

**INTRODUCTION TO THE CONFERENCE CALL  
for the discussion of the 2018 Preliminary Results  
February 15, 2019**

Good afternoon ladies and gentlemen,

And welcome to our conference call.

Romgaz presentation in .pdf format is available on our website, and I would like to draw your attention to the legal disclaimer included in page no 2.

**I will start by mentioning the main events with impact on Romgaz activity during the fiscal year 2018:**

- The legal framework of the oil & energy market suffered significant changes:
  - (1) Order no 32 of the Agency for Mineral Resources imposed the computation of the gas royalties in Romania based on a new and significantly-higher reference price – namely PEGAS CEGH Day Ahead Market Single Day Select prices, starting mid-February;
  - (2) Law no 256 sets the taxation level and other provisions for the offshore oil&gas production activities; and
  - (3) Emergency Ordinance no 114 adds unfavorable provisions for the gas and electricity markets in terms of fiscality and pricing.
- Also, we separated the underground storage activity into a legal entity fully-owned by Romgaz, and lower storage tariffs were approved by the regulator starting April 1
- Regarding the top management of Romgaz, shareholders voted a new Board with a 4-year mandate, and in its turn – the Board appointed our CEO for a 4-year mandate and the CFO for the period ended Nov 2, 2021.

**With respect to the business environment in 2018, we also can add that:**

- In line with our anticipation, and according to our estimates - the natural gas consumption was roughly flat in Romania– but we succeeded to record high demand for our gas and for the storage activity due a good commercial policy
- We found opportunities for trading our gas on the Commodities Exchange, which allowed us to sell the bulk of our production in a transparent and competitive way
- As also seen on the Commodity Exchange, gas prices were supportive starting with Q2.

**Regarding our operational and financial performance achieved in 2018, we can mention the followings:**

- Our natural gas production increased by 3.4% year-on-year and exceeded our budget by 1.6%; this good performance was mainly triggered by production enhancement programmes in major fields, development of the commercial field Caragele, bringing on stream of new discoveries, building of infrastructure gathering lines in the new discoveries and by the wells workover programme.

- We achieved a market share of 46% of total gas deliveries in Romania, and a 51% market share considering only domestically-produced gas - according to our estimates
- Total gas volume sold to 3rd parties increased by 2.9%
- Total gas revenues to 3rd parties recorded a significant increase of 18% year-on-year – as we continue efforts to improve the commercial strategy
- Revenues from Storage activity declined by 41% because of significantly-lower tariffs, while Revenues from Electricity declined by 31% on high availability of hydro power production - as mentioned before
- For the top line, we can emphasize the good performance recorded in Q4: Total Revenue +16%, with Total Gas Revenues +17% and Electricity Sales almost double vs Q4 2017
- Returning to the FY2018, on the cost side - we can mention the windfall profit tax higher by 43% on the back of liberalized gas prices, and petroleum royalty expense higher by 51% due to the new gas reference price
- Other expenses that impacted our P&L were: the gas field asset impairment of 104 million RON, the impairment of 54 million RON for CTE Iernut and double exploration costs for the discovery of new reserves
- Net Profit came in at 1,43 billion RON, lower by 22% year-on-year – but for comparison reasons please recall that in 2017 we recorded a one-off income of 244 million RON that inflated the bottom line
- Profitability margins remained strong in 2018, with EBITDA margin at almost 45% and Net Profit margin at 28.6%.

**On the capex side**, we invested 1.15 billion RON in 2018, higher by 47% compared to the previous year. Capex were focused on works at the new power plant Iernut, which accounted for almost 50% of total investments last year.

Building a strong portfolio of gas reserves and resources remains a priority. The development works in Caragele area are ongoing, and will contribute to the sustainable development of production.

Additionally, we explore new development opportunities in order to increase the company's profitability.

**With respect to the 2019 outlook**, after the State Budget is endorsed by the Parliament, Romgaz will call the Shareholders Meeting to approve the Annual Budget Proposal.

Until then, we can make the followings comments:

- We do not expect a significant % change of the gas demand in Romania, but we estimate that our gas sales will remain strong and Romgaz will preserve a key position on the domestic gas supply market
- Our Gas production has favorable perspectives short and medium term, as the new wells in the commercial field Caragele will start production, and other discoveries will enter the development stage
- Also, we continue production enhancement programmes for the mature reservoirs, so overall we will maintain our strong market share among gas producers in Romania.
- Other revenues will be achieved from the gas storage activity and electricity production

- It is important to mention that ANRE will approve new tariffs starting April 1 for the underground storage activity, as the actual tariff were enforced only for 1 year.
- We will continue to optimise our operating costs, but still expect high expenses with gas royalty and the windfall profit tax
- Regarding the Ordinance no 114 / December 2018 – this will impact our performance through the capped gas prices starting April 1st, the 2% contribution imposed starting January 1st on activities performed in the gas and electricity sectors, and electricity regulated pricing for households and possibly the gas basket for non-households.

We are still waiting for ANRE to issue some clarifications for the application of the ordinance.

- Regarding investments, commissioning of Iernut new plant is due in early 2020 and we expect no delays for this investment.

As for the old plant Iernut, as we previously announced - and in line with our plans, actual operating capacity will decrease to 300 MW in 2019, from 600 MW last year.

- In terms of profitability, we will continue to make efforts to maintain the financial performance on sustainable bases.
- Regarding the investments, we can mention that we will not invest less than we did in 2018.

**Thank you for your attention!**