

No. DG 16159/15.03.2019

Submitted for information in the GOMS meeting dated 23.04.2019

ANNUAL REPORT

of the Nomination and Remuneration Advisory Committee concerning the remunerations of TRANSGAZ' Administrators, Director General and Chief Financial Officer for the year 2018

I. Legal framework concerning the remuneration policy and criteria for TRANSGAZ' administrators and director general and chief financial officer:

- Art.15. point 3 let (d) of the Articles of Incorporation of SNTGN Transgaz SA, updated on 27.11.2018, 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***"
- Art. 34 line (2) of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, as subsequently amended and supplemented, providing that "***The nomination and remuneration committee formulates proposals on the remuneration of directors/members of the Board of Administration and other management positions***".
- 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 29th

- 2013, providing that **"The remuneration of the members of the Board of Administration is established by the general meeting of the shareholders"**.
- Art.37, paragraph (2) of the Emergency Ordinance no. 109/2011 on Corporate Governance of Public Undertakings, as amended and supplemented, **"the remuneration of non-executive members of the Board of Administration consists of a monthly fixed allowance and a variable component. The fixed allowance cannot exceed twice the average monthly gross earnings for the last 12 months for the activity carried out according to the main object of activity registered by the company at the class according to the classification of the activities in the national economy communicated by the National Institute of Statistics prior to the appointment [...] . . . The amount of variable component of non-executive members may not exceed maximum 12 monthly fixed allowances "**;
 - Art. 37, line (3) of the Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, as amended and supplemented, providing that **"The fixed monthly allowance of the executive members may not exceed 6 times the average of the past 12 months of the average gross monthly earning for the activity carried out in line with the main activity performed by the company, at the class level according to the classification of the activities in the national economy communicated by the National Institute of Statistics previous to the appointment and from a variable component"**;
 - 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 29th 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. 38 line (1) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises, introduced by GEO no. 51/ May 29th 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, as subsequently amended and supplemented, providing that **"the remuneration (of directors) 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. 39 line (1) of the Government Emergency Ordinance no. 109/2011 on the corporate governance of public enterprises 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 (3) 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 27.11.2018, 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.153¹⁸, 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;

II. The structure of the remuneration of TRANSGAZ' administrators, director general and Chief Financial Officer

Based on the legal documents listed above and on the mandate contracts concluded the following amounts of the remuneration have been established:

Fixed remuneration

For the period **01.01.2018-31.12.2018**

The monthly gross fixed remuneration for each non-executive member of the Board of Administration is twice the average of the average monthly earnings for the last 12 months of the activity carried out according to the main activity performed by the company at the class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment, recalculated to be reconciled with the new mandatory social contributions due under Law no. 227/2015 and was approved by the Resolution no 2 of the Ordinary General Meeting of Shareholders of 6 March 2018.

For the period **01.01.2018 - 31.12.2018**, the fixed monthly remuneration for the Director General (Executive Administrator) is lei **35,740** gross monthly and was approved by the Resolution no 2 of the Ordinary General Meeting of Shareholders of 6 March 2018, art. 3.

For the period **01.01.2018 - 31.12.2018**, the fixed monthly remuneration for the Chief Financial Officer is of lei **29,783** gross monthly and was approved by the Resolution no 2 of the Ordinary General Meeting of Shareholders of 6 March 2018, art. 3.

The fixed remuneration of the Director General and of the Chief Financial Officer is payable on the last working day of the month for which it is due and the fixed remuneration of the non-executive members of the Board of Administration at the time of the payment of salary rights to employees.

Variable remuneration

For the periods: **01.01.2018 - 31.12.2018** for the non-executive administrators, the maximum amount of the variable component is of 12 fixed monthly allowances as approved by the Resolution of the General Ordinary Meeting of Shareholders no. 2 of 6 March 2018.

According to Resolution of the General Ordinary Meeting of Shareholders no. 2 of March 6, 2018, art. 3, the decision on the setting of the variable component for the Director General and for the Chief Financial Officer was postponed to the next GOMS meeting.

According to GOMS resolution no 3 of 27 April 2018, art 13 the general limits of the variable component of the remuneration of Transgaz' directors were approved as follows:

- Director General – Variable component up to the amount of euro 377.5 thousand gross/year;
- Chief Financial Officer - Variable component up to the amount of euro 36 thousand gross/year;

By **Resolution no 22/2018 Transgaz' Board of Administration** approved, in the meeting of 03.05.2018, art 26.2 based on the Report no 1880/02.05.2018 the following:

1. The value of the variable component of the remuneration of Transgaz' directors as follows:
 - Director General - euro 377.5 thousand gross/year;
 - Chief Financial Officer - euro 36 thousand gross/year

The payment of the variable component is made annually after the Shareholders' General Meeting approves the Annual Financial Statements prepared in accordance with IFRS and after GSM acknowledges the Annual Report of the Nomination and Remuneration Advisory Committee endorsed by the Board of Administration.

For the period **01.01.2018-31.12.2018**, the Mandate Contract provides in article 6, corroborated with the Addendum to the Mandate Contract, art 1, the following:

The method for the calculation of the amount of the variable component of the remuneration:

Annual variable remuneration due = Amount of variable remuneration established by the addendum to the mandate contract * total fulfilment of the Key Performance Indicators (KPI).

