

NOMINATION AND REMUNERATION COMMITTEE

Annual Report/2014

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 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.“**
- 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 amended, 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

The composition of the Nomination and Remuneration Committee has changed due to the modification of the composition of SNGN Romgaz S.A. Board of Directors, as follows:

- Resignation of Mr. Eugen Dragos from June 12, 2014;
- Resignation of Mr. Constantin Adrian VOLINTIRU from June 13, 2014;
- Resignation of Mr. Davis Harris KLINGESMITH from January 19, 2015.

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 2014 was **RON 337,736**. 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 95% 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 Art. 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 235,138**, related to the first variable

subcomponent granted for the financial year 2014 (except for Q4 that will be granted after approval of 2014 financial year results).

After the approval of the 2013 financial year results, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors have been remunerated for the 2013 Q4 financial results by the net amount of **RON 45,678**.

At the same time, after the approval of the 2013 financial year results, the non-executive members of S.N.G.N. Romgaz S.A. Board of Directors received the second variable subcomponent for 2013 in net amount of **RON 115,380**.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2013 of 109.04%.

In 2014 the performance indicators of the first three quarters have been exceeded by 12.18%.

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 Art. 37, para (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 22,057; the total annual remuneration for 2014 in net amount of **RON 264,685**.

The 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.

.....”,

and with the provisions of Art. 38 para (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 397,027** related to the first variable subcomponent granted for the financial year 2014 (except for Q4 that will be granted after approval of 2014 financial year results).

After the approval of the 2013 financial year results, the director general of S.N.G.N. Romgaz S.A has been remunerated for the 2013 Q4 financial results by a net amount of **RON 132,342**.

At the same time, after the approval of the 2013 financial year results, the director general of S.N.G.N. Romgaz S.A. received the second variable subcomponent for 2013 in amount of **RON 29,912**.

It should be also mentioned that these remunerations have been granted in accordance with the achievement of performance indicators for 2013 of 109.04%.

In 2014 the performance indicators of the first three quarters have been exceeded by 12,18%.

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 2014 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.

c. Damage – interests Quantum

- **Director's Agreements:**

According to Article 37 of the Director's Agreement, in case the Director is dismissed unexpectedly and unduly, the Director has the right to receive from the Company a compensation for a non-performed term of the Director's Agreement, regardless of the dismissal date, but not more than 12 monthly fixed allowances, determined as follows:

- a) If the Director is dismissed at any time before the beginning of the last mandate year, the Director will receive a compensation representing 12 monthly fixed allowances;
- b) If the Director is dismissed in his last contract year, the compensation will be paid consistent with the number of months left until the end of the mandate, but not greater than 6 monthly fixed allowances.

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

- **Contract of Mandate:**

According to Article 38 of the Contract of Mandate, in case the Director General is dismissed for non-attributable reasons, he has the right to receive from the Company a compensation for the non-performed term of the Contract of Mandate, regardless of the dismissal date, as follows:

- a) If the Director General is dismissed during the first year of mandate, the Director General will receive a compensation representing 12 monthly fixed allowances;
- b) If the Director General is dismissed before the ending of the second year of mandate, the Director General will receive a compensation representing 6 monthly fixed allowances and the equivalent of half of the variable allowance received during the first year of mandate;

- c) If the Director General is dismissed during the third year of mandate, the Director General will receive 6 monthly fixed allowances and the equivalent of half of the first variable subcomponent of the second year of mandate.
- d) If the Director General is dismissed during the last year of mandate, the Director General will receive a compensation corresponding to the number of months remaining until the end of the mandate.

Until the drafting date of this Report no dismissal of the executive Board member has been recorded.

3) EVOLUTION OF THE PERFORMANCE INDICATORS AND CRITERIA FOR 2014

	Weighting factor	Indicator	Average values 2011-2013	Target values	Achieved values	Rate of fulfillment	Share in the rate of fulfillment
1	2	3	4	5	6	7=6/5x100	8=2x7
EBITDA	0.25	+4.5%	2,081,216.3	2,174,871.1	2,863,981.3	131.7	32.93
Revenue	0.20	+6%	3,982,799.9	4,221,767.9	4,493,341.1	106.4	21.28
Labour productivity	0.10	+6%	671.1	711.3	720.9	101.3	10.13
Operating expenses/operating income	0.10	-0.6%	664.3	660.3	595.2	110.9	11.09
Geological resource volume (GIP)	0.10	+1%	1,827.3	1,845.6	2,163.0	117.2	11.72
Gas production decline	0.15	-1.5%	5,578.3 ¹	5,494.6	5,663.9	103.1	15.47
Overdue payments	0.10	0	0	0	0	110.0	11.00
Total	1.00	-	-	-	-	-	113.62

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 m ³);
Gas production decline	- (%);
Overdue payments	- (thousand RON).

The fulfilment rate of performance indicators and criteria is **113.62%**.

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

- ⊕ *EBITDA* – higher by RON 689 million (+31.7%) as compared to the target value;
- ⊕ *Revenue* – higher by RON 272 million (+6.4%) as compared to the target value;
- ⊕ *Operating expenses for RON 1000 operating income* – decreased by RON 65.1 (-9.9%) as compared to the target value;
- ⊕ *Geological resource volume* – increased by 317.4 million m³ (+17.2%);
- ⊕ *Gas production decline* – lower by 169 million m³ as compared to the target value.

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

IV. The activity performed by the Nomination and Remuneration Committee in 2014

Summary of the activities performed during 01.01.2014 – 31.12.2014:

Advice related to:

- a. the necessity to approve the selection of services provided by experts in human resources recruitment;
- b. performance bonus based on the performance of Company shares;
- c. profile of a new director.

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

- a. Note of the Nomination and Remuneration Committee of S.N.G.N. Romgaz S.A. presented in the Board meeting held on 29.01.2014;
- b. The letter registered at S.N.G.N. Romgaz S.A. with no. 6707/10.03.2014 and the answer no. 150798/24.03.2014, and Romgaz letter no. 9611/02.04.2014 with the answer no. 150892/07.04.2014;
- c. Report no. 1 / 28.04.2014 of the Nomination and Remuneration Committee;
- d. Minutes of the meetings of the Nomination and Remuneration Committee;
- e. Report no. 2 / 06.08.2014 of the Nomination and Remuneration Committee
- f. Report no. 3 / 11.09.2014 of the Nomination and Remuneration Committee

Proposals and recommendations – the Committee made following recommendations to the Board of Directors:

- the selection of services provided by experts in human resources recruitment;
- informing the governing body on the opinion related to the profile of a new director;
- submit for approval of the General Meeting of Shareholders the conclusion of the Director Agreement of Mr. Sergiu-Cristian Manea.

This Report was concluded in two original copies.

Members of the Nomination and Remuneration Committee:

Aurora NEGRUȚ

Chairperson

Ecaterina POPESCU

Member

Petrus Antonius Maria JANSEN

Member

