

No. 20.272/16.03.2023

Submitted for approval in the OGMS meeting of 26/27 April 2023

REPORT

on the proposal for the distribution of the 2022 financial year net profit

SUMMARY

The net profit was distributed according to *Government Ordinance no. 64 of 30 August 2001 on the distribution of profits national companies, national companies and trading companies fully or mainly controlled by the State, as well as autonomous companies* under the conditions of the application of the **50,04394803%** rate to the distribution of profits in the form of dividends. The rate provided for in SNTGN Transgaz SA's revenue and expense budget for 2022 approved by OGMS Resolution no. 3/28.02.2022 was 50%.

Under the memorandum on: ***"Mandating State representatives in the General Meeting of Shareholders/Board of Administration, as the case may be, in national companies and companies fully or mainly controlled by the State, as well as in autonomous companies, to take the necessary measures for the distribution of at least 90% of the net profit for the year 2022 in the form of dividends/payments to the State budget"***, it is proposed to:

- mandate the state representatives in the General Meeting of Shareholders/Board of Administration to consider and decide on the distribution of at least 90% of the net profit for the year 2022 in the form of dividends/payments to the state budget when approving the financial statements for such year,
- In duly justified cases, the Government may approve, with the consent of the Ministry of Finance, by Memorandum, the mandate of State representatives in the General Meeting of Shareholders/Board of Administration, as the case may be, to decide on the distribution of less than 90% of the net profit achieved for the year 2022 in the form of dividends/payments to the State budget, in compliance with the provisions of G.O. no. 64/2001,

Transgaz has justified the need to distribute a 50% share in the form of dividends from the distributable profit determined after deduction of the amounts relating to the destinations established by the special normative acts provided for by the GO 64/2001 and has requested the Romanian Government and the Secretariat General of the Government to initiate the necessary steps in order to issue a normative act in this respect.

PROPOSAL

According to Art. 15.3 point (f) of the updated Articles of Incorporation of SNTGN TRANSGAZ SA, we submit for approval:

1. the distribution of the net profit as follows:

- legal reserves	21.873.676,02 Lei
- other reserves representing tax incentives provided for by Law 237/2015 on the Tax Code, profit invested in technological equipment-machinery, machinery and work installations, electronic computers and peripheral equipment, cash register, control and billing machines and appliances, as well as in software, produced and/or purchased and put into operation, used for the purpose of carrying out the economic activity	17.275.596,46 Lei
- the establishment of own financing sources for projects co-financed by external loans	81.129.494,21 Lei
- dividends due to shareholders	131.867.052,80 Lei
- profit for the establishment of own financing sources	113.609.048,51 Lei

2. employee participation to profit according to Art.141 of the applicable Collective Labour Contract concluded by SNTGN TRANSGAZ SA, amounting to lei 18.026.396.

DETAILED CONTENT

The net profit to be distributed according to the financial statements and to the "Statement of comprehensive income" after the deduction of the income tax amounts to **lei 365.754.868**.

The proposal for the distribution of the net profit related to 2022 was put forth according to the provisions of *G.O. no. 64/2001 on the distribution of profit in national companies, national companies and trading companies fully or mainly controlled by the State, as well as autonomous companies*, as subsequently amended and supplemented, the specifications approved by *Order of the MPF 144/2005 on the approval of the Specifications for the determination of the amounts subject to profit distribution according to GO no 64/2001 on the distribution of profits in national companies, national companies and trading companies fully or mainly controlled by the State, as well as autonomous companies, as amended and approved by Law 769/2001*, as subsequently amended and supplemented and the provisions of Law 227/2015 on the Tax Code.

The net profit was allocated as dividends at a share of **50,04394803%**. The distribution rate provided for in the revenue and expense budget for 2022 approved by OGMS Resolution no. 3/28.02.2022 is 50%.

The calculations for the net profit amounts distributed are indicated in the annex to this report on which we make the following clarifications:

↳ legal reserves amounting to **lei 21.873.676,02** calculated by the application of a percentage of 5% on the accounting profit, before the determination of the corporate income tax according to the provisions of Article 183 (1) and (2) of Law no.31/1990 on companies, republished as amended. The maximum level of legal reserves allowed is lei 376.763.008 representing 20% of the subscribed and paid-up share capital. By EGMS Resolution no.11/7 December 2022 the increase of the share capital was approved by incorporating the reserves established from the net profit of the previous financial years in the amount of lei 1.883.815.040.

