20raportare/2.%20Raport%20anual%20al%20SCIM/</a>	
			13.4	Creating a database of companies which did not execute properly the contracts concluded with TRANSGAZ following the public procurement procedures	<b>Achieved</b> The database was constituted at the level of the company	
			13.5	Preparation of the anti-bribery policy at the level of the company	<b>Achieved</b> The Fraud and Corruption Policy Statement and the Fraud and Corruption Policy were approved by BoA Resolution 26/30.05.2018	
			13.6	Identification and assimilation of good practices according to the Guidelines for Good Practices of OCDE	<b>Achieved</b> Aspects inserted in the anti-fraud and anti-corruption policy, published on <a href="http://zonapublica.transgaz.ro">zonapublica.transgaz.ro</a>	
			13.7	Organization of training courses on themes related to integrity, corruption and fraud (execution staff);	Prepared according to the Professional Formation and Training Plan	

			13.8	Initiating an information campaign for employees on the phenomenon of fraud and corruption ( execution staff);-	Internally: it was sent to all employees. The Declaration for adhering to SNA and to the Integrity Plan of the company. Externally: according to Order 1244/2017, to be achieved by the Antifraud Department within DCC/MEc performed 3 activities for preventing corruption in which the company management participated. Training was performed on 14.02.2018 (Transgaz Representative Office) and on 5-6.06.2018 (Transgaz)
			13.9	Identifying fraud and corruption high risk areas (external consultant)	It was issued Decision No. 434/10.05.2018 on the establishment of the Corruption Prevention Working Group, whose main task is to coordinate all stages necessary for the management of corruption risks. Identification is in progress according to the prevention procedure approved in December 2018.
			13.10	Prioritization of audit and control actions by intensifying them in areas exposed to fraud and corruption	<b>Achieved</b> by the annual audit and control plans
			13.11	Annual evaluation of the mode of implementation of the Integrity Plan and adapting it to the risks and vulnerabilities occurred recently	<b>Achieved</b> The annual assessment was performed, and the 17.01.2019 Report on the assessment of the TRANSGAZ Integrity Plan, the Situation of the 2017 Integrity Incidents (Annex 1) and National Anti-Corruption Strategy Measure Implementation Report (Annex 2) were sent to the Ministry of Economy by Letter DG 3328/18.01.2019;
			13.12	Annual publication of the performance indicators monitored within the Integrity Plan of the company	Achieved (by the publication of the Annual evaluation of the Integrity Plan on intranet)

**Table 6 – Non-financial key performance indicators for the calculation of the variable component of the**

**remuneration in 2018**

## 3. THE DEVELOPMENT STRATEGY

### 3.1 Strategic projects

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

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

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

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

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

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

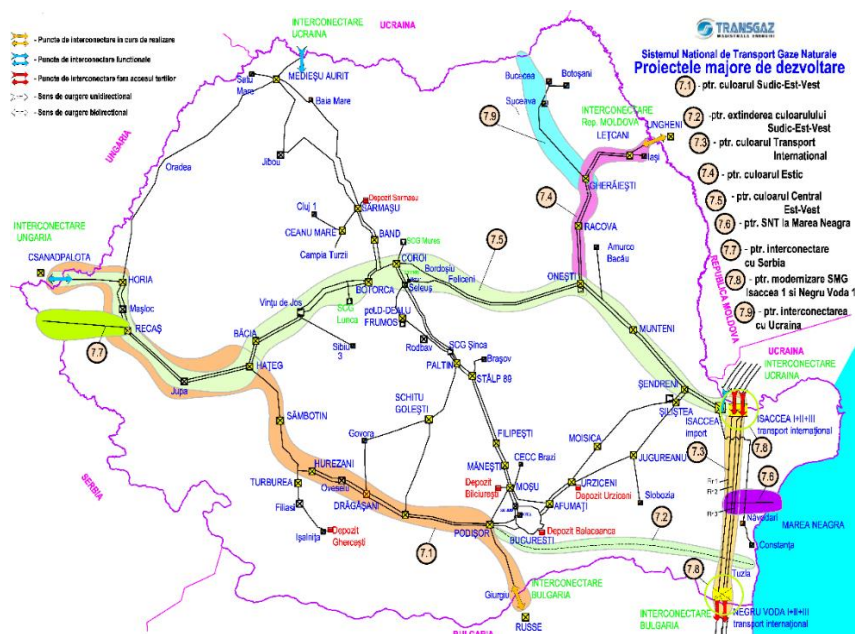


Figure 1-Map of the main NTS projects

## 1. Development on the Romanian territory of the National Gas Transmission System along the Bulgaria – Romania – Hungary – Austria corridor (BRUA)

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

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

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

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



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

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

**The project 'Development on the Romanian territory of the National Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Corridor'**, aims at the development of the gas transmission system capacities between the interconnections between the Romanian gas transmission system and the similar systems of Bulgaria and Hungary consisting in the construction of a new transmission pipeline to connect the Podișor Technological Node to the Horia GMS.

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

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

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



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

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

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

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

The BRUA project is included in the 2018 European TYNDP identified with the code TRA-N-358.

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

- Development of the transmission capacity in Romania from Podișor to Recas, including, a new pipeline, metering station and three new compressor stations in Podișor, Bibești and Jupa – 6.24.1, the second position;
- Expansion of the transmission capacity in Romania from Recas to Horia towards Hungary up to 4.4 bcm/a and expansion of the compressor stations in Podișor, Bibești and Jupa – 6.24.4, position 4.

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

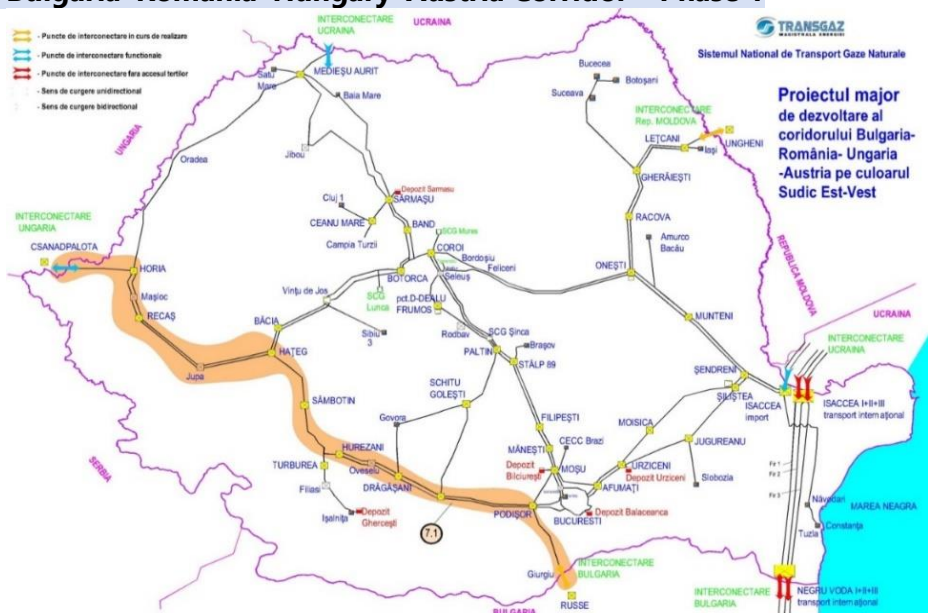


Figure 3 -Map of the key development project the Corridor Bulgaria-Romania-Hungary-Austria – Phase 1

### Project description:

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

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

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

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

## Indicative project development schedule

Development stages	Status/ Estimated completion deadline acc. to 2018-2027 TYNDP	Status/ Estimated completion deadline at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Environmental Permit	completed	completed
Technical documentation for permitting	completed	completed
Construction Permit	February 2017 for the pipeline, and March 2018 for the compressor stations	February 2017 for the pipeline, and March 2018 for the compressor stations
Comprehensive Decision (acc. to Regulation EU 347/2013)	obtained	obtained
FID Phase 1	2016	2016
Construction Phase 1	November 2019	December 2019
Commissioning Phase 1	December 2019	December 2019
Start of operation Phase 1	December 2019	December 2019

**Estimated completion deadline: 2019**

**Estimated value: Euro 478.6 million**

### The inclusion of the project in international plans

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

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

### Current project status

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

For the design of the three compressor stations a Financing Contract was signed with **Innovation and Networks Executive Agency (INEA) for a grant in the amount of 1.519.342 EUR**, representing 50% of the total estimated FEED costs.

In May 2016 the three compressor stations' (CS Podișor, CS Bibești and CS Jupa) FEED contract was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z.o.o.

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

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

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

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

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

### **Status of the procurement procedures**

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

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

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

The status of the public procurement:

- the contract for the procurement of electro insulating joints was signed on **04.08.2017** and it is in progress;
- the contract for the procurement of the compressor units was signed on **24.08.2017** and it is in progress;
- the contracts for the procurement of the execution works related to the linear pipe Lot 1, 2, and 3 were signed on **28.11.2017** and they are in progress;
- the contract for the procurement of the valves was signed on **28.02. 2018** and it is in progress;
- the contracts for the procurement of the execution works related to the compressor stations was signed **23.03.2018** and it is in progress;
- the contract for the procurement of the pipe material and of the curves was signed on **23.04.2018** and it is in progress;

- the awarding procedure related to the subsequent contracts for the BRUA project was completed and the contracts were signed on **23-24.08.2018**;
- the contract for the execution works related to the pipeline automation and security was signed on **24.07.2018** and it is in progress.
- 

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

### Works for the construction of the compressor stations

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

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

The deadline for the completion of the works is 17.5 months from the date the contract for the compressor stations TCS Podișor and TCS Jupa, namely 20 months for the compressor station TCS Bibești.

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

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

All of the six centrifugal gas turbines were delivered at the location (2 for each compressor station). More than 95% of the main equipment of the compressor stations was ordered, of which approximately 50% were delivered.

Therefore, in the compressor stations *TCS Podișor and TCS Jupa* the following main works were achieved:

- Works specific to site arrangement on the station's premises
- Works for the arrangement of the access way
- Works for land arrangement on the station's premises
- Civil construction works to the compressor room, administrative building, workrooms and storehouses, MRS combustion gas building, gasoline and oil management building, power building, Fire-fighting building (foundation laying out, equalizing concrete casting, mounting of fittings, concrete casting)
- Works to the foundations of the main equipment: compressor units, gas coolers, separators at the station inlet, filter-separator, etc.)

The delivery on site of the 2 centrifugal compressor sets actuated by gas turbines for GCS Jupa, started on 3 September 2018 and the compressor units and the gas coolers were placed on the groundwork.

The delivery on site of the 2 centrifugal compressor sets actuated by gas turbines for GCS Podisor, started at the same date and the compressor units were placed on the groundwork.

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

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

The main works launched to TCS Bibesti:

- Works for the arrangement of the station access way (excavating, ballast casting, compacting)
- Works for the arrangement of the land inside the station (uncovering of the vegetation layer and dirt transport) over a land surface of approximately 70% of the station's total surface (surface free from any encumbrances/archaeologically discharged)
- Works specific to the site arrangement within the station (land levelling, crushed stone ballasting and compacting, power supply, assembling containers / offices, grounding, mounting of lamp posts, fence construction)
- Drinkable water supply pipeline
- Foundations to the compressor units
- Civil construction works to the compressor hall, administrative building and workshop building, power building.

### Works for the construction of the linear pipeline

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

As a result, pipe storage (PS) and site arrangement (SA) works began, including access ways.

At present, the arrangement works are completed as follows:

- LOT 1: SA Gușoieni, PS Poieni, SA Căldăraru, PS Corbu, PS Cherlești, PS Zătreni
- LOT 2: PS Frasin, SA Turcinești, PS Vulcan
- LOT 3: PS Obreja, PS Lugoj, SA Recaș, DT Pui

Please note that until the end of 2018, **182.200 m** pipes have been unloaded in Constanta Harbour, representing **40 %** of the total necessary pipe.

From the Constanta Harbour the pipe is either transported by truck directly to the pipe storages or it is transported by barges to Orșova and then by truck to the storages.

At the same time, 1.549 curves, 56 valves (different typo-dimensions of ball valves and balanced plug valves) were delivered together with all the necessary electro insulating joints for the execution of the project (66 pieces).

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

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

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

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

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

As of September 2018 the construction works for the pipeline related to LOT 1 were started.

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

- Section 1 – (Km 0 – 5)
- Section 2 – (Km 5 – 10)
- Section 10 – (Km 45 – 50)
- Section 16 – (Km 75 – 80)
- Section 21 - (km 100 – 105)
- Section 22 – (Km 105 – 110)
- Section 23 - (km 110 – 115)
- Section 30 – (Km 145 – 150)
- Section 31 – (Km 150 – 155)
- Section 36 – (Km 175 – 180)

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

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

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

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

As of September 2018 the construction works related to the pipeline LOT 2 were initiated.

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

- Section 37 - (Km 180 – 185)
- Section 40 - (Km 196 – 200)
- Section 43 - (Km 210 – 215)
- Section 54 - (Km 260 – 265)
- Section 56 – (km 270 – 275)

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

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

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

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

As of August 2018 the construction works related to the pipeline LOT 3 were initiated, with priority for the section Jupa – Recaş.

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

- Section 86 – (Km 407 – 412)
- Section 88 – (Km 417 – 422)
- Section 89 - (km 422-427)
- Section 90 - (km 427-432)
- Section 91 – (Km 432 – 437)
- Section 93 – (Km 442 – 447)
- Section 94 - (km 447 – 452)
- Section 95 – (Km 452 – 457)
- Section 96 – (Km 457 – 461)
- Section 97 - (Km 462 – 467)
- Section 98 – (Km 467 – 472)
- Section 99 – (Km 472 – 477)
- Section 100 – (Km 477 – 479)

### **LOT 4 PIPELINE AUTOMATION AND SECURITY**

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

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

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

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

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



BRUA CONTRACTS SIGNED						
No.	Works contracts awarded	Suppliers/ Contractors	Country of origin	Conclusion date	Contract value	Works commencement order
1	Monoblock electroinsulating joints	INDUSTRIAL M.D TRADING S.R.L	Romania	04.08.2017	528.000,00 EUR	11.10.2017
2	Compressor units	ASSOCIATION Solar Turbines Europa SA, Leader of the Association Sutech SRL	Belgium Romania	10.10.2017	37.851.326,00 EUR	10.10.2017
3	Execution LOT 1 Pipeline	ASSOCIATION Associate 1, INSPET S.A - Leader of the Association Associate 2, PETROCONST S.A Associate 3, ARGENTA S.A Associate 4, IRIGC IMPEX S.R.L Associate 5, COMESAD RO S.A	Romania Romania Romania Romania Romania	28.11.2017	118.503.553,03 RON	04.06.2018
4	Execution LOT 2 Pipeline	ASSOCIATION Associate 1 - HABAU PPS PIPELINE SYSTEMS S.R.L. - Leader of the Association , Associate 2 - INSPET S.A. Associate 3 - IPM PARTNERS ROMANIA S.A. Associate 4 - PETROCONST S.A Associate 5 - MOLDOCOR S.A. Associate 6 - ARGENTA S.A. Associate 7 - ANTREPRIZA MONTAJ INSTALATII S.A. Associate 8 - ROMINSTA S.R.L. Associate 9 - COMESAD RO S.A	Romania  Romania Romania Romania Romania Romania Romania Romania Romania	28.11.2017	155.695.508,67 RON	04.06.2018
5	Execution LOT 3 Pipeline	ASSOCIATION Associate 1 - HABAU PPS PIPELINE SYSTEMS S.R.L. Leader of the Association Associate 2 - IPM PARTNERS ROMANIA S.A. Associate 3 - MOLDOCOR S.A. Associate 4 - ANTREPRIZA MONTAJ INSTALATII S.A. Associate 5 - ROMINSTA S.R.L	Romania  Romania Romania Romania Romania	28.11.2017	154.849.135,06 RON	04.06.2018
6	Valves	TOTALGAZ INDUSTRIE S.R.L.	Romania	28.02.2018	4.875.500,00 EUR	22.03.2018
7	Execution Compressor stations	ASSOCIATION Associate 1 - INSPET S.A. S.R.L. - Leader of the Association; Associate 2 - PETROCONST S.A; Associate 3 - MOLDOCOR S.A.; Associate 4 - HABAU PPS PIPELINE SYSTEMS Associate 5 - IRIGC IMPEX S.R.L Associate 6 - Sutech SRL Associate 7 - TIAB S.A.	Romania Romania Romania Romania Romania Romania Romania	23.03.2018	288.742.446,15 RON	14.04.2018

		<b>Associate 8 - ROCONSULT TECH S.R.L.</b>				
8	<b>Pipes and curves</b>	<b>Tosçelik Spiral Boru Üretim Sanayi A.Ş</b>	Turkey	23.04.2018	126.906.259 EUR	12.05.2018

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

As of 2016, Transgaz has worked closely with EBRD specialists to carry out the technical, economic and environmental due diligence process related to Transgaz and to the project. The environmental and social documentation prepared according to EBRD's performance standards was published on 12.07.2017 for public debate for a period of 120 days according to the EBRD's policy on EBRD's and Transgaz web pages. On 13 December 2017 EBRD's Board approved the funding for BRUA project.

On February 23, 2018, Transgaz and EBRD signed a loan agreement under which the EBRD will provide the company with a loan amounting to up to 278 million lei, equivalent to EUR 60 million, with the following essential characteristics: duration-15 years, grace period 3 years, fixed interest.

On 27 October 2017 the loan agreement for the amount of EUR 50 million was concluded with the fixed interest rate in EUR for a period of 15 years and a 3-year grace period for principal repayment with the European Investment Bank, whose tender was awarded winner following a competitive negotiation procedure in which the EIB participated alongside three other bidding banks.

### ASPECTS CONNECTED TO ARCHAEOLOGY

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

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

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

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

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

		SA Gușoieni Depo Vulcan Depo Sălașu de Sus (Pui)	18.06.2018 18.06.2018
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### Excavation works for the intrusive archaeological diagnosis:

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

### Excavation works for the preventive archaeological diagnosis:

Contracts signed	Contract conclusion date	Objective/archaeological site	Pipeline construction / county
TOTAL BUSINESS LAND	31.08.2018	Site 14	Pipeline construction: Argeș
	31.08.2018	Site 10	
ASSOCIATION S.C. GAUSS S.R.L. – S.C. BANAT ARCHAEOSAVE S.R.L.	10.10.2018	Site 1 (T99 – km 473+350-473+750)	Pipeline construction: Timiș
	10.10.2018	Site 2 (T98 – km 470+000-470+120)	Pipeline construction: Timiș
	10.10.2018	Site 3 (T98 – km 468+750-468+950)	Pipeline construction: Timiș
	10.10.2018	Site 4 (T93 – km 446+300-446+500)	Pipeline construction: Timiș
TOTAL BUSINESS LAND	10.10.2018	Gas compressor station Hurezani,	Gorj
ARVADA	17.12.2018	Site 12 (T93 – km 443+768-443+871)	Pipeline construction: Timiș
ASSOCIATION S.C. GAUSS S.R.L. – S.C. BANAT ARCHAEOSAVE S.R.L.	12.12.2018	Site 5 (T94 - KM. 451+790-451+930)	Pipeline construction: Timiș
ARVADA	12.12.2018	Site 6 (T94 - KM. 450+990-451+510)	Pipeline construction: Timiș
	12.12.2018	Site 7 (T94 - km. 447+350-447+810)	Pipeline construction: Timiș
	12.12.2018	Site 8 (T91 - km. 436+180-436+650)	Pipeline construction: Timiș

	12.12.2018	Site 9 (T90 - km. 430+650-430+940)	Pipeline construction: Timiș
	12.12.2018	Site 10 (T90 - km. 430+235-430+320)	Pipeline construction: Timiș
	12.12.2018	Site 11 (T90 - km. 427+580-427+945)	Pipeline construction: Timiș

### Excavation works for archaeological survey:

Contracts signed	Contract conclusion date	Pipeline construction
ARVADA	31.08.2018	Pipeline construction: Caraș-Severin
TOTAL BUSINESS LAND	31.08.2018	Pipeline construction: Vâlcea
ROLOPLAST TECHNOCONSTRUCT	30.07.2018	Pipeline construction: Olt
	31.08.2018	Pipeline construction: Argeș
	31.08.2018	Pipeline construction: Teleorman
	31.08.2018	Pipeline construction: Giurgiu
ARVADA	08.10.2018	Pipeline construction: Timiș (T99, T98, T96, T95, T93)
ROLOPLAST TEHNOCONSTRUCT	10.10.2018	Gas Compression Station Bibești, Gorj county
	10.10.2018	Pipeline construction: Gorj
	23.11.2018	Pipeline construction: Gorj (according to the endorsement DJC Gorj no. 05/03.10.2018)
ARVADA	17.12.2018	Pipeline construction: Timiș (T89, T90, T91, T92, T94, T97, T100)

### BIODIVERSITY ASPECTS

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

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

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

The biodiversity monitoring reports was finalized and submitted in the pre-construction stage for Lot 2, the final stage report included. The reports were accepted. For lots 1 and 3, the stage field data collection stage for the pre-construction was completed. At present, the annual report for 2018 is under preparation and will be submitted to the National Environmental Protection Agency.

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

### **NORMATIVE ACTS NECESSARY FOR THE IMPLEMENTATION OF THE PROJECT**

Along the route of the BRUA Phase I project, the gas transmission pipeline crosses the following types of land in the 10 counties: arable, clean pastures, tree pastures, hedges and bushes, wooded pastures, cultivated grasslands, vineyards, hybrid vineyards, noble vineyards, classical orchards, fruit nurseries, intensive orchard, orchard fruit bushes, clean meadows, grassy meadow and bushes, tree meadows, wooded meadows, garden, vegetable gardens, other lands.

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

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

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

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

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

### **The construction permit and the comprehensive decision**

In February 2017 the Ministry of Energy issued Construction Permit No. 1/24.02.2017 authorizing the execution of the construction works related to the `Development on the Romanian territory of the National Gas Transmission System along Bulgaria - Romania -

Hungary - Austria Corridor (BRUA) (including the power supply, cathodic protection and optical fibre) Phase I: Podișor –Recaș gas transmission pipeline, 479 km long, Podișor, Bibești, Jupa gas compressor stations, Site arrangements and pipe storage facilities.

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

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

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

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

Transgaz took the following steps for obtaining the Comprehensive Decision:

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

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

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

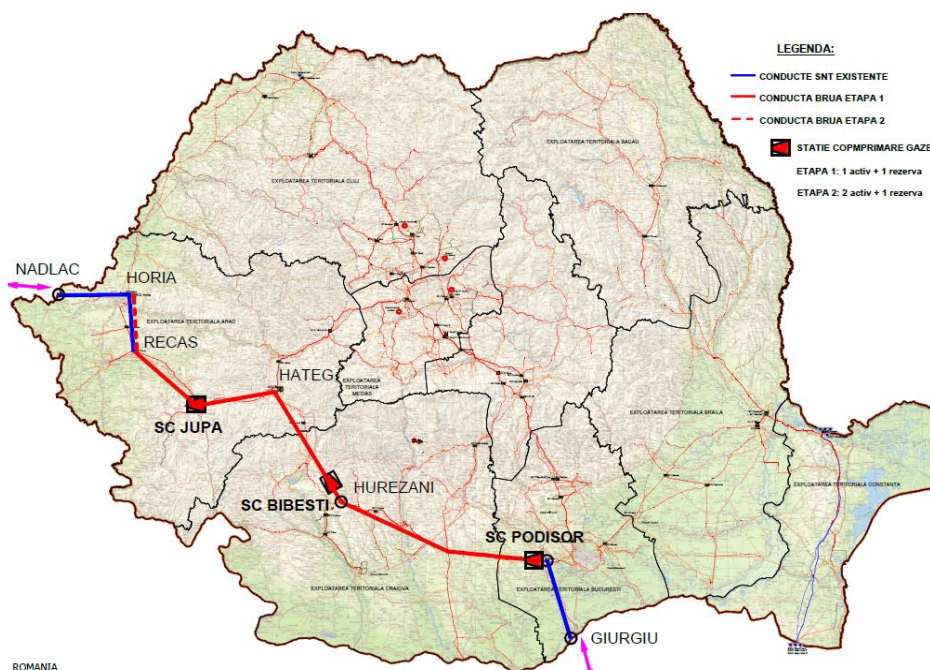
In view of information, stakeholder consultation and for the promotion of the BRUA Project Phase 1 during 2018 several information and stakeholder consultation meetings were held in the area of the territorial administrative units (TAUs) located on the route of the BRUA Phase 1 project.

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

Within these information and consultation meetings, Transgaz S.A. has provided information such as: details of the project and the execution technology, the benefits of the project, the

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

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



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

### Project description:

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

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

### Results:

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

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

#### Indicative project implementation project:

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

\* Following requests from network users on the extension of Bidding Window III within the RO-HU Binding Open Season, ANRE approved its extension until 30 May 2019.

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

#### Estimated completion deadline: 2022

#### Estimated value: Euro 68.8 million

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

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

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



**Project status:**

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

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

As a result, SNTGN Transgaz S.A. together with FGSZ started at the end of 2017 the Binding Open Season for the Interconnection Point between Romania and Hungary (Csanadpalota). The procedure is ongoing.

In September 2017 the public consultation was organized and carried out in accordance with EU Regulation No. 347/2013 and the Public Participation Concept was approved on 07.08.2017 by the Competent Authority for Projects of Common Interest. The final synthetic report on the results of the public consultations was published on the project web site.

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

Following requests from network users on the extension of Bidding Window III within the RO-HU Binding Open Season, ANRE approved its extension until 30 May 2019.

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

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

**Project description:**

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

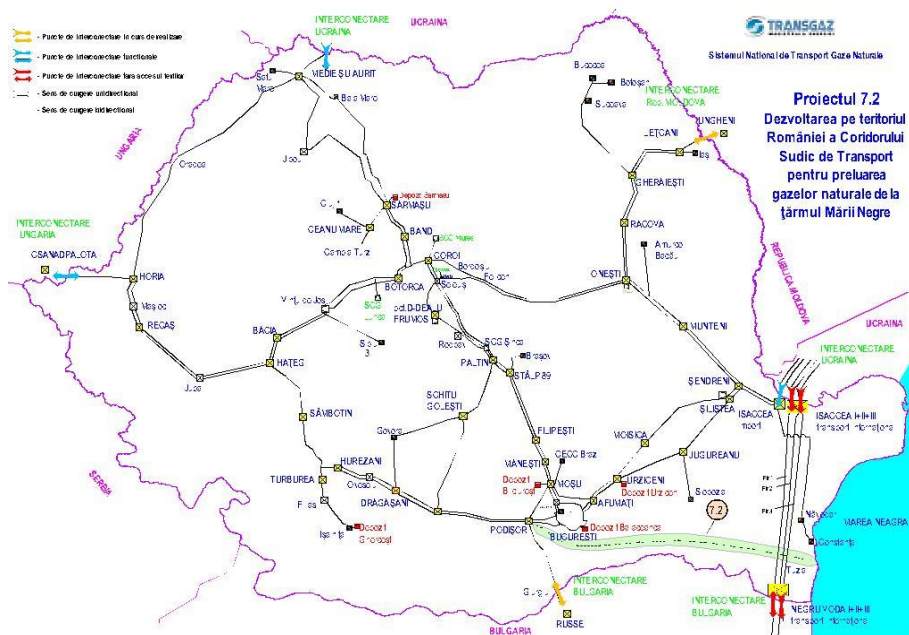


Figure 5-Southern Corridor Black Sea – Podișor

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

- Section I, Black Sea shore – Amzacea, 32.5 km long, will have a diameter of Ø 48" (Dn1200);
- Section II, Amzacea – Podișor, 275.7 km long, will have a diameter of Ø 40" (Dn1000);

### Indicative project implementation schedule

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

\* The term may change following a new capacity booking process

### Estimated completion deadline: 2021

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

### Estimated value: Euro 360.4 million

### The inclusion of the project in international plans

- **PCI project (second list):** 6.24.8;
- **PCI project (third list):** 6.24.4 – 5;
- **TYNDP ENTSOG 2018:** TRA-N-362

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

### The project status

- The **Feasibility study** was endorsed in the Technical-Economic Committee (CTE) of 26.01.2016;
- The archaeological investigations carried out in 2017 led to the modification of the pipeline route. Following these changes, the **Feasibility Study** was updated and reviewed by Transgaz's CTE on 11.05.2017;
- The **FEED** was endorsed by Transgaz's CTE. The documentation for the procurement of the execution works is being prepared.
- The activity related to the **identification of the land owners** affected by the execution works is ongoing:
  - The county of Constanța: 9 territorial administrative units - 100%;
  - The county of Călărași: 19 territorial administrative units - 99% (on the territory of the Territorial Administrative Unit Borcea there are no clear data on the situation of the land plots plans);
  - The county of Giurgiu: 14 territorial administrative units - 99% (on the territory of the Greaca Territorial Administrative Unit there are no clear data on the situation of the land plots plans).
- Environmental Agreement no 1 of 10.05.2018 was obtained;
- Construction Permit no 5 of 17.05.2018 was obtained;

- The **Notification in view of the initiation of the pre-submission procedure** was submitted to the Competent Authority for Projects of Common Interest (ACPIC) on 24.02.2017 and its approval was received on 23.03.2017;
- The **Stakeholder Engagement Plan** for the Project of Common Interest "*Black Sea Shore - Podisor (RO) for taking over Black Sea gas*" was submitted to the ACPIC on 24.05.2017 and approved by the Ministry of Energy through the Letter no.110800/27.06 .2017;
- Between 17-27.07.2017, public consultations were held on the basis of Regulation (EU) 347/2013 in the following locations: Tuzla, Amzacea, Cobadin, Alexandru Odobescu, Borcea, Frăsinet, Izvoarele, Baneasa and Stoenești;
- The application file was submitted on 08.06.2018 in order to obtain the Comprehensive Decision. The application file was accepted by ACPIC on 12.07.2018;
- The incremental **capacity booking process was carried out for MP Tuzla** and such process was completed by the capacity allocation and by the conclusion of gas transmission contracts. Following the unilateral termination of the gas transmission contracts by the titleholders, the process was declared to be unsuccessfully completed.
- The receipt of a new application generated a new incremental capacity booking process for Tuzla point.

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

This project is very important because:

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

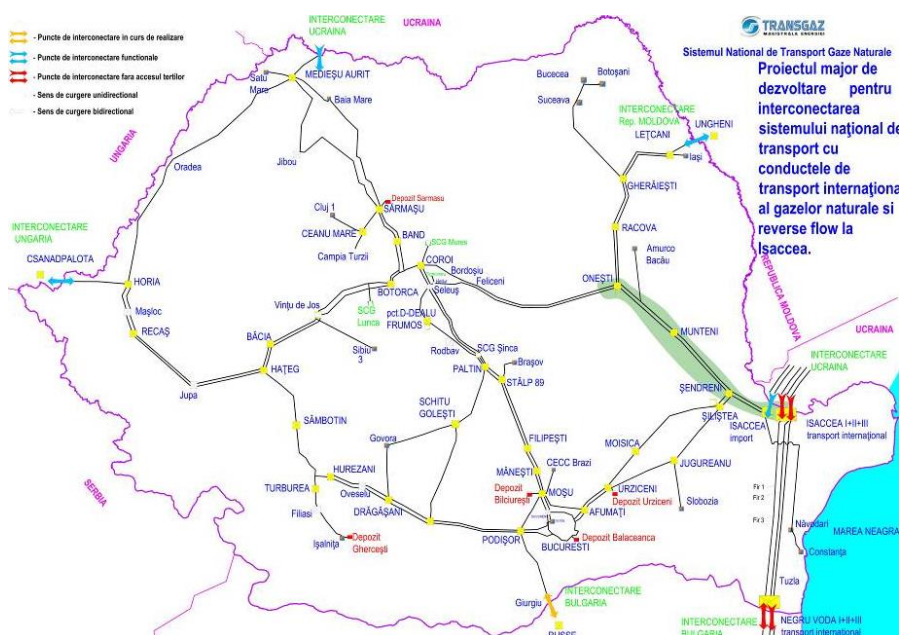


Figure 6 Map of the major development project for NTS interconnection with the international transmission pipeline Transit 1

### The project description:

The project consists of the following:

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

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

### Indicative project implementation schedule:

Development stages	Status/ Estimated completion deadline acc. to 2018-2027 TYNDP	Status/ Estimated completion deadline at the date of the Report
<b>Phase I</b>	<b>2018</b>	<b>2018</b>
Pre-feasibility study	completed	completed
Feasibility study	completed	completed
Environmental Impact Assessment	completed	completed

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

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

Estimated investment value	Acc. to 2018-2027 TYNDP	Updated at the date of the Report
Phase 1	Euro 8,8 mil.	Euro 8,83 million
Phase 2	Euro 92,2 mil.	Euro 90,4 million
<b>TOTAL</b>	<b>Euro 101 mil</b>	Euro 99.23 million

### The inclusion of the project in international plans

- **PCI Project (second list):** 6.15;
- **PCI Project (third list):** 6.24.10 – 1;
- **TYNDP ENTSOG 2018:** TRA-N-139
- **Priority Corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

**Project status:**

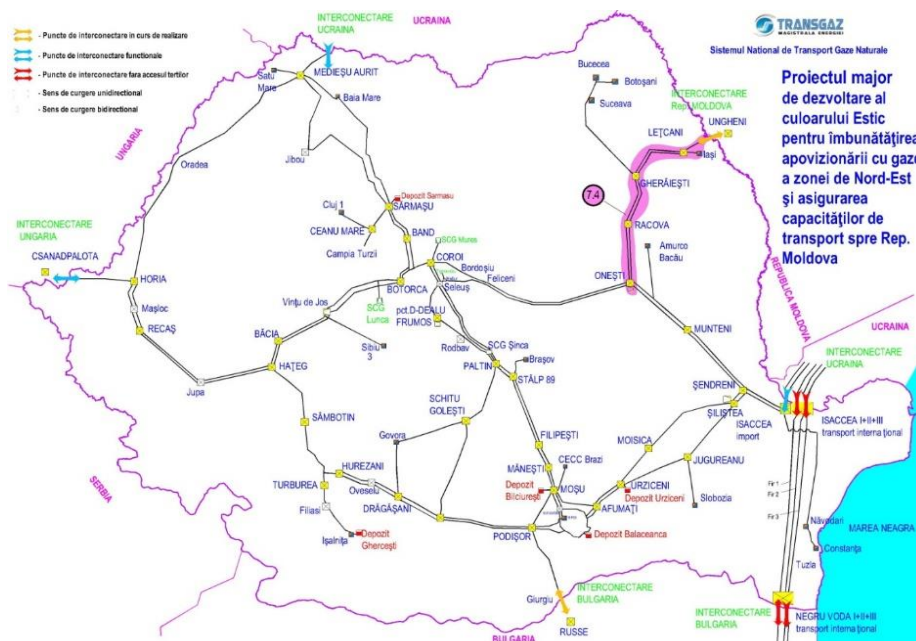
- The **Pre-feasibility Study** was completed and approved in 12.06.2017;
- The **Feasibility Study** for NTS - T1 Interconnection at Isaccea was completed in 03.11.2017;
- The **FEED** for the Isaccea Interconnection – Phase1 was completed;
- The **investment works permitting documentation** (DALI) and the **FEED** for the repairing of the DN 800 Onești – Cosmești pipeline– Phase 1 were completed;
- The **Technical specifications for the design and execution – Phase 2** for the procurement of the design and execution was completed in **August 2018**;
- The land owners of the land in the area of the Șendreni Technological Node, the Siliștea Compressor Station, the Isaccea Interconnection and the Onești Compressor Station were identified;
- The land owners of the land affected by the repair of the DN 800 Onești-Cosmești pipeline were identified;
- Government Decision no. 638/23.08.2018 on the approval of agricultural lands located outside the town built-up area was issued in respect of phase 1 of the project.
- The permitting process for Phase 1 was completed according to the town planning certificate.
- Phase 2 – **the FEED for the Works to the existing Sendreni Technological Node** is undergoing the procedure for the endorsement by Transgaz' Technical – Economic Committee.
- Phase 2 – endorsements, according to the Town Planning Certificate, are pending.
- **For Phase 1 of the project two environmental regulatory deeds were obtained:**
  - a) **Isaccea Interconnection – Screening decision** 144/06.03.2018 issued by Environmental Protection Agency Tulcea
  - b) **The repair of the DN 800 Onești – Cosmești pipeline (3 counties) – Screening decision** 27/16.05.2018 issued by the National Environmental Protection Agency.
- **For Phase 2 of the project three environmental regulatory deeds are required:**
  - a) Șendreni technological Node works – Screening decision 2907/09.03.2018 was issued by Environmental Protection Agency Brăila
  - b) Upgrading of the Siliștea Compressor Station and of the Siliștea Technological Node – to be issued by Environmental Protection Agency Brăila
    - Environmental procedure status:
      - 12.12.2017: Application submission

- 28.12.2017: Initial Assessment Decision issued by Environmental Protection Agency
  - 20.12.2018: Submission of the Presentation Report to the Environmental Protection Agency
- c) Upgrading of the Onești Compressor Station and of the Onești Technological Node (existing).
- **The notification to initiate the pre-submission procedure** was submitted to the Competent Authority for Projects of Common Interest (ACPIC) on 20.12.2017. It was approved by the ACPC on 17.01.2018.
  - **The concept of public participation** was submitted to ACPIC on 21 March 2018 and approved by the Ministry of Energy through letter no. 110638/04.04.2018. During the period 07-11.05.2018 the public consultations took place under the European Regulation 347/2013 in the following locations: Onesti, Buciumi (Bacău County), Marasesti (Vrancea County), Cosmești (Galați County), Isaccea (Tulcea County), Siliștea, Vădeni (Braila County).
  - The final synthetic report on the results of public participation activities was developed and published on the company's website and sent to ACPIC as part of the application file.
  - On 20.07.2018 the **application file** for Stage 1 of the project was submitted to ACPIC and accepted on 03.08.2018.
  - On 5 September 2018, the ACPIC submitted final report no. 44749 / 04.09.2018 regarding the authorization process and the process of public consultation and participation for the project of common interest "Enhancement of the transmission system in Romania, between Onesti - Isaccea and the reversal of the flow at Isaccea" - Stage 1 (Reference number in Union List: 6.24.10 - 1), including the attached documents, in order to obtain the exhaustive decision. The **Comprehensive Decision** no.2 /11.09.2018 was issued, a document certifying the completion of the authorization procedure according to the provisions of Regulation (EU) 347/2013 for Phase 1 of the project.

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

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





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

### Project description:

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

- Construction of a new DN 700 gas transmission pipeline, Pn 55 bar, in the Onești – Gherăești direction, 104.1 km long. The route of this pipeline will be parallel mainly to the existing pipelines DN 500 Onești – Gherăești
- Construction of a new gas transmission pipeline DN 700, Pn 55 bar, in the Gherăești – Lețcani direction, 61.05 km long. This pipeline will replace the existing DN 400 pipeline Gherăești – Iași on the Gherăești – Lețcani section
- Construction of a new gas compressor station at Onești with an installed power of 9.14 MW, 2 compressors of 4.57 MW each, one active one back up
- Construction of a new gas compressor station at Gherăești with an installed power of 9.14 MW, 2 compressors of 4.57 MW each, one active one back up.

### Indicative project implementation schedule:

Development stages	Status/ Estimated completion deadline acc. to 2018-2027 TYNDP	Status/ Estimated completion deadline at the date of the Report
Pre-feasibility study	completed	completed
Feasibility study	completed	completed

Development stages	Status/ Estimated completion deadline acc. to 2018-2027 TYNDP	Status/ Estimated completion deadline at the date of the Report
FEED for the pipelines	completed	completed
FEED for the Compressor stations	completed	completed
Obtaining the construction permits	completed	completed
Obtaining construction permits related to Compressor stations	completed	completed
Construction	2018-2019	2019-2020
Commissioning/start-up	2019	2020

### Estimated completion deadline: 2020

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

Estimated investment value	Acc. to PDSNT 2018-2027	Updated at the date of the Report
Estimated amount for the procurement of materials		Eur 64,95 mil.
Construction of the gas transmission pipeline Onești-Gherăești	Eur 51,01 mil	Eur 17,32 mil.
Construction of the gas transmission pipeline Gherăești-Lețcani	Eur 36,06 mil	Eur 15,19 mil.
Onești Compressor Station	Eur 41,75 mil	Eur 48,46 mil.
Gherăești Compressor Station	Eur 37,06 mil	
Pipeline automation and securing	Eur 8,37 mil	
Other activities (land acquisition, design, technical consultancy, audit and technical assistance)		Eur 28,32 mil.
<b>TOTAL</b>	<b>Eur 174,25 mil.</b>	<b>Eur 174,25 mil</b>

### The inclusion of the project in international plans

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

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

### Status of the project

- **The Feasibility Study Rev 0** was completed in January 2016;

Following the clarifications on the details related to the eligibility of the costs stipulated in the Applicant's Guide and JASPERS' recommendations the Feasibility Study was revised and completed in January 2018;

- **The FEED for the gas transmission pipeline, the FEED for the two compressor stations and the FEED for the electrical installations, cathode protection, automation and security of the pipeline** were completed in January 2018;
- **The environmental agreement** was obtained in 06.07.2017;
- **The decision of the screening stage** for the revision of the environmental agreement was obtained on 09.01.2018;

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

- In July 2018 the documentation for the issue of the Governmental Decision (according to Law no 185/2016) was submitted for the temporary removal from the agricultural circuit.
- The project was declared as **project of national importance** by GD no 562/2017;
- **The Construction permit** was obtained on 15.09.2017, according to Law no. 185/2016.
- The project meets the eligibility criteria of the Large Infrastructure Operational Programme (POIM). Priority Axis 8 - Strategic Objective (OS) 8.2, programme developed by the Management Authority of the Ministry of European Funds and receiving a non-reimbursable funding through PAP8 - Intelligent and sustainable transport systems for electricity and natural gas amounting to lei 214,496,026.71 (EUR 46.3 million). For this purpose on 22.11.2018 the Grant Agreement 226 was signed with the Ministry of European Funds.

## PROCUREMENT

For the implementation of the project, the public procurement procedures are ongoing for:

- a) the execution works related to the two compressor stations Onești and Gherăești, pipeline automation and security for the project
- b) execution of the gas transmission pipeline Onești – Gherăești – Lețcani (lot 1 and lot 2)
- c) pipes and curves
- d) valves and electroinsulating monoblock joints
- e) compressor units – centrifugal compressors with gas actuated turbines

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

## 5. Enhancement of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3)

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

### Project description

The development of this gas transmission corridor entails the following:

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

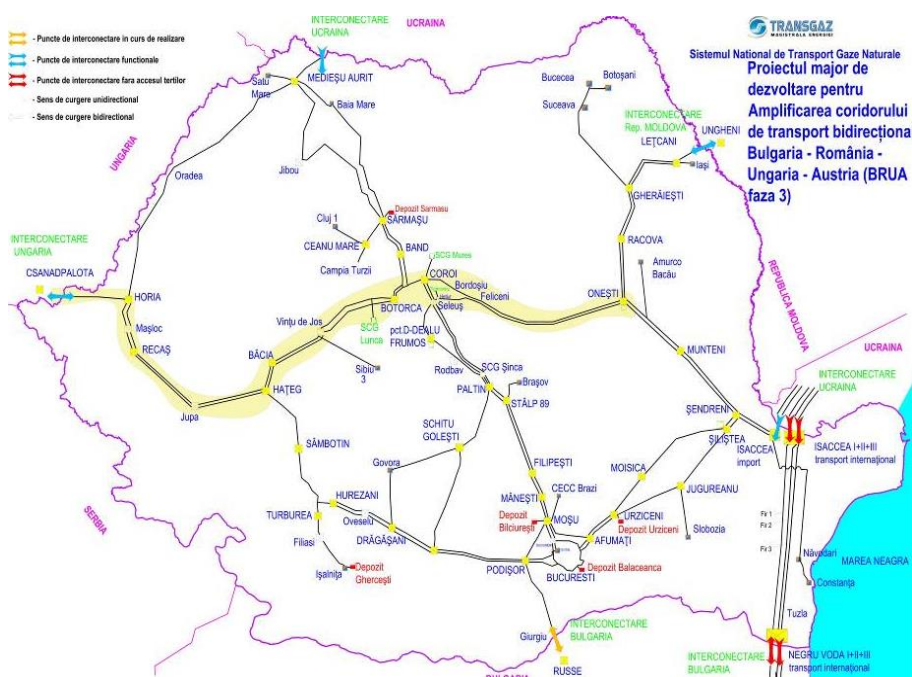


Figure 8 - Development of BRUA phase 3

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

### The two projects are as follows:

1. Ensuring reverse flow on the Romania–Hungary interconnection:
  - New gas transmission pipeline Băcia–Hațeg–Horia–Nădlac approximately 280 km long;
  - Two new gas compressor stations located along the route.

2. NTS development between Onești and Băcia:
  - Upgrading some pipeline sections;
  - Replacement of existing pipelines with new pipelines with higher diameters and operating pressure ;
  - Two or three new gas compressor stations

### Inclusion in international plans

- **PCI Project (second list):** 6.25.3;
- **PCI Project (third list):** 6.24.10–position 2;
- **Priority corridor:** NSI EAST;

The projects mentioned above were merged in the updated list (List 3/2017) of **Projects of Common Interest** published as annex to regulation 347/2013 being included at **position 6.24** under the name **“Group of projects for the staged increase of the capacity on the bidirectional gas transmission corridor Bulgaria–Romania–Hungary–Austria (currently known as ROHUAT/BRUA) enabling 1.74 bcm/a in the first phase and 4.4 bcm/a in the second phase with the possibility to take over the new Black sea gas sources in the second and third phase”**.

**Estimated completion date: 2023**

**Estimated value: Euro 530 million.**

### Project Status

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

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

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

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

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

## Project description

The project consists in the construction of a DN 500 gas transmission pipeline, 24.37 km long, from the Black Sea shore to the existing T1 international gas transmission pipeline.

The transmission capacity is 1.1 bcm/year according to the Open Season procedure published on Transgaz' website.

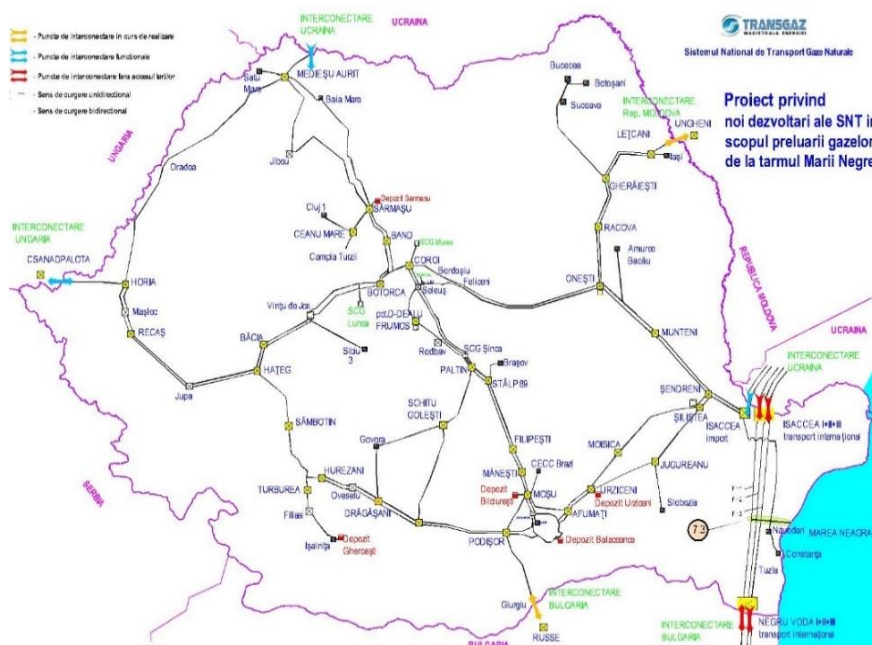


Figure 9- NTS developments related to the Black Sea

## Indicative project development calendar:

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

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

**Estimated value:** EUR 9.14 million

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

- **PCI project (third list): 6.24.10 – 3;**
- **TYNDP ENTSOG 2018:** TRA-N-964
- **Priority corridor:** Gas interconnections on the North-South corridor of Central Europe and South-Eastern Europe («NSI East Gas»).

### **Project status:**

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

- The application file was submitted to ACPIE on 10.10.2018 and was accepted on 22.10.2018.
- The Comprehensive Decision no. 3/12.12.2018 was issued.

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

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

In order to increase the interconnectivity between gas transmission systems of the EU member states and to increase energy security in the region, the project for the interconnection between the gas transmission systems of Romania and Serbia is necessary.

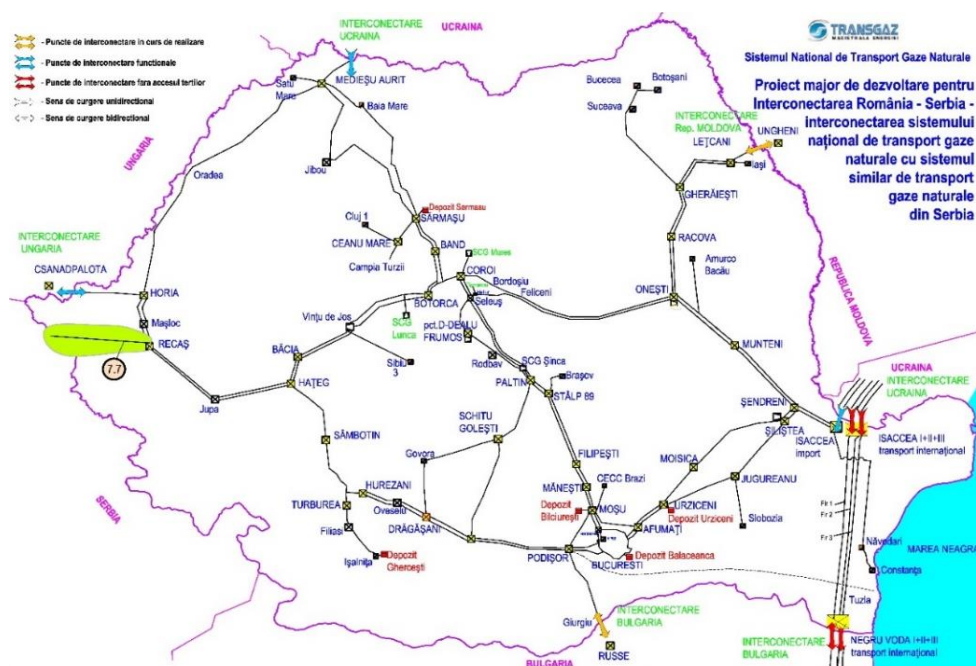


Figure 10- Interconnection of the NTS with Serbia in the Recas – Mokrin direction

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

### Project description:

The project *Interconnection Romania–Serbia Interconnection between the Romanian and the Serbian gas transmission systems* consists in the construction of a new gas transmission



pipeline connecting BRUA main gas transmission pipeline to the Technological Node Mokrin in Serbia.

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

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

The project consists in the following:

- Construction of an approximately 97 km long pipeline to interconnect the national gas transmission system in Serbia, in the Recas – Mokrin direction of which 85 km on the territory of Romania and 12 km on the territory of Serbia with the following characteristics:
  - Pressure of the BRUA pipeline in the Recaş area: 50 – 54 bar (PN BRUA – 63 bar);
  - Diameter of the interconnection pipeline: Dn 600;
  - Transmission capacity: max. 1 bcm/y (115,000 cm/h), pressure at Mokrin: 48.4 – 52.5 bar
  - Transmission capacity: 1.6 bcm/y (183,000 cm/h), pressure at Mokrin: 45.4- 49.9;
- Construction of a gas metering station (located on the Romanian territory).

