

No. 12806/16.03.2018

Submitted for approval in the OGMS meeting of 26 April 2018

REPORT

on the proposal for the distribution of the 2017 financial year net profit

SUMMARY

The net profit was distributed according to *Government Ordinance 64 of 30 August 2001 on the distribution of profits in national companies and trading companies owned by the state or where the state is a majority shareholder and the autonomous administrations* in terms of applying 50,019578% to profit as dividends. The distribution share foreseen in the revenue and expense budget of SNTGN Transgaz SA per 2017 approved by OGMS Resolution 1/27.04.2017 was of 50%.

In the Government meeting of 08.02.2018 the Memorandum on the issue of "*The mandating of the representatives of the State in the General Meeting of the Shareholders/the Board of Administration, as the case may be, to the national companies and the companies with full or majority state capital, as well as to the autonomous administrations, in order to take the necessary measures to allocate a quota of at least 90% of the net profit achieved in 2017 as dividends/payments to the state budget*" was approved, which proposes:

- a) To mandate the representatives of the State in the General Meeting of Shareholders/Board of Administration, as the case may be, to decide on the allocation of a minimum 90% share of the net profit achieved in 2017 as dividends/payments to the state budget on the occasion of the approval of the Financial Standing of such year;
- b) If the provisions of letter a) cannot be implemented because of well justified reasons, the Government may approve by Memorandum the mandating of the state representatives in the General Assembly of the Shareholders/Board of Administration, as the case may be, to decide on the allocation of another quota of the net profit, but subject to the provisions of the GO no. 64/2001.

Given that the implementation of the provisions contained in point a of the Memorandum may result in Transgaz' incapacity to finance strategic development projects within the limits of leverage imposed by the grant agreements, the necessary formalities will be undertaken to obtain the mandate for approval in

the GMS of the share distribution of profit in the form of dividends according to point b of the Memorandum.

PROPOSAL

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

1. the distribution of the net profit as follows:

- | | |
|--|---------------------------|
| - dividends to the shareholders | 296.936.345,68 lei |
| - profit for the establishment of own financing sources | 285.124.697,32 lei |
- 2. employee participation to profit according to Art.141 of the applicable Collective Labour Contract concluded by SNTGN TRANSGAZ SA, in amount of RON 11.579.208 lei.**

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 **582.061.043 lei**.

The proposal for the distribution of the net profit for 2017 is according to *Government Ordinance 64/2001 on the distribution of profit in national companies and trading companies owned by the state or where the state is a majority shareholder and the autonomous administrations*, as further amended and supplemented, and to 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 64/2001 on the distribution of profits in national companies and trading companies owned by the state or where the state is a majority shareholder and the autonomous administrations*, as amended and approved by *Law 76 /2001*, as further amended and supplemented

Net profit was allocated as dividends according to the 50,019578% share. The distribution share foreseen in the revenue and expense budget for 2017 approved by OGMS Resolution 1/27.04.2017 is of 50%. In the Government meeting of 08.02.2018 the Memorandum on the issue of "*The mandating of the representatives of the State in the General Meeting of the Shareholders/the Board of Administration, as the case may be, to the national companies and the companies with full or majority state capital, as well as to the autonomous administrations, in order to take the necessary measures to allocate a quota of at least 90% of the net profit achieved in 2017 as dividends/payments to the state budget* " was approved, which proposes:

- a) To mandate the representatives of the State in the General Meeting of Shareholders/Board of Administration, as the case may be, to decide on the allocation of a minimum 90% share of the net profit achieved in 2017 as dividends/payments to the state budget on the occasion of the approval of the Financial Standing of such year;
- b) If the provisions of letter a) cannot be implemented because of well justified reasons, the Government may approve by Memorandum the mandating of the state representatives in the General Assembly of the Shareholders/Board of Administration, as the case may be, to decide on the allocation of another quota of the net profit, but subject to the provisions of the GO no. 64/2001.â

Given that the implementation of the provisions contained in point a of the Memorandum may result in Transgaz' incapacity to finance strategic development projects within the limits of leverage imposed by

the grant agreements, the necessary formalities will be undertaken to obtain the mandate for approval in the GMS of the share distribution of profit in the form of dividends according to point b of the Memorandum.

