



**CONFERENCE CALL**  
**FOR THE DISCUSSION OF THE 9M/Q3 2019 RESULTS**  
**of ROMGAZ Group**

**November 14, 2019**

**PARTICIPANTS:**

<b>Nelu PARASCHIV</b>	<b><i>Deputy General Director – Investments &amp; Development</i></b>
<b>Marius Leonte VEZA</b>	<b><i>Interim Economic Director</i></b>
<b>Gabriela TRANBITAS</b>	<b><i>Head of Financial Reporting &amp; Accounting</i></b> <b><i>Methodologies Department</i></b>
<b>Victor Cristian SERBAN</b>	<b><i>Head of Gas Trading Department</i></b>
<b>Manuela OGRINJA</b>	<b><i>Head of IR Department</i></b>
<b>Mihnea Dinescu</b>	<b><i>Member of IR Department</i></b>

## OVERVIEW OF THE 9M/Q3 2019 RESULTS

Good afternoon ladies and gentlemen,

Welcome to our conference call for the discussion of results recorded over the first 9 months of 2019.

This morning, we released our Quarterly Report, which includes the Interim Consolidated Financial Statements prepared in accordance with IFRS.

Also, an updated presentation of the group is available on our website, at the Investors Relation Section.

We take this opportunity to address a few aspects about the operational performance of our group, and about the market context.

**Comparing the first 9 months of 2019 to the similar period of the previous year, we notice that important factors had mixed outcomes on our financial performance, as follows:**

- natural gas consumption in Romania recorded an overall decrease of around 6%, according to our estimates; in our view, this is mostly the result of mild temperatures registered especially in the cold months and of higher gas prices (dl Ciolpan)
- Gas prices on the Commodities Exchange were more supportive in 2019 as compared to 2018, while CEGH Front Market Index recorded a decrease
- Governmental Extraordinary Ordinance no 114 issued in December 2018, and amended in March 2019, brought the following important changes on the gas & electricity markets:

Prices of gas sold from internal production to households and assimilated consumers are capped at the level of 68 RON / MWh starting with May 1, 2019, and Gas and electricity producers are charged a 2% fee on revenues, with certain deductions.

- Also, starting with April 1, 2018, the windfall profit tax for gas producers includes an additional charge of 80% on the difference between selling prices and 85 lei/MWh.

**On the back of these external influence factors, we continued to:**

- Implement and apply a flexible pricing policy for the gas sold to industrial consumers, and to
- Optimise the gas value chain by properly managing the gas volumes.

**Overall, in the first 9 months of 2019, we reported significant achievements:**

- Natural gas production increased by 0.7% year-on-year, roughly at the budgeted level - due to rehabilitation programmes in mature fields, workover operations in wells, improved productivity of some gas reservoirs and discoveries brought on stream
- Our gas deliveries recorded a better dynamics compared to the natural gas consumption estimated for Romania - as such, in our opinion, we consider that we increased our market share by 7% to 59% in terms of the country's gas consumption from domestic production
- Consolidated Revenues reached 3.79 billion RON – higher by more than 10% compared to the same period of 2018, driven by Total gas revenues which increased by 13%
- Revenues from storage and other services rose by 12% in the period
- Revenues from electricity recorded a decline as expected, because the investment in the new power plant is in progress
- Regarding expenses, we recorded windfall profit tax higher by 50%, gas&storage royalties lower by 23% and the new 2% fee on gas & electricity revenues of 63 million RON
- All in all, EBITDA increased significantly by 25% to 1.96 billion RON, and
- Net Profit advanced strongly by 19% to 1.19 billion RON
- We also continued to improve our already elevated profitability margins: Net Profit margin rose to 31.3%, EBIT margin advanced to 36% and EBITDA margin reached almost 52%.

These aspects are presented at pages number 16, 17 and 23-25 of Romgaz Group Presentation, available on our website.

**Regarding Q3 alone, we can underline the following key developments:**

- Natural gas production decreased by 2.5% compared to the same period of 2018, because of lower gas consumption in Romania
- Consolidated Net Profit edged down by 2% year-on-year to 209 million RON, due to lower total revenues and higher expenses with taxes, depreciation and amortisation
- All profitability rates recorded an improvement to more significant levels.

