

No.10,641/01.04.2021

ENDORSED,
CHIEF EXECUTIVE OFFICER
Aristotel Marius JUDE

TO,**SNGN ROMGAZ SA MEDIAS GENERAL MEETING OF SHAREHOLDERS****REPORT ON****2021 INDIVIDUAL INCOME AND EXPENDITURE DRAFT BUDGET****I. Substantiation of the 2021 Income and Expenditure Draft Budget and the 2022 - 2023 forecast was based on the laws on:**

- ~ *implementation of International Financial Reporting Standards by the companies whose securities are traded on a regulated market;*
- ~ *reinforcement of financial discipline and including the wages and salaries expense in the 2021 budget, at the level of economic operators where the state or administrative territorial units are sole or majority shareholders or hold, directly or indirectly, a majority interest;*
- ~ *profit distribution by the national companies and trade companies fully or majority state owned, as subsequently amended and supplemented;*
- ~ *implementation of the Fiscal Code;*
- ~ *layout and structure of the income and expenditure budget, as well as its related substantiation annexes;*
- ~ *setting up fiscal-budgetary measures, amending and supplementing certain laws and prorogation of deadlines.*

- II. The drafting assumptions of the income and expenditure budget proposal are those published by the National Commission for Strategy and Prognosis in “Projection of the Main Macroeconomic Indicators 2020-2024” - the Winter Forecast for the 2021 Draft Budget, as follows:

Tab.1

	2021	2022	2023
Index of consumption prices - annual average	2.4%	2.6%	2.5%
Exchange rate RON/EUR - annual average	4.89	4.93	4.97
Exchange rate RON/USD - annual average	4.18	4.21	4.25

III. Outline and Substantiation of Indicators included in Romgaz Individual 2021 Income and Expenditure Draft Budget

1. Substantiation of Income

The substantiation of the main income categories of the income and expenditure budget is based on the forecasted development of the gas demand and delivery price, the gas production and electric power generation programs, underground storage program of own gas. Revenues related to the Electric Power Production Branch - Sucursala de Producție Energie Electrică Iernut (SPEE Iernut) - are generated from electric power generation and delivery as well as other field related specific services.

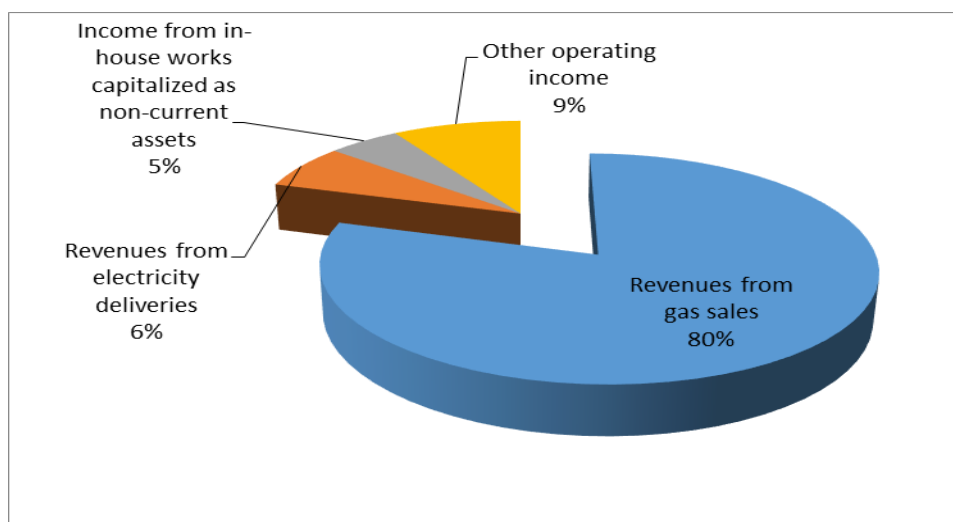
Besides the main revenue categories, revenue is also recorded from other activities, that is supply of services to third parties (gas transportation, dehydration and compression, rental of goods and assets, chemical analyses, sale of condensate, sale of goods, re-invoicing of gas transportation, distribution and storage services to customers).

Operating Income

Operating income is estimated to **RON 4,303,880 thousand**.

