

**Letterhead of the GENERAL SECRETARIAT OF THE GOVERNMENT**

**Annex to Order no. 797/10.05.2022**

**LETTER OF EXPECTATIONS**

**REQUIRED FOR THE SELECTION AND ASSESSMENT OF THE MEMBERS OF THE BOARD OF ADMINISTRATION / DIRECTORS FOR THE PERIOD 2021-2025 WITHIN THE NATIONAL GAS TRANSMISSION COMPANY "TRANSGAZ" SA MEDIAS**

**From: The shareholder, the ROMANIAN STATE, by the GENERAL SECRETARIAT OF THE GOVERNMENT**

**To: THE BOARD OF ADMINISTRATION OF THE NATIONAL GAS TRANSMISSION COMPANY TRANSGAZ S.A.**

The Romanian state, by the General Secretariat of the Government, as shareholder of the National Gas Transmission Company TRANSGAZ S.A. (TRANSGAZ), headquartered in Mediaş, the county of Sibiu, C. I. Motaş Square, No. 1, Code 551130, registered with the Trade registry under no J32/301/2000, single registration number RO 13068733, owner of 6.888.840 shares, representing 58.5097% of the share capital prepared this letter setting the financial and non-financial expectations of the shareholder on the performances of the National Gas Transmission Company TRANSGAZ S.A. and of the company's administration and management bodies, for a 4 year period, 2021-2025, with the purpose to create a cooperation relation based on mutual trust complying at the same time with the principles of transparency, responsibility, economic efficiency and cost-effectiveness of SNTGN TRANSGAZ S.A.

In accordance with the provisions of Article 6, Section 2 of Chapter I of Annex IC to GD no. 722/2016 for the approval of the Methodological Norms for the application of certain provisions of Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises, approved as amended by Law no. 111/2016, as amended hereinafter referred to as 109/2011, *"The letter of expectations constitutes a synthesis of the financial and non-financial expectations of the public supervisory authority, drawn up in consultation with the shareholders, as appropriate, representing individually or jointly at least 5% of the share capital of the public enterprise and the government strategy in the sectors in which the public enterprise operates, as well as the fiscal-budgetary policies, with an indication of the link between these and the general expectations of the public supervisory authority and the shareholders, as appropriate, from the administrative and management bodies of the public enterprise"*.

**This document contains the expectations of the majority shareholder, i.e. the Romanian State through the General Secretariat of the Government in consultation with the other shareholders of the company, regarding the evolution of SNTGN TRANSGAZ SA. over the next 4 years and has been prepared pursuant to the provisions of GEO no. 109/2011 and of those of the Methodological Norms for the application of GEO no. 109/2011 approved by GD no. 722/2016.**

## Table of Contents

I.	COMPANY'S BACKGROUND DATA.....	3
II.	SUMMARY OF THE STRATEGIC CONTEXT IN WHICH TRANSGAZ OPERATES.....	4
III.	THE GENERAL VISION OF THE MAJORITY SHAREHOLDER, THE ROMANIAN STATE THROUGH THE GENERAL SECRETARIAT OF THE GOVERNMENT AND OF THE OTHER SHAREHOLDERS ON TRANSGAZ' MISSION AND OBJECTIVES .....	6
IV.	TRANSGAZ' INCLUSION IN ONE OF THE CATEGORIES OF THE SCOPES OF PUBLIC ENTERPRISES.....	8
V.	THE ASSURANCE BY TRANSGAZ OF THE PUBLIC SERVICE OBLIGATION OF GAS TRANSMISSION .....	8
VI.	THE DIVIDEND AND NET PROFIT DISTRIBUTION POLICY APPLICABLE TO TRANSGAZ	9
VII.	THE INVESTMENT POLICY APPLICABLE TO TRANSGAZ.....	9
VIII.	THE GOALS OF THE MAJORITY SHAREHOLDER AND OF THE OTHER SHERHOLDERS REGARDING THE COMMUNICATION WITH TRANSGAZ' ADMINISTRATION AND MANAGEMENT BODIES.....	11
IX.	QUALITY AND SERVICES SECURITY CONDITIONS .....	11
X.	ETHICS, INTEGRITY AND CORPORATE GOVERNANCE .....	12
XI.	EXPECTATIONS REGARDING RISK MANAGEMENT .....	12
XII.	EXPECTATIONS OF THE SHAREHOLDER REGARDING THE CAPITAL EXPENDITURE, THE REDUCTION OF COSTS AND OTHER ASPECTS OF THE BUSINESS.....	14
XIII.	NON-FINANCIAL EXPECTATIONS OF THE SHAREHOLDERS OF THE COMPANY .....	15

## I. COMPANY'S BACKGROUND DATA

SNTGN TRANSGAZ SA. was established in 2000, based on the G.D. no. 334/28 April 2000, regarding the reorganization of the National Gas Company "Romgaz" S.A.. published in the Official Journal of Romania, Part I, no. 194/04.05.2000.

