

PUBLIC STATEMENT – 11 September 2020

ElectroGas Malta Limited (“**EGM**”) would like to explain certain contractual mechanisms with a view to address statements regarding the Delimara LNG to Power Project (the “**Project**”) that have been reported in the media.

INCORPORATION AND PURPOSE

EGM was awarded a tender to design, engineer, build, maintain and operate:

- i. a Liquefied Natural Gas (“**LNG**”) terminal, composed of a Floating Storage Unit (the “**FSU**”) and custom-built jetty;
- ii. a regasification facility, where the LNG is converted back to natural gas; and
- iii. a combined cycle power plant (the “**Facilities**”)

EGM supplies natural gas and electricity to the sole customer Enemalta. EGM’s infrastructure can be best described as an energy supply facility, given that it provides both electricity directly from EGM’s power plant (also known as “Delimara 4”) and also natural gas to the Delimara 3 plant, for the latter to supply electricity itself through its own power plant.

The EGM Facilities are a key part of the Maltese Energy Policy for the Maltese Islands 2012. They have fulfilled the target of moving away from Heavy Fuel Oil to Natural Gas, whilst at the same time ascertaining security of supply. The paramount importance of a secure supply was demonstrated during first quarter of 2020, when the Interconnector was damaged, and the Maltese islands relied almost exclusively on the EGM facilities. Indeed, according to data published by the Energy and Water Agency (<https://www.energywateragency.gov.mt/lng-in-malta/>) as from the commissioning of LNG in Malta, EGM has provided 70% of the annual energy used in electricity production in Malta. Moreover, during the COVID-19 pandemic, the facilities have been a corner stone of stability. EGM’s Facilities are therefore an integral part of the Maltese energy infrastructure.

The building of the facilities was completed in 2017 and they are operated by reputable international companies, all bringing their expertise within their respective areas that have a wealth of experience and proven track records. This ensures that the plant is always in full compliance with all international and local health, safety, and environmental standards, as well as guaranteeing a long and efficient lifetime of the plant. Moreover, the facilities are constructed in a modular way which if required would allow for an increase in capacity and supply.

BUSINESS MODEL

EGM’s business model is based on operation of the facilities and making sure that they are available to convert the gas supplied through the Floating Storage Unit (“**FSU**”) and produce electricity as contractually agreed with our customer (Enemalta). In essence EGM does not earn more or less money depending on how much LNG or electricity is used from their facilities. This is a very common approach for projects such as ours and such independent power producer (“**IPP**”) models have been successfully

applied numerous times worldwide for decades and are a recognized and well tested scheme to mobilize large private investments in energy markets.

Furthermore, with reference to speculation in the media relating to EGM's profits; EGM would like to emphasise that contrary to statements in the media, EGM has not made any profit to date. Furthermore EGM has not paid any dividends to its shareholders and is not expected to do so in the near future. The Project is considered as a long-term investment and its main focus is the security of supply to Malta.

STRUCTURE OF THE AGREEMENTS

EGM is party to several agreements, including agreements with the LNG supplier and with Enemalta. The cost and fixed fee at which EGM sells electricity to Enemalta consists of two components:

- i. A formula for the conversion cost that factors in the process of energy production, which covers the capital cost and fixed fee of the Facilities, which was estimated at tender stage; and
- ii. The price of LNG. The LNG price is a pass-through cost, therefore incurred in full by EGM at a specific price, which price is then charged entirely to the client (Enemalta) and EGM does not make a profit on the LNG.

The fixed fee covers the estimated costs for the investment at tender stage (no need for Enemalta to invest significant capital for the construction of the powerplant) and the variable fee covers the operating and maintenance costs over the contractual term, within specific parameters. The variable fee covers the LNG costs which in turn are passed through to the LNG supplier. EGM receives no handling fee, profit or margin on the cost of LNG. Hence EGM earns solely a fixed fee, which was estimated at tender stage to cover the capital and operating costs of the Facilities.

- **LNG Agreement:**

EGM entered into a 10-year LNG Supply and Purchase Agreement with SOCAR Trading, whereby the LNG supplier commits to ship to and sell to EGM the agreed LNG quantities. Based on the tender requirements, the LNG price for the agreed volume is fixed for a five-year period ending on 14 April 2022 and becomes floating thereafter based on the pre-agreed formula for the remaining period of the LNG Agreement. The LNG cost and pricing are a pass through for EGM, meaning that the cost and price charged to EGM does not affect the profit/loss of EGM.

- **GSA and PPA Agreements:**

Under the Power Purchase Agreement ("**PPA**"), EGM agrees to make available electrical energy to Enemalta and to supply electrical energy when dispatched by Enemalta. Consistent with conventional power projects, the tariff structure under the PPA includes capacity payments (covering fixed costs) and energy payments (covering variable costs including fuel costs). Enemalta will have to pay capacity payments to the extent Delimara 4 is available, whatever the level of electricity required to be

dispatched by the power plant. The variable costs cover the cost of fuel with the guaranteed efficiency. This incentivises EGM to always keep the facilities in best condition.

Under the Gas Supply Agreement (“**GSA**”), EGM agrees to make available gas to Enemalta, and to supply gas to Delimara 3 when nominated by Enemalta. The GSA tariff like the PPA tariff includes capacity payments (covering fixed costs) and energy payments (covering variable costs including fuel costs). Subject to availability, Enemalta will have to pay capacity payments to the regasification facilities irrespective of the volume of gas nominated.

PUBLIC DOMAIN ALLEGATIONS

During 2019 three new Directors were appointed on the EGM board and they were cognisant of the ongoing public domain allegations of corruption, wrongdoing or impropriety relating to the Project. For these reasons, EGM acting prudently and responsibly engaged in an extensive internal legal and forensic review of EGM and found no evidence of any wrongdoing during the bidding stage, construction of the powerplant and the operational activities of EGM.

EGM refers to the snippets from emails and/or emails published in the media that form part of a cache of data illegally retrieved from EGM’s servers in breach of the law, often including internal communications and working documents between EGM employees which have been taken out of context. At no point has EGM or persons quoted or included in the emails been contacted for comment. Indeed, EGM discovered a breach to its IT systems in late December 2017, and subsequently reported this criminal offence to the police. A Magisterial Inquiry is ongoing and to EGM’s knowledge, the perpetrator of this illegal act has not been identified as yet.

EGM GOVERNANCE AND BUSINESS ETHOS

The agreements and arrangements relating to the Project have been subject to the highest degree of scrutiny including specific vetting by the National Audit office (NAO) and approval at European Commission level, which confirmed that the rate of return was in line with similar projects (Section 10.1 of the NAO report dated November 2018). EGM has also recently undergone a legal and forensic review by international independent external firms and will continuously be subject to extensive periodic scrutiny and review to ensure the highest standards on all areas of compliance, given that the capital expenditure is financed by nine (9) major international and local financial institutions.

EGM’s sole interest is to adhere to its commitments undertaken in 2013; that is, to provide the Maltese Islands with the required supply of cleaner electricity through the operation of a safe, efficient and reliable gas-powered power station on fair, transparent and reasonable commercial terms.

EGM understands that the Project is an integral part of the Maltese Islands’ infrastructure and will continue to adhere to the highest degree of local and international scrutiny. In view of this and for the purpose of continuous improvement, full transparency and development, EGM is constantly implementing internal policies to improve governance to achieve the highest standards possible. In addition, EGM has since its incorporation been an active participant in the community and supported various social, cultural and educational projects through its Community Investment Plan.

We remain always open to a constructive dialogue with the public with a view to work together and forge better relationships with the local communities, councils and the general public.