#### Estimated project implementation schedule

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

#### Estimated completion date: 2020

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

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

### Project status

- A Memorandum of Understanding was concluded between Transgaz and Srbijagas on 30.06.2017;
- Transgaz and Srbijagas prepared the Prefeasibility Studies for the facilities related to each country, the necessary data and solutions for their completion were agreed within the joint meetings;
- The procedure for obtaining the Environmental Agreement:
  - The Decision on the initial assessment stage no. 459/08.10.2018 was obtained
  - The Environmental Protection Agency Timis submitted the documentation, the Presentation Report and the Notification prepared according to art. 3 of the Espoo Convention (in Romanian and English) to the Ministry of Environment.
- Following the meetings between the experts of Transgaz and Srbijagas, the following aspects were agreed/established:
  - The pipeline will be designed so as to ensure bidirectional flows of 1.6 bcm/year (183 000 Scm/h), which may be increased to up to 2.5 bcm/year (285 000 Scm/h), ensuring a 39 ÷ 45 bar pressure at Mokrin;
  - The construction on the Romanian territory (Territorial Administrative Unit Comloșu Mare, Timiș county), approximately 400 m distance from the border, of a Fiscal Gas Metering Station with two pig launching/receiving stations, one towards Petrovaselo and one towards Mokrin;
  - Configuration of the Fiscal Gas Metering Station;
  - The border crossing point between Romania and Serbia (marking by poles and setting its coordinates);
  - Mounting an electro insulating joint at the border, at the point of interconnection between the two gas transmission systems with the purpose to separate the two systems from a cathodic point of view.
- From the point of view of the interference of the project with Natura 2000 sites the following aspects are worth being mentioned:

- The pipeline route crosses ROSPA 0142 Teremia Mare - Tomnatic over 2300 m and is located in the vicinity of ROSCI0402 Valea din Sândreii at approximately 100 m;
- The fiscal metering station is located outside the protected natural areas, in the vicinity of ROSPA 0142 Teremia Mare -Tomnatic, at approximately 1620 m;

### Project inclusion in international plans

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

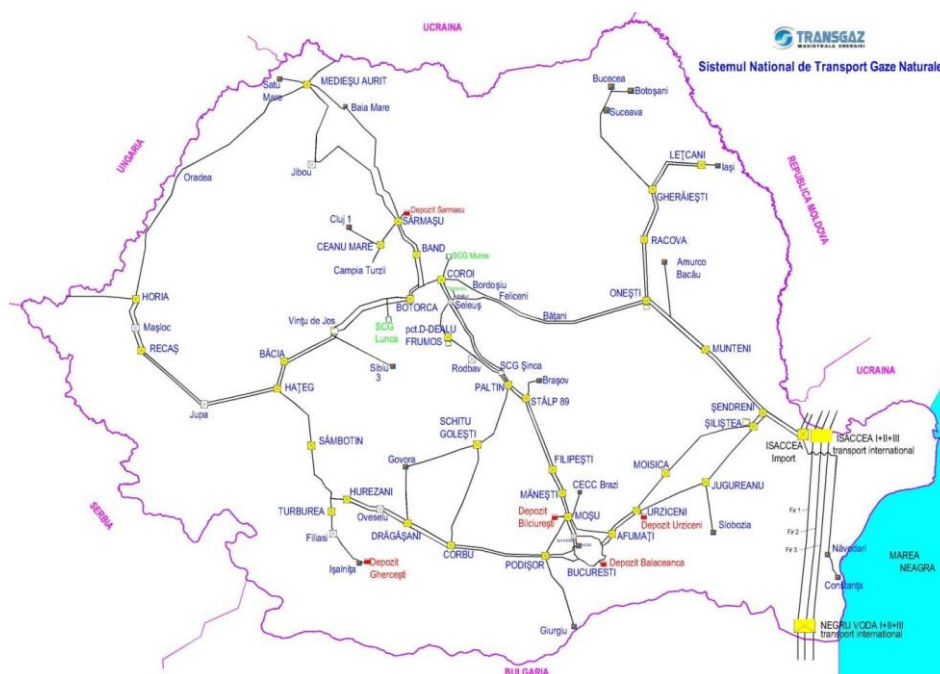
### 8. Upgrading GMS Isaccea 1 and GMS Negru Vodă 1

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

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

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

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



**Figure 11- Upgrading GMS Isaccea 1 and Negru Vodă 1**

## **Project description:**

### **1. Gas Metering Station GMS Isaccea 1**

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

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

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

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

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

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

### **2. The metering station GMS Negru Vodă 1**

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

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

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

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

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

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

### Indicative project development calendar

Development stages	Status/ Estimated completion deadline acc. to 2018-2027 TYNDP	Status/ Estimated completion deadline at the date of the Report	
		SMG Isaccea 1	SMG Negru Vodă 1
Pre-feasibility study	2018	completed	2019 (if the necessary land is obtained)
Engineering	2018	completed	2019 (if the necessary land is obtained)
Technical documentation for obtaining the construction permits	2018	obtained	2019 (if the necessary land is obtained)
Construction	2018 - 2019	2019	2019 - 2020
Commissioning/start up	2019	2019	2019 - 2020
<b>Total estimated investment value</b>	<b>EUR 13,9 mil.</b>	<b>EUR 26,65 million</b>	
		<b>EUR 13,88 mil.</b>	<b>EUR 12,77 mil.</b>

**Estimated completion deadline:** 2019 for GMS Isaccea 1, 2019-2020 for GMS Negru Vodă 1 (based on the land where the objective will be located).

### Project status

The Feasibility Study and the FEED for the newly designed objective GMS Isaccea 1 were completed by the Research and Design Division. The preparation of the Feasibility Study and of the FEED related to the newly designed objective GMS Negru Voda 1 is ongoing.

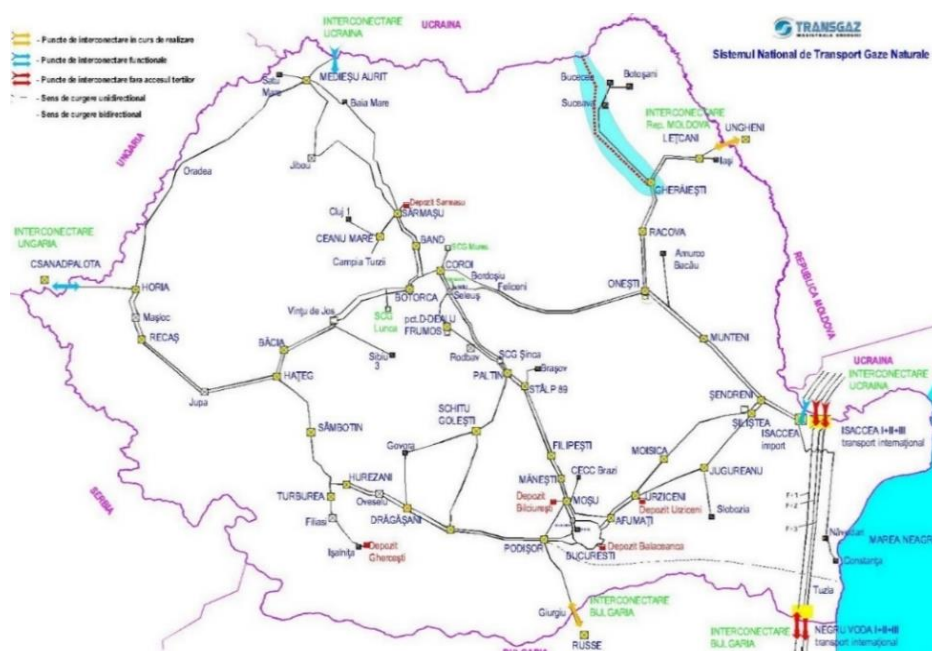
### The inclusion of the project in international plans

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

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

In addition to the Project for NTS developments in North-Eastern Romania for improving gas supply to the region and ensuring transmission capacities to Moldova, Transgaz identified the

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



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

### Project description:

The project consists of:

- the construction of a 130 km gas transmission pipeline and the related facilities, in the Gherăești – Siret direction;
- the construction of a cross-border gas metering station;
- the extension of the Onești and Gherăești compressor stations, if applicable.

### Estimated project development calendar

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

**Estimated completion date: 2025**

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

**Project status:**

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

**Ten Year Development Plan Achievement – 2018**

Tag no.	Name of project	Total estimated value mil.Euro	Planned	Achievements 2013-2017		Achievements 2018 (lei)	TOTAL 2013-2018	
				lei	mil. Euro	lei	lei	mil Euro
1.1	Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor <b>BRUA phase 1</b>		Feasibility studies	4.296.872	0,95	-	4.296.872	0,95
			FEED (without guarantees-forests)	34.132.457	7,59	1.444.066	35.576.523	7,91
			Development	-	-	307.018.041	307.018.041	68,23
	<b>TOTAL BRUA phase 1</b>	<b>478,6</b>		<b>38.429.329</b>	<b>8,54</b>	<b>308.462.107</b>	<b>346.891.436</b>	<b>77,09</b>
1.2	Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor <b>BRUA phase 2</b>		Feasibility studies	-	-	-	-	-
			FEED (without guarantees-forests)	363.097	0,08	518.991	882.088	0,2
			Development	-	-	-	-	-
	<b>TOTAL BRUA phase 2</b>	<b>68,8</b>		<b>363.097</b>	<b>0,1</b>	<b>518.991</b>	<b>882.088</b>	<b>0,2</b>
2	Development on the Romanian territory of the <b>Southern Corridor</b> for taking over Black Sea gas		Feasibility studies	935.391	0,21	-	935.391	0,21
			Third party FEED (without guarantees-forests)	3.295.628	0,73	1.997.556	5.293.184	1,18
			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>360,36</b>		<b>4.231.019</b>	<b>0,94</b>	<b>1.997.556</b>	<b>6.228.575</b>	<b>1,39</b>
3	NTS interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea		Feasibility studies	765.438	0,17	-	765.438	0,17
			Third party FEED (without guarantees-forests)	-	-	1.075.265	1.075.265	0,24
			Development	-	-	1.694.142	1.694.142	0,38
	<b>TOTAL</b>	<b>101</b>		<b>765.438</b>	<b>0,17</b>	<b>2.769.408</b>	<b>3.534.846</b>	<b>0,79</b>
4	NTS development in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the <b>Republic of Moldova</b>		Feasibility studies	3.770.331	0,84	56.020	3.826.351	0,85
			Third party FEED (without guarantees-forests)	3.404.116	0,76	2.565.845	5.969.961	1,33
			Development	-	-	-	-	-
	<b>TOTAL MOLDOVA</b>	<b>174,25</b>		<b>7.174.447</b>	<b>1,59</b>	<b>2.621.865</b>	<b>9.796.312</b>	<b>2,18</b>
5	Extension of the bidirectional gas transmission corridor Bulgaria – Romania - Hungary – Austria (BRUA Phase 3)		Feasibility studies	-	-	-	-	-
			FEED (without guarantees-forests)	-	-	-	-	-
			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>530</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
6	Project on new NTS developments the taking over Black Sea gas		Feasibility studies + Engineering	531.811	0,12	31.607	563.418	0,13

			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>9,14</b>		<b>531.811</b>	<b>0,12</b>	<b>31.607</b>	<b>563.418</b>	<b>0,13</b>
7	Romania - Serbia Interconnection		Feasibility studies + FEED	46.365	0,01	457.662	504.027	0,11
			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>42,4</b>		<b>46.365</b>	<b>0,01</b>	<b>457.662</b>	<b>504.027</b>	<b>0,11</b>
8	Upgrading GMS Isaccea 1 and GMS Negru Vodă 1		Feasibility studies + FEED	47.410	0,01	1.534.753	1.582.163	0,35
			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>13,9</b>		<b>47.410</b>	<b>0,01</b>	<b>1.534.753</b>	<b>1.582.163</b>	<b>0,35</b>
9	Romania – Ukraine Interconnection in the Gherăești - Siret direction		Feasibility studies + FEED	-	-	-	-	-
			Development	-	-	-	-	-
	<b>TOTAL</b>	<b>125</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL</b>		<b>1.903,45</b>		<b>51.588.916</b>	<b>11,46</b>	<b>318.393.948</b>	<b>369.982.864</b>	<b>82,22</b>

**Table 7 - Major TYNDP projects execution rate**

### 3.2 European funds

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

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



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

- constant monitoring of the funding programs managed by the European Commission, of the Calls for applications relevant websites and of the Ministry of European Funds (MEF) website to identify updated information and instructions regarding grants
- Maintaining the connection with the Large Infrastructure Operational Program Management Authority in order to identify the possibilities for promoting TRANSGAZ projects in the area of "energy efficiency", submitting proposals in this respect in order to complete the eligibility criteria from the Program's Priority Axis 6 and 7
- Drawing up / submitting reports to TRANSGAZ management / departments on the financing opportunities based on the Financing Programs managed by the European Commission and by the National Funding Bodies, on the conditions and criteria for accessing the structural funds in order to correlate their provisions with Transgaz Development and Research Plan and promoting its own investment objectives and projects potentially eligible for grants
- The preparation of the annual report on the value of the outcome ratios, namely "The Capacity of the National Natural Gas Transmission System at the interconnection points", in the context of the implementation of the projects financed under the Large Infrastructure Operational Program (LIOP) and in order to apply the general conditionality on the Statistical System and Outcome Indicators, based on the Collaboration Protocol concluded between Transgaz and MFE
- Assessing the compliance of Transgaz's potential projects with eligibility criteria according to the requirements of the Financing Programmes 2014-2020;
- It was considered the funding of potential Transgaz projects for:
  - use of the kinetic energy of pipeline gas flow in order to obtain electricity;
  - control and data acquisition system from the cathodic protection system of S.N.T.G.N. TRANSGAZ
  - professional training by exchanging experience or by training courses within the Operational Program Human Capital – POCU, including in a potential partnership with the trade union organization in the branch.
  - Changing the Bățani Compressor Station (the first turbo-compressor station) into a museum.
- Submission for analysis and identification of LIOP funding possibilities for the following investment objectives:
  - *Black Sea shore — Podișor (RO) pipeline for taking over the Black sea gas* PCI 6.24.8. (updating information)
  - Interconnection of the national transmission system with the international gas transmission pipelines and reverse flow at Isaccea PCI 6.15.
  - Interconnection between the Gas Transmission Systems of Romania and Serbia – project included in Transgaz's 2018-2027 Network Development Plan.
- Coordination and verification of the compliance of data under the Project Sheets with the Feasibility Study and the cost benefit analysis (CBA) and with the requirements of the funding programs and the applicable laws

- Preparation of an updated synthesis on the PCIs in 2019 (PCI lists, PCI funding, regional groups and their role in the PCI process, associated documents and legislation, application for the fourth list of PCIs and modality of application);
- analysis of the relevant legislation on the amending and supplementation of normative acts in the field of financial management of European funds;
- checking the acceptance and completeness of requests for interim payments or balance payments for projects managed by CEF Energy.

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

- Preparation of progress reports, sustainability reports and letters regarding the management of Transgaz projects provided with EU grants – documents which were delivered to the Financing Entities, according to the provisions of the Financing Contracts/Decisions;
- Preparation of reports regarding the opinions on the identified sensitive issues and the consequences of potential changes in the conditions of the Works Contracts, in correlation with the Financing Decision/Contracts;
- Provision of support, cooperation, additional information as requested as a result of various verifications/checks of the projects funded by EU grants;
- Supporting the sessions of audits related to the EU Funds Unit activity in terms of the compliance with the quality rules and the provisions of the Process Procedure;
- Maintaining the communication channel between the Project Implementation Unit and the Management Authority;
- Preparation of project initiation report
- Holding of first work meeting between LIOP MA and the PIM
- Consultancy for the logistics and execution support within BRUA and regarding import of extra-Community goods (import from Turkey);

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

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

**ACER activities**

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

### 3.3 International cooperation

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

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

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

##### **BULGARTRANSغاز EAD (Bulgaria):**

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

In 2016 the interconnection agreements for the Ruse/Giurgiu and Negru Voda I IPs were concluded. These agreements establish the procedures for nomination, matching and allocation of gas quantities to be circulated through the interconnections and establishing the technical details regarding the operation of the gas metering stations related to the two points are governed by the provisions of Regulation (EU) 703/2015 establishing a network code on interoperability and data exchange rules.

Considering that on the territory of Bulgaria the international gas transmission pipelines Transit 2 and 3 are converging into one pipeline, Transgaz and Bulgartransgaz agreed to prepare only one interconnection agreement for the Negru Voda 2+3/Kardam virtual interconnection point. The finalization of the text of the Interconnection Agreement is in progress, following the launching of public consultations on the business rules, which will be part of the Agreement.

**FGSZ Ltd. (Hungary):**

- *The project Development on the Romanian territory of the National Gas Transmission System on the Bulgaria — Romania — Hungary — Austria Corridor:*
  - The contact regarding the coordinated development of the BRUA project was maintained by the Parties
- *Joint operation of the Csanadpalota cross-border IP according to the European network codes (CAM, BAL, INT)*
  - According to the Interconnection Agreement for the Csanadpalota IP, according to Regulation (EU) 2015/703;
  - According to the Cooperation and TSO Membership Agreement regarding the Regional Booking Platform (RBP) for trading the bundled and unbundled capacity of the cross-border IPs with Hungary and Bulgaria, according to *Regulation (EU) 459/2017 establishing a network code regarding the capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No. 984/2013.*
- *Development of the Csanadpalota Node*
  - The parties cooperated on the development of the Csanadpalota node.
- *The updating of the Interconnection Agreement for the Csanádpalota IP*
  - The parties cooperated on the updating of the Interconnection Agreement for the Csanádpalota IP.

**UKRTRANSGAZ (Ukraine):**

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

**VESTMOLDTRANSGAZ (Republic of Moldova):**

By Decision 10 adopted in the meeting held on 12.12.2017, the Transgaz Extraordinary General Meeting of the Shareholders (EGMS) approved the establishing of a company on the territory of Moldova, considering the requirements under the Moldavian applicable laws. Based on the EGMS resolution, on 18.12.2018, Eurotransgaz S.R.L. was established in Chisinau having Transgaz as a sole shareholder. For the fulfilment of its core business, Eurotransgaz S.R.L. participated in the investment contest for Vestmoldtransgaz privatization. On 26 February 2018, the Commission for privatisation contests of the Republic of Moldova notified the result

of the contest, declaring Eurotransgaz SRL the winner of the contest. On 28 March 2018 Eurotransgaz signed the contract for the taking over of Vestmoldtransgaz Chisinau.

Between the signature of the privatization contract (28.03.2018) and the closing date, efforts were made to meet the conditions precedent and prepare Vestmoldtransgaz for the operational phase. In this respect, a Transgaz expert team worked intensively to prepare the pre- and post-privatization stages, to reorganize, procure works and implement the project stipulated in the contract.

The tender documentation was prepared and the procedure for the procurement of the works related to the execution of the investment objective Interconnection gas pipeline between the natural gas transmission system in Romania and the natural gas transmission system of the Republic of Moldova in the Iasi - Ungheni direction, Phase II, is in progress.

### ***SRBIJAGAS (Serbia):***

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

The document is part of a set of actions for strengthening the bilateral cooperation in fields of activities pertaining to the gas transmission system operators of Romania and Serbia and establishes a framework for promoting projects of mutual interest.

By creating the infrastructure necessary for the interconnection of the gas transmission systems, Transgaz and Srbijagas aim at contributing to the increase in the predictability of energy supply to the region, by alternatives which are more effective than the gas supply solutions provided by other options.

The parties are cooperating for the implementation of the project "Interconnection between the National Gas Transmission Systems of Romania and Serbia" which envisages the construction of a new gas transmission pipeline ensuring the connection of the main gas transmission pipeline BRUA and the Technological Node Mokrin, of Serbia.

Transgaz și Srbijagas completed the pre-feasibility and the feasibility studies and the completion of the FEED is in progress.

The execution works procurement procedures are expected to be launched in the first months of 2019, and the interconnection is estimated to become operational in July 2020.

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

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

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

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

### **BULGARGAZ (Bulgaria):**

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

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

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

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

Discussions and meetings for identifying new business opportunities were held with: Eustream AS (Slovakia), GRTGaz (France), DESFA (Greece), GASUNIE (the Netherlands), GOGC (Georgia), Gaz-System (Poland).

Transgaz General Meeting of the Shareholders approved the company's association with Regasificadora del Noroeste S.A. (Spain) for the submission of a binding offer within DESFA's privatisation procedure.

The Board of Directors of the Hellenic Republic Asset Development Fund (HRADF) analysed the binding offers for the acquisition of 66% (31% stake owned by HRADF and 35% stake owned by HELPE) of the Hellenic Gas Transmission System Operator S.A.'s (DESFA's) share capital.

Binding offers were submitted by:

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

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

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

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

### **GRTGaz (France)**

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

### **EUSTREAM (Slovakia)**

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

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

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

Transgaz participated in meetings of the working group coordinated by Eustream on the development of the Eastring feasibility study and the meeting to present the results of the Feasibility Study, which took place in Bratislava on 20 September 2018.

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

As part of the Central and South-Eastern European Gas Connectivity (CESEC) initiative, under the patronage of the European Commission Transgaz together with other Gas Transmission System Operators signed the following cooperation documents:

#### **- Memorandum of Understanding on a joint approach and action plan to address bidirectional natural gas transportation via the Trans-Balkan pipelines to cope diversification and security of supply challenges (MoU on the Trans-Balkan Corridor).**

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

This MoU defines the common intention of the Trans-Balkan TSOs to ensure, by coordinated actions (infrastructure projects included), physical reverse flows in the direction Greece-

Bulgaria-Romania-Ukraine by means of the Trans-Balkan pipelines beyond 2019 and allows for the increase in the regional gas supply.

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

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

- **The Memorandum of Understanding on the Vertical Corridor**

On the occasion of the CESEC High Level Group meeting held in Budapest, on 8 September 2016, the Ministers of Energy from Greece, Bulgaria, Romania and Hungary signed a Joint Statement on the development of the "Vertical Corridor" and the representatives of the relevant TSOs (DESFA, Bulgartransgaz, Transgaz and FGSZ) also signed a Joint Statement expressing their openness towards the initiative promoted at ministerial level as well as their intention to agree upon a Memorandum of Understanding (MoU). The MoU between DESFA, Bulgartransgaz, Transgaz and FGSZ was signed in Bucharest, in 19 July 2017.

At Transgaz's initiative, the kick-off meeting on the MoU was also held in Bucharest, on 28 September 2017, in the margins of the CESEC High-Level Group Meeting, under the coordination of DG ENER and was meant to allow for the establishment of dedicated working groups and for deciding upon the next steps for the project development. This meeting, also chaired by Mr. Klaus-Dieter Borchardt (Director DG ENER), gathered together the signatories of the MoU on the Vertical Corridor and representatives of the following companies operating gas transmission systems relevant for the Vertical Corridor: Eustream, Srbijagas, Ukrtransgaz and Vestmoldtransgaz.

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

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

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

- International associations: Gas Infrastructure Europe (GIE), Piggings Products and Services Association (PP&SA) of UK.



- National associations: CNR- CME, the Association of the Oil and Gas Engineers, the Chamber of Commerce, Industry and Agriculture of Sibiu, Romanian Fracture Mechanics Association ARME, the Romanian Energy Centre (CRE), American Chamber (AmCham), the ICC National Committee Romania.

In May 2018, SNTGN TRANSGAZ SA hosted the 26th annual Dispatching Conference of the companies involved in the Russian gas transit to Ukraine, Moldova, the Balkans and Turkey.

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

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

### **Transgaz Representative Office in Brussels**

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

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

## Transgaz Representative Office in Chisinau

**Transgaz Representative Office** in Chişinău was established to develop infrastructure projects in the gas field in cooperation with Moldova. It carried out intensive activities in cooperation with other entities within the company and in particular with Vestmoldtransgaz for the development of the Ungheni-Chisinau gas pipeline project on the territory of Moldova.

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

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

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

### Cooperation with the relevant ministries

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

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

### 3.4. Interconnection agreements

Interconnection agreements concluded between 2013 and 2016:

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

- **Interconnection Agreement for the Point Negru Voda 1 Interconnection**, concluded with Bulgartransgaz, Bulgaria, on 19.05.2016;
- **Interconnection Agreement for the Ruse - Giurgiu Interconnection Point**, concluded with Bulgartransgaz, Bulgaria, on 22.12.2016.

In 2017 - 2018 the following addendums were concluded:

- Amendment no. 2 / 25.01.2017 to the Interconnection Agreement for IP Negru Voda 1 / Kardam (regarding the application of the gas day 08:00-08:00 at IP Negru Voda 1 / Kardam until 01.10.2017);
- Amendment no. 2/23.02.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.05.2017);
- Amendment no. 3/28.04.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.07.2017);
- Amendment no. 4/23.09.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.10.2017);
- Amendment no. 5/28.09.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.01.2018);
- Amendment no. 6/27.12.2017 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.07.2018).
- Amendment no. 7/22.06.2018 to the Interconnection Agreement for IP Isaccea 1 (on suspending the application of business rules at IP Isaccea 1 until 01.01.2019).

### 3.5 Retrofitting and automation - SCADA

In order to improve the quality and efficiency of the operational activity within Transgaz SA the Data procurement and Control System SCADA was implemented. The warranty period of the SCADA project ended on 30.11.2018.

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

- Ensures the transmission, in real time, of the technological parameters (pressure, flow, temperature, gas quality, calorific power) to the National and all Regional Dispatching Centres;
- Exports technological values to a new data base to satisfy internal/external communication requirements according to the procedures/provisions/agreements concluded at the Company's level;
- Improves TRANSGAZ' ability to control and react promptly and efficiently to any potential risk of interruption of the activity contributing to the increase of the security of the operation of the national gas transmission system;
- Ensures the necessary conditions to offer short term gas transmission services in the entry/exit points in/out of the national transmission system and to perform the contracts related to such types of services according to the requirements of Regulation (EC) no 715/2009.

### The extension of the SCADA system aims at:

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

Thus, in 2018, technical activities for the integration of new SCADA equipment:

Location type	Equipment type	Pcs.
MRS	Volume converter - PTZ4	52
	Gas chromatograph - ABB	5
	Programmable controller PLC	11
	Pressure transducer	4
	Odorization installation	8

Status of technological parameters at the interconnection points on 31.12.2018

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

In 2018 a series of activities were performed for the maintenance, development and modernisation of the National Gas Transmission System, according to the intelligent network concept (SCADA), to ensure compatibility of operation with the similar European transmission systems for integration in the single European market.

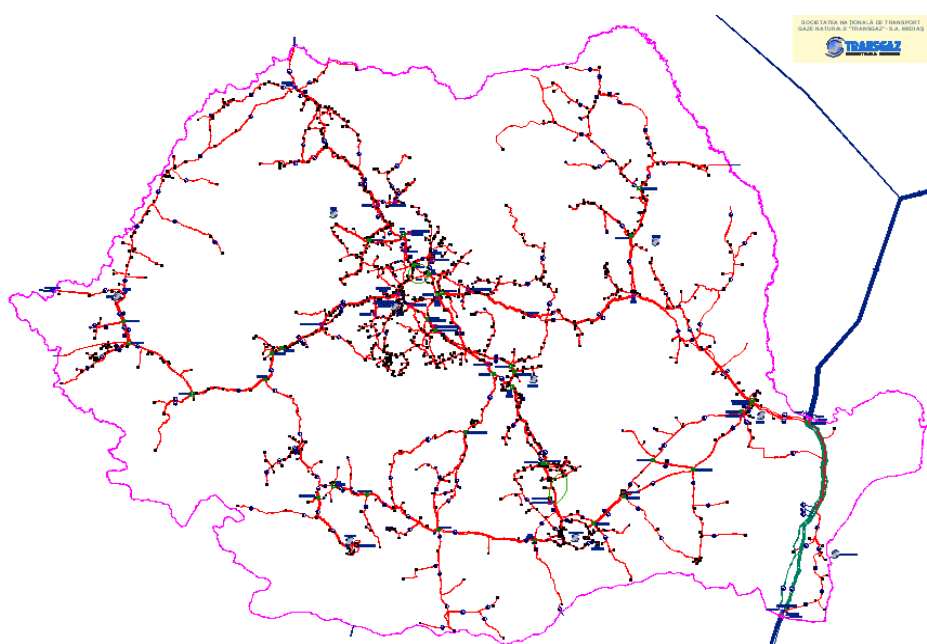
### 3.6 Operation, development, repair, rehabilitation and maintenance of NTS maintenance services

#### 3.6.1 Main Components of NTS Infrastructure

The main components of the National Gas Transmission System on 31 December 2018

Name of the NTS objective / component	U.M.	Value
Main pipelines and gas supply connections, of which international transmission pipelines	km	13.381 553
Operating metering-regulating stations (MRS)	pc.	1.130 (1.237 metering directions)
Valve control stations (VCS, TN)	pc.	58
Import gas metering stations (GMS)	pc.	5
Gas metering stations located on the gas transit pipelines (GMS)	pc.	6
Gas compressor station (CS)	pc.	3
Cathodic protection stations (CPS)	pc.	1.039
Gas odorising stations (GOS)	pc.	902

**Table 8 – Main components of the NTS on 31.12.2018**



**Figure 13 - Map of the National Gas Transmission System**

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

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

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

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

Service life	Transmission pipelines (km)	Supply pipelines (km)	Number of directions of MRSs
> 40 years	6.628	350	149
Between 30 and 40 years	2.001	164	60
Between 20 and 30 years	692	302	252
Between 10 and 20 years	1.505	859	575
< 10 years	760	120	201
<b>TOTAL</b>	<b>11.586</b>	<b>1.795</b>	<b>1.130 MRSs (1.237 metering directions)</b>
	<b>13.381</b>		

**Table 9-** The main components of the NTS on 31.12.2018, from the perspective of the service life

With regard to natural gas pipelines, of the **13,381 km** in operation, approx. **81% have an effective service life of more than 20 years**, close to their normal service life. The pig inspection services conducted until 2018 (included) for approx. **2,726 km (4,432 km** due to multiple inspections) reveal quite high levels of pipe defects, mainly due to the long pipeline operation.

In 2018 625 km of pipeline were inspected with intelligent PIG: the 40" Isaccea – Negru Vodă pipeline, TRANSIT 1, 183 km long, the 28" Medieșu Aurit – Sărmășel pipeline 208 km-long, the 24" Band-Crăciunel pipeline 83km long, the 24" Crăciunel-Băcia pipeline 83km long and the 20" Giurgiu – Podișor pipeline 67 km long. 23 pipelines were cleaned over a total lengths of **2,021 km**. 79.4% of the natural gas transmission pipelines have passive insulation made through a currently aged bitumen system, which also leads to increased electricity consumption registered at the **1,039** pipeline cathodic protection stations.

Approximately **95.6%** of the pipelines and fittings that are in use have cathodic protection. In 2018 intensive metering were performed for **206.55** km of pipelines.

The gas delivery to the distributors and end users is performed by the **1.237** MRSs (metering directions), **49** MRSs (metering directions) being temporarily inactive /in preservation.

MRSs are included in the upgrading/rehabilitation programs to be integrated into the SCADA automatic control and monitoring system. Out of the **1.237** MRSs (metering 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. To ensure continuity of maintenance activities for the three compressor stations in 2018 service contracts were concluded for:

- verification of automation and vibration lines at the compressor stations
- technical revisions and service at instrumental air installation at the Şinca CS (the SOLAR groups).

A damaged pipeline mobile gas compressor-recovery station was procured. The equipment was delivered and tested, an opportunity analysis and a work schedule where intervention to this equipment is opportune will be prepared.

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

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

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

Gas odorization is ensured by a number of **902** odorization facilities of which **599** systems are new, by sampling and by injection ensuring an optimal odorization of the transported gas.

Out of the **599** modern systems, a total of **36** are centralized - serving several delivery points. **303** `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 **14** facilities are centralized.

In 2018 a number of 23 old odourisation facilities were replaced with automatic machines, **36** automatic odorization installations were procured and **117** automatic odorization installations were budgeted in the PRRASM 2019.

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

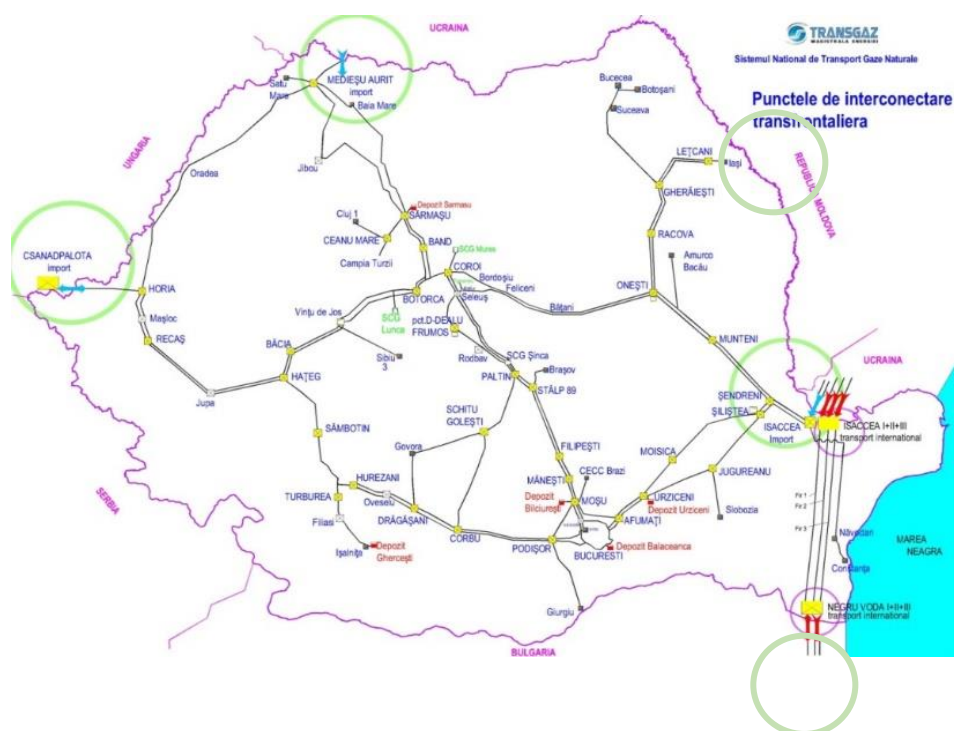
These programs are based on the Technical Rules on the maintenance of the NTS as they are carried out on a longer period of time due to their high levels.

### ***Cross-border interconnection points***

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

<b>Cross-border interconnection pipeline features</b>
---

<b>UKRAINE</b>	<b>Orlovka (UA)–Isaccea (RO)</b> - DN 1000, Capacity 8.6 bcma, P <sub>max</sub> =55 bar
	<b>Tekovo (UA)–Medieșu Aurit (RO)</b> - DN 700, Capacity =4.0 bcma, P <sub>max</sub> =70 bar
<b>HUNGARY</b>	<b>Szeged (HU)–Arad(RO)–Csanadpalota</b> - DN 700, Capacity = 1.75 bcma, P <sub>max</sub> = 63 bar
<b>REPUBLIC OF MOLDOVA</b>	<b>Ungheni (MO) – Iași (RO)</b> - DN 500, Capacity =1.5 bcma, P <sub>max</sub> =50 bar
<b>BULGARIA</b>	<b>Ruse (BG)–Giurgiu (RO)</b> - DN 500, Capacity = 1.5 bcma P <sub>max</sub> =40 bar



**Figure 14**–Cross border NTS interconnection points



### 3.6.1.1. VESTMOLDTRANSGAZ gas transmission infrastructure

The Natural Gas Transmission System of VESTMOLDTRANSGAZ consist in the assembly of main pipelines and related facilities, installations and equipment, used at the pressure of 55 bar, and ensuring the taking over of natural gas imported from Romania through the existing interconnection, and its transmission for delivery to the domestic gas market participants, etc.

The components of the natural gas transmission system of VESTMOLDTRANSGAZ, presented in Table 10, were submitted to technical maintenance by the Ministry of Economy of the Republic of Moldova based on Delivery-Receipt Contract No. 13 / 3-104/29.12.2014. The transmission capacity amounted to 1.5 bcm/y, which in theory could fully cover the consumption needs of the Republic of Moldova (without the administrative-territorial units on the left bank of the Dniester River



Figure 15. Map of the Republic of Moldova with the main gas transmission interconnection

No.	Object	Unit of measurement	Object features			Year of commissioning
			Diameter (mm)	Pressure MPa	Length, km/Quantity	
1	2	3	4	5	6	7
1	Main pipeline Prut undercrossing	km	508	5,5	0,272	2014
2	Main pipeline platform B – platform A	km	508	5,5	0,58	2014
3	Main pipeline platform A – platform C	km	530	5,5	9,78	2014
4	Main pipeline platform C – connection point	km	219	5,5	0,068	2014
5	Platform B Valve Node	pcs	500	5,5	1	2014
6	Platform A Gas Metering Station	pcs	500/300	5,5	1	2014
7	Platform C Valve Node	pcs	500/200	5,5	1	2014

No.	Object	Unit of measurement	Object features			Year of commissioning
			Diameter (mm)	Pressure MPa	Length, km/Quantity	
8	Power supply networks	pcs			2	2014
9	Cathodic protection station	pcs			2	2014
10	Platform D GMS Access Road	pcs			1	2014
11	Optical fibre Prut River – GMS (platform A)	pcs			1 (580 m)	2014

**Table 10 Main components of the gas transmission system**

Romania, the European Union and the State Budget of the Republic of Moldova granted the technical and financial assistance for the construction of these components.

Besides the components listed in the table above, on 31 May 2017, according to Government Resolution 1348/14.12.2016, VESTMOLDTRANSGAZ also completed the construction of the Automation and Control Centre, which is part of Iași-Ungheni gas transmission works construction phase I.

#### **Infrastructure technical status of wear**

Below there is an analysis of the main VESTMOLDTRANSGAZ objectives from the perspective of the functioning period:

System components	Year of commissioning	Comment
Transmission pipelines (10,4 km)	2014	Excellent operational status – integrated in an automation and control system
Gas metering stations (1)	2014	
Valve node (2)	2014	
Cathodic protection station (2)	2014	
Automation and Control Centre (1)	2017	Newly built – with the contractor`s warranty

**Table 11 - Analysis of the main objectives from the perspective of the functioning period**

The technical status of the gas transmission system is maintained at appropriate level as a consequence of the fact that the operation is performed on time, in the context of a preventive, planned and corrective maintenance system, supported by development and modernization programmes.

The commissioning of the Automation and Control Centre had positive effects on the gas transmission system security and efficiency by ensuring:

- *the acquiring and preserving all information regarding gas transmission;*

- *the monitoring of the pressure and temperature regimes, video surveillance, and the prevention of unauthorized access and fire;*
- *the data acquisition regarding pipeline integrity and the alert report generation;*
- *the pipeline route cathodic protection stations control and corrosion monitoring location surveillance;*
- *remote control of automation installations for the cathodic protection stations, valve nodes, etc.*

### 3.6.2. The operation activity

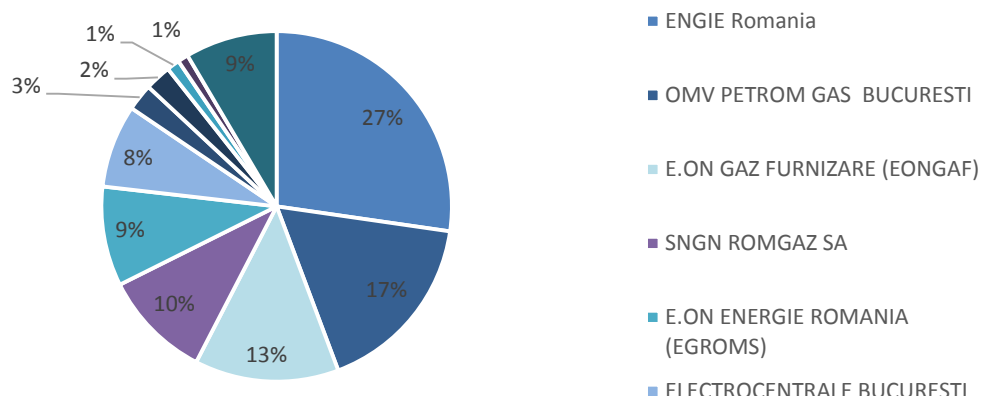
Between **1 October 2017–30 September 2018** the regulated tariffs for gas transmission through the NTS were set under **ANRE Order 74/2 August 2017** on the approval of regulated revenue, total revenue and transmission tariffs for gas transmission through the National Gas Transmission System.

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

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

**The main beneficiaries** of the gas transmission service between 1 January – 31 December 2018:

No.	Main network users	INVOICE AMOUNT WITHOUT WATT (LEI)	%
1	ENGIE Romania SA	319.677.364,33	27,28%
2	OMV PETROM GAS SRL	199.222.383,07	17,00%
3	E.ON GAZ FURNIZARE SA	156.005.908,77	13,31%
4	SNGN ROMGAZ SA	117.651.626,99	10,04%
5	E.ON ENERGIE ROMANIA SA	107.724,564.69	9,19%
6	ELECTROCENTRALE BUCURESTI	89.597.128,17	7,65%
7	OMV PETROM SA	28.950.571,46	2,47%
8	PREMIER ENERGY SRL	28.215.281,27	2,41%
9	MET ROMANIA ENERGY MARKETING	13.944.360,45	1,19%
10	TINMAR ENERGY SA	11.374.248,24	0,97%
11	ALȚI UR	99.446.256,09	8,49%
	<b>TOTAL</b>	<b>1.171.802.355,84</b>	<b>100%</b>



**Chart 30-** Main NTS users between 1 January -31 December 2018

**848 contracts** were concluded and signed in 2018 with the network users for annual, quarterly, monthly and daily transmission services for the NTS entry/exit points, including the Csanadpalota, Ruse–Giurgiu, Negru Voda 1, Negru Voda–locality, Mangalia-locality interconnection points.

Total number of NTS contracts between January-December 2018:

Contract type	Annual	Quarterly	Monthly	Daily	Total
No. of contracts	83	154	358	81	<b>676</b>

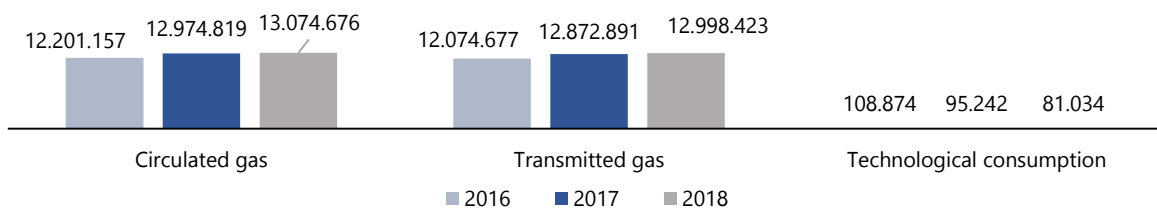
Total contracte în punctele de interconectare încheiate pe RBP în perioada ianuarie-decembrie 2018:

Contract type	Annual	Quarterly	Monthly	Daily	Total
No. of contracts	7	16	37	112	<b>172</b>

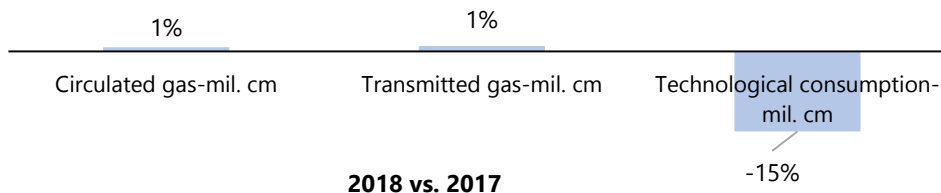
Gas quantities circulated and transmitted through the National Gas Transmission System and the technological consumption in 2016-2018:

Indicator	MU	2016	2017	2018	+/-	%
	1	2	3	4	5=4-3	6=4/3-1
<b>Circulated gas</b>	Thousand cm	12.201.157	12.974.819	13.074.676	99.857	1%
<b>Transmitted gas</b>	Thousand cm	12.074.677	12.872.891	12.998.423	125.532	1%
<b>Technological consumption</b>	Thousand cm	108.874	95.242	81.034	-14.208	-15%
<b>Technological consumption/circulated gas</b>	%	0,89%	0,73%	0,62%		

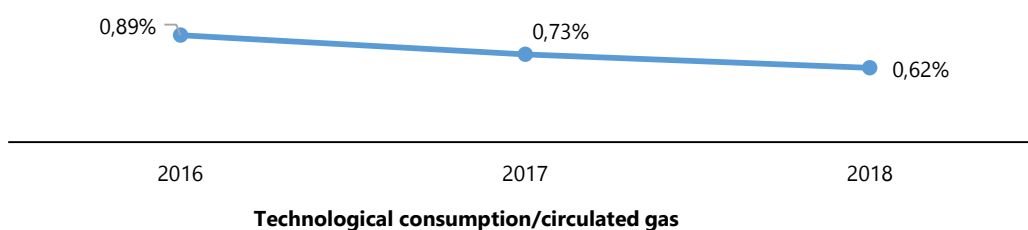
**Table 12-** Gas quantities circulated and transmitted and the technological consumption in 2016-2018



**Chart 4-** Gas quantities circulated and transmitted and the technological consumption in 2016-2018



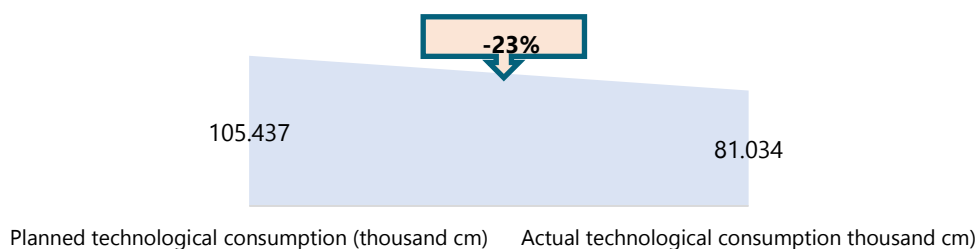
**Chart 5-** Gas quantities circulated and transmitted and the technological consumption in 2018 vs. 2017



**Chart 6-** technological consumption share in total circulated gas in 2016-2018

	2016	2017	2018
<b>PLANNED TECHNOLOGICAL CONSUMPTION-thousand cm</b>	119.823	105.346	105.437
<b>ACTUAL TECHNOLOGICAL CONSUMPTION-thousand cm</b>	108.874	95.242	81.034

**Table 13-** Planned and actual technological consumption in 2016-2018



**Chart 7-** Total technological consumption – planned vs. actual in 2018

In 2018, as compared to the previous year, NTS technological consumption decreased, being lower by 15% compared to the technological consumption recorded in 2017, and lower by 23% compared to the technological consumption planned for 2018.

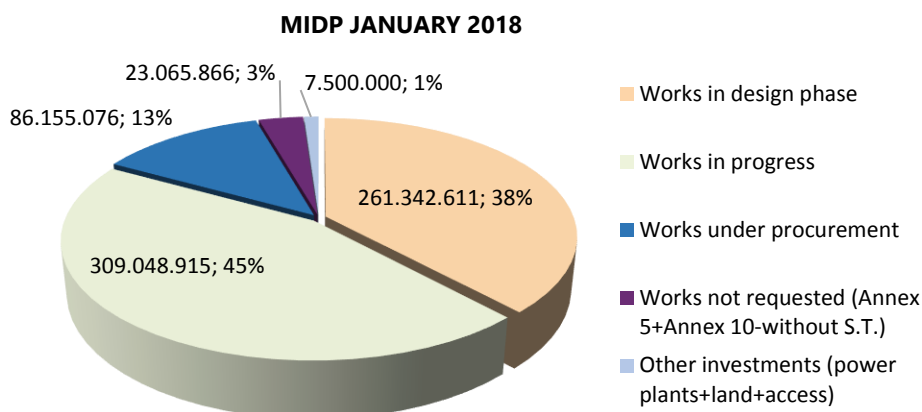
### 3.6.3 The investment policy

#### Modernization and Investment Development Plan

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

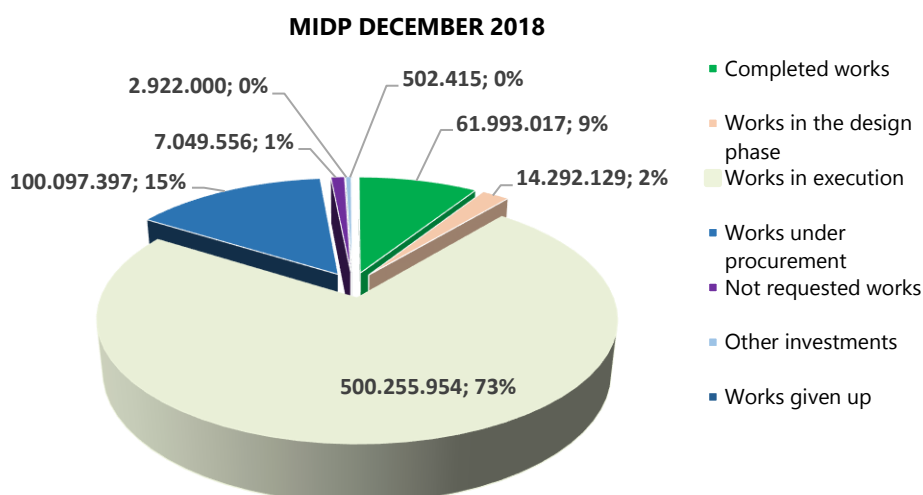
The value of the 2018 Investment Plan, approved in the 2018 revenue and expense budget, is **687,112,468 lei**.

Of the total budgeted amount of MIDP for 2018, in January 2018, works in progress represented 45%, design works 38% and purchase works 13%.



**Chart 8 - MDIP- January 2018**

On 31.12.2018, reported to the budgeted value, the completed works represented 9%, the execution works 73%, the design works 2%, the procurement works 15%, and the works for which the necessary documentation was not sent for the launching of the procurement, the units and equipment given up, and other investments represented 1%.



**Chart 9 – MIDP -December 2018**

**The main works in progress:**

- Development in Romania of the National Gas Transmission System on the Bulgaria - Romania - Hungary - Austria Corridor (BRUA)
  - Compressor stations execution works (Podișor, Bibești and Jupa)
  - Pipeline execution works (Phase 1);
  - Pipeline automation and securing works.
- Replacement of technological installations at MRS Timișoara I;
- DN700 MRS SIDEX GALATI connection pipeline;
- MRS Ișalnița;
- MRS Dej II;
- DN 700 Gănești-Idrifaia-Coroi natural gas pipeline;
- Works to secure the abovecrossing crossing of the Vețca River with the DN600 Coroi-Bordoșiu pipeline, Bordoșiu area;
- Riverbank protection on the DN500 Botorca-Arad and Coroi-Maşloc pipelines, Zeicani area;
- Moisica technological node - automations;
- Works to secure the gas supply connection MRS BRĂILA, Agricultural Farm Area;
- Mounting pig receiving/launching traps at Posada for the Ø20" Stâlp 89 - Posada and Ø20" Posada – Moșu pipelines;
- The Ø20" Craiova-Segarcea-Băilești-Calafat gas pipeline, phase I, pipeline section Craiova-Segarcea;
- Undercrossing of the Olt River with the ø 12" Drăgășani-Caracal pipeline (gas supply pipeline for Caracal);

- The ø 12" Mintia-Brad-Ștei gas pipeline, phase I Mintia-Brad;
- NTS interconnection with the international gas transmission pipeline T1 and reverse flow Isaccea

**The main works completed in 2018 are:**

- The securing of the DN800 Șendreni-Siliștea-București pipeline, the area Scorțaru Vechi- Comăneasca;
- The securing of the TRANSIT 3 pipeline, in the area of Ceamurlia;
- The gas transmission pipeline Ø12" Negru Voda - Techirghiol - stage II (Pecineaga – Techirghiol section - revision 1)
- The gas transmission pipeline Ø 28 " Gănești - Idrifaia - Coroi
- Pig receiving station mounting DN 500 mm on the Șendreni – Albești pipeline
- The securing of the Transit 1 pipeline, in the area of Camena
- Works related to the securing of the gas supply connection Ø10" SRM Breaza
- Upgrading and extension ERP MAIS;
- Various tools, installations and equipment;
- The works related to the connection of the NTS SNT according to GD 1043/2004 replaced by ANRE Order 82/2017 for:
  - Connection and MRS Arc Parc Dej;
  - Connection and MRS Ghercești;
  - Connection and MRS Zagna Vădeni

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

- NTS developments in the North-Eastern area of Romania so as to improve gas supply in the area and to ensure transmission capacities to the Republic of Moldova
  - The gas transmission pipeline DN700 Onești - Gherăiești – Lețcani
  - The gas compressor stations Onești and Gherăiești, pipeline automation and security
    - Procurement of the compressor units
    - Procurement of the valves and of the mono-block electro insulating joints
    - Procurement of the pipes and curves
- Development on the territory of Romania of the Southern Corridor for taking over gas from the Black Sea shore (Black Sea shore - Podișor)
- Reinforcement of the Romanian gas transmission system, between Onești – Isaccea and reverse flow at Isaccea - phase 2 – GCS Onești upgrading and GCS Siliștea upgrading
- GMS Isaccea 1 upgrading
- Gas transmission pipeline DN400 Vaslui - Iași (tr. Vaslui - Mogoșești) – reunification in the area of the Bârnova forest
- Gas transmission pipeline DN600 Mașloc - Recaș - stage I, (part II – the area of the forestry fund)

**There are still difficulties in achieving investment objectives** such as:

- Lack of the necessary permits to obtain the Construction Authorization from ROMSILVA and the local authorities for the following investment objectives:



- the DN 250 Câmpulung Moldovenesc - Vatra Dornei gas pipeline (Pojorâta - Vatra Dornei section 25,8 km long);
  - DN 700 Moșu - Buciumeni gas transmission pipeline;
  - deviation of DN350 Tisăuți gas pipeline - Bucecea, Salcea area.
- Lack of land ownership agreements for the following investment objectives:
    - DN 300 Moinesti - Dărmănești pipeline deviation, Dărmăneasca area;
    - Works for securing MRS Răcăciuni gas supply pipeline, tourist area Dumbrava
    - Pipeline systemization in the area of the Moșu Technological Node;
    - Modernisation of the gas supply system of Ploiești;
  - The lack of bidders for the investment works under procurement or submission of non-compliant bids led to the necessity to resume the procurement process later to delays in the achievement of the objectives proposed.

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

<ul style="list-style-type: none"> <li>▪ for owners who have not given their consent to constructors' land access, court proceedings were initiated;</li> </ul>
<ul style="list-style-type: none"> <li>▪ In some more difficult areas, from the point of view of obtaining agreements from landowners or at the request of local governments, the decision was taken to redesign the pipeline route or technical solutions for the construction;</li> </ul>
<ul style="list-style-type: none"> <li>▪ For the forest areas for which the ROMSILVA approval was not obtained, following the modification of the laws in the field, discussions will be resumed in order to solve the divergences that arose in order to achieve the crossing of such areas.</li> </ul>

### 3.6.4 NTS maintenance policy

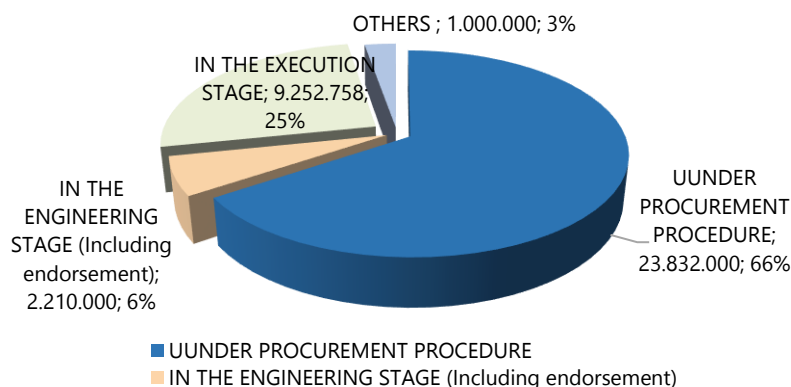
#### Repair, Rehabilitation and Maintenance Services Plan

**The 2018 Maintenance, Repair and Maintenance Services Plan** has an allocated amount of **70,770,845 lei**, out of which 39.319.676 lei for NTS Repair and Rehabilitation Works and 31,451,169 lei for NTS Maintenance Services.

