

No. 5885/25.01.2022

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

REPORT

on the approval of the Amendment to the Mandate Contract signed with non-executive members of the Board of Administration of SNTGN "Transgaz" SA, which includes revised financial performance indicators and empowering the representative of the General Secretariat of the Government in the GMS to sign on behalf of the company the Amendments to the Mandate Contracts of the non-executive members of the Board of Administration of SNTGN "Transgaz" SA

SUMMARY

By the Decision of the Ordinary General Meeting of Shareholders of S.N.T.G.N. "TRANSGAZ" S.A. no. 2 dated 22.04.2021, the mandate of the administrators Ion Sterian, Petru Ion Văduva and Minea Nicolae was renewed.

In accordance with the provisions of article 11, paragraph 6 of GEO no. 68/2019 published in the Official Gazette no. 898 / 06.11.2019 'exercising the rights and fulfilling the obligations related to the quality of shareholder held by the Romanian state in the National Gas Transmission Company „Transgaz”- S.A. Mediaș is carried out by the General Secretariat of the Government.

In accordance with the provisions of GEO 109/2011, as subsequently amended, the mandatory benefits from a remuneration consisting of a fixed monthly allowance and a variable component.

The gross monthly fixed allowance due to non-executive members of the Board of Administration may not exceed twice the average over the last 12 months of the average gross monthly salary income for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment of the Mandatory and for the member of the Board of Administration who also fulfills the position of Director General, executive administrator, the gross monthly fixed allowance may not exceed 6 (six) times the average of the last 12 months of the monthly salary income for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy,

communicated by the National Institute of Statistics prior to the appointment of the Mandatary.

In addition to the gross monthly fixed allowance, the Mandatary has the right to receive a variable annual component of remuneration established on the basis of financial and non-financial performance indicators approved by the Decision of the Ordinary General Meeting of Shareholders of S.N.T.G.N. "TRANSGAZ" S.A. no. 8 of 16.12.2021.

PROPOSAL

In accordance with the provisions of chapter IV of art. 15, point 3 paragraph d) and art 20, point 1 paragraph n) of the updated Articles of Incorporation, we submit for the approval of the Ordinary General Meeting of Shareholders the following:

- **the Amendment to the Mandate Contract concluded with the administrators (non-executive members) which has as an annex, the revised financial performance indicators;**
- **the empowerment of the representative of the General Secretariat of the Governemnat in the GMS to sign on behalf of the company the amendments to the mandate contracts of the non-executive members of the Board of administration of SNTGN "TRANSGAZ" SA.**

Detailed content

In accordance with the provisions of the Mandate Contract, the Mandatary receives a remuneration consisting of a fixed monthly allowance and a variable component.

During the application of the provisions of GEO 109/2011, as subsequently amended, in the form in force at the date of approval of the mandate contract, the gross fixed monthly allowance due to non-executive members of the Board of Administration may not exceed twice the average over the last 12 months of the average gross monthly salary income for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment of the Mandatary and for the member of the Board of Administration who also fulfills the position of Director General, executive administrator, the gross monthly fixed allowance may not exceed 6 (six) times the average of the last 12 months of the monthly salary income for the activity carried out according to the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment of the Mandatary.

In case of modification and/or abrogation of the legal framework that imposes a certain maximum amount of the fixed monthly allowance, the parties will negotiate a new amount applicable to the gross fixed monthly allowance, according to the level of remuneration applicable for similar positions in Romania and other European countries in the same field of activity, and will conclude in this respect, within 30 days, an Amendment to the Mandate Contract.

In addition to the gross fixed monthly allowance, the Mandatary has the right to receive a variable annual component of remuneration, considering the degree of fulfillment of the indicators approved by Resolution no. 8 of 06.12.2021 of the Ordinary General Meeting of Shareholders, which will be

annexed to the Amendment.

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

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

"When substantiating revenue and expense budgets, economic operators shall consider, but are not limited to, the following: ...

c) specific performance criteria and quantified objectives for reducing outstanding payments and receivables, reducing losses, increasing profit, turnover, and increasing labor productivity, provided in the mandate contracts, established in correlation with the strategy of the Board of Administration/The Supervisory Board and the management plan of the directors/members of the Board of Economic Operators";

The level of the "EBITDA" indicator provided in the Management Plan for 2022 approved by OGMS Resolution no.8/2021 will not be achieved because of the following factors:

- application of the monopoly tax in the amount of 69.802 thousand lei 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 in the management plan;
- 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 22.460 thousand lei due to the increase in energy prices;
- Increase in repair expenditure by 22.351 thousand lei.
- decrease in revenue from domestic and international transmission services mainly due to lower contracted capacity in the 2021-2022 gas year than the estimates used to substantiate the management plan.

