



## **CONFERENCE CALL**

**FOR THE DISCUSSION OF THE FY/Q4 2019 PRELIMINARY RESULTS**

**of ROMGAZ Group**

**February 25, 2020**

### **PARTICIPANTS:**

|                               |  |
|-------------------------------|--|
| <b>Robert CHIRCA</b>          | <b>Deputy General Director – Development</b>                                     |
| <b>Marius Leonte VEZA</b>     | <b>Interim Economic Director</b>   |
| <b>Andrei BOBAR</b>           | <b>Finance Director</b>  |
| <b>Nelu PARASCHIV</b>         | <b>Director, Drilling Division</b>   |
| <b>Gabriela TRANBITAS</b>     | <b>Head of Financial Reporting &amp; Accounting<br/>Methodologies Department</b> |
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## OVERVIEW OF THE 2019 PRELIMINARY RESULTS

### **Good afternoon ladies and gentlemen,**

Welcome to our conference call for the discussion of preliminary results recorded in 2019.

We released this morning our Preliminary Consolidated Annual Report on the Economic and Financial Activity of Romgaz Group.

Moreover, we made available on our website at Investor Relations, a presentation of Romgaz group - updated with the 2019 preliminary results.

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

### **In full year 2019, important factors had mixed outcomes on our group performance, as follows:**

- Related to the natural gas consumption in Romania, after an 1 digit decrease in the first 9 months, we estimate a steeper fall of 14% in Q4 compared to the same period of the previous year - mostly due to warmer weather
- As a result, for Full Year 2019 we estimate a 6-7% overall decrease in the domestic gas consumption, with imports almost doubling weight compared to 2018
- Gas trades on the Romanian Commodities Exchange showed supportive prices in 2019 – but remember that only part of the volumes supplied to industrial consumers in Romania were concluded on this market
- CEGH Front Market Index plunged till September, recovering to some extend in the last 3 months of 2019
- Regarding the 2019 legal environment, please recall the main provisions for the gas & electricity markets that were enforced by Government Emergency Ordinance no 114 issued in December 2018 and amended in March 2019:

Prices of gas sold by producers from internal production to households and assimilated consumers are capped at 68 RON / MWh starting with May 1, 2019, and

Gas and electricity producers were charged a 2% fee on revenues, with certain deductions.

These aspects are presented at pages 6, 7 and 9 of Romgaz Group Presentation, available on our website at Investor Relations.

**Regarding our operational and financial performance achieved in 2019, we mention the followings:**

- Natural gas production stood at 5.28 bcm - that was lower by 1.06% compared to the previous year and accounted for almost 99% of the budgeted figure.  
We continued our rehabilitation programme in the main mature fields, the wells workover and special operations programmes, improving productivity of certain gas reservoirs.
- We maintained our good position in the market, accounting for around 44% of total gas deliveries in Romania according to our estimates. Also, we estimate that Romgaz market share, considering only domestically-produced gas, has increased to 56%
- Total Gas volumes supplied from internal production to the market abated by 3% year-on-year, while total volumes delivered to Third Parties (including total purchased gas) decreased by 6%
- On the Revenues side, we succeeded to rise Gas Revenues from our Production by 8% and Total Gas Revenues by over 4% compared to 2018
- Also, we continued efforts to improve the commercial strategy and our gas value chain
- Revenues from Storage Services rose by 11% - the capacity booking services having the largest contribution
- Revenues from Electricity halved – due to the on-going construction works on the new power plant at Iernut - that will fully replace the old power plant
- Overall we succeeded to increase our top line (Revenues) by 1.5% in 2019 to 5.08 billion RON
- Regarding the main 3 tax expenses that are included in the “Other expenses” item in the P&L - we mention an overall increase of 15% driven by: windfall profit tax higher by 30% on the back of higher gas selling prices, gas and UGS royalties lower by 23% based on lower gas reference price, and the 2% contribution due for 2019

- We also recorded certain expenses with unfavourable impact on our P&L, as follows:
  - Net Assets Impairment of 391 million RON related to the abandonment of certain investment projects in wells and of certain other projects, and a net impairment following a gas impairment test conducted in December 2019
  - Impairment Losses of receivables of 117 million RON, based on the risk of non-collecting of receivables from insolvent customers considered “captive” by the insolvency law.
- All in all, EBITDA rose by 14% and we reported a Net Profit of 1.43 billion RON, higher by 4.6% compared to the previous year
- All main Profitability margins have improved in 2019, with EBITDA margin at 50.4% and Net Profit margin at over 28%.

**In the 4th Quarter alone**, we reported a Net Profit of 243 million RON, on Revenues lower by 17% triggered by warm weather and lower energy sales.

These aspects are presented at pages 16 to 25 in Romgaz Group Presentation, available on our website.