The total fulfilment of the key performance indicators (TFKPI) is the weighted average of the weighting coefficient of each KPI of the fulfilment degree of each KPI (FDEKPI).

$$TFKPI = \sum (FDEKPI * \text{weighted average})$$

The fulfilment degree of each KPI (FDEKPI) may be higher than 100% and lower than 0% but in the calculation of the total fulfilment degree of the KPI (TFKPI) will be taken into account as follows:

- FDEKPI > 100% means FDEKPI=100%
- FDEKPI < 0% means FDEKPI=0%

The variable component of the remuneration due to the members of the Board of Administration will be proportional to the TFKPI for the appropriate financial year.

At the same time if the TFKPI $\geq 80\%$, the variable component of the remuneration is paid according to the presented calculation method.

- TFKPI \geq 50% and TFKPI < 80%, the variable component of the remuneration is not paid;
- TFKPI < 50%, the administrators may be revoked.

The KPI are evaluated annually based on the annual audited financial standing and on the other verification instruments.

The key performance indicators are provided for in annex no 1 to this report.

In the course of 2018 the remunerations paid for the non-executive and executive members of TRANSGAZ' Board of Administration and for the Chief financial officer are:

Fixed remuneration (net amounts):

➤ **01.01.2018-31.12.2018**

Non-executive Member: Nicolae MINEA – lei 84,505
 Remus Lăpușan – lei 87,611
 Bogdan Iliescu – lei 87,611
 Petru Văduva – lei 87,611

➤ **01.01.2018 - 31.12.2018**

Executive Member (Director General): Ion STERIAN- lei 241,804
 Chief executive officer: Marius LUPEAN –lei 187,867

III. The calculation of the variable component of the remuneration of Transgaz' Administrators, Director General and Chief financial officer for 2018

The calculation of the variable component for the period **01.01.2018 – 31.12.2018** of the remuneration of the non-executive members of the Transgaz' Board of administration, Director General and Chief Financial Officer is:

• **Non-executive members of the Board of Administration**

Considering the provisions of Art.37, paragraph (2) of the Emergency Ordinance no. 109/2011 on Corporate Governance of Public Undertakings, as amended and supplemented, "**the remuneration of non-executive members of the Board of Administration consists of a monthly fixed allowance and a variable component. [...] The amount of variable component of non-executive members may not exceed maximum 12 monthly fixed allowances**",

$(149.760 \text{ lei} \times 1 \times 365/365) = \text{lei } 149.760 \text{ gross} - \text{contributions} = \text{lei } 87,610 \text{ net}$

• **Director General**

Considering the provisions of the Mandate Contract and of Addendum no 5 the value of the variable component of the remuneration of the Director General is the result of the following calculation:

$(377.500\text{Eur} \times 1 \times 4,6639\text{eur} \times 365\text{days}/365\text{days}) = 1.760.622.\text{lei gross} - \text{contributions} = 1.029.964 \text{ lei net}$

• **Chief Financial Officer**

Considering the provisions of the Mandate Contract and of Addendum no 2 the value of the variable component of the remuneration of the Chief financial officer is the result of the following calculation:

$(36.000\text{Eur} \times 1 \times 4.6639\text{eur} \times 365 \text{ days}/365 \text{ days}) = 167.900 \text{ lei gross} - \text{contributions} = 98.222 \text{ lei net}$

*) **exchange rate** of the Romanian National Bank / EUR communicated on 31 December 2018 is lei **4.6639**.

The key financial performance indicators were achieved 100% according to the table below:

Tag no.	Performance criterion	M.U.	Management Plan	Achieved 2018	Percentage	Difference
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1.	Outstanding payments – lei thousand	Thousand lei	0	0	x	0
3.	Operating expenses (without depreciation, balancing, the activity for construction and provisions for asset impairment and for risks and expenses).	Thousand lei	1.002.101	825.782	121%	-176.319
3.	Quick liquidity rate		1,39	2,99	215%	1,60
4.	Net leverage rate		3,00	0,31	964%	-2,69
5.	EBITDA – thousand lei	Thousand lei	458.599	749.506	163%	290.908

Achievement of the key financial performance indicators:

- 1. Outstanding payment Indicator** was undertaken in the Management Plan at 0 (zero) value and it was achieved 100%.
- 2. The performance indicators "Operating expenses (without depreciation, balancing, construction activity and the provisions for the impairment of current assets and for risks and expenses) "**

The indicator "Operating Expenses (less depreciation, balancing, construction activity and provisions for depreciation of current assets and for risks and expenses)", in the Management Plan was undertaken at the level of lei 1.002.101 thousand for the year 2018.

According to the audited financial statements related to 2018, the total Operating Expenses (less depreciation, balancing, construction activity and provisions for depreciation of current assets and for risks and expenses) was lei 825.782 thousand, representing a level of achievement of the undertaken level of 121%.

In 2018, these savings are significant and clearly suggest to the managers the sustained effort to maintain a high degree of profitability. The reduction in operating costs has an impact on reducing gas transmission tariffs.

- 3. Quick liquidity ratio** was undertaken in the Management Plan for 2018 in the amount of 1.39 and was achieved 3.17. This indicator in the amount above 1 measures the capacity of the company to pay the short term debts using the high liquidity degree assets from the balance.
- 4. Net leverage rate indicator** was undertaken in the Management Plan for 2018 in the amount of 3.00 and was achieved 0.31. Maintaining it under the limit of 3 allows the company to access financing from banks.
- 5. The "EBITDA" performance Indicator** was fulfilled 164%, namely at an amount of lei 458.599 thousand undertaken in the Management Plan, the amount of lei 751.052 thousand was actually achieved.

The fulfilment of this indicator signifies the assurance of an internal financing source for the strategic investment projects.

