

No. 1732/10.01.2023

*Submitted for approval in the OGMS dated 16/17 February 2023*

## REPORT

### **on the approval of the revision of key financial performance indicators included in the Management Plan of SNTGN Transgaz SA for the period 2021- 2025**

## SUMMARY

By Resolution No. 8/6 December 2021 of the Ordinary General Meeting of the Shareholders the financial and non-financial performance indicators annexed to the administrators' mandate contracts were approved and by Resolution No. 3/28 February 2022 of the Ordinary General Meeting of the Shareholders the revision of some financial performance indicators was approved.

As a result of legislative changes and new strategic directions for the development of the Company, the values of financial performance indicators valid for the calculation of the variable component of the remuneration of the members of the Board of Administration changed.

## PROPOSAL

**According to Article 15 (3) (a1) of the updated Articles of Incorporation, in conjunction with Article 30 (2), Annex 2, of GR 722/2016 on the approval of the Methodological Rules for the application of certain provisions of GEO 109/2011 on the corporate governance of public companies, as amended, we submit to the approval of the Ordinary General Meeting of the Shareholders the new values of financial performance indicators included in the Management Plan of SNTGN Transgaz SA for the period 2021-2025.**

## Detailed content

As a result of legislative changes and new strategic directions for the development of the company, the values of financial performance indicators valid for the calculation of the variable component of the remuneration of the members of the Board of Administration have changed.

### **The rationale for the change in the value of some financial performance indicators is illustrated below:**

In accordance with the provisions of Art. 9(1) lit. c) of OG 26/2013 as amended:

*"When substantiating the revenue and expense budgets, economic operators shall take into account, without being limited to, the following: ...*

*c) the specific performance criteria and quantified objectives relating to the reduction of outstanding payments and receivables, the reduction of losses, the increase in profit, turnover and the increase in labour productivity, set out in the mandate contracts, established in correlation with the management strategy of the Board of Directors/Supervisory Board and the management plan of the directors/members of the management board of economic operators"*

The level of the "**EBITDA**" indicator provided for in the Management Plan for 2023 approved by OGMS Resolution No 3/ 2022 will not be achieved because of the following factors:

- decrease in revenues from natural gas transmission services by lei 135,643 thousand mainly:
  - because of the non-approval of the positive adjustment of the transmission tariffs for 2022 - 2023, limitation imposed by Article 14 paragraph (2) of GEO no. 27/18 March 2022 as amended and by ANRE Order no. 75/18 May 2022 for the extension of the deadlines provided for in the Order of the President of the National Energy Regulatory Authority no. 32/2021, which results in the application of transmission tariffs lower than the tariffs estimated in the management plan with a negative influence of:
    - lei 134.339 thousand related to the capacity booking component;
    - lei 26.762 thousand related to the transmission tariff commodity component;
  - because of the contracted capacities during the gas year 2022-2023 lower than the estimates used to substantiate the management plan with a negative influence of lei 95.173 thousand;
  - the major negative impact of the non-adjustment of transmission tariffs for 2022 - 2023 is partially offset by the additional revenues from the auction premium related to the interconnection points estimated for 2023 in amount of lei 120.757 thousand;

- exceeding of the operating expenses provided for in the Administration Plan for 2023 approved by OGMS Resolution no. 3 / 2022, by lei 104.439 thousand mainly as a result of:
  - increase in the expenses with allowances, salaries and other expenses of a salary nature, by lei 48,001 thousand mainly due to the indexation with the inflation rate of the salaries for 2023 and the replenishment of expenses of a salary nature, for the whole year 2023, determined following the granting of salary increases in 2022.

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (National Forecast Commission autumn 2022 forecast) - applicable in the substantiation of the REB 2023	13,5	9,6
Average annual inflation index (autumn 2021 forecast of the National Forecast Commission) - applicable in the substantiation of the REB 2022	4,70	3,40

- increase in the auxiliary material expenses lei 61.802 thousand because of an increase in the supply programme for materials such as pipes, elbows, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of the maintenance activity in respect of the technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment;

The level of the "**Operating Expenses**" indicator provided for in the 2023 Management Plan approved by OGMS resolution No. 3 / 2022 will not be achieved mainly because of the following factors:

- increase in the expenses with allowances, salaries and other expenses of a salary nature, by lei 48,001 thousand mainly due to the indexation with the inflation rate of the salaries for 2023 and the replenishment of expenses of a salary nature, for the whole year 2023, determined following the granting of salary increases in 2022

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (National Forecast Commission autumn 2022 forecast) - applicable in the substantiation of the REB 2023	13,5	9,6
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- increase in the auxiliary material expenses lei 61.802 thousand because of an increase in the supply programme for materials such as pipes, elbows, valves,

pressure reducing valves, filters, necessary to ensure the continuous operation of the maintenance activity in respect of the technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment

The level of the "**Net Debt Ratio**" indicator provided for in the Management Plan for 2023 approved by OGMS resolution No. 6/ 2021 will not be achieved mainly because of the non-achievement of the level of the "EBITDA" indicator provided for in the Management Plan for 2023 approved by OGMS resolution No. 3/ 2022, the factors being presented above.

**The new values of the financial performance indicators that have undergone changes are shown in the table below:**

Indicator		2023	2024	2025
EBITDA	Draft REB 2023-2025	377.921	801.888	951.217
	Administration Plan	609.808	573.203	1.047.523
	Differences	-231.887	228.685	-96.306
Operating expenses	Draft REB 2023-2025	1.296.063	1.434.821	1.424.745
	Administration Plan	1.205.112	1.218.233	1.170.746
	Differences	- 90 950	- 216 588	- 254 000
Net debt ratio	Draft REB 2023-2025	5,5	5	4,5
	Administration Plan	5	5	4,5
	Differences	0,5	-	-

According to Article 15 (3) (a<sup>1</sup>) of the updated Articles of Incorporation, in conjunction with Article 30 (2), Annex 2, of GR 722/2016 on the approval of the Methodological Rules for the application of certain provisions of GEO 109/2011 on the corporate governance of public companies, as amended, we submit to the approval of the Ordinary General Meeting of the Shareholders the new values of financial performance indicators included in the Management Plan of SNTGN Transgaz SA for the period 2021- 2025.

**CHAIRMAN OF THE BOARD OF ADMINISTRATION**

**PETRU ION VĂDUVA**