↳ amounts were distributed in the amount of **lei 81.129.494,21** for the establishment of the necessary sources of funds for the repayment of principal, interest, commission and other costs on external borrowings contracted to finance major investment projects. Details of the external loans are provided in Annex 1 to this report.

↳ amounts were distributed in the amount of **lei 17.275.596,46** to reserves, according to Article 22 of Law no. 227/2015 on the Tax Code and represents the profit invested in technological equipment-machines, machinery and working installations, electronic computers and peripheral equipment, cash register, control and invoicing machines and appliances, as well as in software, produced and/or purchased and put into operation, used for the purpose of carrying out the economic activity. According to this article, the amount of the profit for which exemption from corporation tax has been granted, less the part relating to the legal reserve, shall be allocated at the end of the financial year or during the following year, with priority for the establishment of reserves up to the amount of the accounting profit recorded at the end of the financial year;

↳ the employees` participation to the profit in the amount of **lei 18.026.396** was determined within the limits of the average monthly base salary per employee in 2022, according to the average number of employees in the financial year ended;

↳ dividends due to shareholders were determined according to OMPF 144/2005, by applying the share of 50,04394803% to the net profit after its reunification with the amount of the costs representing employees` participation to the profit, affecting the gross profit before taxation. Transgaz has justified the need to distribute a 50% share in the form of dividends from the distributable profit determined after deduction of the amounts relating to the destinations established by the special normative acts provided for by the GO 64/2001 and has requested the Romanian Government and the Secretariat General of the Government to initiate the necessary steps in order to issue a normative act in this respect.

↳ the retained earnings, for establishing own financing sources, were determined as the difference between net profit to be allocated and the profit proposed to be allocated according to GO no 64/2001.

The proposal regarding profit distribution according to GO no 64/2001 is presented in the table below:

~ lei ~

<i>Indicators</i>	<i>Amount</i>		<i>Increase</i>
	<i>REB approved</i>	<i>Achieved</i>	<i>%</i>
0	1	2	3

The proposal for the distribution of the 2022 financial year net profit

A. Gross result of the financial year	51.287.000,00	437.473.521,00	852,99%
B. Current income tax	15.070.000,00	69.069.489,00	458,32%
C. Deferred income tax	5.281.000,00	2.649.164,00	50,16%
D. Net result of the financial year (A-B+C), of which allocated as follows:	41.498.000,00	365.754.868,00	881,38%
a) legal reserves		21.873.676,02	
b) other reserves representing fiscal facilities provided by the law (art. 22 of Law no. 227/2015 on the Tax Code)		17.275.596,46	
c) the covering of the accounting losses from the previous years			
c ¹) the establishment of own financing sources for projects co-financed from external loans		81.129.494,21	
d) other allocations provided by special laws		-	
E. Net profit remained (D-a-b-c¹)	41.498.000,00	245.476.101,31	591,54%
e) employees` participation to the profit	18.315.000,00	18.026.396,00	98,42%
f) dividends due to the shareholders	29.907.000,00	131.867.052,80	440,92%
g) profit for the establishment of own financing sources	11.591.000,00	113.609.048,51	980,15%
TOTAL allocations	41.498.000,00	245.476.101,31	591,54%

**Chairman of the Board of Administration,
PETRU ION VĂDUVA**

Calculation of the amounts allocated from the profit for 2022 according to GO no 64/2001, as subsequently amended and supplemented and to the specifications approved by OMPF 144/2005

-lei-

A. Net PROFIT to be allocated (from account 121)	365.754.868
a) legal reserves (Art.183 (1) and (2) of Law 31/1990	21.873.676,02
- share capital	1.883.815.040
- 20% share	376.763.008
- existing reserve fund	23.547.688
- reserve fund to be established (admitted amount: 5% of the accounting profit)	21.873.676,02
b) Other reserves representing fiscal facilities provided by the law (art. 22 of Law no. 227/2015 on the Tax Code)	17.275.596,46
c) The covering of the accounting losses from the previous years	0
c¹) The establishment of own financing sources for projects co-financed from external loans	81.129.494,21
d) Other allocations provided by special laws (not applicable)	
B) NET PROFIT REMAINED – (a+b-c+c¹+d)	245.476.101,36
e) employees` participation to the profit	18.026.396,00
f) gross dividends due to the shareholders (minimum 50% of the profit remained after the deduction of the amounts foreseen at letters a, b, c, c¹ and d corrected with the employees` participation in the profit)	131.867.052,80
g) retained earnings for establishing own financing sources (point B – point f)	113.609.048,51
C) TOTAL profit allocated (a+b+c¹ +f+g)	365.754.868,00
D) AMOUNTS representing employees` participation to the profit, retained from the gross profit before taxation.	
- participation in the profit within the limit of 10% of the net profit remaining to be allocated (point B)	18.026.396
- average number of employees	4.013
- average monthly base salary achieved in 2022	4.492
- fund of employees' participation in the profit, admitted	18.026.396

