

# ROMGAZ



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

Nr. 6977/March 07, 2014

To:

**Societatea Comercială Fondul Proprietatea S.A. București**  
*str. Buzești, nr. 78-80, etaj 7-8, Premium Point, Sector 1, 011017*

Attn. of:

**Mr. Adrian Cighi, legal representative of Franklin Templeton Investment Management Ltd United Kingdom, Sucursala București**

In reply to your letter no. 233/February 19, 2014 registered with SNGN Romgaz S.A. under no. 5220/February 19, 2014, we hereby send the requested documents and information.

We indicate that on Monday, March 10, 2014 the answers to the questions you have asked shall be also published on the company's website, both in Romanian and in English.

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**SNGN Romgaz S.A** (Romgaz) addresses hereby the questions asked by Fondul Proprietatea S.A. (Romgaz shareholder holding 14.9929% from the company's shares) in letter 233/February 19, 2014 regarding the agenda of the Extraordinary General Meeting of Shareholders for March 17, 2014.

**Before replying to every question and request for clarification contained in the above-mentioned letter, we make a short presentation on the modality and the legal and formal framework under which Romgaz Board of Directors issued the endorsement of Romgaz conditional participation to the "Hidro Tarnita S.A." and "HVDCC Romania-Turkey S.A." project companies.**

- I. Romgaz is a joint-stock company whose activity is governed and regulated by normative acts enforced as provided in the Constitution, organic laws (article 76 paragraph 1 of the Constitution of Romania) and other acts of normative nature with special applicability for companies. We principally refer to the provisions of Law No. 31/1990 on companies, as amended from time to time, the provisions of Emergency Government Ordinance no. 109/2011 on corporate governance of public companies, as amended from time to time by Emergency Government Ordinance no. 51/2013, the

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S.N.G.N. Romgaz S.A.  
551130, Piața Constantin Motăș, nr. 4,  
Mediaș, jud. Sibiu - România  
Telefon 034-0269-201020  
Fax 004-0269-846901  
E-mail [secretariat@romgaz.ro](mailto:secretariat@romgaz.ro)  
[www.romgaz.ro](http://www.romgaz.ro)

provisions of the Emergency Government Ordinance no. 79/2008 on economic and financial measures in connection with economic operators as amended by Law 203/2009 as amended from time to time, and to the company's Articles of Incorporation.

Moreover, in view of the fact that as of November 12, 2013 the shares issued by the Company are traded on the regulated market managed by S.C. Bursa de Valori București S.A. and that the shares issued by the Company are support for the GDRs issued by The Bank of New York Mellon with the agreement of the Company which are traded on the London Stock Exchange, the company complies with and applies the capital market legislation.

- II.** Romgaz corporate bodies are: General Meeting of Shareholders, Board of Directors and Director General. Romgaz has a one-tier management board, the Board of Directors. The Board of Directors delegated the management of the company to a Director General in accordance with the legal and statutory provisions in force and applicable, respectively. **The General Meeting of Shareholders is the supreme body of management and decision making of the Company and has the power to decide over any problems in connection with the Company's activity.**

In accordance with the express provisions contained in the Law 31/1990 on companies:

**Article 117 par.(1)** *Any time it is deemed necessary, the general meeting is called for gathering by the board of directors, or the directorate if applicable.*

**Article 119 par (1)** *The board of directors, or the directorate if applicable, calls the immediate gathering in general meeting upon the request of the shareholders holding together or individually at least 5 % of the share capital or a lesser percentage, in case the articles of incorporation provides for it and the request contains provisions within the area of competencies of the shareholders' meeting.*

- III.** In accordance with Emergency Ordinance no. 109/2011 on corporate governance, the Romanian State through the Department for Energy (shareholding of 70.0071% of the share capital of Romgaz) is the tutelary authority of Romgaz (defined as public enterprise – commercial company).

