

No. 3972/23.01.2020

Submitted for approval in the OGMS of 4/5 March 2020

REPORT

on the approval of the addendum to the contract of mandate signed with the non-executive members of the Transgaz Board of Administration including the revised indicators and the empowering of the representative of the General Secretariat of the Government in the GMS to sign the addenda to the contracts of mandate of the non-executive members of the Board of Administration of Transgaz on behalf of the Company.

SUMMARY

By Resolution 1/27.04.2017 of the Ordinary General Meeting of the Shareholders of TRANSGAZ the mandate of the administrators Mr Ion Sterian, Mr Petru Ion Văduva and Mr Bogdan George Iliescu was renewed, and by Resolution 13/28.12.2017 of the Ordinary General Meeting of the Shareholders of TRANSGAZ Mr Nicolae Minea and Mr Remus Gabriel Lăpușan were appointed administrators.

According to Art. 11 (6) of GEO 68/2019, published in Official Journal 898/06.11.2019 the exercising of the rights and the fulfilment of obligations resulting from the quality of shareholder of the Romanian State of Transgaz S.A. Mediaș are performed by the General Secretariat of the Government.

According to GEO 109/2011, as further amended, the mandatory receives a remuneration consisting of a fixed monthly allowance and a variable component.

The fixed monthly gross allowance due to the non-executive members of the Board of Administration cannot exceed twice the average value over the last 12 month of the monthly gross salary in the domain of the Mandator's activity, communicated by the National Institute of Statistics prior to the appointment of the Mandatory, and for the member of the Board of Administration also in the position of Director - General,

executive administrator, the fixed monthly gross allowance cannot exceed 6 (six) times the average value over the last 12 month of the monthly gross salary in the domain of the company, communicated by the National Institute of Statistics prior to the appointment of the Mandatory.

In addition to the fixed monthly gross allowance the Mandatory is entitled to receive a variable annual component of the remuneration set based on the financial and non-financial performance indicators approved by Resolution 12/19.12.2017 of the Ordinary General Meeting of the Shareholders of TRANSGAZ, and revised according to Transgaz OGMS Resolution 2/06.03.2018 and Transgaz OGMS Resolution 3/16.05.2019.

PROPOSAL

In accordance with the provisions of Chapter IV, Article 15 (3) (d) of the updated Articles of Incorporation, we submit for approval to the Ordinary General Meeting of Shareholders the following:

- the of addendum to the contract of mandate concluded with the administrators (non-executive members), the annex of which includes the objectives and the revised financial performance indicators;**
- the empowerment of a shareholder's representative to sign the Addendum to the Contract of Mandate of the administrators (non-executive members) on behalf of the Company.**

DETAILED CONTENT

According to the Contract of Mandate, the Mandatory receives a remuneration consisting of a fixed monthly remuneration and a variable component.

Over the duration of application of GEO 109/2011, as further amended, in the form in force at the date of approval of the contract of mandate, the fixed monthly gross allowance due to all non-executive members of the Board of Administration cannot exceed twice the average value over the last 12 month of the monthly gross salary in the domain of the Mandator's activity, communicated by the National Institute of Statistics prior to the appointment of the Mandatory, and for the member of the Board of Administration also in the position of Director - General, executive administrator, the fixed monthly gross allowance cannot exceed 6 (six) times the average value over the last 12 month of the monthly gross salary in the domain of the company, communicated by the National Institute of Statistics prior to the appointment of the Mandatory.

If the legal framework setting a certain maximum amount of fixed monthly allowance is amended and/or abrogated, the parties shall negotiate a new amount applicable to the fixed monthly gross allowance in accordance with the level of remuneration applicable for similar positions in companies in Romania and other European countries in the same field of activity, and shall conclude an addendum to the contract of mandate within 30 days.

The fixed remuneration will be paid to the Mandatory on the last working day of the month for which it is due.

In addition to the fixed monthly gross allowance the Mandatory is entitled to receive a variable annual component of the remuneration set based on the financial and non-financial performance indicators approved by Resolution 12/19.12.2017 of the Ordinary General Meeting of the Shareholders of TRANSGAZ.

In 2019 the revision of the financial performance indicators was proposed and approved by TRANSGAZ OGMS Resolution 3/16.05.2019.

In 2020, following legislative changes and modifications in the Company's new strategic lines of action, the values of some performance financial indicators, valid for the calculation of the variable component of the remuneration of the members of the Board of Administration underwent changes. The Nomination and Remuneration Committee proposes a new revision of some key financial performance indicators as follows:

Indicator		2020	2021
EBITDA	Draft REB 2020	349 317	552 922
	Updated Administration Plan 2019	468 933	850 773
	Differences	- 119 616	- 297 851

The rationale for the amendment of the value of some financial performance indicators:

In accordance with the provisions of Article 9 (1) (c) of GO 26/2013, as further amended and supplemented:

‘Upon the substantiation of the revenue and expense budgets, economic operators consider without limitation the following: ...

