

No. DG.20886/05.04.2019

Submitted for review and approval in the GOSM dated 15.05.2019

## Report

### **On 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**

#### SUMMARY

- By GOMS 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 GOMS Resolution no. 2/06.03.2018, art.1 the revision of some financial performance indicators was approved as submitted by the Board of Administration and approved by the Resolution of the Board of Administration no 3/26.01.2018, 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 review and approval of the General Ordinary Shareholders Meeting 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 of the Report

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 with the mention of the revision of the financial and non-financial indicators as negotiated and approved in the General Meeting of the Shareholders.

By Resolution of the GOSM 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 GOMS Resolution no 2/06.03.2018, 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, based on the Report no DSMC/41369/16.08.2018 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 GOMS for review the key financial and non-financial performance indicators, achieved in 2018 in view of the approval by GSM of the evaluation of their fulfilment.

*Annexes:*

*Annex 1 Key financial and non-financial performance indicators*

**Chairman of the  
Board of Administration  
Lăpușan Remus Gabriel**

**Key financial performance indicators for the calculation of the variable component of the remuneration**

No.	Indicator	Objective	2018		Achievement
			Budgeted	Achieved	
1	<b>Outstanding payments</b>	Maintaining outstanding payments to zero	0	0	100%
2	<b>Operating expenses</b> (except for depreciation, balancing, construction activity and provisions for the impairment of assets and for risks and expenses) <b>(LEI thousand)</b>	Maintaining the level of the operating expenses at the level undertaken in the Administration Plan	1.002.101	825.782	121%
3	<b>Current liquidity rate</b> <b>`Acid Test`</b>	Current liquidity rate (acid test) to register annual values over 1.	1,39	2,99	215%
4	<b>Net leverage rate</b>	Maintaining a net leverage rate under the limits set in the loan agreement (EIB) for obtaining bank financing, namely: 3 –2017; 3- 2018; 5,5 –2019; 5,5 -2020; 4-2021	3,00	0,31	964%
5	<b>EBITDA</b> <b>(lei thousand)</b>	Achieving the EBITDA target undertaken in the Administration Plan	458.599	749.506	163%

## The SITUATION OF THE ARREARS as at 31 December 2018

INDICATORS	Row no	TOTAL ARREARS		
		Total (row2+3), of wich:	Debit (main)	Interest and penalties
A	0	1	2	3
<b>TOTAL ARREARS (row 2+7+16+17+21)</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>1. State budget (row 3+4+5+6)</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.1 Tax on profit	3	0	0	0
1.2 Revenue tax, of which:	4	0	0	0
* individual	4a	0	0	0
1.3 VAT due	5	0	0	0
1.4 other tax and charges to the state budget	6	0	0	0
1.5 work insurance contribution	7	0	0	0
<b>2. State social insurance budget (row 8+9+10+13+14+15)</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>
2.1 Total Social Insurance Contribution, of which (row 8a+8b):	9	0	0	0
* employer	9a	0	0	0
* individual	9b	0	0	0
2.2 Contribution for the insurance of labor accidents and professional disease	10	0	0	0
2.3 Contribution for unemployment insurance, of which (row 11a+11b):	11	0	0	0
* employer	11a	0	0	0
* individual	11b	0	0	0
2.4 Total social insurance and health contribution, of which (row 13a+13b):	12	0	0	0
* employer	12a	0	0	0
* individual	12b	0	0	0
2.5 Contribution to the Guarantee fund for the payment of the worker's outstanding claims	13	0	0	0
2.6 Contribution for vacations and allowances	14	0	0	0
<b>3. Outstanding payments to MFP (external credits)- risks fund</b>	<b>15</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4. Local Budget (row 18+19+20)</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1 Tax on land	17	0	0	0
4.2 Tax on buildings	18	0	0	0
4.3 other tax and charges due to the local budget	19	0	0	0
<b>5. Other creditors (row 22+23+24+25)</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>
5.1 to other public institutions	21	0	0	0
5.2 economic operators (row 23a+23b)	22	0	0	0
* state owned	22a	0	0	0
* Private equity	22b	0	0	0
5.3 financial institutions	23	0	0	0
5.4 Other creditors (details on the nature of the obligation)*	24	0	0	0

