



**CONFERENCE CALL**  
**FOR THE DISCUSSION OF THE Q1 2020 RESULTS**  
**of ROMGAZ Group**  
**May 18, 2020**

**PARTICIPANTS:**

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## **INTRODUCTION TO THE CONFERENCE CALL for the discussion of the Q1 2020 Results**

Good afternoon ladies and gentlemen,

And welcome to our conference call for the discussion of the Q1 2020 results.

Please recall that we released the Quarterly Report at the end of last week, and this includes the presentation of our economic and operational performance, jointly with the Interim Consolidated Financial Statements.

Also, an overall presentation of the group performance is available on our website.

**We will start with some headlines on the gas market environment in Q1 2020, as compared to the first 3 months of the previous year:**

- We estimate that natural gas consumption in Romania recorded a decrease of 4% roughly year-on-year – mainly as a result of the significantly-warmer weather and also based on effects of the coronavirus pandemic starting with March
- Gas sold by natural gas producers to households and assimilated consumers remained capped at the maximum level of 68 RON/MWh, as enforced by the Governmental Emergency Ordinance no. 114 / 2018, subsequently amended by GEO no. 19 / March 2019 and GEO no. 1 / January 2020
- Wholesale Average Weighted Gas Prices on the Romanian Commodities Exchange (Spot & Forward Markets) - with delivery in the reference months - were still supportive in Q1 2020 and higher by 2 digits compared to the same period of 2019; we are talking about prices for the gas sold by producers to industrial consumers on centralised markets in Romania
- On the other side, gas prices on the Central European Gas Hub (CEGH) recorded a significant plunge in Q1 2020: we computed a decrease of around 40% of CEGH “1st Front Month Reference Index” in the first 3 months of 2020 versus the same period of 2019.

**Overall in the first 3 months of 2020, we can emphasise the following operational and financial performance of Romgaz Group:**

- Our Natural Gas Production decreased by 4.7% year-on-year, but compared to the previous quarter we recorded an increase of 2.6%.

As main developments, we finalised the connection of new wells to the production infrastructure, continued the production rehabilitation programmes for main mature gas fields and performed recompletion operations that reactivated some high-flow wells.

It is also important to mention the following achievements: (1) at the end of January 2020 we started production in Caragele Deep (our discovery) through the “77 Rosetti” well (with a production potential of over 1,500 boe/day), and (2) we also put in production 2 other wells in Caragele commercial field (with a daily flow of 1,000 boe jointly)

- Nevertheless, due to a weak consumption in Romania, “Volumes supplied by Romgaz from domestic production” decreased by 6.7% in Q1/2020 to 1.52 bcm versus Q1/2019
- We maintained a strong market share of 35% of total gas deliveries in Romania, and a 43% market share considering only domestically-produced gas - according to our estimates. Although slightly lower than in the same period of 2019, these figures represent a good performance, considering that imports weighed around 20% in the domestic gas consumption
- On the income side, we reported Total Revenues of 1.43 billion RON, lower by 16.5% year-on-year; still, compared to Q4/2019, we succeeded to increase our top line by 11%
- We rose our “Revenue from Storage” by almost 35% in Q1/2020 compared to Q1/2019, to 110 million RON, due to higher underground storage activity
- Our electric power production was higher by almost 52% year-on-year to 170.8 GWh, and “Revenue from Electricity” increased by almost 12% year-on-year to 53 million RON in Q1
- On the costs side, we can mention “Gas & UGS royalties” favourably down by 41% year-on-year and “Windfall profit tax” also lower by 23% year-on-year in Q1 – due to the cumulated effect of lower gas volumes and pricing
- In addition, “Depreciation, amortisation and impairment expenses” were down by 50% compared with 2019
- Overall - in spite of lower revenue but helped by shrinking expenses - we succeeded to record a Net Profit of 572 million RON in Q1/2020 – elevated by 5.5% compared to the same period of the previous year
- We can also underline the good profitability margins recorded over Q1 2020 – well above the level recorded in the previous year: EBITDA margin of 56.1%, EBIT margin of 46.8% and Net profit margin of almost 40%.

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

Also, please recall that the Shareholders Meeting held on April 22 approved the distribution of total gross dividends of 621 million RON – representing a Gross Dividend Pay-out Ratio of 57% for the last year.

**On the capex side**, we invested 164 million RON in Q1/2020, which accounted for 83% of the scheduled amount.

Capex in Q1 were focused 39% on geological exploration, 32% on works at the new and modern power plant in Iernut, 26% on the upgrade of production equipment and other expenses, and the 3% balance represented investment in our gas storages.

**Regarding the strategic development of Romgaz**, we remind that we have called the Shareholders Meeting on June 15, to approve the “**Development and Investment Strategy**” of our company for the period 2020-2025.

