



SOCIETATEA NAȚIONALĂ DE TRANSPORT  
GAZE NATURALE "TRANSGAZ" SA MEDIAȘ  
Capital social: 117 738 440,00 LEI  
ORC: J32/301/2000; C.I.F.: RO13068733  
P-ța C. I. Motaș nr. 1, cod: 551130, Mediaș, Jud. Sibiu  
Tel.: 0040 269 803333, 803334; Fax: 0040 269 839029  
<http://www.transgaz.ro>; E-mail: [cabinet@transgaz.ro](mailto:cabinet@transgaz.ro)



## ANNUAL REPORT

*of the Nomination and Remuneration Advisory Committee  
concerning the remunerations of TRANSGAZ' Administrators and Director General  
for the year 2016*

### ***I. Legal framework concerning the remuneration policy and criteria for TRANSGAZ' administrators and director general:***

- Art.15. point 3 let (d) of the Articles of Incorporation of SNTGN Transgaz SA, updated on 29.04.2016, providing that the main duty of the GMS is, ***establishing the monthly remuneration of the board members;***
- Art.111, line (2), let. c) of Companies Law no. 31/1990, with the further amendments and supplementing, in addition to the debate of other items on the agenda, the GMS is obliged "***to establish the remuneration due for the current year to the members of the Board of Administration , unless otherwise established in the articles of incorporation***";
- Art.153^18, line (1) of Companies Law no. 31/1990 with the further amendments and supplementing, providing that "***The remuneration of the members of the Board of Administration is established by the articles of incorporation or by decision of the general meeting of shareholders***";
- Art. II of Law no 111/27.05.2016 on the approval of the Government Emergency Ordinance no 109/2011 on the corporate governance of public enterprises "***The mandate contracts of the members of the board of administration and of the directors, respectively of the members of the supervisory committee and of the directorate are under the laws in force upon their conclusion if the parties do not agree upon their amendment, according to the current law***"
- Considering the content of art. II of Law no 111/2016 please find below the provisions of GEO no 109/2011 until 27.05.2016;
- Art. 37, line (1) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, amended by GEO no. 51/May 29<sup>th</sup> 2013, providing that "***The remuneration of the members of the Board of Administration is established by the general meeting of the shareholders***".
- Art. 37 line (2) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, amended by GEO no. 51/May 29<sup>th</sup> 2013, providing that "***The remuneration of the members of the Board of***

*Administration consists in a fixed monthly compensation and a variable component consisting in a share of company's net profit, a pensions scheme or another form of remuneration based on performance indicators”;*

- Art. 37, line (3) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/May 29<sup>th</sup> 2013, providing that *“The fixed monthly compensation of non-executive members may not exceed the average of the past 12 months of the average gross monthly earning in the field in which the company performs its activity, communicated by the National Institute of Statistics previous to the appointment”;*
- Art. 37 line (5) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/May 29<sup>th</sup> 2013, providing that *“the level of variable component is established by the board of nominee according to grounded recommendations formulated based on a compared study on the remuneration conditions for similar positions within companies having the same object of activity, in which the state holds the majority or entire capital, from Romania or other European countries... ”*
- Art. 37 line (6) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/ May 29<sup>th</sup> 2013, providing that *“the GMS shall ensure the set up of the monthly fixed compensation of each member of the Board of Administration, that it is justified as concerns the specific tasks, the tasks within consulting committees, the number of meetings, objectives and performance criteria established in the mandate agreement”;*
- Art. 39 line (1) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/ May 29<sup>th</sup> 2013, providing that *“the remuneration and other benefits offered to administrators shall be recorded in the yearly financial statements and in the yearly report of the nomination and remuneration committee”;*
- Art. 39 line (2) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, *according to which the policy and criteria for remunerating administrators and managers in case of an unitary system are made public on the Internet page of the public enterprise by the care of the Board of Administration;*
- Art.20. point 1 let (d) of the Articles of Incorporation of the company updated on 29.04.2016, providing that *the main task of the Board of Administration and the duty to appoint, suspend or revoke the director general of Transgaz and to establish his/her remuneration;*
- Art.142, line (2), let. c) of Companies Law no. 31/1990, with the further amendments and supplementing, provides that the Board of Administration has, in addition to the basic competencies, that can not be delegated to managers, *the competence to appoint and revoke the managers and to establish their remuneration;*
- Art.143, line (1) corroborated with Art.143 line (4) of Companies Law no. 31/1990 with the further amendments and supplementing and corroborated with Art. 19. point 7 of the updated Articles of Incorporation of the company, providing that the *Board of Administration will delegate the company's management to the Director General of SNTGN Transgaz SA who is not the Chairman of the Board of Administration ;*
- Art.143, line (5) of Companies Law no. 31/1990 with the further amendments and supplementing, *the manager of a joint stock company may only be the person to whom the company's management duties have been delegated to according to art. 143, line (1) of the Law no. 31/1990;*

