

Recommended for approval in the BoA dated 20.03.2017 and information in the OGMS meeting dated 26.04.2017

**CONPET S.A. COMPANY**  
**Nomination and Remuneration Committee**  
No. 11146/20/03/2017

**ANNUAL REPORT OF**  
**THE NOMINATION AND REMUNERATION COMMITTEE**

**regarding the remuneration and other benefits granted to the non-executive administrators and Director General during the financial year 2016**

CONPET S.A. was established under Law no.15/1990 regarding the reorganization of the state-owned economic unit as autonomous administrations and trade companies, subsequent amendments and completions, and the Government Decision no. 1213/1990 on the set-up of joint stock commercial companies in the industry.

CONPET S.A. is the operator of the oil National Transport System, as defined and regulated by Petroleum Law no. 238/2004, as subsequently amended and supplemented, and also by the Methodological Norms for applying the Petroleum Law, approved by Government Decision no. 2075/2004.

CONPET S.A. was founded as a joint stock company as per the Companies Act no. 31/1990, republished, subsequent amendments and completions, is a publicly owned company, in accordance with the provisions of Law no. 297/2004 regarding the capital market, registered at the Office for Securities Records.

In accordance with the provisions of Art. 55 para. (2) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, the Nomination and Remuneration Committee of the BoA must prepare an annual report on the remuneration and other benefits granted to administrators and directors during the financial year.

The report is to be presented to the General Meeting of Shareholders which approves the annual financial statements and will include at least the following information:

- a) remuneration structure, explaining the share of the variable and fixed component;
- b) performance criteria underlying the variable remuneration component, the ratio of the achieved performance and remuneration;
- c) considerations justifying any annual bonus scheme or non-monetary benefits;
- d) any possible supplementary or anticipated pension schemes;
- e) information on the duration of the contract, the notice negotiated period, the amount of liquidated damages for unjust dismissal.

The Articles of Incorporation of CONPET S. A. provides at article 20 para. (1) letter y) as attribution of the BoA to submit to the General Meeting of Shareholders which approves the annual financial statements, a report prepared by the Nomination and Remuneration Committee on the remunerations and other benefits granted to the administrators and directors during the previous financial year.

## **I. The legal framework regarding the policy and criteria for the remuneration of the non-executive administrators**

- Article 37 para. (1) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of the public enterprises, as amended and supplemented, subsequently, which states: "The remuneration of the BoA members or, if applicable, of the members of the supervisory board is determined by the General Meeting of Shareholders in the structure and limits provided in para. (3) and (4)".
- Art. 37, para. (2) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as amended and supplemented subsequently, which provides: "Remuneration of BoA members or, if applicable, of the members of the supervisory board consists in a monthly fixed allowance and a variable component consisting of a share of participation in the net profit of the company, a pension scheme or another form of remuneration based on performance indicators."
- Art. 37 para. (3) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented , which provides: "(3) The monthly fixed allowance of the non-executive members cannot exceed the average for the last 12 months of the monthly gross average salary earnings of the branch covered by the business, communicated by the National Institute of Statistics prior to the appointment."

Art.37, para. (5) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

"(5) The variable component level is determined according to well-grounded recommendations formulated based on a comparative study on the conditions of remuneration for similar positions in companies, in the same activity field, majority or wholly state capital from Romania and other European states by the nominating committee or, where appropriate, the experts in recruiting human resources whose services were contracted for the pursuit of the procedure of selecting BoA / supervisory board members. "

Art. 37 para. (6) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

"(6) The General Meeting of Shareholders will get assurance, when establishing the fixed monthly allowance of each member of the BoA or, if applicable, of each member of the supervisory board, determined under para. (3) and (4) that it is justified in relation to specific duties, responsibilities within some consultative committees, the number of meetings, the objectives and performance criteria established in the mandate contract. "

Art. 39 para. (1) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

"(1) The remuneration and other benefits offered to administrators and directors within the unitary system, respectively to the members of the Supervisory Board and to the Executive Board members, in case of dualist system, shall be recorded in the annual financial statements and the annual report of the nomination and remuneration committee."