**Regarding capex**, we invested in total 892 million RON in 2019 – which accounted for 65% of our consolidated budget. Capex were related to:

- Works at the new power plant Iernut (34% of total amount invested by the group)
- Geological Exploration for the discovery of new gas reserves (32% of total)
- Underground Gas Storages (a 3% weight), and
- the 31% balance was related to exploitation and drilling works, equipment modernisation and others investments.

Maintaining 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.

As we already informed the market, we started in January this year production in the deep reservoir of Caragele field (Caragele Deep, our discovery) through well “77 Rosetti” – which has a production potential of over 1,500 boe/day.

Other 2 wells were put in production in the medium depth of Caragele field, with an average flow of 1,000 boe/day jointly. These results reward our significant efforts to improve current production and perspectives.

Additionally, our strategy is to enhance the efficiency of our gas production and to consolidate our position on the energy supply markets, as well as to develop our business by approaching new internal and international markets.

**With respect to the 2020 perspectives, we can mention that:**

- Government Emergency Ordinance no. 1 / January 2020 has amended GEO no. 114 / 2018 - among others by stating new deadlines for deregulation of gas and electricity prices for producers and by taking out the 2% fee imposed on our revenues
- We will publish our 2020 budget proposal and call the Shareholders Meeting for approval in short time.

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

## Q&A SESSION

**Question from Daniela Mandru (Swiss Capital Romania):** Please let us know the gas quantities sold at regulated prices in FY2019. Also, could you help us with the estimates for dividends distributions out of the 2019 profit ?. Thank you!

**Answer from Victor Cristian Serban:** To be very short on the first part of the question, we sold 16 TWh - to be more precise 15.905 TWh for 2019 at regulated price.

**Answer from Andrei Bobar:** Regarding the second part of the question, as you already know - in accordance with the Emergency Ordinance number 64/2001 - all majority state-owned companies are obliged to distribute minimum 50% from their Net Profit. In the previous years, Romanian Government has issued memorandum for the majority state-owned companies to distribute 90% from their Net Profit. Currently, we have no such memorandum issued by the Government, and the management is analyzing the figures to issue the proposal - it will be minimum 50%.

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

- The first one is: What would be the one-off just in the 4<sup>th</sup> Quarter of 2019? I don't see exactly what was the level for impairments and the adjustments for bad receivables.
- The second one is if you could give us a split on segments for the Earnings before Taxes in the 4<sup>th</sup> Quarter, and
- The third one - if you can give us more color on the decision of the fiscal authority on the special dividend related to the Emergency Ordinance 114/2018, or something like that because it was a little bit unclear. What is all that about and if ROMGAZ will challenge that decision?

**Answer from Gabriela Tranbitas:** So, in the 4<sup>th</sup> Quarter of 2019, we recorded additional impairments for property plant and equipment of 119 million RON and for trade receivables 85 million RON.

The answer to the second question is: for the 4<sup>th</sup> Quarter, on the gas production we recorded 320 million RON Profit before Tax, for the storage activity 34 million RON and for electricity 7 million RON.

**Answer from Andrei Bobar:** Regarding the economic and financial inspection from the National Authority for Fiscal Administration - because it was not a fiscal control, it was an economic and financial control - they assessed how we calculated the amount in according to the art 43 from EO 114/2018. In their view, they said that we should have added to the distributable dividend also the reserves that were allocated after the shareholder meeting held on April 25, 2019. If we read the article 43,



practically we were talking about all the existing reserves at December 31, 2018 that were not engaged in CAPEX and that also existed in our treasury accounts.

So, we will contest this conclusion, this report, and we will use all the legal requirements to have a final opinion, because we believe that we have distributed the correct amount, and not less. Thank you!

**Question from Irina Railean (BT Capital Partners Romania):** Could you please provide us more details on the reasons for the imports increase on the market?

**Answer from Victor Cristian Serban:** In 2019, imports almost doubled, but this was caused mainly by the decrease of the domestic production, as you might have heard from other sources including from the Regulator, and also to some extent - given the situation in Ukraine and the transit through Ukraine - most of the players have chosen to store some additional quantities.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Could you give us some guidance on the 2020 capex? How do you see gas prices evolving so far in 2020?

**Answer from Robert Chirca:** In terms of CAPEX for 2020, we have in our plans 1.3 billion RON for this year.

**Answer from Victor Cristian Serban:** On the second part of the question, as you know, the current price is on a downward curve, but please remember that Romgaz has already sold a greater part of its production for 2020 in 2019 on gas-year bases, at significantly better prices than the current ones.

**Question from Irina Railean (BT Capital Partners Romania):** What are your expectations regarding the gas price evolution after the market liberalisation?

**Answer from Victor Cristian Serban:** We don't expect an increase in prices, generally speaking, so there will be some uniformisation in wholesales consumer prices and industrial prices. That is all we can state right now.

**Question from Tamas Pletser (Erste Bank Investment Hungary):** Can you please tell us about the reasons of the gas price decline of the unregulated market and the potential impact on Romgaz? I mean in January 2020 the price of natural gas fell in Romania.

