

No. 2219/17.01.2023

ENDORSED,
Chairman of the Board of Directors
Dan Dragoș DRĂGAN

To,

SNGN ROMGAZ SA MEDIAȘ GENERAL MEETING OF SHAREHOLDERS

SUBSTANTIATION NOTE
OF THE
2023 INDIVIDUAL INCOME AND EXPENDITURE BUDGET

- I. **Substantiation** of the 2023 Income and Expenditure Budget draft and the 2024-2025 forecast was based on the laws related to:
- ~ *implementing the 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 expenses in the 2023 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 national companies and trade companies fully or majority state owned, as subsequently amended and supplemented;*
 - ~ *implementation of fiscal provisions - 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. **Drafting assumptions** of the income and expenditure draft budget are those published by the National Commission for Strategy and Prognosis in "Projection of the Main Macroeconomic Indicators for 2022-2026 the Autumn Forecast -2022" as follows:

Table 1

	2023	2024	2025
Increase of consumption prices - annual average	9.6%	5.7%	3.2%
RON/Euro - annual average	4.98	5.04	5.10
RON/USD - annual average	5.08	5.04	4.95

III. Outline and substantiation of indicators included in SNGN Romgaz SA 2023 Individual 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 evolution of gas demand and delivery price, gas and electricity production programs, underground gas storage of own gas. Revenues of Iernut Power Plant Branch (SPEE Iernut) are generated from electricity production and delivery, as well as from other field specific services.

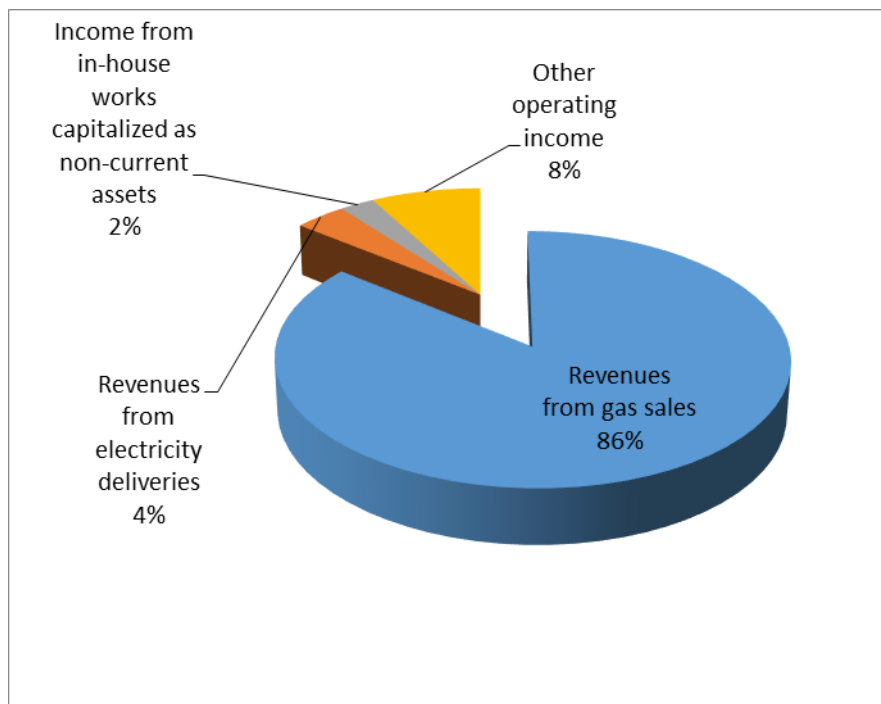
Besides the main revenue categories, income is also recorded from other activities, namely supply of services to third parties (gas transmission, dehydration and compression, rental of goods and assets, chemical analyses, sale of condensate, sale of goods, re-invoicing of gas transmission, distribution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

A. Operating Income

Operating income is estimated to **RON 10 324 398 thousand**.

