



No. 17663/20.03.2020

Submitted for approval in the GMS of 27 April 2020

REPORT

on the approval of the evaluation of the fulfillment of the key financial and non- financial performance indicators that are annexed to the Mandate Contracts of non-executive directors

SUMMARY

By the OGMS Decision no.12 / 19.12.2017, art.1 the key financial and non-financial performance indicators that constitute an annex to the mandate contracts of the administrators were approved, in accordance with Annex no.2 to Order no.1367/GS/15.12 .2017.

By the OGMS Decision no. 3 /16.05.2019, Article 1 the revision of financial performance indicators as submitted by the Board of Administration and approved by Board of Administration Decision no. 16/09.04.2019 was approved, the consolidated version of targeted key performance indicators is attached to the Mandate Contracts of non-executive directors, in order to be submitted for approval by the General Meeting of Shareholders.

PROPOSAL

According to the provisions of art. 30 par. (7), in conjunction with art. 37 para. (2) of GEO no.109/2011 on corporate governance of public companies, as amended and supplemented, we submit for approval of the General Meeting of Shareholders of SNTGN Transgaz SA, the evaluation of the fulfillment of the key financial and non-financial performance indicators that constitute an annex to the Mandate Contracts of the non-executive directors.

Detailed content

By the Decision of the BoA no.36/10.10.2017 based on the Report no. 47365/09.10.2017, the Board of Administration endorsed the Management Plan of SNTGN Transgaz SA for the period 2017-2021, mentioning the revision of the financial and non-financial indicators, as they will be negotiated and approved in the General Meeting of the Shareholders.

By the OGMS Decision no.12/19.12.2017, art.1 the key financial and non-financial performance indicators that constitute an annex to the mandate contracts of the administrators were approved, in accordance with Annex no.2 to Order no.1367/GS/15.12.2017. The revision of some Financial Performance Indicators was approved by the OGMS Decision no. 3/16.05.2019, art. 1 and the consolidated version of target key performance indicators are Annex to the Mandate Contracts of non-executive directors.

Following the revision of some financial indicators, the members of the Board of Administration approve, through the BoA Decision no. 38/28.08.2019, the updated Management Plan of SNTGN Transgaz SA for the period 2017 - 2021.

In accordance with the provisions of art.30 paragraph (7), in conjunction with art.37 paragraph (2) of GEO no.109/2011 regarding the corporate governance of public companies, with the subsequent modifications and completions, we submit for approval to the General Meeting of Shareholders of SNTGN Transgaz SA, the evaluation of the fulfillment of the key financial and non-financial performance indicators that constitute an Annex to the Mandate Contracts of the non-executive directors.

Annexes:

Annex 1 - Key financial performance indicators for calculating the variable component of remuneration - Achievements 2019;

Annex 2 - Key non - financial performance indicators for calculating the variable component of remuneration - Achievements 2019;

Annex 3 – Fundamentals of calculating financial performance indicators.

NOMINALIZATION AND REMUNERATION COMMITTEE

VĂDUVA PETRU ION

MINEA NICOLAE

ILIESCU BOGDAN GEORGE


Annex 1
to OGMS Report no. 17663/20 March 2020
**Key financial performance indicators
for the calculation of the variable component of remuneration**

No.	Performance criteria	Performance objective	2019		Degree of achievement
			Indicators according to the revised Management Plan	Indicators achieved on 31.12.2019	
1.	Outstanding payments – thousand lei	Maintaining outstanding payments to zero	0	0	100%
2.	Operating expenses (except for depreciation, balancing, construction activity and provisions for the asset depreciation and for risks and charges) – thousand lei)	Maintaining the level of the operating expenses at the level undertaken in the Management Plan	1.070.891	894.795	120%
3.	Acid test ratio	Acid test ratio to register annual values over 1.	0,91	1,60	176%
4.	Net debt-to-equity ratio	Maintaining a net debt-to-equity ratio under the limits set for obtaining bank financing, namely: 3-2017; 3-2018; 5,5-2019; 5,5-2020; 4-2021	5,50	1,23	449%
5.	EBITDA – thousand lei	Achieving the EBITDA target undertaken in the Management Plan	329.594	541.590	164%

Annex 2

to OGMS Report no. 17663 of 20 March 2020

Key non-financial performance indicators for the calculation of the variable component of remuneration – Achieved 2019