#### A. NTS repair and rehabilitation works

Of the total NTS Repair and Rehabilitation Works budgeted amount, in January 2018, the executed works represented 25%, the design works 6%, most of the budget positions being 66% in a procurement procedural stage:

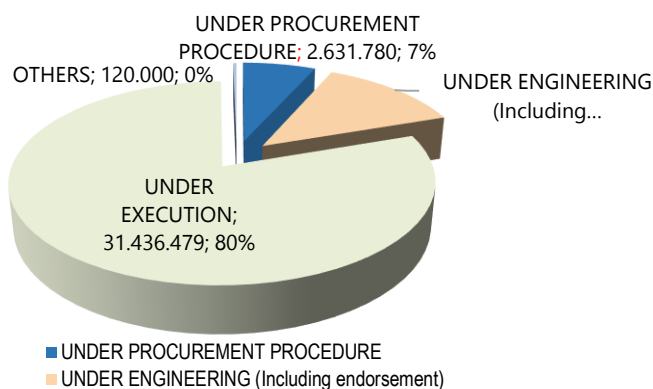
**PRRASM 2018-Repairs and NTS Upgrading  
January 2018**



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

**On 31 December 2018, the repair and rehabilitation works (Annexes 1, 2 and 8 of PRRASM 2018) in progress have a share of 79,95 %** compared to the budgeted value following the FEEDs and the performance of the procurement procedures and the completion of procurement procedures by the conclusion of the execution contracts and issuing of the works commencement orders.

**PRRASM 2018-REPAIRS AND UPGRADING  
December 2018**



**Chart 11 - PRASM 2018 - NTS Repair and Rehabilitation - December 2018**

**The main contracts concluded in 2018 are:**

- Securing the Ø20 "Adjudul Vechi-Siliştea Branch, Braniştea, Schela and Independence
- Preparation of the pipeline Φ 20 "Şendreni - Albeşti for pigable pipelines, Buzau county;
- Repairs of natural gas pipeline Ø20 "Beach-Garsebeş after inspection with intelligent PIG;
- Urgent repairs at the 10" Suceava-Rădăuţi pipeline, Suceava River undercrossing, the Milisăuţi area;
- Repair of the Dn 800 mm Onesti-Coşmesti gas transmission pipeline - Phase 1;
- Repairs at the Brăila Regional Office;

- Repairs at the Gaz Metan Stadium.

**FEEDs finalized in 2018:**

- Visa river aerial crossing by Ø 10" - 12" pipe connection PM Soala, Agârbiciu area (new estimate);
- Repair of the Dn 800 mm Onești-Cosmești gas transmission pipeline - Phase 1.

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

- Absence or expiration of the necessary permits for obtaining the Construction Authorization for the following objectives (caused by the procedural term of the public procurement, namely, the procurement procedure cannot be started without AC's and, until the end of the procedure, the approvals/AC's lose their validity):
  - Ø 6" connection ELSID Titu;
  - Ø24 "Paltin Schitu - Golesti pipeline (Arges Brasov stage I)
  - Ø 28 "Seleuș Cristur Bățani pipeline Stage 2B (Harghita County);
  - Ø 48 "Isaccea - Negru Voda pipeline - TRANSIT 3;
- Problems with the ownership agreements for the following objectives:
  - Ø 6" connection pipeline ELSID Titu;
  - Ø 28" Seleus Cristur Bățani pipeline Stage 2B (Harghita County);
  - Ø24" Paltin Schitu-Golești pipeline (Argeș -Brasov stage I);
  - Ø48" Isaccea-Negru Vodă-TRANZIT 3 gas transmission pipeline.
- The necessity to apply the provisions of GEO 79/2017 has made it difficult to carry out and settle the works for some of the objectives under execution:
  - Ø20" Sendreni-Albești pipeline(Braila County);
  - Ø28" Bucharest Ring, MRS Măgurele-MRS Linde Gaz section;
  - Ø 28" Seleuș-Cristur-Bățani pipeline stage 2C (Covasna County);
- The need to re-design some works (following normative changes) / documentation revision:
  - Ø12" pipeline bypass of Piatra Neamt, hydro area;
  - Repair works for abovecrossings (frame agreements / 2 years);
- Refusal of the contractors to sign the contract or their giving up to some of the works:
  - Abovecrossings of the Vișa River with the Ø 10" pipeline - 12" connection PM Soala, Agârbiciu area;
  - Ø 20" Botorca pipeline - Arad, Zeicani area;
  - Ø 20" Onești-Racova-Gherăiești Line II.

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

- Documents for obtaining opinions/authorizations have been restored and submitted to the competent authorities;

- In some more difficult areas, from the point of view of obtaining the agreements from the landowners or at the request of the local administrations, the decision was made to redesign the pipeline route or the technical solutions for the achievement of the construction;
- Addendums to contracts have been drawn up (and reports have been prepared) for all maintenance work (for the application of GEO 79/2017).
- Unfinished works by contractors were approached with their own forces (Mediaş Subsidiary and RO).
- It was proposed to approach the procurements by counties to obtain authorizations, in order not to condition the works where all the conditions are created on the difficulties encountered in the areas having approval/authorization issues from the local administration;
- Requests for the reassessment of the works estimated value for the works for which bids were not submitted.

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

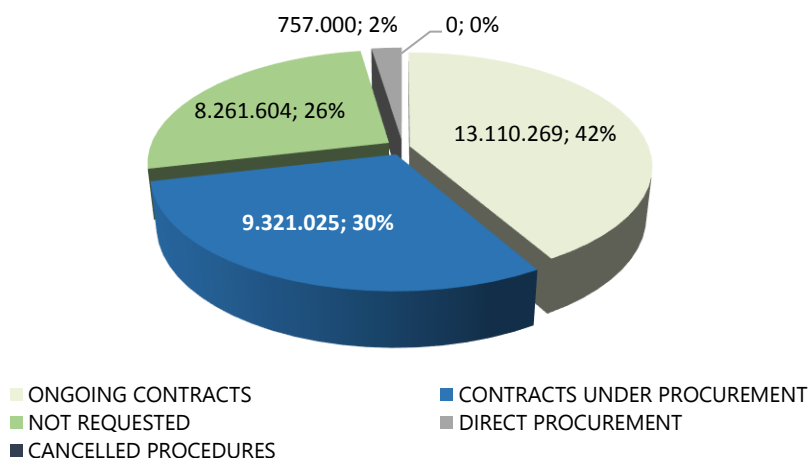
Chap. B. PRSASM NTS Maintenance Services includes a budget projection of external service needs for maintenance (maintenance, repairs, service, logistics facilities, etc.). As a rule, these services complement the set of maintenance activities and use or value quantification is largely presumptive.

Budget allocations for some repair and servicing services can be judged with an acceptable degree of predictability, and for others, the values set out in the programs are based only on providing a budget corresponding to the situations in which these benefits are required to be purchased.

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

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

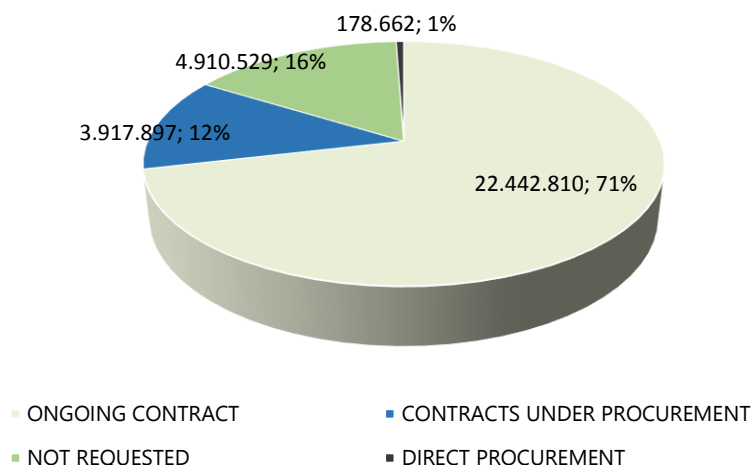
**PRRASM 2018-Services for ensuring NTS maintenance  
JANUARY 2018**



**Chart 12 - PRASM 2018 - NTS Maintenance Services - January 2018**

In the end of 2018 (as of June 2018), in relation to the budgeted amount, the value of ongoing NTS maintenance services increased from 42% to 71%, the contracts under procurement decreased to 12%, and the proportion of unsolicited services dropped to 16%, mainly representing amounts ensured for unpredictable situations.

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



**Chart 13 - PRRASM 2018 – NTS maintenance services - December 2018**

**Main contracts concluded in 2018:**

- Piggable pipeline inspection services;
- Revision and repair services to MRSs and odorisation plants;

- Inspection services with intelligent pig for Isaccea-Negru Vodă-Transit 1 pipeline;
- Automation and vibration lines verification services at compressor stations;
- Instrumentation services, revisions, repair, calibration, conformation controls (BRML), for the measuring system and gas quality and quantity checks;
- Revision and maintenance services for the car park.

### 3.6.5 Investments and maintenance - VESTMOLDTRANSGAZ

**According to the Business Plan of Vestmoldtransgaz (VMTG)**, the main objectives for the following three years are:

- the construction of the Ungheni – Chişinău transmission network, the two gas delivery stations located in Chişinău, a gas delivery station located at Semeni, the Ungheni district;
- the supply of furniture and office logistics necessary for the Dispatching and Control Centre at SP Ghidighici;
- the equipping with vehicles, equipment and special units,

and in the future:

- the construction of the DN 500 gas transmission pipeline on the Ungheni – Bălţi section and the connection to the transmission network north of Ananiev-Cernăuţi-Bogorodicieni;
- the construction of the gas compressor station located in the Ungheni district

According to the Energy Strategy of the Republic of Moldova until 2030, in the context of ensuring the security of natural gas supply by diversifying supply routes and sources, carrier types (conventional gas, unconventional liquefied natural gas, liquefied natural gas) and through storages, together with the consolidation of Moldova's role as a gas transit corridor (Government Decision No. 102/05.02.2013, Official Journal No.27-30/146/08.02.2013), the Republic of Moldova aims to implement a legislative, institutional and operational framework to contribute to the security of gas supply.

The flexibility element the Government of Republic of Moldova is considering to contribute to the security of gas supply is the diversification of the natural gas supply sources. The aim is to improve the gas transmission interconnections in order to provide alternative supply routes, a larger number of alternative suppliers and a better evaluation/use of the reserves existing in the Republic of Moldova.

From the perspective of the supply routes, the Republic of Moldova has only two neighbouring countries, which can supply natural gas flows from one or more supply sources.

Therefore it is appropriate to implement projects for the interconnection of the transmission systems of the neighbouring countries, which will reduce the dependence on natural gas from the sole supplier the Russian Federation, and will create new possibilities for the transmission and storage of natural gas.

For this purpose the development of the reversible flow Iasi-Ungheni interconnector is planned, on the Ungheni-Chisinau pipeline section. The Republic of Moldova and Romania signed a Memorandum of Understanding on the design and construction of the pipeline.

The Iași-Ungheni (Phase I of the interconnection project) gas transmission network, commissioned on 27 August 2014, aims at integrating the Republic of Moldova into the European energy infrastructure projects.

**The Ungheni-Chișinău gas transmission network** is the final phase of the major project for the connection of Chișinău (Phase II of the interconnection project), the largest gas consumer in the country, and of the entire country to the gas transmission networks Ananiev-Cernăuți-Bogorodicieni (ACB) through Rîbnița-Chișinău, Razdelinaia – Izmail and Șebelinka – Dnepropetrovsk – Krivoi Rog – Ismail (RI and ȘDKRI) through Tocuz – Căinari – Mereniși Odessa – Chișinău.

### 1. Expanding the Iași – Ungheni– Chișinău interconnector (Phase II)

#### Project aim:

The project is part of the Romania - Moldova interconnection, within which the cross-border Iași – Ungheni interconnector was constructed.

Given that gas exports through the Iași-Ungheni interconnector are insignificant due to the technical parameters and the existing configuration of the gas transmission system in the Republic of Moldova which allow the taking over of insignificant gas flows, and that a new infrastructure will be constructed on the Romanian territory for transmission of the Black Sea gas over the Prut (Romanian gas transmission system development project on the north east corridor), additional developments are necessary regarding the gas transmission system of the Republic of Moldova.



**Figure 16. Gas networks in the Republic of Moldova and the extension of the Iași-Ungheni-Chișinău interconnector (Phase II)**

### Project description:

The project consists in:

- the construction of a new DN 600 Ungheni – Chişinău gas transmission pipeline, with a nominal pressure of 55 bar, L=120 km;
- three gas delivery stations (two in Chişinău and one at Ungheni, Semeni locality);
- equipping of the Ghidighici dispatching and control centre

The capacity of the transmission network was estimated in the Feasibility Study, prepared at the request of the project financer (EBRD), for the determination of the financing opportunity, economic viability of the investment from the perspective of credit repayment.

As stated at point 10.2.5.1. of the Study, the capacity of the gas transmission network was initially defined at 175,000 m<sup>3</sup>N/h, and later, following the construction of two gas compressor stations on the Romanian territory, was established at 250,000 m<sup>3</sup>N/h.

At the same time, in line with the initial project data, SP Semeni is designed at a capacity of **10,000** m<sup>3</sup>N/h, SP Ghidighici will have a capacity of **60,000** m<sup>3</sup>N/h, and SP a capacity of **180,000** m<sup>3</sup>N/h.

The bidirectional node to be connected to the Rîbniţa–Chişinău gas transmission network and to the Odesa – Chişinău gas transmission network, is designed at the capacity of **250,000** m<sup>3</sup>N/h. The planned Ungheni - Chişinău gas transmission network does not ensure security of gas supply to the entire country.

The annual planned flow of 1.5 bcm/y is sufficient, but the maximum capacity (250,000 m<sup>3</sup>N/h) is insufficient since the domestic peak consumption amounts to 350,000 m<sup>3</sup>N/h. In general the November, December, January and February total peak consumption may exceed 250,000 m<sup>3</sup>N/h. In March-October the capacity of the gas transmission network clearly exceeds the demand, but, since there are no gas storage facilities in Moldova, it cannot be stored for later consumption during wintertime.

### Indicative project development calendar

Development stages	Status/Estimated completion deadline
Feasibility Study	completed
FEED	2019
Construction Permit	2018
FID	2018
Construction	2019
Commissioning	2020
Start of operation	2020

**Estimated completion deadline: 2020**



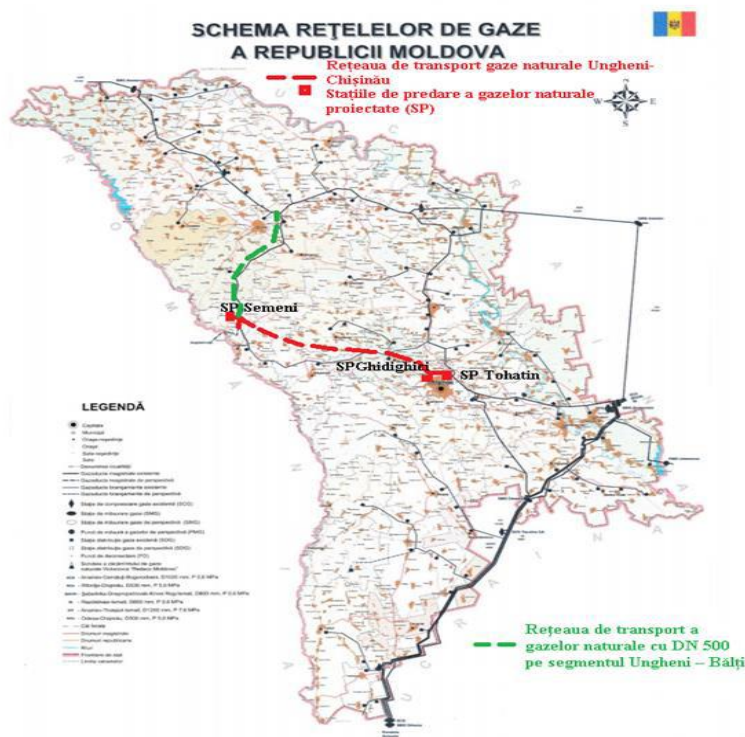
**Estimated value: 1,602,077,815 MDL**

**2. The construction of the DN 500 gas transmission pipeline on the Ungheni – Bălți section and the connection to the transmission network north of Ananiev-Cernăuți-Bogorodicieni**

**Project aim:**

The extension of the Iasi-Ungheni gas transmission network in the Bălți direction will materialize the objective of diversifying the gas sources and transmission networks, enhancing the energy security of the country and of the region, offering the possibility for the existing institutions to increase their capacity for complex projects in the future.

At the same time, this interconnection will enable reversible flow of gas between Romania - Moldova - Ukraine – The Russian Federation for access to additional natural gas storage capacities that the Republic of Moldova does not possess, which would open the Moldovan market to Ukrainian suppliers and vice versa.



**Figure 17 Gas networks in the Republic of Moldova and extension of gas transmission networks in the Ungheni-Bălți direction**

**Project description:**

The project consists of:

- the construction of a new DN 500 Semeni – Bălți gas transmission pipeline, with a nominal pressure of 55 bar, L=117 km;

The capacity of the gas transmission pipeline was estimated in accordance with the methodology of calculation for the main pipelines, as indicated in the manual Collection, Treatment and Transmission of Fuel Gas, written by professors Valentin Tonu and C. Țuleanu, The technical University of Moldova, for the use of gas transmission engineers.

The results of the calculations are as follows:

Initial gas pressure	Final gas pressure	Inner gas pipeline diameter	Gas pipeline length	Flow in normal conditions
P1, MPa	P2, MPa	Di, mm	L, km	Qn, m3/h
3.80	1.60	510	80	222.585
3.80	2.40	510	80	190.260
3.80	3.20	510	80	132.346

**Table 14 Gas pipeline transmission capacity and pressure**

Table 14 presents the variation of transmitted gas flow depending on the main features of the route. The construction of the gas transmission network in the Ungheni-Bălți direction aims at enhancing the capacities of existing networks in the northern direction of Moldova, ensuring connection to the international ACB gas transmission network and access to the most important gas storage in Ukraine. The gas transmission network will be provided with all the facilities necessary for the achievement of the objectives above (isolation valve, corrosive protection stations, integration in the single data reading system, 24/24 monitoring of functional parameters, video surveillance systems, fire protection systems, anti-burglary systems, etc.).

**Indicative project development calendar**

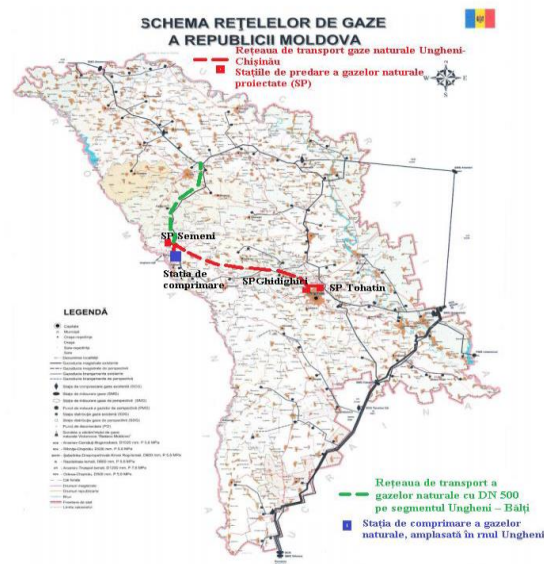
The project development stages include: the pre-feasibility and feasibility studies, obtaining the construction permits, FID taking; construction (estimated for 2025-2026), commissioning and start of operation (estimated for 2026).

The estimated value of the project will be established at the completion of the pre-feasibility and feasibility studies.

### 3. The construction of the gas compressor station located in the Ungheni district

#### Project aim:

A series of gas transmission system developments are necessary for ensuring the technical parameters compliant with the normative acts to maintain parameters in the gas transmission networks on the Ungheni – Chişinău and Ungheni – Bălţi pipeline sections and to enhance gas supply to the central zone of Moldova, considering the perspective provided by the new interconnection pipeline between Romania and Moldova. The development of the gas transmission infrastructure and the increasing of consumption and gas demand (changing gas flows and pressure necessary at the final points) supposes the construction of parallel pipelines and/or new compressor stations.



**Figure 18 Gas networks in the Republic of Moldova and location of the gas compressor station**

#### Project description:

The project consists in the construction of the gas compressor station located at the Ungheni district, with gas turbines having the technical possibility to continuously increase the efficiency ratios, ecological characteristics, reliability and reduction of consumption and costs, along the route of the Iaşi-Ungheni-Chisinau gas transmission network, with the capacity of 1.5 bcm/y.

The gas compressor station will increase the capacity of the interconnection networks in the central – south direction and in the north direction of the republic of Moldova. According to the estimations presented in the Feasibility Study (1-8) the maximum capacity for the DN 500mm pipeline will increase by approximately 20÷60%.

#### Indicative project development calendar

The project development stages include: the pre-feasibility and feasibility studies, obtaining the construction permits, FID taking; construction, commissioning and start of operation (estimated for 2026).

The estimated value of the project will be established at the completion of the pre-feasibility and feasibility studies.

By the achievement of the proposed projects VESTMOLDTRANSGAZ aims at:

- the extension of the gas transmission networks;
- the increasing of the transmitted gas volumes; the ensuring of safety of supply gas to the consumers;
- the diversification of the gas supply sources.

The implementation of the projects will contribute to the development of natural gas transmission infrastructure in the largest towns in the Republic of Moldova, where natural gas consumption amounts to approximately 81% of the total consumption per country and where the largest country industrial enterprises are located, this being an essential factor which prevents the critical situations generated by gas supply interruptions. Moreover, the diversification of gas supply sources will enable end consumers to freely choose the gas supplier, according to Art. 80 of Law 108/27 May 2016 on natural gas.

It is very important to underline that, in line with the objectives of the Energy Strategy of the Republic of Moldova, the business plan of Vestmoldtransgaz will complete these three strategic investment projects with other future business development targets and with other investment projects designed to ensure the efficient, competitive and sustainable development of the energy sector and the national economy.

Other strategic objectives of sustainable business development include:

- the development and intensification of the cooperation and collaboration relations of VESTMOLDTRANSGAZ with companies in the energy sector and other economic sectors;
- the obtaining by the VESTMOLDTRANSGAZ of the status of potential observer at ENTSO-G, according to the provisions of Chapter III, *Observers* (9d, 9e and 9f) of the ENTSOG Articles of Association, stipulating two conditions for the company applying for the observer status: 1) *it must act as a TSO*; 2) *it must be a candidate for accession to the EU, a party to the treaty establishing the Energy Community or a party to the convention establishing the European Free Trade Association*.

### 3.7 Control of procurement

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

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

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

The total value of the **Sectoral Procurement Annual Program for 2018**, originally approved on 26.01.2018, was **4,109,209,707.15 lei**, out of which **1,151,033,726.00 lei** related to the investment DEVELOPMENT ON THE ROMANIAN TERRITORY OF THE NATIONAL GAS TARNMISSION SYSTEM ON THE BULGARIA-ROMANIA-HUNGARY-AUSTRIA ROUTE ( (Phase 1) - (PASS 2018 for BRUA-PHASE 1), and following 24 rectifications/updates of the PAAS, necessary following revision of execution programmes at the basis of the REB substantiation, the total value of the PAAS was of **4.569.578.238,50 lei**, of which:

- **3.418.544.512,50 lei** for the Sectoral Procurement Annual Program (**PAAS 2018**) and
- **1.151.033.726,00 lei** for the Sectoral Procurement Annual Program for the investment DEVELOPMENT ON THE ROMANIAN TERRITORY OF THE NATIONAL GAS TARNMISSION SYSTEM ON THE BULGARIA-ROMANIA-HUNGARY-AUSTRIA CORRIDOR (Phase 1) - (PASS 2018 for BRUA-PHASE 1).

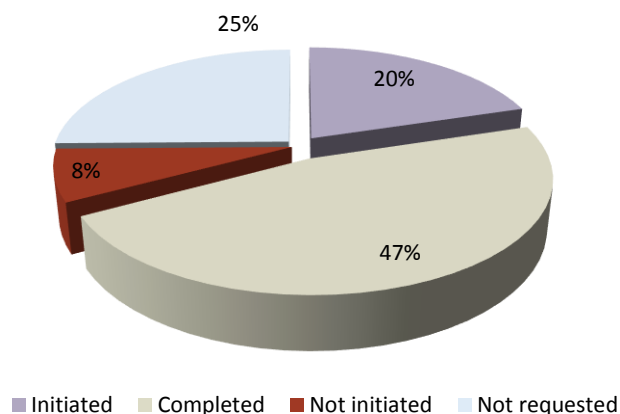
#### **PROCUREMENT PROCEDURES:**

On the basis of the PAAS 2018 (Procedures section, updated) out of the **424 active positions**, 317 procedures were requested following requests from the departments/divisions/offices concerned, of which 199 procedures were finalized (46.93%) and 86 procedures are started (20.28%), in progress at different stages.

In addition, a total of **32 procedures** are currently **not started (7.55%)**, with DASC documents, and up to the total number of active positions in the program a total of **107 positions** are not requested by interested departments/ divisions/offices a percentage of **25.4%**.

Schematically the status of the procurement procedures is as follows:

<b>Procedures centralizer (physical)</b>		
<b>Total procedures as of 31.12.2018, where:</b>	<b>424</b>	% realized through PAAS (procedure section)
- initiated	86	20,28%
- completed	199	46,93%
- not started	32	7,55%
- not requested	107	25,24%



**Chart 14- Procurement procedures on 31.12.2018**

<b>Procedures centralizer (value) - lei</b>		
<b>Total value as of 31.12.2018, where:</b>	<b>3.398.781.435,99</b>	PAAS % achievement (procedures section)
- started	2.672.110.290,67	78,62 %
- realized	343.809.119,00	10,12 %
- not started (in progress at DASC)	162.136.777,59	4,77 %
- not requested	153.756.006,66	4,52 %

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

For the 199 positions made in the PAAS 2018 procedure section, the situation of the achievements against the estimated values only is presented according to the following table:

<b>No. positions in PAAS</b>	<b>Estimated value</b>	<b>Achieved value</b>	<b>%</b>
97	410.778.361,07	343.809.119,00	84

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

<b>Contract type</b>	<b>Total value contracts</b>	<b>Number of contracts/ Frame agreements assigned</b>	<b>Out of which number of subsequent contracts</b>	<b>Value of subsequent contracts</b>	<b>Value achievement from PAAS</b>
	(lei without VAT)	-	-	(lei without TVA)	(lei without TVA)
0	1	2	3	4	5=1-4

<b>Contract of works</b>	88.713.496,02	20	0	0	88.713.496,02
<b>Contracts of services</b>	121.712.167,68	196	97	38.329.996,42	83.382.171,27
<b>Contracts of products</b>	187.738.258,97	107	12	16.023.807,16	171.713.451,71
<b>TOTAL CONTRACTS</b>	<b>398.162.922,58</b>	<b>323</b>	<b>109</b>	<b>54.353.803,58</b>	<b>343.809.119,00</b>

Table 15 - The situation of the contracts concluded through procurement procedures – 31.12. 2018

### **DIRECT PURCHASES:**

On the basis of the updated PAAS 2018, out of **445 active positions**, **376 direct purchases** were requested following requests from the departments/ divisions/offices concerned, out of which **347 direct purchases (77.98%)** and **20 direct purchases started (4.49%)**, ongoing in different stages. In addition, a total of **9 direct purchases (2.02%)** are currently unmanned, with DASC documentation, and up to the total active positions in the program **69 positions** are not requested by interested departments / divisions/ offices (representing a percentage of **15.51%**).

<b>Centralizer of direct purchases (physical)</b>		
<b>Total pos. at 31.12.2018, where:</b>	<b>445</b>	<b>% realization direct purchases</b>
- initiated	20	4,49%
- achieved	347	77,98%
- not started	9	2,02%
- not requested	69	15,51%

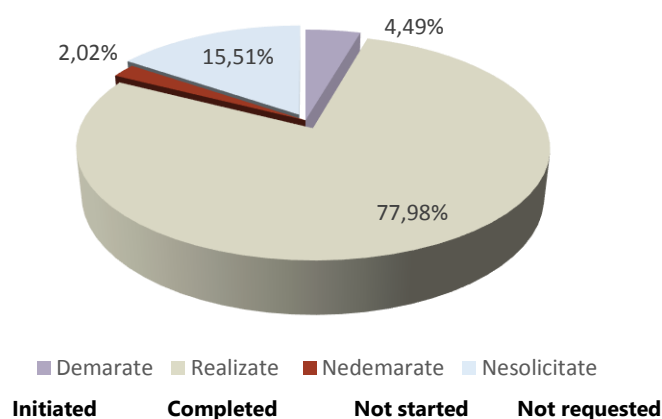


Chart 15-Situation of direct procurements at 31.12.2018

<b>Centralizer of direct purchases (value)</b>		
<b>Total value as of 31.12.2018, where:</b>	<b>19.763.076,51</b>	<b>% realization direct purchases</b>
- initiated	1.589.478,63	8,04 %
- achieved	<b>9.200.704,09</b>	46,56 %
- not started	485.386,62	2,46 %
- not requested	5.665.881,86	28,67 %

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

For the **347 positions achieved** from PAAS 2018 - Direct Purchases, the situation of the achievements against the estimated values only of them is presented in accordance with the following table:

<b>No. positions from PAAS</b>	<b>Estimated value</b>	<b>Achieved value</b>	<b>%</b>
347	12.022.329,40	9.200.704,09	77 %

### Centralized situation of direct procurement

On the basis of the updated PAAS and following the requests of the departments/divisions/offices concerned during the period 03.01-31.12.2018, is presented schematically in the following table:

Type of contract	Total Value contracts / orders / delegation of competences	No. Contracts concluded by purchase office	Value of contracts concluded by purchase office	No. orders concluded by purchase office	Value orders concluded by purchase office	Value of purchases which are not comprised into PAAS - AD	No. Orders delegations of competences of services and products	Value of orders delegations of competences of services and products	Value of realizations from PAAS - AD
	(lei without VAT)	-	(lei without VAT)	-	(lei without VAT)	(lei without VAT)	-	(lei without VAT)	(lei without VAT)
<b>0</b>	<b>1=3+5+8</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9=1-6</b>
<b>Works</b>	3.414.180,8	22	3.414.180,8	0	0,00	0,00	0	0,00	3.414.180,8
<b>Services</b>	2.510.254,3	96	2.083.323,6	39	248.268,4	6.565,17	10	178.662,3	2.503.689,1
<b>Products</b>	3.282.834,1	18	790.905,1	124	882.938,6	0,00	100	1.608.990,4	3.282.834,1
<b>TOTAL</b>	<b>9.207.269,2</b>	<b>136</b>	<b>6.288.409,5</b>	<b>163</b>	<b>1.131.207</b>	<b>6.565,17</b>	<b>110</b>	<b>1.787.652,7</b>	<b>9.200.704</b>

Table 16 - Situation of contracts concluded through direct purchases during the period 03.01-31.12.2018

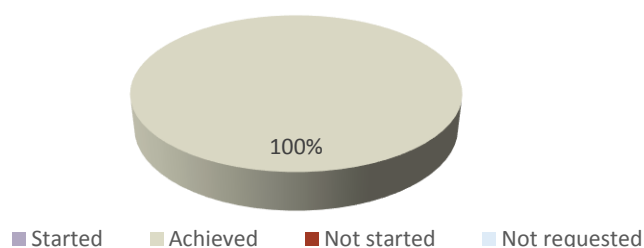


## **PURCHASE PROCEDURES-PAAS 2018 (for BRUA-Phase 1)**

On the basis of the PAAS 2018 (BRUA-PHASA 1) - section of the procedure, updated, from **4 active positions**, following the requests of the departments/ divisions/offices concerned, **4 procedures were initiated, 4 procedures were completed (100%)**.

Schematically the status of the procurement procedures is as follows:

<b>Centralizer of procedures PAAS-for BRUA-PHASE 1 (physical)</b>		
<b>Total pos. at 30.06.2018, where:</b>	<b>4</b>	<b>% of achievement procedures</b>
- started	0	0,00%
- achieved	4	100,00%
- not started	0	0,00%
- not requested	0	0,00%



**Chart 16** - Situation of PAAS procedures for BRUA-PHASE 1 as at 31.12.2018

<b>Procedures centralizer PAAS-for BRUA-PHASE 1</b>		
<b>Total value at 30.06.2018, where:</b>	<b>1.151.033.726,00</b>	<b>% of realization procedures</b>
- started (estimated)	0,00	0,00%
- realized (concluded contracts)	945.897.225,37	82,18%
- not started	0,00	0,00%
- not requested	0,00	0,00%

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

For the 4 positions made from PAAS 2018 for BRUA-PHASE 1, the achievement of the estimated values is presented according to the following table:

No. positions from PAAS for BRUA-PHASE 1	Value estimated	Value achieved	%
4	1.151.033.726,00	945.897.225,37	82,18%

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

BRUA Contract type	BRUA Total value contracts/orders	BRUA number of contracts/frame agreements awarded	BRUA value achievement from PAAS 2018 for BRUA-PHASE 1
	(lei VAT excluded)		(lei VAT excluded)
Works	331.124.063,01	2	331.124.063,01
Services	0,00	0	0,00
Products	614.773.162,36	2	614.773.162,36
<b>TOTAL</b>	<b>945.897.225,37</b>	<b>4</b>	<b>945.897.225,37</b>

Table 17 The status of the contracts concluded for the BRUA project in 2018

## 4. CONSOLIDATED FINANCIAL REPORTING

Starting with 2017, when Transgaz established EUROTRANSGAZ Ltd. Chişinău where it is sole shareholder, the company has the obligation to prepare consolidated financial statements. The consolidated financial statements are prepared according to IFRS 10-Consolidated Financial Statements, IFRS 12- Disclosure of Interests in Other Entities and IAS21- The Effects of Changes in Foreign Exchange Rates.

### 4.1 Consolidated financial position

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

The statement of the financial standing as at 31.12.2018 compared with the one as at 31.12.2017 is as follows:

Indicator	31.12.2018	31.12.2017	Dynamics (%)
	Thousand lei	Thousand lei	%
0	1	2	3=1/2
Intangible Assets	2.301.806	2.051.627	112,19%
Tangible Assets	543.637	558.555	97,33%
Financial assets	0	0	-190,91%
Goodwill	9.413	0	x
Trade receivables and other receivables	629.755	587.292	107,23%
<b>Fixed assets</b>	<b>3.484.611</b>	<b>3.197.474</b>	<b>108,97%</b>
Inventories	255.307	82.093	311,00%
Commercial receivables and other receivables	541.785	379.498	142,76%
Cash and cash equivalent	711.318	1.062.538	66,95%
<b>Current assets – TOTAL</b>	<b>1.508.410</b>	<b>1.524.130</b>	<b>98,98%</b>
<b>TOTAL ASSET</b>	<b>4.993.022</b>	<b>4.721.604</b>	<b>105,75%</b>
Debts to be paid over a one-year period	419.176	273.705	153,15%
Debts to be paid over a period of more than one year	864.583	678.734	127,38%
<b>Total debts</b>	<b>1.283.759</b>	<b>952.439</b>	<b>134,79%</b>
<b>Equity</b>	<b>3.709.263</b>	<b>3.769.165</b>	<b>98,41%</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	1.635.006	1.696.733	96,36%
Exchange difference	1.824	-881	x
<b>Total equity and debts</b>	<b>4.993.022</b>	<b>4.721.604</b>	<b>105,75%</b>

Table 18-The Company's statement of financial standing between 2017-2018

## ***Intangible Assets***

### *IT Programmes*

The purchased licenses related to the rights to use the IT programmes are capitalized on based on the costs incurred with the procurement and commissioning of the respective IT programmes. Such costs are depreciated over their estimated useful life (three years).

Costs related to the development or maintenance of the IT programmes are recognized as costs during the period when they are registered.

### *Concession agreement*

From 2010, in accordance with the EU approval process, the Company started to apply IFRIC 12, **Service Concession Arrangements**, adopted by the EU.

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

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

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

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

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

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

**Intangible assets increased by lei 250.179 thousand** as compared with the value as at 31.12.2017, this increase being mainly due to the investment works related to the main projects under the TYNDP.

### ***Tangible Assets***

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

**Tangible assets registered a decrease of lei 14.919 thousand** as compared to the value as at 31.12.2017, mainly due to the fact that the tangible assets inflow did not exceed the depreciation cost for tangible assets. Eurotransgaz’s tangible assets consolidated with Vestmoldtransgaz’s are higher by lei 30.373 thousand.

### ***Financial assets***

**The financial assets are not presented in the consolidated statements.** For the purpose of consolidation, the financial assets representing the investment in Eurotransgaz amounting to lei 45,601 thousand were offset by the share capital of Eurotransgaz amounting to lei 47,524 thousand being related to intragroup transactions in accordance with IFRS 10 - Consolidated Financial Statements. From the offsetting of the financial assets with Eurotransgaz's share capital exchange differences resulted amounting to lei 1,923 thousand, which were adjusted by account 107 - Conversion gains/losses, affecting only the value of the equity.

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

**The increase of the receivables to ANRM on 31 December 2018 by the amount of LEI 42.463 thousand**, calculated after the entry into force of Law 127/2014 of 5 October 2014, which states that in case of termination of the concession agreement for any reason, or upon termination, the investment of the national transmission system operator shall be transferred to the owner of the national transmission system or another concession provider on payment of a compensation equal to the regulated value remaining not amortized, established by ANRE.

The increase by lei **42.463** thousand compared to the one as at 31 December 2017 is determined mainly by the updating of the receivables with the modifications registered in the RAB.

### ***Inventories***

**As at 31 December 2018, stocks increased by lei 173.214 thousand** compared to the value as at December 31, 2017, mainly due to the increase in the stock of the materials necessary for the implementation of the project: "Development on the Romanian territory of the National Gas Transmission System Bulgaria-Romania-Hungary-Austria" (BRUA Phase 1). The value of the inventories of Eurotransgaz consolidated with Vestmoldtransgaz increased by lei 66 thousand.

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

**As at 31 December 2018** the balance of the trade receivables and other receivables increased by lei **162.288 thousand** as compared to 31 December 2017, mainly due to the following factors:

- Increase of the **client receivables balance by lei 62.308 thousand** mainly generated by the increase in the balance of the receivables resulted from the gas transmission and international transit activity;
- **Increase in the provisions for the impairment of the trade receivables and of other receivables by lei 26.499 thousand;**
- **Increase in the balance of other receivables by lei 126.129 thousand;**
- The liabilities of Eurotransgaz consolidated with Vestmodtransgaz increased by lei **350 thousand.**

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

**As at 31 december 2018 the company's cash decreased by lei 351.221 thousand** as compared to the end of 2017. The cash in bank accounts denominated in lei decreased by lei 204.834 thousand and the cash in bank accounts denominated in currency decreased by lei 148.740. Other cash elements and cash equivalent registrer a decrease by lei 26 thousand compared with 2017. The cash in the bank accounts of Eurotransgaz consolidated with Vestmoldtransgaz increased by lei 2.379 thousand.

### ***Debts to be paid over a one-year period***

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

- **increase in the balance of the commercial debt and other debt by lei 142.165 thousand;**
- **increase in the provision for risks and expenses by lei 3.690 thousand** on account of the cancellation of the provision for the employees' share in to profit related to 2017 – the value of which was exceeded by lei 2.699 thousand by the provision for 2018 – of the decrease in the provision for the mandate contract by lei 555 thousand as opposed to the same related to 2017 and the establishment of other additional provisions amounting to lei 1.545 thousand.
- **Decrease in the the current portion of the provision for the employees' benefits by lei 669 thousand.**
- The commercial debts and other debts of Eurotransgaz consolidated with Vestmoldtransgaz increased by **lei 285 thousand.**

### ***Long-term debts***

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

- The cash in of the amount of **lei 163.300 thousand** representing the value remaining under the loan contracted on 27 October 2017 for the funding of the project "Development on the Romanian territory of the National Gas Transmission System along the Corridor Bulgaria-Romania-Hungary-Austria" (BRUA phase 1);
- **Increase** in the provision for employees' benefits by **lei 11.218 thousand;**
- **Increase in the advance revenue and in the subsidies by lei 21.964 thousand.**  
From 1 January 2018, IFRS 15 Revenue from contracts with customers became applicable in Romania. This Standard supersedes a number of older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to a contract. As a result, the Company will recognize the undated receivable of the value remaining unamortized at the end of the concession agreement as a counterperformance and not as a subsidy, and the intangible asset will presented in the financial statements at a value diminished with the amount of the updated receivable
- **The decrease in the debt related to the deferred income tax by lei 48.118 thousand** is caused mainly by the reduction of the differences between the accounting base and the fiscal base of the tangible and intangible assets of Transgaz and Eurotransgaz consolidated with Vestmoldtransgaz.

## Equity

The subscribed and paid up capital remained unchanged. The decrease in retained earnings by lei 61.727 thousand is mainly determined by the allocation of the profit for 2017, which exceeded the profit related to 2018, and by the loss of Eurotransgaz consolidated with Vestmoldtransgaz.

## 4.2 Comprehensive result

The situation of the profit and loss account in 2017-2018:

No.	Specification	Achievements	
		2018	2017
0	1	3	2
<b>1.</b>	<b>REVENUE</b>		
1.1	Revenue from the construction and balancing activity according to IFRIC12	1.608.398	1.719.993
1.2	Revenue from the construction activity according to IFRIC12	405.794	63.950
1.3	Revenue from the balancing activity	235.427	120.686
1.4	Financial revenue	48.634	190.548
<b>2.</b>	<b>EXPENSES</b>		
2.1	Operating expenses before the construction and balancing activity according to IFRIC12	1.052.177	1.055.371
2.2	Cost of assets constructed according to IFRIC12	405.794	63.950
2.3	Expenses with balancing gas	235.427	120.686
2.3	Financial expenses	26.973	150.228
<b>3.</b>	<b>GROSS PROFIT, of which:</b>	<b>577.882</b>	<b>704.942</b>
3.1	Resulted from operating before the construction and balancing activity according to IFRIC12	556.221	664.622
3.2	Resulted from the balancing activity	0	0
3.3	Financial Result	21.661	40.320
<b>4.</b>	<b>TAX ON PROFIT</b>	<b>87.396</b>	<b>121.429</b>
<b>5.</b>	<b>NET PROFIT</b>	<b>490.486</b>	<b>583.513</b>
<b>6.</b>	<b>Other elements of the comprehensive result</b>	<b>-4.442</b>	<b>17.826</b>
<b>7.</b>	<b>Exchange difference</b>	<b>1.824</b>	<b>-881</b>
<b>8.</b>	<b>Comprehensive result related to the period</b>	<b>487.868</b>	<b>601.338</b>

Table 19 – Statement of the profit and loss account in 2018 vs 2017

## Operating revenue

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

Nr. crt.	Specification	Achievements 12 months (lei thousands)	Dynamics (%)
----------	---------------	--	--------------

		2018	2017	
0	1	2	3	4=2/3*100
<b>1.</b>	<b>Revenue from the transmission activity</b>			
	- Lei thousand	1.178.420	1.338.047	88,07
	- MWh	139.164.634	138.108.028	100,77
	- Lei/MWh	8,47	9,69	87,40
	- thousand cm	12.975.921	12.869.908	100,82
	- Lei/1000 cm	90,82	103,97	87,35
<b>3.</b>	<b>Revenue from the international transmission activity</b>			
	- Lei thousand	324.381	333.290	97,33
<b>4.</b>	<b>Other operating revenue</b>			
	- Lei thousand	105.597	48.656	217,03
<b>TOTAL OPERATING REVENUE before the balancing and the construction activity according to IFRIC12</b>		<b>1.608.398</b>	<b>1.719.993</b>	<b>93,51</b>

\*the transmitted quantity for which transmission services are invoiced

**Table 20 - Revenue from the operating activity –Achievements 2018 vs 2017**

### Operating expense

The operating expense obtained in 2018 as compared to 2017 is as follows:

No.	Specification	Achievements (lei thousand)		Dynamics (%)
		2018	2017	
0	1	2	3	4=2/3*100
<b>1.</b>	Depreciation	189.913	184.475	102,95
<b>2.</b>	Indemnities, salaries, other expenditures related to salaries and benefits to employees	383.250	385.236	99,48
<b>3.</b>	Technological consumption, materials and consumables used, of which:	96.881	105.032	92,24
	- Transmission system technological consumption and loss	70.003	73.831	94,81
	Technological consumption amount MWh	847.810	1.012.875	83,70
	- Auxiliary materials	23.789	23.664	100,53
	- Other material expenditures	3.089	7.537	40,98
<b>4.</b>	Expenditures related to royalties	151.027	167.134	90,36
<b>5.</b>	Maintenance and transport, of which:	35.884	27.398	130,97
	- Works, services performed by third parties	21.646	13.954	155,12
<b>6.</b>	Taxes and other amounts due to the State, of which:	76.449	71.567	106,82
	- The fee for obtaining the license for gas transmission and international transit	10.645	7.438	143,12
	- Monopoly tax	59.336	58.212	101,93



7.	Expenditures related to the provision for risks and expenses	5.946	1.273	467,21
8.	Other operating expenditures	112.827	113.257	99,62
<b>TOTAL OPERATIONAL REVENUE before the balancing and the construction activity according to IFRIC12</b>		<b>1.052.177</b>	<b>1.055.371</b>	<b>99,70</b>

Table 21 - Operating activity expenses achieved in 2018 vs. 2017

### 4.3 Cash flow statement

Cash flow statement on 31 December 2018 is presented below:

INDICATOR	Financial year ended 31 December (lei thousand)	
	2018	2017
Profit before tax	577.882	704.942
<i>Adjustments for:</i>		
Depreciation	189.913	184.475
Provision for the impairment of intangible assets	3.814	1.847
Gain/(loss) on disposal of fixed assets	-182	-133
Provisions for risks and charges	3.690	-422
Provisions for guarantees	698	2.614
Revenue from connection fees, grants and goods taken free of charge	-22.886	-26.405
Provisions for employee benefits	2.256	1.694
Provision for the impairment of financial assets	239	-
Provision for the impairment of stocks	8.169	9.089
Loss on account of debts and various debtors	4	3
Provision for the impairment of assets	18.335	26.554
The effect of the update of the provision for employee benefits	3.850	1.708
Interest revenue	-25.231	-22.903
The effect of the currency exchange variation on other elements than operation	137	364
Other revenue	-153	-337
<b>Operating Profit before the changes in working capital</b>	<b>760.535</b>	<b>883.090</b>
(Increase)/decrease in trade and other receivables	-184.018	110.261
(Increase)/decrease in inventories	-181.383	-7.468
(Increase)/decrease in commercial debt and other debt	-14.797	2.325
<b>Cash generated from operations</b>	<b>380.338</b>	<b>988.208</b>
Paid interest	0	0
Received interest	4.760	3.435
Paid profit tax	-127.665	-160.915
<b>Net cash inflows generated from operating activities</b>	<b>257.433</b>	<b>830.728</b>

INDICATOR	Financial year ended 31 December (lei thousand)	
	2018	2017
<b>Cash flow from investments</b>		
Payments for the acquisition of tangible and intangible assets	-294.175	-85.240
Cash from transfer of tangible assets	296	281
Financial assets investments	-238	
Cash from connection fees and non-reimbursable funds	67.113	12.761
<b>Net cash used in investment activities</b>	<b>-227.004</b>	<b>-72.198</b>
<b>Cash flow from financing activities</b>		
Loan	163.300	69.896
Dividends paid	-546.773	-715.180
<b>Net cash used in financing activities</b>	<b>-383.474</b>	<b>-645.285</b>
Foreign currency loss	-99	-881
Exchange difference	1.923	
<b>Net change in cash and cash equivalents</b>	<b>-351.221</b>	<b>113.245</b>
Cash and cash equivalents at the beginning of the year	<b>1.062.538</b>	<b>949.293</b>
Cash and cash equivalents at the end of the period	<b>711.318</b>	<b>1.062.538</b>

**Table 22 – Statement of cash flow –2018 vs 2017**

The analysis of the cash flow as of 31 December 2018 show **a decrease in liquid assets by lei 351.220 thousand as compared to 31 December 2017.**

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

- cash flow generated from the operation is of lei 257.433 thousand, lower by lei 573.295 thousand than in 2017;
- cash flow used in investment activity is of lei -227.004 thousand, by lei 154.806 thousand higher than in 2017;
- cash flow used in financing activity is of lei -383.474 thousand, by lei 261.811 thousand higher than in 2017.

As at 31 December 2018 the balance of the resources available in the bank accounts of the company was of lei 711.318 thousand, of which 77,94% are available resources denominated in foreign currency, mostly in EURO.

#### 4.4 Factor analysis of the activity

#### Achievements 2018 vs. Achievements 2017

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

Name	Thousand lei		
	Achieved 2018	Achieved 2017	Changes
0	1	2	4=1/2x100-100

Name	Achieved 2018	Achieved 2017	Changes
Operating revenue before the balancing and construction activity, according to IFRIC12	1.608.398	1.719.993	-6%
Revenue from the balancing activity	235.427	120.686	95%
Revenue from the construction activity according to IFRIC12	405.794	63.950	535%
Financial revenue	48.634	190.548	-74%
Operating costs before balancing, according to IFRIC12	1.052.177	1.055.371	0%
Costs of balancing gas	235.427	120.686	95%
Cost of assets according to IFRIC12	405.794	63.950	535%
Financial costs	26.973	150.228	-82%
<b>Total GROSS PROFIT, of which:</b>	<b>577.882</b>	<b>704.942</b>	<b>-18%</b>
• from operation	556.221	664.622	-16%
• from the financial activity	21.661	40.320	-46%
Income tax	87.396	121.429	-28%
<b>NET PROFIT</b>	<b>490.486</b>	<b>583.513</b>	<b>-16%</b>
Other elements of the comprehensive result	-4.442	17.826	X
Exchange difference	<b>1.824</b>	<b>-881</b>	<b>X</b>
<b>Total comprehensive result for the period</b>	<b>487.868</b>	<b>601.338</b>	<b>-19%</b>

Table 23– 2018 vs. 2017 financial results

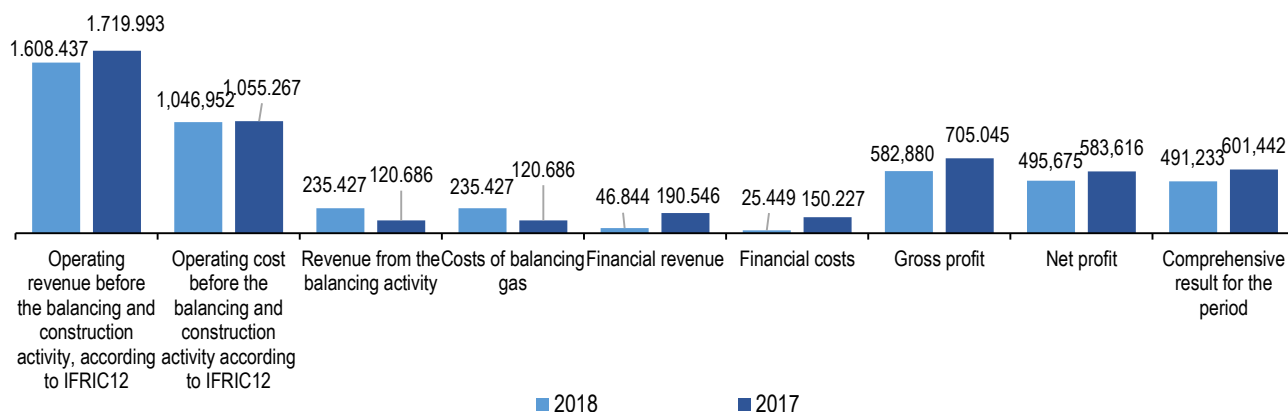
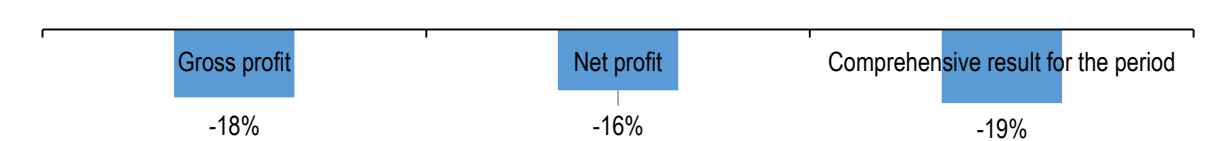


Chart 17 - 2018 vs. 2017 financial results (thousand lei)



**Chart 18 - 2018 vs. 2017 financial results (thousand lei) (%)**

**Operating revenue before the balancing and construction activity, according to IFRIC12** decreased by 6% as compared to 2017, which is lower by **LEI 111.595 thousand**.

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

- capacity booking revenue lower by **LEI 33.854 thousand** due to:
  - booked capacities lower 3.855.158 MWh, with a negative influence of LEI 9.144 thousand;
  - the capacity booking tariff lower by Lei 0,07 /MWh, with a negative influence of LEI 24.710 thousand;
- commodity component revenue lower by **LEI 125.773 thousand** due to:
  - a commodity tariff lower by Lei 0,93/MWh with a negative influence of LEI 130.632 thousand;
  - the gas transmitted capacities higher by 1.056.605 MWh/106.013 thousand cm , as compared to 2017, detailed by categories of consumers as follows:

		<b>12 months 2018</b>	<b>12 months 2017</b>	<b>Differences</b>
Quantity transmitted for direct consumers	MWh	60.559.629	59.201.654	1.357.975
	thousand m <sup>3</sup>	5.672.485	5.537.653	134.832
Quantity transmitted for distribution	MWh	78.605.004	78.906.375	-301.371
	thousand m <sup>3</sup>	7.303.436	7.332.255	-28.819
Total*)	MWh	139.164.633	138.108.028	1.056.605
	thousand m <sup>3</sup>	12.975.921	12.869.908	106.013

\*) transmitted quantity for which transmission services are invoiced

**Table 24– Quantity of gas invoiced in 2018 vs. 2017**

The tariffs for 2018 as opposed to 2017 decreased mainly due to:

- a lower approved revenue in gas year October 2017- September 2018 (Lei 954.322 thousand) as compared to the revenue approved in gas year October 2016 - September 2017 (Lei 1.101.667 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2017-2018 (the efficiency gain redistribution component, the correction component of the total revenue, etc);
- a lower approved revenue in gas year October 2018- September 2019 (Lei 882.983 thousand) as compared to the revenue approved in gas year October 2017 - September 2018 (Lei 954.322 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2018-2019 (the efficiency gain redistribution component, the correction component of the total revenue, etc).
- the commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing of Order 32/2014 of ANRE President on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariffs Methodology, which establishes the increasing by 5% per year of

the percentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2016-2017 the variable component of the total revenue at the basis of the commodity tariffs is 40% of the total revenue and in gas year 2017-2018 it decreased to 35% of the total revenue, and in gas year 2018-2019 to 30%.

