

Letter of Expectations
in the recruitment process for the CEO of
Societatea Nationala de Gaze Naturale ROMGAZ SA

Preamble

This Letter of Expectations is prepared in accordance with the provisions of Government Emergency Ordinance No. 109/2011 on corporate governance of state-owned enterprises, as amended and approved by Law No. 111/2016, and the provisions of Government Decision No.722/2016.

Summary of the Strategy in the Field where Public Enterprise Operates

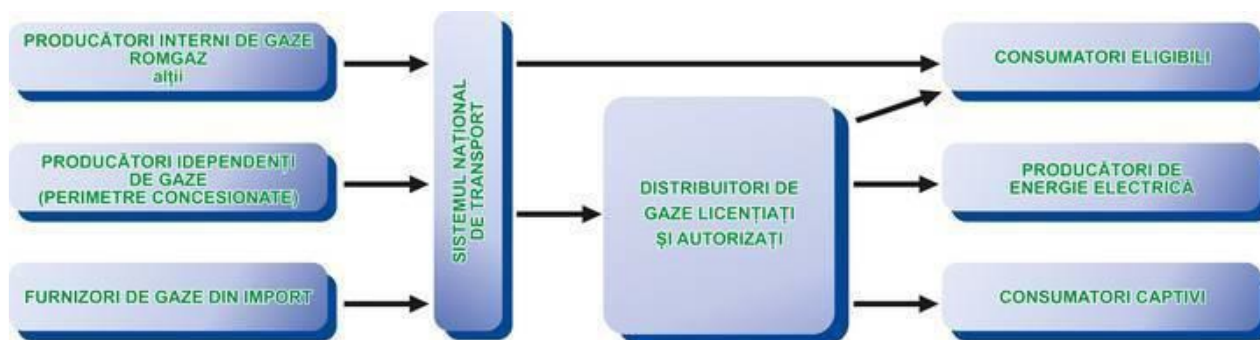
Societatea Nationala de Gaze Naturale ROMGAZ SA ("ROMGAZ" or "the Company") is a company of national interest, having as main activity:

- (1) exploration and production of natural gas;
- (2) supply of natural gas;
- (3) underground storage of natural gas;
- (4) generation and supply of electric power.

As of November 12, 2013, the company's shares are listed both on the regulated market, managed by Bucharest Stock Exchange and on the regulated market, managed by London Stock Exchange.

Romgaz undertakes geological research in order to discover new gas reserves, produces methane by exploiting the reservoirs included in the company's portfolio, stores natural gas in the underground storages, and performs interventions, workover and special operations on wells and technological transport.

In 2013, Romgaz extended its scope of work by taking over the *Iernut* thermoelectric power plant, thus also becoming an electric power producer and supplier.



The company is developing by implementing the latest technology in geological exploration, gas production and underground storage, financed from own or external sources. The company's economic and financial position is characterized by profit stability and solvency.

Main activities:

- Exploration of natural gas is performed in 8 blocks, located in Transylvania, Moldova, Muntenia and Oltenia;
 - o ROMGAZ is titleholder/co-titleholder in petroleum agreements for 148 commercial reservoirs in Romania, and holds exploration and production rights in Slovakia;
 - o 5 reservoirs are included in the category of experimental production;
 - o in 2017, ROMGAZ recorded a gas production of approximately 5.16 bcm and in 2016 it had a 42.5% market share for gas supplies from internal production and a 41.46% share among the natural gas producers;
- Underground storage – ROMGAZ holds and operates 6 underground storage facilities with a storage capacity of 2.92 bcm and a 91% market share in Romania.
 - o Revenue from natural gas storage increased by 46.44% in 2017, as compared to 2016, being estimated at RON 505.76 million.
 - o SNGN ROMGAZ SA separated the storage activity from its core activity in April 1, 2018 by transferring License no. 1942/2014 to a commercial company where SNGN ROMGAZ SA is sole shareholder.
- Electric Power Generation – CTE Iernut is an important junction point in the National Power Grid with a 600 MW installed power. The development of the Iernut Electric Power Plant, by constructing a new combined cycle gas turbine power plant, is a project commenced under Contract No. 13384/31.10.2016, and developed by ROMGAZ with DURO FELGUERA SA in partnership with ROMELECTRO.
 - o Based on the financing request submitted by ROMGAZ, pursuant to the provisions of GD No. 1096/2013, updated, the Ministry of Energy concluded with SNGN Romgaz SA the Financing Contract no. 4/2017 on financing the “Combined cycle gas turbine” investment from the National Investment Plan (from own incomes as regards management of the equivalent value of GGE certificates). The maximum value of the grant amounts to RON 320,912,359 (approx. EUR 70.4 million).
 - o In 2017, the revenues from electric power sales amounted to RON 464.17 million, higher by 38% as compared to 2016. In 2017, the electric power generation held a 2.95% market share.