No.	Indicator	Objective	No.	2019		Achievement degree	
				Planned	Achieved		
Operational							
6.	Monitoring the Implementation and Investment Strategy	Achievement of the FID projects from the 10 years Development Plan $I = (\text{achieved} + \text{initiated actions}) / \text{proposed actions}$					100%
		Development on the Romanian territory of the National Gas Transmission System on the Bulgaria – Romania – Hungary – Austria Corridor (BRUA phase 1).	6.1	Construction Phase I	In progress –over 300 km of 479 km were welded for BRUA Phase I; -CS Jupa - completed and commissioned on 30.09.2019; -CS Podișor - completed and commissioned on 31.10.2019, -CS Bibești – under execution; commissioning is expected on 30 June 2020, - Execution completion of Jupa – Recaș pipeline section (part of Lot 3)		
		<i>Interconnection of the National Transmission System with the T1 international gas transmission pipeline and reverse flow at Isaccea</i>	6.2	Procurement of design and execution works - Obtaining of comprehensive decision – phase 2	-Completed -Completed		
		<i>Modernization of Isaccea 1 GMS and Negru Vodă 1 GMS;</i>	6.3	Isaccea I – start of construction Negru Vodă 1 – start of execution	- Isaccea 1 execution in progress - FEED under preparation (updated deadline)		
7.	Increasing energy efficiency	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	7.1	<1	0.49	100%	
Oriented towards public services							
8.			8.1	$IP_0^1 \geq 90\%$	92,44%		

Performance indicators related to 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)	8.2	$IP_1^1 \geq 95\%$	100%	100%	
		8.3	$IP_1^2 \geq 95\%$	100%		
		8.4	$IP_1^3 \geq 95\%$	100%		
		8.5	$IP_1^4 \geq 95\%$	100%		
		8.6	$IP_1^5 \geq 95\%$	100%		
		8.7	$IP_2^1 \geq 95\%$	100%		
		8.8	$IP_2^2 \geq 95\%$	-		
		8.9	$IP_3^1 \geq 95\%$	100%		
		8.10	$IP_3^2 \geq 95\%$	-		
		8.11	$IP_3^3 \geq 95\%$	-		
		8.12	$IP_3^4 \geq 95\%$	-		
		8.13	$IP_4^1 \geq 95\%$	-		
		8.14	$IP_5^1 \geq 98\%$	100%		
		8.15	$IP_5^2 \geq 98\%$	100%		
		8.16	$IP_6^1 \geq 98\%$	100%		
		8.17	$IP_6^2 \geq 98\%$	100%		
		8.18	$IP_7^1 \geq 80\%$	96.77%		
		8.19	$IP_8^1 \geq 98\%$	100%		
		8.20	$IP_8^2 \geq 98\%$	-		
8.21	$IP_9^1 \geq 90\%$	-				
Corporate governance						
9.	Implementing the internal/managerial control system	Implementing the provisions of the SGG Order no. 600/2018 for the approval of the Internal/managerial control Code of public enterprises as subsequently amended. <i>I = implemented standards/standards provided by Order 600/2018*100</i>	9.1	94%	Achieved -Letter DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government on the Progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. -Centralized progress of the SCI/M implementation and development at SNTGN Transgaz SA on 31.12.2019, no. 1387/13.01.2020. -Self-Assessment Questionnaire on the progress of the SCI/M standards implementation on 31.12.2019, no. 1383/13.01.2020. -Synthesis of self-assessment results on 31.12.2019, no. 1385/13.01.2020. -Updating of Decision no. 283/15.03.2019 or the establishing of Monitoring Committee;	100%

					<ul style="list-style-type: none"> - Updating of Decision no. 282/15.03.2019 on the appointment of the SCI/M persons responsible; - Updating of the 2019 Transgaz SCI/M Development Plan no. 1330/10.01.2019; - Report on the SCI/M implementation on 31.12.2019, no. 8209/12.02.2020; - Report on 2019 Transgaz performance monitoring, no. DSMC/8211/12.02.2020. 	
10.	Clients satisfaction	Achievement of the targets provided for in the administration plan (According to PP 165 Evaluation of Clients satisfaction, a score between 6-8 represents the fact that the services offered satisfied accordingly the requirements of the clients)	10.1	7,9	<p style="text-align: center;">Achieved</p> <p style="text-align: center;">SMC Letter no. 8521/13.02.2020 for year 2019</p>	100%
11.	Setting the risk management policies and risk monitoring	Achievement of the targets provided for in the administration plan related to the implementation of the requirements of Standard 8 of SGG Order no. 600/2018 for the approval of the internal/managerial Control Code of public entities	11.1	Updating of risk management specific documents	<p style="text-align: center;">Achieved</p> <ul style="list-style-type: none"> -Decision no. 284/15.03.2019 for the updating of the Risk Management Team; -2019 Tolerance Limit no. 3885/21.01.2019; -The risk profile of Transgaz, December 2018, no. 3885/21.01. 2019; - The risk profile of Transgaz, December 2019, no. 1512/13.01. 2020. -Analysis of the strategic risks included in the Register of the Risks at the company level - year 2018 no. 2738/16.01.2019 and the reclassification of strategic risks; -Statement – Commitment of the Director - General regarding Risk management, updated in May 2019 	100%
			11.2	Updating the Register of Risks Updating the Plan of measures to mitigate risks	<p style="text-align: center;">Achieved</p> <ul style="list-style-type: none"> - the Register of the Risks at the company level - year 2019, no. 2740/16.01.2019; -Plan of measures to mitigate risks, at the company level, year 2019, no. 2877/16.01.2019. 	
			11.3	Report on risk management and monitoring	<p style="text-align: center;">Achieved</p> <ul style="list-style-type: none"> -Report on risk management and monitoring within the company, for 2019, no. 1518/ 13.01.2020; -Report on the progress of achievement of specific objectives and the Plan for the implementation of the measures set by the Risk management Strategy, no. DG 37873/27.06.2019; -The Report of the Audit and Rating Committee to the Board of Administration on the risk management and monitoring within SNTGN Transgaz 	