The structure of the 2021 operating income is shown in the next figure :

Graph 1



Operating Income is detailed in the table below:

Tab. 2

Item no.	RON thousand	Achieved 2020	2021 Proposals	Ratio 2021/2020 %
1	Revenues from Romgaz gas sales delivered from own production (excluding joint ventures and gas for electric power production)	3 235 949	3 362 400	103.9%
2	Revenues from joint ventures	66 520	68 074	102.3%
3	Revenues from import gas deliveries			
4	Revenues from electric power deliveries	183 119	284 757	155.5%
5	Income from in-house works capitalized as non-current assets	182 433	212 999	116.8%
6	Other income from sold production (transmission, distribution, storage, subsidiary rent, goods, change in stocks, fines, penalties, sales of assets)	466 613	375 649	80.5%
	Total operating income	4 134 634	4 303 880	104.1%

Revenues from Romgaz gas delivered from own production (excluding gas from joint ventures and gas from electric power generation) were substantiated based on the gas quantities estimated to be delivered to customers in 2021 and on the average delivery price of gas from current production and withdrawn from UGSs; The laws in force on gas delivery prices have been taken into account.

Revenues from joint ventures represent the value of natural gas volumes delivered under joint-ventures (AMROMCO ENERGY SRL) corresponding to Romgaz participating interest.

Revenues from import gas deliveries represent the value of natural gas purchased from import and resold by Romgaz to customers. No import gas sales are provided for 2021.

Revenues from delivered electric power were determined based on the quantities of delivered electric power and on the estimated average delivery prices.

Income from in-house works capitalized as non-current assets represents the value of works performed in-house.

Other income represents income from gas distribution, rentals, condensate deliveries, sale of goods, transmission/ distribution/ storage services re-invoiced to customers (to be found also at expenses), fines, penalties, income from sale of assets (generated by the contribution in assets to the subsidiary).

Financial income amounting to **RON 44,928 thousand** is generated by dividends distributed by the Subsidiary, the interest received from banks for the company's cash placed in bank deposits and state bonds.

2. Substantiation of expenditures

Operating expenses are classified in the following main chapters:

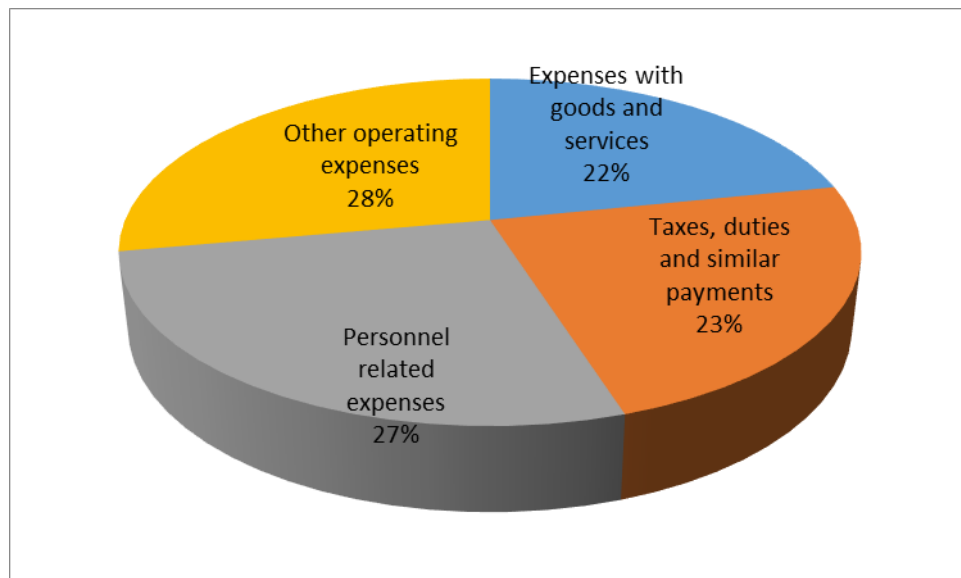
- A. Expenses with goods and services;
- B. Expenses with taxes, duties and similar payments;
- C. Personnel related expenses;
- D. Other operating expenses.