Director General  
Ion STERIAN

CHIEF FINANCIAL OFFICER,  
Marius LUPEAN

Substantiation of the calculation of the financial performance indicators

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1	Operating Revenue before the construction activity and the balancing according to IFRIC12		1,608,436,698
2	Operating Profit before the construction activity and the balancing according to IFRIC12		561,484,641
3	Total operating expenses, except for balancing and construction activity according to IFRIC 12:	row 1- row 2	1,046,952,057
4	Depreciation		188,021,695
5	Expenditures related to the provision for risks and expenses		5,946,358
6	Expense related to the provisions for the impairment of current assets	row 6a + row 6b	27,201,595
6a	Loss of earnings from the impairment of receivables – Financial standing – page 58	nota 23	19,032,851
6b	Loss/Gain from the impairment of stocks Financial standing – page 58	nota 23	8,168,744
7	Operating expenses (except for depreciation, balancing, construction activity and provisions for the impairment of assets and for risks and expenses)	row 3- row 4- row 5- row 6	825,782,409
8	EBITDA	row 1 - (row 3 - row 4)	749,506,336
9	Current assets		1,505,383,695
10	Stocks		255,241,340
11	Current debts		418,788,228
12	Acid test ratio	(row 9- row 10)/ row 11	2.99
12	Long term debts		233,195,000
13	Short term debts		0
14	Net debt-to-equity ratio	(row 12+ row 13)/ row 8	0.31

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

No	Indicator	Objective	No	2018		Achievement
				Planned	Achieved	
<b>Operational</b>						
6	<b>Monitoring the investment and implementation strategy</b>	<b>Implementation of the FID Project under the TYNDP</b> <i>I = (achieved + initiated) / proposed actions</i> <b>1. Development on the Romanian territory of the National Gas Transmission System on the Corridor Bulgaria-Romania-Hungary-Austria (BRUA Phase 1).</b>	6.1	- Obtaining of comprehensive decision (acc. to Regulation EU 347/2013)	Achieved (March 2018)	100%
7	<b>Increasing energy efficiency</b>	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0,62	161,3%
<b>Oriented towards public services</b>						
8	<b>Performance indicators of the gas transmission service</b>	<i>Achievement of the targets under the Performance Standard for the gas transmission service (ANRE Order 161/26.11.2015 applicable as of October 2016)</i>	8.1	$IP_0^1 \geq 90\%$	98,43%	100%
			8.2	$IP_1^1 \geq 95\%$	100%	
			8.3	$IP_1^2 \geq 95\%$	100%	
			8.4	$IP_1^3 \geq 95\%$	99,53%	
			8.5	$IP_1^4 \geq 95\%$	-	
			8.6	$IP_1^5 \geq 95\%$	-	
			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	$IP_3^2 \geq 95\%$	100%	
			8.11	$IP_3^3 \geq 95\%$	-	
			8.12	$IP_3^4 \geq 95\%$	100%	
			8.13	$IP_4^1 \geq 95\%$	-	
			8.14	$IP_5^1 \geq 98\%$	99,7%	
			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	$IP_7^1 \geq 80\%$	92,04%	
			8.19	$IP_8^1 \geq 98\%$	100%	
			8.20	$IP_8^2 \geq 98\%$	-	
			8.21	$IP_9^1 \geq 90\%$	-	

<b>Corporate governance</b>						
<b>9</b>	<b>Implementation of the internal/managerial control system</b>	Implementation of the provisions of SGG Order no. 600/2018 for the approval of the Internal/Managerial Control Code for public entities as further amended I = implemented standards /provided standards in Order 600/2018 *100 Achievement of the measures provided for in the Program for the implementation of the SCI/M I = measures achieved within the deadline /proposed measures *100	9.1	94%	<b>Achieved</b> Letter no DSMC/4786/25.01.2019	100%
<b>10</b>	<b>Client satisfaction</b>	Achievement of the targets provided for in the administration plan (According to PP 165 Client satisfaction evaluation a score between 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly)	10.1	7.8	<b>Achieved</b> Letter SMC 9610/15.02.2019	100%
<b>11</b>	<b>Establishing the risk management policies and risk monitoring</b>	Achievement of the targets provided for in the administration plan for the implementation of the requirements of Standard 8 of Order SGG no. 600/2018 on the approval of the Internal/management control Code for public entities as further amended.	11.1	-Preparation of the risk management strategy	<b>Achieved</b> The Risk Management Strategy, registration no DSMC/39870/06.08.2018, was approved by BoA Resolution 41/2018	100%
			11.2	- Preparation of the Risk Management system procedure;	<b>Achieved</b> The Risk Management System procedure PS 05 SMI was approved and circulated by publication on "Zona publică".	
			11.3	- Preparation of the EGR activity procedure;	<b>Achieved</b> Following the impact analysis of the entry into force of Order 600/2018 of the General Secretariat of the Government on the approval of the Internal Management Control Code of Public Entities, it was decided that the Activity of the Risk Management Team process procedure should no longer be	

