

No. 12211/April 4, 2019

## REPORT

### Related to the proposal for approval of the financial and non-financial key indicators, as resulted from S.N.G.N. ROMGAZ S.A. Governance Plan

S.N.G.N. Romgaz S.A. *Governance Plan* for 2018 – 2022 (Governance Plan), prepared by the company's directors and managers encompasses the company's strategic objectives as established in the Expectations Letter issued by the company's shareholders during the directors selection process, the actions and measures to be carried out in order to reach the goals, the necessary resources, as well as the performance measurement during the mandate.

The strategic objectives and actions that will be taken by the company's directors and executives during the mandate are oriented towards performance and competitiveness enhancement and increasing Romgaz worth by valuing the best possible the assets held by the company and the human resources through profitable and predictable business.

Strategic objectives established by the company's shareholders:

- ☞ *Increasing the natural gas resources and reserves portfolio* by discovering new resources and enhancing the already discovered resources recovery;
- ☞ *Consolidating the position on the natural gas and electricity markets* by reconsidering the trading policy, including on regional level;
- ☞ *Optimizing, developing and diversifying the underground storage activity* by reconsidering its importance for ensuring the safety, continuity and flexibility of the natural gas supply;
- ☞ *Increasing the daily extraction capacity* through investments that diminish the dependency of the daily extraction capacity on the reservoir pressure;
- ☞ *Exploring/identifying the possibilities to build some new natural gas underground storages in salt caverns*;
- ☞ *Identifying new development opportunities and diversifying the company's activity*, internally as well as internationally;
- ☞ *Increasing the company's performances*.

Some of the measures and actions to be carried out by the company's management in order to reach its goals:

*Objective: increasing the natural gas resources and reserves portfolio*

*Measures and actions:*

✍ Measures related to production:

- Commercialisation of the existing proven reserves:
  - Maintaining wells productivity at maximum levels;
  - Natural gas collecting, metering and treatment infrastructure maintenance works;
  - Optimizing the production capacity usage rate;
  - Carrying out the investments provided in the Production Projects;
  - Expanding the economic life span;

- Using technological progress for increasing production;
  - Reducing costs by re-using the infrastructure, increasing compressor equipment efficiency, monitoring wells parameters in order to be able to take proactive action in case of malfunctioning;
- Promoting probable and possible reserves:
  - Speeding up the commercialization period for inferior reserves;
  - Using complementary means to increase the reserves economic viability;
- Identifying additional reserves:
  - Optimizing production from existing wells by renewing them or reactivating the production at inactive wells;
  - Maximizing incomes from production by optimizing the hydrocarbons flow rate;
  - increasing economically recoverable reserves;
- ✍ measures in exploration activity:
  - promoting contingent reserves:
    - production of gas volumes that can be produced after the expiration of the concessions validity period (31 December 2042) before this date;
    - performing construction works for the production, collecting, treatment and metering infrastructure of the known discoveries;
    - decreasing the necessary period for evaluating-developing the new discoveries and for construction of the infrastructure related to production;
  - verifying the identified prospects:
    - prioritizing drilling works and verifying the hydrocarbons content of the most promising accumulations from within Romgaz major exploration projects within the eight exploration-development-production blocks leased in Romania;
    - shortening the necessary period of time for obtaining licenses and permits;
    - using standard drilling projects (by levels of depth);
    - using drilling facilities for testing very high depth wells;
  - identifying new leads and prospects:
    - advancing the geological modelling process;
    - ensuring full interpretation of the acquired seismic data;
    - carrying out specific geological – technical studies and risk analyses;
  - purchasing new exploration blocks:
    - expanding the leased blocks by requesting to lease additional areas in free blocks;
    - purchasing shares within already leased blocks through farm - in;
    - leasing exploration blocks in areas with potential outside Romania;
- ✍ actions in the production activity:
  - well work overs at about 150 wells/year;
  - annual maintenance for treatment and compression equipment;
  - completion of the well monitoring/metering program;
  - rehabilitation of the natural gas collecting infrastructure;
  - expanding the production rehabilitation program to the main reservoirs;
- ✍ actions in the exploration activity – promoting contingent resources:
  - developing Caragele Est reservoir;
  - evaluating and developing Salcii, Fulga, Hodoș, Nadeș Vest (Prod-Seleuș), Frasin-Gura Humorului-Albian, Berbiceni, Țapu, Caragele Deep (Mesozoic high depth production unit), Herepea, Buza Nord and Vaida discoveries;
  - evaluating and developing Fulga discovery;
  - evaluating and developing Hodoș discovery;
- ✍ Enhancing the recovery and development of the already discovered resources – investments will be focused on drilling exploration wells, upgrading/reactivating wells, building dehydration stations, field compressors, well head compressors/booster compressors, surface facilities, upgrading compressor stations and 3D seismic profiles and implementing SCADA system;
- ✍ maintaining and developing new partnerships/associations;