Tab. 3

RON thousand	2020 Achieved	2021 Proposals	Ratios (%)
1	2	3	4=3/2
A. Expenses with goods and services	495 474	692 380	139.7%
B Expenses with taxes, duties and similar payments	636 325	743 620	116.9%
C. Personnel related expenses	809 585	861 454	106.4%
D. Other operating expenses	796 394	888 176	111.5%
Total Operating Expenses	2 737 778	3 185 631	116.4%

Graphic representation of operating expenses divided on the 4 chapters:

Graph 2



A. Expenses with Goods and Services

For this expense category (A) amounting to RON 692,380 thousand, an increase by 39.7% is estimated as compared to the 2020 achieved, as a result of increased expenses with services supplied by third parties (expenses with repairs and maintenance, rentals, consultancy, fee and commission expenses, travel and daily allowances, IT licenses, geological studies), which vary from one branch to another depending on their specific activities (gas production, electric power generation, supply of services).

The increase is mainly generated by a yoy increase of the expenses with geological studies, gas transmission and distribution services (re-invoiced at incomes as well, for customers requiring such services to be contracted by the company with the system operators), due to interventions and workover at wells, that could not be carried out in 2020 due to the pandemic, and due to the increase of expenses with consumables and spare parts necessary for repairs and periodical overhauls.

The planned gross production increased by yoy 11.2% leads to increased expenses with material consumption, spare parts, consumed-in-operation fuel, inventory, fuel, as well as other items of variable costs and volume of works and supplied services.

The 2021 work programs of the branches include drilling works for an increased number of wells, some deeper than 4000 m; a significant part of expenses with such works is recorded at the service supply branches and charged to the production branches.

Increase of items within such expenses are partially reflected in the increase by 16.8% of income from in-house works capitalized as non-current assets.

B. Expenses with Taxes, Duties and Similar Payments

These expenses include royalty calculated as percentage from the physical production, from condensate (RON 315,854 thousand), windfall tax (RON 392,104 thousand), contribution due to ANRE (RON 11,098 thousand) as well as land and building taxes, total permitting, licensing and environment taxes (RON 24,565 thousand).

C. Personnel-Related Expenses:

Personnel-related expenses were estimated based on:

- ~ ***Government Emergency Ordinance no. 26/2013 on reinforcing the financial discipline at the level of economic operators where the state or administrative territorial units are sole or majority shareholders or hold, directly or indirectly, a majority interest, as subsequently amended and supplemented;***
- ~ **Law no. 227/2015 - Fiscal Code** as subsequently amended and supplemented;
- ~ **Law no. 15/08.03.2021 on the 2021 State Budget;**
- ~ **Labor Code;**
- ~ **Collective Labor Agreement.**

Law No. 15/08.03.2021 on the 2021 State Budget provides at Chapter III “Final Dispositions” Article 48 the government’s policy on the salary policy to substantiate the salary costs at economic operators to which OG No 26/2013 applies.

SNGNG ROMGAZ SA Medias complies with the provision of Article 48, paragraph (1), item b) stating that “economic operators may increase the salary costs as compared the latest approved budget” by the amounts representing increase of salary costs related to reinstatement of such, for the entire year 2021, as a result of salary increase and/or increase of personnel in 2020.

Personnel related expenses amount to RON 806,597 thousand, higher by 5.6% than the 2020 achieved results; the increase is due to the increase of salaries expense by 4.8% and increase of bonuses expense (social expenses, restaurant tickets, employee participation in the profit) by 13.2%.

D. Other operating expenses

This chapter records an increase of expenses by 11.5%, mainly due to the increase of expenses with transportation and distribution services, CO₂ certificates related to the delivered energy (increase of such expenses is linked directly to the increase of energy sold, delivered in-house), amortization and depreciation expenses with non-currents assets and adjustments and provisions.

Financial expenses amount to RON 19,798 thousand and include the estimation of expenses with exchange rate losses, interest expenses and estimation of unwinding of well decommissioning provision.

IV. 2021 Profit Distribution Proposal

Profit distribution was made in the 2021 draft budget in compliance with the provisions of *GO no. 64/2001 on profit distribution at fully or majority state owned national companies and trade companies*, as subsequently amended and supplemented. The profit distribution rate to shareholders is 50%, and the undistributed balance is allocated to own development sources.

