

No.60363/22.10.2020

Submitted for review and approval in the GSM dated 9/10 December 2020

### **Report**

**On the approval of the evaluation of the fulfilment of the key financial and non-financial performance indicators attached as annex to the Mandate Contracts of the non-executive administrators**

### **SUMMARY**

By GOSM Resolution no. 12/19.12.2017, art.1 the key financial and non-financial performance indicators were approved and which are annex to the mandate contracts of the administrators, in line with Annex no 2 to Order no 1367/GS/15.12.2017.

By GOSM Resolution no. 3/16.05.2019, art.1 the revision of financial performance indicators was approved as submitted by the Board of Administration and approved by the Resolution of the Board of Administration no 16/09.04.2019, consolidated version of the key performance indicators targets is annex to the mandate contracts of the non-executive administrators, in view of submission to the General Shareholders Meeting for approval.

### **PROPOSAL**

In line with the provisions of art 30 para (7) corroborated with art 37 para (2) of GEO no.109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented we submit for the approval of the General Shareholders Meeting of SNTGN Transgaz SA the evaluation of the fulfilment of the key financial and non-financial performance indicators annex to the mandate contract of the non-executive administrators.

### **Detailed content**

By Resolution of the BA no. 36/10.10.2017 based on Report no 47365/09.10.2017, the Board of Administration approved Transgaz' Management Plan for the period

2017-2021 maintaining the revision of the financial and non-financial indicators as negotiated and approved in the General Meeting of the Shareholders.

By Resolution of the GOMS no 12/19.12.2017, art 1 the key financial and non-financial performance indicators were approved and attached as an annex to the mandate contracts of the administrators in line with Annex no 2 to Order no 1367/GS/15.12.2017. The revision of some Financial performance indicators was approved by GOSM Resolution no 3/16.05.2019, art 1 and the consolidated version of the key performance indicators target is an annex to the mandate contracts of the non-executive administrators.

Following the revision of some financial indicators the members of the Board of Administration approve, by the Resolution of the BA no 38/28.08.2019, Transgaz' Management Plan for the period 2017-2021, as updated.

In line with the provisions of art 30 para (7), corroborated with art 37 para (2) of GEO no 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented we submit to the General Shareholders Meeting of SNTGN Transgaz SA the evaluation of the compliance with the key financial and non-financial performance indicators, attached as annex to the mandate contracts of the non-executive administrators.

*Annexes:*

*Annex 1 - Key financial performance indicators for the calculation of the variable component of the remuneration –Achievements 2019;*

*Annex 2 - Key non-financial performance indicators for the calculation of the variable component of the remuneration –Achievements 2019;*

*Annex 3 – The situation of the arrears as at 31 december 2019;*

*Annex 4 – The substantiation of the calculation of the financial performance indicators.*

## **THE NOMINATION AND REMUNERATION COMMITTEE**

**VĂDUVA PETRU ION**

**MINEA NICOLAE**

**ILIESCU BOGDAN GEORGE**

**Annex 1**  
**to GOSM Report no.60363/22.10.2020**

No.	Performance criteria	Performance objective	2019	
			Indicators according to the revised Management Plan	Indicators achieved on 31.12.2019
1.	<b>Outstanding payments – thousand lei</b>	Maintaining outstanding payments to zero	0	0
2.	Operating expenses (except for depreciation, balancing, construction activity and provisions for the asset depreciation and for risks and charges) – thousand lei)	Maintaining the level of the operating expenses at the level undertaken under the Management Plan	1.070.891	894.795
3.	Acid test ratio	Acid test ratio to register annual values over 1.	0,91	1,60
4.	Net debt-to-equity ratio	Maintaining a net debt-to-equity ratio under the limits set for obtaining bank financing, namely: 3-2017; 3-2018; 5,5-2019; 5,5-2020; 4-2021	5,50	1,23
5.	EBITDA – thousand lei	Achieving the EBITDA target undertaken in the Management Plan	329.594	541.590

**Annex 2**  
**to GOSM Report no.60363/22.10.2020**

**Key non-financial performance indicators for the calculation of the variable component of remuneration – Achieved 2019**

