

# **POLICY ON THE REMUNERATION**

## **of Directors, Managing Directors and Members of the Audit Committee**

**ELECTROMAGNETICA SA**

**This Policy also applies to the subsidiaries  
PROCETEL SA, ELECTROMAGNETICA  
PREST SERV SRL and  
ELECTROMAGNETICA FIRE SRL**

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## I. DEFINITIONS

Malus	- an agreement enabling the company to reduce, fully or partially, the amount of the deferred variable remuneration on the basis of ex-post risk adjustments, before vesting.
Leader	- In a one-tier management system, a Leader is a member of the Board of Directors and a managing director of the Company, respectively
Executive leader	- the managing directors, including the general director and the deputy general director
Non-executive leader	- members of the Board of Directors who do not simultaneously hold the capacity of managing directors of the same company
Board of Directors	- a corporate body consisting of the company directors in the one-tier management system
Managing director	- a person who performs the duties of managing the company in the one-tier management system, as provided for in Article 143(1) and (5) of Law no. 31/1990
Subsidiary	- an entity controlled by a parent undertaking, including any subsidiary of the controlling parent undertaking, including any subsidiary of a subsidiary undertaking of the controlling parent undertaking
Group	- the parent company together with its subsidiaries
Issuers Law	- Law no. 24/2017 as amended and supplemented by Law no. 158/2020
Performance period	- period during which performance is assessed and measured in order to determine the variable remuneration
Compensation payment	- payments linked to the early termination of a contract at the company's initiative in cases not related to a failure to perform his/her obligations, attributable to the Leader
Remuneration report	- a document reflecting the implementation of the remuneration policy for the completed year and showing the current remuneration received by Leaders
Claw-back	- an agreement subject to certain conditions under which a Leader is required to return ownership of the variable remuneration paid in the past or to which he/she is already vested
Remuneration	- payment received by a Leader in exchange of services rendered to the company
Fixed remuneration	- the part of the total remuneration not directly linked to the performance of the company
Variable remuneration	- the part of the total remuneration which depends on the performance of the company and/or is discretionary
Listed company/Issuer	- Romanian legal persons having their registered office in the territory of Romania and whose shares are admitted to trading on a regulated market situated or operating in an EU Member State or whose securities are admitted to trading within a multilateral trading system (e.g.: AeRO), as these companies are indicated in Article 1(1) and (2) of Law no. 24/2017 on issuers of financial instruments and market operations

## II. CONTEXT

On 29 July 2020, Law no. 158/2020 amending Law no. 24/2017 on issuers of financial instruments and market operations was published in the Official Gazette. This law transposed into national law the Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement.

The new provisions on Leaders' remuneration enter into force within 30 days of publication (as of 28 August 2020). Companies must comply with the new requirements within 12 months from the entry into force of the law. Failure to meet these requirements may lead to fines ranging from RON 15,000 up to the highest value between RON 45,000,000 or 5% of the total annual turnover according to the most recent annual financial statements available.

## III. PURPOSE

The purpose of this Policy is to ensure the uniform and improved implementation of the requirements of Law no. 24/2017 on issuers of financial instruments and market operations. This Policy also aims to align with the new regulations in this field the Remuneration Policy already in place and approved by the General Meeting of Shareholders for the members of the Board of Directors and the executive management of ELECTROMAGNETICA SA.

The Remuneration Policy describes the general framework and the basic principles applied in order to determine the fixed and the variable remuneration and is aligned with the applicable provisions of labour law and other specific provisions in force.

The implementation of the Remuneration Policy aims at coherence between the remuneration and the business strategy, the risk policy, the values and the long-term objectives of ELECTROMAGNETICA SA.

By implementing this Remuneration Policy, ELECTROMAGNETICA SA aims to attract members of its management/administration bodies who meet the highest professional, educational and ethical standards, and to motivate and encourage such persons so as to optimize individual and collective performance, to consolidate a corporate culture based on the objective assessment of their respective contributions and on rewarding performance, while ensuring coherence between their remuneration and the company's business strategy, risk policy, values and long-term and objectives, and the company's policy on employment relations (job creation, securing the salaries negotiated between the parties, etc.).