V. **Level of overdue receivables** is estimated to RON 1,289,942 thousand for the end of 2021.

VI. **Level of Arrears** is estimated to RON 0.

VII. **Investment Program** amounting to RON 1,292,500 thousand are financed from own sources and from the National Investments Plan.

Substantiation of the Investment Program focused on projects aiming to increase the reserve and resource portfolio, mitigate the natural decline of gas production, increase electric power generation, taking into account the premises as of the substantiation date, by way of:

- continuing geological research works through new exploratory drillings and geological and geophysical surveys to discover new natural gas reserves, development of the production potential by ensuring new capacities;
- developing the electricity generation potential by
 - completing the combined cycle gas turbine power plant at Iernut;
 - building a new combined cycle gas turbine power plant at Mintia;
 - electric power generation from renewable sources;
 - electric power generation under joint ventures, with several partners;
- modernizing and retrofitting the workover rig equipment and installation;

- specific machinery acquisition to ensure technological transportation and maintenance of the main activity, as well as maintaining optimum conditions of road infrastructure in gas fields.

VIII. Summary of Main Indicators

Tab.4

	RON thousand	2020 Achieved	2021 Proposals	2021/2020 Ratios %	2022 Estimations	2023 Estimations
1	Total income	4,202.7	4,348.8	103.5%	4,628.3	4,732.7
2	Total expenses	2,753.9	3,205.4	116.4%	3,413.1	3,649.2
3	Gross result	1,448.8	1,143.4	78.9%	1,215.2	1,083.5

IX. 2022 - 2023 Indicator Forecast

The 2022 - 2023 forecast rests on those assumptions underlying the substantiation of the 2021 budget, the market demand and conditions, and current legislation on natural gas delivery prices.

We would like to emphasize that the indicators forecasted for 2022 and 2023 are indicative only and are not the final indicators of the company's performance for the respective years; they are going to be updated in accordance with the law in force when preparing the income and expenditure budgets for each of the respective years.

ROMGAZ Board of Directors endorsed the 2021 Income and Expenditure Draft Budget and the 2022 - 2023 forecast in the meeting of March 30, 2021.

In accordance with Article 4 paragraph (1) item d) of Government Ordinance no. 26/2013, we hereby request the Ordinary General Meeting of Shareholders to approve the SNGN Romgaz SA Medias 2021 Individual Income and Expenditure Budget.

The following annexes are part of the Income and Expenditure Budget:

- Annex 1: 2021 Income and Expenditure Budget (including estimations for 2022 - 2023); in accordance with O.M.F.P. no. 3818/2019, Annex 1 alone is published, with the column for the current year;
- Annex 2: Detailed information on the economic-financial indicators included in the income and expenditure budget and their quarterly distribution;
- Annex 3: Total Income Level of Achievement;

- Annex 4: Investment Program, Equipment and Financing Sources;
- Annex 5: Measures to Improve Gross Result and Reduction of Outstanding Payments.

Information related to the years 2021 - 2023 as included in Annex 1 and Annexes 2-5 are not public. These may be reviewed only by Romgaz shareholders, at the headquarters, daily between 10 am and 2 pm; the shareholders may address questions in accordance with the procedure described in the Convening Notice of the Ordinary General Meeting of Shareholders (OGMS) of **May 07, 2021**.

