

**No. 21304/08.04.2019**

*Submitted for analysis and approval in the OGMS of 15/16 May 2019*

## REPORT

**on the approval of the revision of certain key financial performance indicators included in Transgaz' Management Plan for the period 2017 – 2021**

## SUMMARY

By the Resolution of the General Ordinary Shareholders Meeting no 12 dated 19 December 2017 the key financial and non-financial performance indicators attached to the mandate contracts of the administrators were approved in line with Annex no 2 of Order no 1367/GS/15/12/2017. By the Resolution of the General Ordinary Shareholders Meeting no 2 of March 2018 the revision of some key financial performance indicators was approved, which are attached as annex to the mandate contract of the non-executive administrators.

Following some legislative amendments, 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.

## PROPOSAL

**Under article 30 para (2) of GD 722/2016 for the approval of the Rules for implementing some provisions of GEO 109/2011 on the corporate governance of public enterprises, we submit to the General Ordinary Shareholders Meeting, for approval, the new values of some financial performance indicators.**

## Detailed content

Subsequent to the legislative amendments and to 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

**Please find below the rationale for the amendment of the value of some financial performance indicators:**

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

*"Upon the substantiation of the revenue and expense budgets, economic operators envisage, but are not limited to, 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 mandate contracts, correlated with the management strategy of the Board of Administration/ Surveillance Committee and of the Management plan of the directors/members of the management of the economic operators";*

According to the provisions of art. 62 para (6) of Law no.50/2019 of the State Budget for 2019 it is necessary *"to take into account the necessity of observing the level of the performance indicators resulting from the management plans prepared according to the legal provisions when determining the salary expenses"*.

The level of the indicators "Operating Expenses (except for depreciation, balancing, construction activity and provisions for impairment of assets and risks and expenses) and EBITDA provided for in the Management Plan for 2019 approved by Decision of the GOSM No.12/2017 and revised by GOMS Resolution no 2/2018 is affected mainly by the following factors:

- The decrease in the revenues from the gas transmission activity by **lei 38.034 thousand**. The gas transmission activity is regulated by the National Energy Regulatory Authority (ANRE). According to the methodology for setting the regulated revenue, the expenditure savings of the gas transmission system operator in a gas year and the additional revenues achieved in a gas year reduce the approved regulated revenue in the following gas years. In other words, the more efficient the company is in reducing costs, the more gas revenues will be lower in the following gas years. For the 2018-2019 gas year, ANRE Order no.98/2018 approved a total regulated revenue in the amount of 882.982,99 thousand lei, with a decrease of 7.48% (71.339,4 thousand lei) compared to the income approved for the period 1 October 2017-30 September 2018. The regulated income approved for the period 1 October 2018-30 September 2019 contains negative adjustments in the amount of -383.516, 82 thousand lei, which reduced the income related to the transmission activity, adjustments determined mainly on account of taking consideration of the redistribution component of the economic efficiency gain during the period July 2011 - June 2012 amounting to -127.087,45 thousand lei and the total income correction component of -215,777 thousand lei.

- The increase in tax and duties expenses by lei **111.160** thousand: upon the preparation of the Management Plan and the calculation of the revised financial indicators it was not substantiated for the years 2019-2021:
- the monopoly tax expense (lei **67.001** thousand) according to art 51 of GEO no 114/2018 on the establishment of measures in the public investment field and of some fiscal-budgetary measures, the amendment and supplementing of some legal acts and the extension of some deadlines, stipulating "*The deadline stipulated in art.6 of the Government Ordinance no.5 / 2013 regarding the establishment of special measures for taxing monopoly related activities from the natural gas and electricity sector, approved as supplemented, shall be prolonged until 31 December 2021 included*";
- the expense with the 2% monetary contribution applied to the turnover from the activities subject to the license granted by ANRE (lei **44.159** thousand): ANRE President Order no. 18 / 25.02.2019 for the approval of the Methodology regarding the calculation and establishment of the annual money contribution provided in Art. 2 par. (3<sup>1</sup>) of GEO no. 33/2007 on the organization and operation of ANRE, approved as amendment and supplementing by Law no. 160/2012, as introduced by GEO no. 114/2018, and amending the Order of ANRE President no. 224/2018 regarding the approval of the tariffs and monetary contributions levied by ANRE in 2019 stipulates the following:
  - art 5(1): "The holders of licenses granted by ANRE in the field of electricity and/or natural gas have the obligation to pay annually to ANRE a cash contribution equal to 2% of the turnover achieved in year n of the activities subject to the license granted".
- Expenses with the salaries of the personnel employed on the basis of an individual labour contract register in the REB 2019 project an increase of lei **11.093** thousand compared to the values taken into account in the calculation of the revised financial indicators for the year 2019. This increase is determined by the provision of the amounts necessary for granting the stipulated compensations in the Collective labour agreement for voluntary departures, calculated for an additional number of 200 employees, including contributions due to CAS, CASS;
- The increase in fees and commissions by lei **9.845 thousand**: for the calculation of the revised financial indicators were not substantiated for 2019 expense for commissions and fees. These are mainly legal consultancy costs for the investigations opened against SNTGN "Transgaz" SA by the European Commission and for the disputes that may arise from the investigations in which SNTGN "Transgaz" SA and the European Commission are parties.
- Increase in insurance premium expenses by lei **3.526** thousand. Insurance policies, estimated as of 2019, are mainly needed to cover the damage caused to third parties by events occurring within the National Gas Transmission System such as defects in pipelines on the route and in risk areas, lack of (mercaptane,

pipeline fluids), coverage of possible sanctions set by the authorities, penalties resulting from non-fulfilment of the contractual clauses, delays in the completion of the access to the system, accidental pollution (mercaptane, decisions of the courts unfavourable to our company and by which we have to pay damages, etc.

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

<b>Indicator</b>		<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>EBITDA</b>	Draft REB 2019	329 594	468 933	850 773
	Updated Administration Plan 2018	503 477	666 322	1 015 013
	Differences	- 173 883	- 197 389	- 164 240
<b>Operating expenses except for the depreciation, balancing, construction and provision for the impairment of assets and for the risks and expenses</b>				
	Draft REB 2019	1 070 891	1 095 239	1 136 843
	Updated Administration Plan 2018	933 300	948 385	968 346
	Differences	- 137 591	- 146 854	- 168 497

Taking into consideration the provisions of the OGSM Decision no. 12/19.12.2017, the mention contained in the end of the Report no. 48800/16.10.2017 regarding the approval by the GSM of the key financial and non-financial performance indicators (KPIs) and of the report no 3682/2018 on the approval by GSM for the revision of financial key performance indicators, report which was the basis of the GSM's approval of the KPIs respectively of the revisions of some KPIs as well as of the above, the Audit and Evaluation Advisory Committee of the Board of Directors submits for the approval of the Ordinary General Meeting of Shareholders, the new values of some financial performance indicators.

**CHAIRMAN OF THE BOARD OF ADMINISTRATION**

**LĂPUŞAN REMUS GABRIEL**