SNTGN TRANSGAZ S.A. is the technical operator of the National Gas Transmission System and ensures the efficient, transparent, safe, non-discriminatory and competitive fulfilment of the national strategy established for the international domestic transmission of natural gas, the dispatching of natural gas, research and design in the field of natural gas transmission, in compliance with the legislation. and national and European standards of quality, performance, environment and sustainable development.

ANRE Order no. 3/22 January 2014 on the approval of the certification of the National Gas Transmission Company TRANSGAZ S.A. as transmission system operator of the National Gas Transmission System, established that the National Gas Transmission Company TRANSGAZ S.A. shall be organized and operate according to the "independent system operator" model.

SNTGN TRANSGAZ S.A. is a company listed on the Bucharest Stock Exchange and is managed by a unitary management system.

**Transgaz' shareholding structure as at 14.01.2021** is as follows:

- 58,5097% - the Romanian State represented by the General Secretariat of the Government - 6.888.840 shares;
- 41,4903% - Free float - 4.885.004 shares of which:
  - 9,1703% natural entities - 1.079.699 shares;
  - 32,3200% legal entities - 3.805.305 shares

SNTGN TRANSGAZ S.A. was among the pioneers of a new stage of development in the national economy, a pioneering company in the implementation of professional private management.

The Board of Administration of SNTGN TRANSGAZ S.A. consisting of 5 administrators was selected and appointed according to the provisions of GEO no. 109/2011. For 3 members of the Board of Administration the term of office was renewed, 2 positions of fund administrator were occupied in accordance with the provisions of art. 64<sup>1</sup> para. (3) of GEO no. 109/2011, respectively *"In the event of vacancy of one or more positions of administrator of a company, the shareholders, including the shareholder - the State, through the public supervisory authority, may convene a general meeting of the shareholders in order to appoint one or more provisional administrators, until the procedure for the selection of the administrators has been completed, according to this emergency ordinance. The shareholders, including the shareholder - the State, through the public supervisory authority, will be able to submit proposals for candidates to the general meeting of shareholders"*.

The activity of the Board of Administration is carried out based on the provisions of:

- GEO no. 109/2011 on corporate governance of public enterprises, approved as amended by Law no. 111/2016, as amended
- Law no. 31/1990 on companies, republished as amended;
- Law no. 24/2017 on the issuance of financial instruments and market operations, as amended;
- the Articles of Incorporation of SNTGN TRANSGAZ S.A., as updated;
- The Corporate Governance Code of the BSE;
- Rules of Organization and Functioning of the Board of Administration (ROF CA);
- Financial Supervisory Authority Regulation No 5/2018 on issuers of financial instruments and market operators.

## **II. SUMMARY OF THE STRATEGIC CONTEXT IN WHICH TRANSGAZ OPERATES**

The presence of the state as a shareholder in public enterprises must be regarded as having a complex motivation starting also from the expectations regarding the needs that the state must cover, namely: control over natural resources, natural monopoly, public service, commercial strategic reasons, especially that the state must act in the public interest for the benefit of all the citizens of the country. The Government of Romania considers that through a rational, prudent and result-oriented policy in managing a participant in the economy and, in particular, through an adequate corporate governance framework, the state can considerably improve its shareholder role.

Among the main objectives comprised in the Governing Programme regarding the strengthening of the role of the state as a shareholder for ensuring the sustainability of this process over the medium and long term:

- Strengthening corporate governance in state-owned companies to improve their performance;
- implementation of corporate governance principles in public enterprises, namely: ethics and integrity, professionalism and performance; transparency and predictability, responsibility and decision making; increasing the level of professionalism and performance of the management in public enterprises by applying best corporate governance models and practices;
- ensuring sustainable financial and operational performance of public enterprises.

Since public enterprises represent an important vector for economic recovery and state budget balancing, the functionality, solvency and liquidity of these companies have a considerable influence on the economy as a whole, by the multiplication effect, the need for implementation and, respectively, corporate governance improvement must support these eminently economic reasons.

The state's expectations as a shareholder in public enterprises aim at shifting them from the objective of maximizing annual profit to strategic objectives such as: *implementation of sustainable medium and long-term investment programs to meet Romania's assumed objectives with respect to the European Green Deal, climatic neutrality, economic recovery, efficient valorization of business opportunities, development of research and innovation activity, human resource development, transparency, ethics and integrity, the implementation of best practices of corporate governance, competitiveness and sustainable development.*

At the heart of the entire corporate governance legislation for public enterprises in Romania there is the idea of transparent implementation of private management provided by professional managers with a vision and being responsible, efficient and competitive in relation to the expectations of the shareholders and the established performance objectives.