As majority shareholder and tutelary authority the Department for Energy also has the following rights, obligations and powers in connection with governing a commercial company, specifically Romgaz as well (regulated by article 2 and 3 of Government Emergency Ordinance no. 109/2011):

- *exercises on behalf of the State the capacity as shareholder;*
- *may exercise, as shareholder, a determinant influence by reason of some clauses enabling the setting of the management strategy of the public enterprise;*
- ***to ensure the transparency of the State's shareholding policy in the company's where it exercises the competence as public tutelary authority;***
- *to monitor the exercise in economic and strategic conditions of the shareholding capacity in a public enterprise;*
- ***to monitor the compliance of the monitored company with economic efficiency and profitability principles;***

- IV.** Within the presented applicable framework, the Department for Energy, through the General Direction for Privatization and Management of State Ownership in Energy

requested to the Board of Directors on behalf of the Romanian State as shareholder holding 70.0071% of the share capital of Romgaz in letters no. 150120/January 16 2014 and no. 150370/February 07, 2014 registered with Romgaz under no. 1273/January 17, 2014 and no. 4140/February 07, 2014 to call for gathering of Romgaz Extraordinary General Meeting of Shareholders, having the following items on the agenda:

- the approval of Romgaz participation to the increase of the share capital of Hidro Tarnita SA by subscribing to 89,000 newly issued shares of 100 lei nominal value issued by Hidro Tarnita SA in accordance with the endorsement of the Board of Directors;
- approval for including in the 2014 budget draft the amounts required for paying the subscribed shares;
- the approval of Romgaz participation to the establishment of HVDCC Romania-Turkey S.A. Project Company by subscribing and paying the equivalent in lei of 2,000,000 shares of EUR1 nominal value;
- approval for including in the 2014 budget draft the amounts required for paying the subscribed shares issued by the HVDCC Romania-Turkey S.A. Project Company.

**The Board of Directors has endorsed Romgaz participation to the share capital of Hidro Tarnita and of HVDCC Romania-Turkey S.A. Project Company, subject to the conditions contained in Resolution No.2/2014 and has fulfilled the legal obligation to call for gathering the GMS and to set the agenda as per the requirements of the company's majority shareholder.**

**With respect to the endorsement:** Romgaz through its statutory bodies considers the projects which have potential for the company's development in terms of both its main scope of activity - hydrocarbon exploration and production – and its secondary scope of activity included in the company's charter. It directly reflects Romgaz option to become more dynamic and business-oriented once the private management was implemented and the company was listed.

Romgaz reviews on these development projects proposals are made by aligning the proposals to the company's development objectives, its economic viability and potential benefit considerations, the creation of plus value for its investors, the conformity with the applicable legislation and last but not least with the national energy strategy.

Against this background, Romgaz intends and is obliged to review any business opportunities it determines from the current activity of the company and **also from proposals made by its shareholders**. These proposals are considered in a transparent, objective and non-discriminatory manner in relation to the party submitting them for analysis.

**Romgaz management considered and consulted all documents that the projects initiators were able to make available and prepared a point of view which was submitted to the Board of Directors for endorsement, and, according the Resolution no. 2/2014, the Board of Directors agreed in principle to Romgaz participation to these projects subject to the imposed conditions. The Board of Directors endorsement in this form shall be reviewed and voted on during Romgaz GMS.**

**The decision of the Board of Directors to grant the endorsement is a statutory one; it has also been recorded in the minutes of the meeting,**

which contains the name of the participants, the order of deliberations, the decision made, the number of casted votes and the separate opinions.

The Board of Directors' endorsement is *de facto et de jure* consultative, it may support the decision-making process, and represents the authorized opinion expressed by the Board of Directors as competent body, but it is not conditional, does not oblige the body requiring it and can disregard it.

Please find below the specific answers:

**A. Tarnita-Lapustesti Project**

**I. Opportunity for SNGN Romgaz S.A. to participate in the share capital of the company Hidro Tarnita S.A.**

**1. Please present to the shareholders:**

- a) all documents on which the decision of endorsement has been taken with respect to the participation in the project company Hidro Tarnita S.A., including the business case of this project.
- b) the Board of Directors resolution which includes the endorsement of the Board of Directors, and the minutes of the meeting.

The documents on which the endorsement of the Board of Directors has been based:

- Memorandum of the Government approved in the Government meeting of October 16, 2013, which refers to the fact that this project is a priority objective of the short and medium term development strategy of the energy sector, being included in the Energy Strategy of Romania for 2007 – 2020, and in the government program of Romania for 2013 – 2016;
- Letter no. 150120/January 16, 2014 issued by the Department for Energy, General Direction for Privatization and Management of State Ownership in Energy;
- Shareholder Agreement of Hidro Tarnita S.A. company, taken based on *de facto* and *de jure* situation previously presented;
- Presentation of the CHEAP Tarnita Lapustesti Project;
- Synthesis of the Feasibility Study prepared in 2008 by the Institute for Studies and Hydro-Power Designs;
- Documents available on the project company Hidro Tarnita S.A. (by-laws, excerpt from the Register of Commerce, Hidro Tarnita S.A. shareholder agreement, Incorporation Certificate, HidroTarnita GMS Resolution of dated December, 2013, etc.).