- revenue from capacity booking lower by LEI **8.909 thousand** due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016 ;
- other operating revenue higher by **LEI 56.941 thousand**.

Vestmoldtransgaz did not obtain gas transmission revenue due to the fact that it has a minimum gas pipelines infrastructure. The Company is in an investment stage, the Ungheni-Chișinău pipeline eproject, which was launched at the beginning of 2019 and wil have a duration of 23 months until completion.

*Revenue from the balancing activity* increased by **LEI 114.741 thousand** based on the following factors:

- quantity higher by 692.564 MWh with a positive influence of LEI 55.754 thousand;
- trading price higher by LEI 26,91 /MWh, with a positive influence of LEI 58.987 thousand.

*Revenue from the construction activity* higher by **LEI 341.844 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts.

*Financial revenue* have a negative influence of **Lei 141.914 thousand** due to the transfer of the provision for the impairment of Transgaz` share in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138.544.435 to revenue in 2017. In September 2017 the Vienna Commercial Court issued the decision by which Nabucco Gas Pipeline International GmbH (`NIC`) was disincorporated and on 30 September 2017 the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenue the provision established in the previous years in the same amount.

**Operating costs before the balancing and construction activity according to IFRIC12** rae approximately constant as compared to 2017, which is lower by **LEI 3.194 thousand**.

**The company made savings of LEI 26.800 thousand**, mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss decreased by **LEI 3.828 thousand** due to the following:
  - amount of gas for technological consumption lower by 165.065/14.208 thousand cm (▼16%), with a positive influence of LEI 12.032 thousand;

- average purchase price in 2018 higher as compared to 2017 by LEI 9,68 /MWh, with a negative influence of LEI 8.204 thousand;
- cost of royalty: LEI 16.107 thousand;
- other operating costs: LEI 431 thousand, mainly due to lower cost of provisions for depreciation of current assets;
- other costs of materials: LEI 4.448 thousand;
- cost of personnel: LEI 1.986 thousand.

**An expense surplus of LEI 23.606 thousand** was recorded mainly in relation to the following cost elements:

- fixed assets depreciation costs: LEI 5.439 thousand;
- cost of maintenance and transmission: LEI 8.486 thousand;
- cost of taxes and duties: LEI 4.883 thousand;
- costs for the risk and expense provision: LEI 4.673 thousand;
- auxiliary materials: LEI 125 thousand.

**The financial cost** is lower by **LEI 123.256 thousand** based on the removal from its accounting records on 30 September 2017 of the asset amounting to Lei 138.544.435, representing Transgaz's share in the share capital of Nabucco Gas International Company GmbH.

**As compared to 2017 the interim gross profit obtained in 2018 decreased by 18%, which is lower by LEI 127.060 thousand.**

#### 2018 achievements versus 2018 budget

The main economic and financial indicators achieved as at 31 December 2018 as compared to the REB indicators approved by OGMS 2/06 March 2018 are as follows:

(thousand LEI)

Name	BVC 2018	Realizat 2018	Modificări
0	1	2	3=1/2x100-100
Operating revenue before the balancing and construction activity, according to IFRIC12	1.456.159	1.608.398	10%
Revenue from the balancing activity	19.108	235.427	1.132%
Revenue from the construction activity, according to IFRIC12	1.009.821	405.794	-60%
Financial revenue	33.810	48.634	44%
Operating costs before the balancing and construction activity, according to IFRIC12	1.220.258	1.052.177	-14%
Costs of balancing gas	19.108	235.427	1.132%
Cost of assets according to IFRIC12	1.009.821	405.794	-60%
Financial costs	15.000	26.973	80%

Name	BVC 2018	Realizat 2018	Modificări
<b>Total GROSS PROFIT</b> , of which:	<b>254.711</b>	<b>577.882</b>	<b>127%</b>
• from operation	235.902	556.221	136%
• from the financial activity	18.810	21.661	15%
<b>Income tax</b>	<b>41.553</b>	87.396	110%
<b>NET PROFIT</b>	<b>213.158</b>	<b>490.486</b>	<b>130%</b>

Table 25 - 2018 financial results vs. 2018 budget

**Operating revenue before the balancing and construction activity according to IFRIC12** increased by **LEI 152.238 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **LEI 140.295 thousand** due to:
  - Capacities booked higher by 23.530.145 MWh, with a positive influence of **LEI 47.648 thousand**;
  - *Capacity booking tariff* higher by 0,277 lei/MWh with a positive influence of **LEI 97.592 thousand**;
  - the gas transmitted capacities higher than planned by 2.376.357 MWh/131.951 thousand cm, with a positive influence of **LEI 4.902 thousand**;
  - commodity tariff lower by Lei 0.082 /MWh with a negative influence of **LEI 9.848 thousand**
- Revenue from international gas transmission services decreased by **LEI 697 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 iulie 2016;
- Other operating revenue increased by **Lei 12.641 thousand** as compared to the REB.

Revenue from the balancing activity increased by **LEI 216.320 thousand** based on the following:

- Trading price higher by LEI 22,19 /MWh, with a positive influence of LEI 48.643 thousand;
- Quantity higher by 1.967.502 MWh, with a positive influence of LEI 167.686 thousand.

**Financial revenue** increased by **LEI 14.824 thousand** as compared to the REB, due to the foreign currency loss.

**The operating costs before the construction activity according to IFRIC12** decreased by **14%** as compared to the plan approved, which is lower by **LEI 168.081 thousand** as compared to the REB.

**Savings amounting to LEI 196.463 thousand** were recorded mainly the following cost elements:

- transmission system technological gas consumption and loss amounting to **LEI 26.301 thousand**, due to the following:

- amount of gas for technological consumption lower by 366.614 MWh/32.996 thousand cm (▼30%), with a positive influence of LEI 29.072 thousand;
- average purchase price higher by LEI 3,27 /MWh as compared to the REB, with a negative influence of LEI 2.772 thousand;
- maintenance and transmission: LEI 52.004 thousand;
- costs of auxiliary materials and other materials: LEI 13.613 thousand;
- costs of personnel: LEI 65.624 thousand;
- depreciation: LEI 32.784 thousand;
- cost of provision for risks and costs: LEI 4.768 thousand;
- cost of taxes and duties: LEI 1.371 thousand.

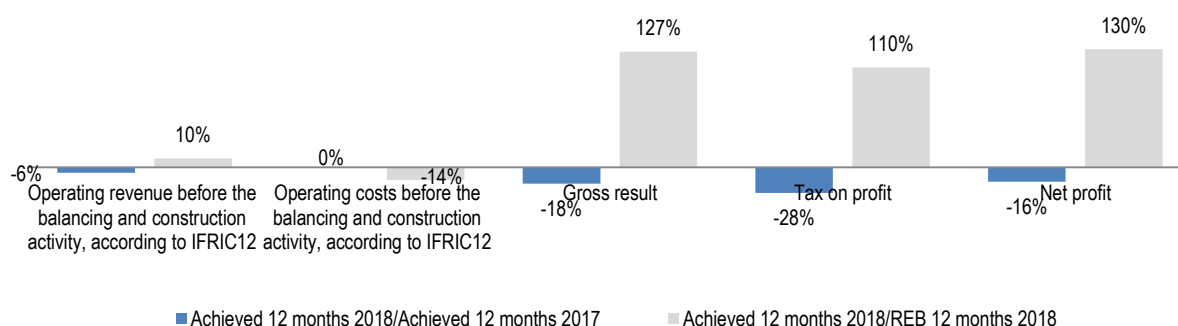
**An expense surplus of LEI 28.383 thousand** was recorded in relation to the and other operating costs.

**The financial cost** is higher than the REB **by lei 11.973 thousand** due to the foreign currency loss.

**The gross profit increased by 127% as compared to the plan, which is higher by LEI 323.171 thousand as compared to the REB, and the net profit increased by 130% as compared to the plan, which is higher by LEI 277.328 thousand as compared to the REB.**

	Achieved 12 months 2018 vs. Achieved 12 months 2017	Achieved 12 months 2018 vs. REB 12 months 2018
Operating revenue before the balancing and construction activity, according to IFRIC12	-6%	10%
Operating costs before the balancing and construction activity, according to IFRIC12	0%	-14%
Gross result	-18%	127%
Tax on profit	-28%	110%
Net profit	-16%	130%

**Table 26– Achievements 12 months 2018 vs. achievements 12 months 2017 and Achievements 12 months 2018 vs. REB (%)**



**Chart 19- Achievements 12 months 2018 vs. achievements 12 months 2017 and Achievements 12 months 2018 vs. 2018 REB**

## 2018 Achievements versus 2018 Management Plan

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



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

(lei thousand)

No.	Performance criteria	2018 Management Plan	Achieved 2018	Percentage	Difference
1.	Outstanding payments – lei thousands	0	0	100%	0
2.	Operating expense (without the depreciation, balancing, construction activity and provision for asset depreciation and for risks and expenses) - lei thousands	1.002.101	829.116	121%	172.986
3.	Acid test ratio	1,39	2,99	215%	1,60
4.	Net debt-to-equity ratio	3,00	0,31	964%	2,69
5.	EBITDA – lei thousand	458.599	746.134	163%	287.535

Table 27 – Achievements 2018 vs. Management Plan 2018

## 4.5 Evaluation of the activity related to the financial risk management

### Financial risk factors

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

The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company does not use derivative financial instruments to protect itself from certain risk exposures.

### Market risk

#### Currency risk

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

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

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

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

	31 December 2018	31 December 2017
<i>Impact on profit and loss and on equity of:</i>		
USA dollar appreciation by 10%	121.191	38.536
USA dollar depreciation by 10%	(121.191)	(38.536)
Euro appreciation by 10%	36.267.997	64.842.955
Euro depreciation by 10%	(36.267.997)	(64.842.955)

#### Price risk

The Company is exposed to the commodity price risk related to the gas purchased for own consumption. If the gas price had been 5% higher/lower, the net profit related to the period would have been lower/higher by lei 2.940.121 (December 2017: lei 3.067.062).

#### Interest rate risk on cash flow and fair value

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

For the average exposure of the period, if the interest rates had been by 50 basis points lower/higher, with all the other variables maintained constant, the profit related to the period and equity would have been by lei 3.051.941 lower/higher (December 2017: lei 3.629.530 lower/higher), as a result of the interest rate variation for bank deposits.

#### **Credit risk**

Credit risk is especially related to cash and cash equivalents and trade receivables. The Company has drawn up a number of policies underlying that products and services are sold to proper customers. The accounting value of the receivables without the adjustments for uncertain receivables represents the maximum value exposed to credit risk.

The Company's credit risk is concentrated on the 5 main customers, which together account for 50% of the trade receivable balances as at 31 December 2018 (31 December 2017: 61%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. At the end of 2018, the company has good payment guarantees from clients amounting to lei 223.883.181.

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

	31 December 2018	31 December 2017
Without rating	3.124.285	4.587.327
BB	-	355.439.685

	31 December 2018	31 December 2017
BB+	347.913.691	-
BBB-	13.569.848	3.901.284
BBB	-	224.008.353
BBB+	344.645.980	474.084.727
A	137.989	138.479
AA	-	190.822
AA-	216.037	-
	<b>709.607.830</b>	<b>1.062.350.677</b>

All financial institutions are presented to Fitch rating or equivalent.

### Liquidity risk

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

The company forecasts the cash flows. The financial structure of the Company continuously monitors the Company's liquidity requirement to make sure there is enough cash to meet the operational requirements, maintaining at the same time a sufficient level of unused borrowing facilities at any time, so that the company does not break the limits or loan agreements (where applicable) for any of its credit facilities. Such forecasts take into account the Company's debt financing plans, compliance with agreements, compliance with internal objectives on the balance sheet indicators and, if appropriate, external regulations or legal provisions - for example, restrictions on currency.

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

The table below shows the obligations as at 31 December 2018 in terms of remained contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

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

	Total amount	Less than 1 year	1-5 years	over 5 years
Loans	259.278.444	3.121.315	70.206.550	185.950.579
Commercial debts and other debts	258.826.722	258.826.722	-	-
	<b>518.105.166</b>	<b>261.948.037</b>	<b>70.206.550</b>	<b>185.950.579</b>

Analysis of financial liabilities as at 31 December 2017 in terms of maturity:

	<b>Total amount</b>	<b>Less than 1 year</b>	<b>1-5 years</b>	<b>over 5 years</b>
Loans	78.443.204	830.048	17.885.494	59.727.662
Commercial debts and other debts	127.161.874	127.161.874	-	-
	<b>205.605.078</b>	<b>127.991.922</b>	<b>17.885.494</b>	<b>59.727.662</b>

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

Categories of financial instruments:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Financial assets</b>		
Cash and cash equivalents	419.910.424	622.517.062
Term bank deposits	291.407.201	440.021.181
Credits and receivables	1.108.155.574	932.006.661
Financial assets available for sale	24.816.713	24.578.237
Adjustments for available-for-sale financial assets	(24.816.713)	(24.578.237)
	<b>1.819.473.199</b>	<b>1.994.544.904</b>

<b>Financial liabilities</b>		
Debts measured at depreciated cost		
Loans	<b>233.195.000</b>	<b>69.895.500</b>
Debts assessed at the fair value:		
-Financial guarantees related to contracts	6.311.084	5.488.821
-Commercial debts and other debts	252.515.638	121.673.052
	<b>492.021.722</b>	<b>197.057.373</b>

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

## Capital risk management

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

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

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

capital is calculated as "equity", according to the statement of financial position, plus the net debt.

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

The net leverage was negative at 31 December 2018 and negative at 31 December 2017.

	31 December 2018	31 December 2017
Total loans	233.195.000	69.895.500
Less: cash and cash equivalents	(711.317.624)	(1.062.538.243)
Net cash position	(478.122.624)	(992.642.743)

### Fair value estimate

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

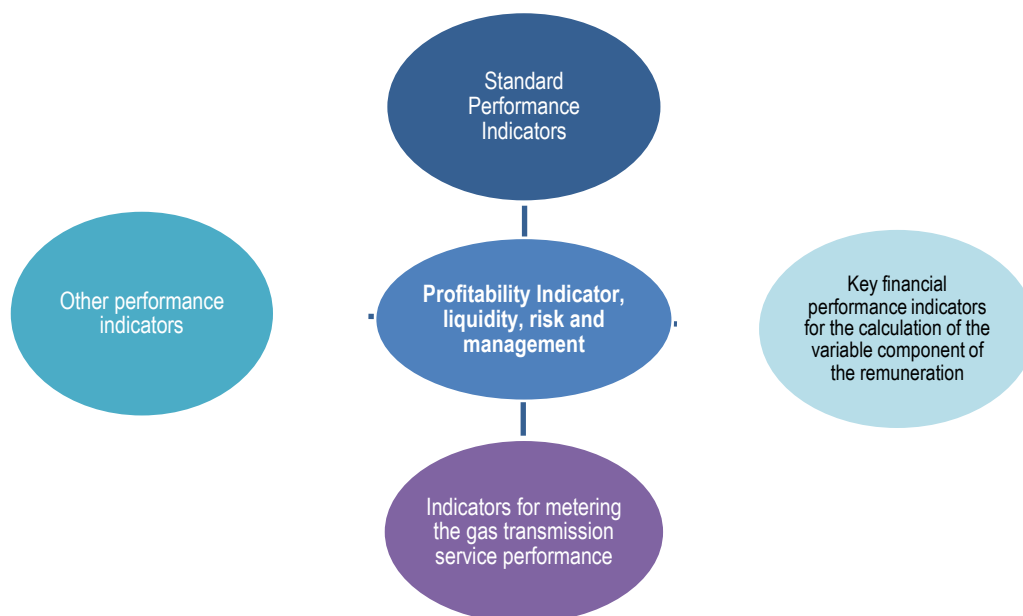
The fair value of financial instruments that are not traded on an active market is set using valuation techniques.

The book value less the provision for the impairment of trade receivables and commercial debt is deemed to approximate their fair value.

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

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

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



**Figure 19**– Performance Indicators

#### 4.6.1. Standard performance indicators

Performance criteria	Performance objective	Administration Plan 2018	Achieved 2018	Achievement degree %
Commissioned investments lei thousand	Plan achieved	187.956	113.334	60,30
EBITDA– lei thousand	EBITDA increase	458.599	746.134	162,70
Labour productivity – lei thousand/pers.	Increasing labour productivity in units of value (turnover / average no. of employees);	301	404	134,16
Outstanding payments – lei thousand	Payments made during the contract duration (in current prices)	0	0	100
Outstanding receivables – lei thousand	Diminished amount of outstanding receivables (in current prices)	289.858	315.637	91,83
Technological consumption -%	Remaining within the gas quantities representing technological consumption	100	69,81	143,24
OPEX at LEI 1000 operating revenue	Diminishing of OPEX at LEI 1000 operating revenue	838	654	128,10

**Table 28** – Achievement degree of the standard performance indicators as at 31 December 2018 vs. Management Plan

2017-2021

## 4.6.2. PROFITABILITY, LIQUIDITY, RISK AND MANAGEMENT INDICATORS

Achievements between 2017-2018 and estimation Transgaz performance between 2019-2021:

No.	Indicators	Calculation formula	2017	2018	Achieved 2018	2019	2020	2021
<b>1.</b>	<b>Profitability Indicators</b>							
	EBITDA in total sales	EBITDA	37,71%	33,04%	42,83%	37,73%	45,75%	55,28%
		Turnover						
	EBITDA in equity	EBITDA	15,70%	12,47%	20,12%	13,17%	17,14%	23,72%
		Equity						
	Gross profit share	Gross profit	24,76%	18,35%	33,18%	22,68%	16,17%	25,42%
		Turnover						
	Return on equity	Net profit	8,65%	5,80%	13,22%	6,75%	5,17%	9,20%
		Equity						
<b>2.</b>	<b>Liquidity indicators</b>							
	Current liquidity indicator	Current assets	3,09	1,58	3,60	1,01	1,29	1,14
		Short term debts						
	Immediate liquidity indicator	Current assets - Stocks	2,97	1,39	2,99	0,91	1,11	1,09
		Short term debts						
<b>3.</b>	<b>Risk indicators</b>							
	Indebtness indicator	Borrowed capital	1,86%	16,78%	6,29%	66,78%	85,28%	47,83%
		Equity						
	Interest coverage ration	EBIT	1.343,88	X	220,69	x	3,62	5,24
		Interest expense						
<b>4.</b>	<b>Management indicators</b>							
	Speed of debit - clients	Average accounts receivable x 365 days	99,81	70,04	141,49	78,84	67,38	71,86
		Turnover						
	Speed of credit - suppliers	Average accounts payable x 365 days	62,62	74,29	35,55	166,22	79,08	37,90
		Turnover						

**Table 29** – Profitability, liquidity, risk and management indicators in 2018 vs, Management Plan 2017-2021

## 5. THE CONSOLIDATED NON-FINANCIAL REPORTING

### 5.1 Non-financial statement

According to the provisions of the Order of the Ministry of Public Finance no. 1938 of August 17, 2016 on the amendment and additions to accounting regulations, public interest entities which, at the balance sheet date, exceed the criterion of having an average of 500 employees during the financial year, shall include in the administrators' report a non-financial statement containing, to the extent to which this is necessary to understand the development, performance and position of the entity and the impact of its activity, information on at least environmental, social and staff issues, namely human rights, the fight against corruption and bribery (art I, item 2, 492<sup>1</sup>, par. (1)) or shall draw up a separate report (art I, item 2, 492<sup>4</sup>, par. (1)).

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

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

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

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



## 5.2 Responsible management and sustainable strategies

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

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

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

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

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

### 5.2.1 Integrated Management Quality-Environment, Health and Occupational Security

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

The advantages of OHS implementation are:

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

Considering that VESTMOLDTRANSGAZ does not have a quality management system implemented, there is no identification of the organization's processes, a clear definition of

responsibilities, internal and external communication procedures. Activities within the company are not subject to operational procedures.

For compliance with the new regulations, one of the priorities of VESTMOLDTRANSGAZ is the implementation within the company of an integrated quality-environment, occupational health and safety management system, as a clear proof that VMTG admits the importance of ensuring an organizational climate where the employees, shareholders, customers, suppliers, community and the environment may interact in an efficient and responsible manner both economically and socially. In this respect, the company's manager will make a commitment to this end and will sign the *Policy statement on the Integrated quality-environment, occupational health and safety management system*.

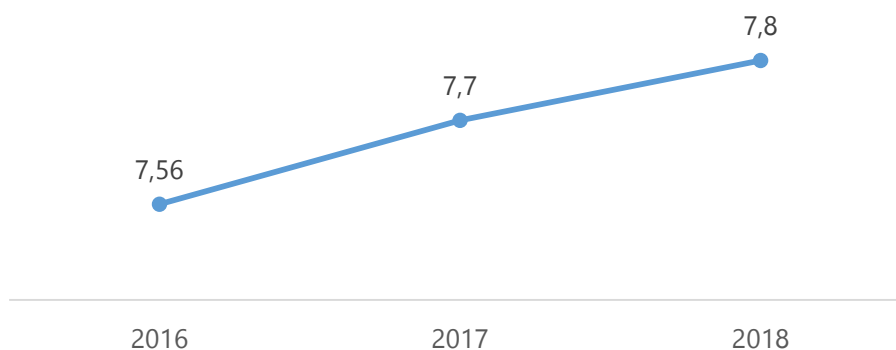
A system of internal procedures on budgeting, operationalization, monitoring, control and evaluation of all activities to be performed will be defined, prepared and implemented.

### Customer satisfaction

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

#### Evolution of clients' satisfaction

Evoluția gradului de satisfacție a clienților



According to the PP 15 procedure Customer Satisfaction Survey **97 questionnaires were sent to the users of the natural gas transmission network**. From the data centralized in Annex 2 it results that **49** of them sent completed questionnaires. The analysis of the questionnaires highlighted the following:

- no customer complaints were received;

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

### 5.2.2. Environmental protection

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

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

#### **A. Monitoring of regulatory acts**

At the level of the company there are **17 environmental permits** authorizing a number of 1,195 objectives of SNTGN Transgaz SA, in 2018 **requests for renewal of environmental permits** were not submitted, the documentation for the renewal of two environmental permits for the Craiova and Braşov regional offices being under preparation.

With regard to the water management permits, the legislation in the field requires the obtaining of regulatory acts for all the objectives related to waters. As a result, the company owns **130 water management permits** for crossing water courses with natural gas pipelines, out of which in 2018, **renewal documentation has been submitted for 15 of them.**

In accordance with the procedures issued by the national environmental protection authorities, the **projects for development, repair and maintenance of the national gas transmission system** have been registered in the Integrated Environmental System, namely 42 projects.

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

#### **B. Assessment of compliance with relevant legislation**

##### **Prevention Action, Counselling**

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

At the level of the department, an internal training course for environmental inspectors was organized, focusing on the main important aspects of the activity (regulatory acts, waste management, reporting to authorities, environmental protection expenditures).

### **External assessment**

In 2018, S.N.T.G.N. Transgaz S.A was subjected to 8 external inspections listed in the table below. These were carried out by the control structures within the Romanian Water Administration and National Environmental Guard.

**Table including the external inspections achieved in 2018**

<b>No.</b>	<b>Name of inspection authority</b>	<b>Inspected site</b>	<b>Date of inspection</b>
1.	SGA Covasna–ABA Olt	Regional Office Braşov–Băţani Sector	11.01.2018
2.	SGA Dolj–ABA Jiu	Regional Office Craiova–headquarters	29.03.2018
3.	GNM BACĂU	Regional Office Bacău	14.05.2018
4.	ABA Argeş–Vedea	Regional Office Craiova– rivers crossing by pipelines	15.05.2018
5.	ABA Argeş–Vedea	Regional Office Craiova– rivers crossing by pipelines	06.06.2018
6.	SGA Gorj–ABA Argeş Vedea	Regional Office Craiova– rivers crossing by pipelines	14.06.2018
7.	GNM Dolj	Regional Office Craiova - headquarters	01.10.2018
8.	ABA Olt	Regional Office Craiova –Drăgăşani Sector	08.10.2018

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

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

### **C. Specialized reporting to authorities in the field**

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

- according to the provisions of art. 9, c) of GEO no. 196/2005 on the Environmental Fund, the company has to pay the obligations to the **Environment Fund Administration**, which are the monthly charges for pollutant emissions into the atmosphere; in order to meet these financial obligations, the service follows the consumption of specific resources, quantifies and draws up the statement for the Environment Fund;
- in accordance with the provisions of Article 13 paragraph 2 of Law no. 132/2010 on Selective Collection of Waste in Public Institutions, they are tracked and centralized at

the company level and the **Waste Register** is sent monthly to the National Environmental Protection Agency of Bucharest;

- the monitoring of waste management was performed at the company level and reports were submitted to the authorities in accordance with the obligations in the environmental permits;
- the annual Environmental Reports, related to each Territorial Operation, were elaborated and transmitted in accordance with the obligations of the environmental protection permits.

#### ***D. Environmental Protection Expenditure***

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

The required environmental services were funded and budgeted, the most important ones being:

- services for the recovery of hazardous and non-hazardous waste within the company;
- physical-chemical analysis services for the characterization and classification of liquid/solid waste generated from the pigging operations/cleaning activity of the filter elements/separators;
- Physical and chemical analysis services for waste water;
- services for drawing up technical documentation for obtaining water management permits;
- Liquid/solid waste disposal services generated at pigging operations / cleaning filters, separators;
- decontamination services;

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

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

In 2018, the internal audit was carried out by the Quality Management Department on the process of identifying legal requirements and environmental requirements, which ended with 3 reports of observations.

The process of transition of documents related to the Environmental Management System was also continued, and in August the external audit for the recertification was performed by SRAC.

Following the audit, Transgaz obtained the recertification of the Environmental Management System according to SR EN ISO 14001 : 2015.

At the end of 2018, an external course for the application of the environmental management system new provisions was organized for all environmental inspectors within the territorial unit.

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

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

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

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

- conducting measurements on the noise level;
- check of sewerage technology facilities for the detection of methane and ethylmercaptan emissions;
- determination of emissions of atmospheric pollutants (CO, NO<sub>x</sub>, SO<sub>2</sub>) from the combustion gases from the compressor stations, thermal power stations, convection stoves and gas heaters;
- identification of different situations not complying with the legislation on environmental protection and/or accidental pollution;
- preparation of measuring bulletins, environmental assessment sheets and monitoring reports.

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

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

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

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

**Determined technological consumptions**

**Technological consumptions not determined**

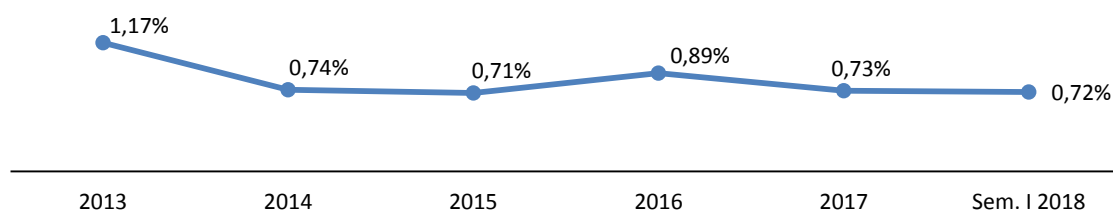
Consumption at the compressor stations	Technological consumption of equipment in technological installations (NT, SRMP.s, a) - replacement, verification, adjustment, discharging of safety valves, leaks in the removable joints of the pipelines and at the MRS;
Facilities and processes consumption	Technological consumption unidentified losses / defects of pipe;
Consumption of repairs, pipeline rehabilitation, NTS development	Technological consumption measurement error - operation of meters under improper pressure conditions. Inappropriate gas quality, accuracy class of meters and gas chromatographs.
Consumption of technical accidents – pipeline cracks, breaks.	

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

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

Between 2013 and 2018, the share of technological consumption in the total natural gas flowing through NTS was the following:

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



**Chart 20** - Share of technological consumption in total natural gas transmitted through the NTS between 2013- 2018

The cost of technological consumption is recovered through the transmission tariff, which is included in the operational expenses. The decrease in the share of technological consumption in the total natural gas circulated through the NTS, from 1.17% in 2013 to 0.62% in 2018, is the result of the efficient management of NTS operation and use of the technical means used in this respect

### 5.2.3. Human resources

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

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

The number of personnel between 2016-2018:

PERSONNEL INDICATOR	2016	2017	2018
Personnel reduction (natural)	65	113	80
Average number of personnel approved by the REB	4.767	4.679	4.605
Average number of personnel achieved	4.665	4.548	4.284

Table 30-Development of the average number of employees between 2016-2018 approved by the Management Plan

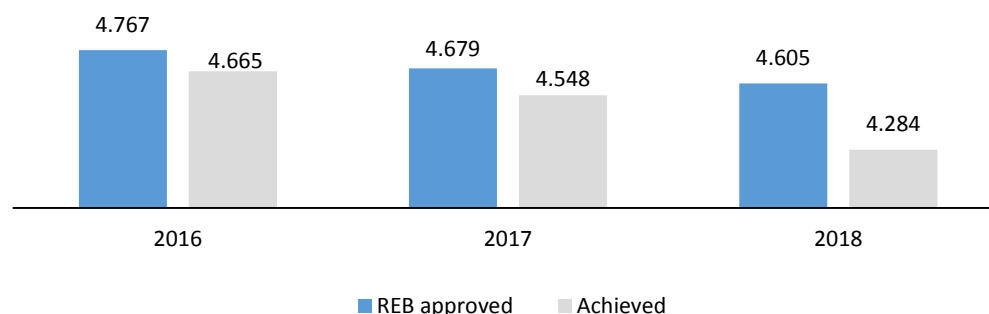


Chart 21 -Approved vs achieved no. of employees in 2016-2018

The evolution of the number of employees between 2016-2018 is as follows:

Specification	2016	2017	2018
Number of employees at the beginning of the period	4.700	4.607	4.405
Number of newly employed persons	147	187	187
Number of persons who have ceased work relations with the company	240	389	390
<b>Number of employees at the end of the period</b>	<b>4.607</b>	<b>4.405</b>	<b>4.202</b>

Table 31 -Development of the number of employees in 2016-2018

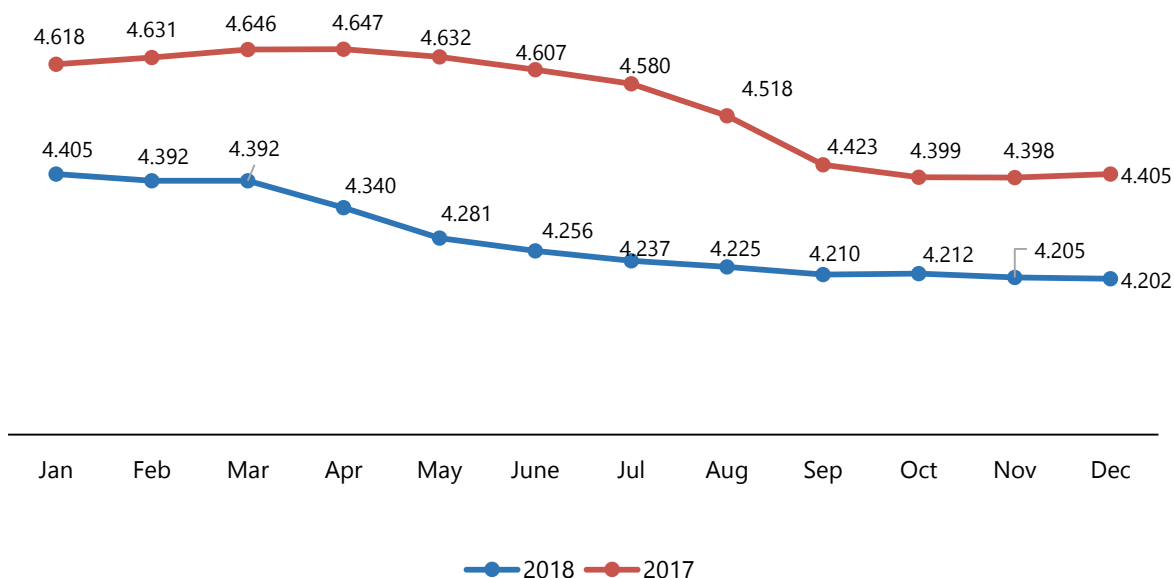


In 2018 187 persons were employed and 390 employees terminated their labour contract.

On **31 December 2018**, SNTGN TRANSGAZ S.A. registered 4,202 employees with individual labour agreements, out of which 4,139 for an indefinite term and 63 for a determined term.

In 2018 the number of employees was reduced by retirement and voluntary redundancy.

In parallel specialists were recruited for the performance of the development projects of the Company.



**Chart 22** -The evolution of the number of employees in 2018 vs. 2017

In order to make more efficient the use of qualified personnel to carry out full job related duties under the new working conditions, in accordance with the Management Plan of SNTGN Transgaz SA, in 2018 through the "Schedule of Normalization of Technical Works" approved by the Director General, it was foreseen to extract the time and staff rules for 167 technical works.

The Commission for Validation of Technical Works established at the company level validated the time and personnel rules for 185 technical work foreseen to be standardized.

Time and staff standard rules validated in 2018:

UNIT	SCHEDULED IN 2018	Validated 2018
Territorial operations*	5	5
Compressor Stations**	7	3
Mediaș Subsidiary***	155	177
<b>TOTAL</b>	<b>167</b>	<b>185</b>

**Table 32** -Scheduled technical works / technical works standardized in 2018

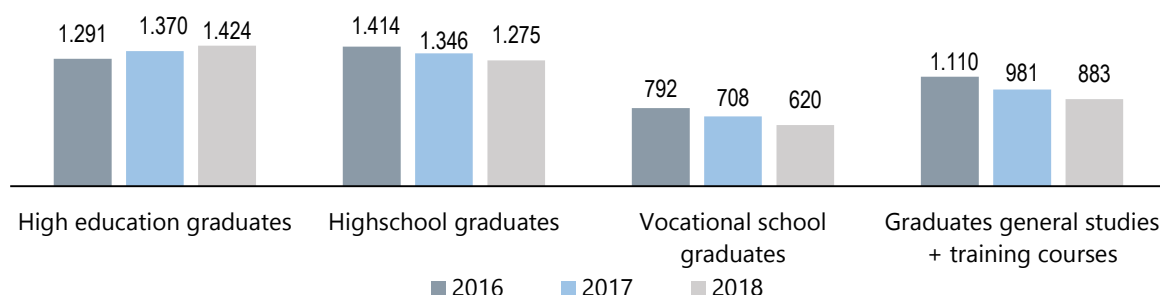
In accordance with the Schedule of staggering the standardization of technical works approved by the Director General, 194 technical works were scheduled to be timed in 2017, the standardizing team succeeding in the activity carried out to time at the end of 2018 347 technical works.

The development of the staff structure by category of studies reveals the interest of the company to cover the needs of staff through the employment of highly qualified specialists as well as the continuous improvement of the existing staff, considering the tendencies of increasing the number of employees with higher education in parallel with the decrease of the number of employed persons with secondary education and the number of employees with general education and in training.

The development of the structure of the staff by category of education between 2016 - 2018 is presented in the following tables:

No.	Category	2016	2017	2018
1.	Higher education graduates	1.291	1.370	1.424
2.	High school graduates	1.414	1.346	1.275
3.	Trade school graduates	792	708	620
4.	General studies graduates + training classes	1.110	981	883
<b>TOTAL employees</b>			<b>4.607</b>	<b>4.405</b>

**Table 33** - Development of the staff structure by categories of education between 2016-2018



**Chart 23**- Development of the staff structure by categories of education in 2016 - 2018

## VESTMOLDTRANSGAZ – human resources

The optimal dimensioning of the number of personnel in the company will be correlated with the real personnel needs required by the operational activities carried out by the company, with the modernizations and refurbishments proposed for increasing the safety and efficiency in operation of the gas transmission networks and of the related gas transmission facilities, as well as the achievement of the major development projects.

The company has 23 employees, of which 10 at the headoffice in Chişinău and 13 at the GMS Ungheni, but the number of employees will be adjusted depending on the actual needs for the functioning and future business development.

Employees will be recruited and selected based on transparent employment procedures to stimulate and attract the best specialists at VESTMOLDTRANSGAZ.

The personnel of VESTMOLDTRANSGAZ is appointed, employed and dismissed by the company's manager.

The budget allocated for wage costs will be appropriately sized and aligned with the applicable laws.

The number of personnel between 2015-2018:

*MDL*

No.	Indicator	Year			
		2015	2016	2017	2018
1	Number of employees	18	19	20	22
2	Wage cost (lei)	1.664.646	1.988.567	2.280.775	2.933.449

**Table 34 - Wage cost**

The professional training policy requires all employees to attend courses once a year. The process of staff training will be performed continuously and will be planned through courses with external national or foreign trainers or with internal trainers.

Training has two components: the professional one (technical, economic, other specialties) required to fulfil the job duties included in the job description, and a general one regarding professional development in various fields.

The training, improvement and professional development of the employees will be carried out on the basis of the annual Training Plan of the company, in accordance with the provisions of the Collective Labour Contract or the applicable laws.

There is no trade union at company level. The collective labour contract was negotiated for 2017-02.02.2019, its registration at ITOFM not being a compulsory action, becoming applicable immediately after signature.

The company's human resources policy aims at attracting specialists from the Republic of Moldova and Europe to ensure a highly skilled specialist workforce, able to add value to the activity performed by its contribution or by the training programmes developed.

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

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

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

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

In the field of training and continuous improvement of employees in 2018 there were organized training courses and training with external trainers from the country and abroad for 1245 employees in specific fields and / or complementary to the field of activity of the company.

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

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

The status of the number of training and improvement courses for company employees in 2018, is presented in the following table:

No	Category	2018												
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
1.	No. of courses with internal trainers (through our own Training Centre)	2	3	3	0	1	2	0	0	0	2	2	2	17
2.	No. of courses with external trainers	9	12	15	12	16	11	6	11	12	15	15	10	144
<b>TOTAL</b>		<b>11</b>	<b>15</b>	<b>18</b>	<b>12</b>	<b>17</b>	<b>13</b>	<b>6</b>	<b>11</b>	<b>12</b>	<b>17</b>	<b>17</b>	<b>12</b>	<b>161</b>

**Table 35-** The status of the number of training and improvement courses for company employees in 2018

The number of training courses performed for the Company's employees between 2016–2018:

No	Category	2016	2017	2018
1.	No. of courses with internal trainers	8	13	17
2.	No. of courses with external trainers	147	110	144
	<b>TOTAL</b>	<b>155</b>	<b>123</b>	<b>161</b>

**Table 36-***The status of qualification / improvement courses for the company's employees between 2016- 2018*

By the Company's own training centre in 2018 151 CNFPA authorized employees were trained.

The situation of the number of employees who graduated qualification / improvement courses between 2016-2018 is the following:

No.	Category	2016	2017	2018
1.	No. of trained staff by courses with internal trainers	155	834	903
2.	No. of trained staff by courses with external trainers	953	1.169	1.245
	<b>TOTAL</b>	<b>1.108</b>	<b>2.003</b>	<b>2.148</b>

**Table 37-***The situation of the personnel who graduated qualification / improvement courses*

On **31 December 2018**, the trade union members rate was 96.14% of the total of 4,202 employees, and 4,040 were trade union members.

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

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

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

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

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

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

#### 5.2.4. Social and corporate responsibility

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

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

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

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

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

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

For the development of this aspect of corporate governance, at least the following elements will be considered within VESTMOLDTRANSGAZ:

- **Activities for employees for improving the quality of the workplace:** *eg: to identify and ensure a new space for the company's activity until the completion of the Ghidighici administrative complex; personal and professional development and career development; occupational safety; inclusion on the labour market for people at risk of exclusion; physical & mental workplace welfare at the work place, wage and benefits policies which improve employees' living conditions, employees' involvement in decisions and self-management; programmes to support employees with families / children: work-life balance; programmes for supporting single parent employees; programmes for the reintegration into work of women after the maternity and child growth periods etc*

- **Activities for the community and local community:** eg: corporate civism; programmes to support democracy and human rights; the development of products and services dedicated to community needs which are not satisfactorily met; support (financially, professionally) of local community benefit programmes: education, health, economic and social inclusion, democracy, culture, research; supporting social entrepreneurship at local level (funding, volunteering for consultancy, business partnerships, facilities, etc.); engaging in public-private partnerships for community development, etc;
- **Activities for Business Partners:** suppliers, distributors etc .: eg: supporting the local economy, local markets, the exchange of goods and services; encouraging local entrepreneurship, particularly social entrepreneurship; encouraging innovation at local level; fairness and honesty in dealing with suppliers and distributors; promoting socially responsible suppliers and distributors and the environment;
- **Customer activities:** eg: quality products and services, appropriate to the needs of customers; correct treatment of clients; health and safety of customers; customer support services; privacy of customers.

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

### SPONSORSHIPS

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

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

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

*(lei thousand)*

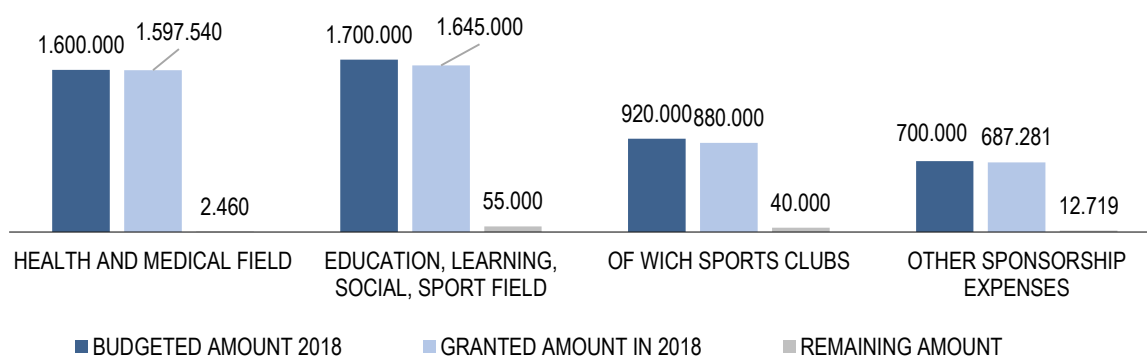
<b>SPONSORSHIP CATEGORY</b>	<b>REB 2018 - rectified</b>
Expenditures related to sponsorship in the medical and health fields	1.600
Expenditures related to sponsorship in the fields of education, learning, social, sport, of which:	1.700
-for sports clubs	920
Other sponsorship expenditures	700
<b>TOTAL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

**Table 38 – Sponsorship budget 2018**

*(lei)*

<b>No</b>	<b>SPONSORSHIP CATEGORY</b>	<b>BUDGETED AMOUNT 2018</b>	<b>AMOUNT GRANTED in 2018</b>	<b>REMAINING AMOUNT</b>
<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4=2-3</b>
<b>1.</b>	HEALTH AND MEDICAL FIELD	1.600.000	1.597.540	2.460
<b>2.</b>	EDUCATION, LEARNING, SOCIAL, SPORT FIELDS, of which:	1.700.000	1.645.000	55.000
	- for sports clubs	920.000	880.000	40.000
<b>3.</b>	OTHER SPONSORSHIP EXPENDITURES	700.000	687.281	12.719
<b>TOTAL SPONSORSHIP EXPENDITURES</b>		<b>4.000.000</b>	<b>3.929.821</b>	<b>70.179</b>

**Table 39- Statement of sponsorship budget 2018 and granted amounts in 2018**



**Chart 24 - Statement of the sponsorship budget for 2018 and granted amounts in 2018**



In 2018, sponsorships was granted in the following fields: **medical and health, amounting to 1,597,540 lei, education and social education and sports, amounting to 1,645,000 lei, and other sponsored areas, the sponsorship was granted in the amount of 687,281 lei.**

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

- the internal document entitled **The company's policy to grant sponsorship and financial aid in 2018**, a document which provides an effective framework for monitoring their progress and implementation in accordance with the legal and tax regulations in force;
- **the process procedure PP-51** of the sponsorship documents was updated in December 2014;
- **the establishment** by Decision No. 1270/26.11.2018 of the Director General, of the **Commission for the review of the applications for sponsorship.**

The detailed report of the sponsorships granted is available on the company's web site at the address:

<http://www.transgaz.ro/ro/responsabilitate-sociala/informatii-publice-privind-activitatea-de-sponsorizare>

## FINANCIAL AIDS GRANTED ACCORDING TO THE COLLECTIVE LABOUR CONTRACT

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

In 2018, 48 applications for social aid were processed.

### 5.2.5 Ethics and integrity

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

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

**Transgaz Integrity Plan** aims to achieve the following objectives

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

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

These principles are:

- **The principle of transparency** – the implementation of the Plan will be permanently focused on maximizing the ways and means of informing the decision-makers and employees in order to ensure clarity and understanding of ongoing processes;
- **The principle of responsibility** - involves assuming, by those responsible for implementation, of the obligations of carrying out actions to the end by assuming responsibility for consequences; *The Principle of Competence* - in implementing the Plan, the persons with the necessary knowledge and skills, invested with the exercise of these tasks and responsible for their actions will be involved;
- **The principle of cooperation with the civil company and local stakeholders** – in implementing the Plan, public authorities will collaborate in an open, fair and efficient way with the civil company and local stakeholders;

- **The principle of non-discrimination** - the implementation of the Plan will ensure the involvement of all community groups in the process of project design and implementation, including vulnerable groups;
- **The principle of professionalism** - will be manifested by the quality of solving problems based on competencies, qualities and will be characterized by the responsibility and attitude towards own obligations.

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

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

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

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

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

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

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

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

## 5.2.6 Compliance policy

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

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

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

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

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

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

**Preventing corruption at organizational and employee level**

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

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

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

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

**To this end, in 2018, the following actions were taken:**

- the Anti-Fraud and Anti-Corruption Policy and Anti-Fraud and Anti-Corruption Policy Statements were approved by the decision of BA 26 of 30.05.2018;

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

## 5.2.7 Internal/Management Control System

### 1. Background data

#### Definition of the internal/management control

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

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

In SNTGN Transgaz, control activity is perceived as a means of analysing the activities of company, adopting and applying a new type of internal management that is often associated

with the **activity of knowledge**, thus allowing the management to coordinate the activities within the company in an effective manner.

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

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

## 2. Legal framework

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

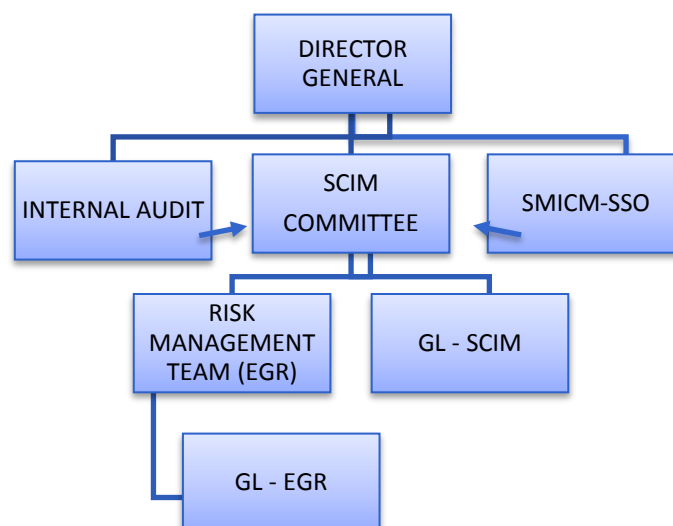
- Government Ordinance no. 119/1999 regarding internal/managerial control and preventive financial control;
- Law no. 234 of 7 December 2010 amending and supplementing GO no. 119/1999;
- Order of the General Secretary of the Government No. 400/2015 for the approval of the Managing Internal Control Code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

Note:

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

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

The organizational structure of the Internal Control/management System within Transgaz, according to the **Order of the General Secretariat of the Government No. 600/ 2016** is as follows



**Figure 20** - The organizational structure of the internal/managerial control system within SNTGN Transgaz SA

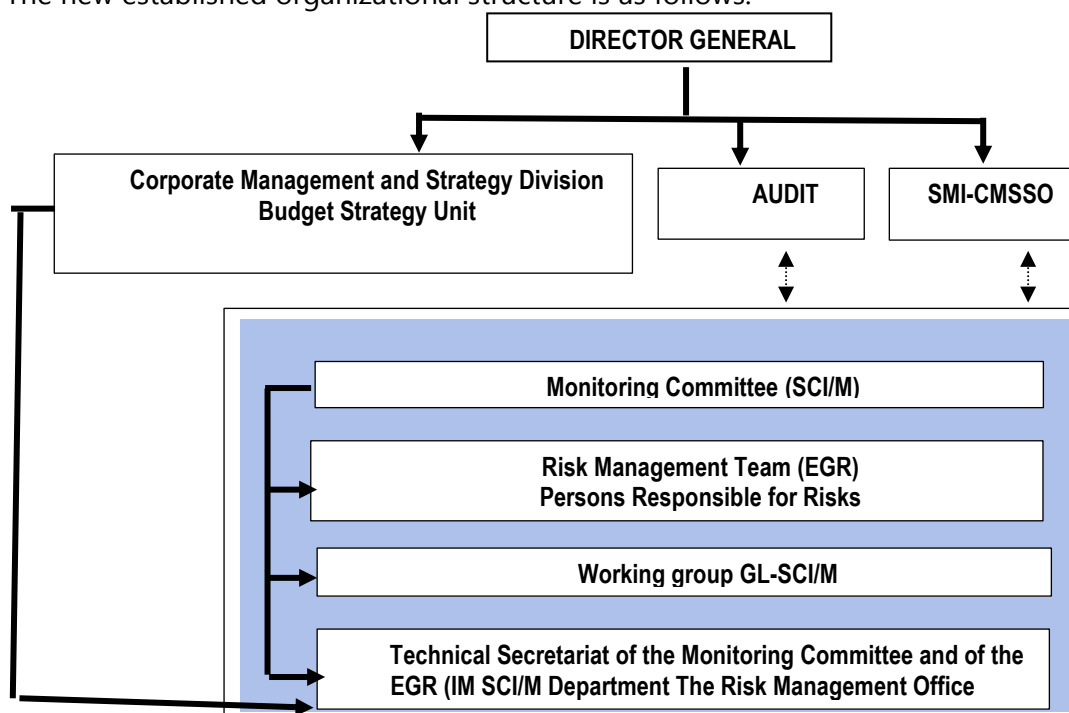
**NOTE:**

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

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

The organizational structure presented in fig. 14 was valid until 07.05.2018 when the Order of the General Secretariat of the Government 600/20.04.2018 regarding the approval of the Code of internal/managerial control of public entities, published in the Official Gazette of Romania no. 387/07.05.2018, Part I, which repealed the Order of the General Secretariat of Government 400/2015 for the approval of the Code of internal/managerial control of public entities, published in the Official Gazette of Romania, no. 444/22.06.2015, Part I, as amended and supplemented.

The new established organizational structure is as follows:



**Figure 21** - Organizational structure of the Internal Control/Management System within SNTGN Transgaz SA

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

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

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

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

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

Therefore, the Monitoring Committee was established by Decision no. 751 / 23.07.2018 amended by Decision no. 976 / 19.09.2018, the previous decisions being repealed and the updated Regulation for Organization and Functioning of the Monitoring Committee SCI / M was registered with no. 37020 / 23.07.2018.

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

The **members** of the *Monitoring Committee* are appointed directors of independent departments / directorates / independent services / Mediaș Subsidiary / Regional office within the company.

Members of the Monitoring Committee designate a person responsible for the development of the internal / managerial control system within the Department / Directorate / Subsidiary / Regional office that they represent.

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

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



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

#### 4. Internal control/management standards

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

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

As of 07.05.2018, with the entry into force of the Order of the General Secretariat of the Government no. 600 / 20.04.2018 and the abrogation of the **Order of the General Secretariat of the Government no. 400/2015** for the approval of the Code for the internal / managerial control of public entities, as subsequently amended and supplemented, the List of Standards for internal / managerial control remained unchanged. Their grouping is by 5 components which are key elements.

The purpose of the internal/managerial control standards applied in SNTGN Transgaz is to create a reference system that allows the assessment of the internal / managerial control system at different times and highlights areas and directions of change. It can be said that standards provide good practice, which SNTGN Transgaz management has to implement.