**Objective:** Optimizing, developing and diversifying the underground storage activity. Increasing storage efficiency.

**Measures and actions:**

- ✍ investments in upgrading storages in order to increase daily gas delivery capacity;

- ✍ elaborating analyses and studies related to the increase of the storage capacity according to the requirements of the market;
- ✍ investments in upgrading the storages in order to increase gas storages flexibility and safety;
- ✍ evaluating the opportunities of turning a single injection – extraction cycle storage operation into a multi-cycle operation;
- ✍ Evaluating possibilities to build a storage in salt caverns.

### *Objectives: Consolidating the position on energy supply markets*

#### *Measures and actions:*

##### *Natural gas*

- ✍ elaborating a marketing strategy in order to maximise the turnover related to the supply of natural gas as well as electricity;
- ✍ reconfiguring the clients portfolio which involves the following steps:
  - Substantiation study (risk analysis, economic analysis, market analysis);
  - Company trading development (structure, IT systems, forecast systems, other infrastructure and personnel elements);
  - Operating in less risky market sectors (industrial clients with constant consumption and low payment risk);

##### *Electricity*

- ✍ increasing efficiency by investing in increasing CGTG Iernut power plant efficiency at a minimum level of 55%, complying with environment requirements and increasing operational security;
- ✍ Energy offering on the Day Ahead Market and Balancing Market;
- ✍ Consolidating our position on the wholesale internal market and the ancillary services market through:
  - Developing electricity production capacities:
    - Entering the electricity market (wholesale and ancillary services) with 430 MW installed power of the Combined Cycle steam-gas Power plant from Iernut;
    - Carrying out a feasibility study (deadline 31.08.2019) regarding „Building a new power plant with combined cycle 400-500 MW approx. installed power at Mintia, thus taking advantage of the strategic position of the power plant and of the Connection Station Mintia, Hunedoara county within the National Energy System ”
    - Setting up a working group within Romgaz, responsible for carrying out an Opportunity Report in order to invest together with SC Termoficareea Oradea SA in a high efficiency co-generation unit;
  - Being present on all internal and external energy markets;
  - Offering energy for export;
  - Actively participating at ancillary services bids.

### *Objective: Increasing company performances*

#### *Measures and actions:*

- ✍ Carrying out a professional opportunity study by a third party regarding the set-up of a new supply subsidiary;
- ✍ Trading development by entering new markets ensuring new products and services;

##### *Natural gas*

- Developing alternative fuels market (compressed natural gas and compressed natural gas for vehicles GNCV);
- Synthetic gas production (the base for liquid chemical products)

##### *Electricity*

- Wind and photovoltaic power;
- ✍ Company diagnose analysis;
- ✍ Enhancing the company image;
- ✍ Enhancing human resources management;
- ✍ Optimizing and enhancing the organizational structure of the company;
- ✍ Elements regarding the optimization and enhancement of the Economical Department (implementing the controlling function, enhancing the month-end process, setting up a new division

- Accounting Division), reorganizing preventive financial control, applying the digitalization strategy at Department level, optimizing the cost of capital structure);
- ✍ Revising the dividends policy ;
- ✍ Applying the corporate governance principles and an Ethics and Integrity Code;
- ✍ Active and responsible corporate social responsibility;
- ✍ Optimizing risk and control management and developing the audit function.