With respect to the business case and its components listed in the footnote of your inquiry, they shall be part and scope of the updated feasibility study. This has been the main factor which determined Romgaz's staged approach of the project under cumulative fulfillment of conditions included in the endorsement of the Board of Directors (Decision no. 2/2014 dated February 10, 2014).

- 2. Please specify the economic reasons which were the basis for the Board's endorsement of Romgaz's participation in the share capital of Hidro Tarnita S.A. given that there is no sufficient information to determine the opportunity of this project for Romgaz. Please present at least the following:**
- (i) benefits for Romgaz arising from participation in the project;
  - (ii) funding

**sources for the completion of Tarnita hydro-power plant; and (iii) project implementation risk to Romgaz.**

The reasons for the Board's endorsement are to be found in the documents listed under point 1 above.

Considering that the feasibility study and the economic indicators included therein are based on 2008 data, Romgaz is not in the position to accurately determine the potential economic benefits it could achieve from participation in the project. Such determination may only be made after the update of the study and precisely for this reason the Board of Direction endorsed Romgaz's participation in the project in stages, in accordance with the mechanism and under the conditions stipulated in the Decision no. 2/2014. After each stage, a deliverable shall be issued and analyzed by Romgaz specialized staff. Depending on the results of such analysis at the end of each stage the Board of Directors shall be called to decide on the continuation of the project.

**3. Please specify if the participation in Hidro Tarnita S.A. share capital is conditioned by the previous submittal of the updated feasibility study and of the plan of action of the project company.**

As per the Board of Directors Resolution, Romgaz participation in the project shall be conditional upon submittal by the Project Company of the implementation timetable (which will also include the deliverables upon completion of each stage).

**4. Please specify how Romgaz's contributions to the share capital of Hidro Tarnita are to be recovered if the updated feasibility study is not accepted by the other shareholders of the project company or by private investors.**

In case the updated feasibility study is not accepted by the shareholders (including and especially Romgaz) or by investors, this shall mean a lack of viability of the project leading to Romgaz's withdrawal from it. The recovery modality of Romgaz's financial contributions shall observe the applicable legal provisions (Law 31/1990) and it shall be in line with the outcome of negotiations on these aspects, which shall constitute the scope of separate agreements between the parties.

**5. Please specify how the conditions included in the Resolution of the Board of Directors are to be implemented given that the share capital is to be paid in until December 31, 2014, and the project company may take legal actions against Romgaz S.A. for the full payment of subscribed and not paid shares. Is a change envisaged with respect to the decision of the GSM meeting of Hidro Tarnita S.A. concerning the deadline for payment of shares by the new shareholders?**

The main condition stipulated in the endorsement of the Board of Directors is Romgaz participation in stages to the project subject to the project company's presentation of a project performance schedule. After each stage the approval of the Board shall be required. If Romgaz's participation in the project, in accordance with the Board of Directors endorsement, is approved by the GSM, corresponding to the mandate to be given to the Board and to the executive management of Romgaz, the conditions included in the endorsement of the Board shall constitute the mandate of the executive management over the following period of time, and any deviation from such mandate is to be reported to the Board in order to seek a decision with respect to the mandate.

**6. Please specify the period envisaged by the SNGN Romgaz SA Board of Directors for the payment of contributions to the share capital of the project company given that the performance schedule of the project is not in place.**

As clearly results from the endorsement of the Board, the payment period for Romgaz's contribution to the share capital is not yet set. This period can be set only upon submittal of the performance schedule by the project company. This is a condition for Romgaz's participation in the project.

**II. Operation of the project company and SNGN Romgaz SA rights as a minority shareholder of such company**

**1. Please specify the legal reasons for the endorsement of the Board of Directors concerning SNGN Romgaz SA participation to the share capital of Hidro Tarnita S.A.. Please specify at least the following:**

**a) how will SNGN Romgaz SA take part in the selection of investors to be contacted for project funding:**

If such project financing structure will be recommended by the updated feasibility study, the project company is to establish a potential investors' approach strategy seeking to ensure a wide participation framework in the competition for project implementation for various investor categories.