Internal/managerial control includes standards grouped on 5 sections, referred to in the OSGG 600/2018 as components of the internal/management control elements, closely interdependent components, arising from the manner in which activities are managed and integrated into these activities, as presented in the table below:

Internal/management control elements	Standards
<b>I. CONTROL ENVIRONMENT</b>	
Comprises issues related to organization, human resources management, ethics, deontology and integrity	Standard 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)	Standard 5 - Targets
	Standard 6 - Planning

performance (monitoring performance) and risk management.	Standard <b>7</b> – Monitoring performance
	Standard <b>8</b> –Risk management
<b>III. CONTROL ACTIVITIES</b>	
Refers to development of procedures, continuity of processes and activities, separation of responsibilities, monitoring.	Standard <b>9</b> - Procedures
	Standard <b>10</b> - Surveillance
	Standard <b>11</b> – Continuity of activity
<b>IV. INFORMATION AND COMMUNICATION</b>	
Refers to issues related to the creation of an informational system and of a reporting system regarding the execution of the management plan, budget, resource use and documentation management.	Standard <b>12</b> – Information and communication
	Standard <b>13</b> – Documentation management
	Standard <b>14</b> – Accounting and financial reporting
<b>V. AUDIT AND ASSESSMENT</b>	
Refers to the development of the capacity of assessment of the internal/management control for ensuring continuity of its improvement.	Standard <b>15</b> – Internal/management control assessment
	Standard <b>16</b> – Internal audit

In order to comply with the provisions of **GSG Order no. 200/2016 completing the GSG Order no. 400/2015** in force until 07.05.2018 and of **GSC no 600/2018 which entered into force as of 07.05.2018, in 2018** the following actions were undertaken:

- The General Status regarding the Stage of Implementation and Development of the internal / managerial control system within SNTGN Transgaz SA was prepared in accordance with the provisions of SGG Order no. 200/2016, amending and supplementing Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, and was submitted to the Ministry of Economy";
- In order to report on the state of implementation of the Internal/Managerial Control System within SNTGN Transgaz SA on 31 December 2017 (as a result of analysing and centralizing the data from the self-evaluation questionnaires sent by the organizational entities), the Report of the Director General on the Internal / Managerial Control System according to the model provided in Annex no. 4.3. of the Instructions provided for in SGG Order no. 400/2015 on the approval of the Code of internal/managerial control of public entities, amended and supplemented by SGG Order no. 200/2016 and other attached documents were prepared and submitted to the Ministry of Economy;
- The Plan for the Development of the Internal/Managerial Control System within SNTGN Transgaz SA – 2018-2021, prepared according to the provisions of Order of the General Secretariat of Government no. 400 of 12 June 2015 on the approval of the Code of internal/managerial control in public entities, amended and supplemented by OSGG no. 200 / 2016, Art.4, paragraph (1) corroborated with Art.8, paragraph (1), was approved and submitted to the Ministry of Economy;

- posting the *Development Program of the Internal Control/Managerial Control System within SNTGN Transgaz SA 2018-2021*, in TRANSGAZ' public area at: <http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/>, for compliance by all organizational structures;
- re-organising of structure in the database Zonapublica (Transgaz on Intranet - ZonelInterDep - "ControlIntern Managerial"), with limited access by the CM Commission members appointed through the Decision, the SCI / M by independent division/independent department/Mediaș Subsidiary/regional offices; grouping the documents by standards and organizational structures this area is created both for making a quick and effective communication on the elaboration of all the supporting documents necessary to demonstrate the SCIM implementation in all the entities of the company;
- creating file *Control intern managerial* in the public zone of TRANSGAZ at: <http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/>, for general information;
- approval of the system procedure internal management control system code PS 07 SMI
- training the members of the Monitoring Committee and the SCI/M officers of each division/unit/department/Mediaș Subsidiary/regional office regarding:
  - the modality to fill in the Analytical Fact Sheets and the Self-Assessment Questionnaire for each organizational entity within Transgaz SA for 2018 according to the System Procedure PS 07 SMI Management of the Internal / Management Control System;
- monitoring and checking the modality of filling in completes the Self-assessment questionnaire on the stage of implementation of the management internal control standards by each structural entity, and its assumption by the head of the structural entity;
- centralizing the data from the self-assessment questionnaires at Transgaz;
- The inventory of procedural activities within Transgaz SA on 31.12.2018, revealed 290 declared activities/procedures, 7 system procedures and 125 elaborated process procedures;
- submitting, by the end of 2017, all the organizational structures (according to the organization chart) of the Performance Reports for the year 2017 to the Monitoring Committee Secretariat;
- analysing and centralizing the Performance Monitoring Reports for 2017 by the SCI/M Implementation and Monitoring Department and elaborating the Performance Monitoring Information within SNTGN Transgaz for 2017; it presents an analysis of the achievement of the objectives based on the established performance indicators through the Activity Monitoring System, 2017;
- elaborating the Report on the state of implementation of the Internal / Managerial Control System within SNTGN Transgaz for the year 2017 as a result of analysing and centralizing the data from the self-evaluation questionnaires sent by the organizational entities; it presents an assessment of how each standard is implemented by each organizational structure and a general assessment at the company level.

Internal/managerial control standards are considered to be implemented, partially implemented or not implemented according to the fulfilment of the criteria specific to each standard; the degree of compliance of the internal/ managerial control system is established according to the number of standards implemented; the state of implementation of the internal / managerial control system for the 284 organizational structures was analysed at the level of each internal/managerial control standard within the 5 components (key elements) of internal/managerial control;

- assessment of compliance of own management control system with the internal management control systems standards with regard to the number of implemented standards.
- The conclusions of the Report on the state of implementation of the Internal / Managerial Control System at SNTGN Transgaz level for 2018 are:
  - **the degree of compliance of the internal / managerial control system in SNTGN Transgaz is 100%**; evolution of the SCI / M compliance rate over previous years is shown in the figure below:

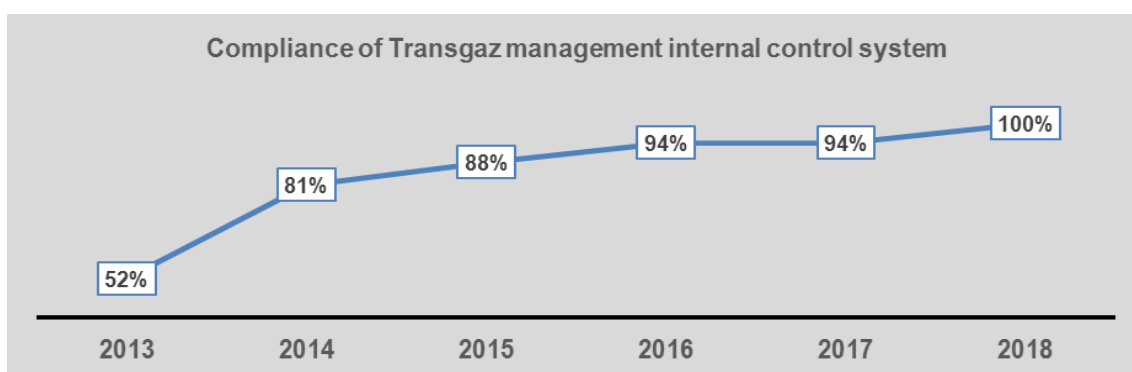


Chart 25- SCI/M implementation

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

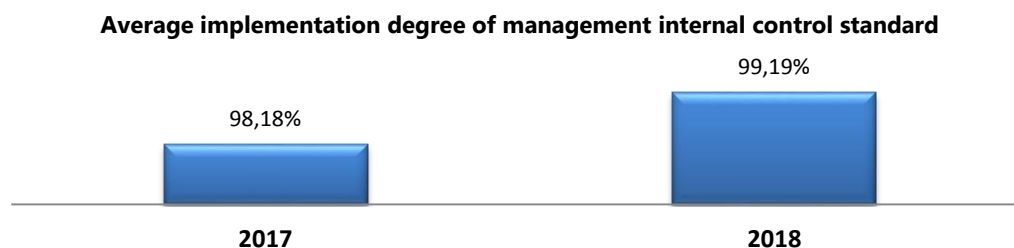


Figure 22 -Average degree internal/management control standards implementation 2018 vs 2017

**The average degree internal/management control standards implementation** is the average degree of implementation of each standard according to the self-assessment at Transgaz SA, by the 284 organizational structures:

Standardul	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Gradul mediu de implementare al standardelor de control internimanegerial
Gradul de implementare al fiecărui standard confirmat evaluării la nivelul SNTGN Transgaz SA	100%	100%	97,54%	100%	100%	96,83%	100%	100%	92,61%	100%	100%	100%	100%	100%	100%	100%	99,19%

- the verification operation and self-evaluation of the managerial control system and the elaboration and presentation of the report on the internal managerial control system are done annually;
- self-assessment of the internal / managerial control system prevents the malfunctioning of internal / managerial control by detecting deficiencies and correcting them.
- the proposal of the Chair of the Monitoring Committee, to organize a training course in SCI/M for a group of 25 persons with leading positions, in order to improve the implementation / development of the internal / managerial control system, including risk register and activity-based procedures; in 2018 40 persons holding management positions and 47 employees participated in training courses.

#### **Actions to be taken for the following period:**

- Update of Decision no. 548 of 26.07.2016 regarding the appointment of the SCI/M officers of SNTGN Transgaz SA;
- Approval by the Technical Secretariat of the Monitoring Commission of the synthetic situation of the results of the self-assessment, by centralizing the information in the self-assessment questionnaires signed and transmitted by the department managers;
- Preparation by the Technical Secretariat of the Monitoring Commission of the Annual Centralised Situation of the self-assessment results, by centralizing the information in the self-assessment questionnaires signed and transmitted by the department managers;
- Preparation by the Technical Secretariat of the Monitoring Commission of the Report on the state of implementation of the Internal / Managerial Control System at SNTGN Transgaz level;
- for 2018, following analysis and centralizing the information in the self-assessment questionnaires by the organisational entities, the continuation of the training/consultation on the application of the provisions of the System Procedure PS 07 SMI Management of internal management control system;
- Launching internal control/management at VESTMOLDTRANSGAZ.

## 5.2.8 Risk Management

### 1. Legislative framework

The main normative acts underlying the regulation of risk management within SNTGN Transgaz SA are the following.

- Government Ordinance no. 119/2015 on internal/managerial control and preventive financial control;
- Law no. 234 of 7 December 2010 amending and supplementing GO no. 119/1999;
- Order of the General Secretariat of the Government no.400/2015 approving the Code of internal / managerial control of public entities, as subsequently amended and supplemented; abrogated on 07.05.2018.
- Order of the General Secretariat of the Government no. 600/2018 regarding the approval of the Code of internal managerial control of public entities; in force since 07.05.2018.
- Methodology-of-risk-management-2018, elaborated by the General Secretariat of the Government.
- Order of the General Secretary of the Government no.201 / 2016 approving Methodological Norms on coordination, methodological guidance and supervision of the state of implementation and development of the managerial internal control system in public entities;
- SR EN 31000: 2010, Risk Management- Principles and Guidelines
- SR EN 31010: 2010, Risk Management - Risk Assessment Techniques

### 2. The organizational framework of the risk management process

In order to manage the risks at the level of the company, the General Manager of SNTGN Transgaz SA established, by internal Decision no. 750 / 23.07.2018, a structure with attributions in this respect, called the **Risk Management Team (EGR)**, in the following composition:

- **President** of the EGR is the deputy general manager of the company Mr. Târsac Grigore;
- **Members** of the EGR are the Risk Officers assigned by the managers of the divisions/units/ Mediaș Subsidiary/regional offices and departments;
- **The EGR Secretariat** is provided by the Risk Management Office/SCI/ M Implementation and Monitoring department, within the Budget Strategy Division, the Strategy and Corporate Management Department.

Within SNTGN Transgaz, in addition to the Risk Management Team (EGR), teams consisting of Heads of department in the **Risk Management Team (GL-EGR)** are constituted at the level of each department / independent directorate/ Mediaș Subsidiary/Regional offices entities concerned.

The organization and operation of the Risk Management Team is under the responsibility of the President and is established by the **Regulation on the Organization and Operation of the EGR no 37021/23.07.2018**.

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

- Setting the context
- Risk identification
- Risk assessment
- Risk management

Parallel to the core process, to ensure that proper information is used in the process and to disseminate the findings and information, communication and consultation are carried out using the INTRANET network "ZoneInterDep" and "zonapublica.transgaz.ro".

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

### 3. Actions taken in 2018

In 2018, the following actions were taken:

- a) drawing up the draft of the *Risk management strategy*; it establishes the framework for identifying, evaluating, monitoring and controlling significant risks in order to maintain them at acceptable levels, depending on the risk tolerance limit; through the risk management strategy, the risk tolerance against risk exposure was established using a 3-step scale, resulting in a 9-value array for risk exposure;
- b) transmitting the Drawing of the Risk Management Strategy to the relevant functions for the purpose of verifying compliance with the policies of the company and the legislation in force;
- c) approval of Risk Management Strategy on 25 September by BoA Resolution 41/2018.
- d) Analysing and centralizing, in January 2018, the Risk Management Report for 2017 by the Risk Management Secretariat.
- e) Analysis of the significant risks identified at the company level:

#### **Risks related to the natural gas sector**

The risk associated with government intervention in major infrastructure sectors.

Changing the regulatory framework specific to the natural gas market and the legal regulations applicable to the company's activity.

Impact of competing projects on international gas transmission activity.

Seasonal fluctuation of the activity.

Changes in natural gas prices in Romania.

#### **Risks related to the natural gas transmission activity**

Regulatory nature of the natural gas transmission activity.

Changes in gas price purchased by the company.

The risk of implementing the new business model of SNTGN Transgaz SA.
Concluding international transmission contracts based on intergovernmental agreements.
Failure to meet the minimum investment program - obligation of SNTGN Transgaz SA according to the Concession Agreement.
The risk of failing to improve the profitability of the current natural gas transmission activity and the reduction of technological consumption.
The risk of limited access to own sources for financing development plans.
Failure to develop other profit-generating activities as a core business.
The risk that ANRE does not accept the remuneration of investment made and their introduction in the RAB.
The risk that the National Gas Transmission System may be affected by natural catastrophes.
Risk related to the classified information regime of SNTGN Transgaz SA.
Powerful trade unions which may hinder the optimization and efficiency of the company's activity
<b>Financial risks</b>
Lending
Currency
Interest rate
Liquidity

### **The risk determined by the correlation with the evolution of the global market**

Events on the world financial market have a direct impact on the evolution of the Romanian economy, a fact reflected in the evolution of the Romanian capital market in recent years. Global developments therefore affect SNTGN Transgaz's business as well as its evolution on the capital market.

The economy of Romania, as any emerging economy, is sensitive to the fluctuation of global activity. Geopolitical, economic, social events on the global market have a significant impact on the economic climate in which SNTGN Transgaz operates.

The level of risk analysed has low tolerability, and permanent monitoring measures have been set, namely: increased attention to government policies through systematic and appropriate communication with representatives of the majority shareholder (the Romanian State), shareholders and all other stakeholders for the integration of the activity economics of the company in the national energy strategy. The following opportunity has been identified: the continuous growth of emerging economies in the world will boost energy demand in these countries and increase opportunities for expansion of national gas companies in these markets.

### **Strategic-financial risks**

#### **Credit risk**

Credit risk is the risk that a company will suffer a financial loss as a result of a customer's or a counterparty's failure to meet the contractual obligations, and this risk arises mainly from trade receivables and other types of receivables.



The control tools are:

- customer credit references are normally obtained for all new customers;
- the due date is carefully monitored;
- amounts due after the deadline are timely followed.

This risk is considered to be low-tolerance risk.

### **Risk of liquidity**

Prudent liquidity risk management implies maintaining sufficient cash and available credit lines. Due to the nature of the activity, the company seeks to have flexibility in funding opportunities by maintaining credit lines available to finance operating activities. This risk is considered to be low-tolerance risk.

### **Currency risk**

The Company is exposed to exchange rate fluctuations through debt generated by foreign currency loans or trade payables. Due to the high associated costs, the company's policy is not to use financial instruments to mitigate this risk.

It is a tolerable risk, so keeping it under control does not require special measures.

### **Interest rate risk**

The Company's cash flows are affected by interest rate fluctuations mainly due to variable interest loans. The company does not use financial instruments to protect itself against interest rate fluctuations.

It is a tolerable risk, so keeping it under control does not require special measures.

### **Market risk**

BVB being a small stock market, it has a certain fragility in the fluctuation of the market price of quoted shares, which is influenced by the information provided by the company.

For this medium level risk, with low tolerability, the preventive financial control was set as control instrument requiring the strict monitoring of binding expenses within the legal and budget limits.

## **Strategic risks in the gas transmission sectors**

### **The risk of obtaining building permits.**

The main activity of SNTGN Transgaz, namely the transport of natural gas through pipelines, has a significant impact on the environment, which implies the obtaining and renewal of authorizations regulating the Company's activity, obtaining construction and environmental permits for subcontracted works in SNTGN Transgaz programs.

The company's activity is subject to a large body of regulations in various areas that, if not complied with, can lead to company sanctioning or suspension of business. The company also faces the lack of consistency and concordance between these regulations, due to which additional costs arise and the delay in starting or finalizing some modernization or rehabilitation works of the NTS, with negative effects, such as: technical failures, followed by losses of the product transported and the receipt of sanctions from the authorities.

The level of risk determined by the regulatory and licensing framework under consideration is high, it is an intolerable risk for which urgent measures have been set for its control:

- urgent and systematic steps to update/complete the Network Code and comply with European regulations;
- steps to regulate the legal situation of the land affected by the facilities of SNTGN Transgaz;
- steps to obtain land access agreements for NTS investment works

### **Risk related to the regulated framework in which the company operates**

Specific to the **natural gas sector**:

- modifying the regulatory framework specific to the natural gas market;
- the risk associated with government intervention in the main infrastructure sectors;
- the possible increase in the price of natural gas in Romania generated by the liberalization of the market may result in a decrease in the consumption of natural gas and implicitly may have an adverse impact on the financial performance of SNTGN Transgaz SA Mediaș;
- Seasonal fluctuation of activity.

Specific to the **gas transmission activity**

- the transmission activity is carried out within a regulated framework;
- changes in the price of the gas purchased by the company;
- Non-fulfilment of the minimum investment-obligation program of SNTGN Transgaz SA according to the Concession Agreement;
- the risk of failing to improve the profitability of the current natural gas transmission activity and the reduction of the technological consumption;
- limited access to own sources for financing development plans;
- the impossibility to develop other profit-generating activities as the main field of activity;
- the remuneration of the investments made and their introduction into the RAB is done with ANRE's acceptance.

These risks are monitored systematically, discussions are initiated on these issues with the competent authorities. The level of these risks is considered major.

The following opportunities have been identified:

- Interaction with governments and regulators: gas supply chains are increasingly interconnected and their management in the context of more governments with changing policies and regulations involves significant challenges; this sector is also

moving rapidly towards new geographic and technical areas; these are new challenges for governments and short periods of time when critical decisions with long-term implications for SNTGN Transgaz must be made;

- investing in research and development, so that the company remains competitive.

### **The risk of natural disasters**

This category of risks includes mainly natural phenomena: earthquakes, extreme temperatures, floods, fires, landslides, storms, massive snowfalls, frost, etc.

There are risks with low probability and high impact.

- a) Preparation of the Risk Register of Transgaz for 2018, no. DSMC 10336/02.03.2018
- b) Organization and conduct of the Risk Management Team meeting on 08.03.2018
- c) Endorsement at the EGR meeting of the following documents:
  - Risk management strategy
  - Information on the conduct of the risk management process at SNTGN Transgaz level for 2017;
  - Report on the approval of the proposed tolerance limit for 2018;
  - Endorsement on the risk profile of SNTGN Transgaz for 2017;
  - Company Risk Register for the year 2018;
  - Program of risk minimization measures at company level; for 2018.
- d) Approval by the Director General of the following documents:
  - Information on the conduct of the risk management process at SNTGN Transgaz level for 2017;
  - Report on the approval of the proposed tolerance limit for 2018;
  - Endorsement on the risk profile of SNTGN Transgaz for 2017;
  - Company Risk Register for the year 2018;
  - Program of risk minimization measures at company level for 2018.
- e) Elaboration and approval of System Procedure PS 05 SMI Risk Management;
- f) Issue of the internal Decision no. 750/23.07.2018, for the establishment of the Risk management team, replacing decision no. 602/27.06.2017;
- g) preparation/approval of the Regulation for the Organization and Operation of the Risk Management team, no. 37021/23.07.2018;
- h) circulation of the System Procedure PS 05 SMI *Risk Management* in 31 July 2018, by posting it onto the public area "zonapublică.transgaz.ro";
- i) training the staff within the company, regarding the requirements set out in System Procedure PS 05 SMI Risk Management, during 14.08.2018-21.09.2018.
- j) Updating the following documents related to the System Procedure SP 05 SMI *Risk Management*, by all of the organizational structures:
  - Annex 1 "List of Specific Objectives and Performance Indicators" code F 01 00/PS 05 SMI, for independent department/unit/ service/ regional operating centre/Mediaş Subsidiary;
  - Annex 2 List of Operational Objectives, Indicators, Activities and Risks, code F 02 00 / PS 05 SMI, for all entities within the structure that you coordinate;

- Annex 3 Department Risks Register, RegR-RR Office, code F 03 00/PS 05 SMI, for all entities within the structure that you coordinate;
  - Annex 5 Registry of Risks at department level RegR-RD code F 05 00 / PS 05 SMI, for independent department/unit/ service/ regional operating centre/Mediaş Subsidiary;
  - Annex 6 Risk minimization plan code F 06 00 / PS 05 SMI, both for independent department/unit/ service/ regional operating centre/Mediaş Subsidiary, as well as for all existing entities within the structure that you coordinate;
  - Annex 7 FUR Risk Fact Sheet code F 07 00 / PS 05 SMI.
- k) verification of the documents posted by the structures, in accordance with the requirements of PS 05 SMI System Procedure;
- l) Revision of the Risk Registers, at the level of all organizational structures, initiated by DSMC letter 64486 / 05.12.2018 and finalized on 21.12.2018;
- m) drawing up by the organizational structures the Reports on the conduct of the risk management and monitoring process for 2018;
- n) preparation of the Strategic Risk Analysis, with a view to their reclassification;
- l) revision of the Company's Risk Register, for the year 2018;
- p) preparation of the Draft of the Counselling Program on Risk Management and of the presentation material.

#### **4. Actions to be taken for the upcoming period**

The actions to be carried out for the following period are:

- Further training on how to fill in the annexes provided in the System Procedure PS 05 SMI Risk Management;
- Updating the Decision for the establishment of the Risk Management Team;
- Updating the Regulation for the Organization and Operation of the Risk Management Team;
- Approval by the President of the Risk Management Team of the Risk Management Advisory Program and the presentation material;
- Conduct of counseling in accordance with the Counseling Program;
- On the basis of the Reports on the conduct of the risk management and monitoring process, for the year 2018 the Risk Management Secretariat will draw up the report on the conduct of the risk management process for 2018 at company level;
- Achieving the Risk Profile of the Company, December 2018; based on the Risk Profile, the Tolerance limit for 2019 is set;
- preparation by the Risk Management Secretariat of the Risk Register at the level of the company for the year 2019, approval by the President of the Risk Management Team and by the Chairman of the Monitoring Committee and then approval by the Director General;
- preparation by the Risk Management Secretariat of the Risk Minimization Plan at the Company level for 2019, approval by the President of the Risk Management Team and

by the Chairman of the Monitoring Committee and then approval by the Director General;

- *Dissemination of the Risk Register, at company level, 2019 and of the Risk Minimization Plan by posting it onto the public area "zonapublica" database for compliance;*
- launching the action to update the risk management documents for the year 2019 at the level of the organizational structures;
- checking the documents posted by the organizational structures;
- implementation of risk management at VESTMOLDTRANSGAZ.

## 5.2.9 Communication

A part of the company's development strategy, communication policy and social responsibility aims at a permanent increase in the company's transparent communication and accountability to employees, shareholders, partners, community and the environment, as well as the efficiency of all the actions carried out in this sense.

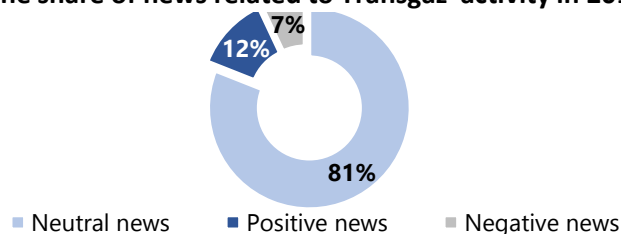
Under the slogan **`A RESPONSIBLE COMPANY IS A FOUNDATION OF THE FUTURE`**, the entire internal and external communication activity of the company is modelled on and is carried out in accordance with the principles of professional deontology, ethics, transparency and good business and collaboration practices,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

### Infographic monitoring of news on Transgaz activity in 2018

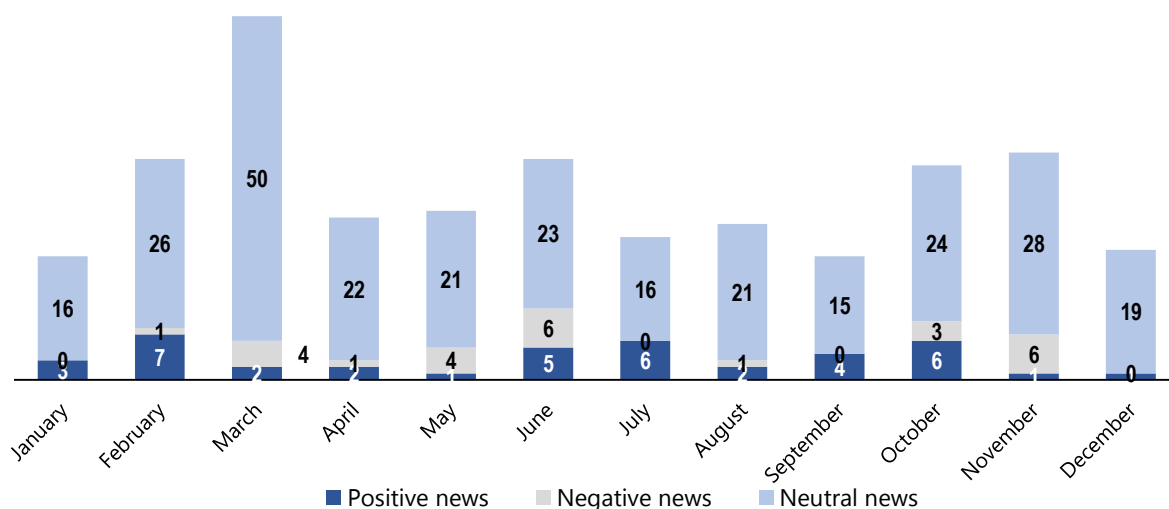
Following the monitoring of news on Transgaz's activity, which appeared on media channels in 2018, we mention that this year there were 347 of which:

No.	News category	12 months		%	Percentage	
		2018	2017		2018	2017
1.	Neutral news	281	165	70	81%	68%
2.	Positive news	40	52	-23	12%	21%
3.	Negative news	26	26	0	7%	11%
Total news		<b>347</b>	<b>243</b>	<b>43</b>	<b>100%</b>	<b>100%</b>

The share of news related to Transgaz' activity in 2018

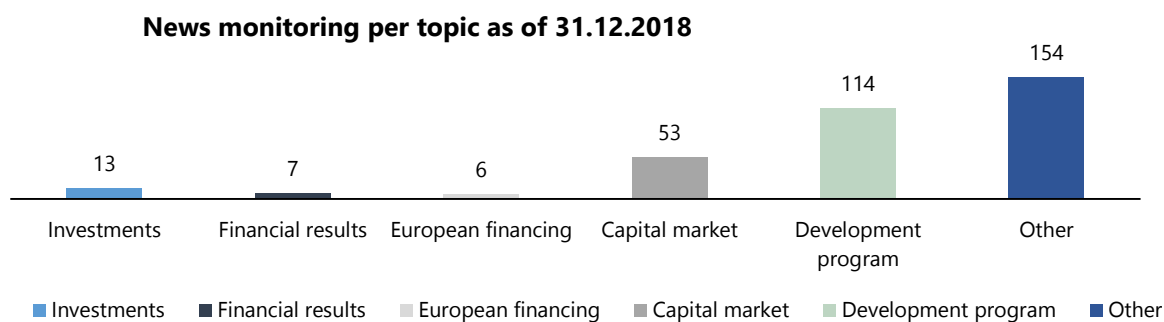


The monthly distribution in 2018 of positive, neutral, negative media references is the following:



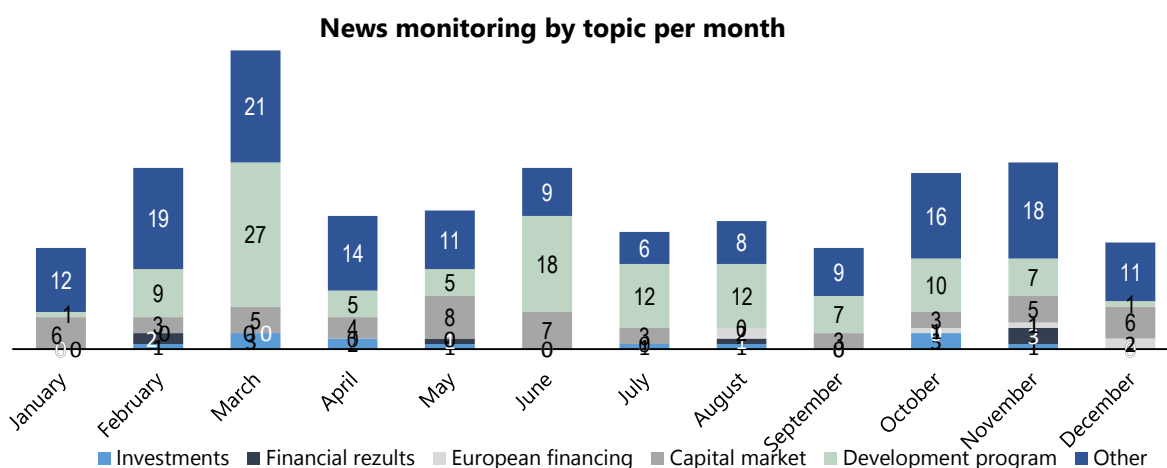
**Chart 26** –Positive, negative and neutral news regarding the activity of Transgaz in 2018

**The total distribution in 2018** of the references made by the topic, investments, financial results, European financing, capital market, development program is presented:



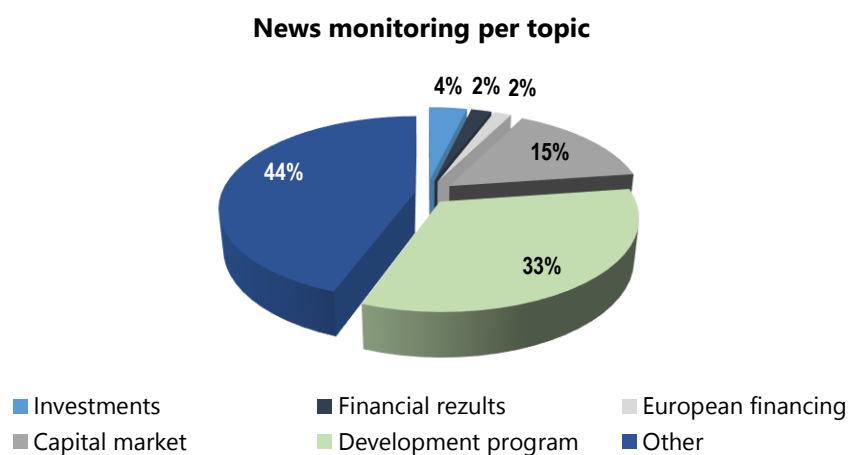
**Chart 27** – News monitoring per issue in 2018

Monthly distribution in 2018 of the references made by the topic is presented:



**Chart 28** -Monthly monitoring of news by topic in 2018

News by topic in 2018:



**Chart 29** -News by topic in 2018

**VESTMOLDTRANSGAZ** needs a new visual identity. Company rebranding is a priority for the new company's market placement and the definition of its new visual identity elements.

The elements considered for the rebranding process are:

- Preparation of the visual identity manual;
- Visual Identity Elements (logo, colours)
- Principles of using internal and external communication materials
- Applying effective internal communication tools (newsletter, intranet)
- Proposals of key documents (ethical code)

- Use of logos on materials and equipment used by all VESTMOLDTRANSGAZ employees (office items, badges, work equipment, labour protection equipment, etc.)
- Digital elements (site optimization, intranet)
- Company vehicles
- Forms
- Publications

The main purpose of the communication and the entire rebranding process is the correct positioning and at the high quality and image standards of the company.

The communication strategy aims at the effective implementation of the corporate governance principles on transparency and correctness of data and information, flexibility and effectiveness of entire VESTMOLDTRANSGAZ internal and external communication system and process.

Clients:

- VESTMOLDTRANSGAZ targets industrial and household customers. Their needs are related to the existence of a transmission network delivering natural gas at optimal parameters and at a fair price.
- The Moldovan gas market is constant from the point of view of consumers, the trend being to identify new sources of energy.
- The competitor of VESTMOLDTRANSGAZ is Moldovatrangaz Ltd.
- The target market share is: at least 70% of the natural gas consumption in the Republic of Moldova.
- The market can be extended by building a new gas transmission network to Bălți.
- New customers may be brought by:
  - the pricing policy (which is covered by the ANRE regulated tariff)
  - the gas volumes which can be delivered.

Further information on the VESTMOLDTRANSGAZ activity may be found on the company's website at: [www.vmtg.md](http://www.vmtg.md).

#### **5.2.10 Key non-financial performance indicators**

From the category of the **non-financial operational performance indicators** (presented in Annex 2a of GD 722/2016 for the approval of the Methodological Rules for the application of some provisions of the Governmental Emergency Ordinance no.109/2011 on the corporate governance of public enterprises) within the company the following indicators are monitored:

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



No	Indicator	Objective	No	2018		Achievement degree
				Planned	Achieved	
<b>Operational</b>						
6	Monitoring the Implementation and Investment Strategy	<p><b>Achievement of the FID projects from the 10 years Development Plan</b>  <i>I=(achieved+initiated actions)/proposed actions</i></p> <p><b>1.Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).</b></p>	6.1	Obtaining the comprehensive decision (in line with the provisions of EU regulation no 347/2013)	<b>Achieved</b> (March 2018)	100%
7	Increasing energy efficiency	Maintaining the share of the technological consumption in the total circulated gas below 1%	7.1	<1	0,62	161,3%
<b>Oriented towards public services</b>						
8	Performance indicators related to the gas transmission service	Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016)	8.1	$IP_0^1 \geq 90\%$	98,43%	100%
			8.2	$IP_1^1 \geq 95\%$	100%	
			8.3	$IP_1^2 \geq 95\%$	100%	
			8.4	$IP_1^3 \geq 95\%$	99,53%	
			8.5	$IP_1^4 \geq 95\%$	-	
			8.6	$IP_1^5 \geq 95\%$	-	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	100%	
			8.10	$IP_3^2 \geq 95\%$	100%	
			8.11	$IP_3^3 \geq 95\%$	-	

			8.12	$IP_3^4 \geq 95\%$	100%	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	99,7%	
			8.15	$IP_5^2 \geq 98\%$	100%	
			8.16	$IP_6^1 \geq 98\%$	100%	
			8.17	$IP_6^2 \geq 98\%$	100%	
			8.18	$IP_7^1 \geq 80\%$	92,04%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
<b>Corporate governance</b>						
9	<b>Implementing the internal/managerial control system</b>	<p>Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p><i>I = implemented standards/standards provided by Order 600/2018*100</i></p>	9.1	94%	<p><b>Achieved</b> Letter no. DSMC/4786/25.01.2019</p>	100%
10	<b>Clients satisfaction</b>	<p>Achievement of the targets provided for in the administration plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)</p>	10.1	7,8	<p><b>Achieved</b> Letter SMC 9610/15.02.2019</p>	100%
11	<b>Setting the risk management policies and risk monitoring</b>	<p>Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial Control Code of public entities</p>	11.1	Preparation of the strategy related to risk management	<p><b>Achieved</b> The Risk Management Strategy is registered by no DSMC/39870/06.08.2018 and approved by the BoA Resolution 41/2018</p>	100%
			11.2	Preparation of the procedure related to Risk Management System;	<p><b>Achieved</b> The Risk Management System procedure PS 05 SMI is approved and</p>	

					circulated by publication in the "Zonapublică" database	
			11.3	Preparation of the procedure for the conduct of the EGR activity	<b>Achieved</b> Following the impact analysis of the entry into force of the Order of the General Secretariat of the Government on the approval of the Managing Internal Control Code of Public Entities no. 600/2018, it was decided that the "Risk Management Activity" Process Procedure should no longer be developed. The conduct of the EGR activity is set out in the "Risk Management" System Procedure and in the "Risk Management Team Organization and Operation Regulation" approved by no. 37021/ 23.07.2018.	
12	Timely reporting of the key performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	12.1	Financial communication calendar to BSE	<b>Achieved</b>	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	<b>Achieved</b> Letter no 10014/01.03.2018 Deadline 15 March 2018  Letter DSMC 16016/15.03.2019 Deadline 15 March 2019	
			12.3	SCIM reporting	<b>Achieved</b> Letter no DSMC/4786/25 /01.2019 – reporting for 2018	

			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	<b>Achieved</b> Letter no. 63288/28.11.2018 Reporting ANRE for gas year 2017 - 2018	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<b>Achieved</b> Letter DSMC 30292/19.06.2018 Letter DSMC 34773/11.07.2018 Letter DSMC 68544/21.12.2018	
13	<b>Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans</b>	Compliance with the measures undertaken by the approved Integrity Plan <i>I = measures achieved within the deadline /proposed measures *100</i>	13.1	Preparation of a procedure on corruption prevention	<b>Achieved</b> The prevention procedure was prepared, approved and published on the Company's intranet platform.	Is monitored annually
			13.2	Preparation of a methodology for the evaluation of corruption related risks	<b>Achieved</b> The methodology is part of the procedure at point 13.1	
			13.3	- Publication of the results of the SCIM evaluation	<b>Achieved</b> 2017 Annual Report published at: <a href="#">Error! Hyperlink reference not valid.</a>	
			13.4	Creating a database of companies that did not execute properly the contracts concluded with TRANSGAZ following the public procurement procedures	<b>Achieved</b> The company's database was created	
			13.5	-Preparation of the policy on anti-bribery within the company	<b>Achieved</b> The following were approved: The Declaration of Anti-Fraud Policy and Anticorruption Policy and Anti-Fraud and Anti-Corruption Policy were approved by HCA 26 of 30.05.2018	

			13.6	<i>The identification and assimilation of good practices from the Guide of Good Practice of OCDE</i>	<b>Achieved</b> Anti-fraud aspects included in the Anti-fraud and anticorruption policy published at <a href="http://zonapublică.transgaz.ro">zonapublică.transgaz.ro</a>
			13.7	<i>- Organization of training courses with themes on integrity, corruption and fraud (execution staff);</i>	Achieved according to the program for training and staff development
			13.8	<i>- Initiation of a campaign for the information of employees on the phenomenon of fraud and corruption (execution staff);</i>	<b>Internal:</b> The Declaration for the adherence to SNA was sent to all employees As well as the Integrity Plan of the Company. <b>External:</b> according to Ord. 1244/2017, The Anti-fraud department within DCC/MEc carried out 3 activities for corruption prevention attended by the management staff within the company. The training was conducted in 14.02.2018 (Transgaz Representative Office) and during 05-06.06.2018 at Transgaz headquarters in Medias.
			13.9	<i>- Adoption and distribution within the company of the declaration for adherence to SNA;</i>	Decision No. 434/10.05.2018 on the establishment of the Corruption Prevention Working Group, whose main task is to coordinate all

				stages necessary for the management of corruption risks Identification is in progress acc. to the prevention procedure approved in December 2018.
			13.10	Prioritize audit and control actions by increasing their share in areas exposed to fraud and corruption  Achieved by the annual audit and control programs
			13.11	- Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities  <b>Achieved</b> The annual assessment was performed, and the 17.01.2019 Report on the assessment the TRANSGAZ Integrity Plan, the Situation of the 2017 Integrity Incidents (Annex 1) and National Anti-Corruption Strategy Measure Implementation Report (Annex 2) were sent to the Ministry of Econom by Letter DG 3328/18.01.2019;
			13.12	-Annual publication of the performance indicators monitored within the company's Integrity Plan  <b>Achieved</b> (by the publication of the Annual Evaluation of the Integrity Plan on intranet)

**Table 40 - Estimates of the key non-financial performance indicators for the calculation of the variable component of the remuneration in 2018**

## 6. CORPORATE GOVERNANCE

Corporate Governance is a very broad concept that includes elements such as the managers' responsibility for the accuracy of information in financial reports, very tight deadlines for financial reporting, full disclosure and transparency of financial results, transparency of internal audit, processes and external audits.

In detail, corporate governance refers to how the rights and responsibilities are divided between the categories of participants in the company's activities, such as the board of administration, managers, shareholders, and other interest groups, while also specifying how business decisions are made, how to define strategic objectives, how to reach them and how to monitor economic performance.

Practice confirms the need to step up efforts to accept corporate governance, as it has been noticed that organizations dedicated to implementing its principles have even managed to maximize their performance.

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

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

By subscribing to this aim, Transgaz aims to effectively implement the provisions of the Corporate Governance Regulation in order to provide a rigorous framework for sizing and regulating corporate governance principles at the company level.

The **Company's Corporate Governance Regulation** was endorsed by the Board of Administration by the Decision no.3/18.01.2011 and approved by the Ordinary General Meeting of Shareholders on March 2, 2011, by GMS Decision no.1/2011 (art.4).

The document has a structure in line with the requirements in the field and includes **9 chapters**, as follows:

- Chapter 1 - **Corporate Governance Structures:** Board of Administration, Advisory Committees, Executive Management. The tasks of the executive management are set out in the Transgaz Regulation of Organization and Functioning and the Code of Conduct sets out the ethical rules of mandatory conduct for all employees and applies to all organizational and hierarchical structures of the company.
- Chapter 2 - **Shareholder rights:** shareholder rights, shareholder treatment.
- Chapter 3 - **Board of Administration:** the role and obligations of the Board of Administration, the structure of the Board of Administration, the appointment of the members of the Board of Administration, the remuneration of the members of the Board of Administration.
- Chapter 4-**Transparency, financial reporting, internal control and risk management:** transparency and financial reporting.
- Chapter 5 - **Conflict of interests and transactions with persons involved:** conflict of interests; transactions with persons involved.

- |  |
|--|
| - Chapter 6 - <b>Corporate Information Regime.</b> |
| - Chapter 7 - <b>Social Responsibility.</b>        |
| - Chapter 8 - <b>Administration system.</b>        |
| - Chapter 9 - <b>Final Provisions.</b>             |

## 6.1 Corporate Governance Statement

### I. STATEMENT OF COMPLIANCE WITH THE CODE

### II. CORPORATE GOVERNANCE STATEMENT ITEMS

- Section A - Information on the composition, responsibilities and activities of the Board and the Committees.
- Section B - Risk and internal control information.
- Section C - Remuneration Information.
- Section D - Shareholder Information.

### I. STATEMENT OF COMPLIANCE WITH THE CODE

SNTGN Transgaz SA, as a company listed on the BSE in the Premium category, voluntarily adopted the CGC provisions of the BSE and reports as of 2010 total or partial compliance with the **Statement on compliance or non-compliance with the provisions of the Corporate Governance Code (the "apply or explain" statement)** contained in the Administrators' Report.

In September 2015, a new BSE Corporate Governance Code was launched for companies listed on the main market, with effect from January 4, 2016.

The new Code was designed by the BSE as part of a new corporate governance framework and aims to promote higher standards of governance and transparency for listed companies. The implementation of the new rules is based on the "apply and explain" principle, which provides the market with clear, accurate and timely information on how listed companies comply with corporate governance rules.

Transgaz is in full compliance with most of the provisions of the new Code, and the provisions with which the company is not yet in compliance were explicitly presented in a current report sent to the BSE in January 2016, which was also published on the company's website at the section: *Investor Information / Current Reports / 2016*.

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



Section	CGC provisions	Explanations regarding compliance
A.2.	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	Provision included in the Rules for organization and functioning of the BoA, Art. 17, approved by OGMS Resolution 4/23.06.2016.

**Table of compliance or non-compliance with the provisions of the new Code**

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
<b>Section A-Responsibilities</b>				
A.1	All companies must have an internal Board Regulation that includes the terms of reference / responsibilities of the Board and the key management functions of the company and which applies, inter alia, the General Principles of Section A.	X		
A.2	Provisions for managing conflicts of interest should be included in the Board Regulation. In any event, Board members must notify the Board of any conflicts of interest that have arisen or may arise and refrain from participating in the discussions (including by non-attendance, unless the failure to attend would hamper the formation of the quorum) and from the vote for the adoption of a decision on the issue giving rise to the conflict of interest concerned.	X		
A.3	The Board of Administration or the Supervisory Board must be composed of at least 5 members.	X		
A.4	Most members of the Board of Administration should not hold executive positions. At least one member of the Board of Administration or the Supervisory Board must be independent in the case of companies from the Standard Category. In the case of Premium Category companies, no less than two non-executive members of the Board of Administration or the Supervisory Board must be independent. Each independent member of the Board of Administration or the Supervisory Board, as the case may be, must file a statement at the time of his/her nomination for election or re-election, and	X		

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
when any change of his/her status occurs, indicating the elements based on which he/she is considered as independent from the point of view of his/her character and judgment and according to the following criteria:			
<b>A.4.1.</b> He / she is not the General Manager / Chief Executive Officer of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
<b>A.4.2.</b> He / she is not the employee of the company or of a company controlled by the company and has not held such a position in the last 5 years.	X		
<b>A.4.3.</b> He/she does not receive and has not received any additional remuneration or other benefits from the company or a company controlled by it, other than those corresponding to the capacity of non-executive administrator.	X		
<b>A.4.4.</b> He/she is not or was not the employee or does not or did not have a contractual relationship in the previous year with a significant shareholder of the company, a shareholder controlling over 10% of the voting rights, or a company controlled by it.	X		
<b>A.4.5.</b> He/she has not and did not have a business or professional relationship with the company or a company controlled by it, either directly or as a client, partner, shareholder, member of the Board / Administrator, general manager / executive manager or employee of a company if, by virtue of its substantive nature, this relationship may affect his/her objectivity.	X		
<b>A.4.6.</b> He/she is not and was not, in the last 3 years, an external or internal auditor or a partner or employed associate of the current external financial auditor or the internal auditor of the company or a company controlled by it.	X		
<b>A.4.7.</b> He/she is not the general manager / executive director of another company where another general manager / executive director of the company is the non-executive administrator.	X		
<b>A.4.8.</b> He/she has not been a non-executive administrator of the company for more than 12 years.	X		
<b>A.4.9.</b> He/she has no family ties with a person in the cases mentioned in A.4.1 and A.4.4.	X		
<b>A.5</b> Other relatively permanent commitments and obligations of a member of the Board, including executive or non-executive positions in the Board of Non-Profit organizations and companies, should be	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	disclosed to potential shareholders and investors prior to nomination and during his/her term of office.			
<b>A.6</b>	Any member of the Board must report to the Board any relationship with a shareholder directly or indirectly owning shares representing more than 5% of all voting rights. This obligation refers to any relationship that may affect the member's position on matters decided by the Board.		X	Information will be requested from Board of Administration members Transgaz will send to the BSE a current report at the time of compliance.
<b>A.7</b>	The company must designate a Board Secretary responsible for supporting the work of the Council.	X		
<b>A.8</b>	The Corporate Governance Statement will inform whether a Board assessment has taken place under the leadership of the Chairman or the nomination committee and, if so, will summarize the key measures and the resulting changes. The company must have a policy / guidance on the Council's assessment with regard to the purpose, criteria and frequency of the assessment process.		X	The activity of the Board of Administration is evaluated on the basis of the performance criteria included in the management plan as well as in the mandate contracts, and the extent to which they are fulfilled is included in the Board of Administration annual report. The company does not have a policy / guide for assessing the activity of the Board of Administration, the assessment being made on the basis of the above mentioned criteria. TGN will send a current compliance report when drafting this policy.
<b>A.9</b>	The corporate governance statement should contain information on the number of Board and committee meetings over the past year, the participation of	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
	administrators (in person and in absentia), and a report by the Board and committees on their activities.			
<b>A.10</b>	The corporate governance statement should include information on the exact number of independent members of the Board of Administration or the Supervisory Board.	X		
<b>A.11</b>	The Boards of Premium Category Companies must establish a nomination committee composed of non-executive members, which will lead the nomination process of new members of the Board and make recommendations to the Board. Most members of the nomination committee must be independent.	X		
<b>Section B - Risk Management System and Internal Control System</b>				
<b>B.1</b>	The Board should establish an audit committee in which at least one member has to be a non-executive independent administrator. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee. At least one member of the audit committee must have proven and appropriate auditing or accounting experience. In the case of Premium Category companies, the audit committee must consist of at least three members and the majority of the members of the audit committee must be independent.	X		
<b>B.2</b>	The Chairman of the Audit Committee should be an independent non-executive member.	X		
<b>B.3</b>	Within its responsibilities, the audit committee must carry out an annual assessment of the internal control system.	X		
<b>B.4</b>	The assessment should take into account the effectiveness and scope of the internal audit function, the adequacy of the risk management and internal control reports submitted to the audit committee of the Board, the promptness and effectiveness with which executive management addresses the deficiencies or weaknesses identified following the internal control and the submission of relevant reports to the Board.	X		
<b>B.5</b>	The audit committee should assess the conflicts of interest in relation to the transactions of the company and its subsidiaries with affiliated parties.	X		
<b>B.6</b>	The audit committee should assess the effectiveness of the internal control system and risk management system.	X		

The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
<b>B.7</b>	The Audit Committee should monitor the application of generally accepted legal standards and auditing standards. The Audit Committee should receive and evaluate internal audit team reports.	X		
<b>B.8</b>	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they should be followed by regular reports (at least annually) or ad-hoc reports to be submitted to the Board.	X		
<b>B.9</b>	No shareholder may be granted preferential treatment over other shareholders in connection with transactions and agreements entered into by the company with shareholders and their affiliates.	X		
<b>B.10</b>	The Board must adopt a policy to ensure that any transaction of the company with any of the companies with which it has close relationships with a value equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board following a binding opinion of the Board's Audit Committee and properly disclosed to shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.		X	This policy will be developed and approved in accordance with the Board of Administration ROF and the Articles of Incorporation.
<b>B.11</b>	Internal audits should be performed by a separate structural division (audit department) within the company or by hiring an independent third party.	X		
<b>B.12</b>	In order to ensure the main functions of the internal audit department, it must report functionally to the Board through the audit committee. For administrative purposes and within the management's responsibility to monitor and mitigate risks, it must report directly to the Director General.	X		
<b>Section C - Fair rewards and motivation</b>				
<b>C.1</b>	The company must publish its remuneration policy on its intranet page and include a statement on the implementation of the remuneration policy in the annual report during the annual period under review. The remuneration policy should be formulated in such a way as to enable shareholders to understand the principles and arguments underpinning the remuneration of the members of the Board and of the Director General as well as the directors in the dualist system. It should describe the management		X	Transgaz partially applies this provision by observing the provisions of GEO 109/2011 art.39 and art. 55 (2).

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
<p>of the decision-making process on remuneration and detail the components of the executive management's remuneration (such as salaries, annual bonuses, long-term incentives related to the value of shares, benefits in kind, pensions, etc.) and describe the purpose the principles and assumptions underlying each component (including general performance criteria for any form of variable remuneration). In addition, the remuneration policy must specify the duration of the contract of the executive director and the notice period stipulated in the contract, as well as possible compensation for unjustified revocation.</p> <p>The remuneration report should present the implementation of the remuneration policy for the persons identified in the remuneration policy during the annual period under review.</p> <p>Any major change in the remuneration policy should be published in a timely manner on the company's website.</p>			
<b>Section D-Building value by the relationship with investors</b>			
<b>D.1</b>	The company must organize an Investor Relations Service-indicating to the general public the responsible person(s) or organizational unit. In addition to the information required by law, the company must include on its website a section dedicated to Investor Relations, in Romanian and English, with all relevant information of interest to investors, including:	X	
	<b>D.1.1.</b> Main corporate regulations: the Articles of Incorporation, the procedures for the general meetings of the shareholders.	X	
	<b>D.1.2.</b> Professional CVs of members of the company's governing bodies, other professional engagements of Board members, including executive and non-executive positions in boards of administration in non-profit companies or institutions.	X	
	<b>D.1.3.</b> Current reports and regular reports (quarterly, half-yearly and annually) - at least those under D.8 - including current reports with detailed information on non-compliance with this Code;	X	
	<b>D.1.4.</b> Information on the general meetings of the shareholders: agenda and informative materials; the procedure for electing the members of the Board; the arguments that support the proposals of candidates for election in the Board together with their professional CVs; the shareholders' questions		X The Company partially applies this provision, in accordance with art. 29 of GEO 109/2011 on Corporate Governance of

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
about the agenda items and the company's replies, including the resolutions adopted.			Public Enterprises, as subsequently amended and supplemented.
<b>D.1.5.</b> Information on corporate events, such as the payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of the rights of a shareholder, including the deadlines and the principles applied to such operations. Such information will be published within a time frame that will allow investors to make investment decisions.	X		
<b>D.1.6.</b> Names and contact details of a person who will be able to provide relevant information upon request.	X		
<b>D.1.7.</b> Company presentations (e.g., investor presentations, quarterly results presentations, etc.), financial statements (quarterly, half-yearly, annually), audit reports, and annual reports.	X		
<b>D.2</b> The Company will have a policy on the annual distribution of dividends or other benefits to shareholders proposed by the Director General or the Directorate and adopted by the Board in the form of a set of guidelines that the company intends to follow regarding the distribution of net profit. The principles of the policy regarding annual distribution to shareholders will be published on the company's website.		X	The distribution of the company's profits is made in accordance with the provisions of Government Emergency Ordinance 64/2001 on the distribution of profits of national companies, and trade companies with full or majority state capital, as well as autonomous administrations.
<b>D.3</b> The company will adopt a policy in relation to the forecasts, whether they are made public or not. The forecasts refer to quantified conclusions of studies aimed at determining the overall impact of a number of factors over a future period (so-called assumptions): by its nature, this projection has a high level of uncertainty, the actual results may differ significantly from the forecasts originally presented. The forecasting policy will determine the frequency, the period considered and the content of the		X	The activity of the company is regulated by ANRE. The management plan of Transgaz includes the management strategy during the mandate.

