

NOMINATION AND REMUNERATION COMMITTEE

Annual Report/2016 of the Nomination and Remuneration Committee of SNGN „ROMGAZ” - SA Mediaș

I. Main legal background related to S.N.G.N. Romgaz S.A.'s Directors and Director General remuneration policy and criteria

- Art. 12, para. (4), letter d) of S.N.G.N. Romgaz S.A. Articles of Incorporation provides as main power of the General Meeting of Shareholders **„the election and dismissal of the Board of Directors' members, and establishing their remuneration”**;
- Art. 111, para. (2), letter. c) of Company Law No. 31/1990, as supplemented and amended, GMS has the obligation to **„establish the remuneration of the Board of Directors' members for the current period if it was not established by the Articles of Incorporation”**;
- Art. 153¹⁸, para. (1), of Company Law No. 31/1990, as supplemented and amended, provides as follows: **„The remuneration of Board of Directors members is established either by Articles of Incorporation or by resolution of the General Meeting of Shareholders.”**
- Art. 37. para (1) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„The remuneration of Board of Directors members is established by the General Meeting of Shareholders under the structure and within the limits established in para (3) and (4.)”**;
- Art. 37. para (2) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„The remuneration of Board of Directors members, or of the Supervisory Board, as the case may be, consists of a monthly fixed remuneration and a variable component representing a participation share to the company net profit, a pension scheme or another form of remuneration based on performance indicators.”**
- Art. 37. para (3) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„Fixed monthly**

remuneration of non-executive members shall not exceed the last 12 month average gross salary in the field of activity where the company operates, as it is communicated by the National Institute of Statistics prior to nomination.”;

- Art. 37. para (5) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„The variable component level is established in accordance with the highly substantiated recommendations, formulated on a comparative study basis regarding the remuneration conditions for similar positions in other companies, in the same field of activity, having as major or sole shareholder the Romanian state, and from other European countries, by the Nomination Committee or, as the case may be, by human resources recruiting experts whose services have been contracted to carry out the procedure of selection of the Board of Directors/supervisory board members.”**
- Art. 37. para (6) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„The General Meeting of Shareholders shall establish the fixed remuneration of every member of the Board of Directors or of the Supervisory Board, as the case may be, as provided under para (3) and (4) in accordance with his specific duties in the consulting committees, with the number of meetings, the performance objectives and the criteria set by the contract of mandate.”**
- Art. 39. para (1) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **„Remuneration and other benefits to the directors and managers in one tier system, and to members of the supervisory board and directorate members in two tier system, will be recorded in the annual financial statements and in the annual report of the nomination and remuneration committee.”**
- Art. 39. para (1) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, provides as follows: **“The remuneration policy and criteria for the directors and managers in one tier system, and for members of the Supervisory Board and directorate members in two tier system, will be published on the public company web page, care of the board of directors or of the supervisory board, as the case may be.”**
- Art. 142, para (2), letter c) of Company Law 31/1990, as amended, provides as follows: **„Among the key powers of the board of directors that cannot be delegated to managers are appointing and dismissal of managers and establishing managers remuneration;**
- Art 143, para (1) corroborated with Art. 143, para (4) of Company Law 31/1990, as subsequently amended and supplemented, and corroborated with Art. 24, para (1) and (5) of S.N.G.N. Romgaz S.A Articles of Incorporation provides that the Board of Directors may delegate the company management to one or more managers, appointing one of them as director general who is not chairman of the Board of Directors.

II. Composition of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee of S.N.G.N. „ROMGAZ” – S.A. Medias is a permanent advisory committee, directly subordinated to the Board of Directors of S.N.G.N. „ROMGAZ” – S.A. Medias and currently comprises the following members:

- Mrs. Sebastian-Gabriel TCACIUC – Chairman
- Mrs. Aurora NEGRUT – Member
- Mr. Petrus Antonius Maria JANSEN - Member
- Mr. Florin Danut BUZATU – Member
- Mr. Razvan Florin STOICESCU – Member

The composition of the Nomination and Remuneration Committee of S.N.G.N. „ROMGAZ” – S.A. Board of Directors underwent a series of changes in 2016 caused mainly by the changes in the composition of the Board of Directors, namely the resignation of Mrs. Sorana Rodica Baciu starting with February 22, 2016.

Subsequently, Mr. Sebastian-Gabriel TCACIUC became member of the Nomination and Remuneration Committee starting with the acceptance date of the director mandate in S.N.G.N. „ROMGAZ” – S.A. Board of Directors, namely March 25, 2016; such mandate is valid until December 30, 2017.

