



**SOCIETATEA NAȚIONALĂ DE TRANSPORT
GAZE NATURALE "TRANSGAZ" SA MEDIAȘ**
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REPORT

On the convening for the Ordinary General Meeting of the Shareholders having on the agenda the approval of allocation as dividends of the amount of RON 171 million, sums existing in the *Other Reserves and Retained Earnings* accounts balance on 31.12.2016 according to the request of the Ministry of Economy by the Department for Privatisation and State Ownership Administration (DPAPS), as majority shareholder

SUMMARY

By the Letter no 4607/12.09.2017 the Ministry of Economy/the Department for Privatisation and State Ownership Administration requested the Board of Administration of the National Gas Transmission Company TRANSGAZ S.A. to convene the *Ordinary General Meeting of the Shareholders having on the agenda the approval of allocation as dividends of the amount of RON 171 million, sums existing in the Other Reserves and Retained Earnings accounts balance on 31.12.2016 according to GEO no. 29/2017 on the amendment of Art. 1 (1) (g) of Governmental Ordinance no. 64/2001 on the distribution of the profit related to the national enterprises, national companies and fully or mainly state-owned trading companies, as well as related to the autonomous administration, and on the amendment of Art. 1 (2) and (3) of Governmental Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises.*

In the GSM dated 19 June 2017 Transgaz informed on the impact related to the allocation/reallocation of the dividends to the state budget in line with the provisions of Art. II and Art. III of GO no 29/2017 indicating that the coverage of the necessary investments of the investment plan (consisting of the investments included in the Revenue and Expense Budget, expenses for the strategic investment projects included in the TYNDP approved by ANRE and Other investments) has an impact on the indebtedness of the company, which may be very high between 2019-2020 (4-5 times the EBITDA), even if the reserved are not allocated as dividends.

The allocation of the amount of RON 171 million of the sums existing in the Other Reserves and Retained Earnings accounts balance on 31.12.2016 for the application of Government Emergency Ordinance No. 29/2017 and according to Letter no. 4607/12 September 2017 received from the

Ministry of Economy, through the Department for Privatisation and State Ownership Administration, involves the setting of the gross dividend value amounting to RON 14.52/share.

I. The situation of other reserves as financing sources from the profit and retained earnings on 31 December 2016

The balance of the reserves as financing sources from the profit on 31 December 2016 amounts to RON 1.717.077.610,37. These sources were/are used together with other sources available to the company (amortization, non-reimbursable funds, loans) to cover the investments made and those planned by the company

The value of the retained earnings (account 117) on 31.12.2016:

- RON -

Account	Account name	Credit balance 31.12.2016
	Retained earnings	
1174	Retained earnings from correction of accounting errors	126,00
1176	Retained earnings from applying the accounting rules under Directive IV of the European Economic Communities	-1.804.469,00
1177	Retained earnings from the application of the IFRS, less IAS29	76.856.576,73
	Total retained earnings (account 117)	75.052.233,73

The retained earnings of the company on 31 December 2016 is determined by the application of Order 881/25.06.2012 on the application by the companies the securities of which are admitted to trading on a regulated market of the International Financial Reporting Standards:

(1) Starting with the financial year 2012, the companies whose securities are admitted to trading on a regulated market are required to apply the International Financial Reporting Standards (IFRSs) when preparing their individual annual financial statements.

(2) For financial year 2012, the individual annual financial statements based on the IFRS are prepared by restating the accounting information organized under the Accounting Regulations according to the Fourth Directive of the European Economic Communities, approved by Order no. 3.055/2009 of the Minister of Public Finance on the approval of the Accounting Regulations compliant with the European directives, as further amended and supplemented.

II. Balance of the 'Liquid Assets' account and the 'Short-Term Investments' account

- RON -

Account name	Balance	
	31.12.2016	30.06.2017
Liquid assets in accounts	204.196.079,22	361.507.254,13
Short-term investments (bank deposits)	744.958.019,11	1.176.497.701,34
Total	949.154.098,33	1.538.004.955,47

The liquid assets value on 30 June 2017 includes the value of the 2016 dividends approved by OGMS Resolution 1/27 April 2017 and not paid on 30 June 2017, amounting to RON 545.482.192,52, 18 July 2017 being the date proposed for the payment of the 2016 dividends.