The provisions of the new Code	Compliant	Non-compliant or partially compliant	Reason for non-compliance
forecasts. If published, the forecasts can only be included in the annual, half-yearly or quarterly reports. The forecasting policy will be published on the company's website.			It is rigorously structured and includes strategic action directions for managing all the resources, operational and management processes of the company in order to achieve, with maximum efficiency, the established performance targets.
<b>D.4</b> The rules of the general meetings of the shareholders must not limit the participation of shareholders to general meetings and the exercise of their rights. Changes to the rules will take effect at the earliest, starting with the next meeting of the shareholders.	X		
<b>D.5</b> External auditors will be present at the general meeting of the shareholders when their reports are presented at these meetings.	X		
<b>D.6</b> The Board will give a brief assessment to the Annual General Meeting of the Shareholders on the internal control and risk management systems as well as opinions on matters subject to the decision of the general meeting.	X		This information is included in the annual report of the Board of Administration as well as in the Statement of the management, drawn up in accordance with art. 30 of the Accounting Law no. 82/1991.
<b>D.7</b> Any specialist, consultant, expert, or financial analyst may attend the meeting of the shareholders on the basis of a prior invitation from the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.	X		
<b>D.8</b> The quarterly and half-yearly financial reports will include both Romanian and English information on the key factors that affect changes in sales, operating profit, net profit and other relevant financial ratios from one quarter to another quarter, and from one year to another.	X		



The provisions of the new Code		Compliant	Non-compliant or partially compliant	Reason for non-compliance
<b>D.9</b>	A company will hold at least two meetings / teleconferences with analysts and investors each year. The information presented on these occasions will be published in the Investor Relations section of the company's website at the date of the meetings / teleconferences.	X		
<b>D.10</b>	If a company supports different forms of artistic and cultural expression, sporting activities, educational or scientific activities, and considers that their impact on the innovation and competitiveness of the company is part of its mission and development strategy, it will publish its activity policy in this area.	X		

## II. CORPORATE GOVERNANCE STATEMENT ITEMS

### Section A - Information on the composition, responsibilities and activities of the Board of Administration and of the Advisory Committees

#### Administration system

Transgaz has a unitary management system and is managed by a Board of Administration. It has the general competence to take out all necessary actions in order to successfully carry out the object of the company, except for the issues that are within the competence of the General Meeting of the Shareholders according to the provisions of the Articles of Incorporation updated on November 27, 2018, or the applicable laws.

The management of Transgaz is provided by a Board of Administration formed mostly by non-executive and independent administrators within the meaning of Art.138<sup>2</sup> of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

The Board of Administration is composed of 5 members that guarantee the efficiency of the supervisory, analysing and evaluating capacity of the company as well as the fair treatment of the shareholders. Members of the Board of Administration are elected by the General Meeting of Shareholders for a four-year term, and if the duties are duly fulfilled, the mandate may be renewed or they may be revoked by the Ordinary General Meeting in case of failure to meet the main objectives.

Members of the Board of Administration may be shareholders. The Transgaz Board of Administration is chaired by a Chairman appointed by the Board of Administration, from among its, which ensures the optimal functioning of the company's bodies. Members of the Board of Administration will participate in all the General Meetings of the Shareholders and will exercise their mandate in good faith and knowledge for the interest of the Company with

due diligence and care without disclosing the confidential information and trade secrets of the Company during the term of office and after its termination.

The Articles of Incorporation of Transgaz, updated on November 27, 2018 and approved by the Board of Administration by Decision no. 49/27.11.2018, regulates the duties, responsibilities and powers of the Board of Administration as well as the obligations of the company's administrators.

The Board of Administration operates in accordance with its own regulations and legal regulations in force. Following the implementation of the new Corporate Governance Code of the BSE, the Board of Administration approved the amendment of the *Regulation of Organization and Functioning of the Board of Administration of SNTGN Transgaz SA* in order to comply with its provisions and was approved in Art. 2 of the Decision of the Ordinary General Meeting of the Shareholders no. 8 of December 17, 2018.

The structure of the Transgaz Board of Administration ensures a balance between executive and non-executive members, so that no individual or restricted group of persons can dominate the decision-making process of the Board of Administration.

The decision-making process within the company will remain a collective responsibility of the Board of Administration, which will be held jointly and severally responsible for all decisions taken in the exercise of its powers. The renouncement of the mandate by independent administrators shall be accompanied by a detailed statement of the reasons for such renouncement.

Members of the Board of Administration will constantly update their competencies and improve their knowledge of the company's business and best corporate governance practices in order to fulfil their role.

### **Members of the Board of Administration of SNTGN Transgaz SA**

The competence of Transgaz' Board of Administration as of 11.07.2017, following the Resolution of the GOSM no 3/19.06.2017, namely the Resolution of GOSM no 13/28.12.2017 is as follows:

ION STERIAN	Executive Administrator-Chairman, Director General
PETRU ION VĂDUVA	Non-Executive Administrator
BOGDAN GEORGE ILIESCU	Non-Executive Administrator, Independent
NICOLAE MINEA	Non-Executive Administrator, Independent
REMUS-GABRIEL LĂPUȘAN	Non-Executive Administrator, Independent

The CVs of the members of Transgaz' Board of Administration are available on the company's website at: [www.transgaz.ro/Despre noi/Management/Consiliul de administratie](http://www.transgaz.ro/Despre noi/Management/Consiliul de administratie).

## **Role and duties of the Board of Administration**

Transgaz's management is provided by a Board of Administration meeting at the company's headquarters or at another decided location whenever necessary but at least once every three months.

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

In the organizational structure of the company the Administration Board and General Meeting of the Shareholders Secretariat Service is established, with responsibilities in supporting the activity of the Board of Administration.

The meetings of the Board of Administration may take place by telephone or video-conference or other means of communication through which all persons present at the meeting may hear each other and participation in such a meeting shall be deemed to be participation for the purpose of fulfilling quorum and voting requirements.

In 2018 there were 55 meetings of the Board of Administration.

The debates shall be recorded in the minutes of the meeting, which shall include the names of the participants, the order of the discussions, the decisions made, the number of votes cast and the separate opinions. Minutes shall be signed by the chairman of the meeting and by at least one other administrator. Based on the minutes, the Secretary of the Board of Administration shall draw up the decision, which shall be signed by the Chairman.

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

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

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

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

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

The General Director shall prepare and submit to the Board of Administration the reports provided by law.

The General Director shall submit to the Board of Administration for approval the transactions concluded with the administrators or directors, employees or shareholders holding control over Transgaz or with a company controlled by them, if the transaction has, individually or in a series of transactions, a value of at least the equivalent in LEI of EUR 50,000.

The executive directors and the directors of subsidiaries are appointed by the General Director and are subordinate to it, are officials of TRANSGAZ S.A., carry out its operations and are accountable to it for the performance of their duties under the same conditions as the members of the Board of Administration.

The duties of the executive directors and of the directors within the branches are established by Transgaz' Rules of Procedure.

Persons who are incompatible under the Companies Law no. 31/1990, republished, as amended and supplemented, may not be executive directors or Subsidiary directors.

The Board of Administration, according to art. 19 paragraph 8 of the Articles of Incorporation, updated on November 27, 2018, informs, at the first general meeting of the shareholders following the conclusion of the legal act, on: any transaction with the administrators or with the directors, with the employees, with the shareholders who control the company or with a company controlled by them, the transactions concluded with the spouse, relatives or affiliates up to the fourth degree, including the persons mentioned above, any transaction concluded between TRANSGAZ SA with another public enterprise or with the public supervisory body, if the transaction has a value, individually or in a series of transactions, of at least the equivalent in lei of euro 100,000.

The Board of Administration is required to make available, at the general meeting of shareholders and financial auditors, Transgaz S.A. documents and activity reports according to the legal provisions.

### **Liability of administrators**

The liability of the administrators is governed by the legal provisions regarding the mandate as well as the special provisions of the Companies Law no. 31/1990, republished, as subsequently amended and supplemented.

### **Incompatibility**

The persons provided for in the Companies Law no. 31/1990, republished, as subsequently amended and supplemented, are incompatible with the membership of the Board of Administration

The person who is incompatible with the status of administrator, according to the Companies Law no. 31/1990, republished, as amended and supplemented, may not be the general director

of TRANSGAZ S.A.

### **Duties of the Board of Administration**

The Board of Administration has the following main tasks:

- to establish the main directions of activity and development of the company;
- to draw up the management plan, which includes the management strategy for the duration of the mandate to achieve the objectives and performance criteria set by mandate contracts;
- to approve the internal regulation on the organization and functioning of the advisory committees set up at the level of the Board of Administration and their composition;
- to establish accounting policies and the financial control system and approve financial planning;
- to approve the organizational structure and the regulation of organization and functioning of TRANSGAZ S.A. ;
- to appoint and revoke the general director of TRANSGAZ S.A. and determine his/her remuneration;
- to approve the management plan for the duration of the mandate and for the first year of the term of the general director of TRANSGAZ S.A. ;
- to supervise the work of the general director;
- to prepare the annual report, organize the general meeting of shareholders and implement its decisions;
- to introduce the request for initiating insolvency proceedings for TRANSGAZ S.A., in accordance with the legal regulations in force;
- to approve the level of guarantees for persons who are managers;
- to conclude legal documents by which to acquire, lease, rent, change or warrant assets in the patrimony of TRANSGAZ S.A., with the approval of the general meeting of shareholders when the law imposes this condition;
- to approve the competences of the branches by field of activity (economic, commercial, technical, administrative, financial, legal etc.) in order to achieve the activity of TRANSGAZ SA;
- to approve the change of the secondary activity scope of SNTGN „Transgaz” S.A;
- to approve the set-up/closure of objective work points of NTS;
- to approve the conclusion of any contracts for which it has not delegated the competence of the general director of TRANSGAZ S.A. ;
- to submit annually to the general meeting of the shareholders, after the end of the financial year, the report on the activity of TRANSGAZ S.A., the balance sheet and the profit and loss account for the previous year;
- to submit to the general meeting of the shareholders the activity program and the draft income and expenditure budget for the following year;
- to convene the general meeting of shareholders whenever necessary;
- to establish the rights, obligations and responsibilities of the TRANSGAZ SA staff, according to the approved organizational structure;
- to decide on the contracting of bank loans, including foreign ones; to establish the

competencies and level of contracting of bank loans in the domestic and foreign markets, of trade credits and guarantees, including by pledging shares related to holdings held in other companies according to the law; to approve the release of guarantees;

- to approve the number of posts and the normative act for the establishment of functional and production departments;
- to approve production, research, development and investment programs;
- to approve policies for environmental protection, occupational safety, according to the legal regulations in force;
- to approve, within the limits of the revenue and expenditure budget approved by the general meeting of shareholders, changes in its structure within the limits of the powers for which it has been mandated;
- to negotiate the collective labour agreement by mandating the general director and to approve the status of the staff;
- to ensure and to be responsible for the fulfilment of any other tasks and duties established by the general meeting of the shareholders or which are provided by the legislation in force;
- to decide on behalf of and for the General Meeting of the Shareholders of the limited liability company Eurotransgaz on the territory of the Republic of Moldova;
- to adopt any other decisions concerning the activity of the company, except those which are within the competence of the general meeting of the shareholders.

### **Appointment of Board members**

The Company has set up a Nomination and Remuneration Committee to coordinate the process of appointing Board members and to make recommendations for both the position of administrator and the vacant positions within the Board in accordance with GEO 109/2011 on Corporate Governance in Public Enterprises, as subsequently amended and supplemented. When a vacancy is created in the Board of Administration, the election of a new member is made under the conditions stipulated by the law. The duration for which the new administrator is elected to fill the vacancy shall be equal to the period remaining until the expiry of his/her predecessor's term.

### **Advisory Committees set up at the level of the Board of Administration**

Starting with 27 May 2013 the Board of Administration Decision no. 7 of May 27, 2013 approved the new structure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA, as follows:

- Nomination and Remuneration Committee;
- Audit and Rating Committee;
- NTS Safety and Security Committee;
- Strategy and Development Committee;
- Regulatory and Public Authority Relations Committee.

**The Rules of procedure of the Advisory Committees set up at the level of the Board of Administration of SNTGN Transgaz SA**, updated on 28.02.2018, can be found on its own website in the **About us/Board of Administration** section.

The last update was aimed at amending the Internal Regulation on the Organization and Operation of the Advisory Committees following the Resolution of the Board of Administration no. 10/28.02.2018 the update of the responsibilities of the Advisory Committees for audit and rating.

**Task sheets of the five advisory committees set up at the level of the Board of Administration:**

ADVISORY COMMITTEE	REMARKS	DUTIES
<p><b>NOMINATION AND REMUNERATION COMMITTEE</b></p>	<p>will be composed of at least two members of the Board of Administration;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ coordinates the process of appointing the members of the Board of Administration;</li> <li>▪ elaborates and proposes to the Board of Administration the Procedure for the election of the members of the Board of Administration;</li> <li>▪ addresses recommendations on both the position of administrator and the filling of vacant positions within the Board of Administration;</li> <li>▪ assesses the cumulative professional skills, knowledge and experience at the level of the Board of Administration, directors and other management functions;</li> <li>▪ establishes the requirements for occupying a certain position in the management of the company;</li> <li>▪ elaborates and proposes to the Board of Administration the procedure for the selection of candidates for the positions of director and other management positions;</li> <li>▪ recommends to the Board of Administration candidates for the listed positions;</li> <li>▪ apply best practices of corporate governance by improving knowledge of the company's business and constantly updating the professional competencies of board members;</li> <li>▪ develops the remuneration policy for administrators;</li> <li>▪ submits such remuneration policy for approval to the General Meeting of Shareholders;</li> <li>▪ formulates proposals on the remuneration of directors and other management functions;</li> <li>▪ informs about the remuneration policy in the Corporate Governance Statute / Regulations of the company;</li> <li>▪ presents in the Annual Report the total amount of the direct and indirect remuneration of administrators and directors, separately, according to the fixed and variable components of such remuneration;</li> <li>▪ in determining the remuneration of non-executive directors, it will observe the principle of proportionality</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
		<p>of this remuneration with the responsibility and time devoted to the exercise of their functions by them;</p> <ul style="list-style-type: none"> <li>▪ draws up an annual report on the remuneration and other advantages granted to the administrators and directors during the financial year, which shall be presented to the general meeting of the shareholders and includes the information provided in art. 55 paragraph (3) of GEO no. 109/2011 on Corporate Governance of Public Enterprises;</li> <li>▪ may, where appropriate, call on external experts to assist with the tasks they are required to perform.</li> </ul>
<b>AUDIT AND RATING COMMITTEE</b>	<p>will be composed of at least three members of the Board of Administration and the majority of members must be independent;</p> <p>will be composed of non-executive administrators, at least one of the members of the committee will be an independent non-executive administrator;</p> <p>at least one member of the committee must have proven and appropriate audit or accounting experience;</p> <p>the chairman of the committee must be an independent</p>	<ul style="list-style-type: none"> <li>▪ assists and recommends the Board of Administration, proposes the establishment of the accounting and financial control system and approves the financial and budgetary planning;</li> <li>▪ monitors the effectiveness of the entity's internal quality control systems and risk management systems and, where applicable, internal auditing of the financial reporting of the audited entity without prejudice to its independence;</li> <li>▪ monitors the statutory audit of the annual financial statements and the consolidated annual financial statements, in particular the performance of the annual financial statements, taking into account the findings and conclusions of the competent authority in accordance with Article 26 (6) of EU Regulation no.537/2014;</li> <li>▪ performs an annual assessment of the internal control system and presents relevant reports to the Board of Administration;</li> <li>▪ assesses conflicts of interest in relation to the transactions of the company and its subsidiaries with related parties;</li> <li>▪ monitors the application of generally accepted legal standards and internal audit standards;</li> <li>▪ receives and evaluates internal audit team reports;</li> <li>▪ submits regular reports to the Board of Administration;</li> <li>▪ elaborates and submits to the Board of Administration for approval an opinion on the policy by which to ensure that any transaction of the company with any of the companies with which it has close relationships, the value of which is equal to or greater than 5% of the net assets of the company (according to the latest financial report) is approved by the Board;</li> <li>▪ meets as often as necessary, but at least twice a year for drafting half-yearly and annual results, when their dissemination to shareholders and the general public is performed;</li> </ul>



ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>non-executive member;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ checks the compliance of the audit reports with the approved audit plan at the company level;</li> <li>▪ provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by</li> <li>▪ reviewing the relevance and consistency of accounting standards applied by the Company;</li> <li>▪ collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other;</li> <li>▪ is liable for the selection procedure of the financial auditor or audit firm and recommends to the general meeting of the shareholders the financial auditor or audit firm (s) to be designated / designated in accordance with Article 16 of EU Regulation No.537 / 2014, unless Article 16 (8) of EU Regulation No.537 / 2014 applies;</li> <li>▪ evaluates and monitors the independence of financial auditors or audit firms in accordance with Articles 21-25, 28 and 29 of Law no. 162/2017 on statutory audit of annual financial statements and consolidated annual financial statements and amending certain acts normative and Article 6 of EU Regulation No.537 / 2014 and, in particular, the opportunity to provide services that are not audit to the audited entity in accordance with Article 5 of that Regulation;</li> <li>▪ informs the members of the Board of Administration of the audited entity about the results of the statutory audit and explain how the statutory audit contributed to the integrity of the financial reporting and the role of the committee in the process;</li> <li>▪ monitors the financial reporting process and submits recommendations or proposals to ensure the integrity thereof;</li> <li>▪ fulfils the duties provided in art. 47 of GEO no. 90/2008, approved with amendments by Law no. 278/2008, in accordance with art. 34 par. (3) of GEO 109/2011.</li> </ul>
<b>SAFETY AND SECURITY COMMITTEE OF NTS</b>	<p>will be composed of at least two members of the</p>	<ul style="list-style-type: none"> <li>▪ periodically reviews the critical infrastructure criteria list of Transgaz and the established security measures;</li> <li>▪ provides the necessary conditions for the implementation of measures to protect all critical</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<p>infrastructure objectives of the company or under the authority/coordination of the company;</p> <ul style="list-style-type: none"> <li>▪ monitors / updates its own programs for preventing and combating terrorism through optimal physical and organizational protection measures, with recommendations to the Board of Administration;</li> <li>▪ monitors the fulfilment of programs for maintenance and modernization of NTS development as well as the observance of the technical norms for operation and maintenance of production capacities.</li> </ul>
<p><b>STRATEGY AND DEVELOPMENT COMMITTEE</b></p>	<p>will be composed of at least two members of the Board of Administration;</p> <p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ assists the Board of Administration in fulfilling its responsibilities in the field of elaboration and updating of the general strategy of the development of company;</li> <li>▪ analyses the opportunities identified for business development and issues recommendations to the Board of Administration on these;</li> <li>▪ analyses and assists the Board of Administration on the direction of international development and cooperation of the company;</li> <li>▪ monitors and analyses the implementation of strategic and action plans / programs regarding the obligations of Transgaz as an NTS technical operator and stock exchange issuer;</li> <li>▪ develops proposals for improving and streamlining strategic activity, development and collaboration;</li> <li>▪ addresses recommendations to the Board of Administration on the effective operation of strategic and action plans / programs;</li> <li>▪ monitors and analyses the performance indicators of the transport system and the economic and financial performance of the company's activity.</li> </ul>
<p><b>REGULATORY AND PUBLIC AUTHORITY RELATIONS COMMITTEE</b></p>	<p>will be composed of at least two members of the Board of Administration;</p>	<ul style="list-style-type: none"> <li>▪ assists the Board of Administration in analysing the regulatory activity and legal obligations of the company in this field;</li> <li>▪ monitors the fulfilment by the company of the obligations stipulated by the regulations that are incident to the performed activity;</li> </ul>

ADVISORY COMMITTEE	REMARKS	DUTIES
	<p>at least one member of the committee shall be an independent non-executive administrator;</p> <p>the tasks of this Committee are set out in the Corporate Governance Code.</p>	<ul style="list-style-type: none"> <li>▪ analyses and submits proposals to the Board of Administration on the regulatory framework;</li> <li>▪ monitors collaborative relationships with public authorities and assists the Board of Administration in establishing and managing the collaboration policy.</li> </ul>

### Composition of advisory committees set up at the level of the company's Board of Administration

Following OGMS no. 3/19.06.2017 appointing new interim administrators, namely Minea Nicolae and Lăpușan Remus-Gabriel, at the meeting of the Board of Administration dated July 11, 2017 it was decided to change the composition of the advisory committees established at the Board of Administration level of the company. As of this date, the composition of the committees is as follows:

Name of the Advisory Committee	Composition of the Committee	
Nomination and Remuneration Committee	Văduva Petru Ion	- non-executive administrator
	Minea Nicolae	- non-executive, independent administrator
	Iliescu Bogdan George	- non-executive, independent administrator
Audit and Rating Committee	Iliescu Bogdan George	- non-executive, independent administrator, Chairman of the Audit and Rating Committee
	Minea Nicolae	- non-executive, independent administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator
Security and Safety Committee of NTS	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator
Strategy and Development Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Iliescu Bogdan George	- non-executive, independent administrator
	Minea Nicolae	- non-executive, independent administrator

Regulatory and Public Authority Relations Committee	Sterian Ion	- executive administrator
	Văduva Petru Ion	- non-executive administrator
	Lăpușan Remus Gabriel	- non-executive, independent administrator

The activity carried out in 2018 by the five advisory committees set up at the level of the Board of Administration on the basis of:

- Law no. 31/1990, as subsequently amended and supplemented, republished, Art. 138<sup>1</sup> (2), Art. 138<sup>2</sup> (2), Art. 140<sup>2</sup> (1) and (2);
- GEO no 109/2011 on corporate governance of public companies, Art. 34 and Art. 55 (2) and (3);
- Law no 162/2017 on the statutory audit of the annual financial statements and consolidated annual financial statements and on the amending of some normative acts;
- The Corporate Governance Code of the Bucharest Stock Exchange;
- The updated Articles of Incorporation of Transgaz SA, Chapter V, Art.19 (11);
- The Board of Administration resolutions 22/11.07.2017, 15/16.05.2017, 39/17.12.2015, 43/19.11.2014, 21/ 16.06.2014, 2/ 10.02.2014, 13/ 29.07.2013, 7/ 27.05.2013, 16/ 30.10.2009, 13/ 24.09.2009.

intended to monitor the actions of the members of the Advisory Committees in accordance with the areas in which they were designated and is reflected in their half-yearly activity report, which highlights:

- how the materials and documents of the different organizational structures of SNTGN Transgaz SA were consulted by the members of the Advisory Committees;
- analyses by members of the Advisory Committees on the content of documents and materials submitted;
- proposals / measures / recommendations of the members of the Advisory Committees regarding the content of materials and documents submitted for analysis and approval / endorsement to the Board of Administration; and
- the documents by which the Board of Administration in its plenary decided on the content and the issues addressed in the documents submitted for analysis/approval/endorsement.

The way of presenting the activity report of the advisory committees set up at the Board of Administration level in 2018 was designed so as to reflect in a comprehensive and accurate manner the entire activity regarding the analysis, consultation and the decision making process regarding the activity of the company.

No.	Description	Responsible	Composition of the Committee
1.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and June 2018	Nomination and Remuneration Advisory Committee	Văduva Petru Ion Minea Nicolae Iliescu Bogdan George
2.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-June 2018	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Minea Nicolae

No.	Description	Responsible	Composition of the Committee
3.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-June 2018	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
4.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-June 2018	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
5.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-June 2018	Audit and Rating Advisory Committee	Iliescu Bogdan George Minea Nicolae Lăpușan Remus Gabriel
6.	<b>Activity Report</b> of the Nomination and Remuneration Advisory Committee between January and December 2018	Nomination and Remuneration Advisory Committee	Văduva Petru Ion Minea Nicolae Iliescu Bogdan George
7.	<b>Activity Report</b> of the Strategy and Development Advisory Committee during January-December 2018	Strategy and Development Advisory Committee	Sterian Ion Văduva Petru Ion Iliescu Bogdan George Minea Nicolae
8.	<b>Activity Report</b> of the Regulatory and Public Authority Relations Advisory Committee during January-December 2018	Regulatory and Public Authority Relations Advisory Committee	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
9.	<b>Activity Report</b> of the Safety and Security Advisory Committee of NTS during January-December 2018	Safety and Security Advisory Committee of NTS	Sterian Ion Văduva Petru Ion Lăpușan Remus Gabriel
10.	<b>Activity Report</b> of the Audit and Rating Advisory Committee during January-December 2018	Audit and Rating Advisory Committee	Iliescu Bogdan George Lăpușan Remus Gabriel Minea Nicolae

## Section B - Risk and internal control information

At the level of Transgaz an Audit Committee was initially established, but following the approval of the new structure of the Advisory Committees by the Board of Administration Decision no. 7 of May 27, 2013, the *Audit and Rating Committee* was established to regularly review the compliance of financial reporting, internal control, and the company's risk management and rating system. The audit committee must be composed of at least three members and the majority of the members must be independent. The Chairman of the Audit Committee should be an independent non-executive member. Most members, including the Chairman, must have demonstrated that they have appropriate qualifications relevant to the functions and responsibilities of the Committee.

The members of the Committee shall assist and make recommendations to the Board of Administration on the establishment of the accounting and financial control system as well as the financial and budgetary planning.

The Committee conducts auditing analyses and draws up audits reports based on them, while verifying the compliance of the audit reports with the approved audit plan at the company

level. Within the company the Internal Audit Service is established, which is under the direct subordination of the Board of Administration. It reports to the Audit and Rating Committee on a quarterly basis, a synthesis of the internal audit work carried out.

The Committee provides support to the Board of Administration in monitoring the credibility and completeness of the financial information provided by the Company, in particular by reviewing the relevance and consistency of accounting standards applied by the Company.

The Committee collaborates with the company's external financial audit, which will provide a report describing all the relationships between the latter, on the one hand, and the company and the group to which it belongs, on the other;

The Audit and Rating Committee monitors the independence and accountability of the financial auditor, in particular by monitoring the rotation of the company's dedicated partners in the audit firm, and makes recommendations to the Board of Administration on the selection, appointment, re-appointment, replacement of the financial auditor, and terms and conditions of its remuneration.

### **Conflict of interests**

The members of the Board of Administration will make decisions in the sole interest of the company and will not take part in the debates or decisions that create a conflict between their personal interests and those of the company or the subsidiaries controlled by it. In this respect, the Board of Administration approved the *Conflict of Interest Management Policy* in order to comply with Art. A.2. of the new Corporate Governance Code of the BSE, and was approved at art. 2 by the OGMS Decision no. 4 of June 23, 2016.

### **Transactions with involved persons**

Each member of the Board of Administration shall ensure that there is no conflict of interest either directly or indirectly with the company or a subsidiary controlled by it, and in the event of such conflict, it will refrain from debating and voting on those matters, in accordance with the legal provisions in force.

In order to ensure the procedural fairness of the transactions with the parties involved, the members of the Board of Administration resort to the following criteria, but not limited to:

- retaining the competence of the Board of Administration or the GMS, as appropriate, to approve the most important transactions;
- asking for a prior opinion on the most important transactions from internal control structures;
- entrusting negotiations relating to these transactions to one or more independent administrators or to administrators who have no links with the concerned parties;
- the use of independent experts.

## **Section C - Remuneration Information**

The Company has set up a Nomination and Remuneration Committee that prepares the remuneration policy for administrators and directors set up by the Board of Administration Decision no. 7 of May 27, 2013.

The Committee will submit to the Board of Administration proposals for the remuneration of

administrators and directors, ensuring that these proposals are in line with the remuneration policy adopted by the company.

The remuneration of board members is made up of a fixed monthly allowance and a variable component based on financial and non-financial performance indicators.

Remuneration and other benefits to administrators and directors are recorded in the annual financial statements and in the annual report of the nomination and remuneration committee.

## Section D - Shareholder Information

All holders of financial instruments issued by Transgaz of the same type and class of securities receive equal treatment and the company always makes sustained efforts to achieve effective, active and permanent communication in order to exercise rights in a fair manner.

All Transgaz shareholders will be treated fairly. All issued shares give the holders equal rights; any modification of the rights conferred by them will be subject to the approval of the holders directly affected in the special meetings of the respective holders.

Transgaz makes every effort to facilitate the participation of shareholders in the works of the General Meetings of the Shareholders, the dialogue between shareholders and members of the Board of Administration and / or management, as well as the full exercise of their rights. The participation of the shareholders in the works of the General Meetings of the Shareholders is fully encouraged, and shareholders who cannot participate in the meetings are given the possibility of voting in absentia - on a special proxy basis, or by correspondence.

The Company has created a special section, called *Investor Relations*, on its own website, where relevant information on procedures for access to and participation in the General Meeting of Shareholders (GMS), GMS notices to attend, GMS completions, exercise of rights voting in the GMS, GMS agenda materials, special proxy templates, GMS decisions, current reports, company financial statements, dividend information, financial calendar, corporate governance are constantly updated and accessible, thus contributing to transparent and fair information to all interested.

At the same time, Transgaz has set up a specialized organizational structure for the management of the capital market activity, namely the *Investor Relations Service*, whose activity is dedicated to the relationship with investors and shareholders. The staff of the service is permanently instructed / prepared / professionally trained on issues related to the company's relationship with its shareholders, the capital market institutions as well as the principles of corporate governance.

### Transparency

Transgaz performs regular continuous reports on the important events related to the company, including, without limitation, the financial standing, performance, ownership structure and management both in mass media and on its own webpage ([www.transgaz.ro](http://www.transgaz.ro)).

The company prepares and disseminates regular continuous and relevant information on the International Financial Reporting Standards (IFRS) and other reporting standards, namely

environmental, social and governance (ESG –Environment, Social and Governance). The information is disseminated both in Romanian and English.

The company organizes regular meetings with financial analysts, brokers, market specialists and investors for the presentation of the financial results (annual, quarterly, half-yearly), relevant meetings in their investment decision.

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

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

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

Transgaz administrators appreciate that, acting in the spirit of the best corporate governance practices, the proposed objectives can be attained and the stakeholders' confidence can be increased in the capabilities of the company to maximize the efficiency of the activity.

### **Corporate Social responsibility (CSR)**

Corporate Social Responsibility is an aspect of corporate governance through which companies have initiated a range of socially responsible actions that can be quantified in terms of sustainability and sustainable performance.

The national gas transmission company TRANSGAZ SA Mediaș, consistent with the principle of applying a responsible management in fulfilling the undertaken mission, is aware of the importance that sometimes financial support for a noble cause or for an important purpose is vital and therefore through the programs and projects of social responsibility initiated, it is actively involved in community life, demonstrating his status as a "*good citizen*".

Corporate Social Responsibility is an aspect of corporate governance, with TRANSGAZ' key role in the energy field in Romania and Europe being naturally complemented by the desire to support the real needs of all those who are constantly contributing to the smooth way of its activity.

As part of Transgaz' sustainable development strategy, the social responsibility policy aims to increase the company's commitment to employees, shareholders, partners, the community and the environment, as well as streamlining the impact of social responsibility programs initiated for this purpose.

The commitment undertaken by the company's management through the "*Environmental Quality Management System Policy Statement*" is a definite proof that TRANSGAZ acknowledges the importance of ensuring an organizational climate where all stakeholders: employees, shareholders, customers, suppliers, community and the environment can effectively and responsibly network both from an economic and social point of view.



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

Complying with the principles of financial prudence and transparency, the communication and CSR actions proposed for 2018 were rigorously quantified both in structure and value and responded to Transgaz' reporting requirements as a securities issuer, but also to the requirements related to the company's image and reputation. Detailed information on social responsibility is available on the Transgaz website at: <http://www.transgaz.ro/responsabilitate-sociala>.

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

In 2018 Transgaz concluded the following legal documents with companies directly or indirectly controlled by the Romanian State and which have a cumulated value of at least the LEI equivalent of EUR 50,000:

Contract data	Contractual clauses
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 28T / 2017</b> for Q 1 2018
Contract scope	quarterly transmission services
Contract value	<b>3,437,910.00 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SC ELECTROCENTRALE BUCURESTI SA</b>
Contract date and type	<b>Contract no. 37L / 2017</b> for December 2017
Contract scope	monthly transmission services
Contract value	<b>7,331,867.58 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 48L / 2017 for January 2018</b>
Contract scope	monthly transmission services
Contract value	1,900,572.80 RON - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SC ELECTROCENTRALE BUCURESTI SA</b>
Contract date and type	<b>Contract no. 52L / 2017</b> for January 2018.
Contract scope	monthly transmission services
Contract value	<b>8,329,901.34 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	<b>Concluded between SNTGN Transgaz SA and SC ELECTROCENTRALE BUCURESTI SA</b>

<b>Contract data</b>	<b>Contractual clauses</b>
Contract date and type	<b>Contract no. 29T / 2017</b> for the first quarter 2018 <b>(1 January 2018 - 1 April of 2018)</b>
Contract scope	quarterly transmission services
Contract value	<b>21,896,750.96 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA</b>
Contract date and type	Contract no. 70L / 2018 for February 2018.
Contract scope	monthly transmission services
Contract value	5,159,863.80 RON- estimated amount of the legal act VAT included
<b>Contracting parties</b>	Buyer - <b>SNTGN Transgaz SA Mediaș</b> Seller – <b>SC Romgaz SA Mediaș</b>
Contract date and type	Conclusion date 01.03.2018 Concluded after auction no. 19318 / 01.03.2018 on the STEGN platform owned and operated by Romanian Commodities Exchange
Contract scope	Natural gas from domestic production for NTS balancing
Contract value	Lei 1,171,500 million, without VAT, service charges, other taxes or excise taxes
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 97L / 2018</b> for April 2018.
Contract scope	monthly transmission services
Contract value	<b>2,659,373.08 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA (in insolvency)</b>
Contract date and type	<b>Contract no. 39T / 2018</b> for Q II 2018 <b>(1 April 2018 – 1 July 2018)</b>
Contract scope	Quarterly transmission services
Contract value	<b>482,655.75 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	Conclusion date 6.08.2018 Concluded after auction no. 350 GN / 2018 on the AVAILABLE platform owned and operated by Romanian Commodities Exchange
Contract scope	Purchase natural gas to cover technological consumption of Transgaz, between 1 October 2018 – 30 September 2019, the contract of sale of FN natural gas concluded with ROMGAZ SA Mediaș
Contract value	96,431,510 million lei, VAT excluded, excise or tax capacity booking
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 145L / 2018</b> for September 2018
Contract scope	monthly transmission services
Contract value	<b>913,777.20 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 7/2018</b> (1 October 2018 – 1 October 2019)

Contract data	Contractual clauses
Contract scope	NTS entry points annual transmission services
Contract value	<b>100,170,665.70 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 70/2018</b> (1 October 2018 - 1 October 2019)
Contract scope	NTS exit points annual transmission services
Contract value	<b>21,877,623.12 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 9T / 2018</b> Q IV 2018
Contract scope	NTS entry points quarterly transmission services
Contract value	<b>4,950,165.57 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 56T / 2018</b> Q IV 2018
Contract scope	NTS exit points quarterly transmission services
Contract value	<b>5,577,020.68 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>Complexul Energetic Hunedoara SA</b>
Contract date and type	<b>Contract no. 14/2018</b> ( 1 October 2018 – 1 October 2019)
Contract scope	NTS exit points annual transmission services
Contract value	<b>2,414,073.57 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>Electrocentrale Constanța S.A.</b>
Contract date and type	<b>Contract no. 27/2018</b> (1 October 2018 – 1 October 2019)
Contract scope	NTS exit points annual transmission services
Contract value	<b>1,576,169.28 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 28L / 2018</b> for October 2018
Contract scope	NTS entry points monthly transmission services
Contract value	<b>582,566.88 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 29L / 2018</b> for October 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>2,511,471.20 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>ELECTROCENTRALE BUCURESTI S.A. (in insolvency)</b>
Contract date and type	<b>Contract no. 26/2018</b> (1 October 2018 – 1 October 2019)
Contract scope	NTS exit points annual transmission services

<b>Contract data</b>	<b>Contractual clauses</b>
Contract value	<b>23,136,943.29 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>ELECTROCENTRALE BUCURESTI S.A. (insolvency)</b>
Contract date and type	<b>Contract no. 24T / 2018</b> Q IV 2018
Contract scope	NTS exit points quarterly transmission services
Contract value	<b>9,682,205.37 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 71L box / 2018</b> for November 2018
Contract scope	NTS entry points monthly transmission services
Contract value	<b>4,580,079.74 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 73L/2018</b> for November 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>1,570,282.35 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	Concluded between <b>SNTGN Transgaz SA</b> and <b>Electrocentrale Constanța S.A.</b>
Contract date and type	<b>Contract no. 95L / 2018</b> for November 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>517,531.48 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA</b>
Contract date and type	<b>Contract no. 65L / 2018</b> for November 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>3,807,480.81 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 176L / 2018</b> for December 2018
Contract scope	NTS entry points monthly transmission services
Contract value	<b>6,791,758.88 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SNGN ROMGAZ SA</b>
Contract date and type	<b>Contract no. 178L / 2018</b> for December 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>2,337,060.45 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>Electrocentrale Constanța S.A.</b>
Contract date and type	<b>Contract no. 131L/2018</b> for December 2018
Contract scope	NTS exit points monthly transmission services
Contract value	<b>788,441.85 RON</b> - estimated amount of the legal act VAT included (lei)
<b>Contracting parties</b>	concluded between <b>SNTGN Transgaz SA</b> and <b>SC ELECTROCENTRALE BUCURESTI SA</b>
Contract date and type	<b>Contract no. 125L / 2018</b> for December 2018

Contract data	Contractual clauses
Contract scope	NTS exit points monthly transmission services
Contract value	<b>5,070,282.91 RON</b> - estimated amount of the legal act VAT included (lei)

## 6.2 Capital Market Activity

**SNTGN TRANSGAZ SA**, a dynamic and capable of aligning its business with the requirements of the current internal and international context in which it operates, managed to perform on the capital market, ranking 7 by the traded value, and 5 by the number of transactions in the first 6 months of 2018 in Top 10 trading on the Stock Exchange Bucharest Stocks.

In 2018, on 24 January, the company celebrated 10 years of being present on the capital market in Romania.

TGN shares are attractive portfolio shares due to the company's business scope, the monopoly Transgaz holds in the natural gas transport, the company's position on the national and international energy market, the strong financial profile and the capacity of the company to generate performance, stable and predictable income, and attractive dividend policy.

For 2017, a gross dividend per share of MDL 45.38 was approved at the OGMS on 07.06.2018, subject to the application of the 90.00351 share of the profit after the profit tax deduction, based on GO no. 64/2001, of the clarifications approved by OMFP no.144 / 2005 and of the Memorandum on the mandate of the representatives of the State in the General Meeting of the Shareholders / the Board of Administration, as the case may be, to the national companies, the national companies and the companies entirely controlled by the state or having a majority capital held by the state as well as to the autonomous regies, in order to take the necessary measures to allocate a share of at least 90% of the net profit obtained in 2017 as dividends / payments to the state budget.

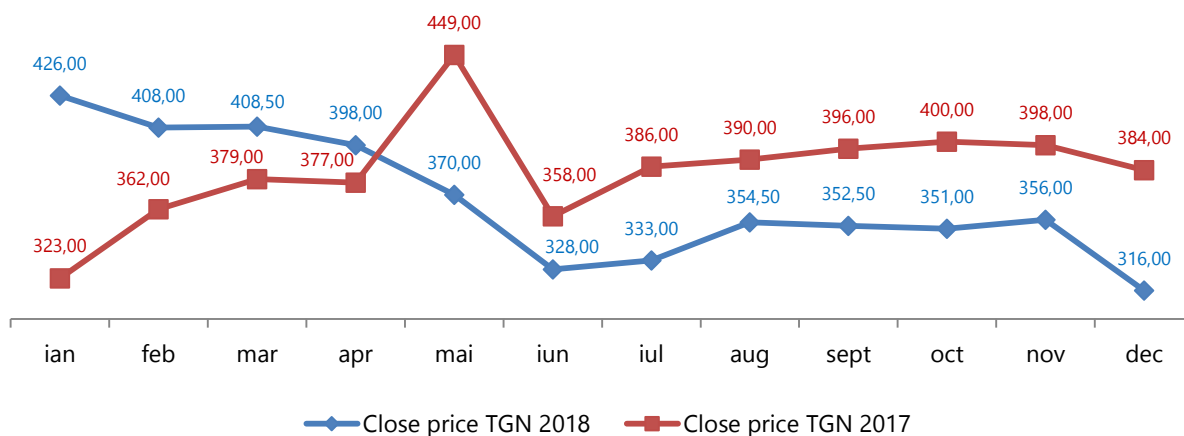
### TGN shares

In 2018 the closing price of the TGN share followed a downward trend, but in the first four months of 2018 was higher than in 2017. Thus, the closing price oscillated around the value of 400 lei/share, 14% more than the same period of 2017.

Later, based on the uncertainty of the share distributed from the net profit of financial year 2017 as dividends, the TGN share suffered a significant depreciation of 18%, from 398 lei/share at the end of April to 328 lei/action at the end of June.

In the second half of 2018 the TGN share followed a slightly upward trend, but lower than in the same period of 2017, recording a slight correction in December, due to the ex-data as additional dividend.

The values of the TGN share was mainly due to the decreasing of the gross profit for financial year by 1% as compared to financial year 2016 and the uncertainty of the share distributed from the net profit of financial year 2017 as dividends.

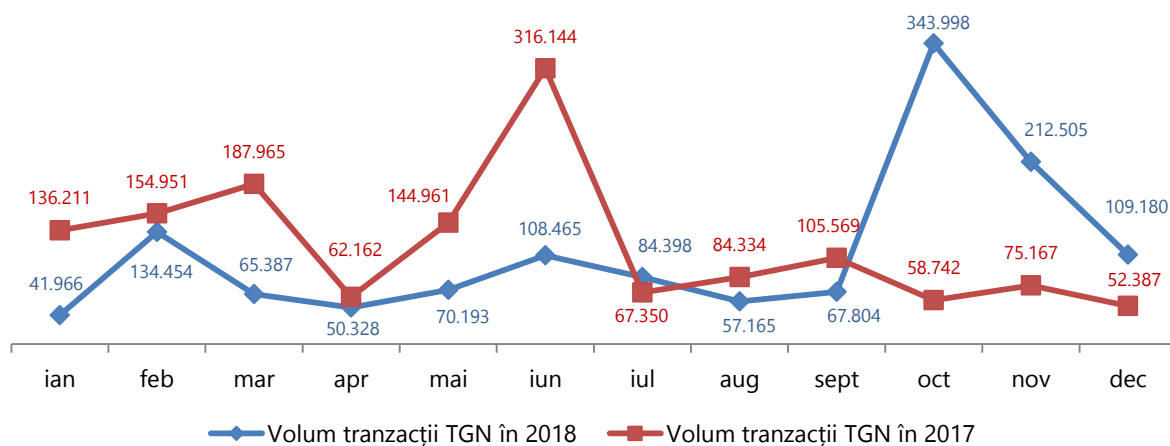


**Chart 30** -The closing price of TGN shares between Jan 01, 2018- Dec 31 2018 vs. Jan 01, 2017– Dec 31 2017

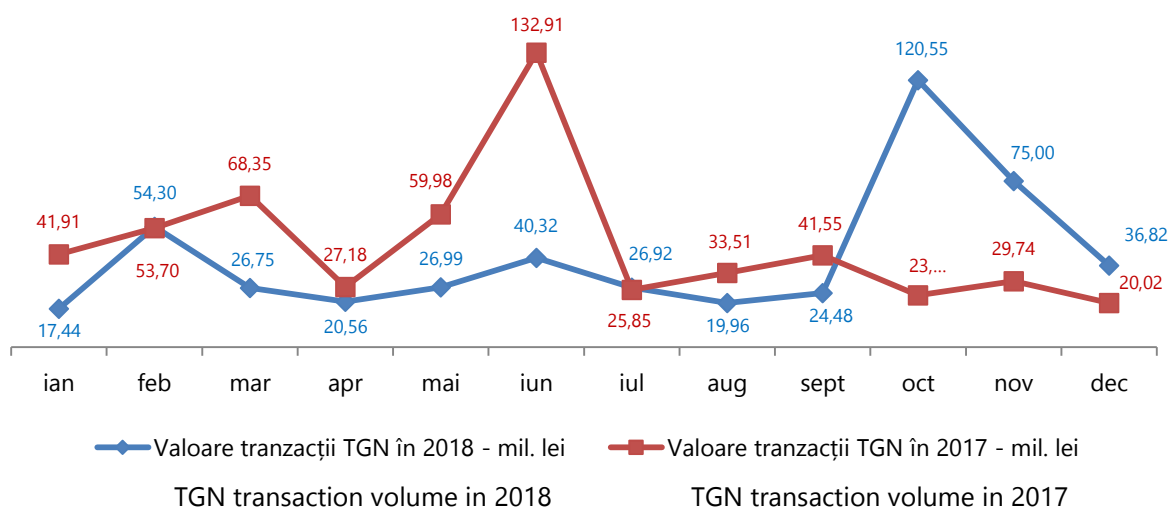
The traded volumes, as well as transaction values fluctuated in 2018. Thus, in the first half of 2018, the traded volumes and the values of the transactions were lower than in 2017, with the exception of February and April, when they had values close to those in the similar period of 2017 amid investors expecting approval of the annual financial statements and of the dividend for financial year 2017.

In the second half of 2018 the 2018 the values and traded volumes followed a slightly upward trend, with higher values as compared to the same period of 2017. After the registration date for the payment of the dividends for financial year 2017, 26 June 2018, the traded volumes and the transaction values increased, in July 2018 exceeding by 25% and by 4% the values recorded in the previous year. Later, after Selling of a TGN share block within the Utilico Emerging Markets group, both the volume and the traded values recorded significant increases reaching 343,998 transactions in October 2018 and 120.55 million lei, these being 2018 peaks.

Following the publication of the convening regarding the approval and payment as of 28.12.2018 of the dividends distributed from the existing amounts in the balance on 31.12.2017 recorded in the `retained earnings` and/or `other reserves` accounts, the traded volumes and the values of the transactions in Q IV 2018, recorded higher values compared to the same period of 2017.



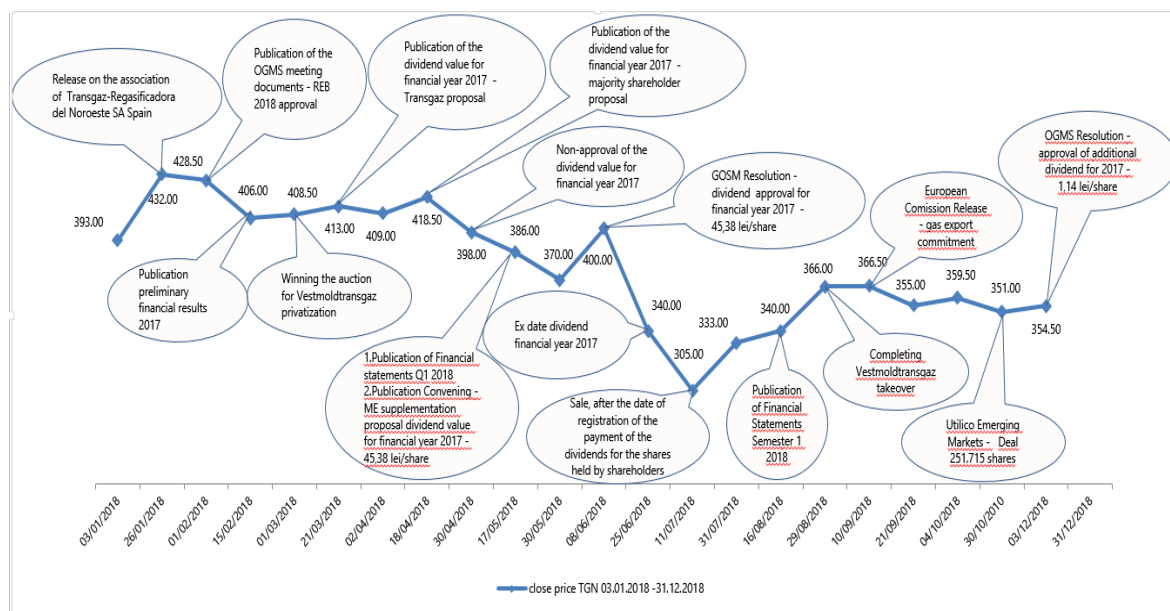
TGN transaction volume in 2018      TGN transaction volume in 2017  
**Chart 31** -The volume of TGN transactions in the period 01.01.2018–31.12.2018 vs. 01.01.2017–31.12.2017



TGN transaction volume in 2018      TGN transaction volume in 2017  
**Chart 32** -The value of TGN transactions-thousand lei in the period Jan 01, 2018- Dec 31, 2018 vs. Jan 01, 2017– Dec 31

2017

## Main corporate events with an impact upon the share price in 2018



## Stock Market Indicators: P/BV, EPS, PER, DIVY

Date	P/BV	PER	DIVY	EPS
31.12.2018	1,00	6,39	14,72	49,44
31.12.2017	1,18	7,60	15,85	50,50

\*values reported on 31 December 2017 and on 31 December 2016

In the period ended on 31 December 2018, all of the four stock exchange indicators, P / BV (the share price/book value), PER (share price / earnings per share) , dividend yield (DIVY) and EPS indicator (TGN share profit) declined compared to the same period of 2017.

The value of 14.72 recorded as DIVY on 31.12.2018 is due to the high value of the dividend distributed for financial year 2017 of 46.52 lei/share (45.38 lei/share + 1.14 lei/share).

The value of the Transgaz stock exchange indicators as compared to those of similar companies in Europe at the beginning of 2018:

Company		P/E	P/BV	EV/EBITDA
Enagas	Spain	14,0	2,2	10,6
SNAM SpA	Italy	13,4	1,9	12,1
Fluxys	Belgium	31,5	2,6	10,7
<b>Media</b>		<b>19,6</b>	<b>2,23</b>	<b>11,1</b>
<b>Transgaz</b>	<b>Romania</b>	<b>6,68</b>	<b>1,0</b>	<b>4,95</b>
Premium /Discount		66%	55%	55%

Source: Bloomberg: 25.01.2018

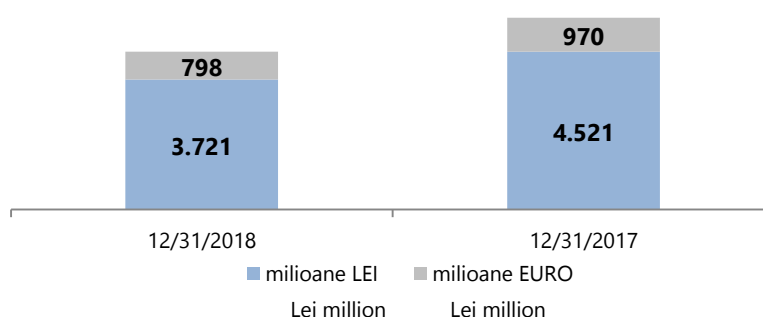
Table 41 - The value of Transgaz stock exchange indices compared to similar companies in Europe



### Stock market capitalization

The stock market capitalization of the company on 31.12.2018 was lei 3.72 billion (EUR 798 million) namely lei 800 million (~ 172 million euro) under the level recorded on 31.12.2017.

Currency	2018		2017	
	03.01.2018	31.12.2018	03.01.2017	31.12.2017
LEI	4.627.120.692	3.720.534.704	3.473.283.980	4.521.156.096
EURO	996.966.451	797.730.377	768.850.909	970.267.634
Euro/BNR exchange rate	4,6412	4,6639	4,5175	4,6597



**Chart 33.** Stock market capitalization of Transgaz on 31.12.2018 vs. 31.12.2017

Following stock market capitalization of the Company in December 2018, the Bucharest Stock Exchange ranked Transgaz **7 in TOP 15 stock capitalization issuers**, higher than other energy companies such as Transelectrica and Nuclearelectrica.

### Evolution of TGN shares versus BET, BET-NG and BET-BK stock market indicators in 2018



**Chart 34 – Evolution of TGN share compared to stock exchange indices BET, BET-NG and BET-BK in 2018**

### 6.3 Dividend policy

In 2018, the proposal for the determination of the value of the dividends for the financial year 2017 was made by applying the 90.00351% share of the accounting profit remaining after the deduction of the profit tax, based on the Government Ordinance no.64 /2001, the specifications approved by the OMFP no.144 /2005 as well as the Memorandum on: Mandating State representatives to the General Meeting of Shareholders/Board of Administration, as the case may be, to national companies and companies with full or majority state capital, as well as autonomous regies, in order to take the measures required to allocate a quota of at least 90% of the net profit realized in 2017 in the form of dividends/payments to the state budget.

Thus, in accordance with Ordinary General Meeting of the Shareholders Decision No. 4 / 07.06.2018, the shareholders of SNTGN Transgaz SA approved the gross dividend per share in amount of 45.38 lei/share for financial yeas 2017 for the shareholders registered at the registration date of 26 June 2018. Transgaz shall pay the dividends for the financial year 2017 through the Central Depository and BRD Groupe Societe Generale, the appointed paying agent, starting with 16 July 2018 (date of payment).

At the same time, the Ordinary General Meeting of the Shareholders of 03.12.2018, by applying Government Emergency Ordinance 29/2017 for the amending of Art. 1 (1) (g) of Government Ordinance 64/2001 on the distribution of profits to national companies, companies with full or majority state capital and autonomous regies, and for the amendment of Art. 1 (2) and (3) of Government Emergency Ordinance 109/2011 on Corporate Governance of Public Enterprises, approved **the distribution as dividends of the amount of 13,472,486 lei from the existing amounts in the balance on 31.12.2017 recorded in the `retained earnings` and/or `other reserves` accounts and the payment of a gross dividend per share amounting to 1.14 lei/share**, to all shareholders registered in the Transgaz shareholders' register dated 19.12.2018.

At the end of 2018, the company paid the shareholders net dividends for financial year 2017, distributed according to OGMS Resolution 4 of 07.06.2018, amounting to 524,565,032.81 lei for a number of 11,706,519 shares and net dividends distributed according to OGMS Resolution 7 of 03.12.2018, amounting to 13,103,381.73 lei for a number of 11,623,560 shares.

### **Review of Transgaz's rating**

On June 20, 2018, S&P Global Ratings published the report on the revision of the prospects of the operator of the National Gas Transmission System Transgaz SA from stable to negative. At the same time, they affirmed the company's credit rating at BB +.

