



## **CONFERENCE CALL**

**FOR THE DISCUSSION OF THE FY/Q4 2021 RESULTS**

**of ROMGAZ Group**

**February 28, 2022**

### **PARTICIPANTS:**

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**The Investor Relations Team**

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Mr. Razvan POPESCU, CFO:

**INTRODUCTION TO THE CONFERENCE CALL  
for the discussion of the 2021 Preliminary Results – Feb 28, 2022**

Good afternoon ladies and gentlemen,

Thank you for joining our conference call to discuss the preliminary results recorded by Romgaz Group in 2021.

We released the Preliminary Consolidated Annual Report on Friday (25 February), and this includes a brief presentation of our performance recorded last year.

Also, an overall presentation of the group is available on our website in the Investor Relation section.

I would like to take this opportunity to address certain aspects regarding the market context and also to highlight the operational and financial performance of our group.

**A. So, regarding the market context of 2021, I will briefly mention some important factors that had impact on our group performance:**

1. According to our assessments, total natural gas consumption in Romania recorded a marginal increase of 2% year-on-year, while in Q4 alone – domestic gas consumption was roughly flat compared to the same period of 2020.
2. Monthly weighted-average prices of Wholesale Gas on the Romanian Commodities Exchange (Spot, Forward & Balancing Markets) recorded a bottom in October 2020, and in 2021 followed an upward trend, while in Q4 alone prices rose almost 4 times year-on-year; these prices are considered as of the month of delivery.
3. On the Central European Gas Hub, the average reference price followed a more accelerated increase in 2021: almost 4 times in full year, and over 6.5 times in Q4 alone compared to the similar period of 2020.
4. Regarding the gas sector regulation, please remember that starting with July 1<sup>st</sup> 2020, gas prices have been fully liberalized for producers and suppliers, with some restrictions enforced by the Gas Release Program through the regulator's Orders no 143 and 144 / 2020, and no 4/2022.

According to these, 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 the standardized products. The program is in force until the end of 2022, but with delivery in 2023.

**B. Regarding the operational and financial performance achieved by Romgaz Group in 2021, we mention the followings:**

**1. Natural gas production has reached 5.03 bcm – higher by 11.3% year-on-year.**

This good performance is mainly due to: (a) implementation of actions to optimize exploitation of gas reservoirs, (b) extension of rehabilitation projects of the main mature reservoirs, (c) workover operations in low productivity or inactive wells, and (d) completion of investments to develop production infrastructure and connect new wells to this infrastructure.

**2. We improved our favourable position in the gas market: for FY2021 we estimate a market share of 42.4%** in total gas deliveries in Romania – higher by almost 4% compared to 2020, due to high gas production and also high deliveries.

**3. Gas Volumes Sold increased by almost 13% to 4.97 bcm, so we succeeded to fully restore the decline recorded in 2020 and even exceed the 2019 pre-pandemic level.**

**4. As a result, based also on the favourable price environment, we succeeded to increase Total Revenues from Gas Sold (including gas acquired for resale) by 52.4% year-on-year to 5.04 billion RON. We pursue an active commercial strategy and enjoy a strong portfolio of clients.**

**5. Total Revenues from Storage Services added 260 million RON to the top line, lower by 31% year-on-year on lower capacity reservation services.**

**6. Revenues from Electricity increased by almost 70% year-on-year (against a 32% drop in production) to 322 million RON – due to supportive demand and high realized prices on centralised markets.**

**7. Overall in 2021, we reported “Total Revenues” of 5.85 billion RON, up by 44% compared to the previous year.**

**8. Regarding expenses, we emphasise that (1) “Gas and UGS royalties” increased significantly 3.8 times y/y, and (b) the “Windfall profit tax” was up over 3.0 times year-on-year. This is the result of elevated reference prices on CEGH, correlated with our higher gas production, and higher gas prices and volumes sold.**

**9. “Depreciation, amortisation and net impairment” increased by 2.6% to 690 million RON. We updated the impairment test for assets used in gas production, but the test did not result in the cancellation of the previous set-up impairments – as higher gas prices generated a substantial increase in royalties and windfall tax.**

10. Net Profit has reached of 1.90 billion RON, surpassing by 52% the profit of the previous year, and record high at least since our IPO.

