



ROMGAZ

Societatea Națională de Gaze Naturale Romgaz S.A. - Mediaș - România



To,

SNGN Romgaz S.A. GENERAL SHAREHOLDERS MEETING

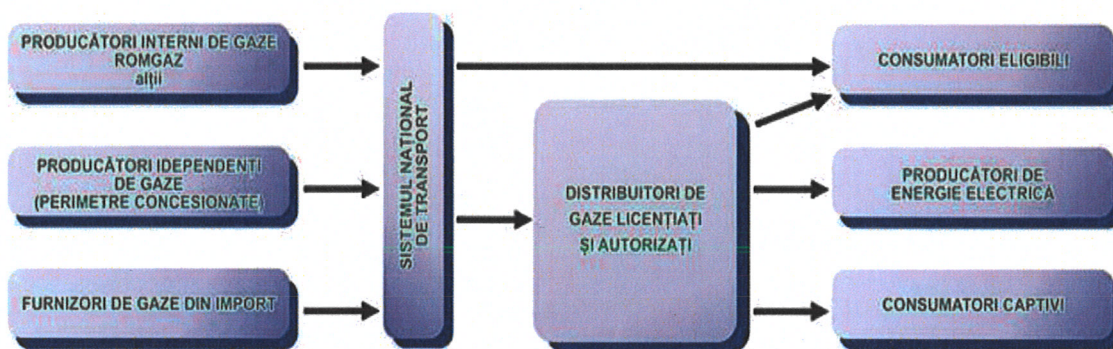
Request for a Principal Approval of the Establishment of a Joint-Stock Company in Association with S.A.P.E. S.A..

1. GENERAL ASPECTS

1.1 Romgaz Description

Romgaz is the largest natural gas producer and the main gas supplier in Romania. In 2013, the company was admitted for trade on Bucharest Stock Exchange and on London Stock Exchange. The main shareholder is the Romanian State with a 70% stake. Romgaz has extensive experience in the field of natural gas exploration and production since its history began more than 100 years ago, in 1909 when the first natural gas reservoir was discovered in the Transylvanian Basin, in Sarmasel.

Romgaz performs geological research operations for discovering new gas reservoirs, produces methane gas as a result of operating the reservoirs within the company's portfolio, stores natural gas in underground storages, performs interventions, workovers and special wells operations and provides professional technological transportation services. In 2013, Romgaz expanded its scope of activity by taking over Iernut thermal power plant, becoming an electricity producer and supplier.



Romgaz Position on the Romanian Gas Market.

Capital social: 385.422.400 lei
CIF: RO 14056826
Nr. Ord.reg.com/an : J32/392/2001
RO08 RNCB 0231 0195 2533 0001 - BCR Mediaș
RO12 BRDE 3305 V024 6190 3300 - BRD Mediaș



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The company is developing by implementing state-of-the-art technologies in the field of exploration, production and underground storage, financed from own or attracted sources. The economic and financial position of the company is characterized by profit stability and liquidity. As such, Romgaz is one of the state-owned company which fulfilled all economic growth conditions, becoming one of the largest companies in Romania.

Romgaz has 100% ownership of its subsidiary Depogaz Ploiesti SRL and the establishment of a new, fully owned company is prohibited by law. Based on Letter of Intent no. 3788 dated 14.11.2018, the discussions with SAPE S.A. Directorate, Romgaz Board has endorsed in principal the initiation of discussions for the establishment of a company where SAPE S.A. is minority stakeholder.

1.2 Description of SAPE S.A.

Societatea de Administrare a Participațiilor în Energie S.A. (S.A.P.E. S.A. – The Joint Stock Company for Management of Stakes in Energy), a two-tier company, was established as a result of the division of SC DFEE – Electrica S.A., according to the division project dated December 19, 2013 and Government Decision no. 203/2014 on the amendment and addition of GD no.85/2013 for the approval of the privatization strategy by means of public offering for increasing the share capital through increase of private capital injection from Societatea Comerciala de Distribuție și Furnizare a Energiei Electrice „Electrica” S.A. București, as amended from time to time, published in the Official Journal of Romania no. 147/March 19, 2013 and registered with the Trade Registry on May 7, 2014.

SAPE S.A. General Meeting of Shareholders of January 10, 2018 decided to change the company's management system; as such, the company became a two-tier company, having its headquarters in Bucharest, Bd. Lacul Tei nr.1-3, ISPE building, floor 11, rooms 1101-1102, district 2, registered with the Trade Registry under number J40/5394/2014, Sole registration code RO 33134190.

The company's main scope of activity, in accordance with the Classification of Activities in the National Economy, is NACE no. 7022 – Business and other management consultancy activities.