Main strategic directions envisaged by the proposed strategy include: (1) continuous geological exploration for the discovery of new gas reserves, (2) continue to unlock the production potential by extending the production capacities in the perimeters in operation, (3) upgrade of equipment and (4) assessment of new growth and development opportunities.

We intend to maintain a strong portfolio of gas reserves and resources, ensure gas production sustainability and its superior use, and also focus on investment diversification.

For the mentioned period 2020-2025, we propose to invest a significant amount of 15.7 billion RON, compared to only 2.8 billion RON invested during the previous period 2017-2019.

**With respect to the 2020 outlook**, we are mainly concerned on the domestic gas consumption and pricing, Romania’s overall macroeconomic development under the COVID pandemic, while insuring safety health measures in the Group.

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

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## Q&A SESSION

**Questions from Catalin Diaconu (Raiffeissen Bank Romania):** I have three questions:

1. What was the share of deliveries under regulated price?
2. What would be the share of the regulated deliveries for the entire year, also considering the future liberalization from the 1<sup>st</sup> of July ?
3. Actually the most important question to me: What is the outlook for Romgaz domestic prices, what is the outlook for the prices outside the regulated market - for the deregulated clients - for the entire year ? How much did you already cover through bilateral contracts for deliveries before the health crisis erupted. So give us an indication of coverage in contracts for this year. Thank you!

**Answers from Vasile Ciolpan:** The quantity that we have sold under the ANRE order in the 1<sup>st</sup> Quarter was around 8.2 TWh. And the entire quantity written in the annex of the order was acquired by clients.

For the second question, we cannot estimate now the entire quantity for the entire market, because the 2<sup>nd</sup> Quarter is running. In the decision it is written 7 TWh, but the suppliers have acquired only half of it, because they have rights to acquire just part of the quantity, not all the quantity like it was in the 1<sup>st</sup> Quarter. So it is difficult to estimate how we will close the 2<sup>nd</sup> Quarter.

For the 3<sup>rd</sup> question, to say a price it is a little bit uncertain, because we are waiting for the gas release program – and the scope of the gas release programme is to set a market price. Evolution of the gas release program will be an indication for the market price for this year and for the future. What we can see is just the reference, which is the Baumgarten – the first transaction might be around this price, but it is not sure - it depends on the bid of the suppliers. The order regarding the gas release programme is not published – it was just approved by the committee of the regulator, but we haven't read it as it is not public right now - only when we will read it, we can estimate for the future.

**Question from Catalin Diaconu (Raiffeissen Bank Romania):** But outside the gas release program, so for running contracts, what would be the price range for ROMGAZ right now? The gas release program will cover up to 25% of the deliveries. What would be the current price range for Romgaz for the running contracts, for deliveries outside the regulated market, and also, for the potential gas release program ?

**Answer from Vasile Ciolpan:** For the 1<sup>st</sup> Quarter, the average price for total sales for Romgaz was around 79 RON/MWh taking into account the free market price and the regulated price of 68 RON/MWh.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Thank you for the presentation. I have a question regarding production - if you could give us your outlook on production for the rest of the year and also for 2021? The market was quite optimistic after the announcement of the discovery in Caragele Deep, and I was wondering if should we see a stronger impact from Caragele Deep in 2021? Could you just give us some guidance? We already know now your investment plans for the future, but if you could help us with a guidance on the production going further it would be very helpful. Thank you!

**Answer from Robert Chirca:** With respect to your question related to the Caragele fieldp, we can kindly inform you that production is influenced by the market, by the volume of consumption.

But we still continue to invest in Caragele which already achieved almost 17% of our total production of Romgaz, and we are drilling there appraisal and development exploration wells.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** But in your budget for 2020 and guidelines for 2021-2022, you are not really expecting production to go up in 2021, and I was wondering why is that? I mean you don't expect a strong impact from Caragele Deep, in fact production from Caragele Deep would just compensate the natural decline, how should we look at production going forward? As you said, production is influenced by consumption. But how should we look at the production going forward? Can you give us any sort of guidance?

**Answer from Robert Chirca:** With respect to your question related to Caragele development, yes indeed we are focused on covering our natural decline which is coming from our very mature and old fields, but this will not stop us to develop new potential areas and to develop this field.

Also, we have to bear in our mind that we are highly connected to the market, to the gas consumption, which is very volatile. So, to summarize, indeed we are focused on stopping the natural decline in terms of production. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** So your answer is basically that whatever will come from Caragele Deep, it would be used to offset the natural decline. You don't really see an upside in production from Caragele Deep. Should I understand this?

**Answer from Robert Chirca:** Yes, but this is the vision in this moment. Caragele is a field with the potential to cover the natural decline which we have now in Romgaz. Caragele is a field with potential.

But this upside potential will come also from other areas.



