

No. 9173/06.03.2020

To

THE GENERAL MEETING OF SHAREHOLDERS of SNGN ROMGAZ SA MEDIAS

SUBSTANTIATION NOTE OF THE INDIVIDUAL 2020 INCOME AND EXPENDITURE BUDGET

I. Substantiation of the 2020 Income and Expenditure Budget draft and the 2021 - 2022 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 2020 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 of 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 2019-2023" - the Autumn Forecast - 2019, as follows:

	2020	2021	2022
Index of consumption prices - annual average	3.1%	2.9%	2.8%
Exchange rate RON/EUR - annual average	4.75	4.75	4.75
Exchange rate RON/USD - annual average	4.28	4.28	4.28

Capital social: 385.422.400 RON

CIF: RO 14056826

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RO08 RNCB 0231 0195 2533 0001 - BCR Mediaș

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III. Outline and Substantiation of Indicators included in Romgaz Individual 2020 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. The delivery price of gas delivered to the suppliers of household customers and thermal energy producers was RON 68/MWh until June 30, 2020, in accordance with the provisions of GEO No. 1/2020, an Ordinance that amends and supplements GEO No. 114/ 2018. Taken into account have also been the provisions of the ANRE Draft Order on Gas Release Program.

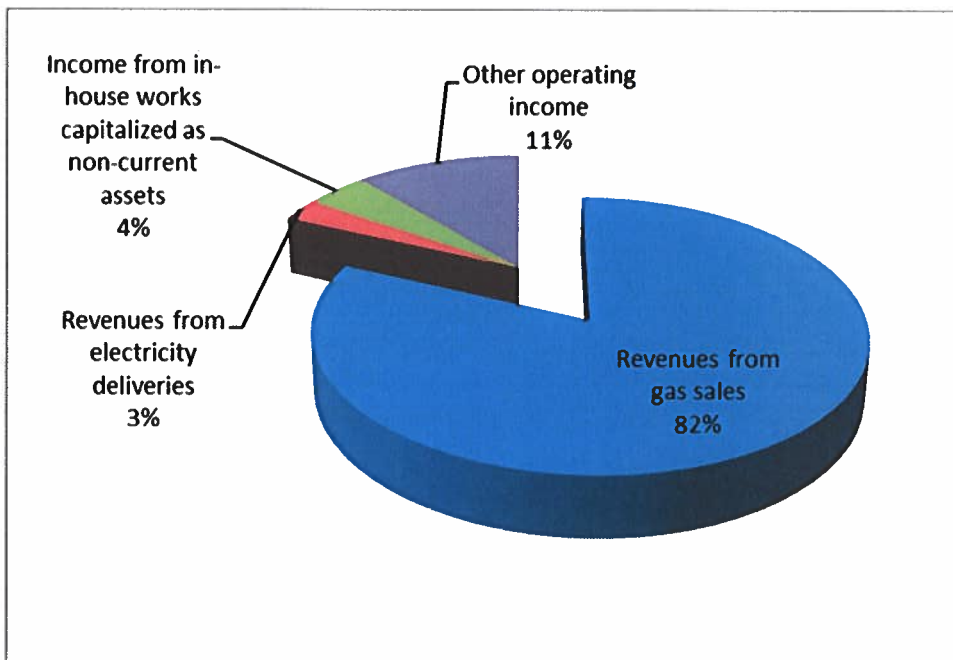
Revenues of the Electric Power Production Branch (SPEE Iernut) are generated from electric power generation and delivery as well as from other field related services.

Besides the main revenue categories, revenue is also recorded from other activities, and 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 5,365,898 thousand**.