**11. All main Profitability margins remained robust last year: EBITDA margin at 47.3%, EBIT rate at 35.5% and Net Profit at 32.4%.**

**C. If we analyse strictly Q4 2021, the results are quite notable - helped by the favourable price environment and our strong commercial strategy:**

1. Total Revenues more than double year-on-year, due to “Total Gas Revenues” which increased by 121%, and “Revenues from Electricity” higher by 135%, but on lower volume of Gas Sold (16% year-on-year) and gas production almost flat
2. EBITDA at historical quarterly height of 959 million RON
3. Net Profit at 741 million RON, higher 2.4 times compared to 2020, and quarterly record high as well
4. Substantial profitability margins (EBITDA rate of 40.7%, Net Profit rate of 31.4%)
5. These significant results were achieved in spite of the negative impact from Royalties and Windfall Profit Tax which jointly increased by 800% compared to 2020.

**Regarding the CAPEX**, Romgaz Group invested 458 million RON in 2021, representing 50% of the budgeted amount, this excluding any expected payments that were supposed to be made for EXXON. Extensive details will be provided in the Annual Report.

**D. We would like also to point out out some important events that occurred in 2021 and will have a significant impact for the coming years:**

1. The Gov't approved the extension of exploration programme for 8 blocks - by 6 years (2021-2027) - as negotiated with ANRM (the National Agency for Mineral Resources) in October
2. SNGN Romgaz released its “Strategy for 2021-2030” – that received the green light in the Shareholders Meeting held on 4 November 2021.

We have foreseen in this Strategy several strategic objectives such as **(i)** a minimum of 10% reduction of carbon, methane and other gas emissions, **(ii)** annual natural gas production decline to be kept below 2.5%, **(iii)** EBITDA margin between 25-40%, etc.

We want to achieve this objectives through a series of important investments that will ensure the development and the continuation of the Company - **I will mention only a few important directions provided in the strategy:**

- ✓ **Concession of new perimeters and exploitation of offshore gas in the Black Sea**
  - Here, the most important project is the acquisition of ExxonMobil Exploration and Production Romania Limited (company that holds 50% of the rights and obligations under the Concession Agreement for petroleum exploration, development and production in XIX Neptun Deep Block) that is planned to be finalised in 2022.

As you all may know, on December 10, our shareholders approved this acquisition and now we are at a very advanced stage in terms of discussions on aspects related to the contract that will be concluded between the parties.

It is important to mention that, in addition to the share purchase price (of approximately USD 1.06 billion), Romgaz will have to provide, by 2027, the investments necessary for 50% of the development of the project.
  - In addition to this project of strategic importance, I want to mention also another important project, called Trident, where Romgaz holds 12.2 % share of EX-30 Trident block concession in the Black Sea alongside Lukoil Overseas Atash B.V.
  
- ✓ **Also, the Strategy for 2021-2030 provides the development of blocks under concession onshore:**
  - **Caragele Project:** A high depth project, which simultaneously mobilizes substantial investments in the following 5-6 years (i.e. approximately 675 mil RON) both in the development phase of already discovered accumulations and also for assessing other accumulations identified by 3D seismic to be subject of future drilling programs.
  - **Snagov Project:** Construction of surface infrastructure required to stream into production wells that tested positive for hydrocarbons with commercial potential (more than 800 thousand m<sup>3</sup>/day).
  - **Moldova Nord Project:** assessing and streaming into production hydrocarbon discoveries identified in the southern part of RG04 Moldova Nord block.

- ✓ **Last but not least, I would like to mention the production of sustainable energy, part of the Strategy for 2021-2030:**
  - Development of 180 MW capacities to generate electricity from renewables – a 60 MW solar park to be operational by the end of 2023.
  - Assessing the feasibility to construct new gas-fired power plants, including use of green energy and hydrogen
  - Streamlining the activity by performing significant investments to increase the efficiency of the Iernut Power Plant.

So, we have ambitious goals for the coming years and in this respect we focus on strategic investments that will help the company to a long-term development.

In final, I would like to mention that the Shareholders Meeting was scheduled today (1<sup>st</sup> call, 2<sup>nd</sup> call tomorrow) to approve the 2022 Consolidated and Individual Budgets and to appoint interim Board members with a 4-month mandate. The decisions will be posted on the Bucharest Stock Exchange and on the London Stock Exchange immediately after the meeting.

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

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## Q&A SESSION

**Question from Laura Simion (BRD GSG, Romania):** The possible extension of 80% windfall tax on renewable energy beyond March 31 could hamper or delay your plans to invest in renewables?

