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GAZE NATURALE "TRANSGAZ" SA MEDIAȘ**
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REPORT

on the approval of the revision of certain financial performance indicators, valid for the members of Transgaz' Board of Administration during 2017 – 2021

SUMMARY

By the Decision of the General Ordinary Shareholders assembly 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.

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. 58 para (5) of Law no.2/2018 of the State Budget for 2018 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 2018 approved by Decision of the GOSM No.12/2017 was exceeded because of the following factors:

- The increase in tax and duties expenses by lei **64,428 thousand**: upon the preparation of the Management Plan the monopoly tax expense for 2018 was not substantiated - according to art.15 of Government Emergency Ordinance no. 99/2016 (in force at the date of the substantiation of the Management Plan) regarding the remuneration of the staff paid from public funds in 2016, the extension of some deadlines, as well as some fiscal-budgetary measures 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 2017*”;
- The increase in fees and commissions by lei **18,400 thousand**: in the Management Plan expenditures for commissions and fees were not substantiated for 2018. 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.
- Expenditures related to the salaries of the personnel employed on the basis of an individual labour contract increased by lei **90,285 thousand** in the REB 2018 draft compared to the amounts provided for in the Management Program related to 2018. Such increase is determined by the following aspects:
 - the introduction of the contributions due by the employer to the gross monthly incomes of the employees for the implementation of the provisions of GEO no.79/2017 for amending and supplementing Law no. 227/2015 regarding the Fiscal Code - lei 62,395 thousand;
 - the granting of compensations provided for in the Individual labour Contract for voluntary departures, calculated for 300 employees, including the due contributions - lei 19,627.9 thousand;
 - the influence of the necessary amounts for individual negotiations in 2018 - lei 2,330 thousand;
 - the influence of the changes in the salaries and bonuses in 2017 - lei 6,386 thousand.
- Expenditures related to consumption and gas technological loss in the transmission system higher by lei **16.342 thousand** because of the following factors:
 - The gas quantity meant for technological consumption higher by 92.489 MWh (▲ 8%), with a negative influence of lei 6.592 thousand;
 - The average procurement price higher by 8,03 lei/MWh, with a negative influence of lei 9.751 thousand.

- Expenditures on financial services for the procurement of shares in gas transmission (natural gas) operators in Europe amounting to **lei 6,013 thousand** (euro 1,287,600). Upon the preparation of the Management Plan, the necessary conditions for the procurement of shares in European operators in the field were not clear and as a result, the Financial Services expenses the acquisition of shares in European profile operators were not provided for in the Management Plan for 2018.

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

Indicator		2018	2019	2020
EBITDA	REB draft 2018	458,599	503,477	666,322
	Management Plan (approved)	464,454	641,253	731,367
	Differences	- 5,856	- 137,777	- 65,045
Operating Expenses less depreciation, balancing, construction activity and provisions for impairment of assets and for risks and expenses	REB draft 2018	1,002,101	933,300	948,385
	Management Plan (approved)	879,437	901,149	931,757
	Differences	- 122,664	- 32,152	- 16,628
Immediate liquidity ration	REB draft 2018	1.39	0.91	1.11
	Management Plan (approved)	>1	>1	>1

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 GMS of the key financial and non-financial performance indicators (KPIs), report which was the basis of the GMS's approval of the 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 MEETING
MINEA NICOLAE**