## IV. REGULATORY FRAMEWORK

This Policy was developed in accordance with:

- Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement
- Law no. 31/1990 on trading companies
- Law no. 24/2017 on issuers of financial instruments and market operations
- Law no. 158/2020 amending Law no. 24/2017
- Law no. 126/2018 on markets in financial instruments
- The Corporate Governance Code of the Bucharest Stock Exchange (BVB)
- The Best Practice Guide on the Remuneration Policy and Report, drawn up by the Romanian Investor Relations Association (ARIR).
- The management contracts of directors, as approved by the General Meeting of Shareholders held on 18 October 2007
- The mandate contracts of the members of the executive management, as approved by the General Meeting of Shareholders held on 18 October 2007

## V. SCOPE

### V.1. Applicability of the law to ELECTROMAGNETICA SA

Under the law, the obligation to comply with the new provisions applies to the companies that have their registered office in Romania and the shares of which are admitted to trading on a regulated market.

ELECTROMAGNETICA SA is an entirely privately owned legal entity, listed at Bucharest Stock Exchange, category Premium, having its registered office in Bucharest, Sector 5, Calea Rahovei 266-268, Sole Registration Number (CUI) RO 414118, registered with the Trade Register under no. J40/19/1991.

ELECTROMAGNETICA SA is recognised as a traditional producer and supplier of equipment for the distribution and measurement of electric energy, LED lighting solutions, electrical and electronic subassemblies, metallic and plastic injection moulded subassemblies, tools and moulds, automotive subassemblies, railway traffic safety systems. At the same time, it is oriented to the production of green energy and the development of energy efficiency increasing technologies.

Therefore, as ELECTROMAGNETICA SA is listed under the Premium Category at B.V.B., it is subject to these legal provisions.



## V.2. Applicability of these provisions to the subsidiaries PROCETEL SA, ELECTROMAGNETICA PREST SERV SRL and ELECTROMAGNETICA FIRE SRL

In accordance with the *Best Practice Guide on the Remuneration Policy and Report*, drawn up by the *Romanian Investor Relations Association (ARIR)*, the implementation of a remuneration policy **must be consistent at Group level**. This is necessary for the promotion of corporate governance principles, as well as due to the fact that investors may thus rely on comparable data regarding remuneration. It is relevant that ELECTROMAGNETICA SA, as a company listed at the B.V.B., **has the obligation to indicate in the Annual Remuneration Report the remuneration received by leaders, including those received from the entities within the Group**, i.e., the subsidiaries PROCETEL SA, ELECTROMAGNETICA PREST SERV SRL and ELECTROMAGNETICA FIRE SRL, as defined in Article 3(1)(25) of Law no. 126/2018 - *on markets in financial instruments*.

## V.3. Directors subject to the Remuneration Policy

The Remuneration Policy that is subject to the vote of shareholders in the General Meeting refers to Leaders (the persons with decision making powers defined below).

In conjunction with the provisions of Law no. 31/1990, republished, as amended and supplemented, in the case of a one-tier management system (as is the case of ELECTROMAGNETICA SA), the Leaders envisaged by the Remuneration Policy are:

### a) the members of the Board of Directors

The Board of Directors is composed of *seven directors*, temporary and revocable, elected by the General Meeting of Shareholders, the majority of the members of the Board of Directors being non-executive directors. They are elected for a period of 4 years, their current term of office ending on 18 October 2023.

### b) the managing directors

The managing directors of the company are those directors to whom the Board of Directors has delegated the management (within the meaning of Article 43\*) of Law no. 31/1990, republished, as amended and supplemented.

In the case of ELECTROMAGNETICA SA, the General Meeting of Shareholders has delegated the management to:

- *four directors* to whom the Board of Directors has delegated a part of its powers, the chairperson of the Board of Directors being also the General Director, under the mandate contracts which establish the duties

and the remuneration (during the performance of mandates, the individual employment contracts of the directors appointed from among the employees are suspended).

### c) the members of the Audit Committee

The Audit Committee of the Board of Directors of ELECTROMAGNETICA SA was set up on 7 March 2018 under the Decision of the Board of Directors approved by the General Meeting of Shareholders held on 25 April 2018. The Audit Committee operates under the Regulation of the Audit Committee, approved by the Board of Directors on 10 August 2018. The Audit Committee is a standing committee with an advisory role, which assists the Board of Directors in performing its duties.

The Audit Committee is composed of:

- one chairperson, who is a non-executive member of the Board of Directors, financial auditor.
- one non-executive member of the Board of Directors
- one non-executive independent member, financial auditor, approved by the General Meeting of Shareholders held on 22 April 2018.

The members of the Audit Committee have been appointed taking into account their knowledge of the industry in which ELECTROMAGNETICA SA operates and their experience in accounting, auditing or risk management matters.

