

No. 2206 / 11.01.2023

Submitted for the approval of the OGMS meeting dated 16/17 February 2023

REPORT

On the approval of the addendum to the mandate contract signed with the non-executive members of Transgaz' Board of Administration comprising the revised financial performance indicators and the empowerment of the representative of the General Secretariat of the Government to the GMS to sign on behalf of the company the addenda to the mandate contracts of the non-executive members of Transgaz' Board of Administration.

SUMMARY

The financial and non-financial performance indicators annexed to the administrators' mandate contracts were approved by Resolution no. 8/6 December 2021 of the Ordinary General Meeting of Shareholders and the revision of financial performance indicators was approved by the Resolution no. 3 / 28 February 2022 of the Ordinary General Meeting of Shareholders.

As a result of the legislative changes and of the new strategic directions for the company's development, the values of financial performance indicators valid for the calculation of the variable component of the BoA members' remuneration have altered. Therefore, the mandate contracts concluded with the administrators (non-executive members) will be amended by an addendum where the new values of the financial performance indicators are attached as annex.

PROPOSAL

In accordance with the provisions of Chapter IV art. 15 point 3 letter d) of the updated Articles of Incorporation, we submit the following for the approval of the Ordinary General Meeting of Shareholders:

- **the addendum to the mandate contract concluded with the administrators (non-executive members) where the revised financial performance indicators are attached as annex.**

- **the empowerment of the representative of the General Secretariat of the Government to the GMS to sign on behalf of the company the addenda to the mandate contracts of the non-executive members of Transgaz' Board of Administration.**

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 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 company's registered core business, 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 company's registered core business, 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 addendum 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 addendum.

The rationale for the change in the value of some financial performance indicators is illustrated below:

In accordance with the provisions of Art. 9(1) lit. c) of OG 26/2013 as amended:

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

- c) the specific performance criteria and quantified objectives relating to the reduction of outstanding payments and receivables, the reduction of losses, the increase in profit,*

turnover and the increase in labour productivity, set out in the mandate contracts, established in correlation with the management strategy of the Board of Directors/Supervisory Board and the management plan of the directors/members of the management board of economic operators"

The level of the "**EBITDA**" indicator provided for in the Management Plan for 2023 approved by OGMS Resolution No 3/ 2022 will not be achieved because of the following factors:

- decrease in revenues from natural gas transmission services by lei 135,643 thousand mainly:
 - because of the non-approval of the positive adjustment of the transmission tariffs for 2022 - 2023, limitation imposed by Article 14 paragraph (2) of GEO no. 27/18 March 2022 as amended and by ANRE Order no. 75/18 May 2022 for the extension of the deadlines provided for in the Order of the President of the National Energy Regulatory Authority no. 32/2021, which results in the application of transmission tariffs lower than the tariffs estimated in the management plan with a negative influence of:
 - lei 134.339 thousand related to the capacity booking component;
 - lei 26.762 thousand related to the transmission tariff commodity component;
 - because of the contracted capacities during the gas year 2022-2023 lower than the estimates used to substantiate the management plan with a negative influence of lei 95.173 thousand;
 - the major negative impact of the non-adjustment of transmission tariffs for 2022 - 2023 is partially offset by the additional revenues from the auction premium related to the interconnection points estimated for 2023 in amount of lei 120.757 thousand;
- exceeding of the operating expenses provided for in the Administration Plan for 2023 approved by OGMS Resolution no. 3 / 2022, by lei 104.439 thousand mainly as a result of:
 - increase in the expenses with allowances, salaries and other expenses of a salary nature, by lei 48,001 thousand mainly due to the indexation with the inflation rate of the salaries for 2023 and the replenishment of expenses of a salary nature, for the whole year 2023, determined following the granting of salary increases in 2022.

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (National Forecast Commission autumn 2022 forecast) - applicable in the substantiation of the REB 2023	13,5	9,6
Average annual inflation index (autumn 2021 forecast of the National Forecast Commission) - applicable in the substantiation of the REB 2022	4,70	3,40

- increase in the auxiliary material expenses lei 61.802 thousand because of an increase in the supply programme for materials such as pipes, elbows, valves, pressure reducing

valves, filters, necessary to ensure the continuous operation of the maintenance activity in respect of the technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment;

The level of the "**Operating Expenses**" indicator provided for in the 2023 Management Plan approved by OGMS resolution No. 3 / 2022 will not be achieved mainly because of the following factors:

- increase in the expenses with allowances, salaries and other expenses of a salary nature, by lei 48,001 thousand mainly due to the indexation with the inflation rate of the salaries for 2023 and the replenishment of expenses of a salary nature, for the whole year 2023, determined following the granting of salary increases in 2022

Indicator	2022 (%)	2023 (%)
Consumer price growth - annual average (National Forecast Commission autumn 2022 forecast) - applicable in the substantiation of the REB 2023	13,5	9,6
Average annual inflation index (autumn 2021 forecast of the National Forecast Commission) - applicable in the substantiation of the REB 2022	4,70	3,40

- increase in the auxiliary material expenses lei 61.802 thousand because of an increase in the supply programme for materials such as pipes, elbows, valves, pressure reducing valves, filters, necessary to ensure the continuous operation of the maintenance activity in respect of the technological installations related to the metering regulating stations of the NTS by replacing similar worn-out equipment

The level of the "**Net Debt Ratio**" indicator provided for in the Management Plan for 2023 approved by OGMS resolution No. 6/ 2021 will not be achieved mainly because of the non-achievement of the level of the "EBITDA" indicator provided for in the Management Plan for 2023 approved by OGMS resolution No. 3/ 2022, the factors being presented above.