Taking such aspects into account, the expectations of the majority shareholder, the Romanian state, as well as of the other shareholders of the public enterprises, are included in the LETTER OF EXPECTATIONS, a working document containing the expected performances from the administration and management bodies and the shareholder policy regarding the administration and the management of the public enterprises.

The energy sector contributes essentially to the development of Romania through its profound influence on the quality of life, the competitiveness of the economy, of the environment and climate. To support the expectations of energy consumers, the Romanian energy sector has to become more efficient, more technologically advanced and less polluting. The increase in the quality of the energy governance system in Romania underlies the achievement of all of the other strategic objectives.

The state has a significant role in the energy sector through its functions as legislator, regulator and energy policy implementer, on the one hand, and as a significant asset holder or administrator or significant shareholder, on the other - both in the natural monopoly segments (transport and distribution of electricity and natural gas) and production. The awareness that state assets should be managed with the same diligence and competence as the private ones should become a strategic priority, an important step in the future of the country's economy, where state-owned companies still have a large contribution to economic development.

The Romanian energy system is an extremely important area, the special attention it enjoys resulting both from its importance for the entire national economy and from the necessity to meet Romania's assumed commitments undertaken towards the European Union and the other international institutions and bodies.

In the context of the multiple changes in the European and national legislative and regulatory framework, the definition and implementation of an effective, competitive, viable and flexible medium and long-term national energy strategy, aligned with the requirements of European standards, is the vector that can bring about the recovery of the national economy, attracting investments for external financing, including European funds, through the financing mechanisms made available by the European Union, in key sectors, increasing economic competitiveness, developing and modernizing the transport infrastructure, protecting and improving the quality of the environment, setting the national economy on a sustainable development trend.

The privatization of the Romanian energy sector aims at attracting investments in order to modernize and develop it and achieve real competitiveness in the context of integration of energy markets at regional level. It can transform the actors of the Romanian energy system from domestic to regional, ensuring the prerequisites for the formation and consolidation of the regional energy market in the South-Eastern European and Community space.

Ensuring sustainable financial and non-financial performance, increasing economic efficiency and profitability, maximizing company value, eliminating waste and corruption, prudent risk management, transparency of activities, eliminating bottlenecks and inefficiencies in the economy, ensuring a professional, efficient management that creates added value for the energy sector and implicitly for the national economy are just some of the aspects of the current national and European energy context.

### **III. THE GENERAL VISION OF THE MAJORITY SHAREHOLDER, THE ROMANIAN STATE THROUGH THE GENERAL SECRETARIAT OF THE GOVERNMENT AND OF THE OTHER SHAREHOLDERS ON TRANSGAZ' MISSION AND OBJECTIVES**

The majority shareholder, the Romanian State, through the General Secretariat of the Government, aims for the company to become a transmission system operator with recognition on the international natural gas market, a leader on the energy market in the region, with a modern national natural gas transmission system, fully at European level, and an efficient management system.

In accordance with the requirements of the European energy policy, the mission of the majority shareholder, the Romanian State through the General Secretariat of the Government, is the efficient, transparent, safe and competitive implementation of the national energy strategy established for the domestic and international transport of natural gas, the dispatching of natural gas and research and design in the field of natural gas transmission.

In the new mandate, 2021-2025, the main objectives pursued by the majority shareholder, the Romanian State through the General Secretariat of the Government, are both to continue with responsibility, efficiency, transparency and professionalism towards all stakeholders on the road opened for the construction and development of a solid and efficient future of the Romanian energy sector and to achieve new objectives that meet the European and national energy vision, presented in the Government Program 2021-2024, the Energy Strategy of Romania 2020-2030, with the perspective of 2050, the National Integrated Energy and Climate Change Plan 2021-2030, the European Green Deal, the National Recovery and Resilience Plan. The main objectives are:

- Rehabilitation, upgrading and development of NTS on the main direct consumption routes;
- interconnection of the NTS with the natural gas transmission systems of neighbouring countries;
- development of new natural gas transmission infrastructure to Western Europe;
- ensuring non-discriminatory access to the NTS;
- increasing the digitalisation of gas transmission activities;
- ensuring energy security in the context of EU policy lines aiming at decarbonisation and reduction of greenhouse gas emissions;
- increasing the company's business by identifying development opportunities, identifying new partnerships or expanding the business;

- increase energy efficiency by implementing an energy management system (ISO 50001);
- building a new natural gas market - free, liquid, responsible, carefully supervised, developing ways to support vulnerable, uniquely dispatched customers by setting up a natural gas HUB;
- ensuring the connection of third parties to the National Gas Transmission System;
- expanding the natural gas transmission network, with a focus on the implementation of intelligent transmission networks;
- ensuring a sustainable financial and operational performance of the company;
- participating in European initiatives to encourage the development of hydrogen technologies to reach the threshold of economic competitiveness and large-scale use, with an essential contribution to energy security, and supporting the attraction of investment in modern technological solutions that have reached a degree of maturity and have been sufficiently tested to operate economically;
- implementing participatory management in all areas of the company's activities;
- development of organizational culture and professional performance;
- integration of good corporate governance principles and practices into the business model.