**CHIEF FINANCIAL OFFICER,
Răzvan POPESCU**

**ACCOUNTING DEPARTMENT DIRECTOR,
Marius VEZA**

**LEGAL DIRECTION,
Endre IOO**

2021 INCOME AND EXPENDITURE BUDGET - INDIVIDUAL

RON thousand

		INDICATORS	Row No.	2021 Proposals
0	1	2	3	4
I.		TOTAL INCOME (Row1=Row2+Row5)	1	4 348 808
	1	Total operating income out of which:	2	4 303 880
		a) subsidies, according to legal provisions in force	3	
		b) transfers, according to legal provisions in force	4	
	2	Financial income	5	44 928
II		TOTAL EXPENSES (Row6=Row7+Row19)	6	3 205 428
	1	Operating expenses (row7=row8+row9+row10+row18),out of which:	7	3 185 631
		A. expenses for goods and services	8	692 380
		B. expenses for taxes, duties and similar payments	9	743 620
		C. personnel-related expenses (Row10=Row11+Row14+Row16+Row17), out of which:	10	861 454
		C0 Wages and Salaries Expense (Row11=Row12+Row13)	11	806 597
		C1 Salaries expense	12	729 067
		C2 Bonus expense	13	77 529
		C3 other personnel expense, out of which:	14	5 386
		expenses with termination benefits	15	3 479
		C4 expenses for the mandate contract and for other management and control bodies, committees and commissions	16	3 766
		C5 expenses with contributions owed by the employer	17	45 705
		D. other operating expenses	18	888 176
	2	Financial expenses	19	19 798
III		GROSS RESULT (profit/loss) (Row20=Row1-Row6)	20	1 143 380
IV		CURRENT PROFIT TAX	21	200 408
		DEFERRED PROFIT TAX	22	
		INCOME FROM DEFERRED PROFIT TAX	23	23 142
		ACTIVITY SPECIFIC TAX	24	48
		OTHER TAXES NOT REPRESENTED IN THE ABOVE ELEMENTS	25	
V		NET PROFIT/LOSS of the reporting period (Row 26=Row20-Row21-Row22+Row23-Row24-Row25), out of which:	26	966 066
	1	Legal Reserves	27	
	2	Other reserves representing fiscal facilities provided by law	28	
	3	Coverage of accounting loss from previous years	29	
	4	Establishing equity finance for projects co-financed from foreign loans, and establishing sources for reimbursement of installments, payment of interest rates, charges and other costs related to such loans	30	
	5	Other distributions provided by law	31	
	6	Accounting profit after deduction of the amounts provided at Rows 27, 28, 29, 30, 31 (Row 32= Row26-(Row27 to Row31)>= 0)	32	966 066

		INDICATORS	Row No.	2021 Proposals
0	1	2	3	4
	7	Profit share payable to employees within the limit of 10% of the net profit, but not more than one monthly average base salary paid by the economic operator during the reference financial year	33	34 796
	8	Minimum 50% payments to the state budget or local budget in case of autonomous companies, or as dividends paid to shareholders in case of national companies and companies fully or majority state-owned, out of which:	34	500 431
	a)	- dividends to the state budget	35	350 302
	b)	- dividends to the local budget	36	
	c)	- dividends to other shareholders	37	150 129
	9	Profit not allocated to rows 33-34 is allocated to other reserves and represents the company's equity finance	38	465 635
VI		INCOME FROM EUROPEAN FUNDS	39	
VII		ELIGIBLE EXPENSES FROM EUROPEAN FUNDS, out of which:	40	
	a)	expenses for materials	41	
	b)	Salaries expense	42	
	c)	expenses for services	43	
	d)	expenses for promotion and advertising	44	
	e)	other expenses	45	
VII		INVESTMENT FINANCING SOURCES, out of which:	46	1 292 500
	1	Allocations from the budget, out of which:	47	
		budget allocations related to payments of previous years commitments	48	
IX		INVESTMENTS EXPENSES	49	1 292 500
X		SUPPORTING DATA		
	1	Forecasted number of employees at the end of the year	50	5 718
	2	Total average number of employees	51	5 702
	3	Average monthly income per employee (RON/ person) determined on basis of salary-related expenses	52	11 030
	4	Average monthly income per employee (RON/ person) determined on basis of salary expenses recalculated under the Annual Law of the State Budget	53	10 498
	5	Labour productivity in financial units per total average number of employees (thousand RON/person) (Row2/Row51)	54	755
	6	Labour productivity in financial units per total average number of employees recalculated under the Annual Law of the State Budget	55	755
	7	Labour productivity in physical units per total average number of employees (thousand cm/person)	56	
	8	Total expenses related to RON 1 000 total income (Row 57=(Row6/Row1)x1000)	57	737
	9	Outstanding payments	58	
	10	Overdue accounts receivables	59	1 289 942

CHIEF EXECUTIVE OFFICER,
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