## VI. PRINCIPLES OF THE REMUNERATION POLICY

ELECTROMAGNETICA SA wishes to ensure a competitive level of remuneration that would enable the company to attract, retain and motivate persons with outstanding professional training and significant managerial experience to be members of the company's management.

The remuneration policy of Board members and managing directors aims to motivate them to channel their efforts and use their expertise and experience for the success of ELECTROMAGNETICA SA and the development of the company's business on the medium and long term. The remuneration policy is consistent with the business strategy, objectives, values and interests of ELECTROMAGNETICA SA, as well as the interests of shareholders and investors, and includes measures aimed at avoiding conflicts of interest.

The remuneration is determined separately for the members of the Board of Directors, for the executive management (the General Director and the Deputy Directors), and for the members of the Audit Committee, respectively.

The remuneration system is composed of a *fixed component*, a *variable component*, and a *variable long-term component*, as well as of *other forms of remuneration - non-financial benefits*.

The principles of the Remuneration Policy rely on:

- the need to ensure sustainability and profits and to generate value on the medium and long term
- the need to promote competitiveness and to reward the achievement of objectives
- the need to align remuneration with the principles of good governance
- the need to promote transparency as regards the remuneration and the criteria used to determine the remuneration
- the need ensure a balance between the fixed allowance and the variable component of remuneration

When determining the fixed allowance, the conditions in the labour market, as well as the size and the specific nature of the activities conducted by ELECTROMAGNETICA SA, have been taken into account. Whereas the fixed allowance was set below the market level for a company with the size and business complexity of ELECTROMAGNETICA SA (turnover and number of employees), in order to minimize the negative effects of a low level of the fixed component, the variable component was structured into two sub-components, namely:

- the half-yearly component, aimed at repositioning salaries at a competitive level in the market, but also in relation to the salary scale applicable to the company's staff; it is granted on a semi-annual basis, depending on the degree of achievement of certain operational financial indicators;
- the annual component, depending on the level of achievement of profit and turnover, by applying the principle of stimulating financial performance as to results; if no profit is obtained, the annual component is not granted; for this component, the performance indicators are approved by the General Meeting of Shareholders.

This document containing the remuneration policy is approved by the General Meeting of Shareholders and, after approval, will become public and will be available on the website of ELECTROMAGNETICA SA.

The Legal Department supports and advises the management of ELECTROMAGNETICA SA in the implementation of the Remuneration Policy and monitors compliance with the laws and regulations in force.



## VII. PERFORMANCE CRITERIA AND METHODS USED TO DETERMINE THE EXTENT OF THEIR FULFILMENT

The performance criteria used to determine the amount of the variable component are established under the Revenue and Expenditure Budget and consist of:

- turnover
- gross profit

The achievement of performance criteria is certified on the basis of half-yearly (at 30 June) and annual financial results. For any half-yearly and yearly failure to meet the indicators, namely the turnover and the gross profit, penalties of 0.5% are applied for each percentage point of non-achievement of the indicators in question. This penalty may not exceed 20% of the gross monthly remuneration and the total annual penalty may not exceed 20% of the gross annual remuneration.

## VIII. REMUNERATION OF DIRECTORS AND MEMBERS OF THE EXECUTIVE MANAGEMENT OF ELECTROMAGNETICA S.A.

### VIII.1. Directors' Remuneration

Directors are remunerated under the management contract and receive a remuneration consisting of a fixed monthly allowance and a variable component, as well as from other forms of remuneration.

The fixed allowance is determined before the start date of the term of office of the entire Board of Directors, for the activity conducted according to the main scope of business registered by the company, and is reviewed annually by the Ordinary General Meeting of Shareholders.

ELECTROMAGNETICA SA undertakes to pay to a director a fixed remuneration approved by the General Meeting of Shareholders annually for the management services provided by the director in the previous month. The remuneration of directors is subject to the tax regime set by the legislation under the same conditions as salaries, being paid as a net amount after the deduction and direct payment by ELECTROMAGNETICA SA to the state budget of all statutory taxes, charges and contributions.

ELECTROMAGNETICA SA bears the costs of social security, pensions and other similar costs, including the cost of professional liability insurance.