**With respect to our Balance Sheet, it continues to be strong, with zero indebtedness.**

**Regarding CAPEX, Romgaz Group invested 631 million RON in the first 9 months, which accounts for only 59% of the budget planned for this period.**

Of total amount, geological exploration and equipment upgrade accounted for around 30% each, and works in the new power plant for 36%.

- A key strategic direction is to consolidate our position on the energy supply markets. The investment in the new power plant Iernut is in progress, and will improve the operating efficiency and production level of our electricity segment
- Investment in our storage subsidiary is also important, and aims at securing the domestic gas supply over the long term
- Arresting the gas production decline remains a key investment objective of Romgaz. Currently this is achieved through discovery of new resources and improvement of recovery rates in existing reservoirs.
- We also explore additional investment opportunities – in order to improve our Gas Value Chain.

**We kindly remind that in Q2 this year (in April), the Shareholders Meeting approved the distribution of total gross dividends of 1.6 billion RON.** The dividends have been distributed in July, and translated into a 118% Gross Dividend Pay-out Ratio.

**In terms of 2019 outlook, we have a few remarks:**

- We anticipate that gas consumption in Romania will stay in line with the performance recorded in the first 9 months
- Our gas production will be in line with the level budgeted for 2019
- With a strong marketing policy, Romgaz will continue to hold a significant market share in terms of gas supply in Romania
- Revenues from the gas storage activity will be resilient this year
- On the costs side, the windfall profit tax, the gas & storage royalties, and the 2% fee will take the toll
- Overall, we make our best efforts to maintain the financial profitability of the company and to create value for shareholders.

**With this, we are closing our presentation and thank you for your attention!**

## Q&A SESSION

**Question from Catalin Diaconu (Raiffeissen Bank):** I have 4 questions. The first question would be: if there were some impairments in the 3<sup>rd</sup> Quarter and what was the cause? The second question would be: what were the deliveries to the regulated segment just in the 3<sup>rd</sup> Quarter, so not for the year to date figures. The third question would be: what would be the trend in the prices on the liberalized segment in the 4<sup>th</sup> Quarter? And the fourth question would be: what will be happening at Iernut - we saw that you are requiring legal assistance for a potential loss with the building of Iernut. So, what is happening there and what is the new schedule for when the plant will be operational ?

**Answer from Gabriela Tranbitas:** Regarding the first question - the impairments recorded in the 3<sup>rd</sup> Quarter - we recorded an impairment of 103 million RON, coming mainly from wells that we drilled, but which were unsuccessful.

**Answer from Victor Cristian Serban:** For the second question, gas deliveries at regulated prices were of 20.6% for the first 9 months, and we envisage approximately 32% for the full year. Regarding the third question, the price trend for the 4<sup>th</sup> Quarter, for the industrial market, there is public information from BRM side (Commodities Exchange market) - there is a slight decrease, but let's have in mind that Romgaz already sold most of its production a long time ago already.

**Answer from Nelu Paraschiv:** With respect to the fourth question, in December 2018 the legislation changed and provided, in terms of production costs, an additional increase in terms of wages. So the supplier had to bring justification with respect to this cost increase. So far, we haven't been able to reach an agreement with the suppliers working for the Iernut power plant so, we bring this case to a trial. Thank you!

**Question from Catalin Diaconu (Raiffeissen Bank):** So, should we expect a delay in the commissioning of Iernut power plant beyond the first half of 2020?

**Answer from Nelu Paraschiv:** A delay might occur, but we hope it will not be a long one. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Could you give us some guidance on full year sales to third parties?

**Answer from Victor Cristian Serban:** Our sales will be in line with the budget, from the quantities' point of view. We have no reason to have discrepancies compared to the budget. Thank you!

**Question from Tamas Pletser (Erste Bank Investment Hungary):** Dear Romgaz, I wonder why sales volume of gas was down in Q3 2019 period versus Q3 2018 period, when your main competitor, Petrom, reported a strong rise in sales.

**Answer from Victor Cristian Serban:** Our Q3 sales are exactly in line with our budget and we are not able to comment on OMV Petrom sales. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** In terms of volumes sold on the regulated market, could you provide the volumes sold in the 2<sup>nd</sup> Quarter and in the 3<sup>rd</sup> Quarter?