The structure of the 2023 operating income is shown in the chart below:

Chart 1



Operating Income is detailed in the table below:

Table 2

	RON thousand	Preliminary 2022	Proposal 2023	Ratio 2023/2022 %
1	Revenue from Romgaz gas sales delivered from own production (excluding partnerships, gas for electricity generation)	11 567 453	8 806 305	76.1%
2	Revenue from joint ventures	56 179	48 471	86.3%
3	Revenue from commodity gas sales	14 654	6 104	41.7%
4	Revenue from electricity sales	1 328 291	388 507	29.2%
5	Income from in-house works capitalized as non-current assets	204 872	261 406	127.6%
6	Other income from sold production (transmission, distribution, storage, subsidiary rent, goods, changes in inventories, CO2 cost recovery)	474 847	813 604	171.3%
	Total operating income	13 646 295	10 324 398	75.7%

Revenues from Romgaz gas delivered from own production (excluding partnerships and gas for electricity generation) were determined based on the gas quantities estimated to be delivered to customers in 2023 and on the average delivery price of gas from current production and withdrawn from UGSs. The drop of revenues from gas sales is due to the decrease of quantities and delivery prices following implementation of GEO 27/2022. Therefore, it is estimated that 75.3% of production delivered to clients shall be sold at a regulated price of 150 RON/MWh.

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

Revenues from commodity gas sales represent that value of natural gas purchased and resold by Romgaz to clients.

Revenues from electricity deliveries were determined based on the quantities of delivered electricity and on the estimated average delivery prices. Decrease of revenues is caused by sale of entire electricity production at a regulated price of 450 RON/MWh in compliance with effective legal provisions.

Income from in-house works capitalized as non-current assets represents the value of capitalizable 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 (also

to be found at expenses), fines, penalties, recovery of costs with CO2 certificates, according to GEO 27/2022 as subsequently amended (see Annex 6 to GEO 27/2022).

B. Financial Income in amount of **RON 84 087 thousand** is mostly generated by dividends distributed by Depogaz and the interest for the loan granted to Romgaz Black Sea Limited for supporting operational activities and investments in Neptun Deep Block.

2. Substantiation of expenditures

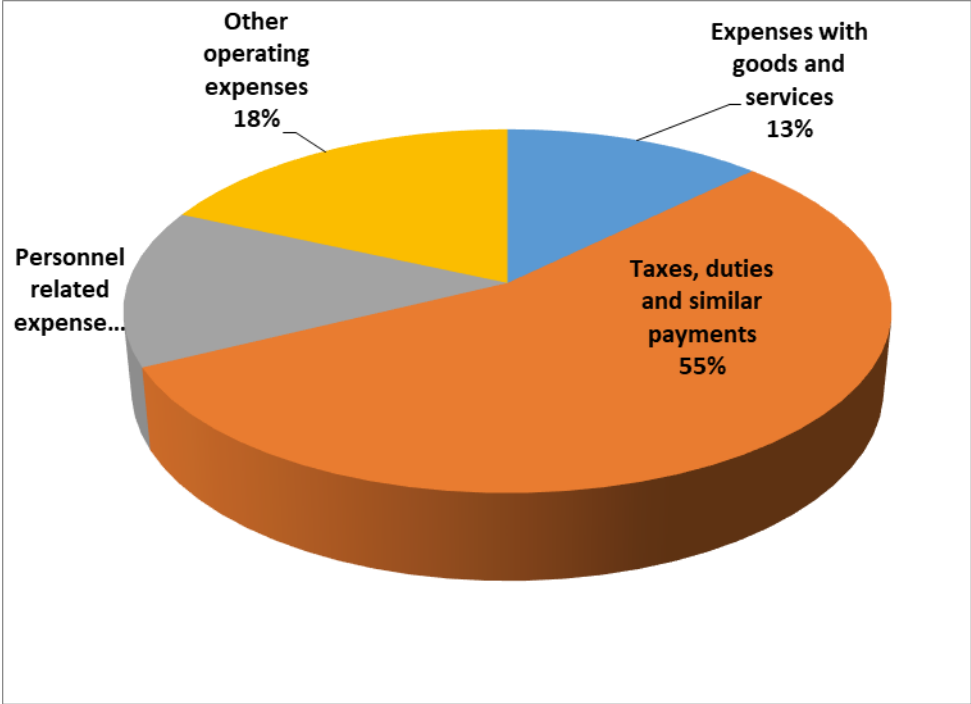
- **Operating expenses** are classified in the following main chapters:
 - A. Expenses with goods and services;
 - B. Expenses with taxes, duties and similar payments;
 - C. Personnel related expenses;
 - D. Other operating expenses.