No.	Indicator	Objective	No.	2019		Achievement degree
				Planned	Achieved	
Operational						
6.	Monitoring the Implementation and Investment Strategy	Achievement of the FID projects from the 10 years Development Plan $I=(\text{achieved}+\text{initiated actions})/\text{proposed actions}$				
		Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).	6.1	Construction Phase I	In progress –over 300 km of 479 km were welded for BRUA Phase I; -CS Jupa - completed and commissioned on 30.09.2019; -CS Podișor - completed and commissioned on 31.10.2019, -CS Bibești – under execution; commissioning is expected on 30 June 2020,  - Execution completion of Jupa – Recaş pipeline section (part of Lot 3)	100%
		Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea	6.2	Procurement of design and execution works  - Obtaining of comprehensive decision – phase 2	-Completed   -Completed	
		Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;	6.3	Isaccea I – start of construction  Negru Vodă 1 – start of execution	- Isaccea 1 execution in progress  - FEED under preparation (updated deadline)	
7.	Increasing energy efficiency	Maintaining the share of the technological consumption in the total circulated gas below 1%	7.1	<1	0.49	100%

Oriented towards public services						
8.	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)	8.1	$IP_0^1 \geq 90\%$	92,44%	100%
			8.2	$IP_1^1 \geq 95\%$	100%	
			8.3	$IP_1^2 \geq 95\%$	100%	
			8.4	$IP_1^3 \geq 95\%$	100%	
			8.5	$IP_1^4 \geq 95\%$	100%	
			8.6	$IP_1^5 \geq 95\%$	100%	
			8.7	$IP_2^1 \geq 95\%$	100%	
			8.8	$IP_2^2 \geq 95\%$	-	
			8.9	$IP_3^1 \geq 95\%$	100%	
			8.10	$IP_3^2 \geq 95\%$	-	
			8.11	$IP_3^3 \geq 95\%$	-	
			8.12	$IP_3^4 \geq 95\%$	-	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	100%	
			8.15	$IP_5^2 \geq 98\%$	100%	
			8.16	$IP_6^1 \geq 98\%$	100%	
			8.17	$IP_6^2 \geq 98\%$	100%	
			8.18	$IP_7^1 \geq 80\%$	96.77%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	
Corporate governance						
9.	Implementing the internal/managerial control system	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.  <i>I = implemented standards/standards provided by Order 600/2018*100</i>	9.1	94%	<b>Achieved</b> -Letter DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government on the Progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. -Centralized progress of the SIQ/M implementation and development at SNTGN Transgaz SA on 31.12.2019, no. 1387/13.01.2020. -Self-Assessment Questionnaire on the progress of the SIQ/M standards implementation on 31.12.2019, no. 1383/13.01.2020.	100%

					<ul style="list-style-type: none"> <li>-Synthesis of self-assessment results on 31.12.2019, no. 1385/13.01.2020.</li> <li>-Updating of Decision no. 283/15.03.2019 or the establishing of Monitoring Committee;</li> <li>- Updating of Decision no. 282/15.03.2019 on the appointment of the SIQ/M persons responsible;</li> <li>- Updating of the 2019 Transgaz SCI/M Development Plan no. 1330/10.01.2019;</li> <li>- Report on the SIQ/M implementation on 31.12.2019, no. 8209/12.02.2020;</li> <li>- Report on 2019 Transgaz performance monitoring, no. DSMC/8211/12.02.2020.</li> </ul>	
10.	Clients satisfaction	Achievement of the targets provided for in the administration plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)	10.1	7,9	<p><b>Achieved</b></p> <p>SMC Letter no. 8521/13.02.2020 for year 2019</p>	100%
11.	Setting the risk management policies and risk monitoring	Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial Control Code of public entities	11.1	Updating of risk management specific documents	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Decision no. 284/15.03.2019 for the updating of the Risk Management Team;</li> <li>-2019 Tolerance Limit no. 3885/21.01.2019;</li> <li>-The risk profile of Transgaz, December 2018, no. 3885/21.01. 2019;</li> <li>- The risk profile of Transgaz, December 2019, no. 1512/13.01. 2020.</li> <li>-Analysis of the strategic risks included in the Register of the Risks at the company level - year 2018 no. 2738/16.01.2019 and the reclassification of strategic risks;</li> <li>-Statement – Commitment of the Director - General regarding Risk management, updated in May 2019</li> </ul>	100%
			11.2	Updating the Register of Risks  Updating the Plan of measures to mitigate risks	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>- the Register of the Risks at the company level - year 2019, no. 2740/16.01.2019;</li> <li>-Plan of measures to mitigate risks, at the company level, year 2019, no. 2877/16.01.2019.</li> </ul>	
			11.3	Report on risk management and monitoring	<p><b>Achieved</b></p> <ul style="list-style-type: none"> <li>-Report on risk management and monitoring within the company, for 2019, no. 1518/ 13.01.2020;</li> <li>-Report on the progress of achievement of specific objectives and the Plan for the implementation of the measures set by the Risk management Strategy, no. DG 37873/27.06.2019;</li> </ul>	

