



SOCIETATEA NAȚIONALĂ DE GAZE
NATURALE “ROMGAZ” SA Mediaș

2020-2025

**DEVELOPMENT/
INVESTMENT
STRATEGY
(Summary)**

MAY 2020

COMPANY AT A GLANCE

Main scope of activity: natural gas production

Address: Medias, 4 Constantin I. Motas Square, 551130, Sibiu County

Trade Registry registration number: J32/392/2001

Fiscal registration number: RO14056826

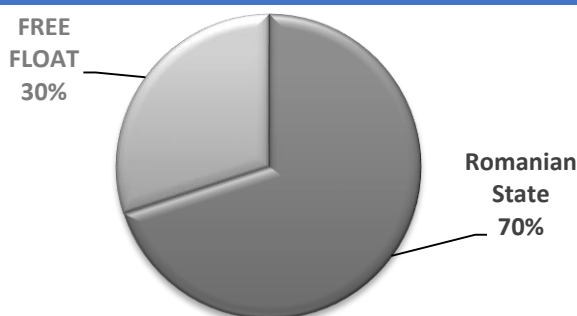
Legal form of establishment: joint-stock company

Regulated market where the company's shares are traded: Bucharest Stock Exchange (shares) and London Stock Exchange (GDRs)

Shareholder Structure

Shareholder structure as of December 31, 2019 is as follows:

	Number of shares	%
	Number of shares	%
The Romanian State ¹	269,823,080	70.0071
Free float – total, including:	115,599,320	29.9929
*legal persons		25.5090
*natural persons	98,317,285	4.4839
	17,282,035	
Total	385,422,400	100.0000



Societatea Nationala de Gaze Naturale “ROMGAZ” SA is Romania’s most important natural gas producer and supplier. The company’s experience in the field of gas exploration and production exceeds 100 years. Its history began in 1909 when the first natural gas commercial reservoir was discovered in the Transylvanian Basin by drilling Sarmasel-2 well.

Romgaz mission is energy production and supply in terms of quality, safety, continuity and flexibility. The company uses all resources, in a responsible and ethical manner, to obtain long-term profit.

Consolidation of SNGN ROMGAZ SA position on the domestic and international market is essential in facing the challenges caused on the one hand by the European Union policy on supporting a neutral economy as regards the impact on environment and, on the other hand, the effects of pandemic SARS-2-COVID 19 at global level.

Ensuring consistency between the company’s policy and the European and national objectives is a precondition, therefore the production of electric power from other sources such as renewable sources is a direction to be observed, mainly from the point of view of ensuring the mix of resources such as wind/solar and gas.

The pandemic SARS-2-COVID 19 generated significant turbulences at the level of world economy and a high degree of uncertainty. Returning to the initial rhythm of economic growth depends overwhelmingly on the company’s capacity to adjust itself to market requirements and diversification of types of services and goods that market offers.

Taking into consideration the above mentioned, Romgaz aims to be an active, profitable and competitive player on the gas and electricity production market and also to enter new markets such as the petrochemicals market.

¹ The Romanian State through the Ministry of Economy, Energy and Business Environment

In order to meet its main business scope by efficiently using material, financial, informational and human resources, the company's shareholders set, *inter alia*, the following strategic objectives:

- increase of the gas resources and reserves portfolio through the discovery of new resources and enhancement of the recovery rate regarding already discovered resources;
- identify new opportunities of growth and diversification;
- enhancement of the company's performance;
- arresting the natural production decline at minimal levels;
- consolidate the position on the energy supply market;
- expand the business on a regional level by identifying new business opportunities;
- increase the reserve replacement ratio

Romgaz undertakes business in the following segments:

- ✘ natural gas exploration and production;
- ✘ natural gas supply;
- ✘ special well operations and services;
- ✘ maintenance and technological transportation services;
- ✘ electric power generation and supply;
- ✘ natural gas distribution.

