

No. 17608/07.03.2023

Submitted for approval to the OGMS dated 26 April 2023

Report

On the approval of the evaluation of the compliance with the financial and non-financial performance indicators for 2022 attached as annex to the non-executive administrators' mandate contracts

SUMMARY

By Resolution no. 8 of 6 December 2021 of the Ordinary General Meeting of the Shareholders, the financial and non-financial performance indicators attached as annex to the administrators' mandate contracts were approved.

By Resolution no. 3 of 28 February 2022 of the Ordinary General Meeting of the Shareholders, the revision of some financial performance indicators was approved in the form as submitted by the Board of Administration and endorsed by BoA Resolution no. 3/26.01.2022, and by the Resolution of the Ordinary General Meeting of Shareholders no. 10 of 7 December 2022, the revision of some non-financial performance key indicators in the form submitted by the Board of Administration and endorsed by BoA Resolution no.33/27.10.2022 was approved.

The consolidated version of the key performance indicator targets is attached as annex to the non-executive directors' mandate contracts.

PROPOSAL

In line with the provisions of art. 30, para. (7) corroborated with the provisions of art. 37 para. (2) of GEO no.109/2011 on the corporate governance of public enterprises, as amended, the evaluation of the fulfilment of the financial and non-financial performance indicators for the year 2022 attached to the mandate contract of the non-executive administrators, as annex, is submitted to the Ordinary General Meeting of Transgaz' Shareholders for approval.

Detailed contents

By BoA Resolution no. 29/06.10.2021 based on Report no. DG75262/05.10.2021, the Board of Administration approved **Transgaz' Administration Plan for the period 2021-2025** noting the need for the financial and non-financial indicators as negotiated and approved by the General Meeting of the Shareholders to be revised.

By OGSM Resolution no. 8/06.12.2021, art. 1, the financial and non-financial performance indicators for the period 2021-2025 attached as an annex to the administrators' mandate contracts were approved.

The revision of some financial key performance indicators was approved by OGMS Resolution no. 3/28.02.2022 and the revision of some non-financial key performance indicators was approved by OGMS Resolution no. 10/07.12.2022. The consolidated version of the performance indicators targets represents an annex to the administrators' mandate contracts.

Following the revision of some financial and non-financial key performance indicators, the members of the Board of Administration approve, by the BoA Resolution no. 8/09.03.2022, respectively BoA Resolution no. 33/27.10.2022, Transgaz' Administration Plan for the period 2021 - 2025, as updated.

In line with the provisions of art. 30 para. (7), corroborated with the provisions of art. 37 para. (2) of GEO no. 109/2011 on the corporate governance of public enterprises, as amended, the evaluation of the compliance with the financial and non-financial performance indicators for the year 2022, attached as annex to the non-executive administrators' mandate contracts is submitted to the Ordinary General Meeting of Transgaz' Shareholders for approval.

Annexes:

Annex 1 - Financial performance indicators for the calculation of the remuneration variable component – Achievements 2022;

Annex 2 - Non-financial performance indicators for the calculation of the remuneration variable component – Achievements 2022;

Annex 3 – The substantiation of the financial performance indicators' calculation;

THE NOMINATION AND REMUNERATION COMMITTEE

PETRU ION VĂDUVA

NICOLAE MINEA

CSABA OROSZ

Annex 1
To OGMS Report no.17608/ 07.03.2023

Financial performance indicators for calculating the variable component of remuneration

▪ **According to the Administration Plan 2021-2025, updated**

No.	Indicator	Objective	2022	
			Budgeted	Achieved
1.	Outstanding payments	Keeping outstanding payments at zero.	0	
2.	Operating expenses (less depreciation, balancing, construction activity and provisions for depreciation of assets and for risks and liabilities) (thousand lei)	Maintain the level of operating expenses (less depreciation, balancing, construction activity and provisions for depreciation of assets and for risks and liabilities) at the level assumed in the Administration Plan.	1.112.356	918.441
3.	Overall liquidity ratio	The overall liquidity ratio to record annual values above 1.	1	1,39
4.	Net debt ratio	Maintain a net debt ratio below the limits set for obtaining bank financing, i.e.: 5-2021, 5,5-2022, 5 – 2023-2024, 4,5 2025	5,5	2,78
5.	EBITDA (mii lei)	Achievement of the EBITDA target assumed in the Administration Plan.	354.495	583.282

Annex 2
to OGMS Report no. 17608/07.03.2023

Non-financial performance indicators for the calculation of the remuneration variable component – Achieved 2022