**Answer from Victor Cristian Serban:** Our volumes sold at regulated price in 2<sup>nd</sup> and 3<sup>rd</sup> Quarters are of 8 TWh approximately. Our full year sales to 3<sup>rd</sup> parties will be exactly in line with our full year budget. So, we see no reasons to worry about the 4<sup>th</sup> Quarter. I don't have now a breakdown for 2<sup>nd</sup> Quarter separately from the 3<sup>rd</sup> Quarter, but I will have it in a few minutes. Could you please address the question in writing and you will receive the answer. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Could you remind us what the budget entailed in terms of volumes sold to third parties for the Full Year?

**Answer from Victor Cristian Serban:** Approximately 51 TWh. Thank you!

**Question from Jonathan Lamb (Wood&Company, UK):** Is there any credit risk to Romgaz from RADET bankruptcy?

**Answer from Victor Cristian Serban:** ROMGAZ has no contract relation directly with RADET. We don't have any details additional to public information about what the intentions of the Bucharest City Hall are, in this respect for the following period, but our relation is with ELCEN Bucharest.

**Answer from Manuela Ogrinja:** And we can add that right now the commercial relation with ELCEN is good and this client does not record additional delayed receivables. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Should we expect further impairments in 4<sup>th</sup> Quarter?

**Answer from Gabriela Tranbitas:** As you know, our activity entails some kind of risk, we cannot state from the start of drilling a well if that well will be successful or not. We keep analysing the stage of the wells and it is possible to have further impairment. We cannot estimate now. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Any news on Caragele Deep?

**Answer from Nelu Paraschiv:** Currently our company carries on the exploration appraisal phase for this discovery. As soon as there are any significant news to be reported, we will do so.

**Answer from Manuela Ogrinja:** Also, related to Caragele, we might add that we are in the final phase for obtaining the construction authorization for building 5 evaluation wells. The process will take place during 2019-2020, and also we are in the process of verification with 4 wells for possible extension of hydrocarbon accumulations. Thank you!

#### DISCLAIMER

**Romgaz Group (Romgaz or Romgaz Group or The Company) consists of SNGN Romgaz SA as parent company, Filiala de Înmagazinare Gaze Naturale Depogaz Ploiești SRL (subsidiary owned 100% by Romgaz SA), Depomureș SA (40% owned by Romgaz SA) and SC Agri LNG Project Company SRL (25% owned by Romgaz SA).**

This document was prepared by SNGN Romgaz SA for the presentation of the 9M/Q3 2019 Results (Q3 stands for the 3<sup>rd</sup> Quarter).

This document is for your information only and all statements contained herein are related to intentions, assumptions and forecasts made by SNGN Romgaz S.A. or by its management. None of the information included herein shall be assumed as an invitation, an offer, a recommendation or an opinion expressed by SNGN Romgaz S.A. to subscribe, purchase or sell any securities. Also, this document and all information included herein shall not form the basis of any contract, investment decision or commitment whatsoever. This document and all information included herein shall not be treated as a consultancy or advice whatsoever.

This presentation is not an offer for sale of securities in the United States or any other jurisdiction. The Company's shares have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States.

To the extent available, the industry, market and competitive position data contained in this presentation has come from official or third party sources. While the Company believes that each of these publications, studies and surveys has been prepared by a reputable source, the Company has not independently verified the data contained therein. Accordingly, undue reliance should not be placed on any of the industry, market or competitive position data contained in this presentation.

This presentation may include certain forward-looking statements, beliefs or opinions. No representation is made that any of these statements, beliefs or opinions will be achieved. There are a number of risks, uncertainties and factors that could cause actual results and developments to differ materially from those expressed or implied by these statements, beliefs or opinions. Past performance of the Company cannot be relied on as a guide to future performance.

This document does not purport to contain all information that may be necessary in respect of the Company or its securities and each person receiving this document should make an independent assessment.

Neither SNGN Romgaz S.A. nor its directors, management, employees and their consultancies can be held responsible for any losses or damages howsoever arising, directly or indirectly, from any use of this document or its contents.

All figures included in this presentation are rounded ("round to nearest" method).