



**CONFERENCE CALL**  
**FOR THE DISCUSSION OF THE Q1 2021 RESULTS**  
**of ROMGAZ Group**  
**May 17, 2021**

**PARTICIPANTS:**

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**Mr. Razvan POPESCU, CFO:**

## **INTRODUCTION TO THE CONFERENCE CALL for the discussion of the Q1 2021 Results**

Good afternoon ladies and gentlemen,

Thank you for joining our conference call to discuss the Q1 2021 results.

On Friday we released the Quarterly Report of Romgaz Group, which includes the presentation of our economic and operational performance, and the Consolidated Condensed Interim Financial Statements.

Also, a detailed presentation of the group activities and financial performance is available on our website, in the Investor Relation Section.

**We would like to address some headlines for the gas market environment and legislation in force in Q1 2021, as compared to the first 3 months of the previous year:**

- We estimate that natural gas consumption in Romania recorded a marginal increase of 6% year-on-year – with imports higher by the same rate and accounting for 20% of total consumption
- Wholesale Average Weighted Gas Prices on the Romanian Commodities Exchange (Spot & Forward Markets) recorded a decrease of 2 digits in Q1 2021 compared to the same period of 2020; these prices are considered as of the month of delivery
- Regarding the gas sector regulation, please recall that starting with July 1<sup>st</sup> 2020, gas prices in Romania have been fully liberalized for producers and suppliers; nevertheless, selling price restrictions have been enforced through the Gas Release Program through the regulator's Orders no 143 and 144 / 2020.

Accordingly, starting with July 1<sup>st</sup> 2020, large gas producers have the obligation to offer 40% of the previous year' gas production (less own and technological consumption) on centralized markets, with a discount of at least 5% from the previous 60-days average price of standardized products. The program will last until end-2022.

Also - until June 30, 2020, prices of gas sold by producers to households and assimilated consumers were capped at the maximum value of 68 RON/MWh, as enforced by the Governmental Emergency Ordinances issued in 2018 and 2019.

- So in summary - in Q1 2021 compared to Q1 2020 – part of the gas sold by large producers was subject to the Gas Release Program, and there was no regulated price cap for the gas sold to households.
- Regarding gas prices on the Central European Gas Hub (CEGH), we saw a significant recovery in Q1 2021, compared to the same period of 2020, according to data provided by the National Agency for Mineral Resources.

**Overall in the first 3 months of 2021, we can emphasise the following operational and financial performance recorded by Romgaz Group:**

- We continue the production recovery which started in Q4/2020: we produced 1311.5 million of cm of natural gas, with a decline of 3.7% year-on-year, but our Daily Gas Production adjusted by only 2.7% year-on-year and recorded an increase of 1.4% versus Q4.

This represents a strong performance given the still-weak sanitary environment, and shows that we succeeded to consolidate and stabilize the potential of our quarterly gas production – at the level of 1.3-1.4 bcm.

Natural decline is arrested at 1%, with a strong contribution from rehabilitation programmes, capital repair and recompletion works and efforts to upgrade production infrastructure for new discoveries.

- In Q1 we improved our position on the Romanian gas market: according to our estimates, we achieved a market share of 37% of total gas deliveries in Romania, and a 43% market share considering only domestically-produced gas.

Both market shares were higher by around 3% compared to last year according to our estimates.

- Regarding gas volume sales, we succeeded to increase total deliveries to 3<sup>rd</sup> parties (including resales) by 14% year-on-year and by 15% compared to Q4;
- Total Revenues from the gas sold stood at RON 1.14 billion, lower by 5% versus Q1 2020 but improved by 23% compared to Q4 given also the price environment
- Revenues from Storage Services recorded a steep decline of 28% year-on-year mainly due to lower capacity reservation, but withdrawal services accelerated in this period and recorded revenues higher by 30%
- Electricity added RON 42 million in revenues – as a result of the delayed development of our electricity segment and overall market demand
- Overall in Q1 2021, we succeeded to report Revenues of RON 1.33 billion, lower by 7% year-on-year
- On the expenses side, the 2 main taxes included in the “Other expenses” item in the P&L (the “Windfall profit tax” and “Gas and UGS royalties”) dropped by 19% jointly – due to mixed results from gas volumes produced and sold, and pricing in Romania and on the CEGH hub

- All in all, we recorded a Net Profit of RON 464 million, lower by 19% compared to the same period of the previous year. We consider this to be a strong performance given the current sanitary environment and high comparison base
- We also can underline the good profitability margins recorded in Q1 2021 – well above the level recorded in Full Year 2020: EBITDA margin of 52.4%, EBIT margin of 41.3% and Net profit margin of almost 35%.