The decision of the financial evaluation agency to revise Transgaz' outlook to negative is motivated by the following aspects:

- The possibility of the weakening of Transgaz's financial performance over the next two years, with funds from operations (FFO) to debt falling substantially below 30%, due to increasing capex related to BRUA phase 1 and declining EBITDA;
- The BRUA project execution risks;
- potential pressures on liquidity, and longer-term uncertainties related to the position of Transgaz's gas transmission business, given potential changes in the key gas transit routes in Central and Eastern Europe if the physical flow of Russian gas via Ukraine is replaced with new routes.

In affirming the current credit rating, S&P Global Ratings expects that liquidity will stay adequate, the regulatory framework will remain reasonably predictable, with sufficient visibility of future cash flows, and Transgaz will remain shielded from negative political intervention linked to changes in the national macroeconomic or fiscal environment

S&P Global Ratings sees ratings upside as limited in the next two years, due to the company's significant capex program.

The rating agency states that the outlook of Transgaz would revise to stable if the company's credit metrics recovered over the following period of time, with the FFO to debt at about 30%. This could result from: successful completion of BRUA phase 1 and the respective additions to the RAB boosting regulated revenue, from lower capex than currently envisaged, from a lower dividend payout or other supportive measures from the shareholders.

#### 6.4 Mergers or significant reorganisations

In 2018 no mergers or reorganisations were made as far as Transgaz is concerned.

#### The list of all the entities in which Transgaz holds shares

- **SC MEBIS SA Bistrita**, based in Bistrita, (J06 / 150/1991), where Transgaz owns 17.47% of the share capital, having as object the realization of metal structures and complex welded assemblies, assemblies and hydraulic products; is in liquidation proceedings, which is why the shareholding in SC MEBIS SA was fully provisioned. Transgaz has no obligations towards SC MEBIS SA;
- **SC Resial SA** with headquarters in Alba Iulia (J01 / 77/1991), where Transgaz owns 68.16% of the share capital, having as object the production and marketing of silico aluminous refractory products, entered into liquidation procedure in year 2006; the procedure is carried out by a court bailiff appointed by the court and is independent of the control of Transgaz, which is why the share is not consolidated and is recorded at the cost less the impairment provision established at 100% of the cost.  
The loan granted to SC RESIAL SA is fully serviced. The management does not expect Transgaz to recover any amount of this share and does not record any residual liabilities for SC RESIAL SA.

- **SC EUROTRANSGAZ SRL** with headquarters in Chisinau, Republic of Moldova, where Transgaz owns 100% of its share capital with the objective of producing, transporting, distributing, stocking and supplying natural gas, pipeline transport, warehousing as well as business consulting activities; management (establishment of this subsidiary was approved by HAGEA No. 10 of 12.12.2017). The purpose of the subsidiary was to participate in the privatization procedure of the Vestmoldtransgaz State Enterprise operating the Iasi-Ungheni pipeline on the territory of Moldova.
- **Phaedra's SHA** the consortium including Reganosa, Transgaz and BERD submitted a bid for the second round of the privatization process of 66% of DESFA, the Greek operator of the gas transmission system. The consortium is under liquidation because it did not win the auction for the acquisition of DESFA, so the company registered an adjustment for 100% of the cost.

## 7. THE MANAGEMENT OF THE COMPANY

### 7.1 STRATEGIC OBJECTIVES RELATED TO TRANSGAZ' MANAGEMENT DURING 2017-2021

Aiming to pursue the full achievement of the proposed goals and the achievement of the strategic objectives regarding operational efficiency, optimization of performance and sustainable development of the company, respecting the principles of good corporate governance, the Board of administration of the company wishes to continue with the same responsibility, efficiency, transparency and professionalism towards all stakeholders, the road opened in the 2013-2017 mandate for the construction and development of a solid and performing future of the Romanian energy sector.

Thus, the strategic objectives set out in the 2013-2017 mandate in the context of alignment with the requirements of the European energy policy, ENERGY SAFETY AND SECURITY, COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT are taken over in the Management Plan of SNTGN Transgaz SA for the period 2017-2021 and completed with objectives and new directions of action specific to the company's activity.

Structured according to the four perspectives of the Balance Score Card (BSC), the action directions provided in the Management Component of the Management Plan of SNTGN Transgaz SA in the period 2017-2021 aim at:

<b>Perspective of the stakeholders</b>
STRATEGIC OBJECTIVE 1: The continuity of the activity and ensuring energy safety and security
Lines of action
<ul style="list-style-type: none"> <li>▪ Increasing the level of NTS security and ensuring the security of gas supply</li> <li>▪ Competitive energy markets – by creating the necessary technical conditions for the development of the gas market</li> <li>▪ Upgrading the Corporate Governance System</li> </ul>
<b>Internal perspective/ processes</b>

<b>STRATEGIC OBJECTIVE 2: Increasing the degree of the company's COMPETITIVITY</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Development and upgrading of all of the operational processes</li> <li>▪ Increasing energy efficiency and reducing the negative impact of the technological processes upon the environment</li> </ul>
<b>Development perspective/staff</b>
<b>STRATEGIC OBJECTIVE 3: Increasing the degree of SUSTAINABLE DEVELOPMENT of the company due to the increase of the human, informational, organizational capital of the company, and the alignment to the European regulations related to the activity of the company and ensuring sustainability.</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Optimization of the management processes of human resources</li> <li>▪ Alignment to European regulations related to the activity of the company and ensuring sustainability.</li> </ul>
<b>Financial outlook</b>
<b>STRATEGIC OBJECTIVE 4: Maintaining the financial balance and the operational stability</b>
Lines of action
<ul style="list-style-type: none"> <li>▪ Ensuring the sustainable financial, economic and social performance</li> </ul>

The actions of the executive management are directed towards the meeting of the strategic goals of the Company by the implementation of the measures set in the management component.

## 7.2 Executive Management

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

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

The table below indicates the members of the executive management holding shares in Transgaz as at 31.12.2018:

No	Name and first name	Position	Number of shares as at 31.12.2018	Interest share (%)
1.	Lupean Marius	Director	20	0,000169
2.	Tătaru Ion	Director	25	0,000212
3.	Comaniță Adela	Director	25	0,000212
4.	Șai Alexandru	Director	10	0,000084
5.	Lața Ilie	Director	46	0,000390
6.	Rusu Ioan	Director	2.508	0,021301
7.	Nita Viorel	Director	5	0,000042

**Table 42** - Members of Transgaz's executive management owning shares in the company as at 31.12.2018

The executive management of SNTGN TRANSGAZ SA on 31.12.2018:

No.	Name and surname	Position	Division/Unit
1.	Sterian Ion	Director General	SNTGN Transgaz SA
2.	Gheorghe Hațegan	Deputy Director General	SNTGN Transgaz SA
3.	Târsac Grigore	Deputy Director General	SNTGN Transgaz SA
4.	Marius Vasile Lupean	Chief Financial Officer	Economic Division
5.	Ghidu Elisabeta	Director	Strategy and Corporate Management Division
6.	Tătaru Ion	Director	Development Division
7.	Alic Ciprian Octavian	Director	European Funds and International Relations Division
8.	Stroia Marius	Director	Operation Division
9.	Cosma Florin	Director	Exploitation and Maintenance Division
10.	Leahu Mihai	Director	Engineering and Research Division
11.	Beldiman Ion	Director	Energy Management, Automation and SCADA Division
12.	Luca Bogdan Avram	Director	Sectoral Procurement and Contracting Division
13.	Mateș Angela	Director	HR Organization Division
14.	Gruia Daniel	Director	IT and Communication Division
15.	Fodor Mihai Iuliu replaced at the date of Report by Sasu Elena	Director	Budgeting Finances Unit
16.	Comănița Adela	Director	Accounting Unit
17.	Niculaie-Faranga Dan	Director	Financing, Representative Offices Support and Special Projects Unit
18.	Niculescu Oana	Director	Budgeting Strategy Unit
19.	Idu Olga the Contract expired for retirement reasons at the date of Report	Director	Legal Unit

20.	Iancu Cristina Daniela	Deputy Director	Legal Unit
21.	Banu Larisa	Deputy Director	Gas Market Operator Unit Bucharest
22.	Bunea Florin	Director	The National Gas Dispatching Centre
23.	Rău Ioan	Director	Commercial Unit
24.	Șai Alexandru	Director	Gas Metering, Gas Quality Unit
25.	Muntean Aurel	Deputy Director	Gas Metering, Gas Quality Unit
26.	Dragoman Irina Georgiana	Director	Gas Regulation Unit
27.	Vlahbei Andra Ioana	Deputy Director	Gas Regulation Unit
28.	Barbu Viorel	Director	NTS Rehabilitation Unit
29.	Petrescu Monica Alexandra	Director	Special Projects Procurement Unit
30.	Popescu Paul	Manager Proiect	BRUA PMU
31.	Grăjdan Vasilica	Director	HR Planning and Organization Unit
32.	Sârbu Ionel	Director	Land Regulation and Acquisition Division
33.	Ene Alin	Director	General Inspection Unit
34.	Drăghici Aurelian	Director	Projects Analysis, Checking and Endorsement Unit
35.	Achim Viorel Ciprian	Director	HSQE Unit
36.	Iuga Alexandru	Director	Supply and Transmission Unit
37.	Lupu Emil at the date of the Report is the Archaeological Research Director	Manager	Archaeological Research Unit
38.	Ilie Lața	Subsidiary Director	Mediaș Subsidiary
39.	Velicea Angela	Financial Director	Mediaș Subsidiary
40.	Alexandru Ionel	Director	Regional Office Arad
41.	Cristoloveanu Gheorghe	Director	Regional Office Brașov
42.	Schmidt Hăineală Eduard	Director	Regional Office Bacău
43.	Gurgu Victorel	Director	Regional Office Bucharest
44.	Dumitru Nicușor	Director	Regional Office Brăila
45.	Niță Viorel	Director	Regional Office Craiova
46.	Țandău Marcel	Director	Regional Office Cluj
47.	Andrei Romeo	Director	Regional Office Constanța
48.	Rusu Ioan	Director	Regional Office Mediaș

**Table 43** - Transgaz's executive management

The management of VESTMOLDTRANSGAZ on 31.12.2018:

	<b>VESTMOLDTRANSGAZ</b>	<b>Name and surname</b>
1	The Board of the Company	1. Alic Ciprian Octavian -președinte 2. Duțu Tudor Alexandru -membru 3. Ghidiu Elisabeta - membru 4. Stoica Constantin Marius -membru 5. Calmîc Octavian -membru
2	The administrator of the Company	Duțu Tudor Alexandru
3	Head of Economic Department	Tărâță Violeta
4	Director of Technical Division	Iurie Dulgher
5	Director of Development Division	Rusu Cristian

The management of EUROTRANSGAZ on 31.12.2018:

	<b>EUROTRANSGAZ</b>	<b>Name and surname</b>
1	Administrator	Grăjdan Vasilica
2	Administrator	Faranga Dan Niculae

## **8. DISCHARGE OF ADMINISTRATION OF THE ADMINISTRATORS**

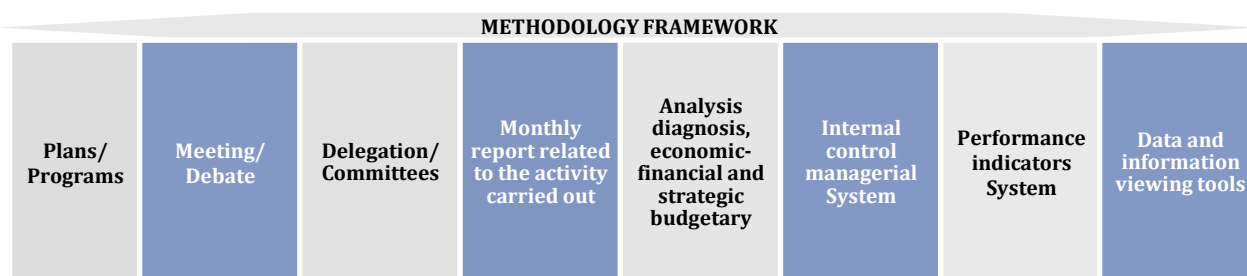
According to Art. 55 and Art. 56 of GEO 109/2011, as further amended and supplemented, the administrators of SNTGN Transgaz SA submit for the approval of the General Meeting of the Shareholders, the Report issued by the Board of Administration for year 2018.

According to:

- Art. 111 (2) (d); Art. 155 and Art. 186 of Companies` Law 31/1990, republished, as further amended and supplemented;
- Art. 15 (3) (h) of the Articles of Incorporation of SNTGN Transgaz SA updated at 29.04.2016;
- Art. 4.1 (h) of the Contract of Mandate of the Administrators, concluded on 28.12.2017, the administrators of the company submit for the approval of the General Meeting of the Shareholders the discharging of administration for the activity performed in 2018, as presented in this Report.

In view of optimizing the activity the company's management will act responsibly and will efficiently use modern and adequate management techniques and methods in order to optimize all the processes and activities carried out by the company as presented:





**ION STERIAN – Executive Administrator - Director general**

**PETRU ION VĂDUVA – Non-executive Administrator**

**BOGDAN GEORGE ILIESCU – Non-executive Administrator**

**REMUS GABRIEL LĂPUȘAN– Non-executive Administrator**

**NICOLAE MINEA– Non-executive Administrator**

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**THE NATIONAL GAS TRANSMISSION COMPANY  
`TRANSGAZ` S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
31 DECEMBER 2018**

**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.

## **FINANCIAL STATEMENTS**

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**CONSOLIDATED STATEMENT OF THE FINANCIAL  
STANDING**

**(expressed in lei, unless otherwise stated)**



	<u>Note</u>	<u>31 December 2018</u>	<u>31 December 2017</u> <u>(retreated)</u>
<b>ASSET</b>			
<b>Fixed assets</b>			
Intangible Assets	9	2.301.806.250	2.051.627.429
Tangible Assets	7	543.636.934	558.555.440
Financial assets	10	-	-
Good will		<u>9.413.102</u>	-
Trade receivables and other receivables	12	<u>629.754.861</u>	<u>587.291.597</u>
		<b>3.484.611.147</b>	<b>3.197.474.466</b>
<b>Current assets</b>			
Inventories	11	255.307.360	82.093.413
Commercial receivables and other receivables	12	541.785.491	379.497.926
Cash and cash equivalent	13	<u>711.317.624</u>	<u>1.062.538.241</u>
		<b>1.508.410.475</b>	<b>1.524.129.580</b>
<b>Total asset</b>		<b>4.993.021.622</b>	<b>4.721.604.046</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>1.635.006.468</u>	1.696.733.340
Conversion differences from consolidation		1.824.076	<u>(881)</u>
		<b>3.709.263.106</b>	<b>3.769.165.021</b>
<b>Long-term debts</b>			
Long-term loans	16	233.195.000	69.895.500
Provision for employee benefits	21	107.072.136	95.853.939
Deferred revenue	17	519.718.816	497.755.179
Deferred tax payment	18	<u>4.596.976</u>	<u>15.229.078</u>
		<b>864.582.928</b>	<b>678.733.696</b>

Notes 1 to 33 are part of these financial statements.

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**CONSOLIDATED STATEMENT OF THE FINANCIAL  
STANDING**

**(expressed in lei, unless otherwise stated)**



	<u>Note</u>	<u>31 December 2018</u>	<u>31 December 2017</u> <u>(retreated)</u>
<b>Current debts</b>			
Commercial debts and other debts	19	397.588.008	255.035.974
Provision for risks and charges	20	18.647.787	14.957.838
Current tax payment	18	-	-
Provision for employee benefits	21	<u>2.939.793</u>	<u>3.608.726</u>
		<b><u>419.175.588</u></b>	<b><u>273.705.329</u></b>
<b>Total debts</b>		<b><u>1.283.758.516</u></b>	<b><u>952.439.025</u></b>
<b>Total equity and debts</b>		<b><u>4.993.021.622</u></b>	<b><u>4.721.604.046</u></b>

Endorsed and signed on behalf of the Board of Administration on 16 April 2019, by:

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

Notes 1 to 33 are part of these financial statements.

This version of the 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.



**CONSOLIDATED COMPREHENSIVE STATEMENT  
OF THE INCOME**



(expressed in lei, unless otherwise stated)

		The year ended as at	The year ended as at
	<u>Note</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
			(retreated)
Revenue from the domestic transmission activity		1.178.419.674	1.338.046.808
Revenue from the international transmission activity		324.380.804	333.289.677
Other revenue	22	<u>105.597.166</u>	<u>48.656.206</u>
<b>Operational revenue before the balancing and construction activity according to IFRIC12</b>		<b>1.608.397.644</b>	<b>1.719.992.691</b>
Depreciation	7,9	(189.913.379)	(184.474.656)
Employees costs	24	(383.249.813)	(385.235.907)
Technological consumption, materials and consumables used		(96.880.600)	(105.031.611)
Expenses with royalties		(151.026.697)	(167.133.649)
Maintenance and transmission		(35.884.134)	(27.397.902)
Taxes and other amounts owed to the state		(76.449.251)	(71.566.646)
Revenue/ (Expenses) with provisions for risks and expenses		(5.946.358)	(1.272.746)
Other operating expenses	23	<u>(112.826.743)</u>	<u>(113.257.411)</u>
<b>Operational profit before the balancing and construction activity according to IFRIC12</b>		<b>556.220.669</b>	<b>664.622.163</b>
Revenue from the balancing activity		235.427.293	120.686.221
Expenses with balancing gas		(235.427.293)	(120.686.221)
Revenue from the construction activity according to IFRIC12	32	405.793.585	63.949.856
Cost of assets constructed according to IFRIC12	32	(405.793.585)	<u>(63.949.856)</u>
<b>Operational profit</b>		<b>556.220.669</b>	<b>664.622.163</b>
Financial revenue	25	48.633.898	190.548.327
Financial expenses	25	<u>(26.972.873)</u>	<u>(150.228.440)</u>
<b>Financial revenue, net</b>		<b><u>21.661.025</u></b>	<b><u>40.319.887</u></b>
<b>Profit before tax</b>		<b>577.881.694</b>	<b>704.942.050</b>
Profit tax expense	18	<u>(87.395.719)</u>	<u>(121.429.146)</u>
<b>Net profit for the period</b>		<b><u>490.485.975</u></b>	<b><u>583.512.904</u></b>
<b>Conversion differences</b>		1.824.074	(881)
Earnings per share, basic and diluted (expressed in RON per share)	28	41,66	49,56
Actuarial (Gain)/Loos for the period		(4.442.437)	17.825.963
<b>Total comprehensive income for the period</b>		<b><u>487.867.612</u></b>	<b><u>601.337.986</u></b>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(expressed in lei, unless otherwise stated)



	<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 2017, reported</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>
Retreated	32	-	-	-	-	46.563.125	46.563.125
<b>Balance on 1 January 2017, retreated</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>1.811.831.998</u></b>	<b><u>3.884.264.560</u></b>
Net profit for the period, reported						581.959.025	581.959.025
Actuarial gain (loss) related to the period						17.825.963	17.825.963
Transactions with shareholders:							
Dividends related to 2016	15	-	-	-	-	(716.438.407)	(716.438.407)
Conversion differences from consolidation		-	-	-	-	(881)	(881)
<b>Balance on 31 december 2017, reported</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>1.695.177.698</u></b>	<b><u>3.767.610.260</u></b>
Retreated	32	-	-	-	-	1.554.761	1.554.761
<b>Balance on 31 december 2017,retreated</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>1.696.732.459</u></b>	<b><u>3.769.165.021</u></b>
Net profit for the period, reported						490.485.975	490.485.975
Actuarial gain/loss for the period		-	-	-	-	(4.442.437)	(4.442.437)
Transactions with shareholders:							
Dividends for 2017	15	-	-	-	-	(547.769.527)	(547.769.527)
Conversion differences from consolidation						1.824.074	1.824.074
<b>Balance on 31 December 2018</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>1.636.830.544</u></b>	<b><u>3.709.263.106</u></b>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

**CONSOLIDATED CASH FLOWS STATEMENT**  
(expressed in lei, unless otherwise stated)



		The year ended as at <u>31 December 2018</u>	The year ended as at <u>31 December 2017</u> (retreated)
<b>Cash generated from operations</b>	26	<b>380.337.514</b>	<b><u>988.208.471</u></b>
Interest paid		-	-
Interest received		4.760.216	3.435.346
Profit tax paid		<u>(127.664.538)</u>	<u>(160.914.900)</u>
<b>Net cash inflow from operation activities</b>		<b><u>257.433.192</u></b>	<b><u>830.728.917</u></b>
<b>Cash flow from investment activities</b>			
Payments to acquire tangible and intangible assets		(294.174.746)	(85.240.460)
Receipts from transfer of tangible assets		296.336	280.880
Financial investment/shares		(238.479)	-
Cash flows from connection fees and grants		<u>67.112.639</u>	<u>12.761.355</u>
<b>Net cash used in investment activities</b>		<b><u>(227.004.250)</u></b>	<b><u>(72.198.225)</u></b>
<b>Cash flow from financing activities</b>			
Drawings long term loans		163.299.500	69.895.500
Dividends paid		<u>(546.773.133)</u>	<u>(715.180.306)</u>
<b>Net cash used in financing activities</b>		<b><u>(383.473.633)</u></b>	<b><u>(645.284.806)</u></b>
Unfavourable exchange rate		<b>(98.968)</b>	<b>881</b>
Conversion difference		<b><u>1.923.042</u></b>	<b>=</b>
<b>Net change in cash and cash equivalents</b>		<b><u>(351.220.617)</u></b>	<b><u>113.245.005</u></b>
<b>Cash and cash equivalent in the beginning of the year</b>	13	<b><u>1.062.538.241</u></b>	<b><u>949.293.236</u></b>
<b>Cash and cash equivalent as at the end of the period</b>	13	<b><u>711.317.624</u></b>	<b><u>1.062.538.241</u></b>

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 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 31 December 2018, 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.

On 18 December 2017 the Limited Liability Company EUROTRANSGAZ SRL Chisinau (EUROTRANSGAZ S.R.L.) was established in the Republic of Moldova. In its relationship with EUROTRANSGAZ S.R.L., SNTGN Transgaz SA Mediaş is a sole associate, based on the Decision of the General Extraordinary Meeting of the Shareholders no.10/12 December 2017, regarding the establishment of this company.

The core business of EUROTRANSGAZ consists in:

1. Gas production, gas transmission, gas distribution, gas storage, gas supply
2. Transmission through pipelines
3. Storage
4. Consultancy for business and management

The share capital is MDL 198.927.877 (RON equivalent of RON 47.523.869,82) and is wholly owned by SNTGN Transgaz SA Mediaş - the founder of the Company, as a sole shareholder.

By the Resolution of the Board of Administration of March 2018 the conclusion of the Sale Purchase contract related to I.S Vestmoldtransgaz was approved and the payment of the price bid for privatization and all the taxes and charges related to the privatization process.

In September 2018 the Board of Administration of SNTGN Transgaz SA approved the empowerment of Eurotransgaz’ administrators (ETG) to register the sale and purchase contract and the transfer of ownership of the sole patrimonial complex SE "Vestmoldtransgaz".

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

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### **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) According to the NIS, compared to the quarter III of 2018, the Gross Domestic Product in quarter IV of 2018 was, in real terms, higher by 0.7%. Compared to the same quarter of 2017, the GDP increased by 4.1% on the gross series and 4.0% on seasonally adjusted series. From the point of view of GDP use, the increase was mainly due to the final consumption expenditure of the population, whose volume increased by 5.2%, contributing by 3.3% to GDP growth. A negative contribution to the GDP growth was: gross fixed equity formation, with a contribution of -0.7%, as a result of the 3.2% reduction in its volume; the net export (-1.8%), a consequence of the 4.7% increase in the volume of exports of goods and services, correlated with the higher increase in the volume of imports of goods and services, by 8.6%.
- (ii) In the meeting held on 7 February 2019, the Board of Administration of the National Bank of Romania decided to maintain the interest rate of monetary policy at the level of 2,50% percent per year, to maintain the interest rate for the deposit facility to 1.50% per year and the interest rate for the loan facility to 3.50% percent per annum and to maintain the current levels of minimum mandatory reserve ratios applicable to credit and foreign currency liabilities of credit institutions.
- (iii) According to the Inflation Report of the National Bank of Romania of February 2019: "In line with the anticipated trajectory, the annual CPI inflation rate has sharpened its downward trend in the last quarter of 2018. The indicator has fallen to 3.4% in November and then decelerated to 3.3% in December, thus strengthening within the range associated with the stationary target of 2.5% ± 1 percentage point. In both months, annual inflation rates were below those of the benchmark forecast in the NBR's November Inflation Report, reflecting in particular supply-side shocks associated with the drop in international oil quotations, as well as the lower prices of citrus because of the abundant production at European level. The downward trend in annual inflation rate in quarter IV was the result of developments in all basket components, including the adjusted CORE2 index, whose dynamics reached 2.5% in December 2018, down from 2.8% in September. At the same time, however, the annual CPI inflation rate continued to increase, from 4.5% in September to 4.6% in December. The average

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (expressed in lei, unless otherwise stated)

annual inflation rate had a similar trend, calculated using the Harmonized Index (HICP), which climbed by 0.3 percentage points from 3.8% in September to 4.1% in December. The spread of the indicator to the European average has remained high, to over 2 percentage points”.

## 2. OPERATIONAL FRAMEWORK OF THE COMPANY (CONTINUED)

- (iv) In 2018, Fitch Ratings confirmed the ratings for long-term foreign currency and local currency debts of Romania to BBB minus, stable outlook and Moody's reconfirmed the country rating Baa3 for the long-term debt, with stable outlook

At the end of 2018 the leu registered impairment against both the EURO ("EUR") and the US dollar ("USD"). Thus, as compared to the end of 2017, the leu depreciated by 0.09% against EUR (4.6639 as at 31 December 2018, 4.6597 as at 31 December 2017) and depreciated 4.68% against USD (4.0736 as at 31 December 2018, 3.8915 as at 31 December 2017).

At the end of 2017 the leu registered impairment against the EURO ("EUR"), and appreciated against the US dollar ("USD"). Thus, as compared to the end of 2016, the leu depreciated by 2.61% compared to EUR (4.6597 as at 31 December 2017, 4.5411 as at 31 December 2016) and appreciated 9.57% against the USD (3.8915 as at 31 December 2017, 4.3033 as at 31 December 2016).

## 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 which are measured at fair value by the profit and loss account or at the fair value among other elements of the comprehensive income.

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.

As of 2017, the year when EUROTRANSGAZ was founded with SNTGN Transgaz SA as the founder, the company is required to prepare consolidated financial statements in accordance with

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **(expressed in lei, unless otherwise stated)**

IFRS 10 - Consolidated Financial Statements, IFRS 12 - Presentation of Interests in Other Entities and IAS 21 - Effects of variation of the currency exchange rates.

For the year 2018, as a result of the procurement of Vestmoldtransgaz SRL in Moldova by Eurotransgaz SRL, Transgaz, as a parent company, filed consolidated financial statements that will also include the consolidation of Eurotransgaz SRL with Vestmoldtransgaz SRL in Moldova.

Transgaz' consolidation with ETG was performed step by step, respectively the consolidation of the annual Financial Statements of non-resident companies are converted using the closing rate method which means that for the balance sheet the NBR exchange rate issued on 31 December 2018 is used (closing rate) and for the profit and loss account the income and expense was expressed in the annual average rate published by the National Bank of Romania for 2018. The use of such different exchange rates has as a consequence the highlighting of the conversion difference.

According to the Accounting Law no. 82/1991 republished, as amended and supplemented and with OMFP 2844/2016, as amended and supplemented, for the approval of the accounting regulations in line with the International Financial Reporting Standards, the parent company must prepare both individual financial statements and consolidated financial statements of the group.

IFRS 10 sets out the application of the control principle to determine whether an investor controls an investee and therefore needs to consolidate the investee and also sets the accounting provisions for the preparation of the consolidated financial statements.

The parent company must prepare consolidated financial statements using uniform accounting policies for transactions and similar events in similar circumstances. The consolidation of an investee must start at the date the investor has acquired control and must cease when the investor loses control of the investee.

The parent company shall disclose the interests that do not control in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent company. Changes in a parent's equity interest in a subsidiary that do not result in the parent company's loss of control of the subsidiary are equity transactions (ie, transactions with owners in their capacity as owners).

If a parent company loses control over a subsidiary, the parent company shall: (a) derecognise the assets and liabilities of the former subsidiary from the consolidated financial position; (b) recognize any undistributed investment in the former subsidiary at its fair value when it has lost control and will subsequently account for those investments and the amounts owed by or to the former subsidiary in accordance with the relevant IFRSs. That fair value should be considered as the fair value at the time of the initial recognition of a financial asset in accordance with IFRS 9 or, where applicable, the cost of the initial recognition of an investment in an associate or in a joint venture; (c) recognizes the gain or loss associated with the loss of control attributable to the former majority interest.

The consolidated financial statements include the Company's financial statements and the financial statement of the affiliated entity, EUROTRANSGAZ, which is controlled by the Company, combining similar parent company – affiliated company assets, liabilities, equity, costs and cash flow items, compensating (eliminating) the accounting value of the investment made by the parent company in each subsidiary, and the share of the parent company in the equity of each subsidiary, and eliminating in full

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (expressed in lei, unless otherwise stated)

all intragroup assets and liabilities, equity and cash flows related to the intragroup transactions performed.

A company controls an entity in which it had invested when it is exposed or has variable income rights on the basis of its participation in the investee and has the ability to influence the relevant income through its authority over the investee. The control principle thus establishes the following three elements of control:

1. the authority over the investee;
2. the exposure or variable income rights based on participation in the investee; and
3. the ability to use the authority over the investee to influence the value of the investor's results.

The company presents the investments in the affiliated entity in the individual financial statements as `Financial assets`.

IFRS 3 requires the acquirer, after recognizing the identifiable assets, the liabilities and all interests which do not control to identify any differences between:

- a) the aggregation of the transferred counterperformance, any interest which does not control in the acquired entity and in a business combination made in stages, the fair value from the acquisition date of the equity interests of the acquired entity previously held by the acquirer, and
- b) the net identifiable net assets acquired;

Generally, the difference will be recognized as a goodwill. In accordance with IAS 36 - Impairment of Assets, goodwill acquired in a business combination will be tested for depreciation annually.

Consolidation procedures according to IFRS 10

The consolidated financial statements:

- combine similar items of assets, liabilities, equity, income, expenses and cash flows of the parent company with those of its subsidiaries;
- compensate (eliminate) the accounting amount of the investment made by the parent company in the subsidiary and the parent's share of the equity of the subsidiary; accounting is according to IFRS 3;
- eliminate in full all intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the entities of the group: profit or loss from the intragroup transactions recognised in the assets, such as inventories and the fixed assets are totally eliminated.

### **Accounting regulations applicable as of 2016**

Amendments to various standards "Improvements to IFRSs (2014-2016 Cycle)" resulting from the annual project to improve IFRSs (IFRS 1, IFRS 12, IAS 28) mainly to eliminate inconsistencies and to clarify certain formulations (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).

### **(a) Standards and interpretations applicable from 2017**

The following standards and amendments of the current standards, issued by the International

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (expressed in lei, unless otherwise stated)

Accounting Standard Board (‘IASB’) and adopted by the European Union (EU) became applicable in 2017:

#### Amendments to IAS 12 “Profit tax”

Amendments to Deferred tax recognition for unrealized assets clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and at cost for tax purposes will give rise to a deductible temporary difference regardless of whether the holder of the debt instrument expects to recover the accounting value of the debit instrument by sale or by use;
- The accounting value of an asset does not limit the estimation of the future taxable profits;
- Estimates of future taxable profits exclude tax deductions resulting from the lapse of taxable temporary differences;
- The entity estimates a deferred tax in combination with other deferred taxes. Where tax law restricts the use of tax losses, an entity will estimate deferred tax in combination with other deferred tax of the same type.

The Amendments are applicable for the period starting from or after 2017. The previous application is allowed;

#### The amendments to IAS 7 ‘Treasury flows Statements’ – Disclosure initiative (applicable for the annual periods beginning on or after 1 January 2017);

The amendments to IAS 7 became applicable as of 2017:

- The Amendments to IAS 7 ‘Treasury flows Statements’ Disclosure initiative for the annual periods beginning on or after 1 January 2017) according to which an entity has to provide information that allows users of financial reports to assess changes in the liabilities arising from financial activities.
- The following changes resulting from financial activities will be presented to the extent necessary: changes in financial flow; changes resulting from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair value; other modifications;
- Entities are not required to submit information for prior periods when the amendment is first applied

#### (b) Standards and interpretations applicable as of 2018

At the date of reporting of these Financial Statements, the following standards, revisions and interpretations became applicable:

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IFRS 9 ‘Financial Instruments’** - adopted by the the UE on 22 November 2016 (applicable for the annual periods beginning on or after 1 January 2018) replaces IAS 39 – Financial Instruments, Recognition and Metering;

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

**IFRS 9** includes the requirements on financial instruments referring to recognition, classification, 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 anticipated impairment loss model based on expected loss, which will require anticipated recognition of expected losses from impairment of receivables. The standard requires entities to recognize the anticipated impairment losses on receivables from the time of initial recognition of financial instruments, and to recognize the anticipated impairment losses over their lifetime. The amount of expected loss will be updated for each reporting period so as to reflect changes in credit risk as compared to initial recognition.
- *Depreciation:* applies to commercial receivables that do not have a funding component is measured at amortized cost (the condition is that assets are held within a business model whose objective is to collect cash flows;
- *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.

**IFRS 15 “Revenues from contracts with the clients”** as subsequently amended and amendments to IFRS 15 “Effective date of IFRS 15” adopted by the EU on 22 September 2016 (applicable for the annual periods beginning on or after 1 January 2018);

IFRS 15 establishes a single model for the entities for revenue accounting resulting from customer contracts, replacing the following standards and interpretations from the date of entry into force:

- IAS 18 - Revenue;
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programs;
- IFRIC 15 - Agreements on the Construction of Real Estate;
- IFRIC 18 - Transfers of Assets from Customers;
- SIC 31 – Income - Barter transactions involving advertising services

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **(expressed in lei, unless otherwise stated)**

The core principle of IFRS 15 is that an entity recognizes revenue to illustrate the transfer of the goods or services promised to customers at a value that reflects the consideration the entity expects to have the right to exchange for those goods or services. An entity recognizes revenue in accordance with this essential principle by applying the following steps: contract identification; identifying performance obligations from the contract; determining the transaction price; assigning the transaction price for the performance obligations of the contract; recognizing revenue when (or as) fulfills an execution obligation.

**Amendments to IAS 40 `Investment Property`** –property related to Investment transactions (*applicable for the annual periods beginning on or after 1 January 2018*);

**IFRIC 22 “Currency and advance payment transactions”** (applicable for the annual periods beginning on or after 1 January 2018); the interpretation refers to transactions in currency or to transactions

### **Standards and interpretations which will enter into force/applicable as of 2019 or at a subsequent date**

At the date of the reporting these Financial Statements the following standards and interpretations are not applicable and they will enter into force beginning on or after 1 January 2019:

- **IFRS “Leasing”** (applicable for the annual periods beginning on or after 1 January 2019); at the date of entry into force IFRS 16 will replace the following standards and interpretations:
  - IAS 17 - Leasing;
  - IFRIC 4- Determining the extent to which an engagement contains a leased contract;
  - SIC 15 - Operational Leasing - Incentives;
  - SIC 27- Evaluation of the economic substance of the transactions involving the legal form of a lease contract.

IFRS 16 provides a model for controlling leases by setting principles for the recognition, measurement and presentation of lease contracts, ie the right to control the use of an asset identified for a certain period of time in exchange for a consideration. The right to control the use of the identified asset exists if the client has the right to obtain to a large extent all the economic benefits and also the right to determine the manner and purpose in which the asset is used. IFRS 16 introduces significant changes in accounting for the lease, in particular by eliminating the distinction between financial and operating leases, and requires the lessee to recognize a usable asset and a lease liability at the date of commencement of the contract, except for short-term leases or renting low-value assets.

- **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);
- **Amendments to IFRS 4 `Insurance Contracts`** - Applying IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts (applicable for the annual periods beginning on or after 1 January 2018 or at the application for the first time of IFRS 9 `Financial Instruments`;

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (expressed in lei, unless otherwise stated)

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### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IFRS 10 `Consolidated 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);

#### 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) *The rounding level used in the presentation of the financial statements*

In the financial statements the value are presented rounded by units.

##### c) *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 and liabilities denominated in foreign currency are reflected in the statement of the comprehensive income.

In accordance with IAS 21, "Effects of Variations in Foreign Exchange Rates", when a group contains individual entities with different functional currencies, the results and financial standing of each entity are denominated in a common currency so as to allow the presentation of the consolidated financial statements.

For the purpose of consolidation, the MDL was converted to the functional currency, respectively RON, at the NBR exchange rate issued on December 31, 2018, respectively RON 0,2389/MDL for the balance sheet, respectively the NBR average exchange rate of 0,2346 RON/MLD for revenues and expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 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. 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.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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IFRS 3 requires the acquirer that, as soon as the identifiable assets, debts and all non-controlling interests have been recognized, they identify any differences between the aggregate transferred consideration, any non-controlling interests in the acquiree and in a business combination achieved in stages, the fair value at the procurement date, the equity shares of the acquired entity previously owned by the acquirer and the net acquired identifiable assets;

This difference will be recognized as goodwill according to IAS 36 – Asset impairment, goodwill acquired in a business combination will be annually tested for impairment.

For 2018 no impairment is calculated as this is the year of the procurement.

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 CONSOLIDATED FINANCIAL STATEMENTS**

### **(expressed in lei, unless otherwise stated)**

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.

The costs of the funds borrowed for especially for obtaining a long lead asset (achievement of the investment) are capitalized by the company on the asset as a difference between the current leverage costs related to such loan during the period and any revenues from the investments obtained from the temporary investment of these loans.

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Borrowing costs attributable to the liability are recognized as an expense in the period in which they are incurred, unless the operator has the contractual right to receive an intangible asset, in which case the borrowing costs attributable to an arrangement are capitalized during the engagement stage. 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 lei 474,952,575 (31 December 2017: 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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **(expressed in lei, unless otherwise stated)**

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 3.7 and 3.6).

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).

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As of 01.01.2018, IFRS 15 Revenues from the contracts with the clients became applicable in Romania. This standard replaces a set of older standards (such as IAS 11, IAS 18) and changes IFRIC 12 giving a new interpretation to the contract notion. Therefore, our company registered the discounted receivables related to the regulated value remained undepreciated at the end of the concession agreement as a counterperformance and an intangible asset at a value diminished with the amount of the discounted receivables.

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: measured at fair value through profit or loss, measured at depreciated cost and measured at fair value by other elements of the comprehensive income. 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 an updated receivable related to the regulated value remained undepreciated at the end of the concession agreement, at a counterperformance and an intangible asset at a value less the updated receivable. The discount rate used to calculate the present value of the



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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.

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) *Financial assets measured at fair value through the profit or loss account or measured at fair value by other elements of the comprehensive income*

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 account. The classification on IFRS 9 is determined by the cash flow characteristics and the business model in which an asset is held. This unitary approach based on principles eliminates the classification of financial assets 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. Upon initial recognition, an entity may make an irrevocable choice to present to other comprehensive income elements the subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor is it a recognized contingent consideration by an acquirer in a business combination to which IFRS 3 applies. In this case he/she will recognize in the income statement the dividends from that investment.

(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;
- disappearance of the active market for that financial asset because of financial difficulties; or

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- 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*

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 measured at fair value through the profit or loss account or at the fair value by other elements of the comprehensive income*

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 at fair value through other elements of the comprehensive income 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 for these financial, 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.

### **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.

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The cost is determined based on the first in, first out method. Where necessary, adjustment is made for obsolete and slow moving inventories. Individually identified obsolete inventories are adjusted 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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **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 adjustments 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 adjustments 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.

#### **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.

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## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

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.

### **3.16 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

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

payables are closed as a result of the payment of debts, offsetting with receivables or their write-off through the profit and loss account.

### **3.17 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 and for grants collected.

The grants collected 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.

### **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 the Company chose to record the total asset value and a deferred revenue.

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 an updated receivable related to the remaining unamortised value at the end of the concession agreement at a counterperformance and an intangible asset at a value less the updated receivable. .

### **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.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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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.

#### *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.

### **3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (expressed in lei, unless otherwise stated)

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.

### 3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) *Revenue from services*

Revenues from the domestic and international gas transmission consist in booking the transmission capacity and transmission through the NTS of the determined quantities of natural gas, expressed in units of energy, during the period of validity of a gas transmission contract and are recognized at the moment of their delivery. During the administration of the transmission contracts, the TSO issues and submits to the NU, by the 15th of the month following the month for which the transmission service was provided: an invoice for the transmission services rendered for the previous month, prepared based on the final allocations; an invoice related to the final daily imbalances registered in the previous month; and an invoice related to the value of the booked capacity overrun tariff.

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 28).

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.

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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.

### 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:

**31 december 2018**

**31 December 2017**

*Impact on profit and loss and on*

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<i>equity of:</i>		
USD appreciation by 10%	121.191	38.536
USD depreciation by 10%	(121.191)	(38.536)
EUR appreciation by 10%	36.267.997	64.842.955
EUR depreciation by 10%	(36.267.997)	(64.842.955)

**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 lei 2,940,121, (December 2017: lei 3.067.062).

(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 3.051.941 (December 2017: lei 3.629.530 lower/higher) as a 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 adjustments 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 50 % of the trade receivable balances on 31 December 2018 (31 December 2017: 61%). Although the collection of receivables can be influenced by economic factors, the management believes that there is no significant risk of loss exceeding the adjustments already made. At the end of 2018 the company has available payment guarantees from its clients amounting to lei 223.883.181.

Cash is placed with financial institutions, which are considered as associated to a minimum performance risk.

	<u>31 December 2018</u>	<u>31 December 2017</u>
Without rating	4.672.134	4.587.327

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BB		355.439.685
BB+	347.913.691	-
BBB-	13.569.848	3.901.284
BBB		224.008.353
BBB+	344.645.980	474.084.727
A	137.989	138.479
AA		<u>190.822</u>
AA-	<u>216.037</u>	
	<b><u>711.155.679</u></b>	<b><u>1.062.350.677</u></b>

All the financial institutions are presented in the Fitch rating or equivalent.

**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 31 december 2018 in terms of contractual maturity remained. The amounts disclosed in the maturity table are contractual undiscounted cash flows.

Maturity analysis of financial liabilities on 31 December 2018 is as follows:

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

Maturity analysis of financial liabilities on 31 December 2017 is as follows:

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	<u>Total amount</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>over 5 years</u>
Loans	78.443.204	830.048	17.885.494	59.727.662
Commercial payables and other payables	<u>127.161.874</u>	<u>127.161.874</u>	—	—
	<u>205.605.078</u>	<u>127.991.922</u>	<u>17.885.494</u>	<u>59.727.662</u>

Commercial payables and other payables include trade payables, suppliers of fixed assets, dividends payable, payables 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.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Financial instruments categories:

	<u>31 December 2018</u>	<u>31 December 2017</u> (retreated)
<b>Financial assets</b>		
Cash and cash equivalents	419.910.424	622.517.062
Term bank deposits	291.407.201	440.021.181
Loans and receivables	1.108.155.574	932.006.661
Financial assets	24.816.713	24.578.237
Adjustments related to financial assets	<u>(24.816.713)</u>	<u>(24.578.237)</u>
	<u><b>1.819.473.199</b></u>	<u><b>1.994.544.904</b></u>

	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>Financial liabilities</b>		
Debts evaluated to amortised cost		
Loans	233.195.000	69.895.500
Liabilities evaluated at fair value		
Financial securities for contracts	6.311.084	5.488.821
Commercial liabilities and other liabilities	<u>252.515.638</u>	<u>121.673.052</u>
	<u><b>492.021.722</b></u>	<u><b>197.057.373</b></u>

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

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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, 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.

### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

In 2018 the Company's strategy, unchanged since 2017, 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 31 december 2018 was negative and on 31 December 2017 was null:

	<u>31 December 2018</u>	<u>31 December 2017</u> <u>retreated</u>
Total borrowings	233.195.000	69.895.500
Except: cash and cash equivalents (Note 13)	<u>(711.317.624)</u>	<u>(1.062.538.243)</u>
Net cash position	<u>(478.122.624)</u>	<u>(992.642.743)</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 adjustment 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.

### 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

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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. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

#### 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 2018 is of lei 110.011.930 (Note 21).

The presentation of the current value for the 2018 depending on the following variables:

	<b><u>31 December 2018</u></b>
Inflation rate +1%	123.608.092
Inflation rate -1%	97.974.861
Investment return +1%	98.512.238
Investment return -1%	123.509.498

The present value of the obligations at 31 December 2017 is of lei 99.462.667 (Note 21).

The presentation of the current value for the 2017 depending on the following variables:

	<b><u>31 December 2017</u></b>
Inflation rate +1%	110.501.383
Inflation rate -1%	89.869.030
Investment return +1%	90.221.183
Investment return -1%	101.440.189

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	<b>31 December 2018</b>	<b>31 December 2017</b>
Up to one year	2.939.793	3.608.726
Between 1 and 2 years	2.897.013	3.366.142
Between 2 and 5 years	7.472.724	10.320.110
Between 5 and 10 years	40.447.448	44.098.649

**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 of 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:

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- 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;

### 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.

### 5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The Company believes that the legislative change represents a compensation 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.

As of 01.01.2018, IFRS 15 "Revenue from contracts with customers" became applicable in Romania. This Standard supersedes a number of older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to the notion of a contract. As a result, the Company applies the bifurcated model registering the updated receivable related to the regulated amount remaining unamortized at the end of the concession agreement as a financial asset the intangible asset will be presented in the financial statements by the residual method resulted less the value of the construction works, achieved at fair value with the amount of the updated long term receivable (compensation) upon the commissioning of the investment.

The present value was determined for the remaining period of the concession contract (the year 2032), because it is estimated that it will not be terminated before the expiration date (see Note 3.9 (a)).

## 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, which makes strategic decisions for reportable segments, for the period ended 31 december 2018 are:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from domestic transmission	1.178.419.674	-	-	-	1.178.419.674
Revenue from international transmission	-	324.380.804	-	-	324.380.804
Other revenue	52.001.744	-	-	53.595.423	105.597.167
<b>Operating revenue before the balancing and the construction activity according to IFRIC12</b>	<b><u>1.230.421.418</u></b>	<b><u>324.380.804</u></b>	<b>-</b>	<b><u>53.595.423</u></b>	<b><u>1.608.397.645</u></b>
Depreciation	(151.199.173)	(31.828.995)	-	(6.885.211)	(189.913.379)
Operating expenses other than depreciation	<u>(707.535.091)</u>	<u>(50.161.907)</u>	-	<u>(104.566.599)</u>	<u>(862.263.597)</u>
<b>Profit from operation before the balancing and construction activity according to IFRIC12</b>	<b><u>371.687.154</u></b>	<b><u>242.389.902</u></b>	<b>-</b>	<b><u>(57.856.387)</u></b>	<b><u>556.220.669</u></b>
Revenue from the balancing activity	-	-	235.427.293	-	235.427.293
Cost of balancing gas	-	-	3 (235.427.293)	-	(235.427.293)
Revenue from the construction activity according to IFRIC12	-	-	-	405.793.585	405.793.585
Cost of assets built according to IFRIC12	-	-	-	(405.793.585)	(405.793.585)
<b>Operating profit</b>	<b><u>371.687.154</u></b>	<b><u>242.389.902</u></b>	<b>-</b>	<b><u>(57.856.387)</u></b>	<b><u>556.220.669</u></b>
Net financial gain					21.661.025
<b>Profit before tax</b>					<b>577.881.694</b>
Profit tax					(87.395.719)
<b>Net profit</b>					<b>490.485.975</b>
Assets on segments	3.709.437.875	352.259.381	144.737.737	786.586.629	4.993.021.622
Liabilities on segments	1.132.301.685	18.873.908	119.954.718	12.628.205	1.283.758.516
Capital expenditure - increases in assets in progress	421.491.278	-	-	28.416	421.519.694
Non-cash expenses other than depreciation	37.218.082	1.872.636	-	1.959.818	41.050.536

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.

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*Unallocated assets include:*

Tangible and intangible assets	64.533.186
Financial assets	-
Goodwill from consolidation	9.413.102
Cash	711.317.624
Other assets	<u>1.322.717</u>
	<b>786.586.629</b>

*Unallocated liabilities include:*

Deferred tax	4.596.976
Dividends payable	5.357.678
Other debts	<u>2.673.550</u>
	<b>12.628.204</b>

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.

**6. INFORMATION ON SEGMENTS (CONTINUED)**

	<u>Domestic Clients</u>	<u>Foreign Clients</u>	<u>Total</u>
Revenue from the domestic transmission	1.175.180.341	3.239.333	1.178.419.674
Revenue from international transmission	495.728	323.885.076	324.380.804
Other revenue	<u>104.472.988</u>	<u>1.124.179</u>	<u>105.597.167</u>
	1.280.149.057	328.248.588	1.608.397.645

*Domestic clients with over 10% of the total revenue include:*

Percentage of the total revenue

ENGIE ROMANIA S.A.	19%
OMV PETROM GAS SRL	12%

All Company's assets are located in Romania. All Company's activities are carried out in Romania.

The Company has external receivables amounting to lei 25.617.027 (31 December 2017: lei 23.316.993).

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 revenues related to the claims for the regulated value of the regulated asset base remained

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undepreciated in 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.

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 2017, is as follows:

**6. INFORMATION ON SEGMENTS (CONTINUED)**

	<u>Domestic gas transmission</u>	<u>International gas transmission</u>	<u>Balancing</u>	<u>Unallocated</u>	<u>Total</u>
Revenue from					
domestic transmission	1.338.046.808	-	-	-	1.338.046.808
Revenue from					
international					
transmission	-	333.289.677	-	-	333.289.677
Other revenue	43.022.626	-	-	35.586.668	78.609.294
<b>Operating revenue before the balancing and the construction activity according to IFRIC12</b>	<b><u>1.381.069.434</u></b>	<b><u>333.289.677</u></b>	<b><u>-</u></b>	<b><u>35.586.668</u></b>	<b><u>1.749.945.779</u></b>
Depreciation	(177.366.329)	(34.223.854)	-	(2.837.561)	(214.427.744)
Operating expense					
other than depreciation	<u>(767.985.695)</u>	<u>(56.271.222)</u>	<u>-</u>	<u>(46.534.956)</u>	<u>(870.791.873)</u>
<b>Profit from operation before the balancing activity according to IFRIC12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>664.726.162</b>
Revenue from the balancing					
activity	-	-	120.686.221	-	120.686.221
Cost of balancing gas	-	-	(120.686.221)	-	(120.686.221)
Revenue from the construction					
activity according to IFRIC12	-	-	-	63.949.856	63.949.856

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Cost of assets built according to IFRIC12	-	-	-	(63.949.856)	(63.949.856)
<b>Profit from operation</b>	-	-	-	-	<b>664.726.162</b>
Net financial gain	-	-	-	-	40.318.788
Profit before tax	-	-	-	-	<b>705.044.950</b>
Profit tax	-	-	-	-	<u>(122.983.907)</u>
<b>Net profit</b>	-	-	-	-	<b>582.061.043</b>
Assets on segments	3.696.911.193	371.852.971	49.025.393	1.115.487.565	5.233.277.122
Liabilities on segments	1.373.537.407	18.292.005	51.800.729	68.496.947	1.512.127.088
Capital expenditure - increases in assets in progress	95.566.363	-	-	5.293	95.571.656
Non-cash expenses other than depreciation	40.879.002	2.000.526	-	205.138	43.084.666

**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. The presented assets for the balancing segment are mainly gas stocks procured for NTS balancing and trade receivables from the balancing activity.

*Unallocated assets include:*

Tangible and intangible assets	36.399.335
Financial assets	232.533
Cash	1.062.351.834
Other assets	<u>16.503.863</u>
	<b>1.115.487.565</b>

*Unallocated liabilities include:*

Deferred tax	63.346.964
Dividends payable	4.361.284
Other debts	<u>788.699</u>
	<b>68.496.947</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. The debts presented in relation to the balancing segment are mainly trade payables 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.

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(expressed in lei, unless otherwise stated)

International transmission services are provided for two 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 domestic transmission	1.336.256.356	1.790.452	1.338.046.808
Revenue from international transmission	436.416	332.853.261	333.289.677
Other revenue	<u>72.135.197</u>	<u>6.474.097</u>	<u>78.609.294</u>
	<u>1.408.827.969</u>	<u>341.117.810</u>	<u>1.749.945.779</u>

*Domestic clients with over 10% of the total revenue include:* Percentage of the total revenue

ENGIE ROMANIA S.A.	23%
E.ON ENERGIE ROMANIA SA.	15%

All the Company's assets are located in Romania. All the Company's activities are carried out in Romania.