- Art.153<sup>18</sup>, line (2) of Companies Law no. 31/1990, with the further amendments and supplementing, providing that *the remuneration of directors in a unitary system is established by the Board of Administration*. The articles of incorporation or general meeting of shareholders establishes the general limits of all remunerations granted in this respect;
- Art. 38 line (1) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/ May 29<sup>th</sup> 2013, providing that “*The remuneration of directors is established by the Board of Administration and may not exceed the level of the remuneration established for the executive members of the Board of Administration . This is the only form of remuneration of the directors who are also administrators*”.
- Art. 38 line (2) of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, amended by GEO no. 51/ May 29<sup>th</sup> 2013, providing that “*the remuneration consists in a fixed monthly compensation and a variable component consisting in a share of company’s net profit, a pensions scheme or another form of remuneration based on performance indicators*”;
- Art. 37 line (4) of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/ May 29<sup>th</sup> 2013, providing that “*The fixed monthly compensation of executive members may not exceed 6 times the average of the past 12 months of the average gross monthly earning in the field in which the company performs its activity, communicated by the National Institute of Statistics previous to the appointment*”;
- Art. 34 line (2) of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, providing that “*The nomination and remuneration committee formulates proposals on the remuneration of directors/members of the Board of Administration and other management positions*”.

## ***II. The structure of the remuneration of administrators and of the director general of TRANSGAZ***

Based on the norms enumerated above and on the mandate contracts concluded the following amounts of the remuneration have been established:

### **Fixed remuneration**

The monthly gross fixed remuneration for each non-executive member of the Board of Administration is of RON 4,037 and was approved by Decision of the General Ordinary Meeting of Shareholders no. 8 of July 10<sup>th</sup> 2013, art. 3.

The monthly gross fixed remuneration of the Director General (executive administrator) is of RON 24,224 and has been approved by Decision of the Board of Administration no. 12 of July 11<sup>th</sup> 2013, art. 5.

The fixed remuneration is paid to the **MANDATOR** during the last working day of the month for which it is due.

### **Variable remuneration**

The variable remuneration was approved by Decision of the General Ordinary Meeting of Shareholders no. 9 of September 23<sup>rd</sup> 2013, art. 2, respectively at the same time with the approval of the template of the Mandate contract to be concluded by the members of Transgaz’ Board of Administration, template agreed by the majority shareholder, the Romanian State,

represented by the Ministry of Public Finance, and published on TRANSGAZ' webpage by means of letter no. 5917/August 28<sup>th</sup> 2013.

Therefore, at art. 3 the Mandate contract provides the following:

In addition to the gross monthly compensation, the Mandator has the right to receive a variable annual component of the remuneration calculated based on the Performance indicators provided in the Table "PERFORMANCE CRITERIA AND OBJECTIVES IN ORDER TO CALCULATE THE VARIABLE COMPENSATION" at Appendix no. 1 to this report, as follows:

***Variable annual remuneration = Annual bonus for performance indicator referring to EBIDTA + Annual bonus for performance indicator referring to "Operating expenses (excluding depreciation)" + Annual bonus for performance indicator referring to "Investments"***

The annual bonus for performance indicator referring to EBIDTA is due to the MANDATOR only to the extent the level of EBIDTA indicator achieved during the year for which the determination is made is equal to or higher than the EBIDTA indicator of the concerned year, respectively assumed through the Administration plan and is in the following **net amount**:

- RON equivalent of the amount of euro 40,000 for the member of the Board of Administration occupying the position of Director General of the Mandatory;
- RON equivalent of the amount of euro 10,000 for the Chairman of the Board of Administration ;
- RON equivalent of the amount of euro 8,000 for each of the other non-executive members of the Board of Administration.

