

No.95252/14.12.2021

Submitted for the approval of the OGSM of 20/21 January 2022

REPORT

On the approval of the annual variable component of the remuneration of the non-executive members of Transgaz' Board of Administration

SUMMARY

By OGSM Decision no. 2/22.04.2021, the mandate of Transgaz' administrators, Ion Sterian, Petru Ion Vaduva and Nicolae Minea was renewed.

Pursuant to the provision of GEO 109/2011 as amended, according to the Mandate Contract in the form applicable as at the date of the mandate contract approval, the mandatory shall receive a remuneration consisting of a fixed monthly allowance and a variable component established on the basis of financial and non-financial performance indicators negotiated and approved by the supervisory public authority.

PROPOSAL

The annual variable component of the remuneration of the non-executive members of Transgaz' Board of Administration up to a maximum of 12 fixed monthly allowances is submitted for the approval of the General Shareholders Meeting according to chapter IV, art. 15, point 3, paragraph (a1) of the updated Articles of Incorporation, corroborated with the provisions of GEO 109/2011.

REPORT DETAILED CONTENTS

According to the provisions of the mandate Contract, the mandatory shall receive a remuneration consisting in a fixed monthly allowance and a variable component.

During the duration of the application of the provisions of the GEO 109/2011, as amended, in the form applicable as at the date of the mandate contract approval, the gross monthly fixed allowance due to the non-executive members of the Board of Administration may not exceed twice the mean for the last 12 months of the average gross monthly salary income for the activity performed according to the company's registered core business at the level of the pay grade pursuant to the activity specification of the national economy communicated by the National Statistics Institute before the appointment.

The variable component is established based on financial and non-financial performance indicators negotiated and approved by the supervisory public authority.

In the event of a change in the legal maximum amount of the fixed monthly allowance during the term of the mandate contract, this shall be reflected in the fixed remuneration of the Mandatory. If the legal framework imposing a certain maximum amount of the fixed monthly remuneration is repealed, the parties shall negotiate a new amount applicable to the gross fixed monthly remuneration, in accordance with the level of remuneration applicable to similar positions in companies in Romania and in other European countries in the same field of activity, and shall conclude to this effect, within the legal term, an addendum to the mandate contract. The fixed monthly remuneration will be paid to the MANDATORY during the following month, as at the date when the liquidation salary rights are paid to the company's employees.

According to the Policy and Criteria for the Remuneration approved within the company, upon the recommendation of the Nomination and Remuneration Committee, SNTGN „TRANSGAZ” S.A. may contract a specialized company to carry out a comparative study on the conditions for the remuneration of the members of the Board of Administration, the Director General and the Economic Director, a study which is necessary to establish the remuneration of the Directors, according to art. 38 of GEO no. 109/2011 on the corporate governance of public enterprises, as amended.

The Policy and Criteria for the Remuneration of Administrators, Director General and Economic Director of SNTGN „TRANSGAZ” S.A. provides for the following:

Non-executive Administrators

„The variable component is paid according to the degree of achievement of the performance indicators identified at the company level and included in the company's Management Plan, approved by the Decision of the Ordinary General Meeting of Shareholders. Performance targets are linked to financial and non-financial criteria”

.....

„The variable annual remuneration component will be based on financial and non-financial performance indicators negotiated and approved by the General Meeting of Shareholders. According to the legislation in force, the amount of the variable component of non-executive members may not exceed a maximum of 12 fixed monthly allowances.”

The maximum legal amount of the variable allowance during the term of the mandate contract may be amended in accordance with Government Decision no. 722/2016 for the approval of the Methodological Norms for the application of provisions of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public companies, Annex no. 2, Chapter II, section 5 "*Methodology for the review of the variable component of the remuneration of non-executive administrators and executive administrators*".

Considering the above-mentioned legal provisions, SNTGN TRANSGAZ SA concluded service contract no. 269/13.05.2021 with ARC Consulting Human Resources Services on the preparation of the Consolidated Report regarding the comparative study on the conditions for the remuneration of the members of the Board of Administration, Director General and Chief Financial Officer of SNTGN „TRANSGAZ” S.A.