Currently, the company has three gas production areas:

- o the Transylvanian Basin (a weight of approximately 90% in production);

- the Moesian Platform in Muntenia;
- the Moldavian Platform.

The company has 7 branches, as follows:

1. Medias Branch, with its registered office in Medias, No. 5 Garii Street, 551925, Sibiu county, territorially organised by 8 working units;
2. Targu Mures Branch, with its registered office in Targu Mures, No. 23 Salcamilor Street, 540202, Mures county, territorially organised by 8 working units;
3. Ploiesti Branch, with its registered office in Ploiesti, No. 184 G. Cantacuzino Street, 100492, Prahova county, territorially organised by 2 working units and 2 workshops;
4. Romgaz Branch for Well Workover, Recompletions and Special Well Operations (SIRCOSS), with its registered office in Medias, No. 5 Soseaua Sibiului Street, 551009, Sibiu county, territorially organised by 3 working units and 5 workshops;
5. Technological Transport and Maintenance Branch (STTM), with its registered office in Targu Mures, No. 6 Blajului Street, 540101, Mures county, territorially organised by 3 working units and 3 workshops;
6. Iernut Power Plant Branch (CTE Iernut), with its registered office in Iernut, No. 1 Energeticii Street, 545100, Mures county;
7. Bratislava Branch, with its registered office in Bratislava, City Business Center V. - Karadžičova 16, 82108, Slovakia

The company also has a subsidiary - "SNGN ROMGAZ SA - Filiala de Inmagazinare Gaze Naturale DEPOGAZ Ploiesti SRL", with its registered office in Ploiesti, No. 184 Cantacuzino Street, 100492, Prahova county.

General vision of the tutelary public authority regarding the mission and objectives of the public enterprise, drawn from the local strategy in the field of activity where the public enterprise operates

Romgaz Mission. Continuous enhancement of ROMGAZ performance, competitiveness and value, based on best use of human potential and owned assets, predictable and profitable business practices, as well as a rigorous risks management.

Gas production as strategic objective. Since its establishment, Romgaz mission was to produce and supply natural gas, thus contributing to the enhancement of Romania's energy independence and its economic performance, in accordance with the government energy policy.

Providing high quality services and products. Our managers and employees are aware of the customer relation importance and they act so that all the beneficiaries of the company's products and services enjoy a fair treatment to high quality standards. Romgaz is constantly concerned with quality improvement to enhance customer satisfaction and build partnership-type relations with the customers.

Generating financial advantage. Romgaz profit represents a vital part in the independence and future development of the company. It is mainly due to the vision on technology and value system the company's activity it guided on.

The company's strategic objectives and the expectations of Romgaz shareholders are referring to the following elements:

In order to accomplish its mission and to fulfil its vision, the company has set itself the following directions and strategic objectives:

1. Identification and implementing solutions for:

- the company's modernization and efficiency enhancement;
- optimization of the production capacities performance;
- enhancement of the current recovery rate by rehabilitation, development and modernization of the existing facilities;
- consolidating the position on the internal energy and ancillary services wholesale market;

2. Resources and reserves portfolio enhancement (discovery of new resources and improvement of recovery rates), namely:

- improvement of the recovery rate and development of the already discovered resources;
- extension of life and recovery rate of the already existent reservoirs;
- maintenance and development of new partnerships/associations;
- discovery of new resources in the existent blocks;
- carry on the exploration program (current licenses or new licenses);
- acquiring rights in new onshore blocks to explore and develop unconventional gas resources;