In compliance with the OGMS Resolution no.10/November 15, 2016 the structure of S.N.G.N. „ROMGAZ” – S.A. Board of Directors underwent changes; Mr. Virgil Marius METEA and Mrs. Ecaterina POPESCU, member of the Nomination and Remuneration Committee, have been revoked from the Board of Directors.

Further to the cumulated vote method for electing/reconfirming Board members, the following were elected/reconfirmed as board members Mr. Aristotel Marius Jude for a mandate expiring on May 17, 2017, Mr. Florin Danut Buzatu for a mandate expiring on January 13, 2018, Mr. Razvan Florin Stoicescu for a mandate expiring on May 13, 2017.

III. Remuneration structure, information on the directors' agreements and on the contract of mandate

This report is drafted in accordance with the provisions of Article 55(2) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended (OUG 109/2011) providing as follows: *“The Nomination and Remuneration Committee of the Board of Directors, or of the Supervisory Board, as the case may be, elaborates an annual report on the remunerations and other benefits granted during the financial year to directors and managers, or to the supervisory board members and directorate members, respectively. The report mentioned in Par. (2) is presented to the General Meeting of Shareholders which approves the annual financial statements. The report is available to the shareholders according to Article 40, par. (1) and includes at least the following information:*

- a) *Remuneration structure, explaining the weight of variable component and fixed component;*

- b) *Performance criteria which substantiate the remuneration variable component, the report between the achieved performance and remuneration;*
- c) *Reasons that justify any annual bonus schemes or non-cash benefits;*
- d) *Possible supplementary or early pension schemes;*
- e) *Information regarding the duration of the contract, the negotiated period of notice, the quantum of damage - interest for unjust dismissal.*

1) The remuneration granted to non-executive directors in 2016

The following remuneration was established subject to the above mentioned laws and regulations:

Fixed remuneration

The fixed remuneration of each non-executive member of the Board of Directors was established under Art. 37, para (3) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013 and is provided in the director's frame agreement approved by GMS Resolution No. 12 of July 26, 2013.

Thus, the fixed component of remuneration granted to Board of Directors non-executive members in 2016 was **RON 305751**. The fixed monthly remuneration was granted based also on following criteria:

- ✓ The chairman of the board and board members who are members of at least 2 advisory committees of the board will receive the maximum fixed remuneration;
- ✓ The members of the board who are members of one advisory committee of the board will receive a fixed remuneration that is 90% of the maximum fixed remuneration.
- ✓ The members of the board who are not members of advisory committees of the board will receive a fixed remuneration that is 85% of the maximum fixed remuneration.

Variable remuneration

The variable remuneration was established according to Art. 37, para (5) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, providing as follows:

„(5) „The variable component level is established in accordance with the highly motivated recommendations, formulated on a comparative study basis regarding the remuneration conditions for similar positions in other companies, in the same field of activity, having as major or sole shareholder the Romanian state, and from other European countries, by the Nomination Committee or, as the case may be, by human resources recruiting experts whose services have been contracted to carry out the procedure of selection of the Board of Directors/supervisory board members.

.....”,
 corroborated with the provisions of the directors' agreements; the director's frame agreement was approved by GMS Resolution No. 12 of July 26, 2013.

Variable remuneration is divided, according to the provisions of director's agreement, in two subcomponents, one depending on the achievement of performance indicators (detailed below) and a second one granted if the achieved net profit exceeds by more than 0.4% the one approved in the company budget, namely 0.4% from the difference between the actual net profit and the estimated net profit of every financial year, but not more than the fixed annual remuneration established according to Article 16 of the Director's Agreement.

In this context, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors have been remunerated by a net amount of **RON 224,739** related to the first variable subcomponent granted for the three quarters of the financial year 2016 (except for Q4 that will be granted after approval of 2016 financial year results).

After the approval of the 2015 financial year results, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors have been remunerated for the 2015 Q4 financial results by the net amount of **RON 83,764**.

At the same time, after the approval of the 2014 financial year results, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors received the second variable subcomponent for 2015 in net amount of **RON 296,264** further to the approval of 2015 financial statements.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2015 of 113.62%.