Achievement degree of the key non-financial performance indicators:

The non-financial key performance indicators were achieved in 2018 according to the table below:

D. Key performance indicators for the calculation of the variable component of the remuneration	Chairman and non-executive			Executive and financial		
	Share	Achievement degree	Level of achievement of the indicator	Share	Achievement degree	Level of achievement of the indicator
D1 – KYP financial						
D1.1 outstanding payments	4%	100%	0,040	10%	100%	0,100
D1.2 Operating costs	4%	100%	0,040	10%	100%	0,100
D.1.3 Current liquidity rate (acid	4%	100%	0,040	10%	100%	0,100

test)						
D.1.4 Net leverage rate	4%	100%	0,040	10%	100%	0,100
D.1.5 EBITDA	4%	100%	0,040	10%	100%	0,100
D2 – Non-financial KYP						
D.2.1 Operational						
D.2.1.1 Investment	15%	100%	0,150	10%	100%	0,100
D.2.1.2 Increasing energy efficiency	5%	100%	0,050	5%	100%	0,050
D.2.2 Oriented toward public services						
D.2.2.1 Gas transmission Standard	10%	100%	0,100	15%	100%	0,150
D.2.3 Corporate governance						
D.2.3.1 SCIM	10%	100%	0,100	4%	100%	0,040
D.2.3.2 Clients satisfaction	10%	100%	0,100	4%	100%	0,040
D.2.3.3 Risk Management	5%	100%	0,050	4%	100%	0,040
D.2.3.4 Reporting indicators in time	10%	100%	0,100	4%	100%	0,040
D.2.3.6 Increasing integrity	15%	100%	0,150	4%	100%	0,040
TOTAL	100%		1,000	100%		1,000
			100,0%			100,0%

Considering that the key non-financial performance indicators were achieved 100% during 01.01.2018 – 31.12.2018, the annual bonus for each member of the Board of Administration, Director General and Chief Financial Officer will have the maximum approved value.

CONCLUSIONS:

Following the assurance of an effective management and of an efficient coordination of the activity performed in 2018 the financial and non-financial key performance indicators were fulfilled 100%.

In line with the complete fulfilment of the key performance indicators the variable component for 2018 due to the non-executive members of the Board of Administration to the Director General and to the Chief Financial Officer according to the mandate contract is in the total amount of lei 1,478,626 distributed as follows:

- Executive member (Director General) Mr. **Ion Sterian** – lei 1,029,964;
- Chief financial officer Mr. **Marius Lupean**: lei 98,222;
- Non-executive members:
 - Mr. **Iliescu Bogdan** lei 87,610,
 - Mr. **Petru Văduva** – lei 87,610;
 - Mr. **Nicolae Minea** – lei 87,610 ;
 - Mr. **Remus Lăpușan** – lei 87,610;

We would like to mention that the remunerations presented above are the only forms of remuneration of the non-executive and executive (Director General) 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, Director General and Chief financial Officer is valid as of the renewal/appointment in the position, namely from the date of the Decision of the General Ordinary Meeting of the Shareholders by which the administrators were elected and until 29.04.2021.

Nomination and Remuneration Committee

VĂDUVA PETRU ION

ILIESCU BOGDAN GEORGE

MINEA NICOLAE

**Performance indicators identified in respect of the company and included in the
Company's Management Plan for 2017-2021**

A. ECONOMIC AND FINANCIAL PERFORMANCE INDICATORS – standard performance indicators	
Commissioned investments	
EBITDA	
Labour output	
Outstanding payments	
Outstanding receivables	
Technological consumption	
Operating expenses at 1000 lei operating revenues	
Profitability indicators	
Liquidity indicators	
Risk indicators	
Management indicators	
B. PERFORMANCE INDICATORS – Performance indicators for the calculation of the variable component of the remuneration	
FINANCIAL	NON-FINANCIAL
1. Outstanding payments	1. Monitoring of Investment and implementation strategy.
2. Operating expenses (except for depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses)	2. Energy efficiency increase
3. Quick liquidity rate -"Acid test"	3. Gas transmission service performance indicators
4. Net leverage rate	4. Internal/managerial control system implementation
5.EBITDA	5. Client satisfaction
	6. Setting risk management and risk monitoring policies
	7. Key performance indicators timely reporting.
	8. The company's performance indicators

	revising request.
	9. The increase in the institutional integrity, by inclusion of the corruption prevention measures as an element of the managerial plans
	10. Reduction of vulnerabilities and fraud and corruption risks (preparation and compliance with the anti-bribery policy).
	11. Strengthening of the corruption fighting performance by criminal and administrative means.

KEY PERFORMANCE INDICATORS FOR THE CALCULATION OF THE ANNUAL VARIABLE COMPONENT OF THE REMUNERATION

Tag no	Indicators' group according to GD no. 722/2016 Annex 2b	PERFORMANCE INDICATOR	PERFORMANCE OBJECTIVE
A	FINANCIAL KEY PERFORMANCE INDICATORS		
1	Cash flow	<i>Outstanding payments</i>	Maintaining outstanding payments at zero.
2	Costs	<i>Operating expenses (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses) (thousand lei)</i>	Maintaining the level of the operating expenses (less depreciation, balancing, the construction activity and the provisions for the impairment of assets and for risks and expenses) at the level undertaken in the Management Plan
3	Debt	<i>Quick liquidity rate "Acid test"</i>	The quick liquidity rate "Acid test" to record annual values above 1.
4		<i>Net leverage rate</i>	Maintaining the net leverage rate under the limits established for obtaining bank loans, precisely: 3 –2017; 3- 2018; 5,5 –2019; 5,5 - 2020; 4-2021
5	Revenues	<i>EBITDA</i>	Achieving the target EBITDA under the Management Plan