### 7. TANGIBLE ASSETS

	<u>Lands and buildings</u>	<u>Assets of the transmission system</u>	<u>Other fixed assets</u>	<u>Assets in progress</u>	<u>Total</u>
<b>On 31 December 2017</b>					
Cost on 1 January 2017	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>
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>
Inflows	23.000	-	-	28.703.505	28.726.505
Inflows/Re-classification	560.409	-	59.293	-	619.702
Transfers	347.404	-	25.571.631	(25.919.035)	-
Outflow (net book value)	(6.006)	(28.693)	(105.535)	-	(140.234)
Depreciation re-classification	(44.518)	-	(4.425)	-	(48.943)
Expense with depreciation	<u>(7.511.134)</u>	<u>(33.665.334)</u>	<u>(17.503.127)</u>	-	<u>(58.679.595)</u>
Final net book value	<u>132.027.365</u>	<u>351.526.467</u>	<u>56.514.907</u>	<u>18.486.701</u>	<u>558.555.440</u>
Cost	279.746.273	957.225.955	262.677.605	18.486.701	1.518.136.534
Accumulated depreciation	<u>(147.718.908)</u>	<u>(605.699.488)</u>	<u>(206.162.698)</u>	-	<u>(959.581.094)</u>
Final net book value	<u>132.027.365</u>	<u>351.526.467</u>	<u>56.514.907</u>	<u>18.486.701</u>	<u>558.555.440</u>

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**On 31 december 2018**

Initial net book value	<u>132.027.365</u>	<u>351.526.467</u>	<u>56.514.907</u>	<u>18.486.701</u>	<u>558.555.440</u>
Inflow	-	-	-	14.582.836	14.582.836
Re-classification	399.663	(3.717)	37.477.213	165.059	38.038.218
Transfers	609.772	(152.608)	27.498.788	(27.955.952)	-
Outflow (net book value)	(8.305)	-	(104.033)	-	(112.338)
Expense with depreciation	(6.495.143)	(30.866.343)	(28.409.553)	-	(65.771.039)
Adjustments for impariment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.656.183)</u>	<u>(1.656.183)</u>
Final net book value	<u>126.533.352</u>	<u>320.503.799</u>	<u>92.977.322</u>	<u>3.622.461</u>	<u>543.636.934</u>
Cost	280.587.744	957.069.630	315.757.267	5.278.644	1.558.693.285
Accumulated depreciation	(154.054.392)	(636.565.831)	(222.779.945)	-	(1.013.400.168)
Adjustments for impariment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.656.183)</u>	<u>(1.656.183)</u>
Final net book value	<u>126.533.352</u>	<u>320.503.799</u>	<u>92.977.322</u>	<u>3.622.461</u>	<u>543.636.934</u>

The gross book value of the fully depreciated assets, still used, is lei 273.561.000 lei (31 December 2017: 233.536.442 lei)..

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.

The Company does not depreciate the tangible fixed assets that are approved to be disposed of.

## 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

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;
- 

### 8. SERVICE CONCESSION AGREEMENT (CONTINUATION)

- 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.

### 9. INTANGIBLE ASSETS

	Assets related to the <u>ACS</u>	Goodwill from the consolidation	Information program	Intangible assets <u>in progress</u>	<u>Total</u>
	<b>On 31 December 2017 (retreated)</b>				
Cost	6.050.325.148	-	49.842.900	161.657.465	6.261.825.513

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Accumulated depreciation	(3.626.140.238)	-	(49.202.471)	-	(3.675.342.709)
Adjustments for impairment	-	-	-	(3.010.152)	(3.010.152)
The concession agreement receivable	(529.682.912)	-	-	-	(529.682.912)
Asset depreciation concession agreement receivable	60.874.822	-	-	-	60.874.822
Initial net book value	<u>1.955.376.820</u>	-	<u>640.429</u>	<u>158.647.313</u>	<u>2.114.664.562</u>
Cash-in Reclassifications	(619.702)	-	-	-	(619.702)
Transfers Outflows	26.437.348 (11.452)	-	1.920.881	(28.358.229)	- (11.452)
Depreciation re-classification	48.944	-	-	-	48.944
Depreciation Adjustments for impairment	(157.014.981)	-	(335.923)	-	(157.350.904)
The concession agreement receivable	(78.666)	-	-	(1.846.591)	(1.846.591)
Asset depreciation concession agreement receivable	29.953.087	-	-	-	29.953.087
Final net book value	<u>1.854.091.398</u>	-	<u>2.225.387</u>	<u>195.310.644</u>	<u>2.051.627.429</u>
Cost	6.076.105.751	-	50.568.382	200.167.387	6.326.841.520
Accumulated depreciation	(3.783.080.684)	-	(48.342.995)	-	(3.831.423.679)
The concession agreement receivable	(529.761.578)	-	-	-	(529.761.578)
Asset depreciation concession agreement receivable	90.827.909	-	-	-	90.827.909
Provisions for impairment	-	-	-	(4.856.743)	(4.856.743)

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Final net book value	<u>1.854.091.398</u>	-	<u>2.225.387</u>	<u>195.310.644</u>	<u>2.051.627.429</u>
<b>As at 31 December 2018</b>					
Initial net book value	<u>1.854.091.398</u>	-	<u>2.225.387</u>	<u>195.310.644</u>	<u>2.051.627.429</u>
Inflows	-	-	-	406.936.858	406.936.858
Reclassifications	3.717	-	-	(164.817)	(155.904)
Transfers	81.885.811	-	3.492.712	(85.378.523)	-
Outflows	(2.051)	-	-	-	(2.051)
Depreciation	(161.251.590)	-	(1.580.009)	-	(162.831.599)
Adjustments for depreciation	-	-	-	(2.157.507)	(2.157.507)
Goodwill from consolidation	-	9.413.102	-	-	9.413.102
The concession agreement receivable	(21.979.685)	-	-	-	(21.979.685)
Asset depreciation concession agreement receivable	<u>30.368.709</u>	-	-	-	<u>30.368.709</u>
Final net book value	1.783.116.309	9.413.102	4.143.286	514.546.655	2.311.219.352
Cost	<u>6.157.978.033</u>	-	<u>54.066.289</u>	<u>521.560.905</u>	<u>6.733.605.227</u>
Accumulated depreciation	(3.944.317.080)	-	(49.923.003)	-	(3.994.240.083)
Adjustments for impairment	-	-	-	(7.014.250)	(7.014.250)
Goodwill from the consolidation	-	9.413.102	-	-	9.413.102
The concession agreement receivable	(551.741.263)	-	-	-	(551.741.263)
Asset depreciation concession agreement receivable	<u>121.196.619</u>	-	-	-	<u>121.196.619</u>
Final net book value	<u>1.783.116.309</u>	9.413.102	<u>4.143.286</u>	<u>514.546.655</u>	<u>2.311.219.352</u>

The remaining life of the intangible assets is presented in Note 3.5 and Note 3.8.

Following the procurement of Vestmoldtransgaz SRL (VMTG) by Eurotransgaz SRL (ETG) the goodwill, calculated as the difference between the value of the holding and the equity value of

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VTMG weighted by the 100% stake, was recorded in the consolidated financial statements as an intangible asset. The goodwill was calculated at the date of procurement, respectively on March 2018.

### 10. FINANCIAL ASSETS

Financial assets consist of unlisted stakes in the following companies:

<u>Company</u>	<u>Activity</u>	%	%	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
		<u>Percentage</u> <u>owned</u> <u>2018</u>	<u>Percentage</u> <u>owned</u> <u>2017</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
Phaedra's SHA	Gas transmission	33,33	-	238.477	-
Eurotransgaz	Gas transmission	100	100	-	-
Minus adjustments for impairment of investments in: Resial SA, Mebis SA and Phaedra's SHA				<u>(24.816.714)</u>	<u>(24.578.237)</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 adjustment for impairment amounting to 100% of the cost. The loan granted to Resial SA is also fully adjusted. 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 adjusted. The Company has no obligations to Mebis SA.

#### *Participation in the Limited liability company Eurotransgaz Ltd.*

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By EGMS Resolution 10/12.12.2017 the establishment of the company EUROTRANSGAZ Ltd. on the territory of the Republic of Moldova was approved for the successful participation in the privatization of the State Enterprise Vestmoldtrasgaz. In 2018, Transgaz participated in the increase of Eurotransgaz' share capital to ensure the financial sources necessary for the procurement of the State Enterprise Vestmoldtrasgaz.

For the purpose of consolidation, the financial assets representing the investment in EUROTRANSGAZ SRL amounting to RON 45.600.828 (RON) were offset by EUROTRANSGAZ' share capital of 47.523.870 lei (MLD) being related to intra-group transactions, in accordance with with IFRS 10 - Consolidated Financial Statements; From the settlement of the financial assets with Eurotransgaz' share capital conversion, differences resulted, amounting to lei 1.923.042, which were adjusted by the account 107 - Conversion difference, affecting only the value of the equity.

### *Participation in Phaedra's SHA*

The consortium consisting in Reganosa, Transgaz and EBRD submitted a tender for the participation in the second round of the privatization of a 66% stake of the company DESFA, the Greek operator of the gas transmission network. Because of the fact that the consortium is to be wound up because it was not declared successful in the tender for the procurement of DESFA, the company recorded an adjustment for the impairment of 100% of the cost.

In case of the financial assets held by Transgaz, i.e. Mebis SA, Phaedra S.A and Resial SA , the application of IFRS 9 has no impact whatsoever, as such assets are measured at the fair value by the profit and loss account and 100% impairment adjustments were established.

The share titles held in Eurotransgaz S.R.L, represent an equity investment recognized according to IFRS 9, which as at the date of the transaction was measured at the fair value by other elements of the comprehensive income.

The standard is not applied to the interests in subsidiaries, associated entities and joint ventures accounted for pursuant to IFRS 10 Consolidated financial statements, IAS 27 Individual financial statements or IAS 28 Investments in associated entities and in joint ventures and Transgaz, as sole shareholder of Eurotransgaz SRL, applies these standards upon the consolidation of the financial statements.

## 11. INVENTORIES

	<u>31 December 2018</u>	<u>31 December 2017</u>
Gas inventories	30.865.253	20.634.892
Spare parts and materials	79.016.618	69.871.104
Materials in custody to third parties	174.188.219	12.181.403
Adjustments for the impairment of inventories	<u>(28.762.730)</u>	<u>(20.593.986)</u>
	<u>255.307.360</u>	<u>82.093.413</u>

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ANRE Order 160/2015 sets the obligations of Transgaz, as the transmission system operator, regarding the balancing of the national transmission system.

Within the materials in custody to third parties stocks are included in the amount of 163.544.499 lei purchased by the company for the achievement of the BRUA Phase I project.

Movements in the adjustments account are analysed below:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Adjustment on 1 January	20.593.987	11.505.163
(Revenue)/expense with the adjustment for the impairment of the inventories (Note 23)	<u>8.016.743</u>	<u>9.088.823</u>
Adjustment in the end of the period	<u>28.762.730</u>	<u>20.593.986</u>

In 2018 adjustments for the impairment of the inventories were constituted according to Note 3.10.

## 12. COMMERCIAL RECEIVABLES AND OTHER RECEIVABLES

	<u>31 December 2018</u>	<u>31 December 2017</u> (retreated)
Trade receivables	704.984.971	645.428.901
Advance payments to suppliers	258.200	113.140
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	629.754.861	587.291.596
Non-refundable loans as subsidies	3.905.908	3.127.035
Warranties granted	190.515.944	62.209.072
Other receivables	(312.732.990)	(288.882.833)
Adjustment for impairment of trade receivables	<u>(46.916.888)</u>	<u>(44.267.736)</u>
Provision for impairment of other receivables	<u>1.171.540.352</u>	<u>966.789.521</u>

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 an adjustment. 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.

The advance payments granted to the company in the context of the contractual relationships are guaranteed by the suppliers by letters of bank guarantee.

On 31 December 2018 the company established letters of bank guarantee for their parties as follows:

- Two letters of bank guarantee in the total amount of lei 8,884,920 issued by the Romanian Commercial Bank valid until 31.03.2019;
- letter of bank guarantee in the amount of euro 13,260,000 issued by BRD Groupe Societe Generale, valid until 07.01.2019.

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All the letters are guaranteed by collateral deposits in the same amount.

On 31 December 2018, the amount of lei 825.099 (31 December 2017: Lei 22.890.364) representing trade receivables and other receivables, net, is expressed in foreign currency, of which 2% in USD (31 December 2017: 5%) and 98% in EUR (31 December 2017: 95%).

With a view to consolidation, internal transactions were eliminated, namely the "Customer" invoice issued by Transgaz for service supply to Eurotransgaz, amounting to 39.054 lei, was adjusted in parallel with an invoice registered by Eurotransgaz - "Suppliers" and similar related revenues and expenses accounts.

The analysis based on the quality of the trade receivables and other receivables is as follows:

	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b><u>Trade receivables</u></b>	<b><u>Trade receivables</u></b>
<b>Current and not impaired (1)</b>	347.221.198	311.578.947
IFRS 9 provision	467.070	
Overdue but not impaired		-
- overdue less than 30 days	39.301.469	28.152.535
- overdue between 30 and 90 days	5.864.812	1.869.266
- overdue more than 90 days	<u>331.572</u>	<u>14.945.320</u>
<b>Due, but not impaired - total (2)</b>	<u>45.497.853</u>	<u>44.967.121</u>
<b>Impaired (gross)</b>		
- outstanding less than de 30 days	74.421	232.521
- overdue between 30 and 90 days	1.086.687	229.393
- overdue between 90 and 360 days	18.909.219	25.489.322
- overdue more than 360 days	<u>292.195.593</u>	<u>262.931.597</u>
<b>Total impaired (3)</b>	<u>312.732.990</u>	<u>288.882.833</u>
<b>Except the adjustment for impairment (4)</b>	<u>312.732.990</u>	<u>288.882.833</u>
<b>Total trade receivables (1+2+3-4)</b>	<u>392.251.981</u>	<u>356.546.068</u>

IFRS 9 introduces a new model for forecasting impairment loss based on the estimated loss. This model entails the anticipated recognition of the loss from receivables impairment. The standard provides for the fact that the entities register the anticipated loss by receivables impairment from the moment of the financial instrument initial recognition and recognize the anticipated loss from the impairment over their entire life. The value of the anticipated loss will be discounted for each reporting period so that it reflects the cred risk changes as opposed to the initial recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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For the application of IFRS 9 on the held receivables, based on a loss estimation model, the clients categories were reconsidered starting from the IFRS 9 principle for the anticipation of a non-cashing in risk related to the current receivables.

The client categories established in respect of the current receivables based on this estimation model are: transit clients, transmission clients, dispute clients and various clients.

For the estimation of a non-cashing in risk related to the current receivables, a percentage of 5% was applied with a 25% non-cashing in probability assuming that a coherent accounting policy for receivables adjustment is applied within the company: the receivables exceeding the 30 days' time frame are adjusted for short periods of time with percentages gradually increased up to 100%.

As a result of this loss estimation model application, pursuant to IFRS 9, additional impairment adjustments were registered – lei 363.445 for the Transmission Clients category and lei 103.625 for the Dispute Clients category.

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.

	<u>31 december 2018</u>	<u>31 December 2017</u>
Group 1	310.810.841	254.039.394
Group 2	<u>36.410.357</u>	<u>57.539.553</u>
Trade receivables	<u>347.221.198</u>	<u>311.578.947</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:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Adjustment on 1 January	333.150.569	303.982.351
(Revenue)/expense with the adjustment for doubtful debts (Note 23)	<u>26.499.309</u>	<u>29.168.218</u>
Adjustment at the end of the period	<u>359.649.878</u>	<u>333.150.569</u>

In 2018 adjustments for receivables from insolvent companies or from companies in significant financial difficulties were established.

The company adjusts transmission revenue if it is unlikely to collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### 13. CASH AND CASH EQUIVALENT

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cash at bank in RON	157.860.638	361.155.772
Cash at bank in foreign currency	553.295.041	701.194.907
Other cash equivalents	<u>161.945</u>	<u>187.564</u>
	<u>711.317.624</u>	<u>1.062.538.243</u>

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 0.71% on 31 December 2018 (0.46% on 31 December 2017) and these deposits have a maximum maturity of 30 days.

### 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 2017	11.773.844	117.738.440	247.478.865	365.217.305
On 31 december 2018	11.773.844	117.738.440	247.478.865	365.217.305
Capital adjustment to the hyperinflation accumulated on 31 December 2003	<u>-</u>	<u>441.418.396</u>	<u>-</u>	<u>441.418.396</u>
On 31 December 2017, 31 December 2018	<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 2017: 11,773,844) with a nominal value of RON 10 each. Each share represents one vote. The ownership structure on 31 December 2018 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	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 CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

The ownership structure on 31 December 2017 is the following:

	<u>Number of ordinary shares</u>	<u>Statutory value (lei)</u>	<u>Percentage (%)</u>
The Romanian state, represented by the Ministry of Economy	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 allocation on 31 December 2018, amounts to Lei 23,547,688 (31 December 2017: Lei 23,547,688). The legal reserve is included in the `Retained earnings` in these financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### *Dividend allocation*

In the course of 2018, the Company declared and allocated a dividend of RON 45.38/share, related to the profit of the previous year (2017: Lei 46.33 per share). The total dividends declared from the profit of 2017 are RON 534.297.041 (dividends declared from the profit of 2016: RON 545.482.192).

In October 2017, the Company approved and distributed a dividend of 14.52 lei/share from the existing amounts of the balance sheet of "Other Reserves" as at 31 December 2016. The amount of the declared dividends is of 170,956,214.88 lei.

In December 2018 the Company approved and distributed a dividend in the amount of 1.14 lei/share of the existing amounts in the account "Other reserves" as at 31 december 2017. The amount of the declared dividends is of lei 13.472.486.

## 16. LONG-TERM BORROWINGS

### **European Investment Bank (EIB)**

The company signed with the European Investment Bank the following loans for the financing of the project "Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria route" ("BRUA Phase 1").

- Loan Agreement no. 83644RO concluded on 27.10.2017 for the amount of EUR 50 million, fixed interest rate, maturity of 15 years, grace period of 3 years at principal repayment.
- Loan Agreement no.88825RO concluded on 14.12.2017 for the amount of EUR 50 million, with disbursements in Lei or EUR (at the choice of the Company), with fixed or variable interest (at the choice of the Company), maturity of 15 years, the grace period of 3 years of repayment of the principal.

The Company also signed with the EIB the Loan Agreement no.89417RO on 17.12.2018 for the financing of the project "Development on the Romanian territory of the Southern Transmission Corridor for taking over Black Sea gas" (Black Sea - Podișor) for the amount of EUR 50 million, maturity of 15 years, grace period of 3 years at principal repayment. The open-ended contract allows the use of the loan in Lei or in EUR (at the option of the Company) with fixed or variable interest (at the option of the Company)

The financial commitments undertaken by the Loan Agreements requires the company to comply with the negotiated limits of the following financial indicators: the ratio of the total net debts to the Borrower's RAB, the net leverage ratio and the Interest coverage rate.

In 2017 the company received from the loan no 83644RO the first tranche of EUR 15 million issued by EIB on 30 November 2017, in 28 February 2018 the second tranche of the loan amounting to EUR 15 million and on 30 April 2018, the third tranche of the loan amounting to EUR 20 mil. was received.

On 31 December 2018 no amount related to the loans no 88825RO and no.89417RO was disbursed.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(expressed in lei, unless otherwise stated)

### The European Bank for Reconstruction and Development (EBRD)

On 23 February 2018 Transgaz signed with EBRD a contract amounting to Lei 278 million, the equivalent of EUR 60 million, for the financing of the BRUA Project. On 31 december 2018 no amount of the loan was drawn.

The maturity of the loan from the EIB is illustrated below:

	<u>31 december 2018</u>	<u>31 December 2017</u>
Within 1 year	-	-
Between 1 and 5 years	58.765.140	13.979.100
Over 5 years	<u>174.429.860</u>	<u>55.916.400</u>
	<u>233.195.000</u>	<u>69.895.500</u>

The book value of the short term loans approximate their fair values.

### 16. LONG TERM LOANS (CONTINUATION)

	<u>31 December 2018</u>	<u>31 December 2017</u>
Current portion of the long term loans	-	-

#### Fair value

The book values and fair values of the long term loans are as follows:

	<u>Book values</u>		<u>Fair values</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
EIB	<u>233.195.000</u>	<u>69.895.500</u>	<u>233.276.105</u>	<u>70.399.203</u>

The fair value is determined based on the amount of the future discounted cash flows, by means of a discounting rate equal to the value of the interest to which the management considers that the company may obtain similar loans, at the end of the reporting period.

The exposure of the company's loans to the changes of the interest rate is as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Variable interest rate	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

**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).

Based on the connection contracts, the necessary infrastructure is built to ensure the estimated transmission capacity to be used throughout the duration of the concession agreement.

	<u><b>31 December 2018</b></u>	<u><b>31 December 2017</b></u>
Initial balance	497.755.179	<u>509.091.024</u>
Increases	44.843.950	12.761.355
Amounts recorded in the revenue (Note 22)	(22.880.315)	<u>(24.097.199)</u>
Final balance	<u>519.718.816</u>	<u>497.755.179</u>

The amount of lei 22.268.687 representing the current share of the deferred revenues is presented in the commercial debts and other debts.

The balance of the deferred revenue consists of:

	<u><b>31 December 2018</b></u>	<u><b>31 December 2017</b></u> <u><b>(retreated)</b></u>
Connections and assets received free of charge	242.766.378	280.598.540
Grants	<u>276.952.438</u>	<u>217.156.639</u>
	<u>519.718.816</u>	<u>497.755.179</u>

The company obtained from the European Union through the National Agency for Innovation and Networks (INEA), for the BRUA project, a grant of 1.519.342 Euros, representing 50% of the estimated eligible costs granted for financing the design for the three compressor stations (Podișor, Bibești and Jupa) and a grant of 179.320.400 Euro, representing 40% of the estimated eligible costs, granted for financing the BRUA Phase I project implementation.

In order to finance the implementation of the BRUA Phase I project, the following amounts were received as pre-financing: EUR 25.834.489,60 (in 2016) and EUR 13.839.087,37 (in 2018).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**18. PROFIT TAX**

**Profit tax expense**

	<b>Year ended as at 31 December 2018</b>	<b>Year ended as at 31 December 2017 (retreated)</b>
Expense with the profit tax - current	98.131.983	125.305.098
Deferred tax - impact of temporary differences	<u>(10.926.863)</u>	<u>(3.875.952)</u>
Profit tax expense	<u>87.205.120</u>	<u>121.429.146</u>

In 2018 and 2017, the Company calculated the profit tax at the rate of 16% applied to the profit determined in accordance with the Romanian laws.

	<b>Year ended as at 31 December 2018</b>	<b>Year ended as at 31 December (retreated)</b>
Profit before tax	577.881.694	704.942.050
Profit/Loss (ETG-VTMG)	(4.998.534)	(102.900)
Theoretical expense with the tax the statutory rate of 16% (2017: 16%)	93.260.836	112.807.192
Non-taxable expenses, net	<u>(5.865.117)</u>	<u>8.621.954</u>
Profit tax expense	<u>87.395.719</u>	<u>121.429.146</u>
Profit tax related liability, current	<u>                  -</u>	<u>                  -</u>

Depreciation of tangible assets hyperinflation adjustments is a deductible expense with the adoption of EU IFRS as framework of statutory reporting.

**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:

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**18. PROFIT TAX (CONTINUED)**

	<u>31 December 2018</u>	<u>Movement</u>	<u>31 December 2017</u>	<u>Movement</u>	<u>1 January 2017</u>
			(retreated)	(retreated)	(retreated)
<b>Deferred tax payment</b>					
Tangible and intangible assets	74.535.401	(4.830.977)	79.366.378	(4.523.524)	83.889.902
<b>Deferred tax recoverable</b>					
Provision for employee benefits	(17.601.909)	(1.687.882)	(15.914.026)	2.307.722	(18.221.747)
Risks and expenses	(2.936.231)	(590.391)	(2.345.840)	67.467	(2.413.307)
Receivables and other assets	(49.399.059)	(3.627.013)	(45.772.046)	(1.622.228)	(44.149.818)
	<u>4.598.202</u>	<u>(10.736.264)</u>	<u>15.229.078</u>	<u>(3.770.563)</u>	<u>19.105.030</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.

In the consolidated statements of ETG with VTMG, a deferred tax liability was recognized calculated for the period 2016-2018 with a reference to employee obligations for unpaid leave and tangible fixed assets amounting to lei 295.987, which affected the current result, namely with a value of lei 101.894 at the date of taking over VTMG by Eurotransgaz SRL, which affected the reported result.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**18. PROFIT TAX (CONTINUED)**

The amounts presented in the statement of the financial position include the following:

	<u>31 December 2018</u>	<u>31 December 2017</u> (retreated)
Deferred tax liabilities payable in more than 12 months as reported	4.598.202	15.229.078

**19. TRADE PAYABLES AND OTHER PAYABLES**

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade payables	174.808.778	91.971.008
Suppliers of fixed assets	51.234.117	21.586.143
Dividends payable	5.357.678	4.361.284
Debts related to royalties	44.328.459	41.989.737
Other taxes	19.128.134	17.440.085
Amounts payable to employees	17.607.009	17.852.451
VAT payable	-	18.742.254
VAT not applicable	17.229.300	15.692.749
Advance revenues	22.268.687	-
Other debts	45.625.846	25.503.054
	<u>397.588.008</u>	<u>255.138.765</u>

On 31 december 2018, of the total trade payables and other debts the amount of lei 42.129.468 (31 December 2017: lei 5.161.169) is expressed in foreign currency, especially in EUR.

**20. PROVISIONS FOR RISKS AND CHARGES**

	<u>31 december 2018</u>	<u>31 December 2017</u>
<i>Current provision</i>		
Provision for litigation	1.841.652	296.341
Provision term contract	2.527.562	3.082.289
Provision for employee participation in profits	14.278.573	11.579.208
	<u>18.647.787</u>	<u>14.957.838</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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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.

**Assumptions 2018**

The amount of the provision has been calculated individually for each distinct employee/beneficiary of the company using the actuarial calculation method and taking into account International Accounting Standards, in particular the IAS 19. The provision is calculated taking into account the long-term liabilities undertaken by the Company under the collective labour agreement. The calculation assumptions and specifications for the calculation model were established based on the company's previous experience and a set of assumptions about the company's future experience. The most important assumptions used are as follows:

- for the benefit consisting of basic salaries paid at retirement, this benefit is paid for company employees who reach retirement.
- age as a whole number, assessed from the date of birth communicated by the company for each beneficiary. The maximum possible age range was considered as 100 years, this being the maximum value defined in the available mortality tables.
- each person receives the full annual benefit he/she is entitled to, depending on the probability of annualized survival.
- The probability of individual survival was assessed depending on the age of each person on 31 December 2018, and it is the probability that a person of a certain age on 31 December 2018 will survive up to a certain time in the future.
- the employee redundancy used in the calculation was established using a conservative approach, lower than those calculated on the basis of the company's past experience, this being a hypothesis that we considered reasonable on the basis of the information provided by the company.
- employee departure rates are important in the context when employees leave the company and no longer receive the benefit. The amount of the provision for the two benefits granted by the company covers the benefits that the company will pay to its current employees, who survive until the payment of each benefit and have been continuously employed by the company;

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- The calculation parameters and assumptions used about the evolution of the consumer price index, the average annual return on investment and the annual percentage change of the salary were estimated from 2023 to take into account the target inflation level for the Euro area; for the period 2019-2022 the values were set to ensure natural progression up to the level of 2023, taking into account the values predicted by the National Bank of Romania.
- The calculation parameters and assumptions used for mortality rates are taken from the mortality tables published by the National Institute of Statistics and the values for departure rates were estimated based on the data provided by the company and also on previous experience in making similar assessments.

**Movement in the provision for employee benefits**

1 January 2017	<u>113.885.920</u>
of which:	
Short-term	4.757.862
Long-term	109.128.058
Interest cost	1.708.289
Current service cost	4.909.607
Payments from provisions during the year	(3.215.188)
Actuarial gain/loss related to the period	(17.825.963)
31 December 2017	<u>99.462.665</u>
of which:	
Short-term	3.608.726
Long-term	95.853.939
Interest cost	3.850.418
Current service cost	5.582.701
Payments from provisions during the year	(3.326.292)
Actuarial gain/loss related to the period	4.442.437
31 december 2018	<u>110.011.930</u>
of which:	
Short-term	2939793
Long-term	107.072.137

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**22. OTHER REVENUE**

	<b>Year ended 31 <u>December</u> 2018</b>	<b>Year ended 31 <u>December 2017</u> (retreated)</b>
Revenues from penalties for delay payments applied to clients	74.131.839	9.126.263
Revenues from connection fees, grants and goods taken free of charge	22.895.435	24.097.199
Revenues from the sale of residual materials	1.730.329	1.440.565
Revenues from leases	1.567.017	1.455.859
Revenues from recovered materials	1.388.356	1.897.299
Revenues from operating grants for other operating expenses	<u>5.354</u>	3.068.115
Other revenues from operation	<u>3.893.956</u>	<u>7.570.906</u>
	<u>105.597.166</u>	<u>48.656.206</u>

The category of the revenues from penalties includes the revenues from the compensation collected as a result of exercising the right for the unilateral termination of the gas transmission contracts concluded following the conduct of the process for the incremental capacity the scope of which is the allocation of the incremental capacity. The amounts were agreed between the parties and cashed in during 2018.

**23. OTHER OPERATING EXPENSES**

	<b>Year ended 31 <u>December 2018</u></b>	<b>Year ended 31 <u>December 2017</u> (retreated)</b>
Loss/gain on impairment of receivables	19.032.851	29.168.218
Security and protection expenses	19.110.236	13.755.871
Utilities	6.758.029	6.835.586
Penalties and fines	486.609	1.039.162
Loss from the impairment of intangible and tangible assets	3.813.689	1.846.591
Telecommunications	5.717.725	3.943.815
Gas storage capacity booking	5.394.847	4.711.538
Sponsorship expenses	3.929.821	2.562.312
Maintenance expenses	1.089.545	1.910.546
Rent	5.116.997	4.675.078
Professional training	1.049.212	995.523
Marketing and protocol expenses	1.023.538	1.117.196
Survey and research expenses	286.324	3.378.154
Insurance premia	1.051.548	1.433.905
Bank charges and other fees	2.374.964	181.036
Receivable loss	3.947	2.946
Loss/gain from inventory depreciation	8.168.744	9.088.823

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Loss on disposal of fixed assets	(181.945)	(132.708)
Other	<u>28.600.062</u>	<u>26.743.819</u>
	<u>112.826.743</u>	<u>113.257.411</u>

**24. EMPLOYEE COSTS**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Salaries and benefits	351.469.122	295.078.411
Cost of insurance and social security	21.538.002	80.511.047
Other employee costs	<u>10.242.689</u>	<u>9.638.865</u>
	<u>383.249.813</u>	<u>385.228.323</u>

Average number of employees in financial year:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Blue collars	2.613	3.058
White collars	<u>1.695</u>	<u>1.490</u>
	<u>4.308</u>	<u>4.548</u>
Eurotrangaz	<u>24</u>	<u>2</u>

**25. NET FINANCIAL REVENUE/(EXPENSES)**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Revenue from foreign exchange differences	23.402.033	24.763.677
Interest revenue	25.231.865	22.902.825
Other financial revenue	<u>-</u>	<u>142.881.825</u>
<b>Financial revenue</b>	<b>48.633.898</b>	<b>190.548.327</b>
Expenses from foreign exchange differences	(22.884.684)	(9.975.715)
Provision for employee benefit updating effects	(3.850.418)	(1.708.289)
Adjustments for financial assets loss of value	(238.477)	-
Other financial expenses	<u>706</u>	<u>(138.544.436)</u>
<b>Financial expenses</b>	<b>(26.972.873)</b>	<b>(150.228.440)</b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**26. CASH FROM OPERATION**

	<b><u>Year ended 31</u></b> <b><u>December 2018</u></b>	<b><u>Year ended 31</u></b> <b><u>December 2017</u></b>
<b>Profit before tax</b>	<b>577.881.694</b>	<b>704.942.050</b>
<i>Adjustments for:</i>		
Depreciation	189.913.379	184.474.657
Adjustments for the impairment of intangible assets	3.813.689	1.846.591
Gain/(loss) on disposal of fixed assets	(181.945)	(132.708)
Provisions for risks and charges	3.689.949	(421.673)
Adjustments for the impairment of inventories	8.168.744	9.088.823
Revenue from connection fees, grants and goods taken free of charge	(22.885.669)	(26.405.371)
Provisions for guarantees	697.594	2.614.305
Provisions for employee benefits	2.256.409	1.694.419
The effect of the update of the provision for employee benefits	3.850.418	1.708.289
Loss on account of debts and various debtors	3.947	2.946
Adjustments for the impairment of receivables	18.335.257	26.553.913
Adjustments for impairment of financial assets	238.477	-
Interest revenue	(25.231.865)	(22.902.825)
Effect of exchange rate fluctuation on other items than operating	137.247	363.766
Other revenues	(152.512)	<u>(336.736)</u>
<b>Operating Profit before the changes in working capital</b>	<b><u>760.534.813</u></b>	<b><u>883.090.446</u></b>
(Increase)/decrease in trade and other receivables	(184.018.055)	110.261.347
(Increase)/decrease in inventories	(181.382.691)	(7.467.602)
Increase/(decrease) in trade payables and other debts	<u>(14.796.553)</u>	<u>2.324.280</u>
<b>Cash generated from operations</b>	<b><u>380.337.514</u></b>	<b><u>988.208.471</u></b>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, 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 31 December 2018 and 31 December 2017 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**

	<b>Year ended</b> <b><u>31 December 2018</u></b>	<b>Year ended</b> <b><u>31 December 2017</u></b>
Salary paid to the members of the Board of Administration and management	16.511.166	14.542.604
Social contribution of the Company	<u>342.040</u>	<u>3.269.117</u>
	<u>16.853.206</u>	<u>17.811.721</u>

In the periods ended 31 December 2018 and 31 December 2017, 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><u>31 December 2018</u></b>	<b><u>31 December 2017</u></b>
Loan to Resial SA	1.770.346	1.770.346
Minus the adjustment 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 CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**iii) Revenue from related parties – services supplied (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 december</u> <u>2018</u>	<u>Year ended</u> <u>31 december</u> <u>2017</u>
SNGN Romgaz	Entity under common control	130.897.213	139.200.160
Electrocentrale Deva SA	Entity under common control	3.150.801	6.347.695
Electrocentrale București SA	Entity under common control	84.035.586	109.854.417
Electrocentrale Constanta	Entity under common control	8.996.924	-
E.ON Energie Romania	Entity under common control	<u>107.014.795</u>	<u>267.949.844</u>
		<u>334.095.319</u>	<u>523.352.116</u>

**iv) Sales of goods and services (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 december</u> <u>2018</u>	<u>Year ended</u> <u>31 december</u> <u>2017</u>
SNGN Romgaz	Entity under common control	682.472	718.439
Energoterm Tulcea SA	Entity under common control	1.922	12.832
Electrocentrale Deva SA	Entity under common control	46.194	354.267
Electrocentrale București	Entity under common control	46.435	-
Electrocentrale Galati SA	Entity under common control	392.647	469.573
Electrocentrale Constanta	Entity under common control	115.001	196.051
E.ON Energie Romania	Entity under common control	-	<u>86.578</u>
		<u>1.284.670</u>	<u>1.837.740</u>

**v) Gas sales – the balancing activity (without the VAT)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December</u> <u>2018</u>	<u>Year ended</u> <u>31 December</u> <u>2017</u>
SNGN Romgaz	Entity under common control	4.189.282	11.215.515
Electrocentrale Deva SA	Entity under common control	1.439.593	76.962
Electrocentrale București	Entity under common control	3.130.618	5.521.594
Electrocentrale Constanta	Entity under common control	4.203.175	-
E.ON Energie Romania	Entity under common control	<u>19.220.495</u>	<u>19.800.940</u>
		<u>32.183.163</u>	<u>36.615.011</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**vi) Receivables from related parties (without the adjustment)**

		<b>31 December</b>	<b>31 December</b>
		<b>2018</b>	<b>2017</b>
	<b><u>Relationship</u></b>		
SNGN Romgaz	Entity under common control	26.080.064	25.633.158
Electrocentrale Deva SA	Entity under common control	638.383	1.006.552
Electrocentrale București SA	Entity under common control	25.924.390	44.440.496
Electrocentrale Galați SA,	Entity under common control	-	46.558
Electrocentrale Constanța	Entity under common control	2.487.375	60.711
Energoterm Tulcea SA	Entity under common control	-	7.903
E.ON Energie Romania	Entity under common control	<u>25.457.928</u>	27.918.880
		<u>80.588.141</u>	<u>99.114.258</u>

**vii) Client receivables – the balancing activity (without the adjustment)**

		<b>31 December</b>	<b>31 December</b>
		<b>2018</b>	<b>2017</b>
	<b><u>Relationship</u></b>		
SNGN Romgaz	Entity under common control	4.573.651	7.497.192
Electrocentrale Deva SA	Entity under common control	125.887	23.710
Electrocentrale Bucuresti	Entity under common control	1.471.193	3.515.087
Electrocentrale Constanta	Entity under common control	5.394.574	
E.ON Energie Romania	Entity under common control	<u>3.071.021</u>	<u>511.442</u>
		<u>14.636.326</u>	<u>11.547.431</u>

**viii) Procurement of gas from related parties (VAT excluded)**

		<b>Year ended</b>	<b>Year ended</b>
		<b>31 December 2018</b>	<b>31 December 2017</b>
	<b><u>Relationship</u></b>		
SNGN Romgaz	Entity under common control	16.598.349	53.456.762
E.ON Energie Romania	Entity under common control	54.342.140	27.443.841
		<u>70.940.489</u>	<u>80.900.603</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**ix) Procurement of services from related parties (other services – VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December 2018</u>	<u>Year ended</u> <u>31 December 2017</u>
SNGN Romgaz	Entity under common control	6.072.954	5.384.741
Electrocentrale București SA	Entity under common control	6.187	4.900
Termo Calor Pitești	Entity under common control	3.133	3.713
E.ON Energie Romania	Entity under common control	<u>5.700.583</u>	<u>1.966.629</u>
		<u>11.782.857</u>	<u>7.359.983</u>

**x) Procurement of gas – the balancing activity (VAT excluded)**

	<u>Relationship</u>	<u>Year ended</u> <u>31 December 2018</u>	<u>Year ended</u> <u>31 December 2017</u>
SNGN Romgaz	Entity under common control	23.577.085	11.213.044
Electrocentrale Deva SA	Entity under common control	442.249	3.863
Electrocentrale București	Entity under common control	5.887.127	922.647
E.ON Energie Romania	Entity under common control	<u>14.633.352</u>	<u>31.513.017</u>
		<u>44.539.813</u>	<u>43.652.571</u>

**xi) Debts to affiliated parties from gas supplies (VAT included)**

	<u>Relationship</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
E.ON Energie Romania	Entity under common control	-	17.768.036
SNGN Romgaz	Entity under common control	<u>13.269.220</u>	-
		<u>13.269.220</u>	<u>17.768.036</u>

**xii) Debts to affiliated parties from services (other services - VAT included)**

	<u>Relationship</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
SNGN Romgaz	Entity under common control	500.136	516.446
Electrocentrale București	Entity under common control	487	-
Termo Calor Pitești	Entity under common control	-	453
E.ON Energie Romania	Entity under common control	<u>1.131.853</u>	<u>1.320.215</u>
		<u>1.632.476</u>	<u>1.837.114</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(expressed in lei, unless otherwise stated)

**27. TRANSACTIONS WITH RELATED PARTIES (CONTINUATION)**

**xiii) Debts to suppliers – balancing activity (VAT included)**

	<u>Relationship</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
SNGN Romgaz	Entity under common control	2.715.878	15.253.653
Electrocentrale Deva SA	Entity under common control	38.697	31.010
Electrocentrale București	Entity under common control	3.155.294	2.138.852
Electrocentrale Galați	Entity under common control	-	17.957
Electrocentrale Constanța	Entity under common control	-	22.022
Termo Calor Pitesti	Entity under common control	-	7.223
Energoterm Tulcea	Entity under common control	-	4.768
E.ON Energie Romania	Entity under common control	<u>10.601.236</u>	<u>11.252.277</u>
		<u>16.511.105</u>	<u>28.727.762</u>

**xiv) Guarrantees from affiliates**

	<u>Relationship</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
SNGN Romgaz	Entity under common control	24.335.239	2.431.011
Electrocentrale Constanța	Entity under common control	164.899	-
Electrocentrale Deva SA	Entity under common control	169.053	-
E.ON Energie Romania	Entity under common control	<u>8.059.011</u>	<u>-</u>
		<u>32.728.202</u>	<u>2.431.011</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.

	<u>Year ended</u> <u>31 December 2018</u>	<u>31</u> <u>December 2017</u> <u>(retreated)</u>
Profit attributable to the Company's equity holders	490.485.975	583.512.903
Weighted average of the number of shares	11.773.844	11.773.844
Basic and diluted earnings per share (lei per share)	41,66	49,56

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

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**29. SIGNIFICANT TRANSACTIONS NOT INVOLVING CASH**

*Compensations*

Approximately 0.23 % of the receivables were settled by transactions that haven't involved cash outflows during the nine months period ended 31 December 2018 (31 December 2017: 0.20%). 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 2018 and 2017.

**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 31 december 2018 the value of the contractual firm obligations for the purchase of tangible and intangible assets is of lei 767.617.037.



## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in lei, unless otherwise stated)**

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### **30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS (CONTINUED)**

On 14 December 2017, the Company signed a second loan agreement with the European Investment Bank of Euro 50 million, up to the ceiling approved by the EIB for the financing of Transgaz' projects. The open-ended contract allows Transgaz to choose, at a later stage, how to draw and repay - in Lei or EUR, the type of interest - fixed or variable, the drawings - during 2018 and 2019, with a repayment period of 15 years and the grace period for the principal repayment 3-year. This second contract will complement the own funding sources, if needed. The contract also allows the Company to cancel the loan within the first 12 months of signing, without financing costs and to perform disbursements in a 24 months time span from its conclusion the financing costs will be aggregated before the first drawing from the financing contract.

Eurotransgaz SRL, the company established and owned by Transgaz in Moldova, was appointed the winner of the privatization investment contest for the single patrimonial complex State Enterprise Vestmoldtransgaz operating the Iasi-Ungheni gas transmission pipeline on the territory of Moldova under the following conditions: payment of the sale price and making investments in the next two years for the construction of a gas transmission pipeline between Ungheni and Chisinau, as well as the necessary equipment for the operation of this pipeline.

#### 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.

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 49 managers (30 managers in 2017).

#### iv) Environmental aspects

Environmental regulations are under development in Romania and the Company did not record any obligation on 31 September 2018 and 31 December 2017 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

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**30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS**  
**(CONTINUED)**

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, commercial and labour disputes. 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.

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. Based on their own estimates, the Company's management considers that there are no circumstances that would give rise to significant potential liabilities in this regard.

In 2017 one of the company's administrators from the period 2013-2017 initiated court proceedings for the recovery of the amounts representing the difference not paid, amounts that he considered he is due according to the mandate contract during the period 2014-2016. Based on its own estimates the Company deems that there are no circumstances that could lead to potential significant obligations in this respect.

vi) Government policies in the gas sector in Romania

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

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**30. CONTINGENCIES, COMMITMENTS AND OPERATIONAL RISKS**  
**(CONTINUED)**

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

As of 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.

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. In December 2017, the Company received from the European Commission the amount of EUR 1,883,690.39, representing the final tranche of the non-reimbursable financing of the project for the interconnection of the natural gas transmission systems of Romania and Bulgaria.

**31. FEES OF THE STATUTORY AUDITOR**

The fees related to the financial year ended as at 31 December 2017 charged by Deloitte Audit SRL, invoiced in Q1 I 2018 are: lei 160.391 (VAT excluded) for the statutory audit and lei 61.787 (VAT excluded) for services other than the statutory audit and the fees related to semester II 2017 are: lei 98,791 for limited revision of the financial standing as at 30 June 2017 and lei 45,311 for other services than the statutory audit.

**32. RETREATMENTS RELATED TO THE PREVIOUS PERIODS**

The Company prepared and submitted financial statements for the financial year ended as at 31 December 2017. The compared figures from the financial statements prepared by the company for the financial year ended as at 31 December 2017 differ from the ones of the previously submitted financial statements as follows:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

*Registration of the receivable related to the regulated value remained undepreciated upon the termination of the Conecssion agreement.*

As of 01.01.2018, IFRS 15 "Revenue from contracts with customers" became applicable in Romania. This Standard supersedes a number of older standards (such as IAS 11, IAS 18) and amends IFRIC 12 by introducing new interpretations to the notion of a contract. As a result, the Company will recognize the updated receivable related to the regulated amount remaining undepreciated at the end of the concession agreement as a consideration and not as a grant, and the intangible asset will be presented in the financial statements at a value less the amount of the updated receivable.

These financial statements include the following retreatements:

	<b>Year ended 31 December 2017</b>
Intangible assets, previously reported	2.490.561.098
Intangible assets, retreated	<u>2.051.627.429</u> (438.933.669)
Trade receivables and other receivables, previously reported	660.030.895
Trade receivables and other receivables, retreated	<u>587.291.596</u> (72.739.299)
Deffered revenues, previously reported	1.009.428.147
Deffered revenues, retreated	<u>497.755.179</u> (511.672.968)
	<b>Year ended 31 December 2017</b>
Other revenues, previously reported	78.609.294
Other revenues, retreated	<u>48.656.206</u> (29.953.088)
Depreciation, previously reported	(214.427.744)
Depreciation, retreated	<u>(184.474.656)</u> 29.953.088

*Calculation of the deferred tax on profit for the provisions established for risks and expenses, trade receivables and other assests*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

The Company has previously calculated deferred tax only for tangible assets and employee benefit provisions and has not calculated deferred tax on profit for receivables and other provisions for risks and expense.

	<b>Year ended</b> <b>31 December 2017</b>
Deffered tax, previously reported	63.346.964
Deffered tax retreated	<u>15.229.078</u> (48.117.886)
Retained earnings, previously reported	1.696.835.358
Retained earnings, retreated	<u>1.648.717.472</u>
Total retreatments equity as at 31 December 2017	(48.117.886)
Of which:	
Retreatments retained earnings as at 31 December 2016	(46.563.125)
Retreatments retained earnings for the year 2017	(1.554.761)

**33. REVENUE AND COSTS FROM THE CONSTRUCTION OF ASSETS**

In accordance with IFRIC 12 the revenue and costs of network construction should be recognized in accordance with IFRS 15 "Revenues from contracts with the customers".

	<b>Year ended</b> <b><u>31 December 2018</u></b>	<b>Year ended</b> <b><u>31 December 2017</u></b>
Revenue from the construction activity according to IFRIC12	405.793.915	63.949.856
Cost of assets constructed according to IFRIC12	(405.793.915)	(63.949.856)

The related costs were equal to the revenue. The Company did not obtain any profit from the construction of the intangible asset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(expressed in lei, unless otherwise stated)**

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**34. EVENTS SUBSEQUENT TO THE BALANCE DATE**

On 24 January 2019, the Company concluded a contract with the European Investment Bank for EUR 100 million, 15 years maturity, a 3-year grace period for repayment of the principal in order to finance the project "Development on the Romanian territory of the Southern Gas Transmission Corridor for taking over gas from the Black Sea shore".

In January 2019 by the Resolution of the Board of Administration no. 2/22 January 2019 the conclusion by Eurotransgaz with the European Investment Bank of a financing contract- open contract type - for financing the construction by Vestmoldtransgaz SRL of the Ungheni-Chisinau gas transmission pipeline, amounting to EUR 38 million, for the a loan duration of 15 years, was approved.

Chairman of the Board of Administration  
Lăpușan Remus Gabriel

Director - General  
Ion Sterian

Chief Financial Officer  
Marius Lupean

## INDEPENDENT AUDITOR'S REPORT

To the shareholders of **S.N.T.G.N. Transgaz S.A.**

### *Opinion*

1. We have audited the consolidated financial statements of S.N.T.G.N. Transgaz S.A. (the Company), with registered office in Medias, Piata Constantin I. Motas, no. 1, identified by the unique tax registration code RO13068733, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the consolidated financial statements.
2. The consolidated financial statements as at December 31, 2018 are identified as follows:
  - Net assets/Equity: Ron 3.709.263.106
  - Net profit for the financial year: Ron 490.485.975
3. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU ("Order 2844/2016").

### *Basis for Opinion*

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<b>Recoverability of the accounting value of return assets</b> As described in Note 9 to the consolidated financial statements, at December 31, 2018, the value of the return assets recorded as intangible assets under IFRIC 12 was significant, Ron Th1.783.116.	Our audit procedures included, inter alia, the involvement of our internal valuation experts to assist us in evaluating key assumptions and methodologies applied by the Company for impairment testing of the immovable assets subject to the concession agreement. Our review focused on the analysis of the discount

Key Audit Matter	How our audit addressed the key audit matter
<p>Since much of the value of these assets will be recovered through use during the duration of the concession agreement, which expires in 2032, the Company regularly performs a depreciation test. This depreciation is significant to our audit because the valuation process is complex, involves significant management professional judgment and is based on assumptions that are affected by applicable law.</p>	<p>rate, the main assumptions used to analyze future cash flows, as well as their correlation with the administrators' report and the revenue and expenditure budget. The purpose of our analysis was not to validate the test conducted by management but to ensure that there is no significant risk that the value recorded in the accountancy of return assets will be impaired.</p>
<p><b>Application of IFRIC 12 "Service Concession Agreements"</b>            IFRIC 12, although not an accounting standard, is an interpretation that implies a great deal of professional reasoning, especially in the Romanian legislative context.            According to IFRIC 12, Transgaz may receive an intangible asset, a financial asset, or a combination of the two, in exchange for construction work (upgrading / expansion) on the infrastructure (SNTG).            The Service Concession Agreement (ACS) was concluded by Transgaz in 2002 for a period of 30 years and IFRIC 12 was applicable starting with 2010. Law 127/2014, which entered into force on 5 October 2014, states that in the event of termination of the concession contract for any reason, the investment made by Transgaz shall be transferred to the owner of SNTG or another operator in exchange for the payment of a compensation equal to the net regulated accounting value established according to the regulations imposed by ANRE.            In the context of the first-time adoption of IFRS 15, which provides a wider interpretation of the notion of a contract, the Company has decided that this compensation should no longer be treated as a grant under IAS 20 "Government Grants" but as a financial asset, according to the bifurcated model described in Note 5.4.            Estimates and key assumptions refer to the depreciation period of tangible and intangible assets considered as return assets under the ACS, the pattern of realization of the benefits related to the investments made on the SNTG, the assessment of the long-term receivable.</p>	<p>Our specific procedures focused primarily on the analysis of the service concession agreement concluded in 2002, as well as the specific legislation supplementing the contractual provisions (especially Law 127/2014).            The reasonableness of applying the bifurcated model in the context of first-time application of IFRS 15 and restatement of comparative information has been revised.            The criteria for recognizing the financial asset as well as the method for assessing the long-term receivable as mentioned in Note 5.4 to the consolidated financial statements (the residual value, the discount rate used) were also reviewed.            We've also examined how the information required by IFRIC 12 was disclosed in the financial statements.            Consultations have taken place with the management of the Company and the Audit Committee.</p>
<p><b>Litigations</b>            The company is involved in various litigations, some of them with major potential impact in the context in which they will materialize, such as those outlined in Note 30 to the consolidated financial statements. These issues are important in the context of our audit due to inherent uncertainties about their outcome, the complexity of the cases and the significant reasoning applied by management in estimating the</p>	<p>Our audit procedures include, among other things, obtaining confirmations from the Company's external lawyers providing assistance on these disputes, as well as analyzing the estimates of the Company's legal department on each case. We examined the minutes of the Board of Directors and held meetings with the management to discuss and understand the evolution and status of the</p>



Key Audit Matter	How our audit addressed the key audit matter
<p>outcome and the exposure. Depending on these estimates (especially the probability of realization), the Company may decide to record liabilities, provisions or contingent liabilities in the financial statements.</p> <p>Due to the importance and complexity of these disputes, their possible unfavorable results could have a major impact on the Company's financial performance and balance sheet position.</p>	<p>legal proceedings initiated for each significant case. We also reviewed management policies and estimates to ensure that they are correlated with the views of internal and external lawyers, as well as with the representations included in the financial statements regarding contingent liabilities, provisions and debts.</p>

**Other aspects**

- The previous consolidated financial statements as at December 31, 2017 have been audited by a different auditor, who issued an unmodified audit report dated March 21, 2018.

**Other information - Administrator's Report**

- Management is responsible for preparation and presentation of the other information. The other information comprises the Administrator's report, which includes the non-financial information declaration, but does not include the consolidated financial statements and our audit auditor.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements for the year ended December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Administrator's report, we read and report if this has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

On the sole basis of the procedures performed within the audit of the consolidated financial statements, in our opinion:

- the information included in the administrators' report for the financial year for which the consolidated financial statements have been prepared are consistent, in all material respects, with these consolidated financial statements;
- the administrators' report has been prepared, in all material respects, in accordance with the provisions of Ministry of Public Finance Order no. 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU, article no. 20.

Moreover, based on our knowledge and understanding concerning the Company and its environment gained during the audit on the consolidated financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement of this Administrator's report. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements***

8. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Order 2844/2016, with subsequent amendments, for the approval of accounting regulations conforming with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated financial statements***

9. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, consolidatedly or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

10. We have been appointed by the General Assembly of Shareholders on December 03, 2018 to audit the consolidated financial statements of **S.N.T.G.N. Transgaz S.A.** for the financial years ended December 31, 2018 to December 31, 2022. The uninterrupted total duration of our commitment is 1 year, covering the financial year ended December 31, 2018.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

On behalf of:

#### **BDO Audit SRL**

Registered with the Public Electronic Registry under no 018/2001

Authorized by the Authority for Public Supervision of Statutory Audit Activity (ASPAAS)

Under FA 19 TEMP no. 14

Dan Apostol, Engagement partner

Registered with the Public Electronic Registry under no 1671/2006

Authorized by the Authority for Public Supervision of Statutory Audit Activity (ASPAAS)

Under FA 19 TEMP no. 91

Bucharest, Romania

April 16, 2019

**For stamp and signature please refer to the original Romanian version**

## STATEMENT

### **of Transgaz' responsible persons in accordance with Art. 223, lit. A, para.(1), point c of Regulation no. 5/2018 of the Financial Surveillance Authority**

According to Art 223, letter A para (1), point c of Regulation no. 5/2018 of the Financial Surveillance Authority on the issuers of financial instruments and market operations we declare the following:

- To the best of our knowledge, the annual consolidated financial statement as at 31 December 2018 was prepared in compliance with the International Financing Reporting Standards adopted by the European Union and offers a true and correct image of the assets, liabilities, financial standing, profit and loss account of the Company;
- The Consolidated Report Issued by the Board of Administration includes a correct analysis of the company's development and performances as well as a description of the main activity-specific risks and uncertainties.

**Transgaz' Management**  
**Director General**  
**Ion Sterian**

**Chief Financial Officer**  
**Marius Lupean**