

BOARD OF ADMINISTRATION
SNTGN TRANSGAZ SA

ACTIVITY REPORT

A document drawn up pursuant to the provisions set forth in Article 29, paragraph 14 of the Government Emergency Ordinance no. 109/2011 on corporate governance of state-owned enterprises, as amended

PETRU ION VĂDUVA

Director-General of SNTGN Transgaz SA
Executive Administrator

2017

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I. General considerations

Mandate term	Mandate Contract April 30 th ,2013 – April 29 th , 2017
Appointing Instrument/Mandate	<ul style="list-style-type: none"> ▪ Resolution No. 5/30.04.2013 issued by the Ordinary General Meeting of Shareholders (OGMS) elected administrator ▪ Resolution No. 8/04.06.2013 article 8/4.06.2013 art.8 issued by the Board of Administration; appointed as Director-General of Transgaz SA ▪ Resolution No. 8/10.07.2013 Article 1b issued by the Ordinary General Meeting of Shareholders Reconfirmed as administrator by cumulative voting
Capacity within the Board of Administration	Executive Administrator Director-General of Transgaz SA Medias
Advisory Committees of the Board I am a part of	<ul style="list-style-type: none"> ▪ the NTS Safety and Security Committee - according to the Resolution no. 13/29.07.2013 issued by the Board of Administration - executive administrator; ▪ the Strategy and Development Committee - according to the Resolution no. 13/29.07.2013 issued by the Board of Administration - non-executive administrator. ▪ the Committee for Regulations and Relations with Public Authorities - according to Resolution no. 13/29.07.2013 made by the Board of Administration - executive administrator;
Short biography	<p>I am a graduate of an MBA in Yale Business School, United States of America and have extensive experience in management, particularly in the management of financial investments, occupying key positions within companies such as:</p> <ul style="list-style-type: none"> • JP Morgan, Bear Stearns and Caspian Securities (USA), • Renaissance Capital and UralSib (Russia), • SEB Investment Mgt and CLSA London (Great Britain). <p>In 2009, I occupied the position of Chief Executive Officer of Tiriac Holding, and before, I was Chief Executive Officer of Intrepid GEM. From June 2013 and up to now, I have been the Director-General of SNTGN TRANSGAZ SA, ensuring the overall management of the company's business concerning the management of the national gas transmission system, of the international gas transmission activity, of the organization and coordination of the relevant material, financial, human, technical and informational resources in accordance with the overall strategic objectives.</p> <p>For more details, please refer to my Curriculum Vitae which is attached hereto.</p>
Documents specifying the responsibilities of the Board of Administration (BoA) and of the Director-General.	<ul style="list-style-type: none"> ▪ Law No. 31/1990 on companies, republished as amended and supplemented; ▪ Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, as amended and supplemented (reporting duties); ▪ Law 297/2004 on the capital market, as amended and supplemented;

	<ul style="list-style-type: none"> ▪ Articles of Incorporation of Transgaz SA, updated - Chapter V, Article 19 and Article 20; ▪ Concluded Mandate Contract; ▪ the Organizational and Operational Rules (OOR) of the BoA include information on: <i>the organization and operation of the BoA; the BoA tasks, the policy for the management of conflicts of interest, the means of operation, the liability of the administrators</i>; ▪ the Rules of Corporate Governance of Transgaz SA include information on: <ul style="list-style-type: none"> - <i>The role and duties of the Board of Administration;</i> - <i>The structure of the Board of Administration;</i> - <i>The appointment of the Board members;</i> - <i>The remuneration of the Board members;</i> - <i>The Advisory Committees of the Board of Administration;</i> - <i>The executive management;</i> - <i>The Code of Professional Conduct;</i> - <i>The shareholders' rights and treatment;</i> - <i>Transparency, Financial Reporting;</i> - <i>Conflict of interest and transactions with stakeholders;</i> - <i>Status of corporate information and CSR</i> ▪ The Internal Regulations on the organization and operation of the Advisory Committees established by the Board of Administration of the company include information on: <ul style="list-style-type: none"> - <i>The structure of the Advisory Committees;</i> - <i>The members of the Advisory Committees;</i> - <i>The duties of the Advisory Committees.</i> <table border="1" data-bbox="459 1086 1082 1265"> <tr> <td>▪ the Nomination and Remuneration Committee;</td> </tr> <tr> <td>▪ the Audit and Rating Committee;</td> </tr> <tr> <td>▪ the Safety and Security Committee of the NTS;</td> </tr> <tr> <td>▪ the Strategy and Development Committee;</td> </tr> <tr> <td>▪ the Committee for Regulation and Relations with public authorities</td> </tr> </table> <p>The Advisory Committees established at the level of the Board of Administration are responsible for carrying out analyses and for making specific recommendations to the Board of Administration, bi-annually submitting activity reports to it.</p> <ul style="list-style-type: none"> ▪ The Code of Ethics of Transgaz SA allowing for the company's employees to become familiarized with and to support the ethical values and the assets of the company, to observe and apply the rules on ethics, integrity, avoidance of any conflicts of interest, prevention and reporting of fraud, corruption and to report irregularities within the organization. 	▪ the Nomination and Remuneration Committee;	▪ the Audit and Rating Committee;	▪ the Safety and Security Committee of the NTS;	▪ the Strategy and Development Committee;	▪ the Committee for Regulation and Relations with public authorities
▪ the Nomination and Remuneration Committee;						
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▪ the Safety and Security Committee of the NTS;						
▪ the Strategy and Development Committee;						
▪ the Committee for Regulation and Relations with public authorities						
Organization of the Board of Administration activity	<ul style="list-style-type: none"> ▪ Transgaz SA is managed based on a one-tier management system. The current Board of Administration consists of 5 members and was selected and appointed according to the provisions set forth in the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented; ▪ For the effective management of the company, the administrators decided to establish an organizational entity, at the company's level, i.e. the Secretariat of the Board of Administration (BoA) and 					

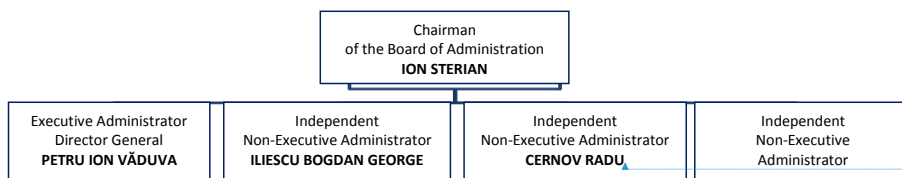
	<p>of the General Meeting of the Shareholders (GMS), an entity acting as secretariat of all activities to necessary for the Board of Administration / General Meeting of Shareholders to fulfil their tasks, pursuant to the provisions set forth in the Government Emergency Ordinance no. 109/2011, as amended and supplemented by Law no. 297/2004, as amended and supplemented and Regulations 1/2006 and 6/2009 of the National Security Commission of Romania, as amended and supplemented;</p> <ul style="list-style-type: none"> ▪ Together with the other administrators I have decided that, in order to ensure the compliance of the administrative decisions / top management actions with the requirements of the regulatory documents regarding the companies, the corporate governance, the capital market, the transparency, the communication, the overall activity of the Board of Administration has to be consistent with a procedure and permanently in line with the legal regulations related to the business of the company; ▪ For documenting the activities performed over the mandate of the Board of Administration, the following documents are chronologically filed by the Secretariat of the BoA and of the GMS, in accordance with the applicable legal requirements: <ul style="list-style-type: none"> - the agenda for each Board meetings; - the minutes of the Board meetings; - the resolutions of the Board of Administration together with the documents underlying such decisions (reports, essays, briefings, etc.); - the minutes of the Advisory Committees meetings; - the reports of the Advisory Committees within the Board of Administration; - the documents convening the Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders; - the minutes of the Ordinary General Meeting of Shareholders and of the Extraordinary General Meeting of Shareholders; - the decisions made by the Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders together with the documents that were the basis for making such decisions; - other documents / addresses / received by the Board of Administration for information / analysis / decision making. ▪ All the work that I have undertaken together with the rest of the administrators has been into full responsibility, professional ethics, integrity and transparency, efficiency and competitiveness, subject to sustainability and in line with the Company's Articles of Incorporation, the signed Mandate Contract and the best corporate governance practices. ▪ The activity I performed in my capacity as Director-General was within the limits of the mandate granted to me and with my constant reporting to the Board of Administration.
<p>Policies and procedures on the organization and conduct of the activities of the Board of Administration</p>	<ul style="list-style-type: none"> ▪ Process Procedures (PP) and Work Instructions (WI) established for the organization and performance of the specific activities of the Board of Administration, in line with the relevant legal framework, are: <ul style="list-style-type: none"> - <i>PP124 – Organization and development of the Board meetings;</i> - <i>PP125 - Organization and development of the Board meetings via electronic means of communication;</i> - <i>PP126 - Organization and development of the General Meetings of Shareholders;</i> - <i>WI PP 124-41 – Perfecting the files of the BoA and GSM meetings;</i> - <i>WI PP 124-42 - Release of BoA and GSM resolution excerpts</i>

	<ul style="list-style-type: none"> ▪ Policies and procedures of the Board of Administration, according to the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises: <ul style="list-style-type: none"> - Policy on management of conflicts of interest; - Policy on dividend distribution – draft; - Policy on risk management; - Policy on transactions with "related parties"; - Policy on sponsorship; - Policy on internal and external communication <p>Note: Given that, at regional, European and national level there is strong focus on increasing transparency in business, eliminating corruption and implementing best corporate governance practices in the administration and management of companies mainly controlled by the state, I, together with the other administrators, have considered preparing a new policy, in relation to the Board of Administration, namely: The policy on transparency, information dissemination, data governance and corruption fighting, a document which will allow the Board to develop a referential framework to stimulate the stakeholders' confidence in the decisions and resolutions made by Transgaz administrators and in the actions taken by the company management.</p>
Information and communication	<p>To ensure accurate and timely information of all stakeholders on the activity of the company, I have closely watched and monitored, coordinated the communication and public information activity, so that it is in line with the reporting requirements incumbent to Transgaz, as a company listed on the stock exchange and as a gas transmission system operator, an important player on the national and international energy scene.</p> <p>The guidelines pursued with priority in this regard are contained in the "Policy of the Board of Administration on internal and external communication" and are taken over in The general communication management plan of the company, mainly focused on issues such as:</p> <ul style="list-style-type: none"> - Permanent alignment of our website with the requirements of transparency and dissemination of information imposed by the good corporate governance practices; - the performance of public communications and financial reporting consistent with the legal provisions related to our business; - the provision of accurate, complete and timely information and of equal and non-discriminatory treatment during the provision of information to all Transgaz shareholders; - the provision of efficient logistic support (including the Conference Room) for the organization and development of the BoA and GMS meetings; - the dissemination of the Board decisions pursuant to the procedures established; - the publication, pursuant to the applicable laws, of the convening notices and of the decisions made by the General Meeting of Shareholders on the company's website; - maintaining a permanent communication with the top management; - the improvement of the internal and external relations of the company;
Documentation on the management control and	<ul style="list-style-type: none"> ▪ Management plan of SNTGN Transgaz SA for the period 2013-2017;

supervision System, financial reporting and self-assessment of the Board of Administration

- **Report on the administrators' activity**, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, with all further amendments and revisions, as follows:
 - **half-yearly** submitted to the Ordinary General Meeting of Shareholders (OGAS) to take note of the administrators' activity;
 - **annually** submitted for approval to the OGMS together with the approval of the annual financial statements and the discharge of the administrators;
- **Management Plan for the period 2013-2017** - prepared pursuant to the provisions of the Government Emergency Ordinance no. 109/2011, as amended, and to the objectives under the Management Plan;
- **Quarterly Report on the performance of the mandate**, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, as amended.
- **Quarterly, half-yearly, annual financial reports pursuant to IFRS-EU**
- **Statutory Auditor's Report;**
- **Internal Auditor's Report;**
- **Management's report on the financial statements;**
- **Assessment Report pursuant to the Internal Control / Management System;**
- **Report (CSR) on Corporate Social Responsibility**
- **APPLY or EXPLAIN statement / the status of compliance with the new Code of Corporate Governance of the BSE;**
- **Statement of accession to the National Anticorruption Strategy for the period 2016 - 2020**

Organization Chart of the Board of Administration



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Surname and given name(s)	Capacity in the Board	Legal basis under which the person was appointed		Mandate term
STERIAN ION	Non-executive Administrator Chairman of the Board of Administration	OGMS Resolution no. 5/30.04.2013 Art.7	administrator	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1b	reconfirmed as administrator by cumulative votes	
		OGMS Resolution no. 8/10.07.2013 Art.2	Appointed as Chairman of the Board of Administration	
VĂDUVA PETRU ION	Executive Administrator Director-General	OGMS Resolution no. 5/30.04.2013 Art.7	administrator	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1b	reconfirmed as administrator by cumulative votes	
		BoA Resolution no. 8/4.06.2013 Art.8	Appointed Director-General	

ILIESCU BOGDAN GEORGE	Non-executive Independent Administrator	OGMS Resolution no. 8/10.07.2013 Art.1a	Elected as administrator by cumulative votes	4 years
CERNOV RADU ȘTEFAN	Non-executive Independent Administrator	OGMS Resolution no. 5/30.04.2013 Art.7	Elected as administrator by cumulative votes	4 years
		OGMS Resolution no. 8/10.07.2013 Art.1a	Elected as administrator by cumulative votes	
RIZOIU ANDREI*	Non-executive Independent Administrator	OGMS Resolution no. 5/02.10.2014 Art.1	Administrator	3 years and 1 month

* Mr. **Andrei Rizoiu** continues the mandate of Mr. Vlad Nicolae Neacsu who was appointed as an administrator during the Ordinary General Meeting of Shareholders 8/10.07.2013 and who gave up his mandate as an administrator pursuant to the Board Resolution 1/2014 as of January 24th, 2014. During the same Board meeting, Remus Dumitru Vulpescu was appointed as a provisional administrator (Article 1, Board Resolution 1/2014) and was dismissed during the Board meeting 18/2014. Mr. Andrei Rizoiu was appointed as provisional administrator, instead (Article 2, Board Resolution 18 of June 2nd, 2014).

Composition of the Advisory Committees

The composition of the Advisory Committees (equivalent to the mandate term) established under the Board of Administration, pursuant to Law No. 31/1990, Article 138[^]1, paragraph 2, Article 138[^]2, paragraph 2, Article 140[^]2, paragraphs (1) and (2), of the Government Emergency Ordinance no. 109/2011, Article 34, Article 35, paragraph 2 and Article 55, paragraphs (2) and (3) of the Code of Corporate Governance is as follows:

1. NOMINATION AND REMUNERATION COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013
ILIESCU BOGDAN GEORGE	non-executive administrator, independent	BoA Resolution no.13/29.07.2013
2. RATING AND AUDIT COMMITTEE		
ILIESCU BOGDAN GEORGE	non-executive administrator, independent, Chairman of the Audit and Rating Committee	BoA Resolution no.13/29.07.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013
RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no.21/16.06.2014
3. NTS SAFETY AND SECURITY COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
VĂDUVA PETRU ION	executive administrator	BoA Resolution no.13/29.07.2013
RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no.21/16.06.2014
4. STRATEGY AND DEVELOPMENT COMMITTEE		
STERIAN ION	non-executive administrator	BoA Resolution no. 7/27.05.2013
VĂDUVA PETRU ION	executive administrator	BoA Resolution no. 7/27.05.2013
ILIESCU BOGDAN GEORGE	non-executive administrator, independent	BoA Resolution no.13/29.07.2013
RIZOIU ANDREI	non-executive administrator, independent	BoA Resolution no.21/16.06.2014
5. COMMITTEE FOR REGULATION AND RELATIONS WITH PUBLIC AUTHORITIES		
STERIAN ION	non-executive administrator	BoA Resolution no.13/29.07.2013
VADUVA PETRU ION	executive administrator	BoA Resolution no. 7/27.05.2013
CERNOV RADU ȘTEFAN	non-executive administrator, independent	BoA Resolution no. 7/27.05.2013

The entire activity as Director-General of SNTGN Transgaz SA, since the mandate taking over in June 2013, following the selection process conducted pursuant to the Government Emergency Ordinance no. 109/2011, as amended, is detailed in the **Report on the execution of the Director-General's mandate**, drawn up **quarterly** and submitted for approval to the BoA.

The entire activity of the current Board of Administration of SNTGN Transgaz SA, since the mandate taking over in May 2013, following the selection process conducted pursuant to the Government Emergency Ordinance no. 109/2011, as amended, is detailed in the **Administrators' Report**, a report drawn up **quarterly / annually** and is submitted for presentation / approval to the General Meeting of Shareholders.

The work undertaken by the Board members within the Advisory Committees is shown in the **Reports prepared by them and submitted quarterly to the Board of Administrators**.

2. Mandate, strategy, objectives - Assumptions and Achievements

By **Government Emergency Ordinance no. 109/2011** on the corporate governance of public enterprises, the Romanian Government assumed responsibility for such companies to be removed from the political subordination and **to be run by professional managers transparently selected** by internationally and nationally recognized recruitment companies jointly approved by all stakeholders (the Government, the IMF, the EU).

In view of the fact that the efficiency and competitiveness of an economic operator mostly depend on the performance of its management, on the proper implementation of good corporate governance practices, pursuant to the Government Emergency Ordinance no. 109/2011 **the National Gas Transmission Company TRANSGAZ SA has had private management implemented since May 2013**.

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

Transgaz was among the pioneers of a new stage of development in the national economy, being a company pioneering the implementation of the private professional management. In this context, considering the need to ensure the energy security of the country through the development of mega projects aimed to facilitate the transmission of new gas resources discovered in the Black Sea, while keeping to a minimum the cost of natural gas transport, **the company started to be the subject of professional private management in a crucial moment in its history.**

The National Gas Transmission Company TRANSGAZ SA has a unified one-tier management system and is managed by a Board of Administrators consisting of 5 members.

Thus, the new professionally selected company's administrators (the active Board of Administration) took the mandate for the administration of SNTGN Transgaz SA and immediately started to develop the **Administration Plan of the company for the mandate term 2013-2017**, as set forth in Article 30, paragraph 1 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended.

Whereas, the **Administration Plan of SNTGN Transgaz SA Medias for the period 2013-2017** is a crucial tool of strategic planning in terms of the administration of the company which is listed on the BSE, I have given full attention, together with the other administrators, to the set objectives, the clear establishment of a road map for streamlining the operational activity and sustainable development and I have succeeded in building and implementing it so that

the management plan would be governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, authorities and state institutions, media, etc).

The Administration Plan of SNTGN Transgaz for the period 2013-2017 was unanimously approved by the shareholders under Resolution no. 9/23.09.2013 made by the Ordinary General Meeting of Shareholders.

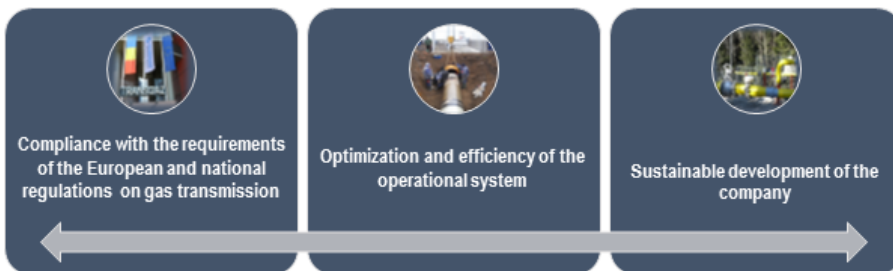
While empowering the importance of its mission for the country and for the company, the private, professional management of Transgaz is committed to ensure transparent, efficient and optimal corporate governance which, by making the most of the existing and future opportunities, to enable the company to achieve excellence in business, transforming it into a natural gas carrier recognized on the international market of natural gas, a leader on the energy market in the region, thereby contributing to the definition of Romania as an important energy corridor for natural gas to Europe.

The Administration Plan of the national gas transmission operator prepared for the period 2013-2017 confirms the strategic vision of the administrators regarding:

- the company's directions of sustainable development;
- the optimization of economic-financial and operational performance;
- the increase in the company's viability in the national and international energy context that is constantly changing.

Starting from the overall diagnosis of the activity carried out and of the prerequisites of the environment in which it operates, while capitalizing with maximum efficiency all the existing and future opportunities, through the **Administration Plan for the period 2013-2017** we have rigorously structured the strategic directions for action on the management of resources, operational and management processes of the company in order to achieve maximum efficiency for the established performance targets and transforming the company into a company with international recognition, a leader on the energy market in the region, which could help define Romania as an important energy corridor for natural gas to Europe.