B	NON-FINANCIAL KEY PERFORMANCE INDICATORS		
1	Operational	Implementation and Investment strategy	Implementation of FID (Final Investment Decision) projects under the 10 years Development Plan
2		Increasing energy efficiency	Maintaining the share of the technological consumption in the total circulated gas below 1%
3	Oriented towards public service	Performance indicators of 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)
4	Corporate governance	Implementation of the internal/managerial control system	Implementation of the provisions of Order no. 400/2015 for the approval of the Internal/Managerial Control Code for public entities as amended
5		Clients Satisfaction	Achievement of the targets provided for in the administration plan (According to PP 165 Client satisfaction evaluation a score between 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly)
6		Setting the risk management policies and risk monitoring	Achievement of the targets provided for in the administration plan
7		Timely reporting of the key performance indicators	Compliance with the legal reporting deadlines
8		Request for revision of the company's key performance indicators (KPIs)	Request to revise the company's KPIs within 60 days from the date the revising need was found.
9		Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans	Compliance with the measures undertaken by the approved Integrity Plan
10		Reducing vulnerabilities and fraud and corruption risks (preparation and compliance with the anti-bribery policy)	Compliance with the measures undertaken by the approved Integrity Plan
11		Increasing corruption fighting performance by criminal and administrative methods.	Compliance with the measures undertaken by the approved Integrity Plan

I. Target values of the key performance indicators under Transgaz' Management Plan for 2017-2021

II.1 Key performance indicators – financial

Tag no.	Indicator	Objective	Achieved 2016	2017	2018	2019	2020	2021	Check-up instrument
1	Outstanding payments	<i>Maintaining outstanding payments at zero.</i>	0	0	0	0	0	0	Accounting Reporting of the National Agency for Fiscal Administration Form F30- Information data Financial reports
2	Operating expenses (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses) (thousand lei)	<i>Maintaining operating expenses in compliance with the Management Plan</i>	811.576	952.321	1.002.101	933.300	948.385	968.346	Audited annual financial statements
3	Quick liquidity rate "Acid test"	<i>The quick liquidity rate "Acid test" to record annual values above 1.</i>	4,82	1	1,39	0,91	1,11	1	Audited financial statement
4	Net leverage	<i>Maintaining the</i>	0	3	3	5,5	5,5	4	Audited annual

Tag no.	Indicator	Objective	Achieved 2016	2017	2018	2019	2020	2021	Check-up instrument
	rate	<i>net leverage rate under the limits established for obtaining bank loans, precisely: 3 –2017; 3- 2018; 5,5 –2019; 5,5 - 2020; 4-2021</i>							financial statements
5	EBITDA (thousand lei)	Achieving the target EBITDA under the Management Plan	902.296	565.892	458.599	503.477	666.322	1.015.013	Audited annual financial statements

II.2 Non-financial key performance indicators

Tag no.	Indicator	Objective	2017	2018	2019	2020	2021	Check-up instrument
Operational								

Tag no	Indicator	Objective	2017	2018	2019	2020	2021	Check-up instrument
6	Monitoring the implementation and Investment strategy	Implementation of FID projects under the 10 years Development Plan <i>I = (achieved + initiated) / proposed actions</i>	Measures proposed in the 10 Years NTS Development Plan as approved by the Romanian Energy Regulatory Activity (ANRE)					The report submitted to ANRE on 15 March every year. 10 Years NTS Development Plan as approved by ANRE. Report on the achieved actions + annex schedule
7	Increasing energy efficiency	<i>Maintaining the share of the technological consumption in the total circulated gas below 1%</i>	1	1	1	1	1	Report on the technological consumption annual achievement Administration plan
Oriented towards public services								
8	Performance indicators of the gas transmission service	<i>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)</i>	See Annex 1 $IP_0^1 \geq 90\%$, $IP_1^1 \geq 95\%$, $IP_1^2 \geq 95\%$, $IP_1^3 \geq 95\%$, $IP_1^4 \geq 95\%$, $IP_1^5 \geq 95\%$, $IP_2^1 \geq 95\%$, $IP_2^2 \geq 95\%$, $IP_2^3 \geq 95\%$, $IP_2^4 \geq 95\%$, $IP_2^5 \geq 95\%$, $IP_3^1 \geq 95\%$, $IP_3^2 \geq 95\%$, $IP_3^3 \geq 95\%$, $IP_3^4 \geq 95\%$, $IP_3^5 \geq 95\%$, $IP_4^1 \geq 95\%$, $IP_4^2 \geq 95\%$, $IP_4^3 \geq 95\%$, $IP_4^4 \geq 95\%$, $IP_4^5 \geq 95\%$, $IP_5^1 \geq 98\%$, $IP_5^2 \geq 98\%$, $IP_5^3 \geq 98\%$, $IP_5^4 \geq 98\%$, $IP_5^5 \geq 98\%$, $IP_6^1 \geq 98\%$, $IP_6^2 \geq 98\%$, $IP_6^3 \geq 98\%$, $IP_6^4 \geq 98\%$, $IP_6^5 \geq 98\%$, $IP_7^1 \geq 80\%$, $IP_7^2 \geq 80\%$, $IP_7^3 \geq 80\%$, $IP_7^4 \geq 80\%$, $IP_7^5 \geq 80\%$, $IP_8^1 \geq 98\%$, $IP_8^2 \geq 98\%$, $IP_8^3 \geq 98\%$, $IP_8^4 \geq 98\%$, $IP_8^5 \geq 98\%$, $IP_9^1 \geq 90\%$					Report pursuant to ANRE Order 161/26.11.2015 gas attached)
Corporate governance								
9	Implementation of the internal/managerial control system	<i>Implementation of the provisions of Order no. 400/2015 of the General Secretariat of the Government for the approval of the Internal/Managerial Control Code for public entities as</i>	94%	94%	94%	94%	100%	<i>Program for the implementation of the internal/managerial control system (prepared pursuant to the Order)</i>