The structure of the 2020 operating income is shown in the figure below:



Operating Income is detailed in the table below:

Item no.	RON thousand	2019 Preliminary	2020 Proposals	Ratio 2020/2019 %
1	Revenues from Romgaz gas sales delivered from own production (excluding joint ventures and gas for electric power production)	4 166 522	4 315 867	103.58%
2	Revenues from joint ventures	128 353	70 298	54.77%
3	Revenues from import gas deliveries	77 867		
4	Revenues from electric power deliveries	129 276	146 711	113.49%
5	Income from in-house works capitalized as non-current assets	212 436	233 637	109.98%
6	Other income from sold production (transmission, distribution, storage, subsidiary rent, change in stocks, fines, penalties, sales of assets)	542 906	599 386	110.40%
	Total operating income	5 257 359	5 365 898	102.06%

Revenues from Romgaz gas delivered from own production (excluding gas from joint ventures and gas for electric power generation) were determined based on the gas quantities estimated to be delivered to customers in 2020 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 (as well as the ANRE Draft Order on Gas Release Program).

Revenues from joint ventures represent the value of natural gas volumes delivered under joint-ventures (AMROMCO ENERGY SRL) related 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 2020.

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, and penalties, income from sale of assets (generated by the contribution in assets to the subsidiary).

Financial income amounting to **RON 42,279 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.

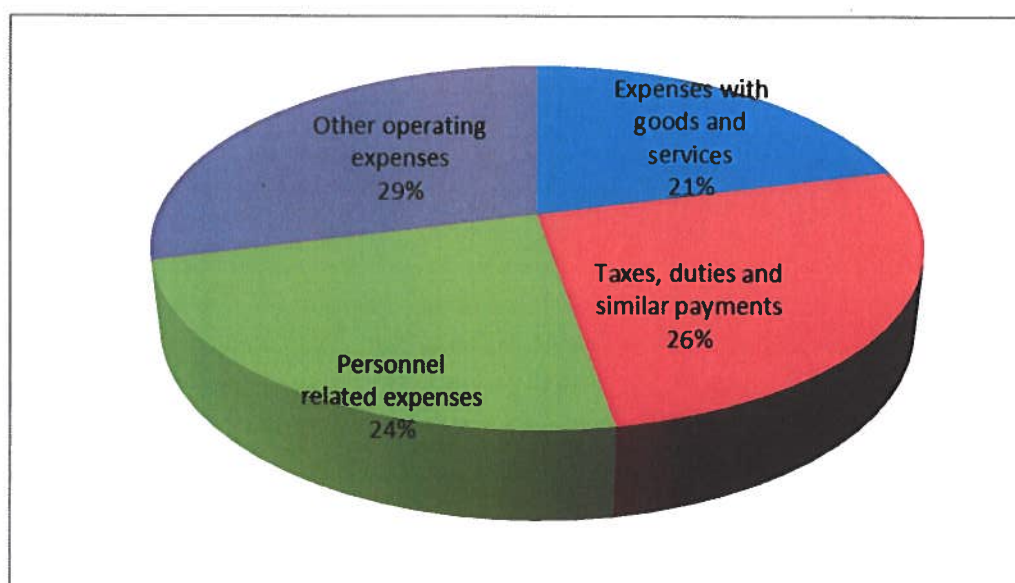
2. Substantiation of expenditures

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.

RON thousand	2019 Preliminary	2020 Proposals	Ratios (%)
1	2	3	4=3/2
A. Expenses with goods and services, out of which:	596 391	775 323	130.0%
A1. Expenses with inventories	254 578	220 851	86.8%
A2. Expenses with services supplied by third parties	21 039	32 953	156.6%
A3. Expenses with other services supplied by third parties	320 774	521 518	162.6%
B Expenses with taxes, duties and similar payments	1 137 966	978 753	86.0%
C. Personnel related expenses	731 953	878 206	119.9%
D. Other operating expenses	1 164 713	1 077 773	92.5%
Total Operating Expenses	3 631 022	3 710 056	102.2%

Graphic representation of operating expenses divided on the 4 chapters:



A. Expenses with Goods and Services

For this expense category (A) of RON 775,323 thousand, an increase by 30% is estimated as compared to the 2019 preliminary, 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, maintenance services for the equipment of the new Iernut power plant, and 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).