Reconsidering Transgaz' activity subject to the evolution of the European and national energy sector, the future objectives of the European energy policy, the priorities of the national energy strategy, the changes in the environment in which the company operates, the objectives and directions for the administration of the company established for the period 2013-2017 are directed mainly towards the following areas:



The administrators of SNTGN TRANSGAZ S.A. Medias considered that the goals set out in the company's Management Plan for the period 2013-2017 and taken over in the Management Plan by the Director-General and by the executive management, as listed below, will reach the objectives for the improvement of the company's business efficiency and redefinition in line with the requirements of the modern standards of performance and competitiveness at regional, European and international levels.

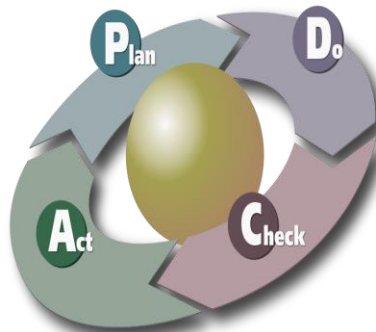
Pursuant to the Strategic goals under the Administration Plan on the compliance with the European and national regulations on gas transmission, optimization and streamlining of the company's operational process and sustainable development, as Transgaz' Director-General, I prepared the Management plan, in accordance with the provisions of Article 36 paragraph 1 of Government Emergency Ordinance no.109 / 2011 on the corporate governance of public enterprises.

The management plan includes the management's vision with regards to the measures to be taken to meet the strategic objectives contained in the management plan and the fulfilment of the performance criteria and objectives set out under the mandate contract.

The Management Plan of TRANSGAZ Medias for the period 2013-2017 focuses on EXECUTION, as a means to work things out, on PERFORMANCE OBJECTIVES, on the correlative and simultaneous accomplishment of the EFFICIENCY AND EFFECTIVENESS of managerial systems at a methodological, organizational, information and decision-making level, in order to increase the company's economic, social and management performance.

In line with the above committed to mission, Transgaz' Management Plan is PDCA (Plan-Do-Check -Act) type and contains the following stages:

- Forecasting /Strategic and budgetary planning;
- Implementing programs and projects;
- Analysis and Control;
- Revision/Re-updating;
- Optimization



Transgaz' management plan for the period 2013-2017 was approved by the Board of Administration of SNTGN Transgaz SA through Decision no.19/23.09.2013 of the Board of Administration

The Management Plan contains, for each of the strategic objectives established in the administration plan, measures and actions to accomplish these objectives, representing the main work tool of the company management.

Commitments and achievements

With experience of more than a century in gas transmission, a strategic activity of the national economy, SNTGN TRANSGAZ SA is one of the large national companies where the corporate governance model is operating successfully.

The results achieved over the period 2013-2017 are based on the BoA measures and approaches of the company's management, mainly by:

- Redesigning the organizational structure through a modern and efficient new organization chart consistent with the safe and secure activity requirements regarding the exploitation of the natural gas National Transmission System (NTS), its competitiveness and sustainable development;

- Improving the institutional relations at national level (the Parliament, the Government, the Romanian Energy Regulator (ANRE), the National Agency for Mineral Resources (ANRM) and at international level with EU and non-EU countries;
- Making the activity of the Advisory Committees efficient and responsible, including increasing the responsibility of the operational personnel;
- Optimizing the operational, investment and development activity, improving the works related to the operational activity

The presentation of the manner in which the strategic objectives under the company's Administration Plan for the period 2013-2017 have been met, is detailed below:

No.	Objective under the Administration Plan 2013-2017	Courses of action for achieving the assumed objective	Objective initiated / started	Objective that continues
A. ENERGY SAFETY AND SECURITY				
1	The strengthening of the role played by SNTGN TRANSGAZ S.A. Medias as a gas transmission operator on the European and national energy market, considering the EU requirements on the development of interconnections between NTS and the neighbouring gas transmission systems, of the Black Sea and shale gas exploitation potential in the future;	<p>✓ The preparation of the National Gas Transmission System Development Plan for the period 2014-2023, approved by ANRE under Decision No. 2819/17.12.2014 which comprises 5 major projects in various stages of implementation with estimated total value of approx. Euro 1.5 billion:</p> <p>1. The development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria corridor (BRUA)</p> <p>The feasibility study was completed in 2015. In May 2015 the Innovation and Networks Executive Agency (INEA) signed <u>the grant agreement for a grant in the amount of EUR 1,519,342</u>, representing 50% of the total estimated costs related to the FEED for the compressor stations. In May 2016 <u>the contract for FEED services related to the 3 compressor stations (CS Podisor, CS Bibești and CS Jupa)</u> was signed with the Polish company Gornicze Biuro Projectow PANGAZ sp. z o.o. In September 2016, the grant agreement for a grant in the amount of Euro 179.3 million was signed for Phase 1 of the BRUA Project. In order to ensure the effective management of the whole project, of all operations related to its implementation, development and monitoring, at organizational level, the BRUA Project Management Unit was separately established. The project is under</p>		

the permitting and pipe material and equipment (valves) procurement stage.

2. The Development on the Romanian territory of the Southern Transmission Corridor for accommodating Black Sea gas

The feasibility study was completed in January 2016. The feasibility study included the selection of the pipeline route and the conduct of the topographical, geotechnical and hydrological surveys. Simultaneously with the preparation of the Feasibility Study, the following activities were initiated:

- the identification of the landowners along the pipeline route;
- the construction permitting procedure (issuance of the Town Planning Certificates). The procedure for environmental impact assessment is ongoing – Stage: Filing of the notification and its initial assessment.

3. The project for the interconnection between the national transmission system and pipelines for international gas transmission

The pre-feasibility study was initiated in 2014 by the company's Research and Design Division; in 2015 a series of technical and economic tests were conducted in order to determine the viability of the investment, and the study was approved in June 2016.

4. The Project for the NTS development in the North-East Romania in order to improve gas supply to the area and to ensure gas transmission capacity to the Republic of Moldova

The feasibility study was completed in January 2016 but is now being updated as suggested by JASPERS, i.e. the consultant employed by the Ministry of European Funds.

5. The development on the Romanian territory of the Central Gas Transmission Corridor for accommodating Black Sea gas.

The pre-feasibility study was completed at the end of 2016.

- ✓ Drawing up the Development Plan

for the National Gas Transmission System for the period 2016-2025, submitted for approval to ANRE, which includes 6 major projects.

The Project regarding new developments of the NTS in order to take over gas from the Black Sea shore was inserted.



Map of Major Projects in the NTS

- ✓ Also in order to achieve the objective of strengthening the role of **SNTGN Transgaz SA as a gas transmission operator on the European and national energy market**, the administrators have requested the company's management to implement the following guidelines:
- the establishment of Transgaz' Representative Office in Bucharest – under Resolution no. 12/18.12.2013 issued by the Extraordinary General Meeting of Shareholders;
 - the completion of the interconnection with the Republic of Moldova – a goal achieved in 2014;
 - the establishment of Transgaz' Representative Office to Brussels, an unincorporated branch office of SNTGN Transgaz SA –under Resolution no. 2/29.04.2014 issued by the Extraordinary General Meeting of Shareholders;
 - the establishment of Transgaz' Representative Office to Chisinau, an unincorporated branch office of SNTGN Transgaz SA –under Resolution no. 7/218.12.2015 issued by the Extraordinary General Meeting of Shareholders;
 - the completion of the interconnection with Bulgaria on the Giurgiu – Ruse route – a goal achieved in 2016.
- Currently, there are 4 points of interconnection between the

		<p>Romanian NTS and the neighbouring gas transmission systems (out of 5 countries, excepting SERBIA) as follows:</p> <table border="1"> <tr> <td>UKRAINE</td> </tr> <tr> <td><i>Orlovka (UA) – Isaccea (RO)</i> -DN 1000, Capacity = 8.6 billion m3/year, P_{max} = 55 bars</td> </tr> <tr> <td><i>Tekovo (UA) – Medieșu Aurit (RO)</i>-DN 700, Capacity = 4.0 billion m3/year, P_{max} = 70 bars</td> </tr> <tr> <td>HUNGARY</td> </tr> <tr> <td><i>Szeged (HU) – Arad(RO)- Csanadpalota</i>-DN 700, Capacity = 1.75 billion m3/year, P_{max} = 63 bars</td> </tr> <tr> <td>REPUBLIC OF MOLDOVA</td> </tr> <tr> <td><i>Ungheni (MO) – Iași(RO)</i>- DN 500 , Capacity = 1.5 billion m3/year, P_{max} = 50 bars</td> </tr> <tr> <td>BULGARIA</td> </tr> <tr> <td><i>Ruse (BG) – Giurgiu(RO)</i>-DN 500, Capacity = 1.5 billion m3/year, P_{max} = 40 bars</td> </tr> </table>	UKRAINE	<i>Orlovka (UA) – Isaccea (RO)</i> -DN 1000, Capacity = 8.6 billion m3/year, P _{max} = 55 bars	<i>Tekovo (UA) – Medieșu Aurit (RO)</i> -DN 700, Capacity = 4.0 billion m3/year, P _{max} = 70 bars	HUNGARY	<i>Szeged (HU) – Arad(RO)- Csanadpalota</i> -DN 700, Capacity = 1.75 billion m3/year, P _{max} = 63 bars	REPUBLIC OF MOLDOVA	<i>Ungheni (MO) – Iași(RO)</i> - DN 500 , Capacity = 1.5 billion m3/year, P _{max} = 50 bars	BULGARIA	<i>Ruse (BG) – Giurgiu(RO)</i> -DN 500, Capacity = 1.5 billion m3/year, P _{max} = 40 bars		
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2	The completion of the interconnection between the gas transmission systems of Romania and Bulgaria, Giurgiu – Ruse direction;	<p>The process for achieving this goal was as follows:</p> <ul style="list-style-type: none"> - in 2013, the Gas Metering Station (GMS) Giurgiu, the Block Valve Assembly and the Land Pipeline between GMS Giurgiu and the Valve Assembly were achieved; - in 2014 – the works for "<i>Laying of the Danube undercrossing fiber optics cable and protection pipe for data transmission</i>" were completed; - in 2016 – <i>the Giurgiu - Ruse interconnection was completed</i> (in September, the main pipeline was pulled under the Danube bed and in November it was commissioned; the backup pipeline under-crossing the Danube River was commissioned in December 2016). At the end of 2016, the Interconnection Agreement between the two neighbouring gas transmission system operators was signed. 											
3	The creation of the technical conditions necessary to ensure the bi-directional flow of natural gas through the interconnection between Romania and Hungary, Arad-Szeged direction;	In October 2015, Transgaz submitted to the European Commission (the Innovation and Networks Executive Agency - INEA) the "Application" for the funding of Phase 1 of the project "Development on the Romanian territory of the National Gas Transmission System along the Bulgaria-Romania-Hungary-Austria Corridor" (part of the											

		<p>Project of Common Interest - coded as PCI 7.1.5. "Gas pipeline from Bulgaria to Austria via Romania and Hungary) - BRUA.</p> <p>In order to ensure compliance with Regulation (EU) no. 984/2013, TRANSGAZ and FGSZ signed a new TSO membership agreement in order to use the trading platform services for standard and non-standard capacity products (Regional Booking Platform) held by FGSZ.</p> <p>Currently, TRANSGAZ can provide gas flows from Romania to Hungary falling under the requirements of Regulation (EU) no. 994/2010.</p> <p>Over the implementation of the NTS upgrading works meant to increase bidirectional gas flows between Romania and Hungary, Transgaz has considered the prospects of implementing plans for using the Black Sea gas potential.</p> <p>Given that the initial estimates indicate that they considerably exceed the capabilities of the Romanian Gas Transmission System, the development of the transmission capacity to Hungary under the BRUA Project is taken into account.</p>		
4	<p>Carrying forward actions for the conclusion of agreements on the development of interconnections between the NTS and neighbouring gas transmission systems;</p>	<p>The Interconnection Agreements which have been concluded by now:</p> <ul style="list-style-type: none"> ▪ the Interconnection Agreement for Csanadpalota Interconnection Point, concluded with FGSZ Zrt., Hungary on 02.12.2015; ▪ the Interconnection Agreement for Isaccea 1 Interconnection Point, concluded with PJSC Ukrtransgaz, Ukraine, on 19.07.2016; ▪ the Interconnection Agreement for Negru Voda 1 Interconnection Point, concluded with Bulgartansgaz, Bulgaria on 19.05.2016; ▪ the Interconnection Agreement for the Ruse - Giurgiu Interconnection Point, concluded with Bulgartansgaz, Bulgaria, on 22.12.2016. 		
5	<p>Business development by streamlining European funds absorption and creation of an efficient and flexible financing structure</p>	<p>In 2014, the Division for European Funds and International Relations was established, and for streamlining the absorption of European funds, in June 2015, the European funds Unit was established within the Division as an organizational structure responsible to attract EU funds and to monitor projects developed by means of European funds in order to avoid major inconsistencies in the management of this</p>		

type of financing, irregularities which may cause that the allocated grants are to be reimbursed.

Funding Applications / Financing Contracts between 2013 and 2016

2014:

1. Upgrading of the Şinca Turbo-compressor Station and of the Related Facilities

Application date: 10.06.2014

The current state of the application:

Project implemented

Eligible value of the Project: Estimated: RON 96,474,122

The amount related to the aggregate works performed for contract execution is RON 88,810,261.37

Value of non-refundable financing requested / approved: Estimated disbursements: RON 47,816,886, Final costs subject of the requests for reimbursement: RON 44,401,030.7

No. of Financing Contract: 6T/30.06.2014

Date of signature: 30.06.2014

Type / name / axis / KAI the funding application falls under: the European Regional Development Fund (ERDF); the Priority Axis (PA) 4 Key Area of Intervention 1 (KAI 1). The Sectoral Operational Program - Increase of Economic Competitiveness - SOP IEC (natural gas and electricity)

2. FEED for 3 compressor stations Corbu, Hateg and Horia – action number 7.1.5-0026 RO--S-M-14

Application date: 2014

The current state of the application:

Project ongoing implementation

Eligible value of the project: Euro 3,038,684

Value of non-refundable financing requested / approved: Euro 1,519,342

No. of Financing Contract: INEA/EFC/ENER/M2014/0025

Date of signature: 18.05.2015

Type / name / axis / KAI the funding application falls under:

Connecting Europe Facility 2015 Program (CEF 2015, CALL II)

2015:

1. The development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria

Corridor, GMS Podisor-Horia and 3 new compressor stations (Jupa, Bibești and Podisor)" - (abbreviated BRUA) - First Phase

Application date: 12.10.2015

The current state of the application:
Approved / stage preceding the signing of the Financing Contract

Eligible value of the project: Euro 448,301,000.00

Value of grant requested / approved: Euro 179,320,400.00 (40%).

Nr. of the Grant Agreement / Date of conclusion: 2016

Type / name / axis / KAI the funding application falls under: the Connecting Europe Facility Program 2015 (CEF 2015, CALL II).

2016: Actions

1. BRUA Project - Phase 1

The Grant Agreement for the BRUA Project – Phase 1 was signed for the amount of EUR 179,320,400.

On December 19th, 2016, the **Application File for BRUA Phase 1** was submitted to the Competent Authority for Projects of Common Interest (ACPIC), in order to be analysed and approved. The date of acceptance of the application file is the date when the legal authorization proceedings begin.

2. FEED for BRUA-related Compressor Stations

The initial implementation timeframe of the Grant Agreement = June 30th, 2016 was established together with INEA, the extension of the Grant Agreement by 9 months, until March 31st, 2017 and the implementation schedule of this project shall be correlated with the implementation schedule of the BRUA Project - Phase 1.

On April 1st, 2016, the Action Status Report (ASR) was sent to INEA. As a result of the delay in the completion of the intermediate Stages of the FEED, TRANSGAZ requested INEA for a new extension of the Grant Agreement – until June 30th, 2017. The request for extension and the related documents were submitted on December 22nd, 2016.

3. The development of NTS in Moldova (Onesti - Gheraiesti - Letcani)

On July 28th, 2016, at the headquarters of

		<p>JASPERS in Bucharest, a meeting took place and was attended by the representatives of JASPERS and of the MFE on the feasibility study (FS).</p> <p>The technical and economic aspects were discussed in order to amend and update the FS. The documents, the FS and the CBA were verified by the representatives of JASPERS who, on November 15th, 2016, sent their recommendations for the update of the FS and of the CBA to be implemented.</p>		
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B. COMPETITIVENESS

1	<p>The optimization and streamlining of the company's management systems and processes, of the quality of operational processes and their compliance with the requirements of the Integrated Management System for Environment Quality (IMSEQ) and with the modern performance and competitiveness standards;</p>	<p>In order to achieve this objective during 2013-2016, measures have been taken as follows:</p> <p>The contracting of natural gas transportation services</p> <p>2013 – Implementation of BH-type services (backhaul) at the point of interconnection with Hungary.</p> <p>2014 – Allocation of enhanced capacity at the point of interconnection with Hungary (part of the pilot project); Implementation of short-term services (quarter, month, day).</p> <p>2015 – Reconfiguring of the GMOIS IT platform (business concept) in order to manage the contracts for services from points 1 and 2.</p> <p>2016 – Implementation of capacity allocation methodology for point Negru Voda I. The transmission contracts signed with the beneficiaries of the services are consistent with the framework regulated contract and provide the legal framework for the provision of firm and interruptible transmission services.</p> <p>The provision of the internal transmission service means all activities and operations carried out for and in connection with transmission capacity booking and the transmission of fixed gas quantities through the NTS.</p> <p>Commercial balancing activity</p> <p>2013</p> <ul style="list-style-type: none"> - the certification as independent system operator; - the revision of the network code (approved by Order 16/2013) in order to achieve consensus with the gas market participants; - the continuation of actions on the implementation of the transparency requirements set forth in Regulation 		
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		<p>(EC) No. 715/2009;</p> <ul style="list-style-type: none"> - the regulation on third party access to transmission systems; - the implementation of the conditions related to the activity of the Commercial Balancing Unit. <p>2014</p> <ul style="list-style-type: none"> - the testing of the GMOIS II Platform under a plan approved by ANRE. (phase completed) The process has continued in 2016 following new amendments; - the analysis of the balancing network code developed by ENTSOG in order to impose any amendments; - the analysis of the interoperability network code issued by ENTSOG in order to impose any amendments; - the preparation of the Capacity Allocation Agreement and of the Operating Agreement for the Interconnection with the Republic of Moldova - Ungheni; <p>2015</p> <ul style="list-style-type: none"> - the preparation of the "Interim Action Report" approved by ANRE under Decision no. 2296/11.11.2015; - the application of imbalance charges. They apply to imbalances identified, on a monthly basis, as of December 1st, 2015 pursuant to ANRE Order no. 160/27.11.2015; - actions for the fulfilment of the obligations set forth in the Memorandum of Understanding with FGSZ Hungary (bidirectional flow, standardization and harmonization of commercial balancing processes and of units of measurement); - the conclusion of technical Conventions for the establishment of related technological parameters of the input-output physical points of the NTS; - the implementation of a software for computing the technical capacity of the NTS exit points; <p>2016</p> <ul style="list-style-type: none"> - the preparation of the Capacity Allocation Agreement and of the Operating Agreement with Bulgartansgaz for the interconnection Giurgiu - Ruse; - the secondary capacity market – the preparation of the rules based on consulting and the implementation of the 		
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		<p>related information platform – it has not been done yet.</p> <p>Operating / dispatching activities, technological regimes</p> <ul style="list-style-type: none"> - the implementation of the SIMONE simulation gas flow application, the offline version. Personnel training for using the program; - the development of the meteorological information system for the monitoring and optimizing the gas flows in NTS, including personnel training; - the development of dispatcher manual based on flows of natural gas in the transportation programs drawn up based on nominations and consumption forecasts; - the preparation of the day ahead transmission programs based on the dispatcher manual and its verification with the online SIMONE application in SCADA; - the determination of the linepack by means of the SIMONE application; the determination of the gas inventory necessary for the OBA mechanism; the determination of the pipeline storage capacity; - the development of procedures for calculating the gas losses due to the execution of works related to the NTS with support from Ploiesti Oil and Gas University; - the development of procedures regarding the publication on the Transgaz website of the information relating to the suspension of the transportation services. <p>Gas quality measurement activity</p> <ul style="list-style-type: none"> - the assurance of unique traceability of the working standards at the central laboratory; - the preparation of the Feasibility Study for making a stand for the testing / calibration of the turbine meters and of the ultrasonic meters for line pressure; - the preparation of a Study on NTS inlet measurement systems taking-over (Power and Gas Law as no. 123/2012); - real time monitoring of the measurement systems by SCADA; - monitoring of automatic odorization equipment by SCADA; 		
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		<ul style="list-style-type: none"> - the creation of a measuring equipment database; - a study on the modernization of the measuring systems at the NTS exit points; - the preparation and updating of technical operating conditions relating to the points of interconnection; - the online monitoring of gas quality at all major NTS entry points; - the fulfilment of the transparency requirements set forth in the Regulation (EC) No. 715/2009 by determining a method for allocating the annual Wobbe number in relation to the NTS exit points located in weighted average quality areas; - the implementation of the odorization technical standard after it has been approved; - preparation of odorization standards for other odorization substances to replace the ethane thiol. <p>The optimization of the activity regarding quality - environment, prevention and protection</p> <p>Pursuant to the ANRE Order No. 34 as of May 31st, 2013 regarding the approval of the "Regulation for granting incorporation authorizations and licenses for the natural gas field" as far as SNTGN Transgaz SA is concerned, the Integrated Management System for Quality- Environment-Occupational Health and Safety was implemented in 2014 pursuant to SR EN ISO 9001:2008, ISO 14001:2005 and SR OHSAS 18001:2008 and recertified in 2015 and 2016.</p> <p>Thus, the company is aligned to the international management systems that allow for the control of health and safety risks associated to its own employees or to the suppliers who are operating on the premises of the company.</p>		
2	<p>The intensification of the design activity and scientific research in the field of natural gas transmission;</p>	<p>In order to ensure the sustainable development of the company, the focus was on developing and intensifying the research and design for reducing technological consumption, environmental protection and the modernization of the gas transmission activity.</p> <p>Courses of action for implementation:</p> <ul style="list-style-type: none"> - the optimization of quality and efficiency of studies, research topics, projects and 		

