

## LETTER OF EXPECTATIONS

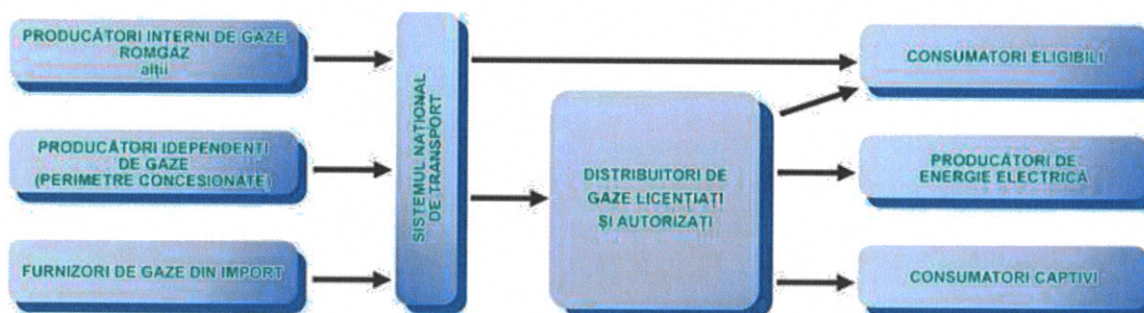
in the recruitment process for the members of the Board of Directors of  
**Societatea Nationala de Gaze Naturale ROMGAZ SA**

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.

The turnover (preliminary results) for 2017 was of RON 4,585,189 thousand and the estimated net profit was of RON 1,868,314 thousand.

### Main activities:

- **Exploration of natural gas** is performed in 9 onshore exploration blocks (approximate 17,650 km<sup>2</sup> located in Transylvania, Moldova, Muntenia and Oltenia basins, with a 100% participating interest and an offshore association in Black Sea (with Lukoil and Pan Atlantic);
- ROMGAZ is titleholder or co-titleholder, in petroleum agreements for 148 commercial reservoirs in Romania; the company is co-titleholder with foreign partners in many blocks both in the country and outside the country, such as:
  - (i) Onshore: Brodina and Bacau Nord Blocks (Romania): Raffles Energy SRL, Romgaz (50%); The Slovakian Svidnik-Medzilaborce-Snina Blocks, where

Romgaz holds a participating interest of 25%, along with the Operator Alpine Oil & Gas plc, having a 50% participating interest and JKX Oil&Gas plc, 25%, as non-operator;

- (ii) Offshore: EX Trident Blocks, the deep -water area of the Black Sea, where Romgaz is a part of a Joint Venture, as non- operator, with a 10% participating interest, along with Lukoil Overseas Atash VB (72%) and PanAtlantic (18%).
- 5 reservoirs are included in the category of experimental production;
- in 2017, ROMGAZ recorded a gas production of 5.158 bcm ( with 939 bcm higher than in 2016) 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;
  - In 2017 the quantities of gas sold to third parties (own gas, including associations) increased by 32% as compared to the previous year due to a favourable increase of market demand. The related revenues increased by RON 3.5 billion (+32%).
- **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. Revenue from natural gas storage increased by 46.44% in 2017, as compared to 2016, being estimated at RON 505.76 million.
- **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.  
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).  
In 2017, 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:

- 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:**

- **Medias Branch**, with its registered office in Medias, No. 5 Garii Street, 551925, Sibiu county, territorially organised by 8 working units;
- **Targu Mures Branch**, with its registered office in Targu Mures, No. 23 Salcamilor Street, 540202, Mures county, territorially organised by 8 working units;
- **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;
- **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;
- **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;

- **Iernut Power Plant Branch (CTE Iernut)**, with its registered office in Iernut, No. 1 Energeticii Street, 545100, Mures county;
- **Bratislava Branch**, with its registered office in Bratislava, City Business Center V. - Karadžičova 16, 82108, Slovakia

**Romgaz holds participating interest in a number of companies, as follows:**

- DEPOMURES SA-ROMGAZ 40%; services activities connected to gross petroleum and gas extraction, including prospecting services;
- AGRI LNG Project Company SRL- ROMGAZ (50%); consultancy services for business and management;
- Societatea ELECTROCENTRALE Bucuresti SA, in insolvency –ROMGAZ: 2.49%; electricity and thermal energy production.

**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 subsequently amended and supplemented by Law no. 111/2016 and Methodological Norms of GEO no.109/2011, as subsequently amended and supplemented approved by Government Decision no. 722/2016 and represents the challenges of the tutelary public authority, majority shareholder of SNGN ROMGAZ SA, namely Ministry of Energy, for the Company's evolution in the next 4 years.**

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**General vision of the tutelary public authority and shareholders regarding the mission and objectives of the company**

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The Ministry of Energy as *Tutelary Public Authority*, ROMGAZ shareholders 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 and gas supply markets by reconsidering the regional commercial policy, inclusive
- Optimizing, developing and diversifying the underground storage activity by reconsidering its importance in order to ensure security, continuity and flexibility of gas supply;
- Increasing the daily flow rate by investments to reduce the dependence of daily flow rate from the reservoir pressure.
- Exploring/Identifying possibilities of installing some underground gas storages in salty caverns
- Identifying some new opportunities of growth and diversification of the company's activities, both internally and regionally;
- Increasing the company's performance.

**The expectations of Romgaz shareholders are referring to the following elements:**

**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. Increasing the daily flow rate by investments in order to reduce the dependence of the daily flow rate from the reservoir pressure.**
- 8. Arresting natural decline of gas production to maximum 1.5% year;**
- 9. Consolidation of its position on the electricity supply market;**
- 10. Optimization and improvement of the company organizational structure;**
- 11. 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;**
- 12. Extension of the Company's scope of activity on a regional level by identifying some new business opportunities;**
- 13. Implementation of corporate governance principles and the Ethics and Integrity Code;**
- 14. Development of the reporting, control and risk management capabilities;**
- 15. Responsible and active involvement in corporate social responsibility actions.**

**The evaluation of tutelary public authority and shareholders with regard to risks to which the company is exposed and the necessary actions in order to reduce the risks and achieve the objectives**

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 Board of Directors 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.