Tag no	Indicator	Objective	2017	2018	2019	2020	2021	Check-up instrument
		<p><i>amended</i></p> <p><i>I = implemented standards /provided standards in the Order 400/2015*100</i></p> <p><i>Achievement of the measures provided for in the Program for the implementation of the SCIM</i></p> <p><i>I = measures achieved within the deadline /proposed measures *100</i></p>						
9.1	Clients Satisfaction	<p><i>Achievement of the targets provided for in the administration plan (According to PP 165 Client satisfaction evaluation a score between 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly)</i></p>	7,7	7,8	7,9	8	8	Annual report for the assessment of the client satisfaction
9.2	Setting the risk management policies and risk monitoring	<p><i>Achievement of the targets provided for in the administration plan for the implementation of the requirements of Standard 8 of Order SGG no. 400/2015 for the approval of the Internal/management control Code for public entities as subsequently amended.</i></p>	100%	100%	100%	100%	100%	Annual report on the risk management (prepared pursuant to Order)

Tag no	Indicator	Objective	2017	2018	2019	2020	2021	Check-up instrument
10	Timely reporting of the key performance indicators	<i>Compliance with the legal reporting deadlines I = actual reporting deadlines/provided reporting deadlines *100</i>	100%	100%	100%	100%	100%	Annual Report on the compliance with the Reporting Calendar
10.1	Request for revision of the company's key performance indicators (KPIs)	<i>Request to revise the company's KPIs within 60 days from the date the revising need was found. I=no. of indicators required to be revised within the deadline / total no. of indicators required to be revised</i>	100%	100%	100%	100%	100%	Convening of the General Shareholders' Assembly
11	Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans	<i>Compliance with the measures undertaken by the approved Integrity Plan I = measures achieved within the deadline/proposed measures*100</i>	100%	100%	100%	100%	100%	Approved integrity plan.
12	Reducing vulnerabilities and fraud and corruption risks (preparation and compliance with the anti-bribery policy)	<i>Compliance with the measures undertaken by the approved Integrity Plan</i>	100%	100%	100%	100%	100%	Approved integrity plan.

Tag no	Indicator	Objective	2017	2018	2019	2020	2021	Check-up instrument
13	Increasing corruption fighting performance by criminal and administrative methods.	<i>Compliance with the measures undertaken by the approved Integrity Plan</i>	100%	100%	100%	100%	100%	Approved integrity plan.

II. Description of the key performance indicators

B. Key performance indicators for the calculation of the variable component of the remuneration

B.1 Financial key performance indicators

B.1.1 Outstanding payments

Name of the indicator: Outstanding payments

Target value: Maintaining outstanding payments at zero.

Description: In the context of the implementation of one of the most extensive and important programs for the development of gas transmission infrastructure, it is intended to provide the necessary financial sources for compliance with the payment deadlines stipulated in the contracts

Verification method: Accounting reporting ANAF – form F 30 – information data

Formula of the indicator: *Amount of the outstanding payments from the Form F 30.*

Method of Calculation: for the 0 lei amount of the indicator the achievement is 100%. The achievement of the indicator decreases according to the following formula: $\text{amount of the indicator} / 10.000.000 \text{ lei} * 5\%$

B.1.2 Operating expenses (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses)

Name of the indicator: Operating expenses (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses)

Target value: Maintaining operating expenses in compliance with the Management Plan (less depreciation, balancing, construction activity and provisions for asset impairment and for risks and expenses).

Description: The reduction of the operating expenses has an impact to the reduction of the gas transmission tariffs.

Verification method: Annual financial standing prepared according to the International Financial Reporting Standards adopted by the European Union, related to such year, audited according to the law – Situation of the comprehensive income and Notes to the financial standing

Formula of the indicator: *Operating expenses before the balancing activity and the construction activity according to IFRIC12 - (depreciation expenses + expenses related to provisions for the impairment of assets + expenses on the provision for risks and expenses).*

Method of Calculation: The achievement of the indicator decreases commensurate with the percentage for the exceeding of the indicator provided in the Management Plan.

B.1.3 Quick liquidity rate "Acid test"

Name of the indicator: Quick liquidity rate "Acid test"

Target value: *The quick liquidity rate "Acid test" to record annual values above 1.*

Description: Quantifying the company's capacity to pay the short term debts using the assets from the balance with a high level of liquidity.

Verification method: Annual financial standing prepared in line with the International Financial Reporting Standards adopted by the European Union related to such year, audited according to the law – Situation of the comprehensive income.

Formula of the indicator: *(current assets- stocks)/current debts*

Method of Calculation: for amounts lower than 1 the achievement of the indicators decreases commensurate with it.

B.1.4 Net leverage rate

Name of the indicator: Net leverage rate

Target value: *Maintaining the level of the net leverage rate below the limits set for obtaining financing from banks, namely 3 –2017; 3- 2018; 5,5 –2019; 5,5 -2020; 4-2021*

Description: In the context of the implementation of one of the largest and most important development programs of the natural gas transmission infrastructure, the company's leverage capacity must be kept within limits that do not affect the financial balance of the company.