		<p>works executed with in-house Transgaz specialists;</p> <ul style="list-style-type: none"> - the increase in the number of skilled employees by attracting specialists of high professional value; - training specialized courses for the personnel; - the continuous professional certification of designers and researchers; - 2016 – the creation of two new design workshops; - the development of collaborations in the field of research with international natural gas transmission operators (GRTGAS France, Fluxys Belgium), as envisaged in the memoranda concluded with them. The memoranda concluded between Transgaz and other EU and non-EU transmission system operators are aimed at jointly addressing existing and future gas transmission projects, in full compliance with the EU laws, the need for further development and integration of the gas markets within the internal European energy market, the identification of solutions to increase cross-border cooperation, the diversification of gas supply routes and the creation of access to new sources of gas, thereby improving the security of gas supply at regional and European level. 		
3	<p>The minimization of technological consumption;</p>	<p>The technological consumption includes the SNTGN Transgaz SA's own consumption and the technical losses. Related to the total amount of gas circulated, the technological consumption has been continuously decreased over the recent years, representing a driver of economic efficiency for the company.</p> <p>The compliance with the natural gas quantities representing the technological consumption is an important indicator for operational performance. The technological consumption is the expenditure necessary to purchase the gas covering the consumption of its own installations; the discharge of separators and pipelines; the couplings, repairs and losses caused by measurement biases, technical accidents, etc. The technological consumption cost is recovered under the transmission tariff, which is included in the operating expenses.</p> <p>For the period between 2013 and 2017, we, the administrators of the company have</p>		

		<p>envisaged the implementation of an effective program of measures to maintain the share of technological consumption in the total natural gas handled by the NTS at a level of 1.70%.</p> <p>In fulfilling the stated objective, we have decided to draw up a program of technical measures meant to reduce the technological consumption, its continuous monitoring and the increase in the operational efficiency, a program consisting mainly of measures such as:</p> <ul style="list-style-type: none"> ▪ the completion of gas leaks monitoring through modern and real time methods with state-of-the-art equipment; ▪ the decrease in the quantities of discharged natural gas; ▪ the increase in the efficiency of technological gas heating equipment by changing or upgrading them; ▪ the effective monitoring of the measurement system integrity and of the operation in optimum accuracy range, of the integrity of equipment in THE Metering Regulating and Delivery Stations, technological nodes, compressor stations, sectionalizing valves, etc.; ▪ the implementation of a program of measures meant to improve the natural gas measurement, gas analysis and freshener; <p>Related to the total amount of gas circulated, the technological consumption was reduced continuously between 2013 and 2015, representing a driver of economic efficiency for the company.</p> <p>The decrease in the share of technological consumption from the total natural gas handled by the NTS, from 1.60% in 2012, 1.17% in 2013 and 0.71% in 2015 is the result of the joint efforts of the exploitation and operating departments, as well as of some appropriate technical measures.</p> <p>Also for close monitoring of this indicator, the administrators have decided to constitute within the company a Committee for the coordination of monitoring the implementation of the measures contained in the Priority Program to reduce the technological consumption for the period between 2013 and 2017, a</p>		
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		committee including specialists working for the company who will inform the Board and the executive management, on a monthly basis, through various briefings, about the current technological consumption and submit proposals for its optimization.		
4	The improvement of the quality of executing investment programs of modernization and development, of programs for the repair, rehabilitation and maintenance of the NTS	<p>The strengthening of the discipline in the foundation / execution / control of the implementation of investment programs for modernization, development and of programs for repair, rehabilitation and maintenance of the gas natural NTS has allowed the company not only to achieve the development goals set and also to keep under control the expenditure related to the execution of such programs and the compliance with the budget of income and expenses. Thus, the lines of action envisaged were focused on:</p> <ul style="list-style-type: none"> - the establishment of an organizational entity (division / department) in charge with the monitoring of the implementation of investment programs and the monitoring of the compliance of the expenditure generated with the approved budget; - the establishment of project management units for the strategic investment works; - the request made by the Board of Administration for monthly (preliminary and final) Reports on the activity of the company; - the submission of monthly Reports regarding the departments / divisions for monitoring the set objectives. 		
5	The completion of the implementation of the SCADA control and data acquisition system;	<p>2015 - Project completed 2016 – the establishment of a separate organizational entity involved in the monitoring of the system, its interaction with the other industrial systems and its subsequent developments (Division for SCADA Automations)</p>		
6	The optimum manning in relation to the actual needs of the company in terms of its activity and development;	<p>The optimal manning is correlated with the actual needs for employees as required by the activities carried out by the company, with the modernization and upgrading works performed within the NTS, with the future development projects of the company. Generally, the policy on human resources is to naturally reduce the number of employees (retirements occurring in the coming years</p>		

		<p>and voluntary resignations) and to maintain the level of growth in wage costs within the inflation rate.</p> <p>The evolution of staff per categories of studies reveals the interest of the company to cover the staffing needs by employing highly qualified specialists and continuously improving the existing employees' performance, with obvious trends to increase the number of employees with higher education.</p> <p>The optimal sizing of the number of employees within the company based on the actual needs of the activities carried out by the company, the modernization and upgrading works to the NTS, the future development of SNTGN Transgaz SA shall remain an important topic to consider, depending on the company's increased needs for development in the future and a higher level of technology through the implementation of the SCADA system.</p>		
7	The improvement of the process for staff training, teaching and development;	<p>Inside the company, the process of staff training is performed continuously and is planned through courses with <i>external trainers inside or outside the country</i> or by <i>internal trainers through the Training and Teaching Centre</i>.</p> <p>The teaching area has two components: <i>the professional one</i> (technical, economic and other specialties) necessary to perform duties under the job description and <i>the general one on the professional development in various fields</i>.</p> <p>The training, improvement and professional development of the employees of the company shall be done based on the Training Plan developed by the company, in line with the provisions set forth in the Collective Labour Agreement in force.</p> <p>Directions for action:</p> <ul style="list-style-type: none"> - the increase in the number of qualification and training courses with internal staff through the Training and Teaching Centre; - the development and implementation of the mentoring program; - the training and professional development of the shift dispatchers and of the pipeline and SCADA gas regulating station operators. 		
8	The optimization of the good corporate governance principles implementation quality;	<p>The objective set for the improvement of the implementation of corporate governance principles has been always taken into account by the Board members, given that</p>		

the company's administrators, acting and continuing to act in the spirit of best corporate governance practices, ensure an administration process that is effective, transparent and efficient, can achieve their goals and increase the stakeholders' trust in the company's capabilities in order to ensure maximum efficiency of its activity.

In line with this objective, the company's administrators have sought to align and ensure the compliance of the Transgaz activity with the applicable requirements and regulations on corporate governance (the Government Emergency Ordinance no. 109/2011, as amended, the New Code of Corporate Governance of the BSE, the Government Resolution no. 722/2016, the legislative regulations specific to the capital market, etc.)

Transgaz was among the pioneers of this new management system that, after nearly four years, due to the good corporate governance practices implemented, has proved to be a successful model not only for the development of the company but also for the development of the national economy.

Moreover, the company's Board of Administration has approved the **Company's Rules of Corporate Governance** that were drafted pursuant to the provisions of the New Code of Corporate Governance of the BSE and that provide the framework for the activity's regulation and performance. SNTGN Transgaz SA adhered to the Code of Corporate Governance of the Bucharest Stock Exchange and applies the recommendations of this code pursuant to the **Declaration on compliance or non-compliance with the Code of Corporate Governance (the "Apply or Explain" Declaration)**.

The Rules of Corporate Governance of SNTGN Transgaz SA include information on:

- *the role and duties of the Board of Administration (BoA);*
- *the structure of the Board of Administration;*
- *the appointment of the Board members;*
- *the remuneration of the Board members;*
- *the Advisory Committees within the Board of Administration;*
- *the executive management;*
- *the Code of Professional Conduct;*
- *the rights and treatment of shareholders;*
- *transparency, financial reporting;*

		<ul style="list-style-type: none"> - <i>conflict of interest and transactions with stakeholders;</i> - <i>corporate information and CSR</i> <p>As far as Transgaz is concerned, as a company listed on the Bucharest Stock Exchange, for the effective monitoring and control of the implementation and increase in the efficiency of practices and models of good corporate governance, the administrators approved the establishment of an organizational entity with corporate management roles and responsibilities.</p>		
9	The optimization of the cost budgetary controlling.	<p>Through the constant responsible and effective monitoring and control of the economic and financial management, combined with rigorous controlling of:</p> <ul style="list-style-type: none"> - <i>the budget planning and tracking, patrimonial management</i> - <i>the general and management accounting</i> - <i>the accounting system and accounting policy, tariff policy,</i> <p>the administrators of the company have managed not only to strengthen the discipline on the financial and accounting execution, but also to enhance the role of controlling by applying the cost control method in order to reduce the costs and to improve the economic profitability of the company;</p> <ul style="list-style-type: none"> ▪ the establishment of an entity inside the company, with the role and responsibilities to monitor the implementation of the investment programs and the compliance of the expenditures generated by them with the approved budget; ▪ training and professional development in the field of controlling 		
C. SUSTAINABLE DEVELOPMENT				
1	The strengthening and diversification of Transgaz' internal and external cooperation relations	<p>The establishment, in 2014, of the Department for Accessing European Funds and International Relations allowed the consolidation and diversification of the external cooperation relations of Transgaz as follows:</p> <ul style="list-style-type: none"> - <i>collaboration with the neighbouring gas transmission system operators (TSOs);</i> - <i>collaboration with other EU and non-EU TSOs;</i> - <i>the conclusion, in 2015, of Memoranda of Cooperation with: Fluxys - Belgium;</i> 		

		<p><i>Pilnacro Ltd - Croatia; Ukrtransgaz - Ukraine;</i></p> <ul style="list-style-type: none"> - <i>the conclusion, in 2016, of Memoranda of Cooperation with: Vestmoldovatransgaz – the Republic of Moldova; Pvgascity Jsc - Vietnam; Socar - Azerbaijan; GRTgaz SA - France; DESFA - Greece; SRBIJAGAS - Serbia;</i> - <i>collaboration with national and international entities, with the European Commission and other international relations (GIE, PP&SA, CNR-CME, ARME, CRE, AmCham, etc.);</i> <p>SNTGN Transgaz S.A. joined and maintained its capacity as a member of various national and international bodies in the field.</p> <p>The advantages and benefits of being a of these organizations are mainly: the promotion of the company's objectives and of its interests, the access to updated information on regulations, policies, innovations, standards and products in the gas industry, and the participation in various national and international events (conferences, seminars, forums, symposia, etc.).</p> <p>Actions have been taken to re-join Gas Infrastructure Europe (GIE) Association established in order to promote the interests of natural gas infrastructure operators and to provide a framework for cooperation among the operators of such infrastructures at European level.</p> <p>Since October 1st, 2016, Transgaz became a full-fledged member of this Association.</p> <p>Resolution no. 2/29.04.2014 issued by the Extraordinary General Meeting of Shareholders approved the establishment of the Representative Office of Transgaz SA in Brussels, an unincorporated branch office of SNTGN Transgaz SA. The Representative Office aims to create new opportunities for a direct and constructive dialogue with the EU institutions, the major players in the energy sector and the partners of the company, to promote the mission and vision of the company at EU level and generally to stimulate the fulfilment of the key strategic objectives of TRANSGAZ, which are aimed at transforming the company into an internationally acknowledged TSO.</p>		
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		The Representative Office of Transgaz in Chisinau was established in order to develop gas infrastructure projects, in cooperation with the Republic of Moldova.		
2	The optimization of the management of risks that may affect the company's business requirements	<p>By complying with the requirements set forth in Standard 8 "Risk Management" in the Order SGG no. 400/2015 for approving the Code of Internal / Managerial Control of Public Entities, the company has taken the following actions:</p> <p>2013 - Self-assessment of the Internal Control / Managerial System and reporting SGG</p> <p>2014 - Development and monitoring of implementation of the Internal Control / Managerial System Development Program</p> <p>2015 – The procedure PP- 91 "Development / update of Risk Register" was developed</p> <p>2016 – Development of risk registers per services / divisions / departments / company</p> <p>For the risks identified at department / division level up to the level of service / office Programs have been developed to minimize the identified (inherent) risks;</p> <p>The Risk Register per company and the Program of Measures to Mitigate Risks for risks escalated to top management was developed and updated;</p> <p>The Risk Management Team (RMT) within SNTGN Transgaz SA was established under Decision no. 518/19.07.2016 pursuant to SGG Order no. 400/2015, as amended and supplemented by SGG Order No. 200/2016 on risk management, the following actions have been taken so far:</p> <ul style="list-style-type: none"> - the Risk Management procedure was developed and the identified risks shall be analysed by the Risk Management Team for the development of the final form of the Risk Register. <p>It should be noted that all measures taken to date relate to operational risks, but other risks identified throughout the company should be considered and analysed:</p> <ul style="list-style-type: none"> • <i>Risks related to the economic environment;</i> • <i>Risks related to the natural gas field;</i> • <i>Risks related to the natural gas transportation activity (laws, regulations);</i> • <i>Financial Risks;</i> • <i>Risks generated by acts of God (earthquakes, floods).</i> <p>By the nature of the activities carried out, the company is exposed to the identified risks</p>	Objective reached by more than 65%	

		<p>and, in the event that any of these risks materializes, it could adversely affect the business, financial status and/or operational results of SNTGN Transgaz SA.</p> <p>By ensuring an effective optimization of the management of risks identified and the compliance with the legislative requirements for the organization of Risk Management, the administrators of Transgaz believe that the negative impact of risks on the business conducted and on its financial-economic results can be avoided and therefore they pay particular attention to further risks at company level.</p>		
3	<p>The optimization of labour productivity in physical units (Km of upgraded pipelines / average number of employees) and in units of value (turnover / average number of employees)</p>	<p>The labour productivity measures the labour use efficiency. A good increase in labour productivity is achieved through automation, robotization and staff reduction.</p> <p>For labour productivity to increase, we have continuously acted – during 2013 - 2015 – in order to naturally reduce the personnel without affecting the current activity by redistributing the duties and responsibilities of the jobs whose occupants have retired (and by restructuring programs (in 2015, we developed a program including the dismissal of 72 employees whose jobs were cancelled).</p> <p>Regarding the other factor significantly influencing the achievement of the labour productivity indicator, i.e. the turnover, it was affected in 2015 by the decrease of the revenues from transportation services due to a decrease in the revenues approved under the ANRE Order no. 136/August 14th, 2015, and the changing of the structure of revenues from transportation services starting with the third regulatory period.</p> <p>Given that SNTGN TRANSGAZ S.A. has the obligation to ensure the safe operation of the NTS, it results that labour productivity can be optimized by reducing the number of employees only up to a certain threshold, and this must be rigorously respected.</p>		
4	<p>The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment</p>	<p>Actions taken for the increase in energy efficiency and the decrease in the negative impact of technological processes on the environment have been focused on achieving specific objectives in this field:</p> <ul style="list-style-type: none"> - <i>the efficient use of energy consuming resources;</i> - <i>the efficient correlation of energy resource management with the legislative requirements in this field;</i> 		

		<ul style="list-style-type: none"> - the promotion of the energy management best practices; - the application of new technologies with high energy efficiency; - the improvement of energy management in the context of projects designed to minimize the emissions of greenhouse gases; of renewable energy and other energy projects. 		
5	The maintenance of financial balance and operational stability	<p>The analysis of the financial balance can be achieved based on the balance sheet related to the two concepts of its development: patrimonial and financial.</p> <p>The maintenance of the financial balance is the essential condition of enterprise survival and the assessment of financial balance must take into account the concrete conditions of the incapacity to make payments.</p> <p>The financial balance and the operational stability throughout SNTGN Transgaz SA Medias are monitored through a set of financial ratios whose evolution for 2013 - 2017 is shown below</p>		

Year	2013		2014		2015		2016		2017
	Planned	Achieved	Planned	Achieved	Planned	Achieved	Planned	Achieved 9 months	Planned
Current liquidity	1,62	2,17	1,68	3,09	1,71	4,11	1,73	5,23	1,79
Quick liquidity	1,51	2,06	1,59	2,98	1,62	3,83	1,65	4,87	1,71
Patrimonial solvency %	77%	77%	77%	70%	79%	72%	80%	71%	81%
Permanent capital - thousand RON	3.526.707	3.612.051	3.740.435	4.404.651	3.909.951	4.674.101	4.106.569	4.813.898	4.309.767
Working capital - thousand RON	209.627	377.171	266.776	675.715	277.692	859.983	302.238	1.050.368	326.992
Need for working capital - thousand RON	88.261	109.910	30.287	117.847	65.767	159.185	65.795	190.950	73.336
Net treasury - thousand RON	121.367	267.262	236.489	557.868	211.925	700.798	236.443	859.419	253.656

6	The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream measuring and adjusting stations not connected to the transportation system);	<ul style="list-style-type: none"> - the alignment of business to the requirements of the European and national legislative regulations related to gas transmission in order to successfully face the changes related to the environment in which they operate and to maintain viability in a dynamic environment; - the redeployment of the existing modules and the expansion with new functionalities of the computer system for company resource management (ERP), currently known as MAIS; - the implementation of computer system integration solutions for the consolidation of information in the existing systems and the homogenization of software and 		
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		<p>hardware used. This computer system shall also manage a "Data Warehouse" type database used for the development of an application for Business Intelligence and reporting;</p> <ul style="list-style-type: none"> - the implementation of efficient e-mail solution with advanced management, monitoring and use capacities; - the implementation of a new solution for monitoring the flows of documents from SNTGN Transgaz SA; - the development and modernization of the IT systems and of the IT and communications infrastructure (IT&C equipment, IP telephony, videoconferencing, teleconferencing, radio networks, etc.) by implementing integrated projects throughout the company; - the implementation of a solution for business continuity in the secondary site, allowing the timely resumption of critical activities and of the company business at acceptable parameters in the event of interruption or failure of the secondary site; - the modernization of the current computer security solution based on outdated Checkpoint equipment by adding new functionalities in terms of hardware and software. 		
7	The improvement of occupational health and safety	<ul style="list-style-type: none"> ▪ The implementation and certification of the Occupational Health and Safety Management System (OHSMS) pursuant to SR-OHSAS 18001:2008, which aligns the company to the international management systems and enables the continuous control of risks to the health and safety of its own employees or of the suppliers that are operating on the premises of the organization. <p>Objective achieved - System IMPLEMENTED and certified in 2014 and recertified in 2015 and 2016.</p>		
8	The improvement of the general internal and external communication process inside the company, of the corporate image.	<ul style="list-style-type: none"> - The increase in the level of representation of SNTGN Transgaz SA internally and internationally and the improvement of the quality of communication and representation (establishment of representation offices, departments responsible); - The improvement of the existing 		

		<p>procedure process of the company with regard to the overall communication regarding the level of representation and the employees with duties in this area;</p> <ul style="list-style-type: none"> - the development of training programs for the employees in charge with communication and representation of the company at different levels and based on topic; - the implementation of a coherent, efficient and dynamic policy of communication and social responsibility that meets the demand for information and the social needs of the interested public and of the community; - the efficient management of the internal and external channels and streams of data and information; - the continuous improvement of action vectors in terms of internal and external communication quality and its financial dimension; - the permanent alignment of the corporate image to the requirements and standards of image, transparency, communication and public relations imposed by its status as a listed company; - the development, at corporate level, of the media communication plans in times of crisis; - the implementation, at top and medium management level, of the "open door policy" method 		
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After summarizing the data presented above in a matrix of the strategic objectives assumed under the Management Plan undertaken by SNTGN Transgaz SA over the period 2013 - 2017 and the way the company acted in order to achieve / fulfill them, we achieve the following assessment:

UNDERTAKEN STRATEGIC OBJECTIVE	No.	Objective assumed under the Administration Plan 2013-2017	Objective initiated / started	Objective that continues
A. ENERGY SECURITY AND SAFETY	1	The strengthening of the role of SNTGN Transgaz SA Medias as gas transmission system operator on the European and national energy market as a result of the EU requirements regarding the development of NTS interconnection with similar transportation systems in the neighbouring countries, the potential of exploit the significant deposits of natural gas discovered in the Black Sea and of the shale gas in the future;		
	2	The completion of the interconnection between the gas transportation systems of Romania and Bulgaria on the Giurgiu – Ruse route;		
	3	The creation of the technical conditions necessary to ensure the bi-directional flow of natural gas on the interconnection between Romania and Hungary on the Arad-Szeged route;		

	4	The continuation of the actions for the conclusion of the development agreements referring to the interconnection of NTS with similar transportation systems of the neighbouring countries;		
	5	Business development by optimizing the absorption of European funds and the creation of efficient and flexible financing structures.		