Table 3

RON thousand	Preliminary 2022	Proposal 2023	Ratio 2023/2022
A. Expenses with goods and services	748 851	964 019	128.7%
B. Taxes, duties and similar payments	8 150 884	4 181 777	51.3%
C. Personnel related expenses	892 210	1 066 619	119.5%
D. Other operating expenses	982 251	1 390 613	141.6%
Total Operating Expenses	10 774 197	7 603 029	70.6%

Below is a graphic representation of operating expenses divided on the 4 categories:

Chart 2



A. Expenses with Goods and Services

For this expense category (A), in amount of RON 964 019 thousand, we estimate an increase by 28.7% as compared to the 2022 preliminary, influenced by the increased expenses with services supplied by third parties (expenses with repairs and maintenance, rentals, consultancy, fees and commission expenses, travel and daily allowances, IT licenses, geological studies). The increase is mainly generated by higher expenses with geological studies as compared to 2022, as well as by the necessity to perform well repairs and recompletion operations, works which could not be performed in 2022, and by higher expenses with consumables, spare parts needed for repairs, periodic repairs.

B. Expenses with Taxes, Duties and Similar Payments

These expenses include royalty calculated as percentage from the physical production and condensate (RON 1 047 822 thousand), windfall tax (RON 2 202 924.5 thousand), contribution to the energy transition fund (RON 1 794.8 thousand), contributions due to ANRE (RON 13 997 thousand), solidarity contribution (RON 906 104 thousand), as well as land and building taxes, all permitting, environmental and other taxes and duties.

Expenses with taxes and duties represent 55% of all expenses.

Expenses with taxes and duties decreased due to legislative amendments enforced by GEO 27/2022 as regards petroleum royalty, windfall tax and Romgaz gas and electricity sales price.

C. Personnel Related Expenses

Personnel related expenses were estimated based on Law no. 368/December 19, 2022 on the 2023 State Budget, providing under Chapter III "Final Provisions" art. 63, the government's policy on the salary policy in order to substantiate the salary costs of economic operators to which GO no. 26/2013 applies.

SNGN Romgaz SA Mediaș, complies with the provisions of art. 63, paragraph (1) items a) and c) stating that economic operators may provide increases of salary expenses compared to the level scheduled in the last approved budget "*by amounts representing increases in salaries expenses related to the average price increase index forecasted for 2023*" and "*by the amounts representing increases in salary expenses relating to their replenishment for the full year 2023, determined as a result of salary increases and bonuses in 2022 and/or personnel increases in 2022*".

The resulted salary costs are RON 994 648 thousand, by 15.8% higher than the approved 2022 budget and by 17.8% higher than the 2022 preliminary expenses. Personnel expenses are higher by 19.5% as compared to the preliminary expenses for 2022.

D. Other operating expenses

This category records expenses higher by 41.6% as a result of increased expenses with transmission and distribution services, CO₂ certificates related to delivered energy quantities (the increase of these expenses is directly related to the increase of energy quantities sold, self-supplied), expenses with abandoned wells, non-depreciated value of written off fixed assets, expenses with depreciation of fixed assets and expenses with adjustments and provisions.

- ***Financial expenses*** amount to RON 223 499 thousand, higher as compared to the previous year and include the estimation of expenses with unfavourable differences in the exchange rate calculated for the loan in amount of EUR 325 000 thousand contracted in 2022, expenses with interests related to this loan and estimations related to the unwinding of the decommissioning provision.