The annual bonus for performance indicator referring to "Operating expenses (excluding depreciation)" is due to the MANDATOR only to the extent the difference between the level of the indicator "Total operating expenses" and the level of the indicator "Depreciation" achieved during the year for which the determination is made is lower than the level of the indicator "Operating expenses (excluding depreciation)" assumed through the Administration plan for the concerned year. The bonus is calculated by applying a 3% coefficient to net saving obtained during that year due to reaching a level of expenses lower than the one assumed through the administration plan; the net amount is established based on the formula:

*Annual bonus for the performance indicator referring to "Operating expenses (excluding depreciation)" = 3% x ("Operating expenses excluding depreciation" undertaken during that year through the Management Plan – ("Total operating expenses" made during that year – "Depreciation" achieved during that year).*

The annual bonus previously provided shall be distributed among the members of the Board of Administration in percentage according to the following calculation formula:

- 54% of the annual Bonus to the member of the Board of Administration also occupying the position of Director General of the Mandatory;
- 13% of the annual Bonus to the Chairman of the Board of Administration;
- 11% of the annual Bonus to each of the other non-executive members of the Board of Administration.

The annual bonus for the performance indicator referring to “Investments” is due to the MANDATOR only to the extent the level of “Investments” indicator achieved during the year for which the determination is made is higher than the “Investments” indicator of the concerned year assumed through the Administration plan. The bonus is calculated by applying a 3% coefficient to the additional investments value achieved during that year, value established as difference between the level of the “Investments” indicator achieved and the indicator “Investments” undertaken by the Management plan; its net amount is established according to the formula:

*Annual bonus for the performance Indicator referring to “Investments” = 3% x (“Investments” made during that year – “Investments” undertaken for that year by the Management plan)*

The annual bonus previously provided shall be distributed among the members of the Board of Administration in percentage according to the following calculation formula:

- 54% of the annual Bonus to the member of the Board of Administration also occupying the position of Director General of the Mandatory;
- 13% of the annual Bonus to the President of the Board of Administration;
- 11% of the annual Bonus to each of the other non-executive members of the Board of Administration.

The level achieved during that year of „EBITDA”, „Total operating expenses” and “Depreciation” indicators serving as calculation basis of the provided bonuses is given by the corresponding level of that indicator within the yearly financial statements drafted according to the International Financial Reporting Standards adopted by the European Union applied to the concerned year, audited according to the law, and the assumed level of „EBITDA” respectively “Operating expenses excluding depreciation” indicators shall be the one provided in the Table “General Result” in the Management Plan.

The level achieved during that year for “Investments” indicators serving as calculation basis of the provided bonus is given by the corresponding level of “Investment expenses” indicator within the budget drafted for that year as ascertained in the Inspection report of the Ministry of Public Finance concerning the framing of economic-financial indicators resulted during that year (row 80) and the assumed level of that indicator is the one provided in the Table “Investment sources” row 2.1 of the Management Plan.

The payment of the Bonus for „EBITDA” performance indicator shall be effected in four equal quarterly installments payable during the fiscal year for which it is established and the regulation shall be done depending on the results obtained during that year within 30 days as of the approval by the GMS of the audited yearly financial statements, the MANDATOR following to entirely reimburse the value of the bonus if the concerned performance indicator is not fulfilled.

The payment of the bonuses for the performance indicator referring to “Operating expenses (excluding depreciation)” and for the performance indicator referring to “Investments” shall be effected within 30 days as of the approval by the GMS of the audited yearly financial statements corresponding to the year for which the concerned bonuses are granted.

In 2016 the remunerations for the non-executive and executive members of TRANSGAZ’ Board of Administration are:

***Fixed remuneration (net values):***

Chairman of the BA – RON 34.176

Non-executive members (three) –RON 102,528

Executive member (Director General) – RON 216,520

**Variable remuneration:**

**I. Bonus for „EBITDA” performance indicator**

“EBITDA” performance indicator was fulfilled 133% respectively at a value of RON 675.539 thousand undertaken in the Administration plan, an amount of RON 900.091 thousand being actually achieved.