Verification method: Annual financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union for the relevant year, audited under the law –Comprehensive Income situation, Statement of Comprehensive Income

Formula of the indicator: *(short term loans + long term loans)/EBITDA*

Method of Calculation: the achievement of the indicator decreases commensurate with the percentage related to the exceeding of the indicator provided for in the Management Plan.

B.1.3 EBITDA

Name of the indicator: EBITDA

Target value: Achievement of the EBITDA target undertaken in the Management Plan.

Description: Ensuring the internal financing source for supporting strategic investment projects.

Verification method: Annual financial standing prepared according to the International Financial Reporting Standards adopted by the European Union, related to such year, audited according to the law – Situation of the comprehensive income and Notes to the financial standing

Formula of the indicator: *Operating income before the balancing activity and the construction activity according to IFRIC12 - (operating expenses before the balancing activity and the construction activity according to IFRIC12 -depreciation).*

Method of Calculation: the achievement of the indicator is determined according to the formula: achieved EBITDA/ EBITDA from the Management Plan*100.

B.2 Non-financial key performance indicators

B.2.1 Operational

B.2.1.1 Implementation and Investment strategy

Name of the indicator: Investment strategy

Target value: Implementation of FID projects under the 10 years Development Plan

Description: Monitoring major projects

Verification method: The development plan approved by ANRE

Method of Calculation: the achievement of the indicator is determined according to the formula: achieved actions/planned actions x100

B.2.1.2 Increasing energy efficiency

Name of the indicator: Technological consumption

Target value: Maintaining the share of the technological consumption in the total circulated gas below 1%

Description: Monitoring the technological consumption and maintaining the share at the level planned in the Management Plan

Verification method: Gas balance

Formula of the indicator: *The gas quantity representing technological consumption/total gas quantity circulated *100*

Method of Calculation: the achievement of the indicator decreases commensurate with the percentage of exceeding the amounts provided in the Management Plan.

B.2.2 Oriented towards clients

B.2.2.1 Performance indicators of the gas transmission service

Name of the indicator: Performance indicators of the gas transmission service

Target value: *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)

Description: See Annex 1

Verification method: Report prepared by Transgaz according to ANRE Order 161/26.11.2015

Formula of the indicator: See Annex 1

Method of Calculation: The achievement of the indicator decreases commensurate with the percentage of the non-achievement of the amounts provided for in the management plan.

B.2.3 Corporate governance

B.2.3.1 Implementation of the internal/managerial control system

Name of the indicator: Implementation of the internal/managerial control system

Target value: *Achievement of the measures provided for in the Program for the implementation of the SCIM*

Description: *Implementation of the provisions of Order no. 400/2015 of the General Secretariat of the Government for the approval of the Internal/Managerial Control Code for public entities as amended.*

Verification method: Program for the implementation of the approved SCIM

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline/proposed measures} * 100$

B.2.3.2 Clients Satisfaction

Name of the indicator: Clients Satisfaction

Target value: Achievement of the targets provided for in the administration plan

Description: *According to PP 165 Client satisfaction evaluation a score of 6-8 represents the fact that the services offered satisfied the requirements of the clients accordingly*

Verification method: Annual report for the assessment of the client satisfaction

Formula of the indicator: *According to the Process procedure PP-165*

Method of Calculation: The achievement of the indicator decreases commensurate with the percentage of the non-achievement of the amounts provided for in the management plan.

B.2.3.3 Setting the risk management policies and risk monitoring

Name of the indicator: Setting the risk management policies and risk monitoring

Target value: Achievement of the targets provided for in the administration plan

Description: *implementation of the requirements of Standard 8 of Order SGG no. 400/2015 for the approval of the Internal/management control Code for public entities as subsequently amended.*

Verification method: *Annual report on the risk management (prepared pursuant to Order SGG no. 400/2015)*

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline} / \text{proposed measures} * 100$

B.2.3.4 Timely reporting of the key performance indicators

Name of the indicator: **Timely reporting of the key performance indicators**

Target value: Compliance with the legal reporting deadlines

Description: Monitoring the reporting calendar in order to comply with the deadline.

Verification method: *Actual reporting transmission date/ scheduled date in the calendar/legal/administrative act of the reporting*

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline} / \text{proposed measures} * 100$

B.2.3.5 Request for revision of the company's key performance indicators

Name of the indicator: **Request for revision of the company's key performance indicators**

Target value: Revision of the company's performance indicators within 60 days from the finding of the need for revision.

Description: Revision of the company's performance indicators

Verification method: GSM Convening

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{no of requested indicators for revision within the deadline} / \text{total no of indicators requested for revision}$.

B.2.3.6: Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans

Name of the indicator: **Increasing institutional integrity by including measures for the prevention of corruption as an element of managerial plans**

Target value: Compliance with the measures undertaken by the approved Integrity Plan

Description: achievement of the measures included in the Integrity Plan

Verification method: *The approved Integrity Plan*

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline} / \text{proposed measures} * 100$

B.2.3.7 Reducing vulnerabilities and fraud and corruption risks (preparation and compliance with the anti-bribery policy)

Name of the indicator: **Reducing vulnerabilities and fraud and corruption risks (preparation and compliance with the anti-bribery policy)**

Target value: Compliance with the measures undertaken by the approved Integrity Plan

Description: achievement of the measures included in the Integrity Plan

Verification method: *The approved Integrity Plan*

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline} / \text{proposed measures} * 100$

B.2.3.8: Increasing corruption fighting performance by criminal and administrative methods.