Romgaz shall be directly and/or through a consultant involved in the preparation of the competitive process for the attraction of private investors by approaching interested parties – stakeholders in road-shows/conferences. At the same time, as a shareholder in the project company SNGN Romgaz SA shall monitor and ensure that the selection process of private investors is competitive, objective, transparent, non-discriminatory.

**b) which are the rights of SNGN Romgaz SA to participate to the decisions regarding the management of the project company and to its conclusion of contracts;**

Romgaz rights to take part in the decision making process of the project company are/will be determined by the articles of incorporation of that company (either the existing one or an amended articles of incorporation, as the case may be) and in accordance with the legal provisions applicable in the matter of legal entities (Law 31/1990 (R)).

**c) which are the rights of SNGN Romgaz SA to withdraw from the project company and to request to any other shareholder to buy Romgaz shares;**

Romgaz rights to withdraw from the project company are/will be determined by the articles of incorporation of that company (either the existing one or an amended articles of incorporation, as the case may be) and in accordance with the express legal provisions stipulated by the Romanian law-maker in the Company Law (Law 31/1990 (R)) .

**d) which are the veto-rights of SNGN Romgaz SA in case the decisions made by the company are contrary to SNGN Romgaz SA interests.**

Romgaz may oppose to the actions which are against its interests within the limits provided by article 101 par. 1 corroborated with the provisions of article 120 of Law 31/1990 (R), or by

legal actions taken for the annulment of such actions or decisions (for legality reasons – article 132 of Law 31/1990) or under conditions to be negotiated and agreed between shareholders involved in the project company in the articles of incorporation.

We mention that, in order to have a clarification on the whole business concept, including legal aspects related to the project company, Romgaz requested the project company to make a detailed presentation during the GSM Romgaz to be held on March 17, 2014.

### **III. Substantiation of the existence of a project company for the implementation of Tarnița Lăpușești project**

- 1. Please indicate how the amount representing SNGN Romgaz SA contribution to the share capital of Hidro Tarnița S.A. was set. Please specify why the number of shares held by SNGN Romgaz SA in Hidro Tarnița SA company is not larger or smaller.**

As mentioned in the endorsement of the Board of Directors, the proposal for Romgaz's participation in the project company has been made by the Department for Energy. The amount representing Romgaz contribution to the share capital has been set by:

- a) Memorandum of the Government dated October 14, 2013;
- b) The request for convening of Romgaz GSM, submitted on January 16, 2014 by the Department for Energy, which exercises on behalf of the Ministry of Economy the capacity of majority shareholder in Romgaz. The notice has been submitted further to the Memorandum listed above.

- 2. Please specify which is the project's implementation timetable and which are the further steps.**

The project implementation timetable shall be established by the project company through the performance schedule, which is to be adopted by all shareholders involved through the decision of statutory bodies.

- 3. Has SNGN Romgaz SA the necessary funds for financing the project or will such funds be attracted through bank loans or from other financing sources?**

Depending on the financing structure and model to be set through the feasibility study and any other documents required to take an investment decision, Romgaz shall analyze and decide on the method to bring its contribution to the performance of the project.

In relation to the current state of the project, in case Romgaz GSM approves Romgaz participation in the project the agenda of the GSM also provides for the approval to include the Romgaz contribution to the share capital of the project company in the budget proposal for 2014.

- 4. How shall the amounts representing SNGN Romgaz S.A. in cash contributions to the share capital of Hidro Tarnița SA be used by the latter?**

The amounts from Romgaz contribution to the share capital of the project company shall be used in order to cover the expenditure of the project in a staged manner, in accordance with its performance schedule, as mentioned under item I.5.

**5. Please present to SNGN Romgaz S.A. shareholders the 2014 budget of Hidro Tarnița SA.**

Currently, Romgaz is not a shareholder of Hidro Tarnița S.A. Such documents are to be requested at the time and in the event of a decision of Romgaz GSM to participate in the share capital of the project company, in order to have the expenditure of such company under control.

**6. Please present to the shareholders the updated feasibility study regarding Tarnița hydro-powerplant**

The feasibility study is not the property of Romgaz. Romgaz received a synthesis of the study for analyses purposes.