					developed. The performance of the EGR activity is set out in the Risk Management System Procedure and in the Rules for the Organizing and Functioning of the Risk Management Team, approved by Letter no. 37021/23.07.2018.	
12	Timely reporting of the key performance indicators	Compliance with the legal reporting deadlines I = actual reporting deadlines/provided reporting deadlines *100	12.1	Financial communication Calendar to the Bucharest Stock Exchange	<b>Achieved</b>	100%
			12.2	Status of the achievement of the TYNDP	<b>Achieved</b> Letter no DSMC 10014/11.03.2018 Deadline 15 March 2019  Letter no DSMC 16016/15.03.2018 Deadline 15 March 2019	
			12.3	SCI/M reporting	<b>Achieved</b> Letter no. DSMC/4786/25/01.2019 reporting for 2018	
			12.4	Reporting on the achievement of the performance indicators of the gas transmission service	<b>Achieved</b> Letter no. 63288/28.11.2018 reporting to ANRE for gas year 2017-2018	
			12.5	Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011	<b>Achieved</b> Letter DSMC30292/19.06.2018 Letter DSMC34773/11.07.2018 Letter DSMC68544/21.12.2019	
13	Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans	Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline/proposed measures*100	13.1	Preparation of a corruption prevention procedure	<b>Achieved</b> The prevention procedure was prepared, approved and published on the Transgaz intranet platform.	100%
			13.2	Preparation of a corruption risk assessment methodology	<b>Achieved</b> The methodology is part of the procedure at point 13.1	
			13.3	Publication of SCIM assessment results	<b>Achieved</b> 2017 Annual Report published at: <a href="http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/">http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/</a>	



		<a href="#">5.%20Documente%20de%20evaluare%20interna%20si%20raportare/2.%20Raport%20anual%20al%20SCIM/</a>
13.4	Creating a database of companies which did not execute properly the contracts concluded with TRANSGAZ following the public procurement procedures	<b>Achieved</b> The database was constituted at the level of the company
13.5	Preparation of the anti-bribery policy at the level of the company	<b>Achieved</b> The Fraud and Corruption Policy Statement and the Fraud and Corruption Policy were approved by BoA Resolution 26/30.05.2018
13.6	Identification and assimilation of good practices according to the Guidelines for Good Practices of OCDE	<b>Achieved</b> Aspects inserted in the anti-fraud and anti-corruption policy, published on <a href="http://zonapublică.transgaz.ro">zonapublică.transgaz.ro</a>
13.7	Organization of training courses on themes related to integrity, corruption and fraud (execution staff);	Prepared according to the Professional Formation and Training Plan
13.8	Initiating an information campaign for employees on the phenomenon of fraud and corruption (execution staff);-	Internally: it was sent to all employees. The Declaration for adhering to SNA and to the Integrity Plan of the company. Externally: according to Order 1244/2017, to be achieved by the Antifraud Department within DCC/MEc performed 3 activities for preventing corruption in which the company management participated. Training was performed on 14.02.2018 (Transgaz Representative Office) and on 5-6.06.2018 (Transgaz)
13.9	Identifying fraud and corruption high risk areas	It was issued Decision No. 434/10.05.2018 on the establishment of the Corruption Prevention Working Group, whose main task is to coordinate

	(external consultant)	all stages necessary for the management of corruption risks. Identification is in progress according to the prevention procedure approved in December 2018.
13.10	Prioritization of audit and control actions by intensifying them in areas exposed to fraud and corruption	<b>Achieved</b> by the annual audit and control plans
13.11	Annual evaluation of the mode of implementation of the Integrity Plan and adapting it to the risks and vulnerabilities occurred recently	<b>Achieved</b> The annual assessment was performed, and the 17.01.2019 Report on the assessment of the TRANSGAZ Integrity Plan, the Situation of the 2017 Integrity Incidents (Annex 1) and National Anti-Corruption Strategy Measure Implementation Report (Annex 2) were sent to the Ministry of Economy by Letter DG 3328/18.01.2019;
13.12	Annual publication of the performance indicators monitored within the Integrity Plan of the company	Achieved (by the publication of the Annual evaluation of the Integrity Plan on intranet)

**Table 1 – Non-financial key performance indicators forecasts for the calculation of the variable component of the remuneration in 2018**