5 OBJECTIVES ASSUMED AND STARTED of which 4 OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE				
B. COMPETITIVENESS	1	The optimization and streamlining of the company's management systems and processes, of the operational process quality and alignment with the requirements of the Integrated Management System for Environment Quality (IMSEQ) and with the modern standards of performance and competitiveness;		
	2	The increase in the gas transmission related design and scientific research activities;		
	3	The decrease in the technological consumption;		
	4	The increase in the quality of the investment programs for modernization and development, of the NTS repair, upgrading and maintenance programs		
	5	The completion of the implementation of SCADA;		
	6	The optimum human resource structure compared to the actual needs of the business and the development of the company;		
	7	The improvement of the process for training, teaching and development of the employees;		
	8	The optimization of the quality good corporate governance principle implementation;		
	9	The optimization of the cost budgetary control process.		
9 OBJECTIVES ASSUMED AND STARTED of which 8 OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE				
C. SUSTAINABLE DEVELOPMENT	1	The strengthening and diversification of Transgaz' internal and external cooperation relations		
	2	The optimization of the management of the risks potentially affecting the company's business	65%	
	3	The optimization of labour productivity in physical units (Km of rehabilitated pipelines / average number of employees) and in units of value (turnover / average number of employees)		
	4	The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment		
	5	The maintenance of financial balance and operational stability		
	6	The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream measuring and adjusting stations not connected to the transportation system)		
	7	The improvement of the occupational health and safety		
	8	The improvement of the company's overall internal and external communication process, as well as of the corporate image		
8 OBJECTIVES ASSUMED AND STARTED out of which one reached 65%, of which 7 ASSUMED OBJECTIVES CONTINUE; 1 COMPLETED OBJECTIVE				
22 OBJECTIVES ASSUMED AND STARTED of which: 1 objective achieved 65%; 19 STARTED OBJECTIVES CONTINUE; 3 COMPLETED OBJECTIVES				

Ensuring the fulfilment with maximum efficiency of the strategic objectives set forth in the administration plan of the company during the period 2013-2017, the company's management has the responsibility of thinking effectively and acting efficiently, in order to secure the position of SNTGN TRANSGAZ SA as a renowned gas transmission system operator on the international gas market, a leader on the regional energy market, thus contributing to the definition of Romania as an important energy corridor for natural gas to Europe.

To this end, using managerial tools and constantly improving the management systems and processes used in the company, through the correlative and efficient use of human resources processes, strategic and operational, as **Director-General**, I have aimed at fulfilling responsibly the committed obligations, the accomplishment with professionalism and effectiveness of the strategic objectives set, the ethical commitment towards shareholders, employees, business environment and community, the viability and performance of the company, its future development.

The management plan contains for each of the strategic objectives set forth in the administration plan, **measures and actions to achieve these objectives, as they represent the main work tool of the company's management.**

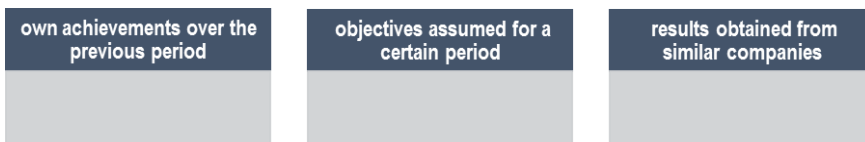
The performance criteria and objectives set forth in Transgaz administration plan for the period 2013-2017 are included in the management plan and represent economic, financial and managerial objectives for the management of the company. For each of the actions included in the management plan, the following were considered:

- **Efficient monitoring of the stages mentioned in the plan;**
- **Rigorously determining and correlating the tasks and responsibilities per departments and directions;**
- **The qualitative, quantitative and timely accomplishment of the assigned tasks and responsibilities taken over;**
- **Splitting strategic and performance objectives up to an individual level.**

As a result, the effect of implementing the established measures shall lead to the expected results in terms of increasing the efficiency of the operational process, optimizing the economic and financial results and fulfilling the performance criteria and objectives set forth in the agency agreement. **The methodologic tools** to be used for implementing the management plan consist of:

Plans/ Programmes	Meeting/ Debate	Delegation	Board landscape	Ddiagnosis analysis	Internal management control system	Performance indicator system	Data /information displaying tools
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According to the administrators of the company, the relationship **managers-management** is the **foundation** of any complex endeavour that aims at obtaining **managerial performance**, and eventually **economic performance, performance being a special result obtained in the field of economic, technical and operational, social management, etc.**, that imposes competitively characteristics, efficiency and effectiveness to the company and its process and structural components. Performance, irrespective of the field in which they manifest in, are mainly expressed through indicators and indexes and highlighted through a **comparative approach** with:



Managerial performance is generated and obtained at the level of the managers, namely at the level of those who perform management processes (forecast, organize, coordinate, train, control and evaluate) while **economic performance is registered in the managed field, in an application-based environment, by the actual and active implication of both managers and performers**. The latter are put in the situation of initiating actions in order to operationalize the decisions of the management. They ensure **the bridge between managerial and economic performance**.

In view of the fact that managerial performance represents the objective result of a managerial exercise, in the acceptance of the private management of SNTGN Transgaz SA, together with an efficient managerial thinking, strategic guidelines have been defined in order to materialize it.

Special professional competences, the vast managerial expertise as well as the capacity to control the seen and unseen dynamics of the team, team psychology, are just a few of the assets of the private management of SNTGN Transgaz SA, a sense-integrative management that has accomplished to set the basis of organizational intervention plans in order to facilitate through them the optimization of the efficiency of the activity and the development of the business in the context of an internal and international environment that is continuously changing.

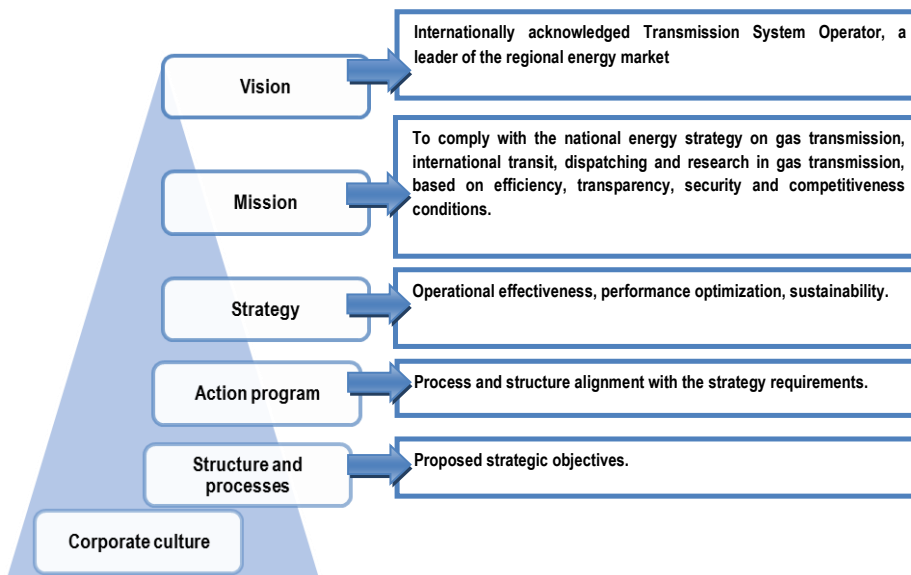
In accordance with these strategic action guidelines, the measures implemented by the private management since taking over their mandate have allowed for a more efficient management of the activity of the company by optimizing the strategic, operational, informational and decisional processes.

In view of the balance between efforts-results of the managerial performance of SNTGN Transgaz SA, we can assess that the contribution I have brought, in my capacity of Director-General of the company, is a positive one, focused on managerial redesigning, organizational discipline and responsible and efficient execution of tasks and materialized in the technical and operational measures initiated with regards to organizational intervention, measures having as main objectives:

Summarizing, the strategic process of administering SNTGN Transgaz SA Mediaș in the period 2013-2017 can be presented as follows:

<ul style="list-style-type: none"> ▪ Maintaining permanent control of the company's costs increase;
<ul style="list-style-type: none"> ▪ Reducing operational costs (especially expenditures with technological consumption and losses on NTS and those with work and services performed by third parties);
<ul style="list-style-type: none"> ▪ Maintaining a minimum price by lowering procurement costs and a strict control of acquisitions;
<ul style="list-style-type: none"> ▪ Strategic repositioning of the company in the context of transport potential natural gas resources in the Black Sea and increase of energy security - an essential component of national security;
<ul style="list-style-type: none"> ▪ Judicious administration of the investment process, an essential component in controlling costs and transport charges;
<ul style="list-style-type: none"> ▪ Organizational redesigning of processes, systems and activities, duties and responsibilities of employees;
<ul style="list-style-type: none"> ▪ Creating procedures for all activities in accordance with the requirements of the Integrated Quality Environment Management System and those of the Internal Managerial Control System;
<ul style="list-style-type: none"> ▪ Strategic planning of annual work programs and monitoring the monthly execution of the budget commitment;
<ul style="list-style-type: none"> ▪ Upgrading and automating the company - monitoring of SCADA project implementation
<ul style="list-style-type: none"> ▪ Alignment with national and European regulatory requirements related to natural gas transport;
<ul style="list-style-type: none"> ▪ Strengthening the control over the management of material, financial and informational resources;
<ul style="list-style-type: none"> ▪ Intensification of international cooperation and the cooperation with European and international

financial and banking institutions, credit rating agencies;
<ul style="list-style-type: none"> ▪ Development of cooperation with EU institutions and Bodies and other international financial and banking institutions in order to attract foreign funds for strategic investment projects included in the Development plan of SNT for the period 2014-2023, projects estimated at 1.5 billion euros ;
<ul style="list-style-type: none"> ▪ Optimization of company institutional relations and corporate and organizational climate;
<ul style="list-style-type: none"> ▪ Increasing the degree of transparency and accuracy in transmitting information inside and outside the company;
<ul style="list-style-type: none"> ▪ complying with all deadlines for reporting to authorities, public institutions and the capital market to other national and international bodies;
<ul style="list-style-type: none"> ▪ Ensuring an optimum cooperation with the media, financial analysts, business and social dialogue partners;
<ul style="list-style-type: none"> ▪ Improving and developing management tools and its quality at the level of organizational, decision-making, informational and methodological management subsystems;
<ul style="list-style-type: none"> ▪ Repositioning internal and external communication strategy, visual identity of the company, its corporate culture;
<ul style="list-style-type: none"> ▪ Developing the IT and communications system;
<ul style="list-style-type: none"> ▪ Improving the company's financial management and accounting policies;



3. Performance objectives and criteria pursuant to the mandate - Degree of fulfilment

Because performance matters on the road to excellence, the Board of Administration of SNTGN Transgaz SA Medias had in view the determination of the performance criteria and objectives, SMART performance indicators measuring the business, profitability and productivity, effectiveness of quantitative and qualitative objectives set and expressing the company's strategic development direction and its dynamics between 2013 and 2017.

Although all performance indicators are important, some indicators are important also at a strategic level and these are the ones that are part of the functional areas of the company.

Throughout the process of strategic forecast regarding the administration of SNTGN TRANSGAZ S.A. Medias in the period between 2013 and 2017, the changes to the current strategy are translated into strategic objectives that determine the reasons why new initiatives for the company's managerial redesign and the use of major investment programs for the development and modernization of the NTS, for business development and international cooperation are appropriate and necessary for the sustainable development of the company.

The performance criteria and objectives established in the administration plan of SNTGN Transgaz SA for the period between 2013 and 2017 also appear in the management plan and are deemed as economic, financial and managerial performance objectives for the management company.

Item No.	Indicator		2013	2014	2015	9 months 2016	2017
1	Investments commissioned (thousand RON)	Performance objective	Achievement of scheduled level				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	219,028	195,400	254,000	141,000	250,000
		Achieved	212,367	118,843	289,763	60,270	
		Degree of achievement	96.96%	60.82%	114.08%	42.74%	
	Level of achievement depending on %	14.54%	9.12%	17.11%	6.41%		
2	EBITDA (thousand RON)	Performance objective	EBITDA growth				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	589,084	583,753	619,625	675,539	713,346
		Achieved	715,873	776,861	779,579	85.09%	
		Degree of achievement	121.52%	133.08%	125.81%	574.829	
	Level of achievement depending on weighting factor	18.23%	19.96%	18.87%	12.76%		
3	Labour productivity (RON/person)	Performance objective	Increase in labour productivity in units of value (turnover / average no. of employees)				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	303,621	327,472	344,627	372,217	388,155
		Achieved	300,610	332,567	331,000	243,442	
		Degree of achievement	99.01%	101.56%	96.05%	65.40%	
	Level of achievement depending on weighting factor	14.85%	15.23%	14.41%	9.81%		

4	Outstanding payments (thousand RON)	Performance objective	Making payments within the contractual term (in current prices)				
		Weighting factor	0.15	0.15	0.15	0.15	
		Administration Plan	0	0	0	0	0
		Achieved	0	0	0	0	
		Degree of achievement	100%	100%	100%	100%	
	Level of achievement depending on weighting factor	15%	15%	15%	15%		
5	Outstanding receivables (RON)	Performance objective	Decrease of volume of outstanding receivables (in current prices)				

	Weighting factor	0.1	0.1	0.1	0.1	
	Administration Plan	76,000	72,200	68,590	65,075	61,821
	Achieved	79,424	99,724	186,479	250,370	
	Degree of achievement	95.69%	72.40%	36.78%	25.99%	
	Level of achievement depending on weighting factor	9.57%	7.24%	3.68%	2.60%	
6	Technological consumption (%)	Compliance with the quantities of natural gas representing the technological consumption				
	Performance objective					
	Weighting factor	0.15	0.15	0.15	0.15	
	Administration Plan	100%	100%	100%	100%	100%
	Achieved	62%	41%	38%	40%	
	Degree of achievement	161.29%	243.90%	263.16%	252.52%	
	Level of achievement depending on weighting coefficient	24.19%	36.59%	39.47%	37.88%	
7	Operating expenditure per RON 1000 of operating incomes (RON)	Decrease of operating expenditure per RON 1000 of operating incomes				
	Performance objective					
	Weighting factor	0.15	0.15	0.15	0.15	
	Administration Plan	737.27	759.24	748.64	735.09	724.57
	Achieved	647.25	642.63	647.6	668.65	
	Degree of achievement	113.91%	118.15%	115.60%	110%	
	Level of achievement depending on weighting coefficient	17.09%	17.72%	17.34%	16.49%	
	TOTAL	Level of achievement depending on weighting coefficient	113.49%	121.22%	125.90%	100.95%

PERFORMANCE CRITERIA AND OBJECTIVES FOR CALCULATION OF THE VARIABLE COMPONENT OF REMUNERATION

Item no.	Indicator		2013	2014	2015	9 months 2016	2017
1	EBITDA (thousand RON)	Performance objective	Achievement of EBITDA goal assumed under the Administration Plan				
		Administration Plan	589,084	583,753	619,625	675,539	713,346
		Achieved	715,873	776,861	779,579	574,829	
		Degree of achievement	121.52%	133.08%	125.81%	85.00%	
2	Operating expenditure excluding depreciation (thousand RON)	Performance objective	Decrease in level of operating expenditure compared to level assumed under the Administration Plan				
		Administration Plan	958,976	1,061,920	1,077,002	1,126,733	1,139,606
		Achieved	800,767	878,458	883,818	689,453	
		Degree of achievement	119.76%	120.88%	121.86%	163.00%	
3	Investments (thousand RON)	Performance objective	Increase in level of investments actually made compared to level assumed under the Administration Plan				
		Administration Plan	279,462	343,832	352,200	369,200	381,820
		Achieved	203,763	151,776	239,554	63,439	

Degree of achievement

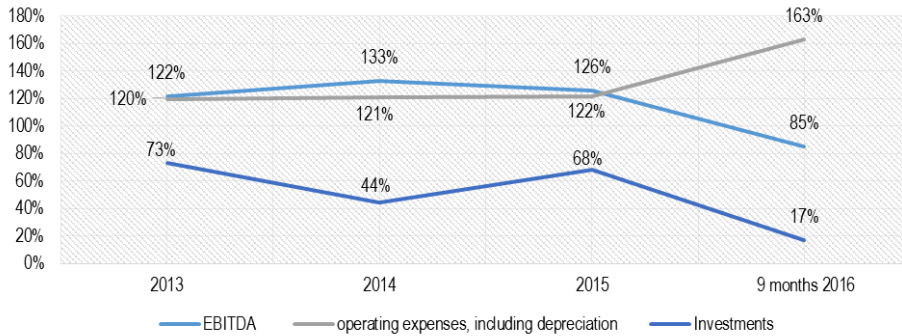
72.91%

44.14%

68.02%

17.00%

Achievement degree



PERFORMANCE CRITERIA FOR THE NATURAL GAS TRANSPORTATION SERVICE

Performance Indicator (No. of article)	Objective	2013	2014	2015	9 months 2016
IP1 – Resolving requests for access for connection to the NTS (Article 5)	98%	100%	100%	100%	100%
IP2 – Execution of NTS connection installation for requests for access (Article 6, letter (a) and (b))	98%	100%	100%	100%	100%
IP4 – Information on the resumption of service provision (Article 8 (1) letters (a) and (b))	95%	100%	100%	100%	100%
IP5 – Notification of scheduled interruptions in the service and its resumption (Article 9 (1))	100%	100%	100%	100%	100%
IP6 – Resolution of complaints coming from NTS users on natural gas measurement (Article 10 (1) letters (a) and (b))	98%	100%	100%	100%	100%
IP7 – Resolution of complaints regarding the integrity and safe functioning of the NTS (Article 11 paragraph (2))	95%	100%	100%	100%	100%
IP8 – The TSO obligations to inform the applicants / users as set forth in other regulations of ANRGN (Article 12)	95%	100%	100%	100%	100%
IP11 – Safety Indicators (Article 15 (1) letter (a)) RCA	maximum 8,3%	7,0%	7,4%	7,5%	7,6%
(Article 15 (1) letter (b)) NAP	0,8	0,04	0,01	0,01	0,01

(Article 15 (1) letter (c)) NAP_T

0,1 0,00 0,00 0,00 0,00

4. Activity carried out within the Advisory Committees

In order to comply with the capital market legal provisions (Law no. 297/2004 on the capital market, as amended, and the Code of Corporate Governance of the Bucharest Stock Exchange), the Board of Administration approved by Resolution No. 7/27.05.2013 the update of the structure and composition of the Advisory Committees as follows:

■ the Nomination and Remuneration Committee;
■ the Audit and Rating Committee;
■ the NTS Safety and Security Committee;
■ the Strategy and Development Committee;
■ the Committee for Regulation and Relations with public authorities

The Internal Regulations on the organization and operation of the Advisory Committees established by the company's Board of Administration (pursuant to Article 34, Article 35, paragraph 2 and Article 55, paragraph 2 and paragraph 3) (the latest version approved by the Board Resolution no. 39/17.12.2015) include information on:

- the structure of the Advisory Committees;
- the members of the Advisory Committees;
- the duties of the Advisory Committees.

The Advisory Committees established by the Board of Administration are responsible for carrying out analyses and for making recommendations to the Board of Administration in the specific areas, submitting regular / quarterly reports on their activity.

The composition of the Advisory Committees (equivalent to the mandate term) established under the Board of Administration, pursuant to Law No. 31/1990, Article 138¹, paragraph 2, Article 138², paragraph 2, Article 140², paragraphs (1) and (2), the Government Emergency Ordinance no. 109/2011, as amended, Article 34, Article 35, paragraph 2 and Article 55, paragraphs (2) and (3), and of the Code of Corporate Governance is as shown in Chapter I:

I am a member of the following Advisory Committees:

THE NTS SAFETY AND SECURITY COMMITTEE
THE STRATEGY AND DEVELOPMENT COMMITTEE
THE COMMITTEE FOR REGULATION AND RELATIONS WITH PUBLIC AUTHORITIES

The activity carried out along with the other administrators, who are members in these Advisory Committees, was constructive, analytical and in line with the duties set for each of these Committees and consisted primarily of:

- **Consultations** on the materials / documents prepared by various entities within the SNTGN Transgaz SA organizational structure (departments / divisions / services) and submitted to the **Committee**;
- **Analyses** carried out based on the following documents: Reports / Notes / Briefings;
- **Proposals / Measures / Recommendations** to the Board of Administration, after analysing the submitted documents

In details, the activity carried out by the Advisory Committees is presented in the Reports concluded, reports stored in the archive of SNTGN Transgaz SA.