**7. Please indicate which is the strategy for attracting new investors in the project company and the timeline for this process**

Depending on the requirements to attract new investors in the project company, as determined by the updated feasibility study (the financing structure recommended by the study), Romgaz and the other shareholders of HidroTarnița shall adopt a strategy to ensure an as wide as possible competition framework for performance of the project for various investor categories.

**IV. Analysis of alternative solutions for the performance of the Tarnița Lăpuștești hydro-power plant**

**1. Please specify why it is currently opted for the participation to the project company in spite of the fact that:**

- a) **the feasibility studies can be made by any of the companies to become shareholders in Hidro Tarnița SA or the Department for Energy (following that the companies to whom contributions were requested are to cover the costs related to the studies);**
- b) **there are additional costs in connection with the establishment and the operation of the new company, costs which may turn out to be inefficient and uneconomic for SNGN Romgaz SA for as long as there are no studies attesting the profitability and reliability of the project, and the company cannot support itself from its own activities.**

Romgaz Board of Directors opted for considering the proposal of the Department for Energy to participate in an energy project which constitutes a priority objective of the national energy strategy and which will allow Romania to achieve its European commitments and energy strategy objectives under safety conditions.

- a) In our opinion the feasibility studies should be performed by a specialized, leading international company so as to ensure the objectiveness, equal treatment and quality level internationally accepted by potential investors (especially by the financial environment).
- b) Such operating costs of the project company are usual with SPV companies in energy projects.



**B. Project Submarine Cable Romania - Turkey**

**I. The opportunity of SNGN Romgaz S.A. participation to the share capital of the project company HVDC Romania-Turkey SA.**

**1. Please indicate to the company's shareholders:**

- a) the documents based on which the decision to endorse the participation to the HVDC Romania - Turkey cable project, including the business case of this project.
- b) the Board of Directors Resolution and the Minutes of the Board of Directors Meeting

The documents on which the endorsement of the Board of Directors has been based:

- Memorandum of the Government dated December 12, 2013 mentioning this project as being a priority project of the Government Program of Romania for 2013 – 2017;
- Synthesis of the feasibility study "Romania – Turkey Submarine Cable";
- Letter no. 150225/January 23, 2014 issued by the Department for Energy, General Direction for Privatization and Management of State Ownership in Energy;

With respect to the business case and its components listed in the footnote of your inquiry, they shall be part and scope of the updated feasibility study. This has been the main factor which determined Romgaz's staged approach of the project under the cumulative fulfillment of conditions included in the endorsement of the Board of Directors (Decision no. 2/2014 of February 10, 2014).

- 2. Please indicate the economic reasons that represented the basis on which the Board of Directors endorsed the company's participation to the share capital of Romania-Turkey Project Company considering that currently there is insufficient information on the opportunity of implementing this project. Please indicate at least the following: (i) the benefits SNGN Romgaz S.A. shall have from the participation to this project; (ii) financing sources for the completion of HVDC Turkey submarine cable project.**

The reasons for the Board's endorsement are to be found in the documents listed under point 1 above.

Considering that the feasibility study and the economic indicators included therein are based on 2011 data, Romgaz is not in the position to accurately determine the potential economic benefits it could achieve from participation in the project. Such determination may only be made after the update of the study and precisely for this reason the Board of Direction endorsed Romgaz's participation in the project in stages, in accordance with the mechanism and under conditions stipulated in the Decision no. 2/2014. After each stage, a deliverable shall be issued and analyzed by Romgaz specialized staff. Depending on the results of such analysis at the end of each stage the Board of Directors shall be called to decide on the continuation of the project.

- 3. Please specify the economic reasons why SNGN Romgaz SA is getting involved in a project which does not represent SNGN Romgaz SA main scope of activity**

Romgaz Articles of Incorporation also include, beside its main scope of activity, the production and supply of electric power as a scope of activity.

4. **Please specify whether the payment of the amounts representing the contribution to the share capital is conditioned by the preparation and the presentation of a performance schedule and the preparation of the feasibility study by a third party.**

The Board of Directors has determined as a condition for Romgaz participation in this project the presentation of a performance schedule (to include deliverables after each stage of the project).