Art. 39 para. (2) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

"(2) The Policy and criteria for remuneration of administrators and directors in case of the unitary system, namely of the members of the Supervisory Board and of the Executive Board in case of dualist system, are

posted on the website of the public company through the carefulness of the BoA or as appropriate, of the Supervisory Board”.

"-Art. 142 para. (2) letter c) of Law no. 31/1990 regarding companies, republished, subsequent amendments and additions, which provides that the BoA has as core competency that cannot be delegated to the executive, the appointment and revocation of the directors and the settlement of the remuneration thereof.

Art. 143 para. (1) in conjunction with art. 143 para. (4) of Law no. 31/1990 on companies, republished, subsequent amendments and completions, which provides the BoA competence to delegate the Company management to one or more directors, appointing one of them as General Director, who is not the Chairman of the BoA.

## **II. The legal framework regarding the policy and criteria for remuneration of the executive administrators**

Art. 34 para. (2) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides the attribute of the Nomination and Remuneration Committee to formulate proposals on remuneration of directors;

Art. 37 para. (4) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

"(4) the fixed monthly allowance of the executive members shall not exceed 6 times the average for the last 12-months of the average gross monthly salary earnings of the branch covered by the business, communicated by the National Institute of Statistics prior to the appointment".

Art. 38 para. (1), (2) and (3) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

(1) *"The remuneration of the directors is established by the BoA and shall not exceed the established remuneration level for the executive members of the BoA. It is the only form of remuneration for the directors who also act in the capacity of administrators;*

(2) *The remuneration consists of a fixed monthly allowance established within the limits stipulated in art. 37 para. (4), and of a variable component consisting of a share of participation in the net profit of the company, a pension scheme or another form of remuneration based on the performance indicators.*

(3) *The level of the variable component is established according to well-grounded recommendations formulated upon a comparative study on the conditions of remuneration for similar positions in companies from the same activity field, with majority or wholly state capital from other European countries, the nomination committee or, as appropriate, the experts in recruiting human resources whose services were contracted for the pursuit of the procedure of selecting BoA / supervisory board members."*

Art. 39 para. (2) of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented, which provides:

(2) *The remuneration policy and criteria for the administrators and directors in case of unitary system, namely the members of the Supervisory Board and Executive Board members in case of dualist system, are made public on the website of the public company by the care of the BoA, or, where appropriate, of the Supervisory Board."*

### **III a) The structure of remuneration, explaining the share of the variable and fixed component**

The current members of the Board of Administration, acting as non-executive administrators, were elected upon Resolution no. 6/28.11.2013 of the General Meeting of Shareholders for a mandate of four years, in accordance with the Emergency Government Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as amended and supplemented subsequently, except for Mr. Razvan Stefan Lefter, who has been appointed member of the Board of Administration pursuant to the OGMS Resolution no. 5/17.12.2015 following the resignation of Mr Dinu Dragos Lucian.

By Resolution no. 2 /25.03.2014 of the General Meeting of Shareholders is established the monthly gross fixed allowance and subcomponent 1 of the variable component.

By Resolution no. 3 / 27.03.2014 of the General Meeting of Shareholders was approved the company's administration contract for CONPET S.A. administrators in the form and contents of the Annex to the Order of the Minister delegate for Energy no. 217/2014.

The administration contract of Mr. Razvan Stefan Lefter was approved based on the OGMS Resolution no. 5/17.12.2015, in the form approved by way of OGMS Resolution no. 3/27.03.2014, subsequent amendments, approved pursuant to OGMS Resolutions, here-included annexes 1 and 1.1.

As also mentioned in the Report of the Nomination and Remuneration Committee no. 40287/11.11.2015 to the OGMS dated 17.12.2015, given that Mr. Lefter Razvan Stefan was appointed non-executive provisional administrator upon the BOA Decision no. 12/29.09.2015, respectively member within two consultative committees constituted at the BoA level, by way of Decision no. 13/16.10.2015, for the period the latter worked within the Board of Administration, are applicable the provisions of the administration contract concluded by Mr. Dinu Dragos Lucian in what concerns the remuneration to receive, in correlation with the performance objectives and indicators for 2015 applicable as of the appointment thereof by the BOA and up to the date of revocation, by the OGMS, from the capacity of non-executive provisional administrator.