**Answer from Victor Cristian Serban:** Gas price in Romania is following the same trend as the regional market. As you know, the regional market is also on a decrease in trend. And, as of impact on Romgaz, I already answered this question previously.



**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** What were the volumes sold in 4<sup>th</sup> Quarter at regulated prices?

Answer: We will come back with this answer.

**Answer from Victor Cristian Serban:** This volumes were 8 TWh.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** 1.3 billion RON including potential Exxon transaction?

**Answer from Robert Chirca:** 1.3 billion RON does not include the potential Exxon transaction.

**Question from Victor Nemteanu (individual investor):** Will there be any dividend distributions from reserves in 2019 (35%) ? What would the amount be?

**Answer from Andrei Bobar:** Article 43 from the EO 114/2018 was only applicable to the financial statements as of the end of 2018, so the 35% rate was only applicable at that time. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** There is limited visibility in the market. What is the current level of the gas price?

**Answer from Victor Cristian Serban:** The current level of the gas price take into account all gas sales coming from different types of contracts: annual contracts, quarterly contracts, monthly contracts and, as you know, the price depends very much on the moment when this contracts are concluded. So, just as an estimate from us, the current gas price is the same as in Q4 2019, around 80 RON/MWh - maybe 83 RON/MWh. This is a consolidated price, taking into account also the regulated market.

**Question from Irina Railean (BT Capital Partners Romania):** Could you please provide us the average realized gas price for 4th Quarter of 2019, as well as for FY2019?

**Answer from Victor Cristian Serban:** I already answered this question, 83 RON/MWh for 2019, for the full year 2019. In Q4 the price was around 80 RON/MWh.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Has a decision been taken on a second power plant?

**Answer from Robert Chirca:** For the second plant, a feasibility study is in progress, so we did not took a decision.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** When should we expect Iernut to become operational?

**Answer from Robert Chirca:** We expect to start the tests in the second half of this year.

**Question from Georgii Gorbatov (Goldman Sachs, Moscova):** Sorry, I think I have missed the answer: what is your capex plans for 2020?

**Answer from Robert Chirca:** The capex for 2020 is 1.3 billion RON.

**Question from Mihaela Podgorski (BRD):** Can you provide an update to Iernut? Are there going to be major delays? Thank you !

**Answer from Robert Chirca:** Related to Iernut, no other delays beside what was communicated until now, the 4 months that were due to foundation structure works. Thank you!

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Given that Iernut is expected to become operational close to end of year, should we expect minimal contribution to profitability in 2020?

**Answer from Robert Chirca:** We expect a minimum contribution during the test period for the Iernut power plant. Thank you !

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** 1.3 billion RON capex - could you split into upstream, storage and power?

**Answer from Robert Chirca:** We cannot provide you with this information, this will be available immediately after the budget will be approved.

**Question from Daniela Mandru (Swiss Capital Romania):** Would Iernut new power plant start production this year?

**Answer from Robert Chirca:** For new power plant Iernut, the plans are to start the tests period in the middle of the year and to become operational at the end of this year.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** Volumes produced decreased in 4Q as a result of a drop in deliveries? Could you give us some guidance for 2020?

**Answer from Victor Cristian Serban:** Production drop was caused mainly by lower consumption due to very warm weather and, as for 2020, also the production levels will be available together with our budget for 2020.

**Question from Daniela Mandru (Swiss Capital Romania):** What are the estimates for the volumes to be sold in 2020 to third parties?

**Answer from Victor Cristian Serban:** We expect sales to third part to stay in the same range of magnitude as in 2019. And, as I mentioned before, you will see the exact figures once the budget is published.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** What is the volume estimated to be sold at regulated prices in 2020?

**Answer from Victor Cristian Serban:** We still expect regulation regarding such volumes for the 2<sup>nd</sup> Quarter of 2020, we don't know yet this figure. As for the figures for the 1<sup>st</sup> Quarter, you already know them from the regulatory decision issued last summer. We expect the regulator to issue the new decisions for the 2<sup>nd</sup> Quarter of 2020.

**Question from Daniela Mandru (Swiss Capital Romania):** What other impairments should we expect for 2020?

**Answer from Gabriela Tranbitas:** Impairments are not planned. We continuously monitor the activity of the company, the investment projects and the relationship we have with our clients. If events come up that may suggest that the project will not have the anticipated results or we may have problems in collecting our receivables, than we will incur other impairments. Otherwise, there will be no need for that.

**Question from Iuliana Ciopraga (Danske Capital Bulgaria):** What are the gas volumes expected to be sold internally - meaning used by Iernut, in 2020?

**Answer from Victor Cristian Serban:** It is very hard to estimate, because there will be a period of tests, and during this period, we cannot estimate exactly the amount of gas to be consumed by the new power plant. If we speak about the entire power plant Iernut, this is subject to the old power plant obtaining some approvals from the Environmental Authority. Thank you!

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