Annex 1

Breakdown of external loans

According to the provisions of GO 64/2001 *on the distribution of profits of national corporations, national companies and companies with full or majority state capital as well as autonomous companies*, **at least 50% of the profit is distributed in the form of dividends from the distributable profit, after deducting the amounts related to other priority destinations, mentioned in this normative act.** One of the uses provided for by GO 64/2001 is also to provide own sources of financing for projects co-financed by external loans, as well as to provide the necessary sources for the reimbursement of capital instalments, interest payments, commissions and other costs related to these external loans.

Thus, when distributing the accounting profit, consideration must be given both **to the constitution of own sources for financing new projects co-financed by external loans**, which include the company's contribution to the implementation of the project, the amounts necessary for the payment of taxes and duties levied on the national territory which cannot be paid from the external loan, **and to the constitution of the sources necessary for the repayment of outstanding external loans**, representing the capital rates, interest, commissions and the like.

As of 31 December 2022, Transgaz had contracted and drawn down the following external loans used for investment activity:

European Investment Bank ("EIB")

The company has signed with the EIB the following loans for the financing of the project "Development of the National Natural Gas Transmission System on the Corridor Bulgaria - Romania - Hungary - Austria" ("BRUA Phase 1"):

- Loan Agreement no. 83644RO concluded on 27.10.2017 for an amount of EUR 50 million, fixed interest, maturity 15 years, grace period of 3 years on principal repayment.
- Loan Agreement no. 88825RO concluded on 14.12.2017 for the amount of EUR 50 million, drawn in RON or EUR (at the option of the Company), with fixed or variable interest (at the Company's discretion), maturity 15 years, grace period of 3 years on repayment of principal.

The company signed with EIB the Loan Agreement no. 89417RO on 17.12.2018 for the purpose of financing the project "Development of the Southern Transmission Corridor on the territory of Romania for taking over natural gas from the Black Sea coast" (Black Sea - Podișor), for the amount of EUR 50 million, maturity 15 years, grace period of 3 years for repayment of principal. The open-ended contract allows the loan to be drawn in lei or EUR (at the Company's discretion), with fixed or variable interest (at the Company's discretion).

On 24 January 2019, the Company signed a loan agreement with the European Investment Bank for the amount of EUR 100 million, maturity of 15 years, grace period of 3 years for the repayment of the principal, for the purpose of financing the project

"Development of the Southern Transmission Corridor in Romania to take natural gas from the Black Sea coast".

During 2017, the Company received the first tranche of EUR 15 million under Loan Agreement No. 83644RO issued by the EIB on 30 November 2017, the second tranche of EUR 15 million was received on 28 February 2018 and the third tranche of EUR 20 million was received on 30 April 2018.

The situation of principal, interest and commission payments during 2022 is as follows:

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	Principal repayments	Interest	Fees
European Investment Bank ("EIB")	39.405.460,02	3.272.063,23	997.441,50

European Bank for Reconstruction and Development ("EBRD")

The company signed an agreement with the European Bank for Reconstruction and Development on 23 February 2018 for lei 278 million, equivalent to EUR 60 million, to finance the BRUA project. The loan was fully received in two equal instalments: on 29 April 2020 and 29 May 2020.

The situation of principal, interest and commission payments during 2022 is as follows:

~ lei ~

	Principal repayments	Interest	Fees
European Bank for Reconstruction and Development ("EBRD")	22.235.040,00	14.699.146,40	520.343,06

For the year 2022 the realized level of repayment of outstanding external loans, representing principal rates, interest, commissions and the like, contracted to finance investments is **lei 81.129.494,21**. For the year 2023, the estimated level of repayments of outstanding external loans, representing capital repayments, interest, commissions and the like, contracted to finance investments is **lei 92.369.741,21**.

The financial commitments undertaken in the loan agreements oblige the Company to comply with the negotiated limits of the following financial ratios: the ratio of total net debt to the borrower's own RAB, the Net Leverage Ratio and the Interest Coverage Ratio.