- **According to Administration plan 2021-2025, updated**

Indicator	Objective	No.	2022		Achievement degree	
			Planned	Achieved 2022		
Operaționali						
6	Monitoring the Implementation and Investment Strategy	Achievement of the FID projects from the 10 years Development Plan (2022-2031) <i>I = (achieved+initiated actions)/ proposed actions</i>				100%
		Project on NTS developments in the North-East area of Romania in order to improve the natural gas supply of the area as well as to ensure transmission capacities to the Republic of Moldova	6.1	-	- Completed 2021	
		Project on new developments of the NTS to take gas from the Black Sea coast	6.2	-	- Completed 2021	
		Development on the Romanian territory of the Southern Transmission Corridor to take natural gas from the Black Sea coast	6.3	Construction 2023-2025 Completion time depends on the timing of upstream offshore projects .	All design and permitting activities have been completed and the works contract has been signed . Incremental capacity process started at the planned entry point to the Black Sea NTS - PM Tuzla - Non-commitment phase.	
	Carrying out the pilot project for measuring and using the mixture of natural gas with hydrogen	6.4	Design, execution and installation of the pilot project plant for the use of natural gas mixture with hydrogen and study of influences on materials, measuring systems and combustion equipment.	All activities related to the design, execution and installation of the pilot project for the use of natural gas mixture with hydrogen and the study of influences on materials, measuring systems and combustion equipment have been carried out.	100%	

7	Increasing energy efficiency	Maintaining the share of the NTS consumption in the total circulated gas below 1%	7.1	<1	0,54%	100%
8	Customer satisfaction	Achievement of targets set out in the management plan (According to PP 165 Assessment of customer satisfaction a score between 6-8 means that the services provided have adequately met customer requirements)	8.1	8	Achieved - 8 Report no. SMC/11972/15.02.2023 on evaluation and determination of SNTGN Transgaz SA customers' satisfaction for 2022.	100%
9	Strengthening and diversifying cooperation and collaboration relations with natural gas transmission and system operators in the European Union	Conclusion of memoranda of cooperation and collaboration with natural gas transmission and system operators in the European Union (minimum 5 operators) on collaboration on hydrogen injection.	9.1	1	The joint Memorandum of Understanding between four Central European natural gas Transmission System Operators (TSOs) (Transgaz from Romania, Gaz-System from Poland, Eustream from Slovakia and FGSZ from Hungary) on exploring possibilities to decarbonise operations, to transmit green gas and to investigate the potential of CO2 transmission was signed on 07.04.2022 .	100%

Oriented towards public services

10	Performance indicators related to the gas transmission service	Achievement of the targets provided for in the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016). For the period 1 January 2022-30 September 2022	10.1	$IP_0^1 \geq 90\%$	99,36%	100%
			10.2	$IP_1^1 \geq 90\%$	*	
			10.3	$IP_1^2 \geq 95\%$	*	
			10.4	$IP_1^3 \geq 95\%$	98,73%	
			10.5	$IP_1^4 \geq 95\%$	100%	
			10.6	$IP_1^5 \geq 95\%$	100%	
			10.7	$IP_2^1 \geq 95\%$	100%	
			10.8	$IP_3^1 \geq 95\%$	100%	
			10.9	$IP_3^2 \geq 95\%$	*	
			10.10	$IP_4^1 \geq 95\%$	*	
			10.11	$IP_5^1 \geq 98\%$	100%	
			10.12	$IP_5^2 \geq 98\%$	100%	
			10.13	$IP_6^1 \geq 98\%$	100%	
			10.14	$IP_6^2 \geq 98\%$	100%	
		Achievement of the targets set out in the Performance Standard for natural gas transmission and system service (ANRE order 140/2021 which came into force on 1 October 2022). For the period 1 October 2022-31 December 2022	10.1	$IP_0^1 \geq 90\%$	100%	100%
			10.2	$IP_1^1 \geq 90\%$	100%	
			10.3	$IP_1^2 \geq 95\%$	*	
			10.4	$IP_1^3 \geq 95\%$	*	
			10.5	$IP_1^4 \geq 95\%$	100%	
			10.6	$IP_1^5 \geq 95\%$	*	
			10.7	$IP_2^1 \geq 95\%$	100%	
			10.8	$IP_3^1 \geq 95\%$	96,96%	
			10.9	$IP_3^2 \geq 95\%$	*	