**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** You mean outside partnerships? Is this what you mean?

**Answer from Robert Chirca:** We are analyzing indeed partnerships, with other possible operators on the market and this is reflected in our strategy which was published at the end of last week.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** And the question related to what Mr. Diaconu was asking before. Could you tell us how much you already sold forward at the end of March? What is the volume that you already sold forward at the end of March? I mean bilateral contracts that you have already concluded and whatever you sold on the exchange – where you are already locking the price, because prices are now lower than even in April - I saw that prices have come down in May.

I am wondering what volume have you already locked at a certain price going forward - excluding the regulated market.

**Answer from Vasile Ciolpan:** The contracted quantities for the entire year is around a half of our plan.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Sorry, it is 50% plus regulated market? Regulated market is separate, yes? 50% including the regulated market or without?

**Answer from Vasile Ciolpan:** 50% including the regulated market and we are waiting for the gas release program for the quantities which will be sold beginning with June.

**Iuliana Ciopraga (Danske Capital Bulgaria):** So, it is 50% of volumes including this 15 TWh which have to be sold to the regulated market. Thank you!

**Question from Jonathan Lamb (Wood & Company, London):** When I add up the investments you announced, I get just RON 12.35 billion. Is there something I am missing?

**Answer from Robert Chirca:** It seems that in the English version, and we are sorry for that, we have a typing mistake, please take into account the data from the Romanian version of the strategy. We will come with a note related to the English version. Sorry for that inconvenience.

**Question from Jonathan Lamb (Wood & Company, London):** What is the capacity of methanol plant you are considering?

**Answer from Vasile Ciolpan:** Regarding the capacity of the methanol plant, the first number was around 350-400 thousand tons per year, but the quantity which will be established results from a pre-feasibility and a feasibility study which are ongoing now.

**Question from Virgil Mot (individual investor):** Which is the outlook for the gas selling price in Q2 and Q3 ?

**Answer from Vasile Ciolpan:** The gas selling is under the pressure, in Q2 and Q3 we expect to remain the same, because the demand is very low. The prices now are around 30-40 RON/MWh, and we expect until June to remain the same. We expect in June the first transaction of the gas release program in order to have a view for the rest of the year.

**Question from Calina Mihali (BRD Groupe Societe Generale):** When Iernut will be operational? What is your main electricity market (pccb, dam, balancing market)?

**Answer from Vasile Ciolpan:** About the new power plant in Iernut, we expect to have the technical approach at the end of this year - beginning of 2021. And, during this time, we expect to be functional with the oldest plant, but at the lowest level, because we need to meet the environment requirements.

**Question from Irina Railean (BT Capital Partners):** What is your overview on the current situation on the natural gas market? How is production and consumption impacted by COVID-19?

**Answer from Vasile Ciolpan:** We expect for the next period the demand to remain the lowest - which is also now, in May/June. Maybe in Q3 situation will remain the same, because the suppliers did not sell the quantities away and they made no new acquisitions. And this reason made us have low expectations about the sales during the entire summer.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Could you give us some guidance on deliveries in the 2<sup>nd</sup> Quarter ?

**Answer from Vasile Ciolpan:** Regarding the deliveries in the 2<sup>nd</sup> Quarter, it depends very much on the demand. Now we have a low demand. We cannot say how we will close the 2<sup>nd</sup> Quarter because it is on-going. We expect to have the quantities low because we have no demand. But how much - we cannot approximate right now.

**Question from Irina Railean (BT Capital Partners):** Electricity production has increased significantly in the 1<sup>st</sup> Quarter 2020. What are the main drivers of this 51.5% increase?

**Answer from Vasile Ciolpan:** Regarding the power plant for the 1<sup>st</sup> Quarter, the volume of power produced increased to 259 GW because the environment of the market was changed as compared to the last year. This gave us the opportunity to produce more electricity and to sell it in the market.

**Question from Daniela Mandru (Swiss Capital Romania):** By how much the gas sales to third parties decreased year-on-year in the first half of Q2 ?

**Answer from Vasile Ciolpan:** Until the 2<sup>nd</sup> Quarter is not closed, we cannot say what are the numbers for the semester. In August we will have a conference call regarding the results of H1/2020 and then we can give you the data.

**Question from Irina Railean (BT Capital Partners):** What will happen with the older power plant capacities? Will you retire the old groups? And when?

**Answer from Robert Chirca:** Yes, indeed, we will give up our old power plant most probably after the new Iernut power plant will be ready and fully to work next year. To give up the old power plant - that will happen in the next years. One, two or maybe three years, depends on the all-necessary works that will be performed in this respect. Thank you !

**Question from Irina Railean (BT Capital Partners):** Could you please provide us some details regarding the Mintia power plant project, meaning: total capacity, project cost, financing sources and estimate year of completion?

