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REPORT
On the approval of the termination of the Joint Venture related to the establishment of the Nabucco Gas Pipeline as approved by the Resolution of the General Extraordinary Shareholders' Meeting no. 4/2005 and on the empowerment of Transgaz' Board of Administration to approve the conditions for the distribution of the assets remaining upon the liquidation of the Nabucco Companies

SUMMARY

The Joint Venture Agreement related to the establishment of the Nabucco Gas Pipeline (the Joint Venture Agreement - JVA) regulating the relationship between the shareholders during the project development period was signed in 2005. The deselection of the Nabucco project by Shah Deniz on 28.06.2013 determined the shareholders to decide upon the close-out of the Nabucco Gas Pipeline International GmbH Austria (NIC) and of the National Nabucco Companies (NNCs), collectively referred to as the Nabucco Companies. In this context, the termination of all relationships under the JVA and the approval of the conditions for the distribution of the assets remaining upon close-out completion is required.

PROPOSAL
Pursuant to article 15, item 4, letter (i) of Transgaz' updated Incorporation Act and based on the principle of legal acts regularity, please consider approving the termination of the Joint Venture Agreement as approved by RGESM no. 4/2005 as well as the empowerment of the Board of Administration to approve the conditions for the distribution of the assets remaining upon the Nabucco companies' close-out completion process.

Termination of the Joint Venture Agreement (JVA)

The Joint Venture Agreement related to the establishment of the Nabucco Gas Pipeline was approved by RGESM no. 4/2005.

This agreement consists of provisions mainly regulating the relationships between shareholders as participants in the project development as well as the management of the Nabucco companies.

In order to substantiate their decision on the Shah Deniz II gas transmission route to Central Europe, Shah Deniz Consortium invited both the Nabucco project and the Trans Adriatic Pipeline (TAP) project to submit a firm offer. A final selection decision was estimated to be made at the end of June 2013.

On 28.06.2016, Shah Deniz Consortium announced their decision on the selection of the preferred route for the transmission of SD II gas to Europe which proved unfavourable to the Nabucco project.

The Nabucco project's lack of perspective after having been deselected by Shah Deniz Consortium and the uncertainty related to the exploitation of new Caspian and Middle East gas fields on the short run urged the Nabucco shareholders to decide upon the close-out of the Nabucco Gas Pipeline International GmbH Austria (NIC) as well as of the National Nabucco Companies (NNCs).

Under RGESM no. 10/23.09.2013, Transgaz approved the close-out of the Nabucco Gas Pipeline International GmbH Austria and of the National Nabucco Companies.

Considering the ongoing NIC close-out process, the fact that the JVA fails to contemplate provisions regulating such process, but imposes obligations to shareholders which turned to be scopeless and that the development of the project under the JVA no longer had commercial substantiation, the shareholders deem it necessary to terminate this agreement.

The close-out process does not entail the implicit termination of the JVA which requires the shareholders' explicit and unanimous consent to be granted under the following conditions:

- The JVA termination shall be effective as at the date of NIC deregistration from the Company Register, Austria without the need of any shareholders' actions to be additionally taken. Any rights, obligations and liability under the JVA shall be null and void as at the same date.
- Upon JVA termination, the shareholders shall totally and finally release one another of any liability for any known or unknown, anticipated or unanticipated compensation, etc. and precisely for the payment of any direct or consequential, past, current or future damages arising out of or in connection with the JVA.

Asset distribution

As far as the assets remaining upon the close-out completion are concerned, the shareholders agreed upon the set of principles regarding the means of asset distribution and each shareholder has initiated the relevant internal approval process.

Note:

The shareholders' disapproval of the asset distribution principles and of the JVA termination would have negative implications as follows:

- Delays in the close-out process
- Generation of additional costs related to the close-out procedure for a period of minimum 6 months' starting with June 2016
- The need for the shareholders to re-enter into negotiations on the asset distribution principles which could be unfavourable to Transgaz.

Annexes:

- Resolution no. 4/2005 of Transgaz' General Ordinary and Extraordinary Shareholders' Meeting
- Resolution no. 10 of Transgaz' General Extraordinary Shareholders' Meeting dated 23 September 2013

Ion STERIAN

Chairman

Transgaz' Board of Administration