The BoA members have administration contracts which provide remuneration as follows:

#### **1. Monthly Fixed Allowance**

The administrator has a gross monthly fixed allowance for executing the entrusted mandate, but not more than the average for the last 12 months of the average monthly gross salary earnings of the branch / sector activity covered by the business, announced by the National Institute of Statistics. The fixed allowance is being fixed annually according to the data provided by the National Institute of Statistics.

The mechanism for granting the fixed monthly allowance was the following:

- the Chairman of the BoA and the members who are in at least 2 advisory committees established at the Board level have a fixed monthly allowance at the maximum value;
- the BoA members who are within an advisory committee established at the Board level have a fixed monthly allowance of 90% of the monthly fixed allowance at the maximum value;
- the BoA members who are not members of consultative committees established at the Board level

have a fixed monthly allowance representing 85% of the monthly fixed allowance at the maximum value.

The payment of remuneration is made once a month, notwithstanding the number of meetings held in the respective month.

The total gross fixed remuneration paid during the period 1.01.2016-31.12.2016 to the members of BoA members selected under the terms of the Government Emergency Ordinance no.109/2011 regarding corporate governance of public companies, subsequent amendments and completions, amounted to 300,960 RON.

## **2. The variable Component**

The variable component is determined according to the goals achievement, respectively, the fulfilment of the performance indicators approved by the management Plan and has two subcomponents.

Annexes 1 and 1.1. to the administration contracts concluded by the non-executive administrators, where the performance indicators and objectives are expressed per years and their distribution per quarters, is being updated in compliance with the provisions of the corresponding year REB.

### **2.1. First Sub-component of the Variable Component**

The variable component is determined according to the goals fulfilment, namely the fulfilment of level of performance indicators (annex 1) approved by the administration Plan and shall have two subcomponents.

The first *subcomponent* of the variable component, according to Article 18 of the administration contract, shall be established quarterly, according to the degree of fulfilment of the performance criteria and shall be established as a sum of the weighted average of the performance indicators (detailed below).

Based on the indicators established and the share thereof, it is being calculated a performance global quarterly indicator  $I_T$ .

Given that the  $I_T$  quarterly global indicator is achieved 100% or more, during the period for which the calculation is made, it will be paid quarterly, 100% of the first part value of the quarterly tranche corresponding to the first subcomponent of the variable component. If the quarterly global indicator  $I_T$  is performed under 100% in the period for which the calculation is made, it will be granted quarterly only 75% of the quarterly instalment related to the first sub-component of the variable component.

In this context, the non-executive members of the BoA of CONPET S.A. were paid in 2016 by the net amount of 211,893 RON, corresponding to the first variable sub-component ( here-included for 2015 Q4), except for those related to 2016 Q4 which will be granted following the approval of 2016 financial year.

### **2.2 The Second Sub-component of the Variable Component**

For the non-executive members of the BoA, upon the OGMS Resolution no. 2/28.04.2016, was approved Sub-component 2 of the variable component of the non-executive administrators' allowance for 2016, as per the proposals contained in the Report of the Nomination and Remuneration Committee no. 8766/10.08.2015, by the express mention that the value of this sub-component shall not exceed the value of the fixed allowance related to the entire financial year and shall fall within the provisions of the Revenues and Expenditure Budget approved as per the legal provisions. Consequently:

For the year 2016, the Sub-component 2 of the variable component of the remuneration that is to be awarded to the non-executive administrator, will be determined according to the goals achieving and performance indicators fulfilment and it is set at a level of 0.415% of the amount representing the difference between the actual net profit achieved and the net profit estimated for the financial year 2016, but will not exceed the value of the fixed allowance corresponding to the whole financial year, falling within the provisions of the revenues and expenditure budget approved as per the legal provisions. The payment shall be made following the approval of the annual financial statements.

Sub-component 2 of the variable component of the non-executive administrators' remuneration will be granted pro-rata for the period of the year employed under the administration contract, where the non-executive administrator contract terminates before the end of the financial year, due to one of the following clauses contained by the administration contract:

- Article 36.3 - revocation of the administrator from the GMS, provided that the revocation thereof not be due to his fault;
- Article 36.4 - Death of the administrator;
- Article 36.6 - the agreement of the Signatories;
- Article 36.7 - withdrawal of the administrator from the mandate, due to reasons not chargeable to him;
- Article 36.8 - interference of certain legal impediments (...) that exclude the administrator from exercising this capacity.