The Internal Regulations on the organization and operation of the Advisory Committees established at the Board of Administration include the tasks set out as follows:

THE NTS SAFETY AND SECURITY COMMITTEE

- analyses periodically the list of Transgaz' critical infrastructure objectives and the security measures established;
- ensures the conditions necessary for implementing the protection measures of all critical infrastructure objectives of the company or of those under the authority/coordination of the company;
- monitors/re-updates its own programs for protecting and combatting terrorism through optimum measures of physical and organizational protection, with recommendations to the Board of Administration;
- monitors the fulfilment of the maintenance and development modernization programs of SNT as well as compliance with the technical exploitation and maintenance regulations of the production capacities.

THE STRATEGY AND DEVELOPMENT COMMITTEE

- assists the Board of Administration in fulfilling its responsibilities in developing and updating the overall development strategy of the company;
- analyses the opportunities identified for the development of the business and issues recommendations to the Board of Administration in relation to them;
- analyses and provides assistance to the Board of Administration regarding the company's directions of development and international cooperation;
- monitors and analyses the fulfilment of the strategic and action plans / programs regarding the obligations of Transgaz as a NTS technical operator and issuer on the stock exchange;
- makes proposals to improve and streamline the strategic, development and collaboration activity;
- makes recommendations to the Board of Administration on the effective operability of the strategic and action plans / programs;
- monitors and analyses the fulfilment of the performance indicators of the transportation system and of the economic and financial performance of the company's business.

THE COMMITTEE FOR REGULATION AND RELATIONS WITH PUBLIC AUTHORITIES

- Assists the Board of Administration with the analysis of the regulatory activity and the legal obligations of the company in this field;
- Monitors the fulfilment by the company of the obligations foreseen by the regulations applicable to the activity performed;
- Analyses and submits to the Board of Administration proposals with regards to the regulatory framework;
- Monitors cooperation relations with public authorities and assists the Board of Administration in establishing and managing the cooperation policy.

5. Supervision and control of the company's management

The Board of Administration, the main body supervising of the company's activity, operating as a buffer between the executive management of the company represented by directors and its shareholders delegated the management of the company to the Director-General.

During the mandate, the number of Board meetings and of General Assemblies of Shareholders is shown in the following table:

Item no.	No. BA	No. OGAS	No. EGAS
2013	26	7	5
2014	45	4	3
2015	41	4	3
2016	49	5	3

Based on the administration strategy approved, through the Administration Plan, in my capacity as Director-General I have set general guidelines of the policies of the company (commercial policies, code of ethics, code of corporate governance, treasury policies, policies regarding the occupational health and safety, concerning the relations with the investors, the public communication and social responsibility, policies related to operational and investment activities, regulations and associations, financial-accounting policies, policies regarding the personnel and social dialogue etc.)

In order to report effectively to the Board of Administration regarding the planning, budget execution and progress made in implementing the objectives set forth in the Administration Plan, as Director-General I have developed a reporting method regarding the status of activities within the departments / divisions, i.e.:

1. **Monthly Activity Report** for each department / division;
2. **Activity Report regarding the company's business**, developed bimonthly (preliminary and final).

Other Reports presented to the Board of Administration in my capacity as Director-General:

▪ Quarterly Report on the execution of the mandate, drawn up pursuant to the Government Emergency Ordinance no. 109/2011, as amended and supplemented.
▪ Quarterly, half-yearly, annual Financial Reports pursuant to IFRS-EU
▪ Statutory Auditor's Report;
▪ Internal Auditor's Report;
▪ Management's report on the financial statements;
▪ Assessment Report pursuant to the Internal Control / Managerial System;
▪ Report (CSR) on the Corporate Social Responsibility;
▪ Declaration APLICI or EXPLICI / the status of compliance with the new Code of Corporate Governance of the BSE;
▪ Quarterly report of the heads of departments and divisions and of the heads of independent services;
▪ Quarterly report of the territorial exploitations within SNTGN Transgaz SA and of the Medias Branch.

The Board of Administration submits to the General Meeting of the Shareholders **annual reports on their activity, as required** by the Government Emergency Ordinance no. 109/2011, as amended, by the accounting, financial and capital market laws, as well as by the sectoral laws related to the company's business.

The system of procedures established for each of the procedural activities of the company is one of the effective tools for supervising the company's activity, as part of the mechanism for monitoring and control of the actions taken for the fulfilment of the objectives set.

The divisions for supervision and control of the company's executive management activity were focused mainly on the following areas of action and organizational intervention:



Managed by a Board of Administration composed of professional administrators with extensive expertise in the field, SNTGN TRANSGAZ SA has managed to achieve economic and financial performances year by year and to follow an upward trend in terms of business and development of human resources contributing to its execution.

Transgaz Board of Administration meetings are held at the company's registered office or in any other place, as appropriate, whenever necessary but at least once every three months, and are convened by the Chairman of the Board following the request of two Board members or by the Director-General. During the meetings, the Board of Administration adopts resolutions conducive to the fulfilment of the relevant duties in an effective and efficient manner.

While exercising the powers / duties as set forth in the Articles of Incorporation and in the Contract of Mandate, Transgaz administrators have been in charge with the supervision and control of the executive management in the spirit of good corporate governance practices and of professional ethics, with full responsibility, good faith and professionalism, reliability, sound control and have spared no effort so that the objectives assumed for the management of the company during the period between 2013 and 2017 can be carried out.

During the period July 2013-December 2016, as Director-General, 79 mandates were entrusted to me under the Decisions of the Board of Administration.

The main competences of the Board of Administration are as follows:

- establishes the main course of action and development of the company, issues Transgaz SA policies, in accordance with regulations in force;
- establishes the accounting system and the financial control and approves the financial planning;
- approves the organizational structure and the organizational and operational rules of SNTGN Transgaz SA;
- appoints and revokes the Director-General of SNTGN Transgaz SA and sets his/her remuneration;
- supervises the Director-General's activity;

- prepares the annual report, organizes the general assemblies of shareholders and implements their decisions;
- files the petition for the insolvency of SNTGN Transgaz SA to start pursuant to the legal regulations;
- approves the levels of securities for persons acting as administrators;
- concludes legal documents for the acquisition, sale, exchange or pledging the assets of SNTGN Transgaz SA based on the approval of the General Meeting of Shareholders when the law imposes this condition;
- approves the number of jobs and the regulatory documents for the establishment of functional and production departments;
- approves the production, research, development and investment programs;
- approves policies for environmental protection, occupational safety, pursuant to the current legal regulations;
- approves, within the limits of the budget of revenues and expenditures approved by the General Meeting of Shareholders, changes in its structure pursuant to the powers it was authorized for; approves the powers of branches per areas of business (economic, commercial, technical, administrative, financial, legal, etc.) in order to achieve the company's field of business;
- approves the conclusion of any agreement for which it has not been delegated the power to the company's Director-General;
- submits every year to the General Meeting of Shareholders, after each financial year ends, the report on the activity of TRANSGAZ SA, the balance sheet and the profit and loss account for the previous year;
- submits to the General Meeting of Shareholders the activity program and the draft budget of income and expenses for the coming year;
- calls the General Meeting of Shareholders whenever necessary;
- establishes the rights, obligations and responsibilities of the TRANSGAZ S.A. employees pursuant to the approved organizational structure;
- decides with regards to contracting bank loans, including external ones; establishes the powers and current bank loans, the trade credits on short and medium term and approves the release of the securities;
- negotiates the collective bargaining agreement by mandating the Director-General and approves the status of the employee;
- ensures and is responsible for the performance of any other tasks and duties established by the General Meeting of Shareholders or as set forth in current laws;
- makes any other decisions regarding the business of the company, except those that are within the competence of the General Meeting of Shareholders.
- Drafts the administration plan that includes the administration strategy for the duration of his mandate for the accomplishment of the performance criteria and objectives established through the agency agreements;
- Approves the internal regulations concerning the organization and operation of the advisory committees at the level of the Administration Board and its competence;
- Approves the management plan for the duration of the mandate and for the first year of mandate of the Director-General of TRANSGAZ SA;
- Approves the modification of the secondary object of activity of SNTGN Transgaz SA;
- Approves the establishment/dissolution of work points- work objectives pertaining to SNT.

SNTGN TRANSGAZ SA draws up periodic and continuous reports about important events concerning the company, including but not limited to its financial situation, performance, ownership and management, both in the media and on its website (www.transgaz.ro).

The company prepares and disseminates relevant periodical and continuous information pursuant to the International Financial Reporting Standards (IFRS) and to other reporting standards or environment, social and governance standards (ESG). The information is disseminated both in Romanian and in English.

Pursuant to the schedule of financial communication with the Bucharest Stock Exchange, the administrative and executive management of Transgaz has organized and organizes meetings with financial analysts, brokers, financial advisors and investors both during the dissemination of the financial statements and of the economic-financial results

and on the occasion of other aspects of the life and activity of the company, impacting the TGN stock prices and the decisions to invest in the company shares.

The Board members have made and still make decisions in the sole interest of the company and have not taken or shall not take part in any deliberation or decision that creates a conflict between their personal interests and those of the company or of subsidiaries controlled by it.

Each Board member shall make sure he/she avoids any direct or indirect conflict of interest with the company or a subsidiary controlled by it and, if such a conflict arises, he/she shall refrain from deliberating and voting on such matters pursuant to the legal provisions in force.

In order to ensure the procedural fairness of **the transactions with related parties**, the Board members apply the following criteria but without being limited to them:

- they maintain the powers of the Board of Administration or of the General Meeting of Shareholders, as appropriate, for approving the most important transactions;
- they ask for preliminary opinions on the most important transactions from the internal control structures;
- they approve that the negotiations regarding such transactions are conducted by one or more independent administrators or by the administrators having no links with the parties concerned;
- they use independent experts.

The Board of Administration **sets the corporate policy for dissemination of information** in compliance with the current laws and the company's Articles of Incorporation. This policy must guarantee equal access to information for shareholders, investors and the significant shareholders and it must not allow abuses on confidential information or information about "transactions with itself".

The **Corporate Social Responsibility** is an aspect of corporate governance through which companies initiated various socially responsible actions that can be quantified in terms of sustainability and sustainable performance.

The crucial role played by TRANSGAZ SA in the energy field in Romania and in Europe is naturally associated with its willingness to support the real needs of all those who constantly contribute to the smooth running of its activity. A part of its sustainable development strategy, the social responsibility policy aims to permanently increase the accountability of the company towards the employees, shareholders, partners, community and environment. The priority areas where TRANSGAZ S.A. gets involved and shall be involved from social point of view are: sustainable development of the community, education, sport, arts and culture, humanitarian activities, health, environment.

Given the successful implementation of the private management throughout Transgaz, the current Board of Administration decided to involve the company in the pilot projects initiated by the Romanian Government in 2015 and 2016, projects on the improvement of corporate governance and on the increase in transparency (*Delivery Unit and Strengthening of Financial Management within State-owned Companies*).

6. Risk Management

The risks identified in the company and requiring proper management and control include:

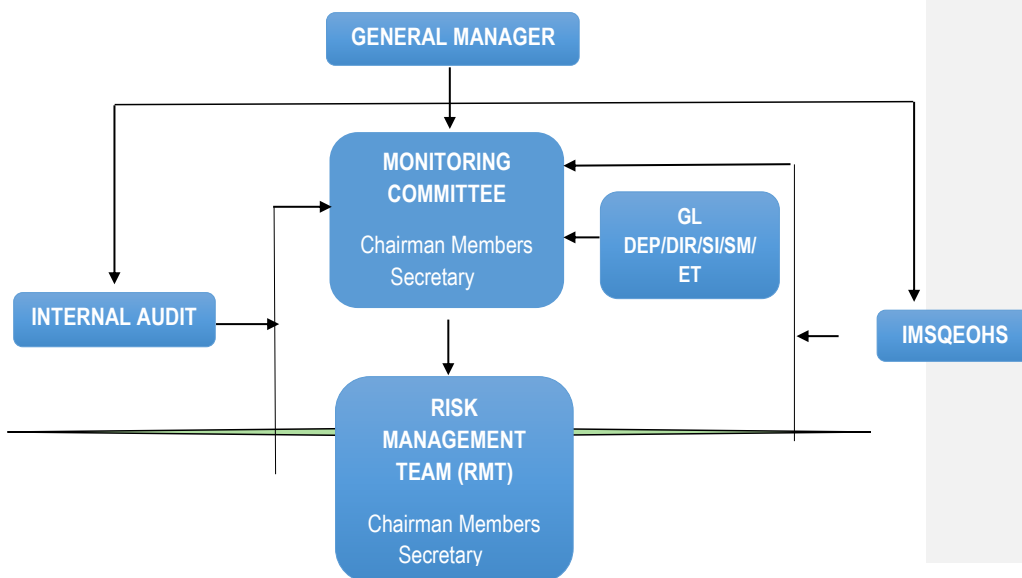
Risks related to the natural gas sector
The risk associated with government intervention in the key infrastructure sectors;
The amendment of the regulatory framework specific to the natural gas market and of the legal regulations applicable to the company's business;
The impact of competing projects on the international transportation of natural gas;
The seasonal fluctuation of business;
The changing in gas prices in Romania.
Risks related to natural gas transportation activity

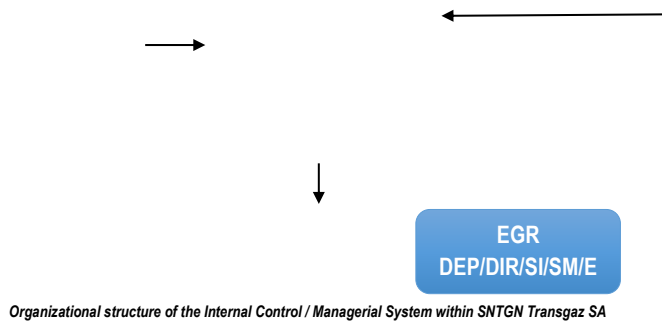
The regulated nature of the activity of natural gas transportation;
The variations in the price of gas purchased by the company;
The risk related to the implementation of the new business model of SNTGN Transgaz SA;
The conclusion of international transport contracts on the basis of intergovernmental agreements;
The failure to meet the minimum investment program – an obligation of SNTGN Transgaz SA assumed under the Concession Agreement;
The risk of failing to improve the profitability of the current activity of gas transportation and the reduction of the technological consumption;
The risk regarding the limited access to own sources for financing the development plans;
The failure to develop other income generating activities as its main field of business
The risk that ANRE does not accept the remuneration of investments made and their inclusion in RAB
The risk that the National Transportation System can be affected by natural disasters;
The risk on the regime of classified information of SNTGN Transgaz SA;
Strong unions that can make the process of optimizing and streamlining the company's business difficult.
Financial Risks
Credits;
Exchange rates;
Interest rate;
Liquidities.

By the nature of the activities carried out, the company is exposed to the risks identified and shown above and, in the event that any of these risks materializes, it could adversely affect the business, financial status and/or operational results of SNTGN Transgaz SA.

By ensuring an effective optimization of the management of risks identified, through the proper and effective implementation and development of a risk management system, of a measure program regarding the risks for the company, the administrators of Transgaz believe that it can avoid / reduce / assume the impact of risks over the company's business and its financial-economic results.

In order to meet the requirements set forth in Order no. 400/2015 issued by the General Secretariat of the Government for approving the Code for Internal / Managerial Control of Public Entities, as amended and supplemented by Order no. 200/2016 issued by the General Secretariat of the Government, lays down the establishment, based on an internal decision, of a structure in charge of managing risks within the company, which is called the *Risk Management Team* – in Transgaz, the administrators ordered the executive management this measure and so this team was established under Decision no. 518/19.06.2016. **The organizational structure of the Internal Control / Managerial System** within SNTGN Transgaz SA pursuant to Order no. 200/2016 issued by the General Secretariat of the Government is as follows:





NOTE:

GL/DEP/DIR/SI/SM/ET - Working Group per Department / Division / Independent Service / Medias Branch / Territorial Exploitation;

EGR/DEP/DIR/SI/SM/ET - Risk Management Team per Department / Division / Independent Service / Medias Branch / Territorial Exploitation.

Other activities carried out:

- the preparation of the **Procedure PP-91 "Development / update of the Risk Register"**;
- the establishment of the associated specific objectives and performance indicators per departments, divisions - **Annex 1** - "Specific objectives and performance indicators per Department / Division / Medias Branch / Territorial Exploitations" in PP-91 "Development / update of the Risk Register";
- the establishment of performance indicators and related objectives per departments, divisions, U.M.P. Black Sea;
- the establishment of activities specific to the Service / Office within the Department / Division / Independent Services in order to fulfill the specific objectives and performance indicators and the inherent risks per activities - **Annex 1** - "Objectives, activities, performance indicators, risk, risk level and control instruments within the Service / Office" in PP-91 "Development / update of the Risk Register";
- the development of the Programs for the minimization of identified (inherent) risks for the risks identified within department / division up to the level of service / office;
- the development and update of the **Risk Register per company** for the risks escalated to the company management and the Program for Measure for Risk Minimization for risks escalated to top management.

As the risk management is a very complex process and the number of departments within the company is relatively high, initially we identified the **operational risks** at office, service, department, company level and have developed risk registers per service, department, company (pursuant to PP-91).

Subsequently, the **Risk Management** procedure was developed and the identified risks shall be subject to the *Risk Management Team* and the *Monitoring Commission* for them to draw up the final Risk Register per company and the Risk Minimization Plans.

It should be noted that all measures taken to date relate to operational risks, but other risks identified within the company should be considered and analysed as well:

- Risks related to the economic environment;
- Risks related to the natural gas field;
- Risks related to the natural gas transportation activity (laws, regulations);
- Financial Risks;
- Risks generated by natural disasters (earthquakes, floods).

7. Financial performance achieved during the mandate

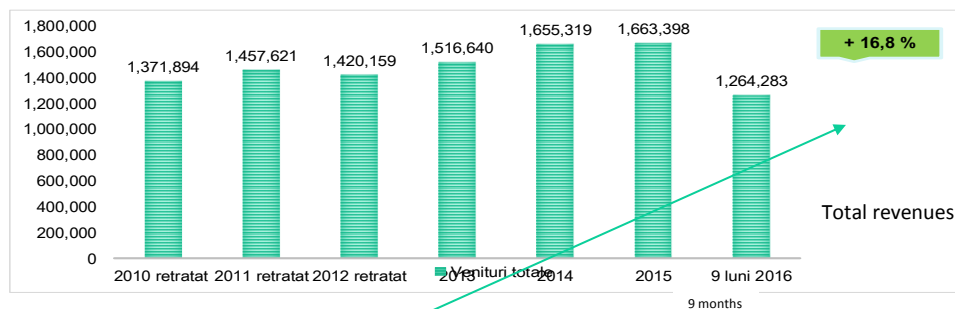
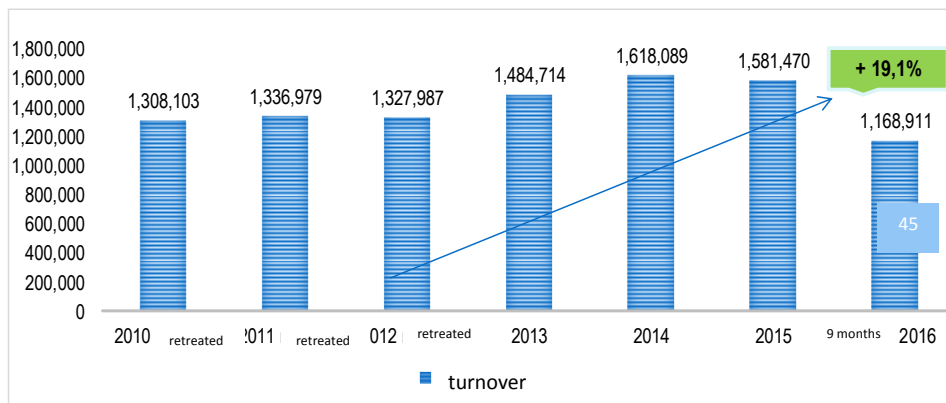
The sustainable financial performance is the main expectation of being a majority shareholder.