#### *Other measures for optimizing the company's activity*

- ✍ Elaborating a Development Strategy for a period of at least 10 years that will ensure the sustainable development of Romgaz;
- ✍ Elaborating a Strategy for implementing an advanced assets management (ISO 55.000:2017);
- ✍ Elaborating an Exploration Strategy that will ensure the enhancement of the Romgaz reserves replacement ratio;
- ✍ Elaborating an Upgrade and Optimizing Program for the surface facilities;
- ✍ Elaborating an Optimizing Strategy of the production capacities functionality and enhancing the present recovery rate;
- ✍ Elaborating a Digitalization Strategy;
- ✍ Re - analysing the natural gas underground storage activity separation model which will include the detailed analysis of the asset transfer option used for the storage activity;
- ✍ Analysing the opportunity to establish a natural gas trading subsidiary;
- ✍ Elaborating one or more feasibility studies by a third party, necessary for developing electricity production based on natural gas, in order to consolidate the company's position on the electricity market;
- ✍ Elaborating a Strategy for efficiently implementing the project management necessary for shortening the time between resources/reserves discovery and starting production of the reserves with optimal results and complying with the allocated budgets;
- ✍ Elaborating a good practices framework in order to enter into strategic alliances and identifying candidate projects for entering into strategic alliances;
- ✍ Ensuring an efficient frame for realizing the nonfinancial reports including setting up within Romgaz a Communication and Sustainability Department;
- ✍ Negotiating the Collective Labour Agreement in order to ensure the implementation of distinctive wage grids in the main activities, natural gas exploration, natural gas and electricity production, well recompletion and special workovers, technological transportation and tourist services respectively and afterwards, within this activities, ranking the salaries according to the job description so that the payment conditions within a field of activity can be stimulated independently from the wage conditions from other activity fields of Romgaz ( such an approach will ensure the premises for valuable employee retention and attracting new valuable employees);
- ✍ Elaborating an Efficiency Strategy for the subsidiaries activities;
- ✍ Re-evaluating and, as the case may be, re-designing the internal management control and risk management control in order to ensure the compliance of the two systems with the new internal management control standards(General Secretariat of the Government Order no.600/2018);
- ✍ Including each Romgaz project/asset within a Romgaz portfolio of projects/assets and using Portfolio Management for an efficient strategic growth.

#### *Financial and non-financial performance indicators*

The performance concept is perceived differently by the company's partners, depending on their interests: managers are focused on the global performance of their company; current and potential investors are interested in the profitability of their investment; employees are interested in the company's stability and profitability; creditors in the company's solvency; clients in the company's stability. Therefore, performance can be measured differently depending on the users' objectives<sup>1</sup>.

Among the various definitions for performance, one can pick out the definition in terms of accomplishment of strategic objectives, namely: *“Performance isn't good or bad by itself. The same*

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<sup>1</sup> Stefanescu, A. – Financial performance of a company between reality and creativity, Editura Economica, Bucharest, 2005

result can be considered a good performance if the objective is a modest or bad performance, if the objective is ambitious. So, performance represents the degree of accomplishing objectives”<sup>2</sup>

The concept of performance refers to a judgement of the result and of the manner of achieving it, taking into account the accomplishment conditions. Measuring the performance has to go beyond a simple finding, having also the objective of taking decisions for improving the performance conditions.

Starting from what Kelvin said, namely: “*What you cannot measure, does not exist*”, the performance of a company has to be measured by a set of measures and indicators, with a high or less high complexity degree.

The table below shows the key financial and non-financial performance indicators that will be used for calculating the annual variable component of the remuneration:

Item no.	Key performance indicators (KPI)	Objective
<b>Financial KPI</b>		
1.	Revenue	Achieving the target committed in the Governance Plan (Annex 1)
2.	EBITDA margin	Achieving the target committed in the Governance Plan (Annex 1)
3.	Operating expenses related to RON 1000 operating income	Maintaining at the level committed in the Governance Plan (Annex 1)
4.	Labour productivity (in value units per total average number of employees in current prices)	Achieving the target committed in the Governance Plan (Annex 1)
5.	Total assets ratio	Achieving the target committed in the Governance Plan (Annex 1)
<b>Operational KPI</b>		
6.	Achievement of the investment program	≥ 75%
7.	Reserves replacement ratio	≥ 45%
8.	Labour productivity (in physical units per total average number of employees)	Achieving the target committed in the Governance Plan (Annex 1)
9.	Natural gas production decline	Maintaining an annual decline of 1.5%
<b>KPI related to public services</b>		
10.	Natural gas quality	Minimum 95% of the gas quantity delivered in the NTS complies with quality requirements
11.	Fulfilling the gas supply obligations from the sales contracts	100% of the firm contracted quantity
<b>KPI related to corporate governance</b>		
12.	Timely report the company’s performance indicators	Comply with the legal reporting terms
13.	Yearly review of the Code of Ethics	Elaboration, approval and publication on the company’s website of the Code of Ethics revised, by June 30
14.	Setting the risk management policy and risk monitoring policy	Implement the provisions of Standard 8 of GSG Order no.600/2018
15.	Implementing the internal management control system	Annually implement minimum 14 internal control standards provided by GSG Order no. 600/2018
16.	Request to review the company’s performance indicators	Request to review the performance indicators within maximum 60 days from the revision requirement

## Financial KPI

**Note: the items below refer strictly to SNGN Romgaz SA, not to Romgaz Group.**

### 1. Revenue ( $I_{CA}$ )

<sup>2</sup> A.Burland, J.Y.Eglen, P.Mykita.

Revenue expresses the total income from current commercial activities, being one of the most important indicators for measuring the economic performance of a company. Revenue is considered to be the fundamental indicator for the volume of activities of the economic agent, being obviously included in all systems of indicators used to perform the economic diagnose and evaluation of a company and in all management efficiency assessments.

A series of conclusions can be drawn based on this indicator, related to:

- company's place and role (patrimony) in the activity sector;
- company's market position;
- company's capacity to launch and develop profitable activities;
- company's capacity to self-finance;
- performance of the trading and marketing department.

Description:

☞ Objective: achieving the target committed under the Governance Plan (Annex 1);

☞ Calculation method:  $I_{CA_n} = \frac{CA_n}{CA_{PA_n}}$ ,

Where:

$CA_n$  - revenue achieved in year "n", RON million;

$CA_{PA_n}$  - revenue included in the Governance Plan for year "n", RON million;

☞ Source of information:

- o  $CA_n$  - Annual individual financial statements from the Board of Director's Report;
- o  $CA_{PA_n}$  - Annex 1 to the Governance Plan.

## 2. EBITDA Margin - mEBITDA ( $I_{mEBITDA}$ )

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) represent a measure of a company's operational performance. In essence, it is a method to evaluate the performance of a company without the need to take into consideration the financing and accounting decisions or the fiscal framework.

Description:

☞ Objective: achieving the target committed under the Governance Plan (Annex 1);

☞ Formula:

o EBITDA = gross profit + interest expense + amortisation and depreciation expense;

o  $mEBITDA = \frac{EBITDA}{CA} \times 100$ ;

☞ Calculation method:  $I_{mEBITDA_n} = \frac{mEBITDA_n}{40}$  [\*] – for 2018 is 40],

Where:

$mEBITDA_n$  - mEBITDA achieved in year "n", %;

☞ Source of information:

- o  $EBITDA_n$  and  $CA_n$  – Board of Director's Report.

## 3. Operating expenses related to RON 1000 operating income ( $I_{CE/VE}$ )

To assess the efficiency of expenses we propose to use the indicator "operating expenses related to RON 1000 operating income", also called *operating expenses efficiency ratio*.

Description:

☞ Objective: maintain at the level provided in the Governance Plan (Annex 1);

☞ Formula:  $CE/VE = (\text{Operating expenses}) : (\text{Operating income})$ ;

☞ Calculation method:  $I_{CE/VE_n} = \frac{CE/VE_n}{CE/VE_{PA_n}}$ ,

Where:

$CE/VE_n$  - operating expenses related to RON 1000 operating income achieved in “n”, RON;  
 $CE/VE_{PA_n}$  - operating expenses related to RON 1000 operating income included in the Governance Plan for year “n”, RON;

☞ Source of information:

- o  $CE/VE_n$  - Board of Director’s Report;
- o  $CE/VE_{PA_n}$  - Annex 1 to the Governance Plan.