The value of sub-component 2 of the variable component paid in 2016 to the BoA members was in gross amount of 258,528 Lei.

In 2016, the degree of achievement of the performance indicators stipulated in the administration contracts was 106.70 %.

### **The Remuneration granted in 2016 to the Director General appointed under the provisions of the Emergency Government Ordinance no. 109/2011 regarding the corporate governance of the public enterprises**

#### **Fixed Remuneration**

Since Mr Liviu Ilasi was appointed member of the BoA of CONPET S.A. Company, under the provisions of the Government Emergency Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented by BoA Decision no. 17 dated 06.12.2013, Mr Liviu Ilasi was appointed Director General, being delegated the company management responsibilities, in accordance with art. 143 of Law no. 31/1990 regarding trade companies and Articles of Incorporation of the Company, for a period of 4 years.

Between the company and Mr. Liviu Ilasi was concluded the contract of mandate no. 1/06.12.2013.

The mandatory has a monthly gross fixed allowance set by the BoA in accordance with the legal provisions in force.

The gross monthly fixed allowance for the execution of the entrusted mandate is established in the amount equal to 6 times the average for the last 12-months of the average gross monthly salary of the branch covered by the business, announced by the National Institute of Statistics prior to the appointment of the Mandatory. The gross fixed remuneration of the General Director of CONPET S.A. for the year 2016 amounts to 303,264 RON.

### **The Variable Remuneration**

The director also benefits from a payment of a variable component, which is determined according to the goals achievement, namely the fulfilment of the performance indicators approved by the Management Plan and has two subcomponents.

Annually, the performance indicators, as well as their allocation to quarters, the annex to the concluded mandate contract are updated in accordance with the provisions of REB for the corresponding year.

The remuneration of the General Director for 2016 was established in compliance with the legal provisions, with OGMS Resolution no. 2 /25.03.2014 (the general limits of the monthly fixed allowance and variable sub-component 1) and BoA Decision no. 6/19.05.2016 for the variable sub-component 2, based on the Report no.876624.03.2016 drafted by the Nomination and Remuneration Committee.

In order to give the first subcomponent of the variable component, the degree of fulfilment of the performance criteria will be determined quarterly, taking into account the weight of each indicator and of the variation compared to the set target.

Under the mandate contract no. 1/2013, the value of the instalment of the first subcomponent of the variable component is equal to three gross monthly fixed allowances so that the total annual value of the first subcomponent be of 12 gross fixed monthly indemnities.

In this context, the Director General of CONPET S.A. was paid in 2016 with the net amount corresponding to the first variable subcomponent in the amount of 239,403 RON, (here-included for 2015 Q4), except for those related to 2016 Quarter 4 which will be awarded following the approval of the financial statements, under the law.

As per the BoA Decision no. 6/19.05.2016, of Addendum no. 10/2016 to the Contract of Mandate no. 1/06.12.2013:

“For the year 2016, Sub-component 2 of the variable component that is being awarded to the General Director - executive administrator, will be determined according to the goals achievement and performance indicators fulfilment and is set at a level of 2.5% of the amount representing the difference between the actual net profit achieved and the net profit estimated for the financial year 2015, but will not exceed the value of the fixed allowance corresponding to the whole financial year, determined as per the provisions of Article 12 of the Contract of Mandate. The payment shall be made following the approval of the annual financial statements.

The value of this sub-component shall fall within the provisions of the Revenues and Expenditure Budget approved as per the legal provisions.

All along the duration of the Mandate Contract, Sub-component 2 of the variable component of the Director General’s remuneration will be granted pro-rata for the period of the year employed under the Contract of Mandate. Where the contract thereof terminates before the end of the financial year, due to one of the following clauses contained in Art.29 of the Contract of Mandate:

- 29.3 – revocation of the director by the BoA due to unreasoned failure to fulfill his obligations;
- 29.4 - Death of the director general;
- 29.6 - the agreement of the Signatories;
- 29.7 - withdrawal of the director from the mandate;
- 29.8 - interference of certain legal impediments, as defined at Article 2 letter d) of the contract.