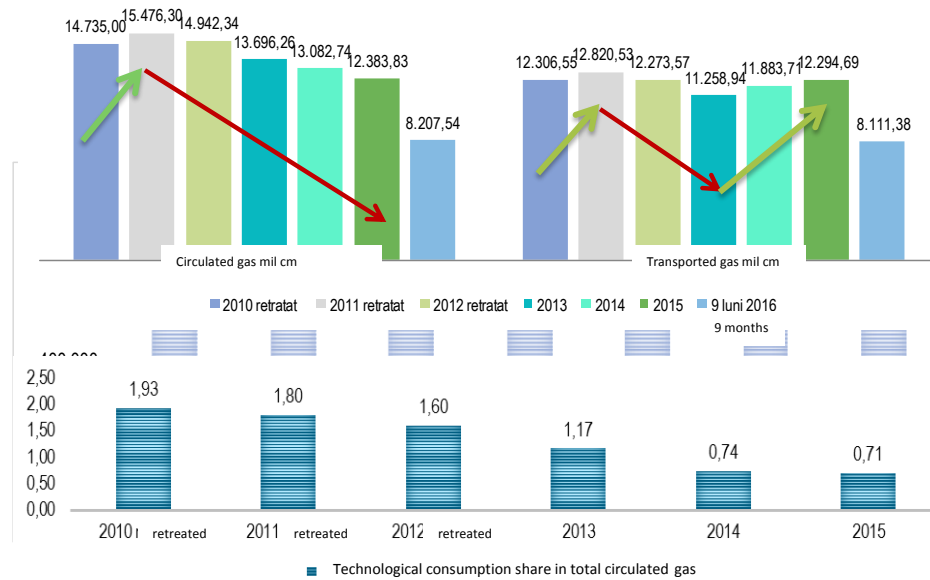
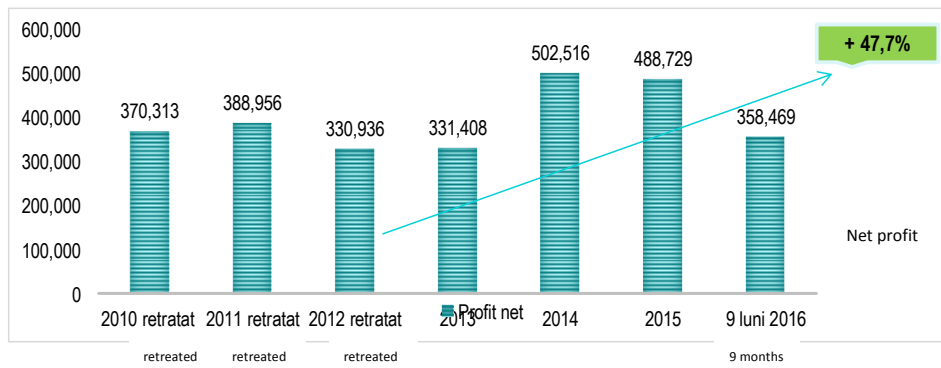
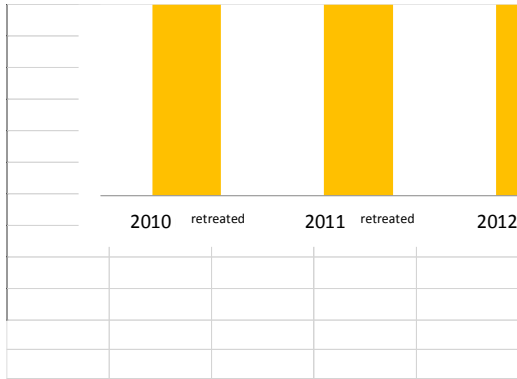
THE MAIN ECONOMIC AND FINANCIAL INDICATORS

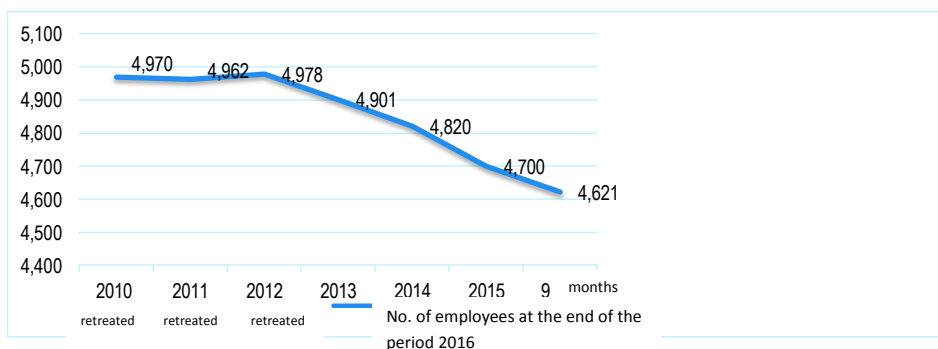
Indicators	2010 Restated	2011 Restated	2012 Restated	2013	2014	2015	9 months 2016
Turnover - thousand RON	1,308,103	1,336,979	1,327,987	1,484,714	1,618,089	1,581,470	1,168,911
Total revenues - thousand RON	1,371,894	1,457,621	1,420,159	1,516,640	1,655,319	1,663,398	1,264,283
Total expenses - thousand RON	933,279	994,137	1,025,612	981,647	1,063,751	1,077,219	845,366
Gross profit - thousand RON	439,615	463,484	394,546	534,994	591,568	586,179	418,916
Net profit - thousand RON	370,313	388,956	330,936	331,408	502,516	488,729	358,469
Circulated gas - (million cubic meters)	14,735.00	15,476.30	14,942.34	13,696.26	13,082.74	12,383.83	8,207.54
Transported gas - (million cubic meters)	12,306.55	12,820.53	12,273.57	11,258.94	11,883.71	12,294.69	8,111.38
% of technological consumption of total circulated gas	1.93	1.80	1.60	1.17	0.74	0.71	1.03
EBITDA - in total sales	44.67%	47.00%	42.27%	48.22%	48.01%	49.29%	49.18%
Gross profit rate	33.53%	34.54%	29.59%	28.74%	37.74%	38.39%	37.11%
Return on capital	12.51%	12.87%	11.02%	10.87%	15.10%	13.69%	9.95%
Current liquidity ratio	1.58	1.85	1.58	2.17	3.09	4.10	5.23
Number of employees at end of period	4,970	4,962	4,978	4,901	4,820	4,700	4,621

Note: Data pursuant to IFRS-EU for the period 2013-9 months of 2016 and data restated in IFRS-EU for 2010-2012

THE EVOLUTION OF THE MAIN ECONOMIC AND FINANCIAL INDICATORS 2015 VS 2012



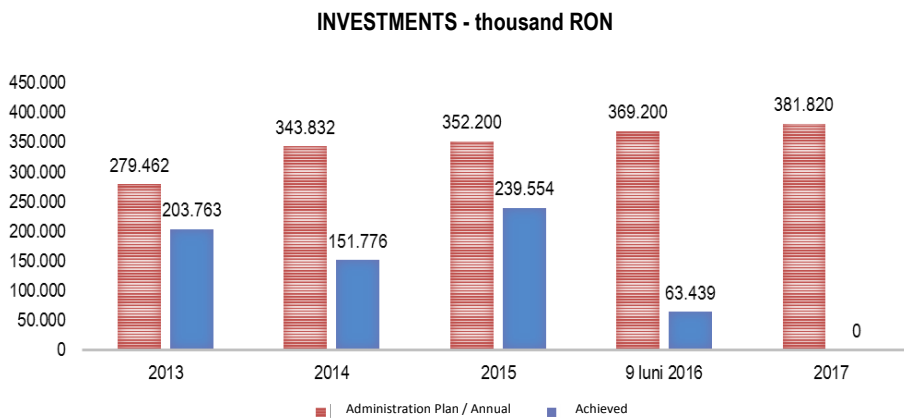
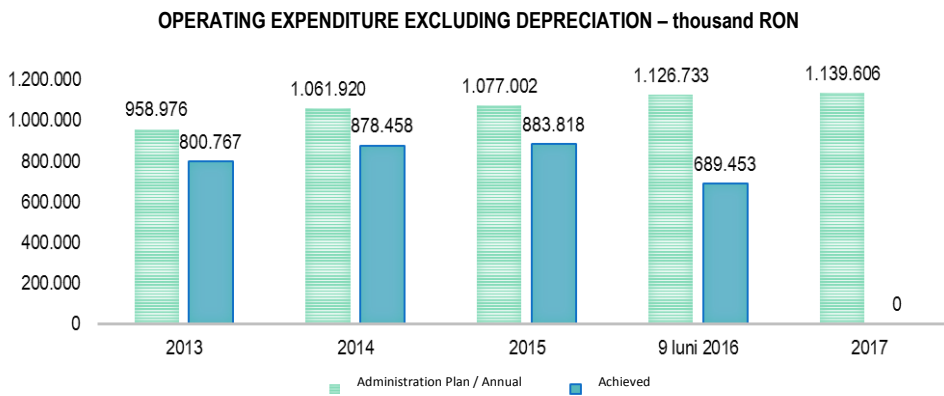
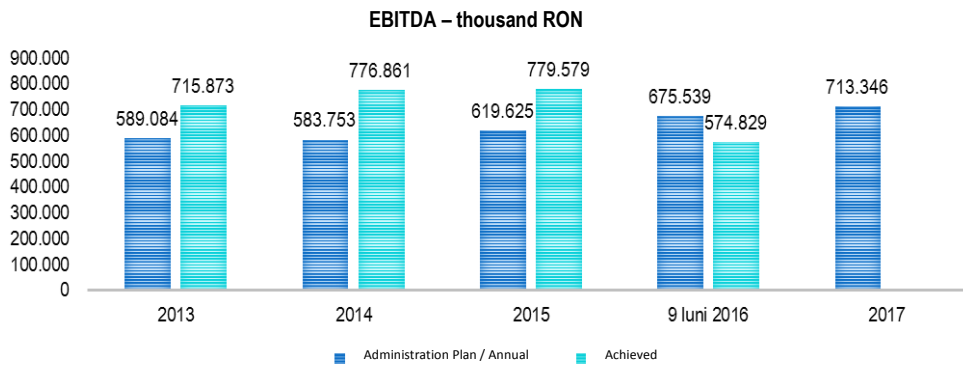


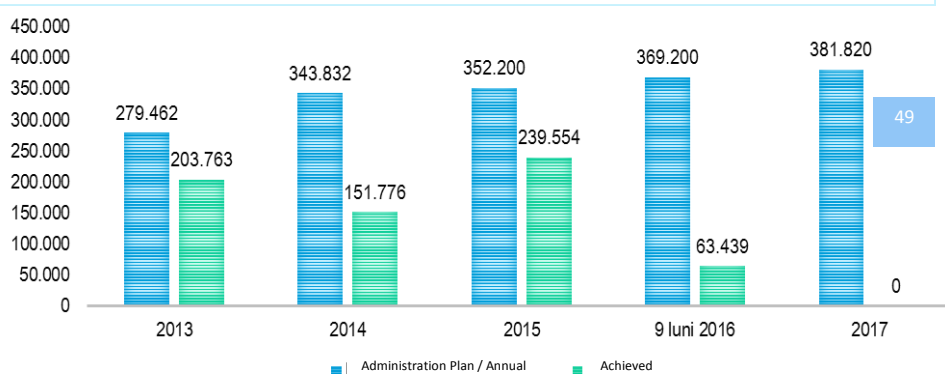
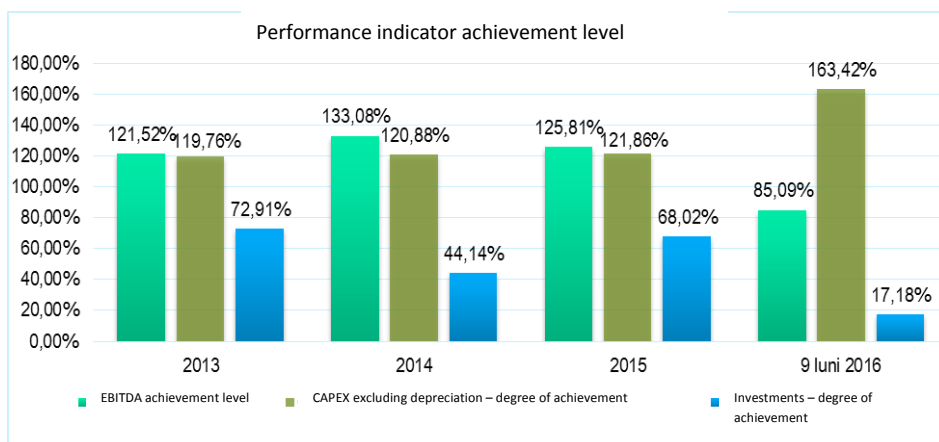


THE EVOLUTION OF PERFORMANCE INDICATORS TAKEN INTO ACCOUNT FOR THE CALCULATION OF THE ADMINISTRATORS' REMUNERATION VARIABLE COMPONENT

INDICATOR		2013	2014	2015	9 months 2016	2017
EBITDA (thousand RON)	Performance objective	Achievement of EBITDA goal assumed under the Administration Plan				
	Administration Plan	589,084	583,753	619,625	675,539	713,346
	Achieved	715,873	776,861	779,579	574.829	
	Degree of achievement	121.52%	133.08%	125.81%	85.09%	
Operating expenditure without depreciation (thousand RON)	Performance objective	Decrease in level of operating expenditure compared to level assumed under the Administration Plan				
	Administration Plan	958,976	1,061,920	1,077,002	1,126,733	1,139,606
	Achieved	800,767	878,458	883,818	689.453	
	Degree of achievement	119.76%	120.88%	121.86%	163.42%	
Investments (thousand RON)	Performance objective	Increase in level of investments actually made compared to level assumed under the Administration Plan				
	Administration Plan	279,462	343,832	352,200	369,200	381,820
	Achieved	203,763	151,776	239,554	63.439	
	Degree of achievement	72.91%	44.14%	68.02%	17,18%	

Detailed information regarding the evolution of the economic and financial results and of the performance indicators can be found both in the **Administrators' Annual Report**, a public document posted on the company's website and in the annual Financial Statements prepared pursuant to IFRS-EU, also posted on the Transgaz website.





Due to the fact that the implementation and application of the corporate governance principles as they are set forth in the Government Emergency Ordinance no. 109/2011 provide **not only a balance between compliance and performance, but a real increase in economic efficiency and investment climate**, the company's administrators must respond several particular challenges arising from the modernization, streamlining and strategic integration of the company into the European natural gas transportation system in light of the natural gas deposits discovered in the Black Sea.

The resources discovered in the Black Sea, together with the complex strategic movements ongoing within the European market of natural gas, are of particular importance for the future of the country and the company's involvement in such events is of special importance not only for its future but also for the energy security of the country for the next two to three decades.

While helping to ensure the energy independence of Romania, SNTGN Transgaz SA is responsible for implementing an investment program of over **Euros 1.5 billion, dedicated to the construction of the national transport infrastructure for the new natural gas deposits discovered in the Black Sea** and for connecting the NTS to the European infrastructure.

Through the proposed investment projects for the development and modernization of the natural gas transportation infrastructure, through the implementation of intelligent control, automation, communications and network management systems, **the administrative and executive management of Transgaz pursue both to maximize the energy efficiency throughout the chain of activities carried out and to create an intelligent natural gas transportation system that is efficient, reliable and flexible and able to effectively cope with the future demands for natural gas transportation.**

It should be stressed that the savings made in recent years by timing the most of the investments and projects in this period, except those strictly necessary for the security and immediate development of the NTS, underlie the solid basis for its own financing of such projects of strategic importance. In this context, a major challenge for the company in these projects is to benefit from support from the Romanian State in clarifying and facilitating the building permits for these projects of particular importance.

While empowering the mission assumed on the performance in terms of efficiency, transparency, safety, non-discriminatory access and competitiveness of the national strategy established for the national and international transportation of natural gas, SNTGN TRANSGAZ SA, the carrier of the natural gas National Transportation System (NTS), included in the Administration Plan for the period between 2013 and 2017 an investment program amounting to **RON 1,726.5 million**.

The estimation of the investments was made taking into account **the needs and opportunities of development of the NTS and the prospects of development of the national transport infrastructure for natural gas transportation** in line with the transport and operation requirements of the European network of gas transportation and of the national and European energy context already known when substantiating the indicators in the Administration Plan.

It must be emphasized that Transgaz estimated for the period between 2013 and 2017 maximum investments including projects necessary and known when budgeting for the NTS and the probable but still uncertain projects for the development of the NTS.

The analysis of the fulfilment of the performance indicator "Investments" is shown in the table below:

Investments	Administration Plan 2015		Administration Plan 2014		Administration Plan 2013	
	Thousand RON	%	Thousand RON	%	Thousand RON	%
	Investments delayed for legislative reasons	50,658	14%	127,965	37%	34,414
Achievements	239,554	68%	151,776	44%	203,763	73%
Investments delayed due to non-compliance with the works implementation schedules	24,254	7%	21,408	6%	8,469	3%
Savings from commissioning	20,264	6%	9,984	3%	8,021	3%
Investments delayed due to internal causes (design and bids)	17,470	5%	32,699	10%	24,795	9%
TOTAL INVESTMENTS	352,200	100%	343,832	100%	279,462	100%

The reasons why the indicator "Investments" was achieved below the level assumed in the Administration Plan are mainly determined by:

a. Difficulty in obtaining the opinion from ROMSILVA

Following the intervention of Transgaz, by the entry into force on October 4th, 2014 of Law no. 127/2014, Article 130, paragraph (2), letter h) was amended and states that the carrier and system operator has the right **"to use, free of charge, the state-owned pieces of land occupied by the objectives relating to the transportation system and the state-owned pieces of land used for execution, operation, maintenance and repair works, including the pieces of**

land forming part of the national forest fund, notwithstanding the provisions set forth in Article 42, paragraph (1) letter b) of Law no. 46/2008 – the Forest Code, as amended and supplemented."

A legislative gap makes it impossible at this time to obtain the approvals for temporary occupation of the pieces of land in the forest fund from Romsilva. Although Transgaz has a right to use free of charge the areas of the forest fund for public interest for the implementation of new route development programs, **the Forest Code requires that these lands are handed over to Romsilva at the end of the term for which the approval initial was issued although Law no. 123/2012 and Order no. 118/2014 issued by the ANRE President for the approval of the technical norms for the design and execution of natural gas pipelines do not allow reforestation of the underground pipeline protection area.**

Hence, Romsilva refuses to approve the temporary occupation of the pieces of land in the forest fund as requested by Transgaz. In the absence of such approvals, the local and/or county authorities do not issue the building permits and **this causes a major blockage for the development activities of Transgaz.**

In this legislative context, we consider that the amendment of the **Forest Code** is imperative so that it would encompass two provisions essential for the company, namely:

- Transgaz can benefit by exemption from obtaining the Building Permit for constructions at distances less than 50 meters from the edge of the forest, outside the forest fund **without the approval of the territorial structure of the central public authority responsible for forestry;**
- Transgaz can return the temporarily occupied pieces of land for which clearing was or is required for the execution of public works and for which the specific legislation that provides the protection and normal functioning of the objectives / systems requires that the pieces of land should not be forested, **into a category of use other than the original.**

However, it is necessary that the provisions set forth in Order no. 694/2016 for approving the Methodology regarding the definitive removal, temporary occupation and land exchange and calculation of financial obligations with the provisions set forth in Order no. 118/2014 approving the technical Norms for the design and execution of natural gas pipelines, regarding the restriction of reforestation of protection areas.

b. Difficulty in obtaining the owners' consents

There was this reason and Transgaz made numerous efforts to amend certain regulatory documents regulating such situations. Law no. 127 as of September 30th, 2014 amended and supplemented the Law on electricity and natural gas no. 123/2012, so that by amending Article 113, Transgaz obtained the following rights:

"(1) The rights of use and easement concern the public utility, are legally enforceable and their content is set forth in Article 109 and shall be exercised without registration in the Land Book.

*(2) The exercise of the rights of use and easement is performed compulsorily throughout the existence of the objective / gas system, both when it is executed and when an operating capacity is modernized, repaired, serviced, in case of intervention works, of failure, under the law, without any **prior formality.***

(3) For the purpose of granting fair indemnities and compensations related to the exercise of the rights of use and easement, the holders of licenses and permits conclude with the owners of the pieces of land affected by the exercise of the rights of use and servitude a framework convention whose content is determined under a decision made by the Government.

(4) The holders of licenses and permits are required to conclude the framework conventions referred to in paragraph (3) not later than 30 days from the request made by the affected owners."

