ROMGAZ

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

ROMGAZ

S.N.G.N. ROMGAZ S.A. MEDIAȘ 01 APR. 2020 INTRARE / IEȘIRE Nr. 12 201

**To :** **Societatea de Investitii Financiare Moldova SA**

**Attn :** **Mr. Iancu Catalin JIANU DAN, Deputy Director General**

**Subject :** **Answer to letter SIF Moldova no. 1519/24.03.2020**

With regard to the request of Societatea de Investitii Financiare Moldova SA, as SNGN ROMGAZ SA shareholder, expressed in letter no. 1519/March 24, 2020, to answer the questions addressed to Romgaz, we hereby inform you that, pursuant to the Convening Notice of the EGMS dated March 25, 2020, the requests for answers to questions concerning the items on the agenda should have been submitted before March 19, 2020, at 15:30.

Therefore, item 1 of letter no. 1519/March 24, 2020 (Company letter registration no. 11438/March 24, 2020) is requested outside the deadlines included in the Convening Notice of the EGMS dated March 25, 2020.

Nevertheless, we hereby inform you that:

1. The amount of total investment in Slovakia project was communicated in our answer registered under no. 11014/March 20, 2020 (EUR 6,975,330, out of which approximately EUR 560,000 are investments in progress, while the rest represent costs of seismic, geological surveys, etc.). These amounts were recorded in accordance with the applicable accounting policies as presented in the annual financial statements, namely in Note 2 of these financial statements, as follows:

- Costs of seismic, geological surveys, etc. were reflected in the balance sheet as intangible assets in the financial statements issued up to December 31, 2017; in 2018, as shown in the issued financial statements, the company modified the accounting policies to record such costs incurred until December 31, 2017 in the retained earnings as expenses. After 2017, the company did not incur such expenses in Bratislava project. Therefore, these amounts are no longer reflected within assets and will not affect the 2020 result.
- Investments in progress related to Bratislava project were reflected as exploration assets, pursuant to the accounting policies of the Company shown in Note 2 of the financial statements issued by the Company, namely as assets within tangible assets.
- Consequently, only the amount of non-current assets in progress is included in the balance sheet on December 31, 2019.

2. One of SIF Moldova's questions expressed in letter no. 1224/March 11, 2020, referred to the value to be recovered through sale of fixed assets. In this respect, in letter 11014/ March

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 330S V024 6190 3300 - BRD Mediaș

SRAC ISO 45001 SRAC ISO 14001 SRAC ISO 9001 IQNet CERTIFIED MANAGEMENT SYSTEM

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

20, 2020, Romgaz answered that "*the Parties discussed and the Operator proposed Romgaz to buy **Alpine's share of the inventory of goods** and made an offer for its share of **66,37% of such inventory,** which, in Romgaz view, is very advantageous as it is below the market value".* This is also stated in report no. 6845/February 18, 2020 submitted to EGMS and published on www.romgaz.ro.

Hence:

- Romgaz will withdraw from Svidnik block **relinquishing its participating interest in the block,** due to the difficult situation recorded in the last years, generated by the strong and sometimes violent opposition of local communities as well as to lack of support and involvement of local and central authorities. All these hindered the drilling operations undertaken through the minimum work program. **All these aspects were presented, in more detail, in report no. 6845/February 18, 2020 submitted to the EGMS**.
- Romgaz will acquire ***only Apline's share of the inventory of goods***. The partnership has an inventory of goods that was not used, as the wells could not be drilled. These goods are 33,33% owned by Romaz and 66,37% owned by Alpine.