The gas production level was maintained closed to the one of the previous year due to the company's efforts to mitigate the natural decline of gross physical production which entailed increased expenses with material consumption, spare parts, consumed-in-operation fuel, inventory, fuel, seismic, studies, geological and geophysical works, as well as other items of variable costs and volume of works/supplied services.

The 2020 work programs of the branches include drilling works for an increased number of wells, some deeper than 4000m; 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 10% 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 292.6 million), windfall tax (RON 665.6 million), contribution due to ANRE (RON 13.3 million) as well as land and building taxes, total permitting, licencing and environment taxes (RON 7.7 million).

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. 5/06.01.2020 on the 2020 State Budget;***

~ ***Labour Code;***

~ ***Collective Labour Agreement.***

Law no. 5/06.01.2020 on the 2020 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 fulfils the provision of Article 48, paragraph (1), item d) stating that "economic operators, that in 2019 have achieved both the scheduled gross result as well as the scheduled outstanding payments, may increase the salary costs, provided that they shall not provide

for increases in outstanding payments nor reduction of gross result as compared to the level achieved in 2019”.

Pursuant to such provision, salary costs may not be increased as compared to the level provided for in the latest budget unless the 2020 scheduled profit is higher than the achieved one (preliminary as of this date).

The estimated 2020 gross profit amounts to RON 1,664,219 thousand, higher than the 2019 preliminary result of RON 1,634,188 thousand, hence allowing for the increase of salary costs above the ones included in the previous year’s budget.

Personnel related expenses are higher by 19.9% than the 2019 preliminary results; the increase is due to several factors (by applying the 3.1% inflation index on the December 2019 salaries, the increase of the luncheon voucher value in March, and by the increase of the employee number, and the increase of employee participation in the 2019 profit).

The number of employees forecasted for the end of 2020 is 5,946, and the average number is 5,885.

D. Other operating expenses

This chapter records a decrease of expenses estimated for 2020 (by 7.5%) generated mainly by the decrease of depreciation expenses (as a result of providing for the transfer of storage related assets to the Depogaz subsidiary) and adjustments and provisions.

The chapter includes expenses with non-current assets (generated by the contribution in assets to the subsidiary), other expenses not included in the previous chapters, tangible and intangible assets depreciation, adjustments and provisions.

IV. 2020 Profit Distribution Proposal

Profit distribution was made in the 2020 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 to shareholders is 50%, and the undistributed balance is allocated to own development sources.

V. Level of overdue receivables is estimated to RON 1,149,002 thousand for the end of 2020.

VI. Level of Arrears is estimated to RON 0

VII. Investment Program of RON 1,140,000 thousand is fully self-financed.

The priorities of Romgaz 2020 Investment Program are focused on projects aiming to mitigate the natural decline of the gas production, increase electric power generation, and upgrade and retrofitting by way of:

- continuing geological research works through new exploratory drillings and geological and geophysical surveys to discover new natural gas reserves;
- developing the production potential by ensuring new capacities for the already existent facilities (drilling of production wells, surface facilities, compressor and dehydration stations, booster compressors), improving the performances of the existing facilities and equipment, in order to increase the operational safety, reduce energy consumptions and enhance efficiency of gas reservoir production;
- developing the electricity generation potential by building a new combined cycle gas turbine power plant at Iernut;
- modernizing and retrofitting the workover rig equipment and installation as well as procurement of high performance equipment and installation specific for the main activity;
- 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

	RON million	2019 Preliminary	2020 Proposals	Ratios 2020/2019 %	2021 Estimations	2022 Estimations
1	Total income	5 297.7	5 408.2	102.1%	5 386.5	5 372.3
2	Total expenses	3 663.5	3 744.0	102.2%	3 806.7	3 923.7
3	Gross result	1 634.2	1 664.2	101.8%	1 579.8	1 448.7

IX. 2021 – 2022 Indicator Forecast

The 2021 – 2021 forecast rests on those assumptions underlying the substantiation of the 2020 budget, the market demand and conditions, and current legislation on natural gas delivery prices.