Under the same regulatory document mentioned above, the free of charge exercise by Transgaz of the right of use and easement over the state-owned pieces of land was obtained, **including for those that are part of the national forest fund.** Although the legal provision is explicit, both the local government public administration authorities and the landowners **do not comply** with Law no. 123/2012 concerning the exercise by the carrier and system operator of the legal rights of use and easement and **there is no legal sanction for this violation.**

The current situation is clarified by the enactment of Law no. 185/2016 on certain measures necessary for the implementation of the projects of national importance in the natural gas field, a law published in the Official Gazette of Romania Part I no. 848/25.10.2016 and Law no. 197/2016 for the approval of the

Government Emergency Ordinance no. 22/2014 amending and supplementing Law no. 50/1991 on the authorization of construction works.

c. Delays caused by failure to comply with the execution schedules undertaken by contractors

Due to delays in the supply of tubular material and other equipment, delays occurred also in the compliance with the execution schedules undertaken by the contractors, which led to them being forced to pay penalties as set forth in the contracts.

d. Savings from the planned amount

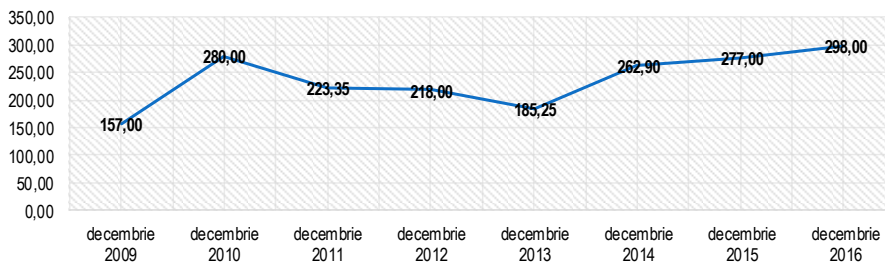
The completion of the purchase through electronic auction resulted in a saving of about 6% in 2015, 3% in 2014 and 3% in 2013 from the estimated value as a result of concluding procurement contracts to a value lower than the one assumed under the Administration Plan.

	Achievements vs Administration Plan 2013			Achievements vs Administration Plan 2014			Achievements vs Administration Plan 2015		
	Assumed Thousand RON	Achieved Thousand RON	Degree of achievement %	Assumed Thousand RON	Achieved Thousand RON	Degree of achievement %	Assumed Thousand RON	Achieved Thousand RON	Degree of achievement %
EBITDA	589.084	715.873	121.52%	583.753	776.861	133.08%	619.625	779.579	125.81%
Operating expenditure without depreciation	958.976	800.767	119.76%	1,061,920	878,458	120.88%	1,077,002	883,818	121.86%
	Main factors of influence: <u>Savings of RON 163 million</u> , mainly for the following items of expenditure: technological consumption and losses of natural gas on the transportation system RON 68,898 thousand, due to two factors: - the quantity of natural gas intended for technological consumption lower than the program by 1,035,200 MWh, with a favourable impact of RON 63,089 thousand; - the average purchase price lower by 3.49 RON/MWh with a positive impact of RON 5,809 thousand; works and services to third parties: RON 63,990 thousand; expenses for materials: RON 4,016 thousand; expenses for other taxes and dues: RON 686 thousand; NTS concession royalties: RON 2,391 thousand; monopoly tax: RON 2,342 thousand. <u>Overruns of almost RON 4 million</u> for the fee for granting a license for the operation of the NTS (RON 263 thousand) and other operating costs (RON 3,639 thousand)			Main factors of influence: <u>Increased revenues from transport of natural gas</u> by RON 12,687 thousand due mainly to the reserved capacity increased by 8,481 MWh/h compared to the plan due to the introduction, on August 1 st , 2014, of the booking capacity on points of entry and exit and of the quantity of natural gas transported increased by 5,645,497 MWh compared to the plan on account of gas transported for warehousing; <u>The increase in revenues from international transport of natural gas</u> by RON 2,879 thousand, due to variations in the exchange rates of the currencies of the ongoing contracts; <u>The unfavourable difference</u> of RON 5.921 thousand recorded in other operating income; <u>Savings of RON 248.2 million</u> , mainly for the following items of expenditure: technological consumption and losses of natural gas on the transport system RON 128,018, due to two factors: the amount of natural gas intended for technological consumption was lower than the program by 1,512,629 MWh, with a favourable impact of RON 130,121 thousand; the average purchase price paid was higher by 2.01 RON/MWh with a negative impact of RON 2,103 thousand;			Main factors of influence: <u>The increase in revenues from the international transport of natural gas</u> by RON 48,850 thousand due to variations in the exchange rates of currencies of the ongoing contracts; <u>Revenues from reservation of higher capacity</u> by RON 125,183 thousand due to: - the increase in the share of the fixed component from total revenues from 35% to 60%; - the increase in the reserved capacity by 208,063,416 MWh due to the introduction, on August 1 st , 2014, of capacity reservation on entry-exit points; - <u>Revenues from volumetric component lower</u> by RON 244,188 thousand due to: - the decrease in the share of the fixed component from total revenues from 65% to 40%; - the increase the amount of invoiced gas by 11,400,573 MWh (994,693 thousand cubic meters); The favourable difference of RON 36,926 thousand recorded in other operating income due to the registration of the amounts related to the reversal of income into advance recognized by Transgaz following the exercise of its right to receive the remaining value of investments made in the NTS at the end		

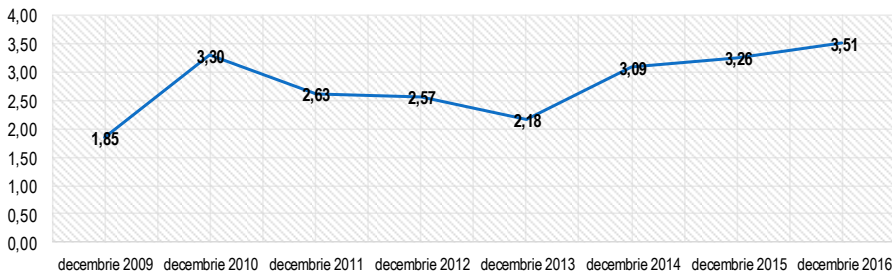
		<p>works and services to third parties: RON 79,623 thousand; expenditure for the provision for liabilities and expenditure: RON 6,713 thousand. Overrun of RON 64.8 million, mainly on the following elements of expenditure: taxes and dues: RON 16,237 thousand; royalties for NTS concession: RON 1,557 thousand; other operating costs: RON 46,980 thousand.</p>	<p>of the Concession Agreement; Savings of RON 345.8 million mainly for the following items of expenditure: technological consumption and losses of natural gas on the transport system RON 197.670 thousand, due to two factors: - the quantity of natural gas intended for technological consumption lower than the program by 1,576,799 MWh, with a favourable impact of RON 174,141 thousand; - the average purchase price lower by 24.36 RON/MWh with a positive impact of RON 23,529 thousand; works and services to third parties: RON 109,632 thousand; other administrative expenses: RON 11,655 thousand; royalty expenses: RON 7,016 thousand.</p> <p>Overruns of RON 152.9 million, mainly in the following expense items: - taxes and dues: RON 56,203 thousand, mainly due to tax monopoly; - expenses related to the provision for risks and expenditure: RON 8,697 thousand; - other operating costs: RON 88,005 thousand, mainly due to expenses related to provisions depreciation of receivables.</p>
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Indicators of the Transgaz stock activity for the period 2013-2016 versus 2009-2012

Evolution of the TGN share clearing price LeI/share during 2009-2016



Evolution of TRANSGAZ market capitalization 2009-2016 - Billion lei

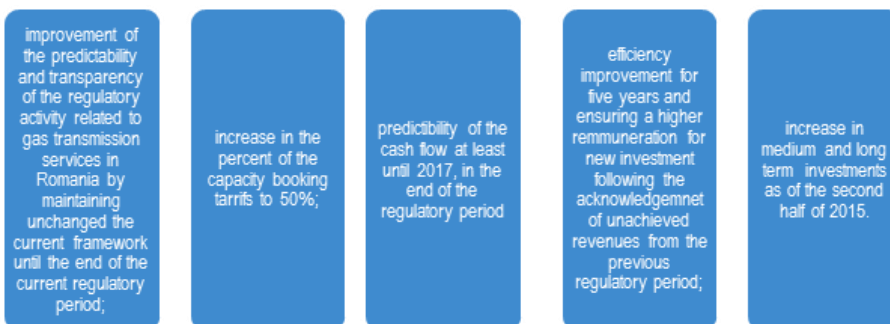


Transgaz Rating

On June 24th, 2015, Standard&Poor's Ratings Services improved the rating of SNTGN Transgaz SA from "BB" to "BB+" with a stable outlook.

The financial rating agency's decision to improve the rating of Transgaz recognizes the success of the company administrators and executive management's efforts to improve and modernize the operational and institutional transparency, to effectively budget and monitor the investment program of the company and its operating expenses. At the same time, the rating agency recognized the progress made in the activity of the regulatory authority and the preparation of the regulatory framework.

The positive points listed in the Standard & Poor's analysis include:



The stable outlook reflects the opinion of Standard&Poor's stating that the regulatory framework has improved, remains predictable and transparent and Transgaz shall be able to achieve this way strong financial and operational results in the next two or three years. The report also notes that an increase in Romania's rating by two points may result in an improvement in the conditions in which the company's credit profile and the government support remain unchanged.

In the rating history of Transgaz, as it is shown below, it can be seen that during the mandate of the current Board of Administration, the rating of Transgaz for loans in foreign currency and loans in local currency recorded a positive trend, i.e. from "BB with negative outlook" to "BB + with stable outlook".

No.	Date	Rating of loans in foreign currency	Rating of loans in local currency
1	2006	the monitoring of the company begins for the rating to be established	-
2	26 March 2007	BB+ positive outlook	BB+ positive outlook
3	29 February 2008	BBB- negative outlook	BBB- with negative outlook
4	30 October 2008	BB+ negative outlook	BBB- with negative outlook
5	17 February 2010	BB+ negative outlook	BBB- with negative outlook
6	24 March 2010	BB+ stable outlook	BBB- cu stable outlook
7	26 January 2011	BB+ stable outlook	BBB- cu stable outlook
8	5 May 2011	BB+ stable outlook	BBB- cu stable outlook
9	7 December 2011	BB+ stable outlook	BB+ stable outlook
10	11 June 2012	BB+ / under surveillance with negative outlook	BB+ / under surveillance with negative outlook
11	4 September 2012	BB negative outlook	BB negative outlook
12	8 August 2014	BB stable outlook	BB stable outlook
13	24 June 2015	BB+ stable outlook	BB+ stable outlook

8. Self-assessment of the personal activity and of that of the Council

Since the managerial performance is the objective result of a managerial exercise, in the acceptance of the private management of SNTGN Transgaz SA, together with an effective management thinking, the strategic directions that this thinking to materialize has also been defined.

The special professional skills, the extensive management expertise and the ability to control visible and invisible dynamics of the team, its psychology, are just some of the advantages of the private management of SNTGN Transgaz SA, a **sense integrating management**.

The private and professional management of the company has succeeded in substantiating the administration and management plans effective in terms of operational intervention and supervision so that through them to achieve the optimization of the activity efficiency and the business development in the context of a national and international environment continuously changing.

As accepted by the private management of the company, the use of modern tools for operational and measurement of performance, instruments successfully used the in strategic management, shall allow the effective monitoring of the courses of action established for achieving the strategic objectives concerning the management of the company for the period between 2013 and 2017.

The Board of Administration assesses annually its size, composition and works so that its activity, as seen in relation to the dynamic of the requirements of the Board role and duties, is constantly aligned and hence the decisions made for the management of the company are timely, effective and competitive.

The **Annual Administrators' Report**, a report that shall require the approval of the Ordinary General Meeting of Shareholders (OGAS) together with the annual financial statements, details the management activity of the company compared to the objectives assumed under the Administration Plan. Also on this term, pursuant to the legal provisions, the administrators of the company submit to the approval of OGAS the discharge from administration.

The structure of the Board of Administration of TRANSGAZ ensures a balance between the executive and non-executive members so that no person or small group of persons can dominate the decision making process of the Board of Administration. The decision-making process within the company is and shall remain a collective responsibility of the Board of Administration, which shall be held jointly responsible for all decisions taken while exercising its powers.

The Board members constantly update their skills and improve their knowledge on the company's activity and on the best corporate governance practices in order to fulfill their role.

In accordance with the provisions of the updated By-laws of the company, the Board of Administration is run by a Chairman, appointed by the General Meeting of the Shareholders (GAS) from the members of the Board of Administration.

The responsibilities of the Director-General

The Director-General of TRANSGAZ S.A. is appointed by the Board of Administration, from the members of the Board or from outside the Board.

The Director-General has in principle the following attributions:

➤	applies the strategy and development policies of TRANSGAZ S.A. established by the Board;
➤	develops and submits for approval of the Board, the management plan during the first year of the mandate and term;
➤	hires, promotes and fires personnel, under the law;
➤	appoints, suspends or revokes the executives and managers of branches;
➤	participates in the negotiation of the collective labour agreement, whose negotiations and conclusion are conducted according to the law, within the mandate given by the Board;
➤	negotiates under the conditions of the law, individual employment contracts;
➤	concludes legal documents in the name and on behalf TRANSGAZ S.A. within the limits set by the Board of Administration;
➤	sets the duties and responsibilities of the personnel of TRANSGAZ S.A. ;
➤	approves the receipts and payments, according to legal competence and the present by-laws;
➤	approves the sale and purchase of goods, under the powers delegated by the Board;
➤	empowers executives, managers of branches and any other person to exercise any power within its jurisdiction;
➤	undertakes any other task that the Board has delegated as being his task;
➤	develops and presents to the Board reports provided by law;
➤	submits for the approval of the Board of Administration the transactions concluded by managers or directors, employees or controlling shareholders of Transgaz or a company controlled by them, if the transaction has, individually or in a series of transactions, a value at least amounting to the equivalent in RON of EUR 50,000.

The undersigned, PETRU ION VĂDUVA, was appointed in the position of Director-General of SNTGN Transgaz SA through Board Decision no. 8/4.06.2013, art.8.

The term of the mandate granted is of 4 years. As executive administrator my mandate started on April 30th, 2013 and ends on April 29th, 2017.

The strengths considered upon my appointment as Director-General were and are:

- The vast expertise and experience gained in the management and control / management of large and medium companies, of companies listed on the stock exchange;
- Demonstrated strategic vision and capability of assessing the impact generated by it on the business and the results of the company;
- The ability to act as a facilitator of information in relation to the executive management of the company, between the members of the Board, to adapt to different opinions and points of view, to ensure a permanent balance both between board members and between them and the executive of the company ;
- Training and personality matching the leadership role in coordinating and decision-making concerning the administration and general management of the company;
- Excellent interpersonal and institutional communication abilities, both within the board and in its relationships with stakeholders and the executive management of the company;
- The power of decision and consistency in mentoring and monitoring of the executive management;
- Capacity and ability to develop and maintain an efficient relational, dynamic system in accordance with the specificity of the company's activity;
- Ability to provide a clear delineation between the roles and duties of the Board of Administration and the executive management;
- determination, organization skills, dynamism, high capacity of communication and dialogue;
- Creativity, ability to work, willingness to get involved and the force of accountability of administration / general management of a large company, team spirit;
- Independent rationale for decision making, critical and constructive reasoning, collective responsibility.

Regarding the work I have undertaken during the 2013-2017 mandate, as an executive administrator and respectively as Director-General of SNTGN Transgaz SA, I have to add that it has been achieved:

▪ in compliance with the applicable legislation related to the field of business, the interest of the company and its performance;
▪ in a professional and competent manner while pursuing performance and excellence in business;
▪ in good faith, with loyalty and with the mandate of a good manager of state property and other shareholders;
▪ in the spirit of best corporate governance practices;
▪ in a transparent, prudent manner and with utmost responsibility and seriousness;
▪ in compliance with the standards of moral and professional ethics and integrity;
▪ through total commitment and acceptance of tasks and projects of national and international strategic scale;
▪ effectively and based on consensus and effective communication both during the actions undertaken and the decisions made for the management of the company;
▪ in a sustainable manner through remodelling and development of business by strategically repositioning the company, which became a major player on the European, regional and international energy scene;

In my capacity of executive administrator in the current Board of Administration of SNTGN Transgaz SA but also in my capacity of Director-General of the company, I would like to mention that everything I have decided and acted upon was done in a collective and unitary manner pursuant to the legal provisions in force and I have strictly complied with the terms of the mandate granted and the commitments made on the administration and general management of the company in 2013-2017.

If I summarize on the architecture, competence and work of the current Board of Administration of SNTGN TRANSGAZ S.A., I can add the following:



Self-assessment report prepared by the Board members on the compliance of the activity with the requirements of the New Code of Corporate Governance of the Bucharest Stock Exchange

SNTGN Transgaz S.A., as a company listed on the BSE in the Premium category, has voluntarily adopted the provisions set forth in the Code of Corporate Governance of the Bucharest Stock Exchange and has been reporting since 2010 its total or partial compliance with the **Declaration on compliance or non-compliance with the Code of Corporate Governance (the "Apply or Explain" Declaration)** contained in the Administrators' Report.

The companies listed on the stock exchange, which have implemented the corporate governance principles, have to fill out since 2011 the **"Apply or Explain" Declaration**, a document that is part of the Annual Administrators' Report. The new Code was designed by the Bucharest Stock Exchange as part of a new corporate governance framework and aims to promote higher standards of governance and transparency of the listed companies.

The implementation of the new rules is based on the “apply and explain” principle (“Apply or Explain”) offering the market clear, accurate and timely information about how the listed companies comply with the corporate governance rules.

Transgaz is fully complying with most of the provisions set forth in the new Code and the provisions the company has not yet complied with were detailed in a current report submitted to the Bucharest Stock Exchange in January 2016; it is also published on the company's website in the section: Informatii investitori / Raportari curente / 2016. Any subsequent compliance the company shall achieve in this regard shall be reported to the capital market.

The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
Section A - Responsibilities			
A.1	All companies should have an internal regulation of the Council including the terms of reference / responsibilities of the Board and the key management functions of the company, and applying, inter alia, the General Principles in Section A.	X	
A.2	Provisions for the management of conflicts of interest should be included in the Council Regulation. However, the Board members must notify the Board of any conflicts of interest that have arisen or may arise and to refrain from participating in discussions (including by absence, unless that failure would prevent the formation of the quorum) and to vote for a decision to be made on the matter giving rise to the conflict of interest.	X	
A.3	The Board of Administration or the Supervisory Board must consist of at least 5 members.	X	
A.4	The majority of the Board members must have no executive office. At least one member of the Board of Administration or of the Supervisory Board must be independent in the case of companies in the Standard category. In the case of companies in the Premium category, at least two non-executive members of the Board of Administration or of the Supervisory Board should be independent. Each independent member of the Board of Administration or of the Supervisory Board, as appropriate, shall submit a declaration at the time of his/her nomination for election or re-election and when there is any change in his/her status, indicating the elements based on which he/she is considered to be independent in terms of his/her character and judgment and pursuant to the following criteria:	X	
	A.4.1. he/she is not the Director-General / CEO of the company or of a company controlled by it and has not held such an office in the past 5 years.	X	
	A.4.2. he/she is not employed by the company or a company controlled by it and has not held such an office in the past 5 years.	X	
	A.4.3. he/she does not receive and has not received any additional remuneration or other benefits from the company or a company controlled by it, except for those related to his/her capacity as a non-executive administrator.	X	
	A.4.4. he/she is not and has not been the employee or does not have or has not had in the preceding year a contractual relationship with a significant shareholder of the company, a shareholder who controls more than 10% of the voting rights, or with a company controlled	X	

The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	by him/her.			
	A.4.5. he/she does not have or has not had in the previous year a business or professional relation with the company or a company controlled by it, either directly or as a customer, partner, shareholder, Board member / Administrator, Director-General / CEO or employee of a company if, by its substantial nature, this relation could affect his/her objectivity.	X		
	A.4.6. he/she is not and has not been in the last 3 years the internal or external auditor or the partner or shareholder or employee of the current external financial auditor and of the internal auditor of the company or of a company controlled by it.	X		
	A.4.7. he/she is not the Director-General / CEO of another company where another Director-General / CEO of the company is a non-executive administrator.	X		
	A.4.8. he/she has not been the company's non-executive administrator for more than 12 years.	X		
	A.4.9. he/she has no family ties with a person in the cases referred to in boxes A.4.1 and A.4.4.	X		
A.5	Other professional commitments and obligations of a relatively permanent nature of a Board member, including executive or non-executive positions on the Board of companies and non-profit institutions, have to be disclosed to the shareholders and potential investors prior to his/her nomination and during his/her mandate	X		
A.6	Any Board member must provide the Board information on any relation with a shareholder who directly or indirectly holds shares representing more than 5% of all the voting rights. This obligation extends to any kind of relation which may affect the member's position on matters decided by the Board.		X	The information shall be requested from the Board members. Transgaz shall send the Bucharest Stock Exchange a current report at the time of compliance.
A.7	The company must appoint a secretary of the Board responsible for supporting the activity of the Board.	X		
A.8	The declaration on corporate governance shall inform whether or not an evaluation of the Board took place under the management of the Chairman or of the nomination committee and, if so, it shall summarize the key measures and changes resulting from it. The company must have implemented a policy / guide on the assessment of the Board, including the purpose, criteria and frequency of the evaluation process.		X	The activity of the Board of Administration is assessed based on the performance criteria included in the administration plan and the agency agreements, their degree of achievement being contained in the annual report of the BoA. The company has no policy / guide for evaluating the activity of the BoA, the evaluation being made based on the aforementioned criteria. TGN shall send a current compliance report when preparing such policy.
A.9	The Corporate Governance Statement must contain information regarding the number of meetings of the Board of Administration and of the committees over the past year, the participation of the administrators (in person and by proxy) and a report of the Board and of the committees on their activity.	X		
A.10	The Corporate Governance Statement must include	X		