Significant increases in efficiency and profitability, maintaining a minimum tariff by lowering costs and strictly controlling purchases, strategically repositioning the company in the current national and international energy context, taking on an ambitious investment program of over 4 billion euro for developing the NTS in the next 10 years, ensuring effective human resources management, obtaining European funds and loans from international financial banking institutions, upgrading and automating the company, redesigning and optimizing management processes and systems, enhancing international cooperation, strengthening the control of insurance and working capital management are just some of the objectives of the company's management strategy.

The Development Plan of the National Transmission System (NTS) for natural gas in the period 2020 - 2029 developed by SNTGN TRANSGAZ SA in accordance with the provisions of art. 125 paragraph (6) of Law no. 123/2012 on electricity and natural gas, with the objectives proposed in the Energy Strategy of Romania (SER) 2020-2030 with a view to 2050 and approved by ANRE by Decision 2210/25.11.2020, meets the requirements of European energy policy regarding:

- ensuring security of gas supply;
- increasing the degree of interconnection of the national gas transmission network to the European network;
- increasing the flexibility of the national gas transmission network;
- creating a competitive gas market;
- creation of an integrated gas market at EU level;
- ensuring the connection of third parties to the transmission system, according to specific regulations, within the limits of transmission capacities and in compliance with technological regimes;
- ensuring the connection of new job-creating investments to the natural gas network.

Annual and multi-annual programs are the main tools for monitoring the planning, budgeting and implementation of upgrading and investment development works in the NTS, repair and rehabilitation works and NTS maintenance services.

Another ambitious project is the establishment of the natural gas hub in Romania, a project that involves building a new vision of the natural gas market, that of a free, liquid, responsible, carefully supervised market, developing ways to support vulnerable customers, uniquely dispatched to prevent crises in exceptional situations and fully integrated into the European Energy Union. The HUB involves the consolidation of all activities in the natural gas sector in order to facilitate natural gas trading with a view to obtaining competitive prices and ensuring the quality of the natural gas transmission service.

#### **IV. TRANSGAZ' INCLUSION IN ONE OF THE CATEGORIES OF THE SCOPES OF PUBLIC ENTERPRISES**

The National Natural Gas Transmission Company "TRANSGAZ" SA is a public enterprise within the meaning of Article 2, paragraph 2, letter b) of GEO no. 109/2011.

SNTGN TRANSGAZ SA is a Romanian legal entity having the legal form of a joint-stock company and carries out its activity in accordance with the Romanian laws and with the Articles of Incorporation.

According to Article 100, points 83 and 84 of the Law no. 123/2012 on electricity and natural gas, the transmission system is the set of interconnected pipelines, including related installations and equipment for the transport of natural gas, in accordance with the specific technical regulations, which ensure the takeover of natural gas extracted from the exploitation perimeters or from imports and the delivery to distributors, direct customers, storage, and beneficiaries in various countries; respectively, the National Transmission System (NTS) is the transmission system located on the territory of Romania and which is in the public property of the State.

The main activity of SNTGN TRANSGAZ S.A. is - Transmission through pipelines - CAEN code 4950 - activity defined by law as the activity organized for the transmission of natural gas through the National Natural Gas Transmission System (NTS) or other transmission systems. Also, SNTGN TRANSGAZ S.A. carries out complementary and other related/secondary activities to support the main object of activity in accordance with the legislation in force and the Articles of Incorporation, updated.

#### **V. THE ASSURANCE BY TRANSGAZ OF THE PUBLIC SERVICE OBLIGATION OF GAS TRANSMISSION**

SNTGN TRANSGAZ S.A. is the technical operator of the National Gas Transmission System (NTS) ensuring that the national strategy established for the domestic and international gas transmission, natural gas dispatching, research and design in the gas field is complied with in conditions of efficiency, transparency, safety, non-discriminatory access and competitiveness the natural gas transport sector, in compliance with the national and European standards of quality, performance, environment and sustainable development.