2) The remuneration granted to the director general in 2016

The fixed remuneration

The monthly fixed remuneration for the executive member – director general of S.N.G.N. Romgaz S.A. has been established according to the provisions of Article 37, paragraph (4) of **GEO 109/2011**, stipulating that:

„Article 37 (4) The monthly fixed allowance of the executive members may not exceed 6 times the average for the last 12 months of the average monthly gross earnings in the company's activity field, communicated by the National Institute of Statistics previously to the appointment.”

corroborated with the Resolution of the General Meeting of Shareholders no. 14/2013, stating that:

“Item 1. Sets the general limits of the remuneration of the Director General of SNGN Romgaz SA, executive member of the Board of Directors, as follows:

- *For the gross monthly fixed allowance between 4 and 6 times the average for the last 12 months of the average monthly gross earnings in the company's activity field, communicated by the National Institute of Statistics previously to the appointment.”*

it was set at the net amount of **RON 23,501**; the total annual remuneration for 2016 in net amount of **RON 282,012**.

The variable remuneration

The variable remuneration was established according to Article 37, paragraph (5) of the Government Emergency Ordinance No. 109/2011 on public companies corporate governance, as amended by Government Emergency Ordinance No. 51/ 2013, providing as follows:

„(5) „The variable component level is established in accordance with the highly motivated recommendations, formulated on a comparative study basis regarding the remuneration conditions for similar positions in other companies, in the same field of activity, having as major or sole shareholder the Romanian state, and from other European countries, by the Nomination Committee or, as the case may be, by human resources recruiting experts whose services have been contracted to carry out the procedure of selection of the Board of Directors/supervisory board members.

.....”

and with the provisions of Article 38 paragraph (2) of GEO 109/2011, stipulating that:

“Art. 38 (2) The remuneration is composed of a monthly fixed allowance established within the limits provided in Article 37, paragraph (4) and of a variable component which consists in a share of participation to the company's net profit, a pension scheme or another remuneration form based on performance indicators.”;

corroborated with the provisions of the contract of mandate and the Resolution no.14/26.08.2013 of S.N.G.N. Romgaz S.A. General Meeting of Shareholders.

Variable remuneration is divided, according to the provisions of director's agreement, in two subcomponents, one depending on the achievement of performance indicators (detailed below) and a second one granted if the achieved net profit exceeds by more than 0.4% the one approved in the company budget, namely 0.4% from the difference between the actual net profit and the estimated net profit of every financial year, but not more than the average annual gross earnings of an employee influenced by the bonuses granted in lei and/or in kind achieved in the applicable financial year.

The Director General was an executive director until November 2016.

We also state that two directors namely, Mr. Florin Dănuș BUZATU and Mr. Răzvan Florin STOICESCU do not benefit from the variable remuneration, they do not have performance indicators according to the directors agreements concluded with the Company.

Considering this, the Director General has been remunerated by a net amount of **RON 421,509** the first variable subcomponent granted for the three quarters of the financial year 2016 (except for Q4 that will be granted after approval of 2016 financial year results).

After the approval of the 2015 financial year results, the director general of S.N.G.N. Romgaz S.A has been remunerated for the 2015 Q4 financial results by a net amount of **RON 148,097**.

At the same time, after the approval of the 2015 financial year results, the director general of S.N.G.N. Romgaz S.A. received the second variable subcomponent for 2015 in amount of **RON 209,946**.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2015.

3) Information regarding the duration of contracts, the negotiated period of notice

a. Duration of contracts:

• Director's Agreements:

According to Article 6 of the agreement, the Director's Agreement is concluded for a 4 (four) year period, and may be renewed by General Meeting of Shareholders Resolution, only in terms of proper compliance of the competencies/obligations provided by the Director's Agreement, as follows:

- starting from March 25, 2013 until December 30, 2017 for Mr. Sebastian-Gabriel Tcaciuc;
- starting from May 10, 2013 until May 10, 2017 for Mrs. Aurora Negrut;
- starting from January 6, 2014 until January 6, 2018 for Mr. Petrus Antonius Maria Jansen;
- starting from November 16, 2016 until January 13, 2018 for Mr. Florin-Danut Buzatu;
- starting from November 16, 2016 until May 13, 2017 for Mr. Florin-Razvan Stoicescu

• **Contract of Mandate:**

According to Article 6 of the Contract, such contract has been concluded for a 4 year period, starting from June 12, 2013 until June 13, 2017 and can be renewed, by means of an addendum, by General Meeting of Shareholders Resolution, in terms of proper compliance of the attributions/obligations provided by this Contract of Mandate.