#### **4. Labour productivity in physical units ( $I_w$ )**

Labour productivity is one of the most important synthetic indicator of a company’s economic efficiency, reflecting the labour efficiency used in the production process. Increasing labour productivity is the most important factor for enhancing the production volume, for reducing production costs and for increasing product profitability and competitiveness.

Description:

☞ Objective: achieving the target committed in the Governance Plan (Annex 1);

☞ Formula:  $W = (\text{revenue}) : (\text{average number of employees})$ ;

☞ Calculation method:  $I_{W_n} = \frac{W_n}{W_{PA_n}}$ ,

Where:

$W_n$  - labour productivity achieved in year “n”, thousand RON/employee;

$W_{PA_n}$  - labour productivity provided in the Governance Plan for year “n”, RON thousand/employee;

☞ Source of information:

- o  $W_n$  - revenue and average number of employees from the Board of Directors’ Report;
- o  $W_{PA_n}$  - Annex 1 to the Governance Plan.

#### **5. Total assets ratio ( $I_{PR}$ )**

The return on assets is one of the main profitability indicators of a company and it measures the efficiency of assets use, from the point of view of the earned profit and it indicates how much profit one RON can generate, which is invested in assets. The practice suggests that an optimum reference range for a company is highlighted by the average of developed countries: 3% - 9%.

Description:

☞ Objective: achieving the target committed in the Governance Plan (Annex 1);

☞ Formula:  $ROA = (\text{net profit}) : (\text{total assets}) \times 100$ ;

☞ Calculation method:  $I_{ROA_n} = \frac{ROA_n}{ROA_{PA_n}}$

Where:

$ROA_n$  - total assets ratio achieved in year “n”, %;

$ROA_{PA_n}$  - total assets ratio included in the Governance Plan for year “n”, %;

☞ Source of information:

- o  $ROA_n$  - Net Profit and Total Assets from the Board of Directors’ Report;
- o  $ROA_{PA_n}$  - Annex 1 to the Governance Plan.

### **Operational KPI**

#### **6. Achievement of investment programs ( $I_{INV}$ )**

According to art. 29 para (11) of GEO no.109/2011, the addendum to the contract of mandate that includes the variable remuneration, the financial and non-financial performance objectives and indicators, “*compulsory provide quantifiable objectives regarding lowering outstanding payments, the*

manner for managing liabilities and their recovery, **achievement of the investment plan** and providing cash flow for the performed activities”.

Description:

✍ Objective: achieving minimum 75% of the investments approved in the annual income and expenditure budget;

✍ Calculation method:  $I_{INV_n} = \frac{INV_n}{INV_{PA_n} \times 0.75}$  ,

Where:

$INV_n$  - value of investments achieved in year “n”, RON thousand;

$INV_{PA_n}$  - value of investments included in the income and expenditure budget of year “n”, thousand RON;

✍ Source of information:

o  $INV_n$  - Board of Director’s Report;

o  $INV_{PA_n}$  - Income and Expenditure Budget approved for year “n”.

### **7. Reserves replacement ratio ( $I_{REZ}$ )**

Description:

✍ Objective: an annual reserves replacement ratio above 45%;

✍ Formula:  $REZ = (\text{discovered reserves}) : (\text{natural gas production})$ ;

✍ Calculation method:  $I_{REZ_n} = \frac{REZ_n}{45}$  ,

Where:

$REZ_n$  - reserves replacement ratio achieved in year “n”, %;

45 - target reserves replacement ratio, %;

✍ Source of information:

o  $REZ_n$  - Board of Directors’ Report.

### **8. Labour productivity ( $I_{WQ}$ )**

Description:

✍ Objective: achieving the target committed in the Governance Plan (Annex 1);

✍ Formula:  $WQ = (\text{natural gas production}) : (\text{average number of employees})$ ;

✍ Calculation method:  $I_{WQ_n} = \frac{WQ_n}{WQ_{PA_n}}$  ,

Where:

$WQ_n$  - labour productivity achieved in year “n”, thousand m<sup>3</sup> /employee;

$WQ_{PA_n}$  - labour productivity provided in the Governance Plan for year “n”, thousand m<sup>3</sup> /employee;

✍ Source of information:

o  $WQ_n$  - Board of Directors’ Report;

o  $WQ_{PA_n}$  - Annex 1 to the Governance Plan.