According to the regulatory framework applicable to the natural gas sector, SNTGN TRANSGAZ S.A. carries out the natural gas transmission activity on the basis of specific sectoral legislation, of the Concession Agreement signed with the National Agency for Mineral Resources, approved by H.G. no. 668/2002, with subsequent amendments and additions, and of the Natural Gas Transmission System Operating License no. 1933 granted by Decision no. 3911/20.12.2013, updated, issued by the National Energy Regulatory Authority (ANRE).

The natural gas transmission activity constitutes a public service of national interest and is included in the regulated segment of the internal natural gas market. The natural gas transmission service is provided under a natural monopoly on the basis of a tariff set by ANRE.



As operator of the NTS, SNTGN TRANSGAZ S.A. has the obligation, in accordance with the legal provisions on measures to ensure security of natural gas supply of the European Union regulations, to make interconnections with similar natural gas transmission systems in neighbouring countries, in order to create technical and technological conditions for ensuring security of natural gas supply to the Central-Eastern European region.

The obligations and responsibilities of the General Secretariat of the Government on the one hand and SNTGN TRANSGAZ S.A. on the other hand will be carried out responsibly and efficiently and in accordance with the applicable legal framework.

## **VI. THE DIVIDEND AND NET PROFIT DISTRIBUTION POLICY APPLICABLE TO TRANSGAZ**

The Romanian State as the majority shareholder, through the General Secretariat of the Government, but also the other shareholders, will seek to maximize the long-term value of the company and implicitly the value of the dividend. The dividend policy will be a responsible, prudent and predictable one, appropriate to the specific situation of the company and respecting its development investment needs.

The main objective of the state shareholder is to ensure a balance between the dividend policy and that of providing the necessary funds for the investment programs undertaken by the company for development and upgrading.

At present, G.E.O. no. 64/2001 on the distribution of profits in state-owned companies, national companies, commercial companies with full or majority state capital, as well as autonomous companies, regulates the distribution of at least 50% of profits as a payment/dividend to the state or local budget.

SNTGN TRANSGAZ S.A. administrators are expected to develop, approve and publish the "Dividend Distribution Policy", as required by the BSE's new Corporate Governance Code.

It is preferable to distribute as much of the profit as possible, but only if the necessary sources of financing have been identified to fulfil the investment plan under conditions of optimal financing costs and a reasonable degree of indebtedness.

## **VII. THE INVESTMENT POLICY APPLICABLE TO TRANSGAZ**

Romania is facing a historic opportunity. In the period 2021-2027, the EU Multiannual Financial Framework and the Next Generation EU programme will bring to our country almost 80 billion Euros, which will be used for investments in infrastructure, education, health, agriculture, environment or energy, as well as for the upgrading of large public systems. The Recovery and Resilience Mechanism (RRM) is a new instrument proposed by the European Commission on 28 May 2020 as a European economic recovery instrument following the crisis caused by the new coronavirus. From the general envelope, Romania would benefit from an allocation of approximately 30.5 billion Euro in the form of grants - 13.8 billion Euro and loans - 16.7 billion Euro.

These funds will support the economic recovery and transformation of Romania and therefore public enterprises in which the state is a majority shareholder must carry out sustainable investment programs in order to develop their activity in the long term, considering the current market opportunities and socio-economic trends. The Guvernul expects public enterprises to focus responsibly on research, development and innovation, as well as investments in green transition; digital transformation; smart, sustainable and inclusive economic growth.

In the context of the profiling of natural gas supply sources, namely natural gas from the Caspian Sea region and those discovered in the Black Sea, the investments proposed by SNTGN TRANSGAZ S.A. in the Development Plan of the National Natural Gas Transmission System for the period 2020 - 2029, a plan approved by ANRE by Decision no. 2210/25.11.2020, are strategic investments for the development of the natural gas transmission infrastructure in Romania to ensure energy security and for the compliance of the system with the requirements of European regulations in the field.

Keeping the importance of the company accountable, both as a driver of activities in the national economy and as a vector of economic growth of the country, through its role in the development of the energy sector and the transformation of Romania into an energy power of Europe, the Romanian state and Transgaz are today about to start one of the largest and most important programs for the development of the natural gas transmission infrastructure in Romania over the past 20 years, with investment projects estimated at over 4 billion euro. { BRUA project - Phase 2; the Southern Corridor, developments in the NE region of Romania, the Project on New NTS Developments for taking over the Black Sea Shore gas, Interconnection of the National Gas Transmission System with similar systems in Serbia and Ukraine).