The variable component related to the bonus for this indicator was paid during the year 2016 as follows (net values):

- Chairman of the BA – RON 44,921
- Non-executive members (three) – RON 35,936 x 3 = RON 107,808
- Executive member (Director General) – RON 179.679

**II. Annual bonus for “Operating expenses (excluding depreciation)” performance indicator**

This compensation criterion, that rewards the administrators by 3% of the additional savings to the ones estimated in the Management Plan is essential for the shareholders and for the company’s clients, considering that all savings made have a positive effect for the decrease of NTS transmission tariffs, with direct impact on the industrial and household consumers of natural gas and on all players on the Romanian gas market. Moreover, such savings lead to a substantial benefit for the state and the company’s shareholders by increasing the level of dividends.

In 2016, such savings were significant and clearly suggested the sustained effort of the administrators to eliminate a high degree of inefficiency that existed within the company during the previous management teams.

For the “Operating expenses (excluding depreciation)” indicator the Management plan included a level of RON 1,126,733 thousand corresponding to the year 2016.

It is worth mentioning that as of 2016 a new activity appeared within Transgaz, namely the physical balancing of the National gas Transmission System, activity related to the obligation to maintain the NTS in a permanent physical balance by selling-purchasing balancing gas as well as other actions provided in the applicable regulatory framework. This activity was not taken into account upon the preparation of the Management Plan in 2013 and therefore the level undertaken for 2016 of the operating expenses excluding depreciation does not include the expenses related to the balancing activity. Moreover, Transgaz cannot gain profit from the balancing activity, any profit or loss from the balancing activity is to be distributed/covered by the market by the neutrality tariff, once ANRE approved such methodology. Therefore, in our opinion such expenses should be deducted from the total operating expenses excluding depreciation, achieved in 2016.

According to the audited financial statements related to 2016, the total operating expenses excluding depreciation and the balancing costs summed up RON 916.604 thousand thus representing a degree of accomplishment of the undertaken level of 123%.

Under these circumstances, the annual bonus for 2016 performance indicator related to “Operating expenses (excluding depreciation) and balancing costs” is calculated by applying the percentage of 3% to the difference between the level undertaken in the plan (RON 1,126.733 thousand) and the real level achieved (RON 916.604), resulting a net amount of the bonus of RON 6.303.860.

The net variable component related to the bonus for this indicator is distributed between the members of the Board of Administration, according to the provisions of the mandate contract, as follows:

- Chairman of the BA – RON 819.502,
- Non-executive members – RON 2.080.275,
- Executive member (Director General) – RON 3.404.084.

**III. Annual bonus for „Investments” performance indicator**

“Investments” performance indicator was 38% fulfilled respectively at a value of RON 369.200 thousand undertaken in the management plan, an amount of RON 140.179 thousand being actually achieved.

Under these circumstances, the members of the Board of Administration do not have the right to receive for 2016 an annual bonus related to “Investments” performance indicator.

This performance criterion rewards the administrators by 3% of the investments made in addition to the ones included in the Management Plan starting from the presumption that such new investments are vital to the future development of the system especially for special projects of national interest associated to new gas sources. These future investments must be carefully managed so that no non-sustainable price increases occur. Thus, due to the rating system based on fixed profit ratios applied to the regulated assets base, any increase of the assets base (result of investments) not accompanied by a corresponding increase of the transported volumes may automatically lead to increases of transmission rates.

During 2016 major progress was registered in connection to the greatest investment program carried out by Transgaz – the BRUA Project. This project is estimated at EUR 479 million for Phase I to which EUR 68 million will be added in the second phase related to the development and the increase of the capacity of the interconnection with Hungary.

In September 2016 the Grant Agreement was concluded according to which Transgaz will receive from the European Union a grant of EUR 179 million which are crucial for the achievement of the investment goal to maintain gas transmission tariffs at an appropriate level.