### **9. Natural gas production decline ( $I_{DP}$ )**

Description:

✍ Objective: maintain an annual decline of 1.5% as compared to 2017, considered “base year” to calculate the indicator until 2022;

✍ Calculation method:  $I_{DP_n} = \frac{P_n}{P_{PA_n}}$  ,



Where:

$P_n$  - gas production of year “n”, million m<sup>3</sup>;

$P_{A_n}$  - gas production undertaken for year “n”, calculated with an annual decline of 1.5% starting from the gas production of 2017 of 5,158 million m<sup>3</sup>;

$$P_{A_n} = 5.158 \times (1 - 0,015)^i,$$

where:

$i$  represents the serial number of the mandate years, namely: 2018=1, 2019=2, 2020=3, 2021=4 and 2022=5;

☞ Source of information:

o  $P_n$  - Board of Directors' Report.

### **10. Natural Gas Quality ( $I_C$ )**

Description:

☞ Objective: minimum 95% of the gas quantity delivered in the NTS is in accordance with the quality requirements;

☞ Calculation method:  $I_{C_n} = \frac{Q_{C_n}}{Q_{T_n} \times 0.95}$ ,

Where:

$Q_{C_n}$  - the natural gas quantity that meets the quality requirements delivered in year “n”, thousand m<sup>3</sup>;

$Q_{T_n}$  - the total natural gas quantity delivered in the NTS in year “n”, thousand m<sup>3</sup>;

☞ Source of information:

o  $Q_{C_n}$  - Board of Directors' Report.

### **11. Fulfilment of natural gas supply obligations under gas sale contracts ( $I_F$ )**

Description:

☞ Objective: 100% of the firm contracted quantity;

☞ Calculation method:  $I_{F_n} = \frac{Q_{F_n}}{Q_{FC_n}}$ ,

Where:

$Q_{F_n}$  - the quantity of delivered gas out of the firm quantity contracted in year “n”, thousand m<sup>3</sup>;

$Q_{FC_n}$  - the firm quantity contracted in year “n”, thousand m<sup>3</sup>;

☞ Source of information:

o  $Q_{F_n}$  - quarterly reports;

o  $Q_{FC_n}$  - quarterly reports.

### **KPI regarding corporate governance**

### **12. Due time reporting of company's performance indicators ( $I_R$ )**

Description:

☞ Objective: complying with the legal deadlines for reporting;

☞ Target value: “0” exceeded reporting deadlines;

☞ Calculation method:  $I_{R_n} = \frac{NR_{Rt_n}}{NR_{RT_n}}$ ,

Where:

$NR_{Rt_n}$  - the number of reports made in due time in year “n”;

$NR_{RT_n}$  - the total number of reports made in year “n”;

☞ Source of information:

o  $NR_{Rt_n}$  - the date of the actual submission of the report;

o  $NR_{RT_n}$  - the date scheduled pursuant to the calendar/legislative act/administrative act.

### **13. Annual review of the Code of Ethics (ICE)**

Description:

☞ Objective: elaboration, approval and publication on the company’s website of the Code of Ethics, revised, by June 30;

☞ Calculation method:  $I_{BVC_n} = \frac{NZ_{BVC_n}}{60}$  ,

Where:

o  $I_{BVC_n} = 1$ , if the review was achieved in due time;

o  $I_{BVC_n} = 0$ , if the review was not achieved in due time;

☞ Source of information:

o the company’s website.

### **14. Defining the risk management policies and risk monitoring (IR)**

Description:

☞ Objective: implementation of Standard 8 provisions of the General Secretariat of the Government(GSG) Order no. 600/2018;

☞ Calculation method:  $I_{R_n} = \frac{NRisc_{R_n}}{NRisc_{P_n}}$  ,

Where:

$NRisc_{R_n}$  - the number of measures undertaken in year “n”;

$NRisc_{P_n}$  - the number of measures proposed in year “n”;

☞ Source of information:

o The Annual Report on risk management drawn up in accordance with the GSG Order no.600/2018<sup>3</sup>).