The proposed investments have to have as a result:

- Strengthening TRANSGAZ' role as a natural gas transporter on the European and national energy market as a result of the EU's requirements for developing the NTS interconnection with similar transmission systems in neighbouring countries, the potential to exploit the substantial natural gas deposits discovered in the Black Sea;
- interconnection of the NTS with similar transmission systems in neighbouring countries and ensuring the bi-directional gas flows (reverse flow);
- creation of natural gas transmission routes at regional level for the transmission of natural gas from various new sources creation of the necessary infrastructure for the taking over and transportation of natural gas from offshore blocks in the Black Sea in order to capitalize on the Romanian market and other markets in the region;
- extension of the natural gas transmission infrastructure to improve the supply of natural gas to areas with natural gas shortages and ensure third party access;
- developments of the NTS in accordance with the provisions of Law no. 123/2012, as amended and supplemented, investments to ensure the extension of the National Transmission System in areas with newly established distribution systems.
- creation of an intelligent natural gas transmission network through the implementation of efficient IT systems;
- creating an integrated EU single market.

In view of the complex and extensive investment programme, the public supervisory authority wants the administrators of SNTGN TRANSGAZ S.A. to consider developing the business by optimising the absorption of European funds and creating an efficient and flexible financing structure.

Following the proposed goals, the public supervisory authority and the shareholders expect and wish that the administrators and the management of the company will act responsibly, prudently and transparently towards all stakeholders, for the continuity of operational effectiveness, optimization of performance and sustainable development of the company.

## **VIII. THE GOALS OF THE MAJORITY SHAREHOLDER AND OF THE OTHER SHERHOLDERS REGARDING THE COMMUNICATION WITH TRANSGAZ' ADMINISTRATION AND MANAGEMENT BODIES**

The majority shareholder, the Romanian State, through the General Secretariat of the Government, wishes to support the activity of SNTGN TRANSGAZ S.A. in a constructive and transparent way and to work closely with the members of the administrative and management bodies in order to identify ways to improve the company's performance and its efficient management.

The shareholders are committed to strengthening strategic accountability, improving the management of the public enterprise's assets and clarifying their expectations for the company's development. These priorities are enabled by improving two-way communication between administrators and shareholders to support an understanding of shareholder expectations, government priorities, accountability levels and alignment with the company's strategic priorities.

It is important that both levels inform each other of any issues with a material impact on the company and/or shareholders' interests, including information on identified risks that may influence the fulfilment of the management plan.

The Board of Administration will prepare, submit and publish half-yearly and annual reports on the fulfilment of performance indicators and the Management Plan. The Board of Administration shall cooperate closely with the State shareholder, through the General Secretariat of the Government, to ensure timely information and constant communication on the company's strategic management directions

The transmission of reporting documents within the deadlines set by law and administrative acts, as well as any other information that shareholders deem necessary, are examples of good communication between the company and shareholders.

Any deviation from the established performance indicators shall be notified to the relevant public authority and shareholders, as appropriate, as soon as possible, as soon as the management and governing bodies of the public undertaking determine that such deviation is highly probable. It is important that managers inform shareholders in a timely manner of any risk of deviation from expected performance.

Thus, we expect managers to perform a risk quantification and consult shareholders in a timely manner if significant deviations from expected targets are expected

For a transparent communication and information of all stakeholders the good corporate governance practices stipulate that the company's administrators carry out a transparent activity and to make sure that all the public information provided for by the applicable laws are published on Transgaz' webpage.

## **IX. QUALITY AND SERVICES SECURITY CONDITIONS**

The majority shareholder, the Romanian State, through the General Secretariat of the Government wants the company's administrators to pay particular attention to improving the quality of natural gas transmission services, increasing safety in the operation and functioning of the national and international natural gas transmission system, and gas dispatching.

The company's managers are expected to continue and develop the programs undertaken concerning natural gas transmission, the upgrade and development of the natural gas transmission infrastructure that is a critical infrastructure, but also the programs undertaken in the field of gas quality and metering, environmental protection and security of the company's systems and business processes.

SNTGN TRANSGAZ S.A. has an **Integrated Quality – Environment, Occupational Health and Safety Management System** implemented and certified in accordance with ISO 9001, ISO 14001 and SR-OHSAS 18001:2008 and, and the administrators must therefore act in accordance with these rules and procedures, ensuring that certification is maintained.

SNTGN TRANSGAZ S.A. will implement and continuously develop an Internal Management Control System, in accordance with the provisions of the Order of the Secretary General of the Government no. 600/2018 on the Internal Management Control Code of Public Entities.

The performance standard of the natural gas transmission service regulates the commercial quality criteria, by setting up some performance indicators, to ensure the gas transmission service and the ancillary services provided by the transmission system operator (TSO).

The degree of achievement of the performance indicators, set by the Natural Gas Transmission Service Performance Standard, is monitored annually and is part of the non-financial key performance indicators category. Annually, a report shall be prepared on the conduct of the performance monitoring process at the company level, in accordance with the provisions of the Order of the Secretary General of the Government no.600/2018 art.5 paragraph (9) and Standard 9 - Performance Monitoring.