We would like to emphasize that the indicators forecasted for 2021 and 2022 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 2020 Income and Expenditure Budget Proposal and the 2021 – 2022 forecast in the meeting of March 6, 2020.

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 2020 Individual Income and Expenditure Budget.

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

- Annex 1: 2020 Income and Expenditure Budget (including estimations for 2021 – 2022); in accordance with O.M.F.P. no. 3145/2017, 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 -2022 and included in Annex 1 and Annex 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 compliance with the procedure described in the Convening Notice of the Ordinary General Meeting of Shareholders (OGMS) of 13.05.2020

**ENDORSED,
CHIEF EXECUTIVE OFFICER**

Constantin Adrian VOLINTIRU



**ACCOUNTING DEPARTMENT
DIRECTOR**

Marius Leonte VEZA

2020 INCOME AND EXPENDITURE BUDGET - INDIVIDUAL

RON thousand

		INDICATORS	Row No.	2020 Proposals
0	1	2	3	4
I.		TOTAL INCOME (Row1=Row2+Row5)	1	5 408 177
	1	Total operating income out of which:	2	5 365 898
		a) subsidies, according to legal provisions in force	3	
		b) transfers, according to legal provisions in force	4	
	2	Financial income	5	42 279
II		TOTAL EXPENSES (Row6=Row7+Row19)	6	3 743 958
	1	Operating expenses (row7=row8+row9+row10+row18),out of which:	7	3 710 056
		A. expenses for goods and services	8	775 323
		B. expenses for taxes, duties and similar payments	9	978 753
		C. personnel-related expenses (Row10=Row11+Row14+Row16+Row17), out of which:	10	878 206
	C0	Wages and Salaries Expense (Row11=Row12+Row13)	11	826 093
	C1	Salaries expense	12	745 027
	C2	Bonus expense	13	81 066
	C3	other personnel expense, out of which:	14	4 114
		expenses with termination benefits	15	2 906
	C4	expenses for the mandate contract and for other management and control bodies, committees and commissions	16	2 749
	C5	expenses with contributions owed by the employer	17	45 250
		D. other operating expenses	18	1 077 773
	2	Financial expenses	19	33 903
III		GROSS RESULT (profit/loss) (Row20=Row1-Row6)	20	1 664 219
IV		CURRENT PROFIT TAX	21	251 645
		DEFERRED PROFIT TAX	22	9 925
		INCOME FROM DEFERRED PROFIT TAX	23	37 180
		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	1 439 782
	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	1 439 782

		INDICATORS	Row No.	2020 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	32 407
	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	736 095
	a)	- dividends to the state budget	35	515 266
	b)	- dividends to the local budget	36	
	c)	- dividends to other shareholders	37	220 828
	9	Profit not allocated to rows 33-34 is allocated to other reserves and represents the company's equity finance	38	703 687
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	1 140 000
	1	Allocations from the budget, out of which:	47	
		budget allocations related to payments of previous years commitments	48	
IX		INVESTMENTS EXPENSES	49	1 140 000
X		SUPPORTING DATA		
	1	Forecasted number of employees at the end of the year	50	5 946
	2	Total average number of employees	51	5 885
	3	Average monthly income per employee (RON/ person) determined on basis of salary-related expenses	52	10 829
	4	Average monthly income per employee (RON/ person) determined on basis of salary expenses recalculated under the Annual Law of the State Budget	53	9 437
	5	Labour productivity in financial units per total average number of employees (thousand RON/person) (Row2/Row51)	54	912
	6	Labour productivity in financial units per total average number of employees recalculated under the Annual Law of the State Budget	55	912
	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	692
	9	Outstanding payments	58	
	10	Overdue accounts receivables	59	1 149 002

CEO

Constantin Adrian VOLINTIRU

ACCOUNTING DEPARTMENT DIRECTOR,

Marius VEZA