

ROMGAZ

Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România



NO. 10.380 / 25.03.2019

**REPORT
on 2018 Financial Year Net Profit and other Amounts
Distribution Proposal**

Legal frame:

- *Government Ordinance No. 64/2001 on profit distribution as regards national companies and companies with full or majority state-owned capital, as well as autonomous regies, as subsequently amended and supplemented;*
- *Law 31/1990 on companies, as subsequently amended and supplemented;*
- *Law 227/2015 on the Fiscal Code as subsequently amended and supplemented;*
- *Order of the Ministry of Public Finances No. 2844/2016 on approving the Accounting Regulations compliant with the International Financial Reporting Standards;*
- *GEO No. 114/2018 on implementing measures in the field of public investments and certain fiscal-budgetary measures, amending and supplementing specific legal acts and prorogation of terms.*
- *“Report on the 2019 Macroeconomic Situation and its Projection on the years 2020-2022” published by the Ministry of Public Finances;*
- *Memorandum No 20/4737/18.03.2019 issued by the Ministry of Public Finances on „Mandating the state representatives in the General Meeting of Shareholders/Board of Directors, as applicable, of national companies and fully or majority stated owned companies and autonomous regies, regarding measures to be implemented for distribution of at least 90% of the 2018 financial year net profit as dividends/payments to the state budget.”*

I.

The 2018 net profit (after profit tax deduction) according to the financial statements amounts to **RON 1,360,546,709.00**. The profit distribution proposal has been made considering *Memorandum No 20/4737/18.03.2019 issued by the Ministry of Public Finances* and the *Report on the 2019 Macroeconomic Situation and its*

Capital social: 385.422.400 lei
CIF: RO 14056826
Nr. Ord.reg.com/an : J32/392/2001
RO08 RNCB 0231 0195 2533 0001 - BCR Mediaș
RO12 BRDE 3305 V024 6190 3300 - BRD Mediaș



S.N.G.N. Romgaz S.A.
551130, Piața C.I. Moțaș, nr.4
Mediaș, jud. Sibiu - România
Telefon 004-0374 -401020
Fax 004-0269-846901
E-mail secretariat@romgaz.ro
www.romgaz.ro

Projection on 2020-2022” published by the Ministry of Public Finances in supporting the 2019 State Budget Law, stating that “measures to distribute a minimum 90% of net profit as payments to the state or local budget, in the case of autonomous regies, or dividends, in the case of national companies or companies with full or majority state-owned capital shall also be applicable in 2019”.

The proposal regarding the profit distribution is shown in the table below:

I	Indicators	Year 2018 Value (RON)
0	1	2
A.	Gross result of financial year	1 578 855 999.00
B.	Current income tax	271 380 085.00
C.	Deferred income tax	53 070 795.00
D.	Net result of financial year [A.-B.+C.], (accounting profit after profit tax deduction), including:	1 360 546 709.00
a)	Legal reserve	.00
b)	Other reserves representing fiscal facilities provided by law (Law No.227/2015-Article 22)	42 477 415.72
c)	Coverage of losses in retained earnings from previous years accounting errors (in accordance with Article1, paragraph(1) ,c) of GO No.64/2001)	.00
c ¹)	Set up of own financing sources for co-financed projects from external loans (in accordance with Article 1, paragraph(1), c ¹ of GO No.64/2001)	.00
d)	Other distributions as provided by special laws	.00
E.	Remaining net profit to be distributed (D-b+c)	1 318 069 293.28
e)	Employees' participation to profit	28 717 514.58
f)	Dividends due to shareholders (approx. 90.15% of net profit to be distributed (E + e))	1 214 080 560.00
	-dividend/share	3.15
g)	Profit for setting up own financing sources (E-f)	103 988 733.28
*	TOTAL DISTRIBUTIONS (b+f+g)	1 360 546 709.00

→ RON 42,477,415.72 were allocated to reserves in accordance with Article 22 of Law NO. 227/2015 on the Fiscal Code, and represent the profit invested in

technological equipment - machinery, work equipment and facilities, electronic computers and peripheral equipment, cash, control and billing devices, computer programs, manufactured and/or purchased. According to this article, the profit amount that benefitted from the profit tax exemption, less the amount related to the legal reserve, is distributed at the end of the financial year, prevalently for setting up reserves;

→ Employees' participation to profit was established within the limit of the average monthly basic salary per employee for 2018, as follows:

Average number of personnel	5,604 employees;
Average monthly basic salary in 2018	RON 5,124.467 /pers./month;
Employees' participation to profit fund	RON 28,717,514.58.

→ The resulting dividend per share was RON 3.1449. It was rounded up to RON 3.15/share, hence a profit distribution percentage of 90.15%.

II.

In 2018, the Company has voluntarily modified the accounting policy on recognizing the costs with seismic acquisitions, geology and geophysical works and other similar operations. In accordance with the new policy, such costs are recognized as expenditure when performed. Previously, such cost were recognized as exploration intangible assets.

In 2018, the Company also changed the policy on well decommissioning provision by replacing the average cost of capital with the interest related to 10-year term government bonds as debt discount rate, to be in line with industry practices.

Furthermore, in 2018, the Company reviewed the depreciation of gas cushion recorded as fixed asset and concluded that such should not have been depreciated.

