

ECONOMIC DEPARTMENT
Accounting Department
No. 29618/22.09.2020

APPROVED

CEO,
Constantin Adrian VOLINTIRU

Deputy CEO,
Daniel Corneliu PENA

To,
THE GENERAL MEETING OF SHAREHOLDERS OF S.N.G.N. ROMGAZ S.A.

REQUEST FOR APPROVAL
OF S.N.G.N. ROMGAZ S.A. RECTIFIED INDIVIDUAL INCOME AND EXPENDITURE
BUDGET PROPOSAL FOR 2020

Brief history

SNGN Romgaz SA Individual Income and Expenditure Budget for 2020 was approved on April 13, 2020, by the Ordinary General Meeting of Shareholders pursuant to OGMS Resolution no. 5/April 13, 2020, Article 4.

In March 2020 a State of Emergency was declared due to the COVID-19 pandemic, followed by a State of Alert. All the fields of activity have been experiencing the effects of the pandemic, both in Romania and abroad. Some companies were shut down or reduced their activity, the demand and supply underwent changes regarding the overall market and in particular the natural gas market which is significantly influencing our company.

Under these circumstances and taking into account the legislative amendments in the field of natural gas issued by ANRE (especially those concerning gas sales prices) a decrease of revenues generated from gas sales activities estimated for this year with an implicit decrease of the gross profit approved in the Income and Expenditure Budget.

Taking into account that according to estimations the 2020 income and profit will not be achieved as provided in the Income and Expenditure Budget, we rectified the budget in order to update the budgeted indicators so as to reflect, as accurately as possible, the future activity of our company.

Current status

The budget rectification is in accordance with the Government Ordinance no.26/2013 on reinforcement of financial discipline of certain economic operators where the state or the administrative-territorial units are sole or majority shareholders or hold, directly or indirectly, a majority interest, Article 10) paragraph (2) letters b), c) since the gross profit and labour productivity are reduced.

This proposal for SNGN Romgaz SA Medias rectified individual 2020 income and expenditure budget is based on the **following prerequisites and conditions.**

- **Inflation and exchange rates** projected for 2020, 2021, 2022 are shown in the table below:

	2020 *	2021 **	2022 **
Index of consumption prices – annual average	3.1%	2.8%	2.6%
Exchange Rate RON/EURO – annual average	4.84	4.75	4.75
Exchange Rate RON/USD – annual average	4.44	4.28	4.28

*)pursuant to the National Commission for Strategy and Prognosis “Projection of the Main Macroeconomic Indicators –2020- Preliminary Forecast“ published in April 2020;

**) pursuant to the National Commission for Strategy and Prognosis “Projection of the Main Macroeconomic Indicators 2019 – 2023- Autumn Forecast 2019”- published in November 2019.

- The rectified budget was substantiated based on the indicators achieved in the first half 2020 to which we added the proposals made by organizational units for HY2 (branches/ departments/ offices).
- Compared to the initially approved budget for 2020, which assumed that by May 31, the assets specific to natural gas underground storage activity (less the gas cushion) would be transferred to the subsidiary, as contribution to its capital, the rectified budget assumed that said transfer will not take place during 2020 and that renting of assets would continue until the end of the year. This assumption was made because ANAF rendered no answer on the requested fiscal opinion by the time we proceeded to rectify the budget.
- The level of **revenues from natural gas deliveries below the one provided in the approved Income and Expenditure Budget**, is based on the commercial context generated by the COVID 19 pandemic as well as on the regulations regarding gas prices and market.
- With regard to **electricity**, 2020 represents a transition year, from the old plant to the new plant. The commissioning date of the new plant was postponed being estimated to start operation in June 2021.
- In the estimation of H2 **expenditures** the branches/departments/offices were requested to reduce expenses, to eliminate or postpone those that are not urgent and to incur expenses in such a manner so that the activity could be carried out safely. Taking in consideration the decrease of revenues under current market and gas sales conditions, the taxes and duties to the state budget will decrease proportionally as these depend on the gas volumes produced and sold or on the price,.
- For 2020, S.N.G.N. ROMGAZ S.A. intends to carry out an **investment program** with a total budget of RON 853,000 thousand (25% lower than the approved budget which totals RON

1,140,000 thousand), mostly based on objectives targeting the increase of reserves and resources portfolio, the offset of natural decline of gas production and electricity generation.

➤ **The distribution of company's net profit** was made in compliance with Government Ordinance no. 64/2001 on the distribution of profit in entirely or majority state owned national companies, national enterprises and trading companies as well as in autonomous public entities approved with amendments by Law no. 769/2001, as subsequently amended and supplemented, other special pieces of legislation and other legal provisions.