Name of the indicator: Increasing corruption fighting performance by criminal and administrative methods.

Target value: Compliance with the measures undertaken by the approved Integrity Plan

Description: achievement of the measures included in the Integrity Plan

Verification method: *The approved Integrity Plan*

Method of Calculation: The achievement of the indicator is determined according to the formula: $I = \text{measures achieved within the deadline} / \text{proposed measures} * 100$

III. Annex 1

Performance indicators related to the gas transmission service – according to Order ANRE 161/26.11.2015 entered into force on 1 October 2016

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
IPO Registration of requests/applications/ complaints related to the gas transmission system service		
$IP_0^1 = \frac{N_{T0} + N_{T2}}{N_{inreg} - N_{clasate}} \times 100 \%$	a) N_{T0} – number of registration whose registration number was sent in line with the provisions of art. 7 para. (3) letter a); b) N_{T2} – number of registration whose registration number was sent in a shorter time span than the one provided in art 7 para (3) letter b); c) N_{inreg} - total number of requests/applications/ complaints registered in line with the provisions of art. 7 para (1); d) $N_{clasate}$ - total number of requests/applications/ complaints classified in line with the provisions of art. 7 para (6).	$IP_0^1 \geq 90\%$
IP1 Compliance with the gas delivery –taking off conditions		
$IP_1^1 = \frac{N_{Rparametrii10}}{N_{TRparametrii} - N_{RCLparametrii}} \times 100 \%$	a) $N_{Rparametrii10}$ - number of referrals/complaints related to the non-compliance with the technological parameters agreed, answered in less than 10 days from their registration; b) $N_{TRparametrii}$ - total number of referrals/complaints related to the non-compliance with the technological parameters agreed; c) $N_{RCLparametrii}$ - total number of referrals/complaints related to the non-compliance with the technological parameters agreed; classified	$IP_1^1 \geq 95\%$
$IP_1^2 = \frac{N_{verificareP24}}{N_{TverificareP}} \times 100 \%$	d) $N_{verificareP24}$ - number of verifications of the agreed technological parameters performed by the TSO in a time span shorter than 24 hours from the registration of the referral/complaint;	$IP_1^2 \geq 95\%$

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
	e) $N_{TverificareP}$ - number of referrals/complaints related to the non-compliance with the technological parameters.	
$IP_1^3 = \frac{N_{Rcalitate15}}{N_{TRcalitate} - N_{RCLcalitate}} \times 100\%$	f) $N_{Rcalitate15}$ - number of referrals/complaints related to gas quality answered in less than 15 days from their registration; g) $N_{TRcalitate}$ - total number of referrals/complaints received related to gas quality; h) $N_{RCLcalitate}$ - total number of referrals/complaints received related to gas quality; classified.	$IP_1^3 \geq 95\%$
$IP_1^4 = \frac{N_{Rm\acute{a}surare15}}{N_{TRm\acute{a}surare} - N_{RCLm\acute{a}surare}} \times 100\%$	i) $N_{Rm\acute{a}surare15}$ - number of referrals/complaints related to metering gas quantities answered in less than 15 days from their registration; j) $N_{TRm\acute{a}surare}$ - total number of referrals/complaints related to metering gas quantities, received; k) $N_{RCLm\acute{a}surare}$ - total number of referrals/complaints related to metering gas quantities, classified.	$IP_1^4 \geq 95\%$
$IP_1^5 = \frac{N_{Vm\acute{a}surare2}}{N_{TRm\acute{a}surare} - N_{RCLm\acute{a}surare}} \times 100\%$	l) $N_{Vm\acute{a}surare2}$ - number of systems/methods for metering gas quantity checked at their place of operation in a time span shorter than 2 business days from the registration of referrals/complaints; m) $N_{TRm\acute{a}surare}$ - total number of referrals/complaints related to gas metering, received; n) $N_{RCLm\acute{a}surare}$ - total number of referrals/complaints related to gas metering, classified.	$IP_1^5 \geq 95\%$
IP2 Access to the TS		
$IP_2^1 = \frac{N_{acces}}{N_{TCacces}} \times 100\%$	a) N_{acces} - number of NTS access agreements or refusals issued in a time span smaller than the one provided for in the applicable law in the gas sector; b) $N_{TCacces}$ - total number of NTS access requests received.	$IP_2^1 \geq 95\%$

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
$IP_2^2 = \frac{N_{Racces15}}{N_{TRacces} - N_{RCLacces}} \times 100\%$	a) $N_{Racces15}$ - total number of referrals/complaints related to NTS access, answered in a time span shorter than 15 days from the date of their registration, b) $N_{TRacces}$ - total number of referrals/complaints related to NTS access, received; c) $N_{RCLacces}$ - total number of referrals/complaints related to NTS access, classified.	$IP_2^2 \geq 95\%$
IP3 Connection to the TS		
$IP_3^1 = \frac{N_{racordare}}{N_{TCracordare}} \times 100\%$	a) $N_{racordare}$ - number of technical opinions for the connection to the TS and of refusals in this respect, issued in a time span shorter than the one provided for in the applicable laws in the gas sector; b) $N_{TCracordare}$ - total number of requests for NTS connection, received.	$IP_3^1 \geq 95\%$
$IP_3^2 = \frac{N_{Rracordare15}}{N_{TRracordare} - N_{RCLracordare}} \times 100\%$	a) $N_{Rracordare15}$ - number of technical opinions for the connection to the TS answered by the TSO in a time span shorter than 15 days from their registration; b) $N_{TRracordare}$ - total number of referrals/complaints related to NTS connection, received; c) $N_{RCLracordare}$ - total number of referrals/complaints related to NTS access, classified.	$IP_3^2 \geq 95\%$
$IP_3^3 = \frac{N_{IR}}{N_{TIR}} \times 100\%$	a) N_{IR} – number of connection equipment commissioned in a time span shorter than the one provided for in the connection contract, b) N_{TIR} – total number of connection equipment commissioned.	$IP_3^3 \geq 95\%$