			10.10	$IP_4^1 \geq 95\%$	*	
			10.12	$IP_5^1 \geq 98\%$	100%	
			10.12	$IP_5^2 \geq 98\%$	*	
			10.13	$IP_6^1 \geq 98\%$	*	
			10.14	$IP_6^2 \geq 98\%$	*	
Corporate governance						
11	Optimizing the internal/managerial control system	<p>Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended.</p> <p>I = implemented standards/standards provided by Order 600/2018*100</p> <p>Implementation of measures laid down in the SCIM Implementation Programme</p> <p>I = measures achieved/proposed measures *100</p>	11.1	Development of the internal/managerial control system with a view to maintaining it at a level deemed to comply with the standards contained in the Code of Internal/Managerial Control.	<p>Completed</p> <ul style="list-style-type: none"> - decision no.15/06.01.2022; -address to SGG 2649/12.01.2022, entry no. SGG 17/876/12.01.2022. Data uploaded to the SCIM-SGG IT platform. By e-mail dated 10.05.2022 SGG communicates approval of the forms uploaded to the IT platform. - SCI/M development programme, updated for 2022, No DSMC/778/04.01.2022; - information on the status of implementation of the internal/managerial control system at Transgaz level for the year 2021, no. DSMC/21884/18.03.2022; - information on performance monitoring at Transgaz level for 2021, no. DSMC/21726/18.03.2022; - The Board of Administration took note of the Report No. 27999/07.04.2022 on "Status of implementation of the internal/managerial control system" and the Report No. 28259/11.04.2022 on "Performance monitoring" for the year 2021, by BoA Resolution No. 13/20.04.2022; - The System Risk Management Procedure is in draft form. Approval is scheduled for Q1 2023. -drafting EGR ROF code REG DJ 01. 	100%
			11.2	Improve the efficiency of the processing and management of SCI/M	<p>Completed</p> <ul style="list-style-type: none"> - Specifications for the design and 	100%

				documentation by implementing an SCI/M Web Platform.)	implementation of the SCI/M Web Platform, no. 43806/08.06.2021. Analysis, Diagnosis, Evaluation of the Internal/Managerial Control System is included in chapter 2 of the Specifications. The implementation of the platform has been postponed to 2023. The implementation of the platform was postponed after the implementation of MAIS .	
12	Optimising the risk management process	Implementation of the requirements of Standard 8 of SGG Order No 600/2018 for the approval of the Code of Internal/Managerial Control of Public Entities as amended. Transition to the 5-step risk assessment scale.	12.1	Continuous monitoring and adaptation of the organisational, conceptual and methodological framework of the risk management process	<p>Completed</p> <ul style="list-style-type: none"> - EGR decision no. 104/28.01.2022; - Risk Management Strategy, 2021-2025; no. DSMC/38586/19.05.2021 s-approved by the Resolution of the Board of Administration No . 25/31.08.2021; - The System Risk Management Procedure is in draft form. Approval is scheduled for Q1 2023. - development of the EGR ROF code REG DJ 01; - elaboration of the document "Risk Grouping System identified at SNTGN Transgaz SA level", registration no. DSMC/51290/30.06.2022. - 3-step risk tolerance limit for the year 2022 No DSMC/4711/19.01.2022, disseminated by address No DSMC/17518/04.03.2022 and published in the public area : https://portal.intranet.transgaz.ro/zonapublică/ Sistem de Control Managerial /Managementul Riscului / 6. Limita de toleranță - Risk Officers within the organisational structures have been trained on the transition to the use of the 5-step Tolerance Limit in consultations held from 20.03.2022- 	100%

					28.06.2022 and in professional counselling on risk management provided to designated Risk Officers in 2022.
			12.2	Systematic analysis of risks associated with operational objectives at the level of organisational structures .	<p>Completed In accordance with the Address no.DSMC/17518/04.03. 2022 all organisational structures :</p> <ul style="list-style-type: none"> - have posted the List of objectives, performance indicators, activities, risks, for the year 2022; - posted Risk Registers, at the level of departments, directorates, services and independent offices; - have posted plans for risk minimisation measures in departments, directorates, services and independent offices; - in accordance with Address no.DSMC/94975/02.12. 2022 all organisational structures have posted the revised Risk Registers, December 2022, and the Risk Management Report at the level of departments, independent directorates, services and independent offices, Territorial Operations, Mediaş Branch.
			12.3	Implementation of Risk Management policy, procedures and legal requirements and monitoring their application at company level.	<p>Completed</p> <ul style="list-style-type: none"> - Risk Register at company level, no.DSMC/4713/19.01.2022; - Risk Register at company level, no. DSMC/4713/19.01.2022 , revised December 2022; - Risk Minimisation Measures Plan at company level, no. DSMC/4715/19.01.2022; - Information on risk management and monitoring within SNTGN Transgaz SA for the year 2021, no. DSMC/4715/19.01.2022; - The Board of Administration has