I. Presentation and substantiation of SNGN Romgaz SA rectified individual income and expenditure budget proposal for 2020

I.1 Substantiation of income

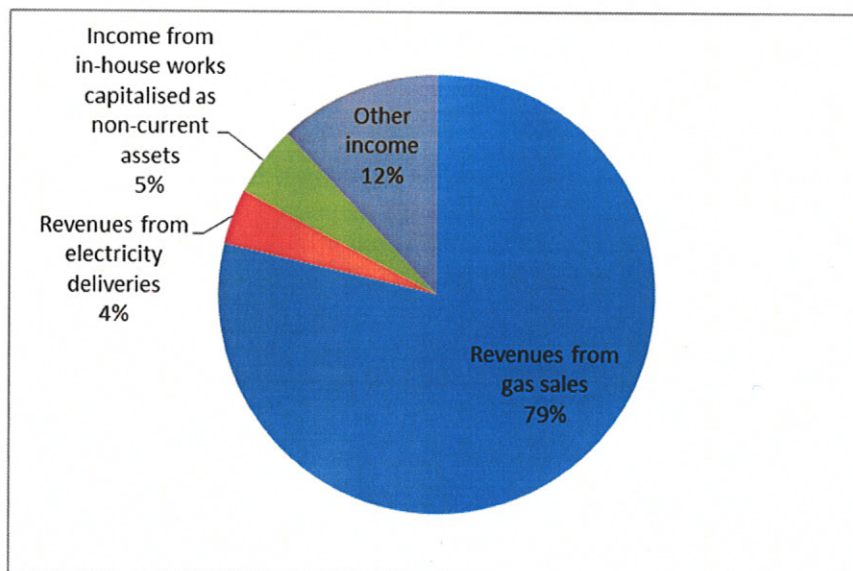
Substantiation of the main income categories in the income and expenditure budget is based on the projected trends of demand and delivery price of gas and electric power respectively, the natural gas/electric power production programs.

Ron thousand	2020 Approved Income and Expenditure Budget	2020 Rectified Income and Expenditure Budget Proposals	Rectified / Approved Income and Expenditure Budget Indices %
Operating income	5 365 898	4 010 764	74.7%
Financial income	42 279	58 541	138.5%
TOTAL INCOME	5 408 177	4 069 305	75.2%

Operating income

The operating income, in amount of **RON 4,010,764 thousand**, is estimated to be 25.3% lower than the income provided in the 2020 approved budget.

The graphic representation of the operating income structure for the rectified Income and Expenditure Budget is shown below:



Operating income is detailed in the table below:

	Ron thousand	2020 Approved Income and Expenditure Budget	2020 Rectified Income and Expenditure Budget Proposals	Rectified/Approved Income and Expenditure Budget Indices %
1	Revenues from Romgaz gas delivered from own production (excluding joint ventures and gas for electric power production)	4 315 867	3 090 859	71.6%
2	Revenues from joint ventures	70 298	63 688	90.6%
3	Revenues from import gas deliveries	0	0	0
4	Revenues from electricity deliveries	146 711	164 500	112.1%
5	Income from in-house works capitalized as non-current assets	233 637	209 222	89.6%
6	Other operating income (transmission, distribution, storage, subsidiary rent, goods and changes in inventories, other income)	599 386	482 495	80.5%
	Total operating income	5 365 898	4 010 764	74.7%

Revenues from Romgaz gas delivered from own production (excluding gas from joint ventures and gas for electricity generation) were determined based on the natural gas quantities estimated to be delivered to customers during July-December, on natural gas quantities delivered in H1 and on the average delivery price of gas from current production and withdrawn from UGSs. These revenues are lower by 28.4% due to the decrease of prices and sold quantities.

Revenues from joint ventures represent the value of natural gas volumes delivered under joint ventures and are related to Romgaz participating interest. The decrease by 9.4% of these revenues is due to the decrease of joint venture natural gas sale price.

For 2020, no revenues from *import natural gas sales* were programmed.

Revenues from delivered electricity were determined based on the quantities of delivered electricity and on the average delivery prices in H1 2020 and on those estimated for July-December 2020. These revenues increased due to the increase of sold electric power as a result of the continued operation of the existing plant. The previous budget provided for the shut down of the old plant and commissioning of the new one. However, further to postponing the commissioning of the new plant, electric power continued to be produced by the existing plant which led to an increase by 12.1% of the revenues from electric power production.