2020 – 2025 Investment Program (CAPEX)

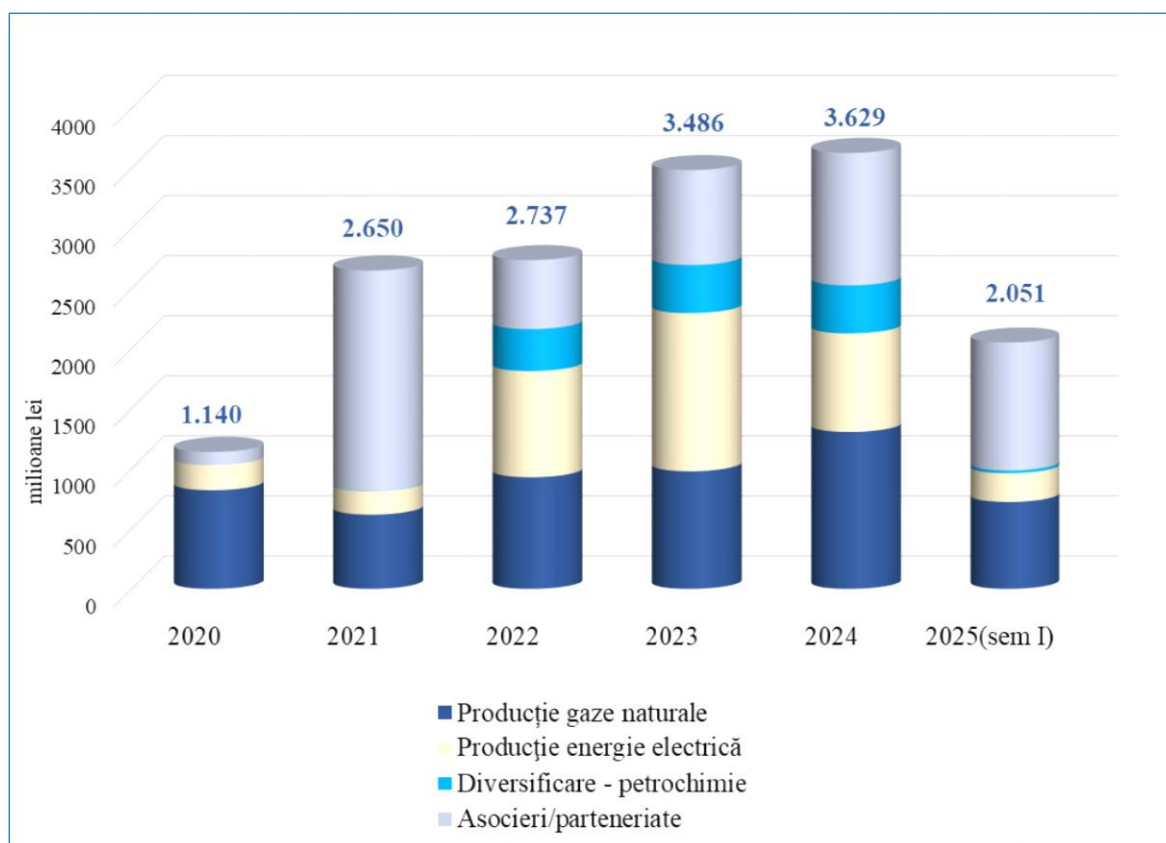
Investments play an important part in arresting the production decline, which is achieved both by discovering new reserves and improving the current recovery rate, and by rehabilitation, development and modernization of existing facilities but also by harnessing some new opportunities of growth and diversification.

Romgaz priority directions of investments are orientated to:

- continuing geological research works by performing new drillings and geological survey for the discovery of new gas reserves;
- development of the production potential by adding new facilities on existing structures;
- improving the performance of facilities and equipment to increase production safety;
- Identification of new opportunities of growth and diversification.