## **X. ETHICS, INTEGRITY AND CORPORATE GOVERNANCE**

The majority shareholder, the Romanian State, through the General Secretariat of the Government and the other shareholders of TRANSGAZ, wants the company's administrators to continue to act in concert with the requirements of the new Governance Code of the BSE, those of the Code of Ethics and the Corporate Governance Regulation, both already existing at the company level, as well as in the spirit of accountability and transparent business practices.

The confidential information shall be managed so as to ensure the equal treatment of all of the company's shareholders.

Third party transactions is another important aspect related to TRANSGAZ' ethics and the adoption by the company of internal regulations in this respect and regarding the management of conflicts of interest and granting sponsorships are concrete expectations that the Romanian state has, through the General Secretariat of the Government and the other shareholders, from Transgaz' administrators.

As these regulations are required by corporate governance legislation and are already in place at Transgaz, the **expectation** of the Romanian State through the General Secretariat of the Government, **is mainly directed towards:**

- The full compliance of the company with the future applicable legislative requirements;
- knowledge and support of ethical values and company values, compliance with and enforcement of regulations on ethics, integrity, avoidance of conflicts of interest, prevention and reporting of fraud, corruption and whistleblowing, in accordance with the provisions of the Order of the Secretary General of the Government No 600/2018, standard 1 - Ethics and Integrity).

## **XI. EXPECTATIONS REGARDING RISK MANAGEMENT**

Risk management is one of the key concepts for long-term success. Through the effective application of risk management principles and the optimal management of identified risks, it is possible to avoid their negative impact on the company's business and its economic and financial results. Risk management is addressed on two levels, namely through PEST analysis and risk management, as follows.

The PEST (political, economic, social and technological) analysis is an analysis of the impact and general trends of the external environment prepared from the point of view of the political, economic, socio-cultural and technological factors which can have direct/indirect influences upon Transgaz' economic activity.

<p><b>P</b></p>	<p><b>Political and legal factors</b></p> <p>Governmental and political regulations can generate constraints or opportunities for the company and they include both commercial, fiscal and budgetary laws and policies, environmental laws and regulations as well as labour and social protection laws and other areas. Political-legal factors can have a double impact on the company, as follows:</p> <ul style="list-style-type: none"> <li>■ <b>Positive impact</b> in the context of TRANSGAZ' shareholding, which can come from the sphere of these factors and which have the possibility to support initiatives of legislative changes with positive influence on the activity of the company; and</li> <li>■ <b>Negative impact</b> from the point of view of the accelerated pace and the variety of legislative changes, including those that address the regulatory framework specific to the company. In the medium and long term, they hamper the implementation of strategic programs.</li> </ul>
<p><b>E</b></p>	<p><b>Economic factors</b> ■ The world economy is in one of its most severe economic crises, a period that is also affecting Romania's economy, given its dependence on global economic mechanisms and its integration into European and global value chains. The effects of this economic crisis make the Romanian economy vulnerable to the impact of COVID-19 and this is also felt in the company's activity, as a result of the downsizing/shutdown of industrial consumers.</p> <p>Taking into account the fact that TRANSGAZ holds the natural monopoly in the operation of the NTS and its activity is directly exposed to the influences of the macroeconomic factors (interest rates, credit availability, inflation rate, taxation, exchange rates, unemployment rate, etc.) to act with caution and responsibility in terms of the work carried out and to comply with the requirements of the regulations in order to maintain its operational and economic viability.</p>
<p><b>S</b></p>	<p><b>Social factors</b> ■ Taking into account the specificity of TRANSGAZ' activity, the social factors are of particular importance, given the following: providing the qualified human resources needed to replace staff after retirement or withdrawal; attitude towards the environment and community, shareholders and employees, ensuring the balance between motivation and remuneration, social evolution in the area and in the county, unemployment, etc.</p>
<p><b>T</b></p>	<p><b>Technological factors</b> which may influence the development of the company are represented by improved or new technologies, upgrading equipment and tools used in the NTS operation and maintenance, and the IT and communications activity, etc.</p>

The expectation of the State as majority shareholder and the expectation of the other shareholders is to improve the risk management process by optimizing the conceptual and methodological framework established at SNTGN Transgaz S.A. level.