The variable component consists of a bonus granted by ELECTROMAGNETICA SA to directors, in the amount of six gross monthly remunerations, in accordance with the specified criteria approved by the General Meeting of Shareholders for the performance by directors of their tasks and objectives, as laid down (turnover and gross profit); ELECTROMAGNETICA SA undertakes to grant to directors allowances, premiums and

rewards as specified in the articles of incorporation only after the proposal in this respect is submitted to and approved by the General Meeting of Shareholders every year.

Other forms of remuneration:

- payment to directors of transport and accommodation costs for business trips, in Romania or abroad, as well as of the per diem allowance under similar conditions to those offered to other employees;
- making available to directors the logistic means necessary for the current activity of managing the company's business under the best conditions (company car with driver, office, communication systems: notebook, mobile phone, e-mail address);
- payment to directors of the costs related to seminars/training courses organized in the country/abroad.

**Term of the management contract; conditions for the termination of management contracts**

A management contract is effective as of the date of acceptance of the mandate by the director and remains in effect for a period of 4 years.

A management contract may be terminated unilaterally by the director by a notice sent to ELECTROMAGNETICA SA at least 30 days before the termination date.

A management contract may be terminated unilaterally by the General Meeting of Shareholders under the conditions laid down by Law no. 31/1990.

A management contract is terminated by operation of law in the following cases:

- death of the director
- the director is declared incapable
- ELECTROMAGNETICA SA enters into insolvency and/or bankruptcy and/or liquidation proceedings and a judicial administrator/liquidator is appointed by the competent court
- there occurs a cause of incompatibility
- the shareholders of ELECTROMAGNETICA SA decide to bring legal action against the director for justified reasons

**VIII.2. Managing Directors' Remuneration**

Managing directors are remunerated under a mandate contract and receive a remuneration consisting of a fixed monthly allowance and a variable component, as well as other forms of remuneration.

Fixed allowance: ELECTROMAGNETICA SA undertakes to grant a mandatory a monthly remuneration that is renegotiated every year by the general director.

The remuneration of a mandatory is subject to the tax regime set by the legislation under the same conditions as salaries, being paid as a net amount after the deduction and direct payment by ELECTROMAGNETICA SA to the state budget of all statutory taxes, charges and contributions.

For any half-yearly and yearly failure to meet the indicators, namely the turnover and the gross profit set out in the Revenue and Expenditure Budget of ELECTROMAGNETICA SA, penalties of 0.5% are applied to the mandatory for each percentage point of non-achievement of the indicators in question. This penalty may not exceed 20% of the gross monthly remuneration and the total annual penalty may not exceed 20% of the gross annual remuneration.

Variable component: ELECTROMAGNETICA SA grants a mandatory, after the approval of the annual financial statements, for the performance of the obligations under the contract and for the achievement of the performance objectives and criteria, an annual award in the amount of up to 12 net monthly remunerations. Based on the financial results as at 30 June, a mandatory may also receive an award of up to three net monthly remunerations, to be regularized based on the financial statements approved by the General Meeting of Shareholders.

Long term variable component: ELECTROMAGNETICA SA grants to a mandatory, as prescribed by Law no. 31/1990 and subject to approval by the General Meeting of Shareholders, a number of shares determined annually by the General Meeting if the performance indicators (the turnover and the gross profit) set out in the Revenue and Expenditure Budget are met.

Other forms of remuneration:

- payment to mandatories of transport and accommodation costs for business trips, in Romania or abroad, as well as of the per diem allowance under similar conditions to those offered to other employees; the amount of the per diem allowance for business trips in Romania is RON 200/day, while for travelling abroad the per diem amount is EUR 100/day;
- making available to mandatories the logistic means necessary for the current activity of managing the company's business under the best conditions (company car with driver, office, communication systems: notebook, mobile phone, e-mail address);
- payment to mandatories of the costs related to seminars/training courses organized in the country/abroad;
- Mandatories are entitled to 35 working days of annual leave, paid by an allowance and a leave bonus, each of which is equal to the net monthly remuneration;
- Mandatories are entitled to sick leave under the same conditions as the staff of the company employed under individual employment contracts; in case of serious illness requiring costly medical intervention,

ELECTROMAGNETICA SA will grant a mandatory, once during his/her term of office, an amount of money to cover such costs.

### **Term of the mandate contract; conditions for the termination of mandate contracts**

A mandate contract is concluded for an indefinite duration and is effective as of the date of express acceptance of the mandate by the mandatory, in exchange for a remuneration.