**Answer from Razvan Popescu:** Indeed, from what we know, this is a measure that is only temporary and our goal to invest in renewables is not to be deterred by any kind of windfall tax. We will take this into account and it has been taken into account, but for now we view it as only a shorter measure by the Government to stamp the rise in electricity prices.

**Question from Irina Railean (BT Capital Partners, Romania):** Could you provide a status update of Iernut power plant? When the plant will be commissioned? What is the Capex spent in 2021? What amounts should be received via PNI in 2022?

**Answer from Razvan Popescu:** So, as we all know, the Iernut power plant, being such a hot topic and also, a very important project for Romgaz; as we have informed the stock market with every evolution of it, step by step, we have finalized the evaluation of the works that have been done, we have informed the stock market about the status of the power plant and right now we are working in conjunction with the Ministry of Energy to find the best way that we can reopen the works with another contractor or even with the previous contractor. I cannot give you any type of detailed Capex expenditure during 2021 because they have not been notable. So, 2021 was more of a buffer year that we have used it to have more evaluation done and see exactly where the project is standing. From a Capex perspective, it is around 2% of total investments that have been done in the Romgaz Group during 2021.

**Question from Tamas Pletser (Erste Bank Investment, Hungary):** What is your prediction for the First Quarter of 2022 and 2022 production of natural gas, meaning Romgaz production?

**Answer from Razvan Popescu:** We are looking for a production that is going to be relative the same and stable as the one that we had in the previous year.

**Question from Laura Simion (BRD GSG, Romania):** How much was royalty in Q4 2021 in bcm?

**Answer from Ion Foidas:** Around 7% from production.

**Question from Laura Simion (BRD GSG, Romania):** Regarding Iernut power plant, why is it taking so long to complete until Q4 2023 for a project which is already 70% completed?

**Answered from Razvan Popescu:** The project has encountered a lot of missteps, that came from the part of the association that was building the project and, being a key project, we could not overstep the boundaries of the Romanian acquisition laws. So we could not pay more than the law allows us to do and because the prices have gone up during the last period, we need to find a legal way to update and to somehow amend the works that have been done there. We are in active process of doing that, but this is not something that Romgaz, not being an EPC company, can do by itself. This is something that a third specialized party, that also has experience in these projects and that can implement this type of project can do. So, that's why it has taken so long to finish the project, but we are hopeful that we will see the first electricity coming out of the power plant in Q4 this year.

**Question from Daniela Mandru Petrovici (Swiss Capital, Romania):** Please provide the gas volume sold through the GRP program in 2021.

**Answer from Cornelia Sardan:** The gas volume sales are around 39% from total sales.

**Question from Daniela Mandru Petrovici (Swiss Capital, Romania):** What is the expected realized gas price for 2022?

**Answer from Razvan Popescu:** This is not something that we can share at the moment, it is not a public information that we can share with the investors.

**Question from Tamas Pletser (Erste Bank Investment, Hungary):** What is the expectation about a change in realized gas price in Q1/2022? Do you see overall higher sales prices than in Q4/2021?

**Answer from Razvan Popescu:** It is a very volatile market at the moment, it is very hard to anticipate this especially in the context of the geopolitical evolution. But ROMGAZ has sold in Q1 part of its production at the market price and is also

ensuring the sales on the Romanian Commodities Exchange. But is very difficult to have an anticipation right now and to put a number, if it is going to be higher or lower than in Q4/2021.

**Question from Irina Railean (BT Capital Partners, Romania):** What is the expected CAPEX for the 60 MW photovoltaic capacity?

**Answer from Daniel Cornea:** Around 45 million EUR.

**Question from Daniela Mandru Petrovici (Swiss Capital, Romania):** What is the assumed gas price on which you based financial year 2022 budgeted sales?

**Answer from Razvan Popescu:** We have published the budget and we have submitted it to our general shareholders' meeting. There you can somehow figure it out a close number to that. But we cannot give you the exact number on which we have budgeted because that would give out a lot of the information of the company.

**Question from Irina Railean (BT Capital Partners, Romania):** How much of the 2022 gas production has already been sold?

**Answer from Cornelia Sardan:** Around 65%.

**Question from Irina Railean (BT Capital Partners, Romania):** Are there any additional amounts to be recovered from ANAF?

**Answer from Razvan Popescu:** We have yet some additional amounts that we are looking to recover but I cannot give you the exact details, but they are not significant in respect to the total turnover expected to have the next year. The significant part is the windfall tax and the royalties that are supposed to be paid to the Romanian Government.

**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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