We underline that Transgaz's monthly revenue, including the level of cashing, are seasonal, being higher in the cold season and much lower in the summer months, having a direct impact on the evolution of the company's assets over the year.

III. Annual investments necessary for the period 2017 – 2019:

- RON -

	REB 2017	Estimated 2018	Estimated 2019
Expense for budgeted investments (including capitalized interest)	704.364.599	1.523.376.364	776.277.103
REB additional strategic investment costs	-	699.319.564	569.591.353

The investment needs substantiated at the preparation of the Revenue and Expense Budget do not include some of the aforementioned strategic investment projects, included in the TYNDP approved by ANRE.

The additional financing requirement of the BVC, based on the additional strategic investments is about EUR 400-450 million.

Transgaz's investments necessary consists in:

- The investment costs in the revenue and expense budget (investments for which the final investment decisions were taken);
- REB additional strategic investment costs, included in the TYNDP approved by ANRE. The BRUA Phase 2 (estimated investment value of EUR 69 million) and the Connecting Black Sea (estimated investment value of EUR 278 million) projects are included in the REB additional strategic investments category. These projects will be initiated after the Open Season for selling capacity at the Black sea entry point and at the interconnection point with Hungary, procedures the binding results of which will be available in 2018;
- Other investments amounting to EUR 100 million.

The necessary funding sources estimated for 2017-2024 in the conditions of the non-allocation of additional dividends from reserves:

- RON thousand -

	Indicator	Total 2017 - 2024
	1	
I.	Funding sources, of which:	8.216.723

1.1	Own sources	3.439.719
1.2	European funds	904.459
1.3	Loand	2.944.091
1.4	Guarantees for received investments	7.794
1.5	Surplus / Deficit at the beginning of the period	885.038
II.	Total costuri de investiții, din care:	8.181.100
2.1	Investment costs	6.061.772
2.2	Capitalized interest	261.106
2.3	Guarantees for established investments	7.794
2.4	Loan repayment	1.404.428
2.5.	Other investments	446.000

The covering of the necessary funding of the investment plant for 2017-2024 involves receiving loans estimated at RON 2.9 billion (approximately EUR 650 mil) and has an impact on the indebtedness of the company, which may be very high between 2019-2020 (4-5 times the EBITDA), even if the reserved are not allocated as dividends.

IV. Investment projects in the TYNDP

Under the 2017 – 2026 TYNDP of the NTS, approved by ANRE, the major investment projects were grouped as follows: FID projects – for which the final investment decision was taken, and non-FID – for which the final investment decision was not taken. The non-FID projects are advanced non-FID projects (A non-FID) and less advanced non-FID projects (LA non-FID).

Based on this classification, the TYNDP projects are as follows:

Project no.	Project name	Group
7.1	The development of the Romanian Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Route– phase 1	FID
	The development of the Romanian Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Route – phase 2	A non FID
7.2	<i>Development on the Romanian territory of the Southern Transmission Corridor for taking over the gas from the Black Sea shore</i>	A non FID
7.3	Interconnection of the National Transmission System with the international gas transmission pipelines	LA non FID
7.4	Project for NTS developments in North-Eastern Romania for improving gas supply to the region and ensuring transmission capacities to Moldova	A non FID
7.5	Further enlargement of the Bulgaria – Romania – Hungary – Austria bidirectional Transmission Corridor (BRUA phase 3)	LA non FID

7.6	Project for new NTS developments for taking over gas from the Black Sea shore.	LA non FID
7.7	Interconnection Romania - Serbia	LA non FID
7.8	Modernization of Isaccea 1 and Negru Vodă 1 GMSs	A non FID

Cost of major investment projects:

No.	Project	Estimated value mil Euro	End date	Importance of the project
1	The development of the Romanian Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Route– phase 1	547,4	Phase 1: 2019 Phase 2: 2020	Ensuring a gas transmission capacity to Hungary of 4,4 bcm/year, and of 1,5 bcm/year to Bulgaria. The importance of the project at the level of the European Union is reflected by the nomination of the project 'Gas pipeline from Bulgaria to Austria via Romania and Hungary' on the first and second priority projects.
2	<i>Development on the Romanian territory of the Southern Transmission Corridor for taking over the gas from the Black Sea shore</i>	278,3	2020	The taking over of Black Sea gas by the NTS for transmission and sale in Romania and on the European markets is of strategic importance to Transgaz. The importance of the project at the level of the European Union is reflected by enabling permanent bidirectional flow between the interconnections with Bulgaria and with Hungary.
3	Interconnection of the National Gas Transmission System with the T1 international gas transmission pipeline and reverse flow Isaccea.	65	2019	Transgaz has a special interest in implementing this project: <ul style="list-style-type: none"> ▪ <i>to eliminate the possibility of imposing extremely costly financial penalties on the part of the European Commission;</i> ▪ <i>to ensure the most substantial revenue by capitalizing on these capacities after the expiration of the take or pay contracts .</i> This project is part of the first list of European projects of common interest.
4	Project for NTS developments in North-Eastern Romania for improving gas supply to the region and ensuring transmission capacities to Moldova	131,7	2019	Ensuring a transmission capacity of 1,5 bcm/year at the IP between the Romanian and the Moldavian transmission systems.

No.	Project	Estimated value mil Euro	End date	Importance of the project
5	Further enlargement of the Bulgaria – Romania – Hungary – Austria bidirectional Transmission Corridor (BRUA phase 3)	530	2023	Depending on the increasing of the Black Sea offshore production it is considered the further development of the network: A secondary route through the centre of Romania and a new interconnection with Hungary. This route will consist of the rehabilitation of the existing pipelines, the construction of additional pipeline sections and 4-5 compressor stations.
6	Project for new NTS developments for taking over gas from the Black Sea shore	9	2019	The creation of an additional Black Sea gas taking over point
7	Interconnection Romania - Serbia	40	2025	The building of a Serbia interconnection pipeline with for the diversification of the supply sources.
8	Modernization of Isaccea 1 and Negru Vodă 1 GMSs	13,9	2019	The modernization of the gas metering stations at the IP.
TOTAL (2016-2025)		~ 1,62 billion Euro		

V. Major investment projects for the development of the Romanian gas transmission infrastructure (BRUA Phase I)

A sustainable development of the Romanian gas transmission infrastructure implies a comprehensive investment program enabling harmonisation of the National Transmission System (NTS) with the transmission and operation requirements of the European gas transmission network.

Taking into account the prospect of new projects aimed at diversifying gas transmission routes from the Caspian Sea to Central Europe, as well as new sources of natural gas in the Black Sea offshore blocks, Transgaz aims to build a new gas transmission corridor to ensure the capitalization of the natural gas volumes related to these sources on the Romanian and European market and the permanent physical bidirectional flow on the interconnections with Bulgaria and Hungary.

The development of the Romanian Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Route (BRUA) – execution works Phase 1 is part of the project 'Gas Pipeline from Bulgaria to Austria via Romania and Hungary' (PCI - 7.1.5 – in the first list of PCI) and consists in the building of a new gas transmission pipeline connecting the Podișor Technological Node with the Horia GMS on the Podișor – Corbu – Hurezani – Hațeg – Recaș – Horia direction, approximately 528 km long and having a diameter of Dn 800.

By implementing BRUA Phase 1 the following targets will be met:

- diversification of European gas supply sources;
- transmission to the Central European markets of Caspian gas reserves;
- ensuring in the Bulgaria direction of a gas transmission capacity of 1.5 bcm/year;
- developing a transmission capacity of 1.75 of bcm/year in the Hungary direction;
- security of gas supply of Romania through access to new gas sources.

This transmission pipeline will in future allow interconnection with pipelines having Black Sea liquefied gas and Black Sea gas as potential sources of supply (the AGRI Project).

For this project, a grant was requested by the grant application submitted to the European Commission on 12 October 2015 in the amount of 50% of the eligible investment costs.