3. Identification of new development and diversification opportunities

- constant development of the onshore reservoirs in the pre-saliferous areas;
- exploration of unconventional resources potential in Romania;
- particular attention to be paid on deep water reservoirs (Black Sea);

4. Company performance enhancement

- optimization of the company's procedures and policies (monitoring and reporting);
- risk and control management;
- IT systems;

5. Optimization, development and diversification of the underground storage activity by reconsidering its importance, to ensure security, continuity and flexibility in gas supply

6. Efficiency enhancement of the underground gas storages in order to improve the capability of gas trading;

7. Arresting natural decline of gas production to maximum 1.5% year;

8. Consolidation of its position on the electricity supply market;

9. Optimization and improvement of the company organizational structure;

10. Elaboration of a foreseeable/predictable dividend policy of the Company for potential investors to have a clear picture of the financial structure of the Company;

11. Extension of the Company's scope of activity on a regional level by identifying some new business opportunities;

12. Implementation of corporate governance principles and the Ethics and Integrity Code;

13. Development of the reporting, control and risk management capabilities;

14. Responsible and active involvement in corporate social responsibility actions.

The Ministry of Energy as Tutelary Public Authority, ROMGAZ shareholders and the Board of Directors are aiming at:

- ✓ Increasing the portfolio of gas resources and reserves by discovering new resources and developing and improving the recovery rate of resources already discovered;
- ✓ Consolidating the position on energy supply markets;
- ✓ Optimizing, developing and diversifying the underground storage activity by reconsidering its importance in order to ensure security, continuity and flexibility of gas supply;
- ✓ Identifying some new opportunities of growth and diversification;
- ✓ Increasing the company's performance.

Moreover, during the future mandate, the Company's CEO has to undertake all necessary efforts and adopt those ways of actions to achieve the following objectives:

1. Increasing the portfolio of gas resources and reserves by discovering new resources and enhancing the reserve recovery rate

Exploration:

- Intensification of research-exploration works in the licensed blocks and acquire petroleum rights and obligation, including offshore;
- Intensive exploration of pre-saliferous and deep sea areas;
- Intensification of actions to obtain licenses in blocks outside Romania;
- Improvement of portfolio management by choosing the best options of investments;
- Implementation of project management to shorten time between resource discovery and start of production, with optimal results and in accordance with the allocated budget.

The result of the undertaken measures to achieve these directions will be the enhancement of reserve replacement rate and the optimization of costs related to resource discovery and development. Investments efforts in exploration will be focused on geological research drilling, 2D and 3D seismic survey, magneto telluric survey and surface geochemical tests.

Improvement of recovery rate and development of already discovered resources:

- Best use of the existing potential to maximize the volumes of recoverable gas and production and, implicitly, diminishing production decline.
- Development of rehabilitation projects and optimization of processes for ensuring production on a long term;
- Modernization of facilities and infrastructure in selected reservoirs and compressor stations on a continuous basis;
- Implementation of a SCADA system to increase security, protection and interoperability of surface installations and gas compressor stations;

Investments efforts in gas production will be focused on drilling of exploration wells, recompletion/reactivation of wells, construction of dehydration facilities, installing field

compressors and compressors at wellheads, modernization of compressor station, acquiring 3D seismic profiles, and implementation of SCADA system.

2. Optimization, development and diversification of UGS activity:

- Increasing the daily delivery capacity of gas from storages;
- Increasing the capacity of underground gas storage dependent on market demand;
- Increasing the flexibility in storage operation;
- Increasing the safety in exploration of storages;
- Enhancing the efficiency of the underground storage activity by maintaining the reservoir integrity.