5. **Please specify who shall carry out the internal assessment of the substantiation of SNGN Romgaz SA subsequent investments in the project company after the fulfilment of the contribution provided in the agreement in principle.**

The internal evaluation with respect to subsequent Romgaz investment in the project company is to be performed by the specialized departments of Romgaz. Performance of each stage of the project is to be approved by the Board of Directors.

## **II. The operation of the project company and the rights of SNGN Romgaz SA as its minority shareholder**

1. **Please specify the legal reasons for the endorsement by the Board of Directors of the company's participation to the HVDC Romania-Turkey Project Company. Please indicate at least the following:**
  - a) **which is the decision making process in case of subsequent requests for increase of the project company share capital;**

As soon as the performance schedule and the budget of the project are determined, the project company shall submit requests for the increase of share capital as decided by the GSM of the project company in accordance with and at the time when project activities are undertaken and expenditures are to be made.

- b) **which is the modality SNGN Romgaz SA shall participate to the selection of the investors to be contacted for the project financing;**

If such project financing structure will be recommended by the updated feasibility study, the project company is to establish a strategy for the approach of potential investors. Romgaz shall be directly and/or through a consultant involved in the preparation of the competitive process for the attraction of private investors by approaching interested parties – stakeholders in road-shows/conferences. At the same time, as a shareholder in the project company SNGN Romgaz SA shall monitor and ensure that the selection process is competitive, objective, transparent, non-discriminatory.

- c) **which are the rights of SNGN Romgaz SA to participate to the decisions regarding the management of the project company and to its conclusion of contracts;**

Romgaz rights to take part in the decision making process of the project company will be determined by the articles of incorporation of that company and in accordance with the legal applicable provisions (Law 31/1990 (R)).

**d) which are SNGN Romgaz SA rights to withdraw from the project company;**

Romgaz rights to withdraw from the project company will be determined by the articles of incorporation of that company and in accordance with the express legal provisions stipulated by the Romanian law-maker in the Company Law (Law 31/1990 (R)).

**e) which are the veto-rights of SNGN Romgaz SA in case the decisions made by the project company are in SNGN Romgaz SA disadvantage.**

It is our understanding that Romgaz may oppose to the actions which are against its interests within the limits provided by article 101 par. 1 corroborated with the provisions of article 120 of Law 31/1990 (R), or by legal actions taken for the annulment of such actions or decisions (for legality reasons – article 132 of Law 31/1990) or under conditions to be negotiated and agreed between shareholders involved in the project company in the articles of incorporation.

We mention that, in order to have a clarification on the whole business concept, including legal aspects related to the project company, Romgaz requested the Department for Energy to make a presentation during the Romgaz GSM to be held on March 17, 2014.

**III. Substantiation of the existence of a project company for the implementation of HVDC Romania-Turkey project**

**1. Please specify which is the implementation timetable for the submarine cable.**

The project implementation timetable shall be established by the project company through the performance schedule, which is to be adopted by all shareholders involved through the decision of statutory bodies.

**2. Has SNGN Romgaz SA available funds for financing its share of the project or will such funds be attracted through bank loans or other sources of financing?**

Depending on the financing structure and model to be set through the feasibility study and any other documents required to take an investment decision, Romgaz shall analyze and decide on the method to bring its contribution to the performance of the project.

In relation to the current state of the project, if Romgaz GSM approves Romgaz participation in the project, the agenda of the GSM also provides for an item for the approval to include the contribution to the share capital of the project company in the budget proposal for 2014.

**3. Please indicate how the amount representing SNGN Romgaz SA contribution to the share capital of HVDC Romania-Turkey Project Company was set. Please specify why the number of shares held by SNGN Romgaz SA in the share capital of the Project Company is not larger or smaller.**

The proposal for Romgaz's participation in the project company has been made by the Department for Energy. The amount representing Romgaz contribution to the share capital has been set by:

- a) Memorandum of the Government dated December 16, 2013;

- b) The request for convening of Romgaz GSM, submitted on January 23, 2014 by the Department for Energy, which exercises on behalf of the Ministry of Economy the capacity of majority shareholder in Romgaz. The notice has been submitted further to the Memorandum listed above.

- 4. How shall the amounts representing SNGN Romgaz S.A. in cash contributions to the share capital of HVDCC Romania-Turkey Project Company be used by the latter? Please present in detail these expenditures.**

The amounts from Romgaz contribution to the share capital of the HDVCC Romania – Turkey Project Company shall be used in order to cover the expenditure of the project in a staged manner, in accordance with its performance schedule.