The new values of the financial performance indicators that have undergone changes are shown in the table below:

Indicator		2023	2024	2025
EBITDA	Draft REB 2023-2025	377.921	801.888	951.217
	Administration Plan	609.808	573.203	1.047.523
	Differences	-231.887	228.685	-96.306
Operating expenses	Draft REB 2023-2025	1.296.063	1.434.821	1.424.745
	Administration Plan	1.205.112	1.218.233	1.170.746

	Differences	- 90 950	- 216 588	- 254 000
Net debt ratio	Draft REB 2023-2025	5,5	5	4,5
	Administration Plan	5	5	4,5
	Differences	0,5	-	-

In accordance with the provisions of Chapter IV, art. 15, point 3 let. d) 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 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

Petru Ion Văduva

**Addendum no. __ to
The Mandate Contract no. __ dated__**

Considering the provisions of:

- Company Law 31/1990, republished, as amended, hereinafter referred to as **Law 31/1990**;
- Government Emergency Ordinance 109/2011 on the corporate governance of public enterprises, as further amended and supplemented, hereinafter referred to as **GEO 109/2011**;
- Government Decision 722/2016 on the approval of the methodological norms for the application of provisions of GEO 109/2011, hereinafter referred to as GD 722/2016;
- Government Ordinance 26/2013 on strengthening financial discipline at the level of economic operators where the state or administrative-territorial units are sole or majority shareholders or hold directly or indirectly a controlling stake, as amended;
- art. 1.913 and the subsequent articles, and Art. 2.009 and the subsequent articles of Law 287/2009 on the Civil Code, as amended;
- Government Emergency Ordinance no. 68/2019 on the establishment of measures at the level of the central public administration and for the amendment and supplementation of normative acts,

as well as the following:

By Resolution of the Ordinary General Meeting of the Shareholders of S.N.T.G.N. Transgaz S.A. no. ... dated, in accordance with the provisions of GEO no. 109/2011 on the corporate governance of public enterprises, as amended, the financial and non-financial performance indicators were approved;

By Resolution of the Ordinary General Meeting of the Shareholders of S.N.T.G.N. Transgaz S.A. no. ... dated, in accordance with the provisions of GEO no. 109/2011 on the corporate governance of public enterprises, as amended, the variable component of the BoA executive members was approved;

By Resolution of the Ordinary General Meeting of the Shareholders of S.N.T.G.N. Transgaz S.A. no. ... dated, in accordance with the provisions of GEO no. 109/2011 on the corporate governance of public enterprises, as amended, the revision of financial performance indicators provided for in Transgaz' Administration Plan for the period 2021-2025 was approved;

The General Meeting of the Shareholders of S.N.T.G.N. Transgaz S.A. no. __ dated ___ decided that the present Addendum to the Mandate Contract no. __ dated _____, hereinafter referred to as the "**Mandate Contract**" shall be signed by the representative of the shareholders _____;

The National Gas Transmission Company "Transgaz" S.A., headquartered in Medias, no. 1, C. I. Motas Sq., Sibiu County, tel./fax. 0269 803333 / 0269 803334, e-mail: cabinet@transgaz.ro, registered with the Trade Register, Sibiu Court of Law under no. J32/301/2000, VAT no.

RO/13068733, represented by _____, identified with __, hereinafter referred to as "**Company**" or "**Mandator**" as appropriate,

and

Mr. _____, Romanian citizen, born on _____, residing in _____, bearer of ID series _____ no _____ issued by _____ on _____, Personal no. _____, tel./fax. _____ / _____, e-mail: _____, as _____, hereinafter referred to as "**Mandatory**",

individually referred to as the Party and collectively as the Parties,

pursuant to art. 2 pt. 11 of GEO no. 109/2011 and of art. 12.1 of the Mandate Contract no. __ dated __, hereinafter referred to as the "**Mandate Contract**", have agreed to conclude this Addendum, hereinafter referred to as the "**Addendum**" and resolved as follows:

Art. 1. Object of the Addendum

1.1 The financial performance indicators set out in Annex 1 to Amendment No _____ to the mandate contract No _____ are amended as set out in Annex 1 to this Amendment.

Art. 2. Final provisions

2.1. This Addendum shall enter into force at the date of its execution by the Parties.

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

This Addendum was concluded today, __, in 3 (three) original counterparts, of which 2 (two) counterparts for the Mandator and 1 (one) counterpart for the Mandatory.

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

Mandatory,

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

Annex no. 1

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

Indicator		2023	2024	2025
EBITDA	Draft REB 2023-2025	377.921	801.888	951.217
	Administration Plan	609.808	573.203	1.047.523
	Differences	-231.887	228.685	-96.306
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	Administration Plan	1.205.112	1.218.233	1.170.746
	Differences	- 90 950	- 216 588	- 254 000
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	Administration Plan	5	5	4,5
	Differences	0,5	-	-