Therefore, the recommendations under the above-mentioned study were taken into account upon the determination of the remuneration annual variable component.

A. ECONOMIC AND FINANCIAL PERFORMANCE INDICATORS - Standard performance indicators			
Commissioned investments			
EBITDA			
Labour output			
Outstanding payments			
Outstanding receivables			
Technological consumption			
Operating expenses at 1000 lei operating revenues			
Profitability indicators			
Liquidity indicators			
Risk indicators			
Management indicators			
B. KEY PERFORMANCE INDICATORS - Performance indicators for the calculation of the variable component of the remuneration (14 indicators: 5 financial indicators and 9 non-financial indicators)			
FINANCIAL	NON-FINANCIAL		
	Operational	Oriented towards public services	Corporate Governance
1. Outstanding payments	1. Monitoring of Investment and implementation strategy	5. Gas transmission service performance indicators	6. Internal/managerial control system optimization;
2. Operating expenses (except for depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses)	2. Energy efficiency increase		7. Optimizarea procesului privind managementul riscului
3. Current liquidity rate	3. Client satisfaction		8. Key performance indicators timely reporting
4. Net leverage rate	4. Strengthening and diversifying cooperation and collaboration relations with natural		9. Implementation of the provisions of SNA

	gas transmission and system operators in the European Union		
5.EBITDA			

I. Key performance indicators for the calculation of the annual variable component of the remuneration

Tag no	Indicators' group according to GD no. 722/2016 Annex 2b	PERFORMANCE INDICATOR	PERFORMANCE OBJECTIVE
A FINANCIAL KEY PERFORMANCE INDICATORS			
1	Cash flow	Outstanding payments	Maintaining outstanding payments at zero.
2	Costs	Operating expenses (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses)	Maintaining the level of the operating expenses (less depreciation, balancing, the construction activity and the provisions for the impairment of assets and for risks and expenses) at the level undertaken in the Management Plan
3	Debt	Current liquidity rate	The current liquidity rate to record annual values above 1.
4		Net leverage rate	Maintaining the net leverage rate under the limits established for obtaining bank loans, precisely; 5-2021; 5,5 – 2022; 5 – 2023, și 2024; 4,5 – 2025.
5	Revenues	EBITDA	Achieving the target EBITDA under the Management Plan.
B NON-FINANCIAL KEY PERFORMANCE INDICATORS			
1	Operational	Implementation and Investment strategy monitoring	Implementation of FID (Final Investment Decision) projects under the 10 years Development Plan. Implementation of the pilot project for hydrogen injection in the NTS.
2		Increasing energy efficiency	Maintaining the share of the technological consumption in the total circulated gas below 1%.
3		Clients Satisfaction	Achievement of the targets provided for in the Management Plan. (According to PP 165 Client Satisfaction Rating, a score between 6-8 means that the services provided adequately met the clients' requirements).
4		Strengthening and diversifying cooperation and collaboration relations with natural gas transmission and system operators in the European Union	Conclusion of memoranda of cooperation and collaboration with natural gas transmission and system operators in the European Union (minimum 5 operators) on collaboration on hydrogen injection

5	Oriented towards public service	Performance indicators of the gas transmission service	Achievement of the targets provided for in the Performance standard for the gas transmission service (ANRE Order 161/26.11.2015 entered into force as at 1 October 2016) for the relevant gas transmission service indicators.
6	Corporate governance	Optimization of the internal/managerial control system	Implementation of the provisions of Order GSG no. 600/2018 for the approval of the Internal/Managerial Control Code for public entities as amended.
7		Optimization of the risk management process	Achievement of the targets provided for in the administration plan.
8		Timely reporting of the key performance indicators	Compliance with the legal reporting deadlines.
9		Implementation of NAS 2021-2025	Implementation of the measures provided for in the NAS.

Table 1 - Performance criteria and targets for calculating the annual variable component of remuneration

Note: The Current Liquidity Ratio indicator replaced the Immediate Liquidity Ratio indicator, in order to correctly reflect the financial situation of the company as the balancing gas stocks are built up as a result of the obligation imposed by ANRE.

