

NOMINATION AND REMUNERATION COMMITTEE

Annual Report/2015

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. 10, 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. Aurora NEGRUȚ
- Mrs. Ecaterina POPESCU
- Mr. Petrus Antonius Maria JANSEN

Further to the resignation of Mr. David Harris KLINGENSMITH on January 19, 2015 from the Board of Directors, the composition of the Nomination and Remuneration Committee has been changed.

As of February 19, 2015 Mrs. Sorana Rodica BACIU activated in the Nomination and Remuneration Committee, in consequence to her election as a non-executive director in place of Mr. David Harris KLINGENSMITH, until January 22, 2016.

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 2014

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 2015 was **RON 265,545**. 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 273,065** related to the first variable

subcomponent granted for the three quarters of the financial year 2015(except for Q4 that will be granted after approval of 2015 financial year results), considering that the performance indicators corresponding to the first three quarters of 2015 were exceeded by 43.36%, during 2015 Q2.

After the approval of the 2014 financial year results, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors have been remunerated for the 2014 Q4 financial results by the net amount of **RON 79,635**.

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 2014 in net amount of **RON 265,964**.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2014 of 113.62%.

2) The remuneration granted to the director general in 2014

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 23,618; the total annual remuneration for 2015 in net amount of **RON 283,416**.

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.

In this context, the director general of S.N.G.N. Romgaz S.A. has been remunerated by a net amount of **RON 444,291** related to the first variable subcomponent granted for the three quarters of the financial year 2015 (except for Q4 that will be granted after approval of 2015 financial year results), considering that the performance indicators corresponding to the first three quarters of 2015 were exceeded by 43.36%, during 2015 Q2.

After the approval of the 2014 financial year results, the director general of S.N.G.N. Romgaz S.A has been remunerated for the 2014 Q4 financial results by a net amount of **RON 148,097**.

At the same time, after the approval of the 2014 financial year results, the director general of S.N.G.N. Romgaz S.A. received the second variable subcomponent for 2014 in amount of **RON 58,410**.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2014 of 113.62%.

3) Information regarding the duration of contracts, the negotiated period of notice, the quantum of damage – interest for unjust dismissal

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 May 10, 2013 until May 10, 2017 for Mrs. Aurora Negrut;
- starting from January 13, 2014 until January 13, 2018 for Mrs. Ecaterina Popescu;

- starting from January 6, 2014 until January 6, 2018 for Mr. Petrus Antonius Maria Jansen;
- starting from June 18, 2014 until May 14, 2017 for Mr. Dumitru Chisalita.

• **Contract of Mandate:**

According to Article 6 of the Contract, the Contract of Mandate 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 2015 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 2015

The achievement of performance indicators and criteria in 2015 is shown below:

	Weighting factor	Indicator	Average values 2012-2014	Target values	Achieved values	Rate of fulfilment	Share in the rate of fulfilment
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	2,387,315.2	2,494,744.4	2,590,280.1	103.8	25.95
Revenue	0.20	+6%	4,076,863.8	4,321,475.6	4,052,683.7	93.8	18.76
Labour productivity	0.10	+6%	669.8	710.0	654.6	92.2	9.22
Operating expenses/operating income	0.10	-0.6%	626.1	622.3	611.3	101.8	10.18
Geological resource volume (GIP)	0.10	+1%	2,015.0	2,035.2	2,615.0	128.5	12.85
Gas production decline	0.15	-1.5%	5,494.7 ¹	5,412.3	5,562.7	102.8	15.42
Overdue payments	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	103.38

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);
 Gas production decline – (%);
 Overdue payments – (thousand RON).

¹ Production of 2012 adjusted with the target decline of 1.5%, 2012 is considered to be the “base year”.

The achievement rate of performance indicators and criteria is **103.38%**.

The achievement of the performance indicators and criteria has been positively influenced mainly by:

- 👉 *EBITDA* – higher by RON 95.5 million (+3.83%) as compared to the target value;
- 👉 *Revenue* – higher by RON 268.8 million (-6.22%) as compared to the target value;
- 👉 *Operating expenses for RON 1000 operating income* – decreased by RON 11 (-1.77%) as compared to the target value;
- 👉 *Geological resource volume* – increased by 579.8 million m³ (+28.49%);
- 👉 *Gas production decline* – lower by 150.4 million m³ as compared to the target value.

V. The activity performed by the Nomination and Remuneration Committee in 2015

Summary of the activities performed during 01.01.2015 – 31.12.2015:

Advice related to:

- The necessity, in accordance with the provisions of Article 132²(1) of the Companies Law no. 31/1990 corroborated with the provisions of Article 17 (9) (1) of the Articles of Incorporations of S.N.G.N. ROMGAZ S.A., the appointment of provisional directors in the Board, considering the resignation from the position of director of S.N.G.N. ROMGAZ S.A. of Mr. David Harris KLINGENSMITH and Mr. Sergiu Cristian MANEA, as well as the request addressed to the Board of Directors to convene the General Meeting of Shareholders to appoint two non-executive members in the Board of Directors; at the same time, the Nomination and Remuneration Committee submitted for approval of the Board of Directors their payment for the period during they were provisional directors;
- Update and revision of the Rules of Organization and Operation of the Advisory Committees of SNGN ROGAZ SA Board of Directors, approved by the Board of Directors;
- The necessity to amend the provisions of the Directors' Agreements, which consists in :
 - reduction of the reports addressed to the General Meeting of Shareholders, by decrease of the number of reports addressed to the shareholders from quarterly to half-yearly reports, considering the quarterly reports addressed to all the investors in Bucharest Stock Exchange;
 - amendment of the rate of variable component subcomponents according to the mode of achieving the Global Quarterly Indicator I_T, with the following principles:
 - gradual differentiation of the rate of the first variable subcomponent according to the degree of achieving the performance indicators;
 - increase by three of the upper limit of the second variable subcomponent;
 - settlement of expenses related to the Mandate performance;

- modality of clearing the director in case of his unexpected and unjustified dismissal, being eliminated the differentiation of the compensation rate of the year when the unexpected dismissal occurred;

These proposals were submitted to analysis and decision of the General Meeting of Shareholders of October 29, 2015, but were not approved.

- The necessity to amend the provisions of **the Mandate Contract of the executive director – director general, generated** by the existent limitations between the provisions of the Mandate Contract concluded with the director general based on the Board of Directors Resolution no.29/December 16, 2013 to approve the contract between the company and the executive director – director general of SNGN ROMGAZ SA, Medias, and the provisions of the Board of Directors Resolution No. 8/2013 regarding the implications upon the Rules of Organization and Operation of SNGN ROMGAZ SA.

In this respect, the provisions regarding the appointment, suspension and/or dismissal of the executive management were amended, as well as the amendment of the Company's Rules of Organization and Operation, including the Company's organization chart and list of positions;

- **Identification and definition of criteria for the company's executive directors (deputy directors general, economic director), a component part of the "Management by objectives" Service Supply Contract.**

After the discussions with the supplier's representative, it was concluded that the Management by objectives is a project which can be adjusted within Romgaz, every management position being attributed the related specifications. At the beginning of 2016, on February, the Nomination and Remuneration Committee will analyse the performance indicators of the project for the four management positions, mentioned above;

- The actual personnel structure and organization chart of S.N.G.N. ROMGAZ S.A. following the discussions with the Director of Human Resources Management Direction of S.N.G.N. ROMGAZ S.A. – underlining the necessity *to carry out a Human Resources Strategy within S.N.G.N. ROMGAZ S.A., as well as a plan to implement this strategy.*

Evaluation of S.N.G.N. ROMGAZ S.A. Board of Directors

When applying the provisions of BVB Code of Corporate Governance, a self-evaluation of S.N.G.N. ROMGAZ S.A. Board of Directors was carried out, based on a questionnaire model adjusted according to the questionnaire under the title: "Unlocking your board's full potential: Board Evaluation Questionnaire", UK National Audit Office, ICAEW Non-executive board members Group, Mazars: (<http://www.nao.org.uk/wp-content/uploads/2013/02/Board-Evaluation-questionnaire.pdf>).

Cumulating the questionnaires, the self-evaluation results and their interpretation, in order to eliminate possible subjective causes the members of the Board's Secretariate and the Corporate, Quality and Environment Management Direction were implied, too.

During the meeting of the Nomination and Remuneration Committee of December 2015 the results of the self-evaluation were presented, deciding upon their discussion and analysis during a Board of Directors' Meeting. At the same time, *it was recommended an action plan and a roadmap which will be used by the board for the next 12 months to approach possible improvements.* At the beginning of 2016, on February, within the Nomination and Remuneration Committee a plan of actions project was discussed,

which was submitted for analysis and approval of the Board of Directors. During the Board of Directors' Meeting it was decided the plan of actions will be reanalysed after the establishment and completion of the Implementation Program of the Internal Regulations provided by the Code of Corporate Governance of S.N.G.N. ROMGAZ S.A.

Analyses and documents prepared (letters, notifications, notes, etc.):

- a. Reports of the Nomination and Remuneration Committee of S.N.G.N. ROMGAZ S.A. Board of Directors, presented in the Board meeting held on June 25, 2015 and on September 24, 2015;
- b. Notes of the Nomination and Remuneration Committee of S.N.G.N. ROMGAZ S.A. Board of Directors, presented in the Board meeting held on September 24, 2015; October 22, 2015; November 12, 2015 and December 18, 2015.
- c. Minutes of the meetings of the Nomination and Remuneration Committee.

VI. Proposal and recommendations

The Nomination and Remuneration Committee made the following recommendations to the Board of Directors:

- *Preparing a Human Resources Strategy within S.N.G.N. ROMGAZ S.A., as well as a plan to implement this strategy;*
- *Concluding the self-evaluation process by elaborating an action plan and a roadmap which will be used by the Board of Directors for the next 12 months to approach a possible improvement.*

This Report was concluded in two original copies.

Members of the Nomination and Remuneration Committee:

Aurora NEGRUT	Chairperson
Ecaterina POPESCU	Member
Petrus Antonius Maria JANSEN	Member