The calculations for the net profit amounts distributed are indicated in the Annex to this report, as further amended and supplemented, on which we make the following clarifications:

- ↳ no amounts were distributed to the legal reserves as they are presently constituted under 20% of the share capital, according to Art. 183 (1) and (2) of Law 31/1990, as further amended and supplemented;
- ↳ the employees participation in the profit was determined within the limits of the average monthly base salary per employee in 2017, according to the number of employees in the financial year ended;
- ↳ dividends due to shareholders were determined according to OMPF 144/2005, by applying 50.019578% to the net profit after its reunification with the amount of the costs representing employee participation to the profit, affecting the gross profit before taxation;
- ↳ 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 64/2001.

The proposal regarding profit distribution according to GO 64/2001 is presented in the table below:

| Indicators | Amount | | -RON- |
|---|-----------------------|-----------------------|-------------------|
| | REB approved | Achieved | Increase % |
| 0 | 1 | 2 | 3=2/1x100 |
| A. Gross result of the year | 371.572.000,00 | 705.044.950,00 | 189,75% |
| B. Current income tax, of which: | 65.023.000,00 | 125.305.098,00 | 192,71% |
| C. Deferred income tax | 5.281.000,00 | 2.321.191,00 | 43,95% |
| D. Net result of the year (A-B), of which allocated as follows: | 311.830.000,00 | 582.061.043,00 | 186,66% |
| a) legal reserves | | - | |
| b) other reserves representing fiscal facilities provided by the law | | - | |
| c) the covering of the accounting losses from the previous years | | - | |
| c ¹) the establishment of own financing sources for projects cofinanced from external loans | | - | |
| d) other allocations provided by special laws | | - | |
| E. net profit remained (D+c) | 311.830.000,00 | 582.061.043,00 | 186,66% |
| e) employees participation to the profit | 12.024.000,00 | 11.579.208,00 | 96,30% |
| f) dividends due to the shareholders | 161.927.000,00 | 296.936.345,68 | 183,38% |
| g) profit for establishing own financing sources | 149.903.000,00 | 285.124.697,32 | 190,21% |
| TOTAL allocations | 311.830.000,00 | 582.061.043,00 | 186,66% |

Chairman of the Meeting

Mlnea Nicolae

**Calculation of the amounts allocated from the profit for 2017 according to GO 64/2001,
as further amended and supplemented and to the specifications
approved by OMPF 144/2005**

-RON-

| | |
|--|-----------------------|
| A. Net PROFIT to be allocated (from account 121) | 582.061.043,00 |
| a) legal reserves (Art.183 (1) and (2) of Law 31/1990 | 0 |
| - share capital | 117.738.440,00 |
| - 20% share | 23.547.688,00 |
| - existing reserve fund | 23.547.688,00 |
| - reserve fund to be established (admitted amount) | 0 |
| b) Other reserves representing fiscal facilities provided by the law (not applicable) | |
| c) The covering of the accounting losses from the previous years | |
| c1) The establishing of own financing sources for projects cofinanced from external loans | |
| (not applicable – the company has other funds) | |
| d) Other allocations provided by special laws (not applicable) | |
| B) NET PROFIT REMAINED A– (a+b-c+c1+d) | 582.061.043,00 |
| e) employees participation in the profit | 11.579.208,00 |
| 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) | 296.936.345,68 |
| g) retained earnings for establishing own financing sources (point B – point f) | 285.124.697,32 |
| C) TOTAL profit allocated (a+b+f+g) | 582.061.043,00 |
| D) AMOUNTS representing employees participation in 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) | 11.579.208,00 |
| -average number of staff | 4.548 |
| -average monthly base salary achieved in 2017 | 2.546,00 |
| -fund of participation of the employees in the profit, admitted | 11.579.208 |