



To:

The Ordinary General Meeting of Shareholders of SNGN ROMGAZ SA Mediaș*Ref. to: SIF Moldova request no.2786/24.04.2019*

➤ With respect to the conclusion that for 2019 Romgaz budgeted an increase of income from gas delivered from internal production by „only 0.2%” higher than in 2018, we would like to bring to your attention that, during the whole year 2018 the natural gas wholesale market was entirely liberalised for domestic producers, while, under GEO no.114/2018, as amended by GEO no.19/2019, for 8 months of 2019 the price is capped for a significant quantity of Romgaz total gas quantity intended to be sold.

Whereas natural gas production in 2019 is estimated at the same level as in 2018, under the significant increase of the gas quantity injected in underground storages in 2019 (in order to reach the mandatory minimum stock pursuant to ANRE Decision no. 663/10.04.2019), the gas quantity that remains to be sold is less than the one of the previous year.

Even though the quantity to be sold decreases and the price is capped for a quantity of approximately 35% of the total quantity sold for a total of 8 months, the average delivery price budgeted for 2019 is above the one achieved in 2018.

Under these circumstances, the budgeted income from gas deliveries from internal production are slightly higher than those of 2018 (0.2%).

Indeed, Romgaz gas production recorded an increase of 5.2% in Q1 2019 as compared to the same period of 2018, under free market conditions. As far as Q1 deliveries are concerned, it should be taken into consideration that the sale price (contract price) was affected by the costs of underground storage services for quantities delivered from underground storages.

From a brief analysis and taking account of the price stated in your letter, from CEGH Vienna, namely EURO 17/MWh, apart from the fact that this price is a spot market price, converted into RON this means approximately RON 80/MWh. Applying this price to quantities for non-domestic consumption and the price of RON 68/MWh to quantities provided in ANRE Decision no. 762/2019 (which provides the quantities that domestic producers will provide for households and for Thermal Energy Producers respectively), it results a similar price to the one budgeted by Romgaz. The weight of gas delivered by Romgaz for households and Thermal Energy Producers at regulated price represents 30% of the total (extracted) production estimated for the remaining 8 months.

➤ Regarding the gas basket provided by GEO No. 114/2018, we would like to draw the attention on the fact that this piece of legislation was amended by GEO No. 19/2019, regulation that does not provide a gas basket.



In these circumstances and bearing in mind that the market for internal production is free for the non-domestic category, the industrial customers will not benefit from price capping and we do not have at the moment signs that indicate a significant increase of gas consumption at national level in 2019. Traditionally, the gas import in Romania is about 10-15% of the total consumption, representing annually 1-1.5 billion m³. Considering that the need for import gas occurs on the market mainly in Q1 and Q4 and as you can see Romgaz recorded in Q1 2019 an increase of production, this covered most of the import gas need for the remaining months of 2019.

➤ Out of the 11.8% increase in personnel related expenses, only 8.1% represent salary raises of the personnel hired with an individual labour contract. The salary growth index resulted from adding the consumption price index estimated in 2019 (2.8%), from adjusting the salaries in 2019 as a result of the indexations granted in 2018 (2.59% adjustment provided in the State Budget Law No. 50/March 15, 2019) and 2.71% related to the increase of the employees number.

Personnel related expenses include social and cultural expenses, employees' participation to profit, expenses for insurances and social protection, other personnel expenses. The increase from 8.1% to 11.8% is a result of:

- the increase of the expenses for employee's participation to profit for 2018 and payed in 2019, increase generated by including in 2018 the salary contributions in the employees responsibility (from the employer);
- social – cultural expenses represented 3.6% in 2018 (from expenses for salaries), being estimated at 5% in the budget at the level of deductibility limits provided in the Fiscal Code.

➤ With respect to the estimated income for 2020 and 2021, the income from electricity deliveries are higher than those from the budget for 2019. Income from electricity represent approximately 5% from the operating income (in 2019) and in 2020 and 2021, the share is raised to 8%. Commissioning the new power plant in Q1 2020 involves a period of technical tests when the power plant will not operate at full capacity.

**CHIEF EXECUTIVE OFFICER
ADRIAN CONSTANTIN VOLINTIRU**