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
$IP_3^4 = \frac{N_{Rperpif15}}{N_{TRperpif} - N_{RCLperpif}} \times 100\%$	<p>a) $N_{Rperpif15}$ - number of referrals/complaints related to the design, execution, reception and/or commissioning of the connection installation answered in a time span shorter than 15 days from their registration;</p> <p>b) $N_{TRperpif}$ - total number of referrals/complaints related to the design, execution, reception and/or commissioning of the connection installation, received;</p> <p>c) $N_{RCLperpif}$ - total number of referrals/complaints related to the design, execution, reception and/or commissioning of the connection installation, classified.</p>	$IP_3^4 \geq 95\%$
IP4 Restoration of the lands and/or goods affected by the execution of works to NTS facilities		
$IP_4^1 = \frac{N_{Rrefacere15}}{N_{TRrefacere} - N_{RCLrefacere}} \times 100\%$	<p>a) $N_{Rrefacere15}$ - number of referrals/complaints answered in less than 15 days from their registration;</p> <p>b) $N_{TRrefacere}$ - total number of referrals/complaints related to the restoration of the affected lands and/or assets by the execution of some works to NTS facilities, received;</p> <p>c) $N_{RCLrefacere}$ - total number of referrals/complaints related to the restoration of the affected lands and/or assets by the execution of some works to NTS facilities, classified.</p>	$IP_4^1 \geq 95\%$
IP5 Notification of unplanned limitations and/or interruptions and resumption of the gas transmission service		
$IP_5^1 = \frac{N_{U6}}{N_{Uafectati}} \times 100\%$	<p>a) N_{U6} - number of NTS users affected by the unplanned interruption, notified as soon as possible but within maximum 6 hours from the moment of interruption;</p> <p>b) $N_{Uafectati}$ - total number of NTS users affected by the unplanned interruption.</p>	$IP_5^1 \geq 98\%$
$IP_5^2 = \frac{N_{U24}}{N_{Uafectati}} \times 100\%$	<p>a) N_{U24} - number of NTS users affected for a period longer than 24 hours, notified accordingly;</p>	$IP_5^2 \geq 98\%$

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
	b) $N_{Uafectati}$ - total number of NTS users affected by the unplanned interruption	
IP6 Notification of unplanned limitations and/or interruptions and resumption of the gas transmission service		
$IP_6^1 = \frac{N_{U5}}{N_{Uafectati}} \times 100\%$	a) N_{U5} - number of NTS users affected by the unplanned interruption notified in a time span of more than 5 business days before the limitation/interruption; b) $N_{Uafectati}$ – Total number of affected NTS users.	$IP_6^1 \geq 98\%$
$IP_6^2 = \frac{N_{Ureluare}}{N_{Uafectati}} \times 100\%$	a) $N_{Ureluare}$ - number of affected NTS users for which the resumption of the transmission service was ensured within the deadline mentioned in the notification; b) $N_{Uafectati}$ - Total number of NTS users affected by the planned interruption.	$IP_6^2 \geq 98\%$
IP7 Settlement of requests/applications/ complaints related to the provision of the gas transmission service others than the ones mentioned particularly in this standard		
$IP_7^1 = \frac{N_{SSR30}}{N_{TSSR} - N_{SSRclasate}} \times 100\%$	a) N_{SSR30} - number of requests/applications/complaints others than the ones treated particularly in this standard, answered within 30 days from their registration; b) N_{TSSR} - total number of requests/applications/complaints others than the ones treated particularly in this standard, received; c) $N_{SSRclasate}$ - total number of requests/applications/complaints others than the ones treated particularly in this standard, classified.	$IP_7^1 \geq 80\%$
IP8 Tel Verde		
$IP_8^1 = \frac{N_{Atimp60}}{N_{Atotal}} \times 100\%$	a) $N_{Atimp60}$ - number of emergency calls answered in a time span shorter	$IP_8^1 \geq 98\%$

Calculation Formula of the indicators	Definition of the terms in the formula	Objective
	<p>than 60 seconds;</p> <p>b) N_{Atotal} - total number of emergency calls, received.</p>	
$IP_8^2 = \frac{N_{ASC6}}{N_{ASCtotal}} \times 100 \%$	<p>a) N_{ASC6} - number of emergency calls related to gas releases to which the intervention team arrived in less than 6 hours from the moment the call was received;</p> <p>b) $N_{ASCtotal}$ - total number of emergency calls related to gas releases, received.</p>	$IP_8^2 \geq 98\%$
IP9 Achievement of the obligation to pay the compensations due in line with the provisions of the performance standard for the gas transmission service		
$IP_9^1 = \frac{N_{comp30}}{N_{TCcomp}} \times 100 \%$	<p>a) N_{comp30} - number of compensations paid within 30 days from the registration of the claim;</p> <p>b) N_{TCcomp} – total number of the claims for payment of compensations, received.</p>	$IP_9^1 \geq 90\%$