A mandate contract is terminated in the following cases:

- both parties agree to terminate the contract;
- ELECTROMAGNETICA SA enters into insolvency and/or bankruptcy and/or liquidation proceedings and a judicial administrator/liquidator is appointed by the competent court;
- the death of the mandatory or an illness of the mandatory that no longer enables him/her to continue the performance of the contract;
- the mandatory is declared incapable;
- the mandatory assigns his/her rights and obligations under the mandate contract without the written agreement of ELECTROMAGNETICA SA;
- the legislation is amended in a way that renders the performance of the mandate impossible or illegal;
- the mandatory is revoked by decision of the Board of Directors, subject to a 30-day prior notice;
- the mandatory has become incompatible;
- the mandatory waives the mandate entrusted, subject to a 30-day prior notice.

Upon termination of the mandate contract at the initiative of the Board of Directors for reasons beyond the control of the parties or by the agreement of the parties, the mandatory is entitled to a compensation equal to 12 monthly net remunerations.

In the case of retirement for age limit or medical purposes, the mandatory will receive compensation equal to 12 monthly net remunerations.

### **VIII.3. Remuneration of the Audit Committee members**

Based on the approval of the Board of Directors and of the General Meeting of Shareholders, the members of the Audit Committee receive a meeting allowance in the amount of 25% of the monthly allowance of the Board of Directors (the remuneration of the members of the Audit Committee was approved at this level by the General Meeting of Shareholders held on 22 April 2019), which will be submitted annually to the General Meeting of Shareholders for approval.

## **IX. CONDITIONS TRIGGERING THE RECOVERY OF REMUNERATION BY THE MALUS AND/OR CLAW-BACK MECHANISM**

ELECTROMAGNETICA SA understands to exercise its right to recover the variable remuneration by the *malus* mechanism and to apply the *claw-back* pay back mechanism in particular where it can be proved that a Leader contributed to the event that created the need for recovery.

The variable remuneration may be recovered as follows:

- *malus*: applicable after the right to receive the variable remuneration is vested, but before its actual payment
- and/or
- *claw-back*: after the payment of the variable remuneration, subject to the applicable law.

## **X. MEASURES AIMED AT AVOIDING CONFLICTS OF INTERESTS**

The directors who are potentially involved in any conflict of interest must inform the Board and refrain from discussing the issues in question and from voting. Any transactions with the involved parties are concluded on non-preferential terms, are negotiated by members of the management who are not related to the involved parties and are reported to the ASF and the BVB, where appropriate. The external auditor must report and analyse any such transactions accordingly in his report. ELECTROMAGNETICA SA draws up and keeps up to date the list of persons presumed to have access to inside information. Annually, the directors and officers of the company and of the other related parties submit statements on honour regarding conflicts of interest and the non-performance of competitive activities.

As far as the directors are concerned, they have the obligation to use their experience, professional knowledge and working capacity exclusively for the benefit of ELECTROMAGNETICA SA. They are bound to observe the professional secrecy and the confidentiality of all the operations of the company, of the data and information relating to the past, present and future of the company (strategic plans) and regarding the significant shareholders of the company, which information, by its content, is likely to have adverse effects on their own reputation and interests or on those of ELECTROMAGNETICA SA; this obligations survives for two years after the termination of their contract. Confidential information includes, but is not limited to, aspects relating to financial statements or unpublished data regarding the budget, business, marketing plans, strategies, forecasts, research projects, contracts, customers, know-how, production costs, expenditure structure, etc.



At the same time, the members of the executive management may not engage in any activities for the benefit of competing companies, other companies with the same scope of business, or companies that have commercial relationships with ELECTROMAGNETICA SA.

During their term of office, they are required to keep confidential the data and information relating to the company's activity which are confidential or are designated as such by the General Meeting of Shareholders. This obligation survives for two years after the end of the mandate contract.

The members of the Audit Committee are required to keep confidential any data they become aware of by virtue of their activities, which are not public and the disclosure of which could harm the interests and reputation of ELECTROMAGNETICA SA.

## **XI. CONDITIONS FOR REVIEWING THE REMUNERATION POLICY**

Under the law, the Remuneration Policy is reviewed at least every 4 years, based on the shareholders' feedback. ELECTROMAGNETICA SA reserves the right to change the Remuneration Policy in the event of significant changes in the company's structure or financial and/or general operational performance, or of the sectors or industries in which it operates, which may require review at intervals under 4 years. In this case, each significant change in the Remuneration Policy will be submitted for approval to the General Meeting of Shareholders

**General Director**

*Eugen Scheuşan*

**Head of the Legal Department**

*Daniela CUCU*