These aspects are presented at pages 15 to 23 in Romgaz Group Presentation available on our website.

**With respect to our Balance Sheet** – we have a total cash position of RON 2.91 billion, and still zero indebtedness.

**On the capex side, ROMGAZ Group invested a total amount of only RON 94 million in Q1/2021 – or 61% of the budgeted level**, as a result of lower drilling activity and difficulties in completion of Iernut new power plant investment.

Capex in Q1 were focused 24% on geological exploration, 74% on the upgrade of production equipment and other expenses, and 2% in our gas storages.

**Regarding the strategic development of Romgaz**, we are in the process to reassess the “Development and Investment Strategy” that was approved in mid-2020, in order to take into account the latest developments. Also, we are holding discussions to assess optimal solutions to finalise the Iernut power plant.

**With respect to the 2021 outlook**, the Shareholder Meeting held on May 7 has approved the 2021 consolidated budget. This includes:

- an increase in our gas production of 11.2%
- drilling works for a larger number of wells, some deeper than 4000m
- higher gas and energy sales
- higher expenses with royalties and drilling programme
- overall leading to a budgeted Profit Before Tax of RON 1.14 billion.

The evolution of the domestic gas market and the macroeconomic development under the COVID pandemic are very important.

We remain committed to develop the production potential by consolidating the gas reserves and resources, to consolidate our position on the gas and electricity markets, and to develop new business lines.

**With this, we would like to close our presentation and thank you for your attention!**



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## Q&A SESSION

**Question from Iuliana Ciopraga (Wood & Company):** About Iernut - could you update what is happening there, when can we expect any news on the project - anything that you could tell us would be helpful.

**Answer from Razvan Popescu:** We are in the process of negotiating right now the formula's subscription, we have informed the stock market about this and that we have suspended the resiliation of the contract. So, at this moment, we are still committed to finishing the plant, we have a number of solutions that we are looking at, and we have offered the association because, as you know, the primer partner, Duro Felguera, had a change in the management so, they requested a suspension so that the new management will have a meeting with Romgaz. The meetings are taking place as we speak, and will take place until May 20.

**Question from Iuliana Ciopraga (Wood & Company):** And if you could update us on Neptun, on the Black Sea offshore project?

**Answer from Razvan Popescu:** At this moment, we are under strict confidentiality agreement and we cannot offer any type of disclosure about Neptun Deep.

**Question from Iuliana Ciopraga (Wood & Company):** But should we expect a resolution in the second half of the year or next year, can you give us any sort of indication on timing?

**Answer from Razvan Popescu:** We cannot give any type of disclosure at the moment being under strict confidentiality agreements. When we will have updates, we will inform the stock market of course in due time.

**Question from Iuliana Ciopraga (Wood & Company):** Regarding the prices, if I calculated correctly, the average realized price for the first quarter was around 65 RON/MWh, which seems to be below even what we reported as an average price on the market. Can you give us any sort of guidance regarding prices in the following quarter, should we still expect discounts on the prices that we see on the market, or how should we look at this?

**Answer from Radu Moldovan:** Related to the prices for Q2, we forecast increasing prices, in line with prices on Vienna market.

**Question from Iuliana Ciopraga (Wood & Company):** I am asking also about the discounts of the realized price vs the prices that we see on BRM, on the market. Should we still expect discounts also in the following quarters, what triggered discounts and should we expect discounts in the following quarters because we see the prices right now on the market. I am wondering: are they a good indication, should we allow for discount to that price?

**Answer from Radu Moldovan:** For an average price, the Romanian Commodities Exchange (BRM) represents a good indication for prices.

**Question from Laura Simion (BRD GSG):** What was the average realized gas price in Q1/2021?

**Answer from Radu Moldovan:** According to our quarterly report, this price can be easily calculated and was just minutes ago mentioned by your colleague, that was about 65 RON/MWh.

**Question from Irina Railean (BT Capital Partners):** What is the amount of natural gas Romgaz should sell via the Gas Release Programme (GRP) in 2021?

**Answer from Radu Moldovan:** The amount that ROMGAZ should sell according to GRP is 20.2 TWh.

**Question from Laura Simion (BRD GSG):** What are the causes for the increase in other operational expenses in power segment in Q1/2021 vs Q1/2020?

