

## **INTRODUCTION TO THE CONFERENCE CALL**

### **August 14, 2018**

Dear stakeholders and investors,

Welcome to our conference call for the discussion of the results recorded in the First-Half of 2018.

The Semestrial Report was released today jointly with the IFRS Interim Consolidated Financial Statements, and I would like to make some remarks regarding Romgaz overall performance.

Please note that all financial figures mentioned herein are on consolidated basis.

**Our activity in the first 6 months of this year was influenced by the following main factors:**

- The natural gas consumption in Romania recorded a decrease especially in Q2, according to our estimates, as a result of very mild temperatures registered in the period - compared with the previous year
- Production of hydro-electricity in Romania increased in the first 6 months, thus leading to a strong competition among the other producers of electric power
- The new reference price set by the Agency for Mineral Resources in mid-February 2018 resulted in a higher level of gas royalties paid by our company in the first 6 months
- In addition, the full deregulation of the gas producers' prices performed in Romania on April 1, 2017 improved the pricing of the domestically-produced gas, but also led to higher windfall profit tax for our company
- In addition, we separated our Underground Gas Storage activities into a distinct legal entity on April 1<sup>st</sup>, 2018, and new and lower storage tariffs were approved by the National Authority for Energy Regulation starting with Q2
- Last but not least, we voluntarily amended the accounting of certain categories of exploration costs – with the aim to be in line with the other oil&gas players. These costs are now expensed, and not capitalised anymore - with impact on our bottom line.

**We mitigated most of these issues, and:**

- Succeeded to improve our gas selling activities - through an active commercial policy and by transparent, non-discriminatory and competitive gas trades on the Commodity Exchange
- Also, we continued to optimise our gas value chain and to adequately manage the gas volumes (both from current production and storage).

**Talking only about Q2 2018, we can highlight the following main operational and financial developments:**

- Natural gas production was higher by 4.1% compared to the same period of 2017
- Volume of own gas delivered to the market increased by almost 10% year-on-year; also, we succeeded to grow the related gas revenues by 11%
- All profitability rates stood at significant levels, and the Consolidated Net Profit was roughly stable compared to the same period of the previous year (-2%) following the impact of higher taxes.

These aspects are presented at pages 14, 16 and 23 of Romgaz Presentation, available on our website.

**Overall in the first 6 months of 2018, we reported important achievements (also please recall that 2017 provides a high comparison base):**

- Natural gas production increased by 3.2% year-on-year, and exceeded by 0.7% our budget proposal - due to optimisation and rehabilitation programmes
- Gas deliveries recorded a better dynamics compared to the total gas consumption estimated for Romania, so we consequently increased our market share to 45.3%; also, total gas volume sold to 3<sup>rd</sup> parties favourably recorded a 1.2% growth year-on-year
- Revenues reached 2.5 billion RON – higher by 3.4% compared to the same period of 2017
- Net Profit was elevated at 798 million RON, and we maintained high profitability margins: Net Profit margin of 32.2%, and EBITDA margin of over 47%.

**Also, it is very important to highlight the results of the external audit of our gas reserves and resources**, performed as of Dec 31, 2017, by the US reputable company DeGolyer&MacNaughton.

The external audit confirmed our in-house estimates, as follows:

- Total Gas Reserves assessed at 75 bcm (of which, Proved Reserves amount to 57 bcm)
- Total Contingent Resources assessed at 78 bcm – higher by 55% compared to the previous audit performed by the same valuator 2 years before
- the 5-year average Reserves Replacement Rate was confirmed at 78% - well above our Target of 70%.

**Regarding capex, we succeeded to invest 653 million in the 1<sup>st</sup> Semester of 2018.**

This amount is 3 times higher compared to the same period of the previous year, and is roughly at the level of the budgeted amount.

- The main investment objective of Romgaz remains arresting the gas production decline. This is currently being achieved through discovery of new reserves and improvement of the recovery rate of existing reservoirs - through rehabilitation and modernisation programmes.

- A key strategic direction is to consolidate our position on the energy supply markets – through the CTE Iernut development project. Completion deadline is set for Q1 2020, and the new power plant will significantly improve the operating efficiency and production level of our electricity segment. In the first 6 months, we executed foundation works, and also delivered 4 gas turbines, 3 generators for gas turbines and other equipment.
- Investment of our storage subsidiary is also important for Romgaz Group, with the aim to secure gas supply on long term.

**Regarding our Balance Sheet, it continued to be robust**, with zero indebtedness, and able to finance the distribution of dividends and the implementation of our investment objectives.

We kindly remind that the Shareholders Meeting approved in April the distribution of total gross dividends in the amount of 1.9 billion RON - for the 2017 fiscal year. The dividends have been distributed in July, and translated into a 104% Gross Dividend Pay-out Ratio for the last fiscal year.

**With respect to the 2018 outlook, we can make the following remarks based on the developments recorded so far:**

- We foresee that gas consumption in Romania will most likely be roughly in line with the performances estimated in the first part of the year
- Our gas production will stand at the budgeted level, considering that gas sales from current production will record an increase generated by the low gas demand of Iernut power plant in 2018
- Regarding the gas selling activity, Romgaz will continue to hold a significant market share in Romania in terms of gas supply
- We see lower revenues from the gas storage activity following the separation of the UGS Segment and the application of new and significantly-lower tariffs, starting Q2
- Electricity production will be weaker this year as we have already announced (recall that 2017 provides a high comparison base, as we recorded the best power production ever)
- Please remind that our 2018 Amended Budget will be discussed and voted in the Shareholders Meeting on August 23
- We also projected Investments of 1.6 billion RON in 2018 – over 2 times higher compared to 2017, and we strongly believe that this level is achievable – taking into consideration the investment in the new power plant
- In terms of profitability, we continue to make our best efforts to maintain the financial profitability of the company and to create value for shareholders.

**Thank you for your attention !**