**Answer from Robert Chirca:** Regarding Mintia project, we have now ongoing feasibility study, which needs to be detailed and approved by our team. I can tell you that we have targeted around 400-450 MW in terms of capacity and our aim is to start this project at the latest next year. In terms of finance, as soon as we have the feasibility study finished and approved, we will come also with the details related to the finance source. Thank you !

**Question from Iuliana Ciopraga (Danske Capital, Bulgaria):** Given the low gas price, should we expect further impairments?

**Answer from Gabriela Tranbitas:** We are monitoring the evolution of the market now that the emergency state has ended; if needed, yes, we will run a new impairment test.

**Question from Iuliana Ciopraga (Danske Capital, Bulgaria):** Could you give us an update on the negotiations with Exxon? Would the transaction with Exxon need approval from shareholders?

**Answer from Robert Chirca:** Related to the first question, we kindly inform you that for the moment, the negotiation with Exxon is on hold and referring to the second question, yes, for sure, the transaction will need the approval from our shareholders.

**Question from Irina Railean (BT Capital Partners):** Why do you find attractive investing in renewables sources? Do you believe they provide high investment yield - higher than natural gas power plants ?

**Answer from Vasile Ciolpan:** We find in renewables a measure for our strategical scope to execute a mix in the market - with power from the power plants that we have under construction and lowest price on the renewables from photovoltaic or wind farm. This is one of the reasons and the second one is to avoid the risk of the market, to have a second section of the business, which will give a higher yield to the gas by using it in the power plants. Thank you !

**Question from Irina Railean (BT Capital Partners):** Could you share with us the overview of the storage market and the outlook for 2020? How do you see injection and withdrawal activity? Does it benefit from the current over-supply ?

**Answer from Vasile Ciolpan:** On the storage activity, because the demand is very low, all suppliers search to spare the quantities and inject in the storage. Actually, the minimum required level is around 1.9 bcm, close to 2 bcm, and we expect all of the storage to be fulfilled by the end of the year. Among reasons - one is the lowest price, which is an advantage to store in the summer and to consume in the winter, and the second, a part of the suppliers are obliged to store, because they cannot consume the quantities. Generally, it will be a good result for the storage activity at the end of the year.

**Question from Daniela Mandru (Swiss Capital Romania):** Can you give some guidance on gas sales and gas price evolution in Q2 at least? For me it is impossible to understand that you do not have any visibility !

**Answer from Vasile Ciolpan:** Regarding the evolution of the gas consumption in the Q2, it is very hard to approximate. I can answer with other question: the second phase of the COVID is or is not coming? So I cannot approximate now and offer you numbers regarding this situation. Thank you !

**Question from Iuliana Ciopraga (Danske Capital, Bulgaria):** Do you have an estimate how much consumption dropped in April ?

**Answer from Manuela Ogrinja:** We are sorry, but we do not have an estimate regarding the consumption drop in April. Thank you!

**Question from Victor Nemteanu (Individual investor):** Hello, can you repeat the answer if you expect new impairments in 2020 due to low price of gas?

**Answer from Gabriela Tranbitas:** Regarding impairments, we said that we are monitoring the evolution of the market; if needed, we will run an impairment test. It is early to say if new impairments will come out of it. Thank you !

**Question from Daniela Mandru (Swiss Capital Romania):** Why the revenues from capacity booking services increased in Q1?

**Answer from Vasile Ciolpan:** Regarding the storage activity in Q1, there are two kinds of revenues. One is what we have expected normally from the storage, normal services for underground, and the second – are the injections tariffs, because in March and the entire winter was mild, the Ploiesti branch has offered injection services, and these services have increased the revenue from the entire activity.

**Question from Daniela Mandru (Swiss Capital Romania):** Should we expect that in FY2020 gas sales to third parties to decrease by high or low double digits rate?

**Answer from Vasile Ciolpan:** It is possible that the expected sales for the entire year to decrease by two digits.

**Question from Daniela Mandru (Swiss Capital Romania):** What is the probability that the Romanian gas prices to align to CEGH prices in Full Year 2020?

**Answer from Vasile Ciolpan:** Taking into consideration that our market is linked to the price from the neighboring markets, and CEGH impacts the price in Romanian market, we can take into consideration that the trend of the prices in Romania follows the trend of the CEGH, but not as a number. Thank you !

**Question from Irina Railean (BT Capital Partners):** When did you performed the last impairment test and what was the natural gas prices assumption at that time?

**Answer from Gabriela Tranbitas:** The last impairment test was performed in December 2019; the average price that we used was 92.98 RON/MWh.

**Question from Irina Railean (BT Capital Partners):** According to your internal policies, what are the conditions needed to be fulfilled to record an impairment?

**Answer from Gabriela Tranbitas:** The answer to this question is quite technical, we will provide everything in writing, we will explain the mechanics according to the IFRS. Thank you!

**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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