

No. 5559/21 January 2022

Submitted for the approval of the OGMS dated 28 February/1 March 2022

REPORT

On the approval of the revising of financial key performance indicators included in Transgaz' Administration Plan for the period 2021 - 2025

SUMMARY

The financial and non-financial performance indicators, annexes to the administrators' mandate contracts were approved by Resolution no. 8/6 December 2021 of the Ordinary General Meeting of the Shareholders.

Following the amendment of the relevant legislation and of the company's new strategic development directions, the values of the valid financial performance indicators for the calculation of the variable component of the BoA members' remuneration have changed.

PROPOSAL

Pursuant to the provisions of art. 30, paragraph (2), Annex 2 of GD 722/2016 for the approval of the Methodological Rules for the application of provisions of GEO 109/2011 on the corporate governance of public enterprises, as amended, the new financial performance indicator values are submitted to the Ordinary General Meeting of Shareholders for approval.

Detailed Contents

As a result of the legislative changes and the company's new strategic development directions, the values of the financial performance indicators valid for the calculation of the variable component of the remuneration of the BoA members have changed.

The justification for the change in the value of the financial performance indicators is rendered below:

In accordance with the provisions of Art. 9 paragraph (1) letter c) of Government Ordinance 26/2013 as amended:

"When substantiating revenue and expense budgets, the economic operators shall take into account, but without being limited to, the following:...

c) specific performance criteria and quantified objectives for reducing outstanding payments and receivables, reducing loss, increasing profit, turnover, and increasing labour productivity, provided for in the mandate contracts, established in connection with the administration strategy of the Board of Directors / Supervisory Board and the management plan of the directors / members of the economic operators' board";

The level of the EBITDA indicator under the Administration Plan for 2022, as approved by Resolution no. 8/2021 will not be achieved because of the following factors:

- Application of the monopoly tax in the amount of lei 69.802 thousand for the year 2022, due to the extension by GEO 130/17.12.2021 of the deadline for the application of the monopoly tax until December 2025, an unforeseen expenditure under the Management Plan;

Government Ordinance No 5 of 22 January 2013 on the establishment of special measures for the taxation of natural monopoly activities in the electricity and natural gas sector, published in the Official Gazette of Romania, Part I, No. 52 of 23 January 2013, as amended, introduced the monopoly tax applicable to natural gas transmission operators licensed by ANRE until 31.12.2021.

According to Article XXIII of GEO 130/17.12.2021, the deadline provided for in Article 6 of Government Ordinance no. 5/2013 was extended until 31 December 2025, included.

- Increase in energy and water expenditure by lei 22.460 thousand due to the increase in energy prices;
- Increase in the repair expenditure by lei 22.351 thousand;
- Decrease in the revenue from domestic and international transmission services mainly due to contracted capacities during the gas year 2021-2022 being lower than the estimates used to substantiate the Management Plan

The level of the "Operating Expenses" indicator set out in the Management Plan for 2022 approved by Decision No. 8 / 2021 of the General Ordinary Meeting of Shareholders will not be achieved because of the following factors:

- Application of the monopoly tax in the amount of lei 69.802 thousand for the year 2022, due to the extension by GEO 130/17.12.2021 of the deadline for the application of the monopoly tax until December 2025, an unforeseen expenditure under the Management Plan;

Government Ordinance No 5 of 22 January 2013 on the establishment of special measures for the taxation of natural monopoly activities in the electricity and natural gas sector, published in the Official Gazette of Romania, Part I, No. 52 of 23 January 2013, as amended, introduced the monopoly tax applicable to natural gas transmission operators licensed by ANRE until 31.12.2021.

According to Article XXIII of GEO 130/17.12.2021, the deadline provided for in Article 6 of Government Ordinance no. 5/2013 was extended until 31 December 2025, included.

- Increase in energy and water expenditure by lei 22.460 thousand due to the increase in energy prices;
- Increase in the repair expenditure by lei 22.351 thousand

The new values of the changed financial performance indicators are illustrated below:

Indicator		2022	2023	2024
EBITDA	Draft REB 2022-2024	354.495	609.808	573.203
	Administration Plan	451.334	831.953	901.714
	Differences	-96.839	-222.145	-328.511
Operating Expenses	Draft REB 2022-2024	1.112.356	1.205.112	1.218.233
	Administration Plan	1.065.014	1.115.400	1.127.150
	Differences	47.341	89.712	91.083

Pursuant to the provisions of art. 30 paragraph (2), Annex 2 of GD 722/2016 for the approval of the Methodological Rules for the application of provisions of GEO 109/2011 on the corporate governance of public enterprises, as amended, we submit the new financial performance indicator values to the Ordinary General Meeting of Shareholders for approval.

**Chairman
of the Board of Administration,
Ion Petru VADUVA**