### **15. Implementation of the internal management control system (ICIM)**

Description:

☞ Objective: annual implementation of minimum 14 internal control standards provided under GSG Order no.600/2018;

☞ Calculation method:  $I_{CIM_n} = \frac{NCIM_{R_n}}{4}$  ,

Where:

$NCIM_{R_n}$  - the number of internal control standards implemented in year “n”;

☞ Source of information:

o The annual report on the internal management control system.

### **16. Request for review of company’s performance indicators (IP)**

Description:

☞ Objective: request for review of company’s performance indicators within 60 days of determining the need to review;

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<sup>3</sup> General Secretariat of the Government Order no.600 of April 20, 2018 for the approval of the Management/Internal Control Code of public entities.

☒ Target value: complying with the 60 days' time limit;

☒ Calculation method:  $I_{IP_n} = \frac{NIP_{t_n}}{NIP_{T_n}}$ ,

Where:

$NIP_{t_n}$  - the number of indicators requiring revision in year “n”;

$NIP_{T_n}$  - the total number of indicators required for revision in year “n”;

☒ Source of information:

- o GMS convening notices and the documents subject to shareholder's analysis and approval.

### *Target values of the key performance indicators*

Table below provides the target values of key performance indicators estimated to be achieved during 2018-2022 following implementation and fulfilment of measures required to achieve the strategic objectives provided in the company's Governance Plan (Annex 1 to the Governance Plan):

Item no.	Key performance indicators (KPI)	2018	2019	2020	2021	2022
<b>Financial KPI</b>						
1.	Revenue [ <i>thousand RON</i> ]	4,965	4,438	4,491	4,556	4,997
2.	EBITDA margin [%]	46	31	32	33	34
3.	Operating expenses related to RON 1000 operating income [ <i>RON</i> ]	691	762	784	784	784
4.	Labour productivity (in value units per total average number of employees) [ <i>thousand RON/employee</i> ]	886	762	772	783	858
5.	Total assets ratio [%]	14	9	8	8	8
<b>Operation KPI</b>						
6.	Achievement of the investment program [%]	75	75	75	75	75
7.	Achievement of the investment program [%]	45	45	45	45	45
8.	Labour productivity (in physical units per total average number of employees) [ <i>thousand m<sup>3</sup>/employee</i> ]	885	858	855	842	829
9.	Natural gas production decline [%]	1.5	1.5	1.5	1.5	1.5
<b>KPI related to public services</b>						
10.	Natural gas quality [%]	95	95	95	95	95
11.	Fulfilling the gas supply obligations from the sales contracts [%]	100	100	100	100	100
<b>KPI related to corporate governance</b>						
12.	Timely report the company's performance indicators [%]	100	100	100	100	100
13.	Yearly review of the Code of Ethics [%]	100	100	100	100	100
14.	Setting the risk management policy and risk monitoring policy [%]	100	100	100	100	100
15.	Implementing the internal management control system [%]	100	100	100	100	100
16.	Request to review the company's performance indicators [%]	100	100	100	100	100

Note:

- The table above provides the target performance indicators for 2018 as well, because the Governance Plan for 2018-2022 was elaborated before publishing the preliminary and final financial statements for 2018, and such targets were subject to the negotiation report concluded with the public supervisory body;

- The target values of the performance indicators provided in the table above have been set in compliance with *GEO No. 114 of December 28, 2018 for setting some measures related to public investments and some fiscal-budgetary measures, amending and supplementing some pieces of legislation and extension of some deadlines*;
- Following the approval of GEO No. 19 of March 29, 2019 on supplementing and amending some pieces of legislation which modifies GEO No. 114 of December 28, 2018, the target values of the performance indicators will be subject to modification of a review procedure and, subsequently will be subject to Romgaz General Meeting of Shareholders.

**Pursuant to the provisions of Article 30 paragraph (3) of the Government Emergency Ordinance no. 109/2011 we hereby submit for review in order to negotiate and approve the financial and non-financial performance indicators resulting from the governance plan as presented herein.**

**Chairman of the Board of Directors,**

**Nistoran Dorin Liviu**