					<p>taken note of the Information no. 27998/07.04.2022 on risk management and monitoring within SNTGN Transgaz SA, by Resolution No 13/20.04.2022;</p> <p>- Risk profile, December 2021 No DSMC/4711/19.01.202.</p>	
13	Timely reporting of the key performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	13.1	Financial communication calendar to BVB	Completed (please see the company's website)	100%
			13.2	Report on the status of achievement of the 10 year National transmission system development plan	Completed Letter DSMC/15455/25.02. 2022 Term 1 March 2022	
			13.3	SCIM reporting	Completed The Secretariat General of the Government was informed by address no. DSMC/2649/12.01.2022, entry no. SGG 17/876/12.01.2022, Status of implementation and development of SCI/M in SNTGN Transgaz SA as of 31.12.2021.: - Centralising Situation on the status of implementation and development of the internal/managerial control system within SNTGN Transgaz SA, as of December 31, 2021; -Report on the internal/managerial control system as at 31 December 2021; - Self-assessment questionnaire on the state of implementation of internal/managerial control standards; - Summary of the results of the self-assessment as at 31 December 2021. (to be reported annually)	
			13.4	Reporting related to the achievement of the performance indicators of the gas transmission service	Completed - letter no. 92556/23.11.2022 ANRE reporting for the 2021-2022 gas year (to be reported annually on 1 October)	
			13.5	Reporting form S1100 on the monitoring of the	Completed - Letter no. 50601/24.06.2022	

				application of the provision of GEO 109/2011	S1100 reporting for H1 2022 -Letter no.373/04.01.2023 S1100 reporting for H2 2022	
14	Implementation of 2021-2025 SNA	<i>Implementation of measures laid down in the SNA I = measures completed on time / measures proposed*100</i>		<i>Achievement of the objectives set out in the Integrity Plan for the implementation of the National Anti-Corruption Strategy 2021-2025</i>	<i>In December 2021, the new National Anti-Corruption Strategy 2021-2025 was adopted, and the deadline set in it for the development and approval of the Integrity Plan for the new Strategy was 30.06.2022. As a result, an integrity plan was not in place in H1 2022. The measures set out in the National Anti-Corruption Strategy 2021-2025 for the year 2022 (Declaration on the assumption of the organisational integrity agenda, Integrity Plan, designation of the implementation coordinator and transmission to the Technical Secretariat of contact persons, etc.) have been carried out within the set deadline). The measures set out in the Integrity Plan for the implementation of the National Anti-Corruption Strategy 2021-2025, for the year 2022 (identification, analysis, evaluation and monitoring of corruption risks, as well as the establishment and implementation of measures for their prevention and control; creation, on the website of S.N.T.G.N. Transgaz S.A., of a link to the new S.N.A. portal) have been carried out within the set deadline.; permanent updating of the database of companies that have not properly executed the contracts concluded with S.N.T.G.N. Transgaz S.A. and its use as a permanent working tool; open publication of economic and performance indicators;</i>	
			14.1			100%

					<i>drafting and approving strategic documents on competition policy)</i>	
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Note: considering the fact that no requests/notifications/complaints have been registered for the period analysed for the indicators measuring the performance of the Natural Gas Transmission Service marked with *, it appears that the indicators are fulfilled as required by the Performance Standard, but the degree of fulfilment of these indicators cannot be determined by mathematical calculation.

Annex 3
to the OGMS Report no.17608/07.03.2023
The substantiation of the financial performance indicators' calculation according to the Administration Plan 2021-2025

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1	Operating income before balancing activity and construction activity in accordance with IFRIC12		1.575.186.135
2	Operating profit before balancing and construction activity in accordance with IFRIC12		159.632.297
3	Total operating expenses less balancing and construction activity in accordance with IFRIC 12	rd.1-rd.2	1.415.553.838
4	Employee expenses		491.588.137
5	Technological consumption, materials and consumables used		180.267.951
6	Royalty expenses		5.703.430
7	Maintenance and transport		36.913.734
8	Tax and other amounts due to the State		86.781.521
9	Other operating expenses		172.561.046
10	Depreciation loss on receivables - Financial statements – page 67	nota 23	42.126.152
11	Loss/(profit) on depreciation of inventories - Financial statements – page 67	nota 23	13.249.124
12	Operating expenses less depreciation, balancing, construction activity and provision for depreciation of assets and for risks and charges	sum(rd.4 la rd.9)-rd.10-rd.11	918.440.542
13	Depreciation		423.649.671
14	EBITDA	rd.1 - (rd.3 - rd.13)	583.281.968
15	Current assets		1.329.445.239
16	Current debts		956.859.072
17	Overall liquidity ratio	rd.15/rd.16	1,39
18	Long-term loans		1.871.382.547
19	Short-term loans		132.098.774
20	Cash and cash equivalents		384.237.135
21	Net debt ratio	(rd.18+rd.19-rd.20)/rd.14	2,78