## **Risk management**

Due to the nature of its activities, the Company is exposed to risks that could adversely affect its activity, financial standing and/or operational results. These risks include:

- ✓ Political risk;
- ✓ Economic environment risks;
- ✓ Risks related to the amendment of the applicable fiscal regulations;
- ✓ Risk related to the governmental intervention in the main infrastructure sectors;
- ✓ The impact of the competing projects on the international transmission activity;
- ✓ The amendment of the regulatory framework specific to the natural gas market;
- ✓ Seasonal fluctuation;
- ✓ Natural gas prices in Romania;
- ✓ Risks related to the regulatory character of the gas transmission activity;
- ✓ Variations in the prices of the gas procured by TRANSGAZ for gas consumption in the NTS and for balancing the NTS;
- ✓ Risks related to the classified information regime;
- ✓ Financial risks, lending, exchange rate, interest rate, capital market, etc.

Administrators must take measures, as provided for by the Order of the Secretary General of the Government No 600 /2018 art. 5 and Standard 8 Risk Management, for:

- the development and continuous updating of the risk register, which includes all the types of risks mentioned above, risks determined by both internal and external factors, in order to minimise their impact on the company's business;
- the establishment of the risk profile, which provides an overview comprising a general, documented and prioritised assessment of the range of specific risks faced by the company; - establishing the risk tolerance limit assumed by the company in the decision-making process and business strategy; 0 drawing up and updating the implementation plan for control measures for significant risks at company level;
- drawing up an annual report on the progress of the risk management process.

## **XII. EXPECTATIONS OF THE SHAREHOLDER REGARDING THE CAPITAL EXPENDITURE, THE REDUCTION OF COSTS AND OTHER ASPECTS OF THE BUSINESS**

The shareholder, the Romanian state, through the General Secretariat of the Government and the other shareholders of the company wish that, in the following four years, Transgaz' administrators act for a sustainable financial performance of the company pursuing, without limitation, the following:

- ensuring sustainable financial and economic performance and operational stability;
- the predictability of the cash-flow, given the regulated nature of the gas transmission activity;
- profit growth;

- linking growth in average earnings per employee to labour productivity growth;
- reducing losses, overdue payments, consumption, and operational costs by stepping up control over budgetisation, employment and use of patrimonial resources;
- optimizing and streamlining management systems and processes in the company, the quality of the implementation of operational processes and aligning them to the requirements of the Integrated Quality Management System (SMICM) and the modern performance and competitiveness standards;
- increasing the design and research activity in the field of natural gas transmission, according to the new requirements of the European Green Deal and other regulations at European level;
- improving the quality of the planning and execution of investment programs for the upgrading and development of the repair, upgrading and NTS maintenance programs to enable, among other things, the implementation of the European Green Deal for blending natural gas with hydrogen;
- strengthening the level of monitoring in the implementation of work programmes, the internal control level and stepping up company process monitoring actions;
- optimal sizing of the human resources needs in relation to the real needs of the company's activity and development;
- optimizing work productivity.

The performance objectives that Transgaz administrators must achieve and which are pursued by the shareholder, the Romanian State, through the General Secretariat of the Government together with the other shareholders are to be negotiated and approved according to the legal provisions in force.

### **XIII. NON-FINANCIAL EXPECTATIONS OF THE SHAREHOLDERS OF THE COMPANY**

For the definition and establishment of the non-financial expectations, the shareholder, the Romanian State, through the General Secretariat of the Government and the other shareholders, aim that these do not prejudice the fulfilment of the financial expectations related to ensuring sustainable financial performance, improving profitability, reducing losses and a rigorous cost control.

For TRANSGAZ, the non-financial expectations of the supervisory public authority and the other shareholders are, but are not limited to the following:

- optimising the process of implementing the principles of corporate governance, ethics and integrity;
- responsible management, sustainable strategies and maintaining the certification of the integrated Quality - Environment, Health and Occupational Safety Management; - increasing the satisfaction of customers, business partners, suppliers and the quality of services provided;
- increase energy efficiency and reduce the negative impact of technological processes on the environment (environmental protection);
- modernise the internal/managerial control system to protect the investment made by shareholders in the company and its assets, supporting the management in the annual assessment of the effectiveness of control and audit mechanisms;
- improving the process of training, education and professional development of staff;
- optimising the model of social responsibility policy and sponsorship;

- aligning with the requirements of the European and national regulatory framework for natural gas transmission - compliance policy;
- strengthening and diversifying cooperation and collaboration relations both internally and externally;
- improving the process of general internal and external corporate communication, corporate image capital; 3 optimising the process of risk management;

The document contains the goals of the majority shareholder, the Romanian State, through the General Secretariat of the Government in consultation with the other shareholders of SNTGN TRANSGAZ S.A. for the next 4 years, the expectations they have from the future administrators of the company, being drafted in compliance with the provisions of GEO no. 109/2011 and those of the Methodological Norms for the application of GEO no. 109/2011 approved by H.G. no.722/2016