II. The annual variable component of the remuneration established according to Annex No 2, Chapter II, Section 3 of GD 722/2016

Indicators	Non-executive	Executive
Financial	20%	50%
Non-financial of which:	80%	50%
Operational	20%	25%
Oriented towards public services	10%	15%
Corporate governance	50%	10%
	100%	100%

Key performance indicators for the calculation of the variable component of the remuneration	Non-executive BA members	EXECUTIVE BA member	Chief Financial Officer
		Director General	
D1 – Financial KPI	20%	50%	50%
D1.1 Outstanding payments	0%	10%	10%
D1.2 Operating expenses	6%	10%	10%
D.1.3 Current liquidity ratio	7%	10%	10%
D.1.4 Net debt-to-equity ratio	7%	10%	10%
D.1.5 EBITDA	0%	10%	10%
D2 – Non-Financial KPI	80%	50%	50%
D.2.1 Operational	20%	25%	25%
D.2.1.1 Investment	10%	10%	10%

D.2.1.2 Increasing energy efficiency	2%	5%	5%
D.2.1.3 Customer satisfaction	5%	5%	5%
D.2.1.4 International Cooperation	3%	5%	5%
D.2.2 Oriented towards public services	10%	15%	15%
D.2.2.1 Gas transmission Standard	10%	15%	15%
D2.3 Corporate governance	50%	10%	10%
D.2.3.1 SCIM	20%	2%	2%
D.2.3.2 Risk Management	10%	1%	1%
D.2.3.3 Timely reporting of indicators	10%	5%	5%
D.2.3.4 NAS implementation	10%	2%	2%
TOTAL	100%	100%	100%

Table 1– Shares of the key performance indicators for the calculation of the variable remuneration

III. The modality of calculation of the variable component of the remuneration

The Annual variable remuneration due = variable remuneration set by the Amendment to the Contract of Mandate x degree of total fulfilment of key performance indicators (KPI).

The degree of total fulfilment of key performance indicators (GT_{KPI}) is the weighted average with the weight factor of each KPI of the degree of fulfilment of each KPI (GI_{KPI}).

$$GT_{KPI} = \sum(GI_{KPI} * \text{weight factor})$$

The degree of fulfilment of each KPI (GI_{KPI}) may be higher than 100% and lower than 0%, but at the calculation of the degree of total fulfilment of KPI (GT_{KPI}) it will be considered as follows:

- $GI_{KPI} > 100\%$ means $GI_{KPI} = 100\%$;
- $GI_{KPI} < 0\%$ means $GI_{KPI} = 0\%$.

The variable component of the remuneration due to the Board of Administration members shall be in direct proportion with the GT_{KPI} for the relevant financial year.

Also in the event that:

- **$GT_{KPI} \geq 80\%$, the variable component of the remuneration shall be paid according to the calculation method presented;**
- **$GT_{KPI} \geq 50\%$ and $GT_{KPI} < 80\%$, the variable component of remuneration is not paid;**
- **$GT_{KPI} < 50\%$, administrators can be removed.**

The KPI is assessed annually on the basis of the audited annual financial statements and other verification instruments.

The amount of the annual variable component established for the Key Performance Indicators is due to the MANDATORY in the amount of 100% if the level of the Key Performance Indicators (financial and non-financial) actually achieved during the year for which the determination is made is equal to or higher than the level of the Key Performance Indicators committed under the Management Plan.

The amount of the annual variable component established for the achievement of the key performance indicators shall decrease pro rata with the degree of non-achievement of the key performance indicators for that year. If the total degree of achievement of the indicator for the relevant year is below 80%, the amount of the remuneration annual variable component shall not be granted.

The key performance indicators shall be assessed annually, based on the audited annual financial statements for the relevant year.

According to the provisions of chapter IV, art. 15, point 3, paragraph (a1) of the updated company's Articles of Incorporation, corroborated with the provisions of GEO no. 109/2011, the annual variable component of the remuneration of the non-executive members of the Board of Administration is submitted for approval.

Nomination and Remuneration Advisory Committee

Văduva Petru Ion

Minea Nicolae

Orosz Csaba