In the 19.01.2016 meeting of the CEF-Energy Coordination Committee, the European Union allocated EUR 179,3 million to the implementation of the first phase of the project proposed by Transgaz according to the first list of PCIs/2013 'Gas Pipeline from Bulgaria to Austria, via Romania and Hungary', named according to the 2014 – 2023 TYNDP - The development of the Romanian Gas Transmission System along the Bulgaria – Romania – Hungary – Austria Route – (or BRUA) – phase 1.

On 9 September 2016, at Budapest, Transgaz signed with the European Commission representatives the Grant Agreement under CEF for the Romanian route of the 'Bulgaria- Romania-Hungary-Austria transmission corridor (BRUA). Under this agreement Transgaz receives a grant amounting to EUR 179,32 million for the implementation of the BRUA Project-phase I.

VI. Regulatory framework of the gas transmission activity limits the ability of the company to internally generate a financing source

The main activity of Transgaz is **Transmission through pipelines**, defined by law as the activity organized for natural gas transmission through the National Gas Transmission System (NTS) or other transmission systems.

The gas transmission activity is a public service of national interest and is included in the regulated segment of the internal gas market. The transmission service is provided under a natural monopoly regime based on a tariff established by ANRE.

The gas transmission activity is regulated by the National Energy Regulatory Authority (ANRE). According to the regulated income methodology, the cost savings made by the transmission operator in a gas year as well as the additional revenue achieved in a gas year, diminish the regulated income approved in the next gas years. In other words, the more efficient the company is in reducing costs or in achieving revenue from the transmission activity beyond the level approved by ANRE, the more the revenue from the gas transmission activity will be lower in the following gas years.

According to ANRE Order 32/21 May 2014 *on the approval of the gas transmission regulated revenue, total revenue and regulated tariff setting methodology* the following are considered at the calculation of the annual regulated revenue:

- the total revenue correction component for the previous years;
- the technological consumption correction component for the previous years;
- the redistribution component of the economic efficiency gain achieved by the transmission operator in the year `l` of the regulatory period to the users of the transmission system in year `l` of the next period (savings achieved by the transmission operator on some expenditure items compared to the levels approved by ANRE is retained by ANRE for 5 years, after which it is redistributed to the users by diminishing the regulated annual revenue with these savings).

All these provisions of the methodology may lead to a reduction in revenue from the transmission activity and implicitly the company's capacity to generate internal resources necessary to finance the investment plan.

Dividends amounting to RON 204,787 thousand were substantiated through the Transgaz revenue and expense budget for 2016, approved by OGMS Resolution 1/21 March 2016, and by OGMS Resolution 1/27.04.2017 it was approved the allocation of the net profit for financial year 2016 as 90% share dividends, with a value of the dividends to the state budget amounting to RON 545,482 thousand, higher by RON 340,695 thousand (166%) than the budgeted level.

VII. Establishing the gross dividend per share

According to Art. 111 (2) a) of Law 31/1990 on the trading companies, republished as further amended and supplemented, the General Meeting of the Company's Shareholders have the competence to establish the dividend.

GEO 29/2017, Art. II stipulates that the amounts allocated in the previous years at other reserves according to Art. 1 (1) g) of Government Ordinance 64/2001 on the distribution of the profit related to the national enterprises, national companies and fully or mainly state-owned trading companies, as well as related to the autonomous administration, approved with amendments by Law 769/2001, as further amended and supplemented, existing at the date of the application of the emergency ordinance, may be re-allocated as dividends or state or local budget contributions in the case of the autonomous administrations, starting from the approval of the 2016 financial statements,

According to Art.67 (2) of Law 31/1990 on the trading companies, republished, as further amended and supplemented, the dividends are allocated to the shareholders proportionally to the share of participation in the paid-up share capital.

The paid-up share capital of Transgaz amounts to RON 117.738.440 divided in 11,773,844 ordinary, nominative, indivisible shares, having a nominal value of RON 10/share.

The allocation of the amount of RON 171 million of the sums existing in the Other Reserves and Retained Earnings accounts balance on 31.12.2016 for the application of Government Emergency Ordinance No. 29/2017 and according to Letter no. 4607/12 September 2017, received from the

Ministry of Economy, through the Department for Privatisation and State Ownership Administration, involves the setting of the **gross dividend value amounting to RON 14.52/share**.

Chairman of the meeting

Iliescu Bogdan George