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

Other operating income recorded a decrease compared to the approved budget mainly as a result of cancelling the income from assets transferred to the Subsidiary (it was estimated that the transfer of

assets will not take place during 2020), representing the positive difference between the assessed value and the remaining value of assets transferred to the subsidiary. Income from transmission and distribution services, storage services, changes in inventories, rents and goods were also recorded under other income.

Financial income, amounting to **RON 58,541 thousand**, is generated by the interest received from banks for the company's cash placed in bank deposits and state bonds, from dividends received from the Underground Gas Storage Subsidiary and other financial income. The increase against de approved budget is due to the increase of income from interests.

I.2 Substantiation of expenditures

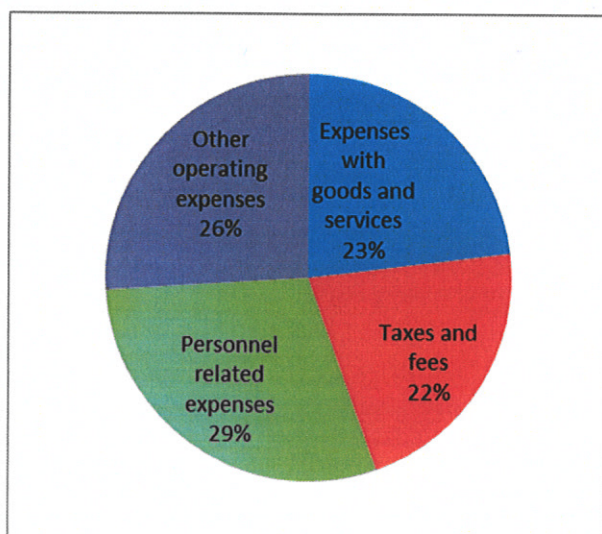
RON thousand	2020 Approved Income and Expenditure Budget	2020 Rectified Income and Expenditure Budget Proposals	Rectified/Approved Income and Expenditure Budget Indices %
Operating expenses	3 710 056	2 774 018	74.8%
Financial expenses	33 903	18 009	53.1%
TOTAL EXPENSES	3 743 958	2 792 028	74.6%

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	2020 Approved Income and Expenditure Budget	2020 Rectified Income and Expenditure Budget Proposals	Approved/Rectified Income and Expenditure Budget Indices %
A. Expenses with goods and services, out of which:	775 323	639 208	82.4%
A1. Expenses with inventories	220 851	164 429	74.5%
A2. Expenses with services supplied by third parties	32 953	25 876	78.5%
A3. Expenses with other services supplied by third parties	521 518	448 903	86.1%
B Expenses with taxes, duties and similar payments	978 753	595 775	60.9%
C. Personnel related expenses	878 206	817 433	93.1%
D. Other operating expenses	1 077 773	721 602	67.0%
Total Operating Expenses	3 710 056	2 774 018	74.8%

Graphic representation of operating expenses proposed in the rectified budget divided on the 4 chapters:



We state that the deviations (decreasing) compared to the approved budget are due to the emergency and alert states declared during the Covid-19 pandemic. Both the income (reductions explained in the previous chapter) as well as the expenses were affected by the current situation of 2020. Expenses related to natural gas production and sales have decreased commensurate with the income (goods and services, taxes and fees) and other fixed expenses that are within comparable limits with those in the approved budget.

A. Expenses with goods and services

The decrease of 17.6% of the expenses with goods and services can be seen in chapter A. The reductions compared to the approved budget can be found in all three subchapters as follows:

- In subchapter A1: „expenses with inventories”(-25.5%) include expenses with consumables, spare parts, inventory objects, materials, energy, water and goods;
- In subchapter A2 (-21.5%) are included „expenses with services supplied by third parties” provided at the needed level, in order to ensure activity continuity in safety conditions. An important share is represented by the expenses with maintenance and repairs related to natural gas extraction. These expenses are related to inspections and repairs of wells, buildings, constructions, equipment, compressor manifold, and total or partial replacement of their parts or components;
- In subchapter A3: „expenses with other services supplied by third parties” (-13.9%) represent expenses with partners, charges, fees, legal advice, expenses with protocol, advertising and publicity, sponsorship, transport, staff travel and secondment, security, organizational changes and personnel training, natural gas distribution and transmission, seismic and geological surveys.

B. Expenses with Taxes, Duties and Similar Payments

These expenses include royalty expenses calculated as a percentage from the physical production, from condensate (RON 177.5 million), windfall tax (RON 399.5 million), license tax (RON 11.6 million) as well as land and building taxes, total permitting, licensing and environment taxes (RON 7.1 million).