The value of sub-component 2 of the variable component paid in 2016 to the Director General for the year 2015 is in gross amount of 247,380 RON.

The performance indicators in 2016 were 106.70% achieved.

**a) Performance criteria substantiating the variable component of the remuneration, the ratio between achieved performance and remuneration;**

The achievement of the indicators and performance criteria for the year 2016, as compared to the provisions of Annex. 1.1. to 2016 administration contract, is mainly positively influenced by:

- 2.20% higher EBITDA, weighted degree of achievement 25.55%;
- 4.34% lower operating expenses, weighted degree of achievement 26.08%;
- Increase, by 2.5% of the work productivity, weighted degree of achievement 25.62%
- Decrease of the total number of technical breakdowns with 24 breakdowns, weighted degree of achievement 14.44%;
- Enhancing visibility on the BSE - weighted degree of achievement 15%.

**b) considerations justifying any annual bonus scheme or non-monetary benefits;**

The BoA members do not receive bonuses or non-monetary benefits.

**c) any likely supplementary or anticipated pension schemes;**

For none of the BoA members have been established anticipated or supplementary pension schemes.

**d) Information on the duration of the contract, the notice negotiated period, the amount of liquidated damages for unjust dismissal.**

On 28.11. 2013 were appointed, by cumulative voting method, the members of the BoA based on the OGMS Resolution no. 6, for a mandate of four years, in compliance with the provisions of the Emergency Government Ordinance no. 109/2011 regarding the corporate governance of public enterprises, as subsequently amended and supplemented. The Administration Contract sets the responsibility of the parties and also the conditions of termination.

Pursuant to the BoA Decision no.17 dated 06 December 2013, Mr. Liviu Ilasi was appointed Director General, being delegated the company management attributions, in accordance with art. 143 of Law no. 31/1990 regarding the trade companies and the Articles of Incorporation of the company, for a period of 4 years. The mandate contract was concluded on 6 of December 2013 for a period of four years which may be extended by decision of the Board of Administration.

For the administration contracts and the Director General's contract of mandate it is not set a deadline for notice.

**The amount of liquidated-damages:**

**- administration contracts**

If unjustified revocation of the Administrator, he is entitled to receive *a compensation from the Company* for the unexecuted period of the Administration Contract, regardless of the date on which the revocation occurs, but not more than 12 monthly fixed allowances, determined as follows:

- a) if the revocation occurs any time prior to the start of the last mandate year, the administrator will receive a compensation representing 12 monthly fixed allowances;



- b) if the revocation occurs in the last year of the contract, a compensation will be paid according to the number of months remaining until the end of the mandate, but not higher than 6 monthly fixed allowances;

Starting with the administration contracts concluding date, up until now, no BoA member revocation took place.

- **contract of mandate:**

In case of unjustified revocation of the Director, he is entitled to receive from *the Company a compensation* equivalent to the total fixed indemnities due for the period remained unexecuted from the Mandate Contract (the fixed indemnities he would have benefitted from until the fulfillment of the contract expiry date).

The payment of such compensation shall be made within 30 working days from the date of termination of this Mandate Agreement.

This form of compensation of the Director is the only damage compensation in case of revocation interfering unjustified.

In case of the Director dismissal for valid / justified reasons, the Company does not owe him any compensation for the period not worked under the mandate.

- e) **The non-executive administrators and the Director General - executive administrator, benefit from the settlement of the expenses related to the execution of the mandate based on documentary evidence and of a professional liability insurance**, all along the duration of the mandate. The insurance policy is being concluded on annual basis, the costs related hereto being incurred by the company. The maximum limit of the insurance premium approved by the OGMS amounts to 14,500 Euro/year of insurance, corresponding to an insurance limit established at 12 million Euro in aggregate; the policy is to be concluded annually, for every year of the period left to be executed from the administration contracts.

Pursuant to art. 55 para. (2) of the Emergency Government Ordinance no.109/2011 on the corporate governance of the public enterprises, further amendments and additions, the Nomination and Remuneration Committee of the BoA shall submit this report to the General Meeting of Shareholders of CONPET S.A.

### **The Nomination and Remuneration Committee**

Dan Weiler - Chairman, S.S. illegible

Cristina Chiriac – member, S.S. illegible

Razvan Stefan Lefter - member, S.S. illegible