The level of the indicator "Operating Expenses" foreseen in the 2022 Management Plan approved by OGMS Resolution No. 8/2021 will not be achieved due to the following factors:

- application of the monopoly tax in the amount of 69,802 thousand lei for the year 2022, due to the extension by GEO 130/17.12.2021 of the term of application of the monopoly tax until December 2025, an unforeseen expense in the management plan; 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 period provided for in Article 6 of Government Ordinance No 5/2013 has been extended until 31 December 2025, inclusive.

- increase in energy and water expenditure by 22,460 thousand lei due to higher energy prices;
- increase in expenditure on repairs of 22,351 thousand lei.

The new values of the financial performance indicators that have changed are presented in the table below:

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

In accordance with the provisions of Chapter IV, art. 15, point 3 let. d) and article 20 paragraph 1, point n) of the updated Articles of Incorporation, the Nomination and Remuneration Advisory Committee submits for approval to the Ordinary General Meeting of the Shareholders the following:

- the Amendment to the Mandate Contract concluded with the administrators (non-executive members) which has as an annex, the revised financial performance indicators;
- the empowerment of the representative of the General Secretariat of the Governemnat in the GMS to sign on behalf of the company the amendments to the mandate contracts of the non-executive members of the Board of administration of SNTGN "TRANSGAZ" SA).

Annex: Amendment to the Mandate Contract containing the key financial performance indicators approved by the Resolution of the Ordinary General Meeting of the Shareholders no 8 of 06.12.2021, revised.

CHAIRMAN OF THE BOARD OF ADMINISTRATION

Văduva Petru Ion

**Addendum No. ___ to
Contract of Mandate No. ___ dated ___**

Considering:

- Company Law 31/1990 republished, as further amended and supplemented, hereinafter referred to as Law 31/1990;
- Government Emergency Ordinance 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, hereinafter referred to as GEO 109/2011;
- Government Resolution 722/2016 on the approval of the methodological rules for the application of some provisions of GEO 109/2011, hereinafter referred to as GR 722/2016;
- Government Ordinance 26/2013 on strengthening financial discipline at the level of some economic operators where the state or administrative-territorial units are unique or majority shareholders or hold directly or indirectly a majority share, as further amended and supplemented;
- Art. 1.913 and the subsequent articles, and Art. 2.009 and the subsequent articles of Law 287/2009 on the Civil Code, as further amended and supplemented,
- Government Emergency Ordinance 68/2019 on the establishing of measures at the level of the central public administration and the amending and supplementation of some normative acts,

and:

By Resolution 8/6.12.2021 of the Ordinary General Meeting of the Shareholders of Transgaz S.A., according to GEO 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, the key financial and non-financial performance indicators were approved;

By Resolution no. 1/20.01.2022 of the Ordinary General Meeting of the Shareholders of Transgaz S.A., according to GEO 109/2011 on the corporate governance of the public enterprises, as further amended and supplemented, the variable component of the non-executive members of the Board of Administration was approved.

General Meeting of the Shareholders of Transgaz S.A no. ___ dated _____ decided that the Addendum to Contract of Mandate no. __ / _____, hereinafter referred to as the Contract of Mandate shall be signed by the representative of the shareholders _____;

The National Gas Transmission Company Transgaz S.A., headquartered in Mediaş, 1 C. I. Motaş Square, Sibiu County, tel./fax. 0269 803333 / 0269 803334, e-mail: cabinet@transgaz.ro, registered with the Trade Registry Office attached to Sibiu Court under number J32/301/2000, tax number RO/13068733, duly represented by _____, identified with _____, hereinafter referred to as the `Company` or the `Mandator`, as applicable,

and

Mr _____, Romanian citizen, date of birth _____, place of residence _____, identity card _____, issued by _____ on _____, PIN _____, tel./fax. _____, e-mail: _____, as _____, hereinafter referred to as `Mandatory`,

Individually referred to as the `Party` and collectively the `Parties`,

according to Art. 2 (11) of GEO 109/2011 and to Art. 12.1 of Contract of Mandate no. _____ / _____, hereinafter referred to as the `Contract of Mandate`, have agreed to conclude the Addendum, hereinafter referred to the `Addendum`,

Art. 1. Scope of Addendum

1.1. The key financial performance indicators established in Annex 1 to the Addendum No. _____ to the Contract of Mandate no. _____ are amended according to Annex 1 to the Addendum.

Art. 2. Final provisions

2.1. The Addendum shall come into force at its date of signature by the Parties.

2.2. The other provisions of the Contract shall remain unchanged.

The Addendum was concluded today, _____, in 3 (three) counterparts, 2 (two) for the Mandator and 1 (one) for the Mandatory.

Mandator
S.N.T.G.N. TRANSGAZ S.A.

Mandatory

by _____
empowered by Ordinary General Meeting
of the Shareholders Resolution No. _ of _

Annex No. 1

The new values of the amended financial performance indicators are presented in the table 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 costs	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