3. Consolidation of the position on the energy supply markets

Natural gas:

- *Maintaining the current market share over the next 4 years;*
- *Resizing the customers' portfolio.*

Electric power:

- *Enhancing the activity efficiency by making investments to increase the power plant efficiency to at least 45%, while complying with the environmental requirements and increasing the safety in operation ;*
- *Increasing the market share;*
- *Offering energy on the Day Ahead Market and Balancing Market.*

4. Increasing the company's performance

Optimization of the company's procedures and policies (monitoring and reporting):

- Reasonable use of the company's financial resources by substantiation, monitoring and analysis of budget execution;
- Increasing the activity profitability by efficient use of material, human and financial resources;
- Optimization of the operating costs and maintaining their increase ratio below the increase ratio of operating revenues;
- Improving the procurement process of products, works and services by dynamic planning and prioritization in order to ensure the products and services necessary to carry out the current and investment activities in due time and in necessary quantities;
- Continuous enhancement of employees' professional education levels, and their motivation in order to improve the company's performance, and labor productivity as well;
- Obtaining economic success in an ethic manner by respecting the people, the community and environment in compliance with corporate social responsibility principles.

5. Risk management and control

As the most successful companies regard risk management as part of the decision making process, Romgaz intends to develop and implement throughout the company an efficient risk management system.

6. IT Systems:

- Increasing the performance and quality of IT services leading to an efficient use of information and human resources by:

- Consolidating and extending the implemented systems in order to obtain the functionalities to sustain the organization activities;
- Implementing the policies and measures necessary to ensure a safety and high available functioning of the informational systems;
- Integrating the existing information systems in order to optimize the information flow and obtaining different complete managerial instruments;
- Continuously improving and updating of policies and procedures related to cyber security;
- Fulfilling the assumed financial objectives by guaranteeing a minimum profit and repayment of loans.

Desiderata of the tutelary public authority, shareholders and Board of Directors related to communication with the governing and management bodies of public company

Communication between the governing bodies and the company's management shall be made in accordance with the provisions of the Government Emergency Ordinance 109/2011 on corporate governance of public companies, as subsequently amended and supplemented, the Government Ordinance no.722/2016 to approve the Methodological Norms on implementing certain provisions of the Government Emergency Ordinance no 109/2011 on corporate governance of public companies, and the provisions of the Articles of Incorporation of SNGN ROMGAZ SA.

Communication between the tutelary public authority, shareholders and the Company shall be made periodically, with a periodicity clearly defined in the Governing Plan and in the mandate contracts, aiming mainly at, but not limited to:

- Level of fulfilment of strategic and operational objectives;
- Evolution of performance indicators specified in the contract of delegation;
- Developments in capital expenditures;
- Developments in social indicators (social climate, rate of employee satisfaction, absenteeism, necessary personnel etc)

The Board of Directors of SNGN ROMGAZ SA expects the company to make all necessary arrangements to procure and implement, as soon as possible, an integrated information system, which is the sole guarantee of true and accurate information, which communication is based on.

Expectations regarding Quality and Safety of Products and Services provided by the Company

The functions of the quality management, bearing in mind the managerial process and the features of quality management are as follows:

- Planning (implementing customer requirements in features of offered products and services, as well as developing processes to ensure implementation of such features);
- Organization (identification of productive and support structures, allocation of required resources to each process);
- Coordination (in all processes, an adequate communication should be in place);
- Engagement by involving all employees of the company;
- Control (of supervision throughout the processes and result assessment);
- Ensuring (the preventive activity regarding correctness and effectiveness of planning, organizing, coordinating, driving and controlling with the aim of ensuring results at the intended level);
- Continuous improvement of quality.

Taking into account the complex activity, the Company may face risks arising from various areas and different domains:

- a) **Operational Risk** – closely correlated to the market position, investment identification and assessment, profits/losses generated by the Company's activity, potential fines, penalties, sanctions, defective setting and/or managing of contractual obligations;
- b) **Risk related to the economic environment** – special attention has to be paid in identifying and implementing investments in retrofitting, upgrading and/or development, in fulfilling the contracts with customers, flexibility and adapting to customer needs;
- c) **Credit Risk** – the Company's policies stipulate that sales should be made to low credit risk customers, to be guaranteed by advance payments or bank guarantee letters. The Company has a credit risk concentration, as regards its four biggest customers, amounting to a total of 70% in the receivables balance;
- d) **Environmental Risk** – entering into force of new regulations implying revision of environmental agreements and preparing new studies of adequate assessments and reports on project environmental impact; in protected areas there are risks related to potential transfer of water volumes from one hydrographic basin to another;
- e) **Administration Risk** – closely related to personnel qualification, its capacity to perform activities conducive to achieving the company's objectives. Management of this risk implies implementation of a modern management and an efficient management of the risk throughout the company activities/processes, closely correlated with the specific objectives.