The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	information on the exact number of independent members of the Board of Administration or of the Supervisory Board.			
A.11	The Board of the companies in the Premium Category has to establish a nomination committee consisting of non-executive members, which shall manage the procedure for the nomination of new Board members and make recommendations to the Board. Most members of the Nomination Committee shall be independent.	X		
Section B – Risk Management System and Internal Control System				
B.1	The Board has to establish an audit committee where at least one member shall be an independent non-executive administrator. Most members, including the chairman, must prove to have the adequate qualifications relevant to the offices and responsibilities of the committee. At least one member of the Audit Committee shall have proven and appropriate accounting or auditing experience. For the companies in the Premium Category, the audit committee must be composed of at least three members and the majority of the members of the audit committee must be independent.	X		
B.2	The chairman of the audit committee has to be an independent non-executive member.	X		
B.3	The responsibilities of the audit committee include the obligation to conduct an annual evaluation of the internal control system.	X		
B.4	The evaluation should consider 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 timeliness and effectiveness with which the executive management solves deficiencies or weaknesses identified by the internal control to the submission of relevant reports to the Board.	X		
B.5	The audit committee must assess the conflicts of interest in connection with the transactions of the company and of its subsidiaries with related parties.	X		
B.6	The audit committee has to evaluate the effectiveness of the internal control system and of the risk management system.	X		
B.7	The audit committee must monitor the application of the legal standards and of the generally accepted internal audit standards. The audit committee shall receive and assess the reports of the internal audit team.	X		
B.8	Whenever the Code mentions reports or analyses initiated by the Audit Committee, they must be followed by periodic (at least annual) or ad hoc reports to be submitted afterwards to the Board.	X		
B.9	No shareholder may benefit from preferential treatment over other shareholders in connection with the transactions and agreements concluded by the company with their shareholders and affiliates.	X		
B.10	The Board must adopt a policy in order to ensure that any transaction of the company with any of the companies it has close relations with and whose value is equal to or greater than 5% of the net assets of the company (pursuant to the latest financial report) is		X	This policy shall be drafted and approved pursuant to the Organizational and Operational Rules of the Board of Administration and to

The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	approved by the Board after a binding opinion of the audit committee of the Board and properly disclosed to the shareholders and potential investors, to the extent that such transactions fall within the category of events subject to reporting requirements.			the Articles of Incorporation.
B.11	The internal audits have to be conducted by a structurally separate division (audit department) of the company or by hiring an independent third party entity.	X		
B.12	In order to ensure the fulfilment of the main functions of the internal audit department, it should functionally report to the Board through the audit committee. For administrative purposes and as part of the management obligations to monitor and reduce risks, it must report directly to the Director-General.	X		
60				
Section C - Fair rewards and incentives				
C.1	<p>The company has to publish on its website the remuneration policy and to include in the annual report a statement on the implementation of the remuneration policy during the annual period under analysis.</p> <p>The remuneration policy should be formulated so as to allow the shareholders to understand the principles and arguments underlying the remuneration of the Board members and of the Director-General, as well as of the management in the two-tier system. It should describe how to run the process and to make decisions regarding the remuneration, detail the components of the remuneration of the executive management (such as salaries, annual bonuses, long-term incentives linked to value of shares, the benefits in kind, pensions and others) and describe the purpose, principles and assumptions underlying each component (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should specify the term of the contract signed by the CEO and the period of notice stipulated in the contract, as well as any potential compensation for dismissal without just cause.</p> <p>The remuneration report must state the implementation of the remuneration policy for the people identified in the remuneration policy during the annual period under analysis. Any significant change occurred in the remuneration policy has to be published in due time on the website of the company.</p>		X	
Section D - Building value through relations with the investors				
D.1	The company must establish a department for Relations with Investors – indicating for the public the person/persons responsible or the organizational unit. In addition to the information required by the law, the company must include on its website a section dedicated to the Relations with Investors both in Romanian and in English, with all relevant information of interest to the investors, including:	X		
	D.1.1. The main corporate regulations: the Articles of Incorporation, the procedures for the General Assemblies of Shareholders;	X		

The New Code provisions		Complies	Does not comply or partially complies	Reason for non-compliance
	D.1.2. The professional CVs of the members in the company's management Bodies, other professional commitments of the Board members, including executive and non-executive positions in boards of directors of companies or non-profit institutions;	X		
	D.1.3. The current reports and the regular reports (each trimester, quarter and year) - at least those set forth in box D.8 - including the current reports containing detailed information on non-compliance with this Code;	X		
	D.1.4. Information on the general assemblies of shareholders: the agenda and informational materials; the procedure for election of Board members; the arguments supporting the nominations for election to the Board, together with their professional CVs; the shareholders' questions about items on the agenda and the responses from the company, including the decisions made;		X	The company partially applies this provision pursuant to Article 29 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented.
	D.1.5. Information on corporate events such as payment of dividends and other distributions to the shareholders, or other events that lead to the acquisition or limitation of a shareholder's rights, including the deadlines and principles for such operations. The information shall be published within a timeframe allowing the investors to take investment decisions;	X		
	D.1.6. The name and contact details of a person who can provide, upon request, relevant information;	X		
	D.1.7. The presentations of the company (e.g. presentations for investors, presentations of quarterly results, etc.), the financial statements (each trimester, quarter, year), the audit reports and the annual reports.	X		
D.2	The company shall implement a policy on the annual allotment of dividends or other benefits to the shareholders, as proposed by the Director-General or the Executive Board and adopted by the Board as a set of guidelines the company intends to follow on the allotment of the net profit. The principles of the policy for annual allotment to the shareholders shall be published on the company website.		X	The allotment of the company profit shall be done pursuant to the provisions set forth in the Government Emergency Ordinance no. 64/2001 regarding the allotment of profit to national companies, national firms and companies fully or majority owned by the state and the autonomous administrations.
D.3	The company shall adopt a policy in connection with the forecasts, whether they are made public or not. The forecasts refer to the quantified conclusions of studies aimed to determine the overall impact of a number of factors relating to a future period (so called hypotheses): by its nature, this forecast has a high level of uncertainty and the actual results may differ significantly from the initially submitted forecasts. The forecast-related policy shall establish the frequency, the timeframe taken into account and the contents of the forecasts. If published, the forecasts can only be included in the reports issued each year, quarter or trimester. The forecast-related policy shall be published on the company website.		X	The activity of the company is regulated by the ANRE. The Transgaz administration plan includes the management strategy during the mandate term. It is rigorously structured and includes strategic courses of action regarding the management of all resources, the operational and management processes of the company in order to achieve the performance objectives set with maximum efficiency.
D.4	The rules of the general Meeting of shareholders should not limit the participation of shareholders in general assemblies and the exercise of their rights. The amendments of the rules shall come into force, at the	X		

The New Code provisions	Complies	Does not comply or partially complies	Reason for non-compliance
earliest, during the next Meeting of shareholders.			
D.5 The external auditors shall attend the general Meeting of shareholders when their reports are discussed at these assemblies.	X		
D.6 The Board shall submit to the annual general Meeting of shareholders a brief appraisal of the internal control system and significant risk management system, as well as opinions on issues subject to the decision of the general Meeting.	X		This information is contained in the annual report of the Board of Administration and in the management Statement prepared pursuant to Article 30 of the Accounting Law no. 82/1991
D.7 Any financial specialist, consultant, expert or analyst may attend the Meeting of shareholders based on a prior invitation from the Board. The accredited journalists may also attend the general Meeting of shareholders, unless the Chairman of the Board decides otherwise.	X		
D.8 The quarterly and half-yearly financial reports shall include information both in Romanian and in English regarding the key factors that influence changes in the level of sales, the operational profit, the net profit and other relevant financial indicators both from a quarter to another and from one year to another.	X		
D.9 A company shall hold at least two assemblies / teleconferences with the analysts and investors every year. The information presented on these occasions shall be published in the <i>Relations with Investors</i> section on the company website on the dates of such assemblies / teleconferences.	X		
D.10 If a company conducts various forms of artistic and cultural expression, sports, educational or scientific activities and believes that their impact on the innovative character and competitiveness of the company are part of its mission and development strategy, it shall publish the policy regarding its activity in this field.	X		

9. Courses of action for activity continuation and improvement

Dear Shareholders,

As executive administrator, I agree with the general belief of my administrator colleagues and would like to underline the fact that the **active members of the Board of Administration of SNTGN TRANSGAZ SA are a TEAM** that during the mandate has succeeded in joining their forces and professional experience and in efficiently, constructively consolidating and acting as a unitary and competitive whole.

Through professionalism, ethics, responsibility and seriousness, through dedication and passion for performance and excellence in business, the operating Board of Administration has succeeded in proving, through results, that it can develop and lead to the growth of Transgaz activity year by year and that, through an efficient communication and permanent dialogue it has become a powerful team, able to undertake realistic and ambitious strategic investment programs for the national, regional and international energetic industry.

TRANSGAZ is the technical operator of the National System for Transportation of natural gas and ensures the efficient, transparent, safe fulfilment, the non-discriminating access and competitiveness of the national strategy established for the internal and international transportation, the dispatching of natural gas, the research and design of natural gas transportation field by complying with the legal provisions and the national and European quality, performance, environment and sustainable development standards.

Under the current administrative and executive management, TRANSGAZ is going through the most beautiful period of its existence, namely the transformation and modernization of the business model, the remodelling of its attitude towards the company and the interested parties, organizational re-design and compliance with the legislative standards applicable to the activity performed.

For 9 years, TRANSGAZ has been a company listed on the Bucharest Stock Exchange, a transparent company open to dialogue and with good corporate practices, a successful company, a successful local brand, a company that believes in its organizational values and that constantly invests in the education and professional development of the human resources at its disposal.

The administration plan of SNTGN Transgaz SA is governed by a responsible, professional and ethical attitude in relation to all stakeholders (shareholders, employees, partners, community, authorities and state institutions, media, etc.) and reflects the strategic vision of the administrators on the directions of strategic redefinition and streamline of the company in line with the requirements of the European policy on energy safety and security, competitiveness and sustainability and with the future needs and opportunities of Romania in order to become a major player on the European gas market.

The current Board of Administration of SNTGN TRANSGAZ SA has managed, through the strategic courses of action set out in the company Administration Plan, to strategically redefine the company and to transform it into **a company of strategic importance for the national and regional economy, into a central pillar for the assurance of the Romanian energy security.**

In accordance with legal provisions, the Board of Administration has delegated to me the management of the company, appointing me Director-General and entrusting me with the responsibility that together with the executive management and through the Management Plan we put into operation the strategic guidelines approved through the administration plan of the company.

By empowering the significance of the company both as an engine of the national economy and as a vector for the economic growth of the country, through its role in the development of the energy sector and the transformation of Romania into an energy power of Europe, the current administrators of the company are on the verge of starting one of the largest and most important programs for the development of the gas transportation infrastructure in Romania in the past 20 years, with investment projects estimated at **Euros 1.5 billion**.

In the context of profiling two new sources of gas supply, i.e. **the gas from the Caspian region and the ones recently discovered in the Black Sea**, the investments proposed by Transgaz in the Development Plan for the National Transportation System of Natural Gas over the next 10 years, a plan approved by ANRE under Decision no. 2819/17.12.2014, represent strategic investments for the energy security and the development of the gas transportation infrastructure in Romania and its compliance with the requirements of the relevant European regulations.

The proposed investments shall result in:

- the assurance of adequate interconnectivity with neighbouring countries;
- the creation of new routes for gas transportation at regional level for the transportation of natural gas from various new sources of supply;
- the creation of the infrastructure necessary for extracting and transporting the natural gas from the offshore perimeters in the Black Sea in order to sell them on the Romanian market and other markets in the region;
- the expansion of the natural gas transportation infrastructure in order to improve gas supply of deficit areas;

- the creation of a single integrated market throughout the European Union.

Given the complex and extensive investment program, Transgaz envisages, besides its own sources, the use of external financing under favourable conditions.

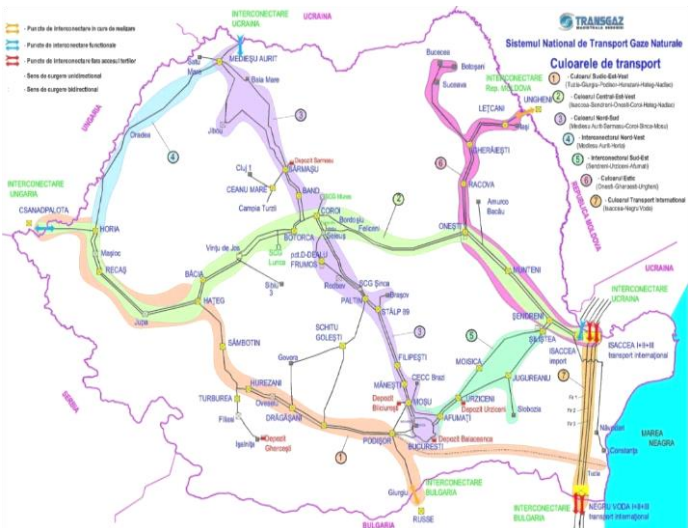



In this regard, the company has established a professional department accessing European funds and international relations, involved in accessing the European funds and in the development of international cooperation relations.

Moreover, Transgaz established a financing committee with role in attracting funding from international financial institutions or from other financial and banking institutions and from the capital market by issue of bonds.

The strategic vision of those who today bear responsibility for the destiny of this company focuses on professional and effective management able to face challenges and constraints, on the development and modernization of the national gas transportation infrastructure, on competitiveness and capitalizing of existing and future opportunities so that TRANSGAZ become a gas carrier with recognition on the international market of natural gas, a leader on the energy market in the region, an important link in the national and European energy chain.

Focusing on fully achieving the desiderates set and the fulfilment of the strategic objectives on operational effectiveness, performance optimization and sustainable development of the company, by complying with the principles of good corporate governance, **the current Board of Administration wants to renew, based on the legal provisions in force, its mandate and thus to be able to continue with the same dedication, responsibility and efficiency, transparency and professionalism to all stakeholders, the road opened in the 2013-2017 mandate for the construction and development of a solid and effective future of the Romanian energy sector.**

A. ENERGY SAFETY AND SECURITY

ASSUMED STRATEGIC OBJECTIVE	No.	Objective assumed under the Administration Plan 2013-2017 and that would be continued for another mandate in 2017-2021								
	1	The strengthening of the role played by SNTGN Transgaz S.A. Medias as a gas carrier on the European and national energy market, as a result of the EU requirements on the development of interconnection between NTS and the similar transport systems in neighboring countries, of the potential for exploitation of significant deposits of natural gas discovered in the Black Sea and the shale gas in the future;								
	2	<p>The completion of the strategic investment projects included in the NTS Development Plan for the period between 2014 and 2023:</p>  <table border="1" data-bbox="343 1411 1037 1794"> <thead> <tr> <th>Project</th> <th>Estimated value million Euros</th> <th>Completion deadline</th> </tr> </thead> <tbody> <tr> <td>1. The development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor - BRUA</td> <td>547,4 of which: Phase 1 480</td> <td>Stage 1: 2019 Stage 2: 2020</td> </tr> <tr> <td colspan="3"> BRUA - A TRANSGAZ PROJECT FOR ROMANIA and EUROPE  Cofinanțat de Uniunea Europeană Mecanismul pentru Interconectarea Europei Non-refundable financing received: - Euros 1.52 million through the Connecting Europe Facility, representing 50% of the total estimated costs of designing the compression stations. - Euros 179.32 million through the Connecting Europe </td> </tr> </tbody> </table>	Project	Estimated value million Euros	Completion deadline	1. The development on the Romanian territory of the National Gas Transmission System along the Bulgaria - Romania - Hungary - Austria Corridor - BRUA	547,4 of which: Phase 1 480	Stage 1: 2019 Stage 2: 2020	BRUA - A TRANSGAZ PROJECT FOR ROMANIA and EUROPE  Cofinanțat de Uniunea Europeană Mecanismul pentru Interconectarea Europei Non-refundable financing received: - Euros 1.52 million through the Connecting Europe Facility, representing 50% of the total estimated costs of designing the compression stations. - Euros 179.32 million through the Connecting Europe	
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		Facility, representing 40% of total eligible costs for the works of the BRUA Project - Phase 1		
		2. The development on the Romanian territory of the Southern Transmission Corridor for taking gas from the Black Sea shore	278,3	2020
		3. The interconnection of the national transportation system of natural gas to the natural gas international transportation pipeline T1 and reverse flow Isaccea.	65	2019
		4. The development of the NTS in the North – East part of Romania in order to improve the gas supply in the area and to ensure the transmission capacity to the Republic of Moldova	119,1	2018
		5. The widening of the bi-directional gas transmission corridor Bulgaria - Romania - Hungary - Austria (BRUA Phase 3)	479	2023
		6. A project regarding new developments of the NTS in order to take gas from the Black Sea shore.	8-17	2019
		Total	Euros 1.5 billion	
	3	The development of interconnection between the gas transportation systems in Romania and Bulgaria on the Giurgiu – Ruse route;		
	4	The creation of the technical conditions necessary to ensure the flow of natural gas on the bi-directional interconnection between Romania and Hungary on the Arad-Szeged route;		
	5	The continuation of the actions for the conclusion of the development agreements referring to the interconnection of NTS with similar transportation systems of the neighboring countries;		
	6	The development of business by optimizing the absorption of European funds and the creation of efficient and flexible financing structures.		
B. COMPETITIVENESS	1	The optimization and streamline of the management systems and processes throughout the company, of the quality of operational processes and their alignment to the requirements of the Integrated Management System for Environment Quality (IMSEQ) and of the modern standards of performance and competitiveness;		
	2	The intensification of design and scientific research in the transportation of natural gas;		
	3	The minimization of the technological consumption;		
	4	The improvement of the quality of investment programs of modernization and development, of the programs for repair, rehabilitation and maintenance of the NTS		
	5	The completion of the implementation of the SCADA data control and acquisition;		
	6	The optimum sizing of the necessary human resources compared to the actual needs of the business and the development of the company;		
	7	The improvement of the process for training, teaching and development of the employees;		
	8	The optimization of the quality good corporate governance principle implementation;		
	9	The optimization of the cost budgetary control process.		
C. SUSTAINABLE DEVELOPMENT	1	The strengthening and diversifying of the internal and external cooperation relations of SNTGN Transgaz SA		
	2	The optimization of the management of risks that may affect the company's business		
	3	The optimization of human resource management processes		
	4	The increase in energy efficiency and the decrease of the negative impact of the technological processes on the environment		
	5	The maintenance of financial balance and operational stability		
	6	The increase in the adaptability and responsiveness of the company to permanent changes of the environment in which it operates; the resolution of certain issues concerning the NTS infrastructure (e.g. East - West system, upstream measuring and adjusting stations not connected to the transportation system)		
	7	The improvement of occupational health and safety		
	8	The improvement of the general internal and external communication process inside the		

company and of the image capital

In addition to the strategic objectives undertaken during the 2013-2017 mandate and started / initiated and that are to be continued during a new mandate, the current Board of Administration also proposes new objectives it intends to assumed during another mandate or objectives resulting from the Integrity Plan and developed within the company following the accession of Transgaz to the National Anticorruption Strategies (NACS).

GENERAL OBJECTIVE	SPECIFIC OBJECTIVE
The development of a culture of transparency for good corporate governance	The increase in institutional transparency and decision-making processes
	The increase in the transparency of public resource management processes
The increase in the institutional integrity by including corruption prevention measures as mandatory elements of the management plans and their regular evaluation as part of the administrative performance improvement	The improvement of the capacity to manage the management failure by correlating the tools having impact on the early identification of institutional risks and vulnerabilities.
The strengthening of integrity, the minimization of corruption risks and vulnerabilities in priority sectors and fields	The increase in integrity, the minimization of corruptions vulnerabilities and risks in the business environment
The increase in the awareness and understanding of the standards of integrity by the employees and the beneficiaries of public services	The increase in the level of anti-corruption education of the company employees
	The increase in the level of information of the public about the impact of corruption
The strengthening of performance to combat corruption through administrative and criminal means	The strengthening of administrative control mechanisms
The increase in the degree of implementation of the anti-corruption measures by approving the integrity plan and the regular self-assessment throughout the company	The strengthening of the institutional integrity through plans developed on the basis of risk analysis and internal management control standards.

The Activity Report is prepared pursuant to Article 29, paragraph 14 of the Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, as amended and supplemented.

I hereby enclose the Curriculum Vitae to this Activity Report.

PETRU ION VĂDUVA

**Director-General
Executive Administrator**