S.A.P.E. S.A. has a share capital of RON 431,237,800 divided in nominal shares with a nominal value of RON 10 each. When substantiating the 2018 income and expense budget, it has been outlined that SAPE S.A. can be used as a tool for the fulfilment of a general energy objective in Romania, namely the efficiency increase of the national energy system through involvement in viable and profitable investments in the Romanian energy sector in line with both the commitments made by Romania's Government through its governing programs and the national and European energy strategy, against the background of strategic tendencies and directions of the European electricity market. In order to fulfil this objective, SAPE S.A. direct involvement in the implementation of investment projects has as major advantage the reduction of risk for this projects to fall under the applicability of state-aid legislation, with the relating consequences. In fact, the Romanian State shall exercise through SAPE its full competence and shall play an active part as shareholder, shall establish the dividend policy, investment policy, corporate governance, all aligned with Romania's energy strategy in correlation with EU energy directives.

2. OPPORTUNITY TO ESTABLISH A SUPPLY COMPANY

The opportunity to enter a business area and a market on which joint companies are not active has emerged under the current domestic and regional energy market climate.

As such, we analysed how to maximize the exploitation of the opportunity generated by entering on the gas and electricity supply and distribution market as a joint company.

The above mentioned opportunity is mainly defined by:

- The possibility to develop the business of the new joint company by increasing the company's presence on the final consumers market (retail market – pursuant to the definition provided by Law 123/2012), a market segment where, until now, Romgaz has a small presence as compared to the other domestic producers (Romgaz market share on the final consumers market is currently at a level twice as low as the one held by the main competitor on the Romanian market) while SAPE SA is not even present;
- The possibility to develop the trading activity of the new joint company by selling additional quantities of natural gas that are not from Romgaz production but which could be of interest following profits obtained through the trading activity;
- The exploitation of the opportunities given by the regional infrastructure projects, particularly those in connection with the southern corridor;
- The possibility to develop the activity at a regional level both as regards acquiring sources and their capitalization, with a view to activate and gradually increase the role of the joint company on the regional market;
- The opportunity to enter, as a joint company, also the regulated market (please refer to the definition provided by Law 123/2012) and to benefit from the security of incomes given by regulated tariffs (supply tariff);
- The possibility to develop the business in the field of electricity supply and trading adding value to the joint company by creating synergies.

Possible advantages offered by a commercial tool that would facilitate meeting the strategic objectives of the partners related to the final consumers market (on the competitive and/or regulated market) in Romania as well as abroad through a cross-border commercial activity, are given by:

- i. The increased flexibility of the decision making process on an emerging market, characterized by regulatory instability, lack of price references, lack of data concerning market conditions (demand/supply) provided by independent and well-informed sources, etc.;
- ii. The limited liability in third-party trades, without involving company's assets in activities bearing a relatively high risk;
- iii. The increased corporate efficiency;
- iv. The possibility to rapidly adapt to the labour market as well as to the inherent conditions dependent on the company's financial situation with regard to personnel recruiting/hiring and/or reducing the number of employees during unfavourable market circumstances so as to ensure company performance.

3. LEGAL AND STATUTORY FRAMEWORK

In its development strategy for 2015-2025 Romgaz aims to:

- Increase its gas resources and reserves portfolio by discovering new resources and by developing and improving the recovery of already discovered resources;
- Consolidate its position on the energy supply markets;
- Optimize, develop and diversify the underground gas storage activity, by reconsidering its importance, in order to ensure the safety, continuity and flexibility of natural gas supply;
- Identify new opportunities of growth and diversification.

With respect to the partner, pursuant to Note no. 3029/24.09.2018, SAPE SA Management proposed the endorsement and approval by the higher bodies of the main directions of action which will be the basis of the company's investment strategy. As per Art. 17 paragraph 23 letter r) of SAPE SA Articles of Association, the Supervision Board endorsed the main directions of the proposed investment strategy pursuant to Decision no. 16/2018 while the sole shareholder, the Romanian state through the Ministry of Energy, approved them pursuant to Decision no. 8/2018.

SAPE financial investment strategy aims at acquiring minority or majority stakes, as the case may be, in companies engaged in the energy sector or in projects pertaining to the energy sector which simultaneously meet the following requirements: (i) are financially viable and sustainable, (ii) are prone to a long term continuity, (iii) have strategic/critical role in the energy sector, nationally or regionally, (iv) investment efficiency.

In order to establish the new company, the parties, namely SNGN ROMGAZ SA and SAPE SA, will proceed to negotiate their participation and Articles of Association.

Taking into account the above mentioned, we hereby **seek your approval in principle** for establishing a joint stock company in partnership with SAPE SA for gas and electricity supply.

Chairman of the Board of Directors
Nistoran Liviu-Dorin