From this point of view, the future CEO is expected to contribute to performance and competitiveness improvement, and enhancement of ROMGAZ importance by a better use of its assets and human potential, with predictable and profitable businesses.

Risk management should become an essential and indispensable component of each project, part in decision making and prioritization of actions/ investments.

Expectations in the Field of Ethics, Integrity and Corporate Governance

The duties of management in the field of ethics, integrity and corporate governance are those provided in the Romanian Company Law (Law. No 31/1990 regarding companies), the Articles of Incorporation, the Mandate (management) Contracts, and specific legislation applicable to the Company's scope of activity.

The Board's expectations regarding ethics, integrity and corporate governance are based on several values and principles that should govern the ethical and professional behavior of the future CEO.

1. **Managerial Ethics:** all managers shall comply with the Ethics and Integrity Code. Moreover, they shall make and implement decisions impacting the employees, based on the well-known principle of equal pay for equal work. Furthermore, the managers and members of the Board of Directors shall always act to the interests of the Company;
2. **Professionalism:** the managers, executive and non-executive members of the Board shall perform their duties with the utmost efficiency and effectiveness, at the level of required competence, while being informed of legal regulations. Managers and members of the Board shall continuously enhance, with all due diligence, their level of competence as well as that of the company's employees;
3. **Impartiality and Non-Discrimination:** principle according to which managers, executive and non-executive members of the Board shall have an objective and neutral attitude towards any political, economic, religious or any other interest in the performance of their duties; managers and members of the Board neither seek nor take, directly or indirectly, any moral or material advantage or benefit, and shall not abuse of power;
4. **Freedom of Thought and Speech:** a principle according to which the manager and the members of the Board may express and substantiate their opinions by complying with the legal order and principles of morality;

5. **Honesty, Honor and Correctness:** principle according to which the CEO, in the performance of his/her duties, shall comply with the legislation in force;
6. **Openness and Transparency:** principle according to which the activities of managers and members of the Board, in the performance of their duties, are publicly available and may be monitored by the public;
7. **Confidentiality:** principle according to which the manager/ member of the Board shall ensure the confidentiality of information in his/her possession.

In accordance with the principles of the Government Emergency Ordinance No. 109/2011 on corporate governance of public enterprises, republished, as subsequently amended and supplemented, the activity of governing bodies shall be transparently and accessible, and shall guarantee a good communication.

The Internal Control is a process where all Company's employees participate in, including the members of the Board, and it provides a reasonable assurance that the following objectives will be achieved:

- a) Activities to be performed efficiently and cost-effectively;
- b) Appropriate control of risks that may adversely affect the achievement of the company's objectives;
- c) Providing correct, relevant, full and opportune information to the decision-making structures of companies, and external users of such information;
- d) Patrimony protection;
- e) Compliance of the Company's activities with legal regulations in force, and the Company's policies and procedures;

To achieve these objectives, the Company prepares and periodically reviews the Internal Control Policy to ensure it meets the Company's requirements and development.

Hence, the Company will have a proper internal control system for the risk management process, including independent and regular analysis, assessments of the system efficiency, and, where the case may be, it ensures remedies of identified deficiencies. The results of such analysis are directly communicated to the Board of Directors and specialized committees.

To ensure the culture of ethics and conformity, the executive management shall ensure that the following requirements will be met on a permanent basis:

- maintaining professional competence and knowledge as well as a good reputation and integrity during the entire period holding the respective position;
- ensuring corporate governance requirements: transparent organizational structure, adequate allocation and proper separation of responsibilities;
- proper risk management, adequacy of policies and strategies, as well as mechanisms of internal control, ensuring an efficient system of communication and transmission of information, implementing sound operational procedures to prevent disclosure of confidential information;
- knowledge, compliance and implementation in a professional manner of legislation and the Company's strategy and policies.