According to the provisions of the MFP order no.144/2005, national corporations, national companies and companies with majority or full state capital, as well as autonomous companies benefiting from external loans, shall allocate the accounting profit remaining after deduction of corporate income tax to the purposes referred to in art. 1 para. (1) lit. c¹) of Government Ordinance No 64/2001, approved as amended by Law No 769/2001, as subsequently amended and supplemented, only if they do not have other funds necessary to ensure their own sources of financing for projects co-financed by external loans and to establish the sources necessary to repay the capital instalments, pay interest, commissions and other costs of external loans.

In accordance with the provisions of GO no. 26 of 21 August 2013 on the strengthening of financial discipline at the level of certain economic operators in

which the State or administrative-territorial units are the sole or majority shareholders or directly or indirectly hold a majority stake, in the event of non-realization of the sources of financing of approved investments, the related commitments shall be reconsidered and all legal steps shall be taken so that the acceptance of services, works and goods is carried out at the level of the recalculated sources of financing.

As at 31 December 2022, the realized level of investment expenditure amounted to lei 333.988 thousand plus the amount of repayments of loans contracted in the amount of lei 143.485 thousand. The realised level of own sources of financing for investments was lei 171.515 thousand, which includes the amount of lei 81.129 thousand allocated from the profit for 2022 to reserves to cover the sources necessary to repay outstanding external loans, representing capital instalments, interest, commissions and the like.

The company's own sources of financing for investment projects were represented by:

		REB 2022	Achieved
1	Own sources, of which:	171.295,88	171.514,76
	a) - depreciation	294.497,14	419.764,19
	b) - profit	11.592,33	113.609,05
	c) - non-cash expenses	-134.793,59	-442.987,97
	d) – reserves to cover the sources needed to repay outstanding external loans		81.129,49

By allocating the amount of lei 81.129 thousand from the profit of 2022 to reserves to cover the sources necessary for the repayment of outstanding external loans, representing capital rates, interest, commissions and the like, a level of investment financing sources of lei 480.973 thousand is ensured, covering the realized level of investment expenditure of lei 477.474 thousand, in compliance with the provisions of GO 26/2013.

We draw attention to the fact that out of the net profit of 2022 amounting to lei 365.755 thousand, lei 286.877 thousand (78%) represents a financial income determined by the discounting with inflation of Transgaz' right to receive in 2032 the remaining regulated value of the investments made in NTS, a non-cash profit; the distribution of dividends out of a non-cash profit will decapitalize the company, which will have to borrow in order to pay dividends out of a non-cash profit.

By prioritising the destinations of profits in the framework of GO 64/2001, the importance of ensuring financial resources for investment projects to ensure the sustainable development of the company was taken into account, as it was recognised that the reinvestment of profits is the healthiest source of development and sustainable growth. At the same time, changing the legal framework after the end of the financial year and demanding a higher level of dividends than budgeted negatively affects the predictability of the company's future activity and its ability to finance the budgeted strategic investment projects.

Transgaz has successfully carried out and completed an Incremental Capacity Process for the entry/exit point to/from the NTS, to be created in the area of Tuzla, county of Constanța (Tuzla point), allocating a capacity of 1.323.920.520 MWh for the period 01.05.2026 - 01.10.2042. The cumulative value of the commitments of the successful applicants is lei 2.819.621.116,80 and in order to provide capacity starting from 2026, the company must implement the investment project "*Development of the southern transmission corridor for the takeover of natural gas from the Black Sea coast on the territory of Romania*", worth lei **2.429.234.669**. This is a project co-financed by external loans for which the company must provide its own source of co-financing. The company has contracted the following loan agreements for the financing of the project "Development of the Southern Transmission Corridor in Romania to take natural gas from the Black Sea coast" (Black Sea-Podișor):

- a) On 17.12.2018, a loan agreement was concluded with the EIB for EUR 50 million, maturity 15 years, grace period of 3 years for repayment of principal. The contract being open-ended allows the use of the loan in lei or EUR (at the Company's choice), with fixed or variable interest (at the Company's choice).
- b) On 24.01.2019, a loan agreement was concluded with the EIB for EUR 100 million, with the same essential features as the agreement signed on 17.12.2018. To date these loans have not been drawn down.

Through the Revenue and Expense Budget, the company has based for the period 2023-2025 investment expenses of lei 6,03 billion for the realization of these investments, being budgeted **the attraction of loans amounting to lei 3,19 billion. Repayments of instalments on loans contracted to finance projects in the period 2023-2025, amount to lei 400 million.**