  Whereas:
  - ✓ Goods owned by the Parties within the partnership are API certified, these are necessary and can be used in similar wells of Romgaz

    and
  - ✓ Alpine offered an advantageous price (EUR 165,000), below market value, for its 66,37% share in the inventory of goods (the inventory of goods amounts to EUR 387,000),

  Romgaz decided to acquire Alpine's share of these inventories, becoming the owner of the entire inventory. **Item III of report no. 6845/February 18, 2020 (page 7) presents Romgaz intention to acquire Alpine's share in the inventory of goods and the offer of the Operator for this part of the inventory.**

In conclusion, both withdrawal from Slovakia project as well as the proposal of assets acquisition upon withdrawal from such project were fully presented in report no. 6845/February 18, 2020 submitted to the EGMS.

3. Regarding question no. 3 of section I in your letter no. 1519/March 24, 2020, we consider to have provided an answer through letter no. 11014/March 20, 2020 where we stated that **the entire equivalent value of non-current assets in progress is impaired (provisioned)**. This means that in 2020 no new adjustments of impairment can be made (provisions), so the 2020 budget does not include adjustments of impairment (provisions) related to the project in Slovakia. The above mentioned facts were stated in the financial statements submitted for approval of the OGMS dated April 22, 2020 (Note 35 of the consolidated financial statements, note 35 of the

individual financial statements, respectively; these financial statements are published on Company's website at the General Meeting of Shareholders section.

Regarding section II of letter no. 1519/March 24, 2020, we state the followings:

- The preliminary report issued on February 25, 2020 comprised unaudited information, which is stated on the first page of the report;
- Dividends are distributed from company's individual profit while the preliminary report included the Group's consolidated profit;
- Before issuing the financial statements, pursuant to the International Financial Reporting Standards, the Company has to take into consideration any events following December 31, 2019 which can affect 2019 results;
- In note 35 to the financial statements, both consolidated and individual ones, we explained the events following December 31, 2019 which generated impairment losses that affected the 2019 result, namely:
    - Shareholders and the Board of Directors decision to increase the share capital of SNGN Romgaz SA – Filiala de Inmagazinare Gaze Naturale Depogaz Poiesti SRL (Subsidiary) by contribution in kind of fixed assets for the underground storage activity, without transferring the gas cushion, on one hand, and
    - Expected amendment of the legislation applicable to the Company estimating that the Company will be bound to sell 30% of production at a maximum price of 95% of the CEGH price, on the other hand.
    - Details on the above two items can be found at note 12 of the 2019 financial statements. Impairment adjustments recorded following the decision to increase the share capital of the Subsidiary amount to RON 388 million; impairment adjustments recorded following the profitability analysis of gas fields amount to RON 71 million, compared to RON 20.5 million presented in the preliminary report. On the other hand, the effect of increasing the gas field impairment is partially offset by the decrease with RON 35.5 million of the impairment adjustment of receivables following their collection before issuing the financial statements;
- On February 25, 2020, the executive management was informed on the decision of the Board of Directors to increase the share capital of the Subsidiary by the contribution in kind of assets for the underground storage activity, except the gas cushion;
- Following discussions with the financial auditor, it was concluded that the financial statements for 2019 should include the effect of the decision to increase the share capital of the Subsidiary even though the final decisions on the increase were made in 2020.

With regard to the request to increase the dividend proposed to be distributed in 2020, the executive management maintain their proposal submitted to the shareholders, namely RON

1.61/share. This proposal is based on the legislation concerning this matter. Although certain investment projects could be postponed this does not mean that they are cancelled. Moreover, considering the uncertainty governing the business, economic, fiscal sectors generated by Covid-19, the executive management believes that the proposed dividend is a prudent one ensuring the funds necessary to carry out the future operation of the Company under good conditions.

However, as stated in the Convening Notice of the OGMS dated April 22, 2020, one or more shareholders individually or collectively representing at least 5% of the Company's share capital may propose a dividend level different from the one proposed by the executive management. The company complies with any decision of its shareholders who, we are confident that, take into account not only the temporary gains but also the sustainable development of the Company.

Best regards,
Adrian Constantin VOLINTIRU
CEO
SNGN ROMGAZ SA
Marius Leonte Veza
CFO
SNGN ROMGAZ SA