In 2016 the following preceding steps prior to the initiation of the investment project BRUA were taken:

1. Completion of the Feasibility Study
2. Completion of the field studies (topographical, hydrological, soil, etc.)
3. Preparation of the technical design for the pipeline, up to 95%
4. Obtaining the Environmental Agreement
5. Conclusion of conventions with landowners
6. Signing the Grant Agreement for the design of the three compressor stations
7. Initiation of the design, by procurement procedure, procedure related to the compressor stations
8. Preparation of the tender books for the procurement of pipes, bends, valves, electrical insulating joints and compressor units
9. Initiation of the procurement procedures (four procedures) for pipes, bends, valves, electrical insulating joints and compressor units
10. Establishment of the Project Management Unit
11. Promotion of Law no. 185/2016 on certain measures necessary for the implementation of projects of national importance in the field of gas
12. Initiation of the authorization procedure and submission of the application file in accordance with Regulation 347/2013
13. Initiation of the procedures for obtaining EBRD financing
14. Initiation of the procedures for obtaining EIB financing

## **CONCLUSIONS:**

- Considering the performance indicators’ achievement degree, the quarterly payment of the bonus for the “EBITDA” indicator results that, the annual bonus for 2016 owed to the Board of Administration according to the mandate contract sums up the total net amount of RON 6.303.860 to be distributed per each member of the Board of Administration, as follows:
- Chairman of the BA: Mr. Ion Sterian –RON 819.502;
- Non-executive members:

- Mr. Cernov Radu – RON 693.425,
- Mr. Ilescu Bogdan RON 693.425 and
- Mr. RizoIU Andrei – RON 693.425

Executive member (Director General): Petru Vaduva – RON 3. 404.084.

Nevertheless, compared to the variable remuneration value in accordance with the contract of mandate arisen from the application of the calculation formulas provided by the contracts of mandate at the level of undertaken performance indicators and, respectively, actually fulfilled, also taking into consideration the “Compared study for setting out the variable component of the remuneration of the members of the Board of Administration and the Director General of TRANSGAZ” prepared in accordance with the Government Emergency Ordinance no.109/2011, Article 37 (5) by the human resources recruitment company whose services were contracted for the selection of the members of the Board of Administration, **the net amount of the annual bonus that would be due to them for 2016 shall be paid within the range below:**

Chairman of the BA: Mr. Ion Sterian –RON 548.006;

- Non-executive members: Mr. Cernov Radu RON 215.052,
  - Mr. Ilescu Bogdan RON 215.052 and
  - Mr. RizoIU Andrei –RON 215.052.
- Executive member (Director General): Petru Vaduva –RON 1.330.991

We would like to mention that the remunerations described above are the only forms of remuneration of the members of the Board of Administration and that no member benefits from other bonuses, benefits in kind or additional or anticipated pension schemes.

The mandate contract concluded with each member of the Board of Administration has a term of 4 (four) years starting from the date of the Decision of the General Ordinary Meeting of the Shareholders by which the Mandatory was elected as administrator.

### *Nomination and Remuneration Committee*

*Ion Sterian*

*Radu Cernov*

*Bogdan Ilescu*



**PERFORMANCE CRITERIA AND OBJECTIVES  
FOR CALCULATING THE VARIABLE COMPONENT OF THE  
REMUNERATION  
2016**

Order no	PERFORMANCE CRITERIA	PERFORMANCE OBJECTIVE
1	EBIDTA	Achievement of EBIDTA target undertaken in the Management plan RON 900.091 thousand
2	Operating expenses excluding depreciation	Decrease of operating expenses (excluding depreciation expenses and balancing costs) actually achieved reported to the level undertaken in the Management plan RON 916.604 thousand
3	Investments	Increase of the level of investments made reported to the level undertaken in the Management plan RON 140.179 thousand

**PERFORMANCE CRITERIA AND OBJECTIVES  
UNDERTAKEN BY THE MANAGEMENT PLAN  
2016**

Order no	PERFORMANCE CRITERIA	PERFORMANCE OBJECTIVES
1	EBIDTA	Achievement of EBIDTA target undertaken in the management plan RON 675.539 thousand
2	Operating expenses excluding depreciation	Decrease of operating expenses (excluding depreciation expenses) actually achieved reported to the level undertaken in the Management plan RON 1.126.733 thousand
3	Investments	Increase of the level of investments made reported to the level undertaken in the Management plan RON 369.200 thousand