**Answer from Gabriela Tranbitas:** The main cause was the increase of the cost of the CO2 certificates. In the Q1/2021 we had an expense of RON 67 million compared to RON 15 million in Q1/2020.

**Question from Eugen Ludovic Daradics (individual investor):** Hi, I have a questions. Romgaz plans to invest in green energy ? Thanks!

**Answer from Razvan Popescu:** Yes, of course, we do have plans to invest in green energy. We are looking at multiple projects and we have looked at some feasibility studies regarding these projects and we also have some green energy projects that are in the National Plan of Recovery and Resilition.



**Question from Irina Railean (BT Capital Partners):** The investment plan released last year in June, is it still in force?

**Answer from Razvan Popescu:** As I have mentioned in my opening statement, the investment plan is under review and it will be submitted sometime in the next month. We are reviewing a lot of the projects that are included there and we are trying to prioritize our investment process and also have the most feasible investments left in the plan. So, at this moment, the plan is under review.

**Question from Eugen Ludovic Daradics (individual investor):** What is the status of the project in Mintia?

**Answer from Razvan Popescu:** We have had a feasibility for Mintia already made, but right now we are in discussions with the authorities regarding our options in Mintia. A definitive timeline will be included in the investment plan.

**Question from Iuliana Ciopraga (Wood & Company):** I have a question for the full year. Assuming you will take over Exxon stake in Neptun, is there a risk that you might not even pay 50% in dividends? In your projections, have you made any estimates regarding dividends going forward? I know that there is a legal requirement to pay at least 50% as dividends but I wonder if is there a risk that you will forgo that? Because we are talking about a sizeable investment. Is this something that you are taking into account? And just one more regarding Iernut: how likely is it that you will start production next year and when will you start production?

**Answer from Razvan Popescu:** This is not something that Romgaz can decide, this is an Ordinance of the Government. It is only the majority shareholder that can take into account the possibility of reducing the dividends. We cannot forgo the dividends just because we have investments but, if the majority shareholder will take into account our future investments, we hope that future dividends will be capped at the minimum level possible.

**Question from Iuliana Ciopraga (Wood & Company):** And regarding Iernut, when should we expect production? Or is it too early to say?

**Answer from Razvan Popescu:** We are hoping that Iernut power plant production should start sometime in the first quarter of the next year. That is our target.

**Question from Laura Simion (BRD GSG):** What caused the discount of Romgaz realized price vs BRM in Q1/2021?

**Answer from Radu Moldovan:** The highest prices are on bilateral contracts, and the difference of prices comes from the period when the contracts have been concluded or if they are concluded through the Gas Release Program.

**Question from Iuliana Ciopraga (Wood & Company):** So, should we understand correctly that the discount was caused by GRP, because it wasn't clear what the answer was. Was it caused by GRP or by bilateral contracts?

**Answer from Radu Moldovan:** According to our analysis, the prices in our contracts concluded on BRM with delivery in Q1/21 are represented by gas sold at the lowest price. Even gas sold through GRP has higher prices than the gas sold on BRM. This is our situation, as explained.

**Question from Iuliana Ciopraga (Wood & Company):** So you are saying that you sold at the lowest price on BRM? The price on the market was lower than GRP? This is a part of the answer, as far as I understand.

**Answer from Radu Moldovan:** Yes, for the gas sold on the market (BRM), the prices are lower than the prices of the gas required to be sold through the GRP.

**Question from Iuliana Ciopraga (Wood & Company):** But even when you sold on BRM, the prices were lower. What should we expect going forward? Should we still expect a discount, was there something different in the first quarter of 2021? From your answer before, I understood that we should be looking at CEGH, but, more important, we should be looking at BRM. BRM is the best indicator, but BRM should follow CEGH. Would that be correct?

**Answer from Radu Moldovan:** For the contracts outside BRM, we use the Vienna prices after the prices for alternative fuels and the prices used on BRM in different ways. And all these three prices are a guidance for the price used on bilateral contracts.

**Question from Iuliana Ciopraga (Wood & Company):** So BRM, CEGH and the third one was alternative fuel meaning what - oil?

**Answer from Radu Moldovan:** Yes, price of alternative fuel – like heavy oil and gas oil.

**Thank you very much for your questions!**

**If you need further information, please contact our IR team.**

**On behalf of ROMGAZ team, thank you for attending today's conference call!**

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