



To: S.N.G.N. ROMGAZ S.A. EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

Ref: the approval in principle of the increase of Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiești SRL share capital

Pursuant to article 141 of Law 123/2012 (Natural Gas Law) an underground storage operator who is part of a vertically integrated economic operator must be independent at least when it comes to its legal form, organization and the decision making process compared to other activities not related to transportation, distribution or underground storage.

The natural gas law also provides the minimum criteria necessary to ensure the independence of the underground storage operator (in this case, of the Subsidiary), among which the underground storage operator must have sufficient decision making competences, independent of the parent company, regarding the asset necessary to operate, maintain or develop UGS surface facilities (these do not impede the existence of some appropriate coordination mechanisms guaranteeing protection of the economic supervision rights and management rights of the parent company regarding the efficiency of a subsidiary's assets; the parent company has the right to approve the annual financial plan of the underground storage operator including the debt plan; the parent company is not entitled to instruct on the day-to day administrative matters or the individual decisions regarding construction and upgrade of the UGS surface facilities not exceeding the limits set in the approved financial plan or other equivalent document).

In order to enforce the above mentioned legal provisions concerning the independent underground storage operator, in August 2015, with the approval of S.N.G.N. ROMGAZ S.A. Extraordinary General Meeting of Shareholders, SNGN ROMGAZ S.A. established a limited liability company under the name of **S.N.G.N. ROMGAZ S.A. - Filiala de Înmagazinare Gaze Naturale DEPOGAZ SRL Ploiești** (further referred to as the Subsidiary).

The share capital of the Subsidiary is fully owned by S.N.G.N. ROMGAZ SA, as sole shareholder.

As an underground storage operator, the Subsidiary began the gas underground storage activity on April 1st, 2018.

The Subsidiary's personnel as well as the clients' commercial contracts related to the underground storage activity were taken over from S.N.G.N. ROMGAZ S.A.

S.N.G.N. ROMGAZ S.A. remained the owner of the fixed assets supporting the performance of the underground storage activity; the transfer of the right to use these fixed assets to the Subsidiary was made by signing two fixed assets leasing contracts in March 2018 for a period of 1 year.

Towards the initially implemented separation model (namely, the leasing of fixed assets by S.N.G.N. ROMGAZ S.A., as lessor, to the Subsidiary, as lessee), another model is proposed based on the transfer of the right of ownership over the fixed assets supporting the underground storage activity from S.N.G.N. ROMGAZ S.A. to the Subsidiary, in the form of contribution in kind to the share capital of the Subsidiary based on the following considerations:

Capital social: 385.422.400 lei

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S.N.G.N. Romgaz S.A.
551130, Piața C.I. Motaș, nr.4
Mediaș, jud. Sibiu - România
Telefon 004-0374 -401020
Fax 004-0269-846901
E-mail secretariat@romgaz.ro
www.romgaz.ro

1. The lease fee of fixed assets supporting the underground storage activity is acknowledged by ANRE given that the value of the lease of the facilities of the storage system does not exceed the cumulative value of 3 elements: 1) fiscal depreciation pursuant to the lessor's records, 2) the regulated rate of return applied to the net fiscal value of leased tangible and non-tangible assets, and 3) taxes and dues expenditures generated by the right of ownership over the leased tangible and non-tangible assets.

The lease fee paid by the Subsidiary for the assets supporting the underground storage activity is considered as cost directly taken over pursuant to the methodology establishing the regulated income, total income and regulated tariffs for natural gas underground storage activity (please refer to ANRE Order no. 4 dated January 18, 2017).

The methodology for setting the tariff for storage services is a cap tariff basket for reducing significant fluctuations charged to those who benefit from storage services. The storage model is based on the principle of including in the tariff costs that can be substantiated, recorded by the storage operator (the Subsidiary). The Subsidiary's main profit source is the rate of return on the capital invested in the storage activity ($ROR \times RAB$ where ROR = regulated rate of return on invested capital, established by ANRE, and RAB = the regulatory asset base, representing the regulated value of tangible and intangible assets, recognised by ANRE).

Because the Subsidiary does not own fixed assets used for the storage activity, it risks lacking profit sources according to ANRE tariff methodology affecting the Subsidiary's financial result and efficiency (the regulatory asset base owned by the Subsidiary is insignificant).

2. There is the risk that ANRE does not recognise in tariffs all expenses related to the lease of fixed assets from S.N.G.N. ROMGAZ S.A. by the storage subsidiary or of some costs related to the services provided by SNGN Romgaz SA for the Subsidiary, such case may generate losses for the Subsidiary.
3. ANRE might consider that, actually, under the provisions of the lease agreements, the Subsidiary has no decision-making independence with respect to the assets for the storage activity leased from S.N.G.N. ROMGAZ S.A.
4. The fact that the Subsidiary, as owner, operates the fixed assets supporting storage activities is a viable solution and concurrently a warranty for ensuring real independence and the status of the Subsidiary as independent storage operator.
5. Transfer of ownership on fixed assets supporting storage activities, from S.N.G.N. ROMGAZ S.A. to the Subsidiary, eliminates the possibility of being controlled by S.N.G.N. ROMGAZ S.A. not only by the structure of the association but also by means of the leasing contracts. Such leasing contracts, in case the property essential for performing the Subsidiary's activity is not transferred, are considered strategic contracts.
6. The fact that the Subsidiary, as owner, operates the fixed assets supporting storage activities, ensures the premises for the Subsidiary to operate, maintain, rehabilitate and upgrade the surface facilities of the underground gas storages, independently with respect to the legal status and to the organisation and decision making process related to upgrading fixed assets supporting storage activities (UGS surface facilities).
7. Without having the possibility to operate the fixed assets for the storage activity as owner, the Subsidiary's management cannot ensure full and efficient control of the expenses that are necessary to be incurred for the UGS activity.
8. There is a risk of becoming impossible to access European funds for projects for common interest for storage for those projects of the Subsidiary whose scope is the development of the storage capacity of existent storages or developing daily withdrawal capacities (if such projects imply the development of existing assets owned by S.N.G.N. ROMGAZ S.A.).



In view of those mentioned hereunder, we submit for the approval of S.N.G.N. ROMGAZ S.A. Extraordinary General Meeting of Shareholders the following resolution draft;

S.N.G.N. ROMGAZ S.A. Extraordinary General Meeting of Shareholders approves in principle the increase of S.N.G.N. ROMGAZ S.A.- Filiala de Înmagazinare Gaze Naturale DEPOGAZ SRL Ploiești share capital by the contribution in kind with fixed assets belonging to S.N.G.N. ROMGAZ S.A. supporting the storage activity, with a value that will be determined by an independent authorised expert, appointed in compliance with legal provisions."

After fulfilling all formalities necessary to evaluate S.N.G.N. ROMGAZ S.A. fixed assets supporting the storage activity, the Board of Directors will submit for approval of S.N.G.N. ROMGAZ S.A. Extraordinary General Meeting of Shareholders the actual increase of the Subsidiary's share capital.

***Respectfully yours,
Chairman of the Board of Directors
Nistoran Dorin-Liviu***