					SA for 2018, no. DG 37870/27.06.2019, BoA meeting of 04.07.2019.	
12.	Timely reporting of the key performance indicators	<i>Compliance with the legal deadlines for reporting I = actual reporting deadlines/reporting deadlines provided *100</i>	12.1	<i>Financial communication calendar to BSE</i>	Achieved	100%
			12.2	<i>Status of achievement of the 10 year National transmission system development plan</i>	Achieved Letter DSMC/16016/15.03.2019 Deadline: 15 March 2019 Letter DSMC/11471/26.02.2020 Deadline: 1 March 2020	
			12.3	<i>SCIM reporting</i>	Achieved Letter DSMC/4786/ 25/01.2019 – reporting for 2018. Letter no. DSMC/1446/ 13.01.2020 sent to the General Secretariat of the Government, on the Transgaz SCI/M progress of implementation and development on 31.12.2019; Entry no. SGG 20/1035/AT of 16.01.2020. (reported annually)	
			12.4	<i>Reporting related to the achievement of the performance indicators of the gas transmission service</i>	Achieved Letter no. 69593/ 22.11.2019 - ANRE report for gas year 2018-2019 (reported annually)	
			12.5	<i>Reporting form S1100 on the monitoring of the application of the provisions of GEO 109/2011</i>	Achieved Letter DSMC 38243/28.06.2019 Report for Semester I 2019 Letter DSMC 393/07.01.2020 Report for Semester II 2019	
13.	Increasing institutional integrity by including the measures for the prevention of corruption as an element of the managerial plans	<i>Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline /proposed measures *100</i>	13.1	<i>Publication of the SCIM assessment results</i>	Achieved Published report on the Internal/Management Control System on 31.12.2019, no. 1427/13.01.2020 at: http://zonapublica.transgaz.ro/Sistem%20de%20Control%20Intern%20Managerial/Sistem%20de%20Control%20Intern%20Managerial/6.%20Documente%20de%20evaluare%20interna%20si%20raportare/3.%20Raport%20anual%20al%20SCIM/Raportare%20SCIM%20la%2031.12.%202019.pdf	100%

			13.2	Annual evaluation of the implementation of the Integrity Plan and its adaptation to the newly occurred risks and vulnerabilities	<p>Achieved</p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 3328/18.01.2019 the 17.01.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the Ministry of Economy (the coordinating ministry);</p> <p>At the level of S.N.T.G.N. TRANSGAZ S.A. the annual evaluation was performed, and by Letter DG 5573/31.01.2020, 31.12.2019 Report on the evaluation of the Transgaz Integrity Plan, the Integrity Incidents Report (Annex 1) and the Report for implementing measures S.N.A. (Annex 2) were sent to the General Secretariat of the Government;</p>
			13.3	Annual publication of the performance indicators monitored within the company's Integrity Plan	<p>Achieved</p> <p>(by the publication of the Annual Evaluation of the Integrity Plan on intranet):</p> <p>http://zonapublica.transgaz.ro/Strategia%20de%20lupta%20anticoruptie/</p>

Strategy and Corporate Management Division Director

Elisabeta Ghidiu

Annex 3

to OGMS Report no. 17663 of 20 March 2020

Substantiation of financial performance indicators calculation

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1	Operating revenue before the balancing and construction activity, according to IFRIC12		1.576.667.030
2	Operating profit before the balancing and construction activity, according to IFRIC12		347.967.604
3	Total operating costs less the balancing and construction activity according to IFRIC 12:	row 1-row2	1.228.699.426
4	Depreciation		193.622.482
5	Cost of provisions for risks and charges		49.818.887
6	Cost of provision for asset depreciation and for risks and charges:	row 6a + row 6b + row 6c	90.462.591
6a	Loss/gain from impairment of receivables – Financial Statements - page 60	note 23	87.726.834
6b	Loss/(gain) from write-down of inventories - Financial Statements - page 60	note 23	607.230
6c	Loss/(gain) from write-down of intangible assets - Financial Statements – page 60	note 23	2.128.527
7	Operating costs less the depreciation, balancing, construction activity and provision for asset depreciation and for risks and charges	Row 3-row 4-row 5-row 6	894.795.466
8	EBITDA	Row 1 - (row 3 – row 4)	541.590.086
9	Current assets		1.285.039.006
10	Inventories		488.033.645
11	Current liabilities		497.438.738
12	Acid test ratio	(row 9-row 10)/ row 11	1,60
12	Long term loans		661.062.420
13	Short term loans		2.867.580
14	Net debt-to-equity ratio	(row 12+row 13)/ row 8	1,23