- c) the specific performance criteria and the quantified targets for reducing outstanding payments and claims, for reducing loss, for profit, turnover and labour productivity growth, provided for in the contracts of mandate, correlated with the management strategy of the Board of Administration/ Supervisory Committee and of the management plan of the directors/members of the management of the economic operators`;*

According to Art. 48 (8) of Law 5/2020 on the State Budget for 2020, it is required that `upon the determination of the salary expenses, the necessity to comply with the level of the performance indicators resulted from the administration plans prepared pursuant to the applicable laws shall be considered.`

The level of the EBITDA indicator foreseen under the 2020 Administration Plan approved by OGMS Resolution 12/2017 and revised by OGMS Resolution 2/2018 and OGMS Resolution 3/2019 was affected mainly by the following factors:

- the decreasing of the revenue from international gas transmission due to the expiration of the transmission contract with Gazprom Export Ltd for the Isaccea 2 - Negru Voda 2 pipeline, and to the regulation of the revenue related to the Isaccea 1 - Negru Voda 1 pipeline as of 1.10.2019, according to the Methodology approved by ANRE Order 41/2019;
- The non-recognition of the tax on the monopoly in the regulated transmission revenue, following the modification of the regulated gas transmission tariff setting Methodology by Order 41/15 March 2019.

According to Chapter IV, Art. 15 (3) (d) and Art. 20 (1) (n) of the updated Articles of Incorporation, The Nomination and remuneration Advisory Committee submits for approval to the Ordinary General Meeting of the Shareholders the following:

- **the addendum to the contract of mandate concluded with the administrators (non-executive members), the annex of which includes the objectives and revised financial performance indicators, the consolidated version of the key performance indicators targets;**
- **the empowerment of a shareholder's representative to sign the Addendum to the Contract of Mandate of the administrators (non-executive members) on behalf of the Company.**

Enclosure: The Contract of Mandate including the key financial performance indicators revised and approved by BoA Resolution 27 January 2020.

CHAIRMAN OF THE BOARD OF ADMINISTRATION

REMUS GABRIEL LĂPUȘAN

**Addendum no. ____ to
Contract of Mandate no. ____ dated ____**

Considering:

- Company Law 31/1990 republished, as further amended and supplemented, hereinafter referred to as Law 31/1990;
- Government Emergency Ordinance 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, hereinafter referred to as GEO 109/2011;
- Government Resolution 722/2016 on the approval of the methodological rules for the application of some provisions of GEO 109/2011, hereinafter referred to as GR 722/2016;
- Government Ordinance 26/2013 on strengthening financial discipline at the level of some economic operators where the state or administrative-territorial units are unique or majority shareholders or hold directly or indirectly a majority share, as further amended and supplemented;
- Art. 1913 and the subsequent articles, and Art. 2009 and the subsequent articles of Law 287/2009 on the Civil Code, as further amended and supplemented,
- Government Emergency Ordinance 68/2019 on the establishing of measures at the level of the central public administration and the amending and supplementation of some normative acts,

and:

By Resolution 12/19.12.2017 of the Ordinary General Meeting of the Shareholders of Transgaz S.A., according to GEO 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, the key financial and non-financial performance indicators were approved;

By Resolution no. _ /___ of the Ordinary General Meeting of the Shareholders of Transgaz S.A., according to GEO 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, the changing of the fixed remuneration and the setting of the variable component were approved.

General Meeting of the Shareholders of Transgaz S.A no. ____ dated____ decided that the Addendum to Contract of Mandate no. _ / ___, hereinafter referred to as the Contract of Mandate shall be signed by the representative of the shareholders _ _
_;

The National Gas Transmission Company Transgaz S.A., headquartered in Mediaș, 1 C. I. Motaș Square, Sibiu County, tel./fax. 0269 803333 / 0269 803334, e-mail: cabinet@transgaz.ro, registered with the Trade Registry Office attached to Sibiu Court under number J32/301/2000, tax number RO/13068733, duly represented by __, identified with __, hereinafter referred to as the Company or the Mandator, as applicable,

and

Mr __, Romanian citizen, date of birth __, place of residence __, identity card __, issued by __ on __, PIN __, tel./fax. __, e-mail: __, as __, hereinafter referred to as Mandatory,

Individually referred to as the Party and collectively the Parties,

according to Art. 2 (11) of GEO 109/2011 and to Art. 12.1 of Contract of Mandate no. __ / __, hereinafter referred to as the contract of Mandate, have agreed to conclude the Addendum, hereinafter referred to the Addendum,

Art. 1. Scope of Addendum

1.1. The key financial performance indicators established in Annex 1 to the Addendum to the Contract of Mandate no. are amended according to Annex 1 to the Addendum.

Art. 2. Final provisions

2.1. The Addendum shall come into force at its date of signature by the Parties.

2.2. The other provisions of the Contract shall remain unchanged.

The Addendum was concluded today, __, in 3 (three) counterparts, 2 (two) for the Mandator and 1 (one) for the Mandatory.

Mandator
S.N.T.G.N. TRANSGAZ S.A.

Mandatory

by __
empowered by Ordinary General Meeting
of the Shareholders resolution no. _ of _

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Annex 1

The new values of the amended financial performance indicators are presented in the table below:

Indicator		2020	2021
EBITDA	Draft REB 2020	349 317	552 922
	Updated Administration Plan 2019	468 933	850 773
	Differences	- 119 616	- 297 851