By the mandate given to it, the executive management of Romgaz shall monitor during Romgaz's involvement in the project how its contribution is used.

- 5. Which is the date the Turkish companies will enter into the share capital of HVDCC Romania-Turkey Project Company?**

The date when Turkish companies are to become shareholders of the project company is to be set after the establishment of the project company based on documents which substantiated the initiation of the project, which are:

- Memorandum of Understanding entered June 2005 by Transelectrica and TEIAS, providing the establishment of a Co-ordination Committee and an action group for the performance of an opportunity study and for the determination of objectives of the project for the construction of a submarine cable between Romania and Turkey;
- Joint Position Paper signed on November 2006 by Transelectrica and TEIAS on the financing alternatives for the feasibility study;
- Opportunity Study – April 2006;
- Joint Statement dated September 2013 signed by the Delegate Minister for Energy and the Turkish Minister of Energy and Natural Resources;

- 6. What are the obligations undertaken by the Turkish partners in connection with the participation to the share capital of HVDCC Romania-Turkey Project Company and the operation of the submarine cable? Please publish the documents whereby these obligations have been undertaken by the Turkish companies/the Turkish Government.**
- 7. To the extend the Turkish partners have not assumed any legal obligations to participate to the establishment of the project company, please justify SNGN Romgaz S.A. contribution to the share capital of the project company and show how such costs shall be recovered in case the Turkish partners shall not participate to the implementation of the project.**

6-7

All documents assumed by the Turkish partners in this project are listed above. In accordance with the Government Memorandum dated December 16, 2013 the participation of the Turkish party in the project company is not to be ensured by Romgaz. The competent entities in this respect are the ones which assumed the project at an inter-governmental/international level, meaning the Department for Energy and Transelectrica S.A.

If the Turkish partners will not be part of the project company, the proposal to withdraw Romgaz from the project shall be submitted to the governing bodies of Romgaz. With respect to expenditures made up to that moment, their recovery shall be pursued in accordance with applicable legal provisions (Law 31/1990).

8. Will HVDC Romania-Turkey Project Company be transmission and system operator of the cable it implements? Which is the scope of activity of the new company (does the scope of activity include only the cable construction or does it also include its operation as transmission operator)?

In accordance with the Government Memorandum dated December 16, 2013, the project company shall be responsible for: "the re-evaluation and update of the feasibility study in accordance with the requests of the Turkish partner, including the increase of export capacity from 800 to 1600 MW, as well as to ensure the financing, construction and operation of the project *Submarine Interconnection Cable of 400KV Romania – Turkey*".

9. Please show to SNGN Romgaz SA shareholders the feasibility study on the construction of the Romania-Turkey submarine cable.

The synthesis of the feasibility study (2011) for the project *Submarine Interconnection Cable of 400KV Romania – Turkey* is not the property of Romgaz and was submitted to Romgaz for analysis purposes.

#### **IV. Analysis of alternative solutions for the performance of HVDC Romania-Turkey project**

1. Please specify why it is currently opted for the participation to the project company in spite of the fact that:
- a) the feasibility studies can be made by any of the companies to become shareholders to the project company or the Department for Energy (following that the companies to whom contributions were requested are to cover the costs related to the studies);
  - b) there are additional costs in connection with the establishment and the operation of the new entity, costs which may turn out to be inefficient and uneconomic for SNGN Romgaz SA for as long as there are no visibility on the future of this project, its profitability and reliability, and the company cannot support itself from its own activities.

Romgaz Board of Directors opted for considering the proposal of the Department for Energy to participate in an energy project which constitutes a priority objective of the national energy strategy and which will allow Romania to achieve its European commitments and energy strategy objectives under safety conditions.

- a) In our opinion the feasibility studies should be performed by a specialized, leading international company so as to ensure the objectiveness, equal treatment and quality level internationally accepted by potential investors (especially by financial environment).
- b) Such operating costs of the project company are usual with SPV companies in energy projects.

**2. Please present the strategy for attracting Turkish investors to the HVDCC Romania-Turkey project company.**

The strategy to attract Turkish investors as well as any other investors shall be determined by the project company in accordance with the results and the recommendations of the updated feasibility study.

Yours respectfully,

Chairman of the Board  
Aurora Negruț



Director General  
Virgil-Marius Metea