Expenses with taxes and duties record a decrease of 39.1% compared to the approved budget as a result of the following:

- ~ decrease of the petroleum quantity and petroleum royalty;
- ~ decrease of delivered natural gas quantities and the average natural gas delivery price used as basis for the windfall tax.

C. Personnel Related Expenses

Compared to the approved budget, expenses related to personnel are lower by 6.9% (RON – 60.8 million) the highest decrease representing expenses with salaries (RON – 49.5 million) and bonuses (RON – 6.4 million).

The percentage for adjusting social expenses (provided at 5% in Law No. 227/2015 regarding the Fiscal Code has dropped from 4%, as provided in the Approved Income and Expenditure Budget, to 3% in the rectified Income and Expenditures Budget and it applies for expenses with salaries.

Compared to the approved budget, in the Rectified Income an Expenditures Budget the meal ticket value has increased from RON 15.18/ticket to Ron 20/ticket, according to the applicable law.

The average number of personnel is by 3.8% below the number initially approved (personnel was reduced from 5,885 employees to 5,661 employees).

D. Other operating expenses

This chapter records a decrease by 33% of the expenses estimated in the rectified budget compared to the approved budget for 2020, generated mainly by the decrease of adjustments and provisions and fixed assets expenses. We hereby state the fact that the significant differences which occur in this chapter are influenced by the transfer of the fixed assets to Depogaz Ploiesti Subsidiary (in May 2020) provided in the Approved Income and Expenditure Budget and this had a significant impact on the impairment adjustments set up and reversed as well as on the fixed assets expenses. This transfer was no longer provided in 2020 in the rectified budget.

Financial expenses in amount of RON 18,009 include cost estimations with the unfavourable exchange rates differences and estimates regarding well decommissioning provisions and unwinding. The decrease of these expenses is due to the estimation of a lower provision than the one provided in the approved budget.

II. Gross result and profit distribution proposal

RON Thousand	2020 Approved Income and Expenditures Budget	2020 Rectified Income and Expenditures Budget Proposal	Rectified Income and Expenses Budget/Approved Income and Expenses Indicators %
GROSS PROFIT	1 664 219	1 277 277	76.7%
Total tax on profit	224 437	212 036	94.5%
NET PROFIT, out of which:	1 439 782	1 065 241	74.0%
Shareholders dividends	736 095	549 772	74.7%
Own investments financing sources	703 687	515 469	73.3%

The gross result estimated for 2020 is by 23.3% below the initially approved budget. The causes for the profit decrease have been detailed in the previous chapters.

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

III. Arrears and receivables

Level of arrears is estimated to RON 0. The company will not register outstanding payments.

Level of outstanding receivables is estimated to RON 1,265,490 thousand for the end of 2020.

IV. Investment program

S.N.G.N. ROMGAZ S.A. aims for 2020 to achieve a total investment program of RON 853,000 thousand, by 25% below the approved program in the initial budget of RON 1,140,000 thousand. Investment expenses are ensured totally from own financing sources.

V. Summary of main indicators

	RON million	2020 Approved Income and Expenditures Budget	2020 Rectified Income and Expenditures Budget Proposal	Rectified Income and Expenses Budget/Approved Income and Expenses Indicators %	2021 Estimations	2022 Estimations
1	Total income	5 408.2	4 069.3	75.2%	3 822.1	4 401.9
2	Total expenses	3 744.0	2 792.0	74.6%	2 906.9	3 267.5
3	Gross result	1 664.2	1 277.3	76.7%	915.2	1 134.4
4	Net result	1 439.8	1 065.2	74.0%	725.5	909.4

VI. 2021 – 2022 Indicator Forecast

The 2021 – 2021 forecast rests on those assumptions underlying the substantiation of the 2020 budget, the market demand and conditions.

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.

General framework regarding the 2020 Rectified Income and Expenditure Budget includes the following annexes:

- Annex 1: 2020 Income and Expenditure Budget (including estimations for 2021 – 2022);
- 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.

Compliant with Ministry of Public Finances Order No. 3818/2019, Annex 6, Chapter I, the published indicators in Annex 1 will be the ones for the current year, 2020 respectively. **The information for 2021-2022 from Annex 1 and Annex 2-5 are not public.**

We would like to emphasize the fact that this document is an excerpt from the Request for Approval No. 29.088/17.09.2020 regarding “SNGN Romgaz S.A 2020 Rectified Individual Income and Expenditures Budget Proposal” presented and approved by the Board of Directors in the meeting of 18 September 2020.