In accordance with the International Financial Reporting Standards implemented in Romania by Order of the Ministry of Public Finances, the above mentioned modifications have been recorded by retained earnings. Hence, the modifications to the accounting policies have generated a loss in retained earnings amounting to RON 433,574,893.4. Correction of gas cushion depreciation has generated a profit in retained earnings amounting to RON 57,202,290. Net loss carried forward from such operations amounts to RON 376,372,603.4.

According to the Accounting Law No. 82/1991, Article 19, paragraph (4), "Net loss carried forward is applied against the financial year's profit and the profit carried forward, reserves, share premium and share capital, in accordance with the resolution of the General Meeting of Shareholders or Associates".

Hence, retained earnings amounting to RON 409,482,213, representing the value of fixed asset depreciation and fixed assets and investment projects abandoned

during the reporting year financed from the “expenditure quota required for development and modernization of natural gas production” source, in accordance with GD No. 168/1998, as subsequently amended and supplemented, is applied to cover the above mentioned carried forward loss, that is RON 376,372,603.4. The balance of RON **33,109,609.6** is distributed as dividends, in a similar manner to net profit distribution, as follows:

- a. **The amount of RON 30,833,792 as dividends, with a value of RON 0.08 dividend/share;**
- b. **The amount of RON 2,275,817.6, for own financing sources.**

III.

GEO No. 114/2018 provides in Article 43 the following:

„The economic operators with full or majority state-owned capital to which the provisions of GD No. 26/2013 ... apply, shall distribute and pay under Law, no later than 60 days after approval of the 2018 financial statements, as dividends or payments to the state budget, in the case of autonomous regies, 35% of amounts allocated to other reserves in accordance with the provisions of Article 1, paragraph (1), item g) of the GO No. 64/2001 ..., found in the cash availability accounts from cash and bank accounts as well as the one related to short term investments as of December 31, 2018 and which on the same date are not committed, under procurement agreements, to be used as own financing sources”.

The amount to be distributed in accordance with the provisions of Article 43 of the GEO No. 114/2018 amounts to RON 359,956,742. For the purpose of dividend distribution, rounding up to two decimal places was required, that is RON 0.94/share, resulting an amount of RON 362,297,056 to be distributed and a percent of 35.23%. The amount proposed to be distributed as dividends is found in the accounts specified in Article 43, GEO No. 114/2018, and was not committed under procurement agreements at the end of 2018.

Taking into account the above, we hereby submit the following for review and approval:

1. 2018 net profit distribution in accordance with the following proposal:

I	Indicators	Year 2018 Value (RON)
0	1	2
A.	Gross result of financial year	1 578 855 999.00
B.	Current income tax	271 380 085.00
C.	Deferred income tax	53 070 795.00

I	Indicators	Year 2018 Value (RON)
0	1	2
D.	Net result of financial year [A.-B.+C.], (accounting profit after profit tax deduction), including:	1 360 546 709.00
a)	Legal reserve	.00
b)	Other reserves representing fiscal facilities provided by law (Law No.227/2015-Article 22)	42 477 415.72
c)	Coverage of losses in retained earnings from previous years accounting errors (in accordance with Article1, paragraph(1),c) of GO No.64/2001)	.00
c')	Set up of own financing sources for co-financed projects from external loans (in accordance with Article 1,paragraph(1),c^1 of GO No.64/2001)	.00
d)	Other distributions as provided by special laws	.00
E.	Remaining net profit to be distributed(D-b+c)	1 318 069 293.28
e)	Employees' participation to profit	28 717 514.58
f)	Dividends due to shareholders (approx. 90.15% of net profit to be distributed (E + e))	1 214 080 560.00
	-dividend/share	3.15
g)	Profit for setting up own financing sources(E-f)	103 988 733.28
*	TOTAL DISTRIBUTIONS (b+f+g)	1 360 546 709.00

2. **The value of the dividend amounting to RON 3.15 /share relating to the 2018 net profit;**
3. **Employees' participation to profit in accordance with Government Ordinance No. 64/2001 in amount of RON 28,717,514.58;**
4. **The carried forward loss, as a result of changes in accounting policies, amounting to RON 433,574,893.4 to be applied against the retained earnings amounting to RON 409,482,213 (representing the value of fixed asset depreciation and fixed assets and investment projects abandoned during the reporting year financed from the "expenditure quota required for development and modernization of natural gas production" source in accordance with GD No. 168/1998, as subsequently amended and supplemented) and the amount of RON 57,202,290 (representing carried forward profit from correcting previous years' errors). The balance amounting to RON 33,109,609.6 from retained earnings to be distributed in a similar manner to net profit distribution, as follows:**

- a. the amount of RON 30,833,792 as dividends, with RON 0.08 dividend/
share;
 - b. the amount of RON 2,275,817.6, for own financing sources.
5. Distribution of the amount RON 362,297,056 as dividends in accordance
with the provisions of Article 43 of GEO No.114/2018, resulting in an
additional dividend of RON 0.94/share;
 6. The total value of dividend per share, as resulted from the above
described, (items 2+4.a+5) amounts to RON 4.17.

SNGN ROMGAZ SA MEDIAS
CHAIRMAN OF THE BOARD OF DIRECTORS
Dorin-Liviu Nistoran



CHIEF FINANCIAL OFFICER,
Andrei Bobar