IV. 2023 Profit Distribution Proposal

Profit distribution was made in the 2023 budget proposal 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 for dividends due to shareholders is 50%, and the undistributed balance is allocated to own development sources.

- V. **Level of overdue receivables**, is estimated to RON 714 830 thousand for the end of 2023.
- VI. **Level of Arrears** is estimated to RON 0.

VII. Investment Program

For 2023 S.N.G.N. ROMGAZ S.A. proposes to carry out an Investment Program with a total budget of **RON 2 298 900 thousand** (Annex 4) consisting of:

- Investments in amount of RON 1 973 900 thousand;
- Credit reimbursement of RON 325 000 thousand.

The substantiation of the 2023 Investment Program Budget was mostly based on the projects aiming the increase of reserves and resources portfolio (onshore and offshore), offset of natural decline of the gas production and electricity generation, by way of:

- loans granted by SNGN Romgaz SA to **Romgaz Black Sea Limited** for supporting current activities and for financing investments;
- keeping the current participating interest with respect to Lukoil (12.2%);
- continuing geological research works by drillings new exploration wells;
- developing the electricity production potential by: continuing and finalising the Combined Cycle Gas Turbine Power Plant - Iernut and the construction of a Photovoltaic Park with an installed capacity of approx. 40 MW;

- upgrading and retrofitting of well intervention and special operations equipment and facilities, capitalizable well recompletion operations/reactivation, upgrading of dehydration stations and compressor stations;
- acquisition of new equipment and high-performance facilities specific to the core business;
- acquisition of specific equipment to ensure technological transportation and maintenance of the core business and of gas fields road infrastructure.

VIII. Summary of Main Indicators

Table 4

	RON million	Preliminary 2022	Proposals 2023	Ratios 2023/2022 %	Estimations 2024	Estimations 2025
1	Total income	13 864.0	10 408.5	75.1%	13 614.3	14 659.9
2	Total expenses	10 855.1	7 826.5	72.1%	9 928.8	12 116.0
3	Gross result	3 008.9	2 582.0	85.8%	3 685.5	2 543.9

IX. 2024 - 2025 Indicator Forecast

The 2024-2025 forecast rests on those assumptions underlying the substantiation of the 2023 budget, the market demand and conditions and current legislation.

We would like to emphasize that the indicators forecasted for 2024 and 2025 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 effective law when preparing the income and expenditure budgets for each of the respective years.

Please note that the preliminary indicators for 2022 may change and there may be differences from the preliminary indicators for 2022 to be published according to the financial calendar on February 28, 2023.

Romgaz Board of Directors endorsed the 2023 Income and Expenditures Budget Proposal and the 2024-2025 Forecast during the meeting held on January 16, 2023.

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 S.N.G.N. Romgaz S.A. Medias 2023 Individual Income and Expenditure Budget.

The **General Framework** of the Income and Expenditure Budget includes the following Annexes:

- Annex 1: 2023 Income and Expenditure Budget (including 2024-2025 estimations);
- 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 to reduce outstanding payments.

Information related to years 2024 - 2025 of Annex 1 and Annexes 2-5 are not public. These may be reviewed only by Romgaz shareholders at the headquarters, Monday to Friday between 10 am and 2 pm; shareholders may address questions in compliance with the procedure described in the Convening Notice of the Ordinary General Meeting of Shareholders (OGMS) of February 20, 2023.