Until the drafting date of this Report, during year 2016 no other Board member dismissal has been recorded, except for the acknowledgement of the above mentioned resignations.

b. Negotiated period of notice:

There is no period of notice established for Director's Agreement but for the Contract of Mandate the notice period is 30 days.

IV. The achievement of performance indicators and criteria in 2016

The achievement of performance indicators and criteria in 2016 is shown below:

	Weighting factor	Indicator	Average values 2011-2013	Target values	Achieved values	Achievement rate	Weight
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	2,579,419.0	2,695,492.9	1,989,547.7	73.8	18.45
Revenue	0.20	+6%	4,146,764.1	4,395,569.9	3,411,867.7	77.6	15.52
Labour productivity	0.10	+6%	664.5	704.4	559.1	79.4	7.94
Operating expenses/operating income	0.10	-0.6%	604.0	600.4	585.1	102.6	10.26
Geological resource volume (GIP)	0.10	+1%	2,279.3	2,302.1	2,605.0	113.2	11.32
Gas production decline	0.15	-1.5%	5,663.3 ¹	5,331.1	4,219.4	79.1	11.87
Overdue payments	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	86.36

EBITDA – (thousand RON);
 Revenue – (thousand RON);
 Labour productivity – (thousand RON/employer);
 Op. expenses/op. income – operating expenses for RON 1000 operating income
 Geological resource volume –(million m³);

¹ It is the production for 2012, corrected with 1.5% target decline, year 2012 considered as "base year".

Gas production decline - (%);
Overdue payments - (thousand RON)

The fulfilment rate of performance indicators and criteria is **83.36%**.

From the first year of the mandate, a number of contingencies arrived beyond the control of the board of directors or of the company's management that impeded the fulfilment of the objectives and performance indicators included in the Directors Agreement and Governing Plan, respectively, such as:

- ✍ non-compliance of the calendar related to the gradual increase of the market sale price for domestic gas production considered when preparing and approving the Governing Plan;
- ✍ fiscal regulations with a significant impact on the company's performances, such as:
 - extending after December 31, 2014 the period for applying the windfall tax for gas producers as a result of price deregulation;
 - the tax on special constructions as of January 1, 2014, the so called "pole tax";
- ✍ reduced national gas consumption.

As a result, in accordance with the provisions of the Governing Plan and the Directors Agreement, the company's board requested to shareholders to amend the calculation method of performance indicators included in the Directors Agreement. The request was substantiated by the Note no 13293 on May 16, 2016 presented to shareholders and discussed during the ordinary meeting on **June 16, 2016**.

Further the analysis of the substantiated requests, by item I of Resolution no 5 as of June 16, 2016, the General Meeting of Shareholders approved "the amendment of the calculation method of the performance indicators, namely by eliminating the effects of the influence of external factors that are beyond the control of the company's management". By Item II of the same Resolution, the General Meeting of Shareholders approved "***the conclusion of an Addendum to the Directors Agreement for amending the calculation method of performance indicators, namely by eliminating the effects of the influence of external factors that are beyond the control of the company's management***", mandating the representative of the majority shareholder to sign the Addendum to the Directors Contract (item III).

Further the request of the Ministry of Energy, as a majority shareholder, the agenda of the Ordinary General Meeting of Shareholders on **August 11, 2016** was supplemented with the proposal to revoke the approvals of the GMS during the meeting of June 16, 2016 concerning the amendment of calculation method of performance indicators, conclusion of an Addendum to the Directors Agreement and mandating the representative of the majority shareholder to sign it. By Resolution No 7 as of August 11, 2016, the GMS approved the requests of the Ministry of Energy.

On the agenda of the Ordinary General Meeting of Shareholders of **November 15, 2016** the ***Report no 25988 of October 5, 2016 has been added regarding the proposal to modify the performance indicators included in the Director Agreement. By this Report, the Board of Directors requested "to set the performance indicators in conjunction with the Income and Expenditure Budget indicators, as approved by Resolution No.5/June 16, 2016 of the General***

Meeting of Shareholders". By Resolution No.10 of November 15, 2016, the GMS did not approve "the criteria and performance targets, in conjunction with the Income and Expenditure Budget indicators of S.N.G.N. Romgaz S.A. approved by Resolution No. 5/2016".

This Report was concluded in two original copies.

Nomination and Remuneration Committee 2016
Chairman
Sebastian-Gabriel Tcaciuc

A handwritten signature in black ink, consisting of a stylized 'S' followed by a vertical line and a loop at the bottom.