For 2020-2025, S.N.G.N. Romgaz S.A. forecasts an investment program of approximately **RON 15.69 billion**, according to the timetable described in the table below:

Item	Investments	2020	2021	2022	2023	2024	2025 (H1)	Total ('20-'25)
0	1	5	6	7	8	9	10	11
1	Natural gas production	822	619	930	980	1,307	724	5,382
2	Electric power generation (C.E.C.C. Iernut)	208	43	33	16	0	21	321
3	Diversification - Petrochemicals		2	350	400	400	23	1,175
4	Partnerships	110	1834	574	790	1102	1065	5,475
*	TOTAL	1,140	2,650	2,737	3,486	3,629	2,051	15,693



Forecasted progress of the total investment expenditures for the period between 2020 and H1 2025

The Investment program for the reference period will mainly be orientated towards:

↳ **Natural gas production** by means of:

- ✓ Drilling of exploration and production wells
- ✓ Technological surface facilities at successfully gas tested wells
- ✓ Gas dehydration stations
- ✓ Gas compressor stations
- ✓ Gas gathering pipelines
- ✓ Modernization/reactivation/ repairs at production wells
- ✓ Modernization of operational facilities and equipment (gas compressor stations, gas dehydration stations, well clusters, etc.)
- ✓ Utility structure development (access roads, water supply, electric power lines, communications etc.)
- ✓ Independent equipment/machines with/without assemblage
- ✓ Other investment expenditure (equipment, studies and projects, licenses, capitalizable repairs

↳ **Electric power generation** by means of:

- ✓ Combined Cycle Gas Turbine Power Plants (Iernut and Mintia)
- ✓ Renewable sources (wind energy, solar energy - photovoltaic, geothermal energy, biogas)

↳ **Methanol production** by means of building an own methanol production factory

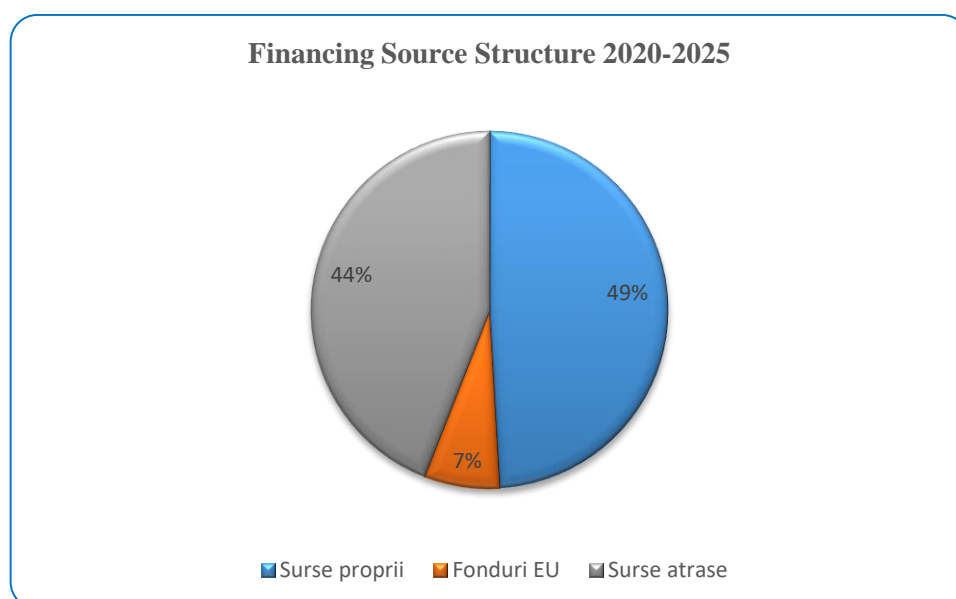
↳ **Associations/partnerships** in offshore projects (Black Sea) and electric power generation /storage

WORKING HYPOTHESES AND SYNTHESIS

Premises and assumptions:

- the current activities of Romgaz have been taken into consideration, non-consolidated at group level with the storage activity carried out by the subsidiary, without taking into account the results generated by the implementation of possible development projects, including the market diversification projects;
- data related to own production are based on developments with a high degree of certainty and natural decline;
- data related to gas import/purchase are determined so that the volume of gas delivered by Romgaz remains relatively constant;
- gas demand has been considered at a constant level. Potential increases through development projects are offset by projects to increase energy efficiency, but also by increasing competition of available sources (development of system interconnectivity);
- the stock is presumed to be zero at the end of the storage cycle for the years 2022 – 2024;
- operation of the new Iernut CCGT power plant has been considered at its design data, at a constant annual level;
- the transmission and storage tariffs have been maintained at the present level. Considering the current (high) level, we do not estimate any significant increases for the reviewed period;
- a slight return of prices to higher levels is expected after 2020, driven by regional or even global market factors;
- Income and expenditures generated by large investment projects have not been quantified, given that the completion date of these projects exceeds 2025;
- The 2025 economic-financial indicators have been considered to be equal to the average of the years 2022 – 2024, except for amortization which has been considered at the 2024 level;
- **a single scenario has been taken into consideration in terms of the percentage of profit distribution in the form of dividends, namely 50%.**