					-The Report of the Audit and Rating Committee to the Board of Administration on the risk management and monitoring within SNTGN Transgaz SA for 2018, no. DG 37870/27.06.2019, BoA meeting of 04.07.2019.	
12.	Timely reporting of the key performance indicators	Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100	12.1	Financial communication calendar to BSE	<b>Achieved</b>	100%
			12.2	Status of achievement of the 10 year National transmission system development plan	<b>Achieved</b> Letter DSMC/16016/15.03.2019  Deadline: 15 March 2019  Letter DSMC/11471/26.02.2020  Deadline: 1 March 2020	
			12.3	SIQ/M reporting	<b>Achieved</b> Letter DSMC/4786/ 25/01.2019 – reporting for 2018. Letter no. DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government, on the Transgaz SIQ/M progress of implementation and development on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. (reported annually)	
			12.4	Reporting related to the achievement of the performance indicators of the gas transmission service	<b>Achieved</b> Letter no. 69593/ 22.11.2019 - ANRE report for gas year 2018-2019 (reported annually)	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<b>Achieved</b> Letter DSMC 38243/28.06.2019  Report for Semester I 2019  Letter DSMC 393/07.01.2020  Report for Semester II 2019	
13.	Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans	Compliance with the measures undertaken by the approved Integrity Plan  I = measures achieved within the deadline /proposed measures *100	13.1	Publication of the SCIM assessment results	<b>Achieved</b> Published report on the Internal/Management Control System on 31.12.2019, no. 1427/13.01.2020 at:  <a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf</a>	100%

			<p>13.2</p> <p>Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities</p>	<p><b>Achieved</b></p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 3328/18.01.2019 the 17.01.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the Ministry of Economy (the coordinating ministry);</p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 5573/31.01.2020, 31.12.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the General Secretariat of the Government;</p>
			<p>13.3</p> <p>Annual publication of the performance indicators monitored within the company's Integrity Plan</p>	<p><b>Achieved</b></p> <p>(by the publication of the Annual Evaluation of the Integrity Plan on intranet):</p> <p><a href="http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/">http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/</a></p>



**Annex 3**  
**to GOSM Report no.60363/22.10.2020**

**Substantiation of financial performance indicators calculation**

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1	Operating revenue before balancing and construction, according to IFRIC12		1.576.667.030
2	Operating profit before balancing and construction, according to IFRIC12		347.967.604
3	Total operating costs less balancing and construction, according to IFRIC 12:	row 1-row2	1.228.699.426
4	Depreciation		193.622.482
5	Cost of provisions for risks and charges		49.818.887
6	Cost of provision for asset depreciation and for risks and charges:	row 6a + row 6b + row 6c	90.462.591
6a	Loss/gain from impairment of receivables – Financial Statements - page 60	note 23	87.726.834
6b	Loss/(gain) from write-down of inventories - Financial Statements - page 60	note 23	607.230
6c	Loss/(gain) from write-down of intangible assets - Financial Statements – page 60	note 23	2.128.527
7	<b>Operating costs less depreciation, balancing, construction and provision for asset impairment and for risks and charges</b>	<b>Row 3-row 4-row 5-row 6</b>	<b>894.795.466</b>
8	<b>EBITDA</b>	<b>Row 1 - (row 3 – row 4)</b>	<b>541.590.086</b>
9	Current assets		1.285.039.006
10	Inventories		488.033.645
11	Current liabilities		497.438.738
12	<b>Acid test ratio</b>	<b>(row 9-row 10)/ row 11</b>	<b>1,60</b>
12	Long term loans		661.062.420
13	Short term loans		2.867.580
14	<b>Net debt-to-equity ratio</b>	<b>(row 12+row 13)/ row 8</b>	<b>1,23</b>