Considering that the Request for Approval Note No. 29.088/17.09.2020 includes information that is not available to the public, shareholders registered in the latest S.N.G.N Romgaz S.A. Shareholders Registry, held and provided by Depozitarul Central S.A., have the right to review the entire document, at the Company’s headquarters Piața C.I. Motaș, No. 4, Mediaș, Sibiu county, subject to signing a Confidentiality Agreement. They can address questions according to the procedure detailed in the Convening Notice of the Ordinary General Meeting of Shareholders (OGMS) on October 23, 2020.

Proposals:

Considering that:

- The information presented above regarding the 2020 rectified individual income and expenditures budget amendment proposal;
- The legal provisions regarding approval of the income and expenditures budget by the General Meeting Shareholders according to G.O No.26/2013, Article 4, paragraph (1), letter (d),

we hereby submit for approval of the Ordinary General Meeting of Shareholders the following proposal:

The Ordinary General Meeting of Shareholders approves the 2020 Rectified Individual Income and Expenditure Budget of SNGN Romgaz S.A.

**LEGAL DEPARTMENT DIRECTOR,
Endre IOO**

**ACCOUNTING DEPARTMENT DIRECTOR,
Marius VEZA**

RECTIFIED INDIVIDUAL INCOME AND EXPENDITURE BUDGET FOR 2020
SNGN ROMGAZ SA MEDIAS

RON thousand

		INDICATORS	Row No.	2020 rectified Individual Budget Proposal
0	1	2	3	4
I.		TOTAL INCOME (Row1=Row2+Row5)	1	4 069 305
	1	Total operating income out of which:	2	4 010 764
		a) subsidies, according to legal provisions in force	3	
		b) transfers, according to legal provisions in force	4	
	2	Financial income	5	58 541
II		TOTAL EXPENSES (Row6=Row7+Row19)	6	2 792 028
	1	Operating expenses (row7=row8+row9+row10+row18),out of which:	7	2 774 018
		A. expenses for goods and services	8	639 208
		B. expenses for taxes, duties and similar payments	9	595 775
		C. personnel-related expenses (Row10=Row11+Row14+Row16+Row17), out of which:	10	817 433
		C0 Wages and Salaries Expense (Row11=Row12+Row13)	11	770 164
		C1 Salaries expense	12	695 504
		C2 Bonus expense	13	74 660
		C3 other personnel expense, out of which:	14	1 540
		expenses with termination benefits	15	
		C4 expenses for the mandate contract and for other management and control bodies, committees and commissions	16	2 500
		C5 expenses with contributions owed by the employer	17	43 228
		D. other operating expenses	18	721 602
	2	Financial expenses	19	18 009
III		GROSS RESULT (profit/loss) (Row20=Row1-Row6)	20	1 277 277
IV		CURRENT PROFIT TAX	21	187 823
		DEFERRED PROFIT TAX	22	24 165
		INCOME FROM DEFERRED PROFIT TAX	23	
		ACTIVITY SPECIFIC TAX	24	47
		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	1 065 241
	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	1 065 241

		INDICATORS	Row No.	2020 rectified Individual Budget Proposal
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	34 304
	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	549 772
	a)	- dividends to the state budget	35	384 841
	b)	- dividends to the local budget	36	
	c)	- dividends to other shareholders	37	164 932
	9	Profit not allocated to rows 33-34 is allocated to other reserves and represents the company's equity finance	38	515 469
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	853 000
	1	Allocations from the budget, out of which:	47	
		budget allocations related to payments of previous years commitments	48	
IX		INVESTMENTS EXPENSES	49	853 000
X		SUPPORTING DATA		
	1	Forecasted number of employees at the end of the year	50	5 900
	2	Total average number of employees	51	5 661
	3	Average monthly income per employee (RON/ person) determined on basis of salary-related expenses	52	10 569
	4	Average monthly income per employee (RON/ person) determined on basis of salary expenses recalculated under the Annual Law of the State Budget	53	9 122
	5	Labour productivity in financial units per total average number of employees (thousand RON/person) (Row2/Row51)	54	708
	6	Labour productivity in financial units per total average number of employees recalculated under the Annual Law of the State Budget	55	708
	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	686
	9	Outstanding payments	58	
	10	Overdue accounts receivables	59	1 265 490

CEO,

Constantin Adrian VOLINTIRU

ACCOUNTING DEPARTMENT
DIRECTOR,

Marius VEZA

Deputy CEO,

DANIEL CORNELIU PENA