Therefore, the estimated financing source is as follows:



In drafting the strategy the business as usual scenario has been considered, disregarding the current situation of COVID – 19 pandemic and the information requires to be reviewed as soon as there are macroeconomic forecasts with a higher degree of certainty.

RISKS AND CONSTRAINTS

According to the World's Bank estimate, published at the beginning of April, a contraction of the Europe-Central Asia region's economy is expected between -2.8% and -4.4%.

The high range is due to the degree of uncertainty about the duration of the pandemic, but also its impact on each country in particular, depending on the economic profile.

According to the Spring Forecast, GDP will decrease by 7.5%, at European Union level, with the anticipated recovery in 2021 of 6%, which means only a partial recovery. The level of investments is expected to decrease by approximately 7% as compared to the level predicted in the autumn forecast.

According to the Spring Forecast of the European Commission, published on May 6, 2020, for Romania a fundamental impact of COVID – 19 pandemic on the economy is expected in 2020, with a slight recovery in 2021, without reaching the level recorded in 2019.

In this context, by the end of 2020 an increase of public deficit to 9.5% is estimated and to 11.5% in 2021, if current policies are maintained, in particular for public pension system. As regards the public debt, the European Commission forecasts an increase from 32% of GDP to 54% of GDP in 2022.

At global level, there is a fundamental risk of recession in 2020, with a particular impact on access to and financing costs.

Currently, taken into account the type of the economic crisis expected to occur, with a multitude of blocked sectors and economic changes seriously affected, there is a high degree of uncertainty in the forecasts and the demand and supply evolution scenarios are not available.

Access to financing is expected to be significantly reduced, taking into account the volatility of financial markets, with much higher costs, given the impact of the pandemic upon the main national macroeconomic indicators, namely a contraction of GDP in conjunction with an increase in the deficit of the current account and public debt.

The lack of certainty with regards to restoring the freedom of movement of goods and restoring supply chains, directly affects the development of investment projects, in conjunction with the restrictions of workers' movement.

Recent announcements of the possibility of a second pandemic wave in Q 4 2020 are likely to increase uncertainty and generate much more caution in taking on charts for implementation both by suppliers of goods and services, but especially by companies that provide qualified workforce.

The assumptions underlying this strategy, in particular the forecast of income, with a direct impact on sources of financing of the proposed investment projects, are based on maintaining the level of the main economic and financial indicators for 2025 at the average level of 2022 – 2024, without taking into account the impact on them of the pandemic, given that there are no data with an acceptable level of certainty at global level that can underlay a forecast.

In this general context of uncertainty, in conjunction with the lack of forecast models appropriate for the type of crisis and with the occurrence the most probable during the second part of 2020 of the major economic effects of the pandemic, the implementation of this strategy within the terms presented and within the estimated values, is directly influenced by the macroeconomic situation. An assessment of the macroeconomic situation and its adjustment are necessary at the end of 2020 in terms of the economic evolution, the development forecasts post SARS-2-COVID and the national and European policies to relaunch the economy.

This document is an excerpt of the 2020-2025 Development/ Investment Strategy.

Bearing in mind that this document includes confidential information, shareholders registered with SNGN ROMGAZ SA Shareholder Register, maintained and issued by the Depozitarul Central SA, have the right to consult the entire document, at the headquarters of the company, 4 C.I. Motas Square, Medias, county of Sibiu, provided that a confidentiality agreement has been signed.

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CHIEF EXECUTIVE OFFICER

ROBERT STELIAN CHIRCĂ

DEPUTY DIRECTOR GENERAL - DEVELOPMENT