**CHIEF EXECUTIVE OFFICER,
Răzvan POPESCU**

**CHIEF FINANCIAL OFFICER,
Gabriela TRÂNBIȚAȘ**

**LEGAL DEPARTMENT,
Endre IOO**

**ACCOUNTING DEPARTMENT DIRECTOR,
Marius Leonte VEZA**

2023 INCOME AND EXPENDITURE BUDGET - INDIVIDUAL

		RON thousand				
0	1	INDICATORS	Row No.	Preliminary 2022	Proposals 2023	Ratios 2023 / 2022 (%)
0	1	2	3	4	5	6=5/4
I.		TOTAL INCOME (Row1=Row2+Row5)	1	13 864 043	10 408 485	75,1%
	1	Total operating income out of which:	2	13 646 295	10 324 398	75,7%
		a) subsidies, according to legal provisions in force	3			
		b) transfers, according to legal provisions in force	4			
	2	Financial income	5	217 748	84 087	38,6%
II		TOTAL EXPENSES (Row6=Row7+Row19)	6	10 855 120	7 826 527	72,1%
	1	Operating expenses (row7=row8+row9+row10+row18),out of which:	7	10 774 197	7 603 029	70,6%
	A.	expenses for goods and services	8	748 851	964 019	128,7%
	B.	expenses for taxes, duties and similar payments	9	8 150 884	4 181 777	51,3%
	C.	personnel-related expenses (Row10=Row11+Row14+Row16+Row17), out of which:	10	892 210	1 066 619	119,5%
	C0	Wages and Salaries Expense (Row11=Row12+Row13)	11	844 364	994 648	117,8%
	C1	Salaries expense	12	761 562	892 572	117,2%
	C2	Bonus expense	13	82 802	102 076	123,3%
	C3	other personnel expense, out of which:	14	- 153	1 623	n/a
		expenses with termination benefits	15			
	C4	expenses for the mandate contract and for other management and control bodies, committees and commissions	16	3 730	13 512	362,3%
	C5	expenses with contributions owed by the employer	17	44 269	56 836	128,4%
	D.	other operating expenses	18	982 251	1 390 613	141,6%
	2	Financial expenses	19	80 924	223 499	276,2%
III		GROSS RESULT (profit/loss) (Row20=Row1-Row6)	20	3 008 922	2 581 958	85,8%
IV		CURRENT PROFIT TAX	21	568 819	561 062	98,6%
		DEFERRED PROFIT TAX	22	70 052	9 166	13,1%
		INCOME FROM DEFERRED PROFIT TAX	23	8 031	7 256	90,3%
		ACTIVITY SPECIFIC TAX	24	24		0,0%
		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	2 378 059	2 018 987	84,9%
	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	2 378 059	2 018 987	84,9%

RON thousand

		INDICATORS	Row No.	Preliminary 2022	Proposals 2023	Ratios 2023 / 2022 (%)
0	1	2	3	4	5	6=5/4
	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	38 349	42 031	109,6%
	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	1 208 204	1 030 509	85,3%
	a)	- dividends to the state budget	35	845 743	721 356	85,3%
	b)	- dividends to the local budget	36			
	c)	- dividends to other shareholders	37	362 461	309 153	85,3%
	9	Profit not allocated to rows 33-34 is allocated to other reserves and represents the company's equity finance	38	1 169 855	988 478	84,5%
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			
VIII		INVESTMENT FINANCING SOURCES, out of which:	46	5 802 993	2 298 900	39,6%
	1	Allocations from the budget, out of which:	47			
		budget allocations related to payments of previous years commitments	48			
IX		INVESTMENTS EXPENSES	49	5 802 993	2 298 900	39,6%
X		SUPPORTING DATA				
	1	Forecasted number of employees at the end of the year	50	5 453	5 702	104,6%
	2	Total average number of employees	51	5 228	5 675	108,6%
	3	Average monthly income per employee (RON/ person) determined on basis of salary-related expenses	52	12 534	13 649	108,9%
	4	Average monthly income per employee (RON/ person) determined on basis of salary expenses recalculated under the Annual Law of the State Budget	53	12 534	12 534	100,0%
	5	Labour productivity in financial units per total average number of employees (thousand RON/person) (Row2/Row51)	54	2 610	1 819	69,7%
	6	Labour productivity in financial units per total average number of employees recalculated under the Annual Law of the State Budget	55	2 610	1 819	69,7%
	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	783	752	96,0%
	9	Outstanding payments	58			
	10	Overdue accounts receivables	59	718 274	714 830	99,5%

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