

No. 3120/25.01.2022

**ENDORSED,**  
**Dan Dragoș DRĂGAN,**  
**Chairman of the Board of Directors**

To,

**THE GENERAL MEETING OF SHAREHOLDERS  
of SNGN ROMGAZ SA MEDIAȘ**

**SUBSTANTIATION NOTE  
OF THE  
2022 INDIVIDUAL INCOME AND EXPENDITURE BUDGET**

- I. **Substantiation** of the 2022 Income and Expenditure Budget draft and the 2023-2024 forecast was based on the laws on:
- ~ *implementation of 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 2022 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 draft budget are those published by the National Commission for Strategy and Prognosis in

”Projection of the Main Macroeconomic Indicators for 2021-2025-the Autumn Forecast -2021“ as follows:

**Table 1**

	2022	2023	2024
Index of consumption prices - annual average	6.5%	3.7%	2.9%
RON/EUR exchange rate - annual average	4.98	5.03	5.08
RON/USD exchange rate - annual average	4.18	4.23	4.27

- Transfer of underground gas storage assets as capital contribution to its subsidiary was estimated to be carried out by June 30, 2022. As of this date rent for specific assets will not be charged anymore and income from rentals will not be recorded anymore in the records of the parent company.
- Commissioning of Iernut new power plant will be carried out in Q4, 2023.

### **III. Outline and substantiation of indicators included in SNGN Romgaz SA 2022 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 development of gas demand and gas delivery price, gas production and electric power generation programs, underground gas storage of own gas. Revenues of Iernut Power Plant Branch (SPEE Iernut) are generated from electric power generation and delivery as well as from other field specific services.

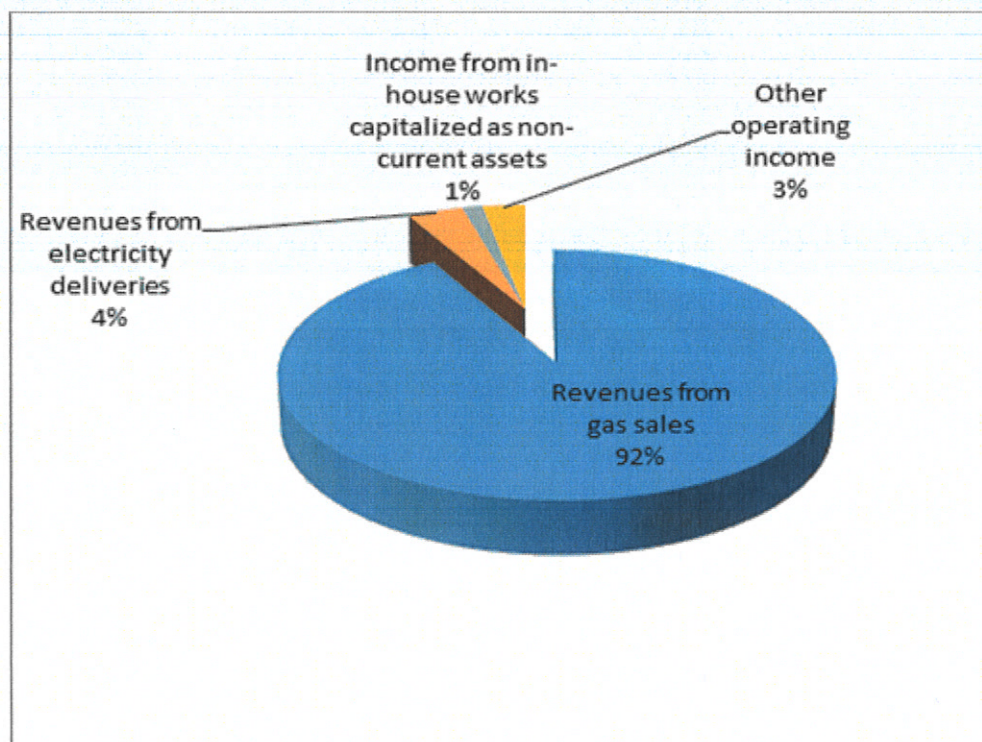
Besides the main revenue categories, income is also recorded from other activities, namely supply of services to third parties (gas transportation, dehydration and compression, rental of goods and assets, chemical analysis, sale of condensate, sale of goods, re-invoicing of gas transportation, distribution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

#### **A. Operating Income**

Operating income is estimated to **RON 12,296,045 thousand**.

The structure of the 2022 operating income is shown in the chart below:

Chart 1



Operating Income is detailed in the table below:

Table 2

	RON thousand	Preliminary 2021	Proposals 2022	Ratios 2022/2021 %
1	Revenues from Romgaz gas sales delivered from own production (excluding joint ventures and gas for electric power generation)	4 698 378	11 295 101	240.4%
2	Revenues from joint ventures	26 293	19 661	74.8%
3	Revenues from import gas deliveries and commodity gas	316 352		
4	Revenues from electric power deliveries	317 022	452 050	142.6%
5	Income from in-house works capitalized as non-current assets	204 998	166 412	81.2%
6	Other income from sold production (transmission, distribution, storage, subsidiary rent, goods, change in stocks, fines, penalties, sale of assets)	606 605	335 822	55.4%
	<b>Total operating income</b>	<b>6 169 648</b>	<b>12 269 045</b>	<b>198.9%</b>

*Revenues from Romgaz gas delivered from own production* (excluding joint ventures and gas for electric power generation) were determined based on the gas quantities estimated to be delivered to customers in 2022 and on the average delivery price of gas from current production and withdrawn from UGSs. The increase of revenues from gas sales is due to the increase of delivery prices which also generated a significant increase of the windfall tax. These revenues must cover all costs including royalty payments, which are made at a reference price higher by 95% compared to 2021 preliminary.

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

*Revenues from import gas deliveries and commodity gas*, represent the value of natural gas purchased and resold by Romgaz to clients. In 2022 import and commodity gas sales are not foreseen.

*Revenues from electricity deliveries were determined* based on the quantities of delivered electricity 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.

**B. Financial Income in amount of RON 16,182 thousand** is mostly generated by dividends distributed by the subsidiary.

## 2. Substantiation of expenditures

*Operating expenses* are classified in the following main chapters:

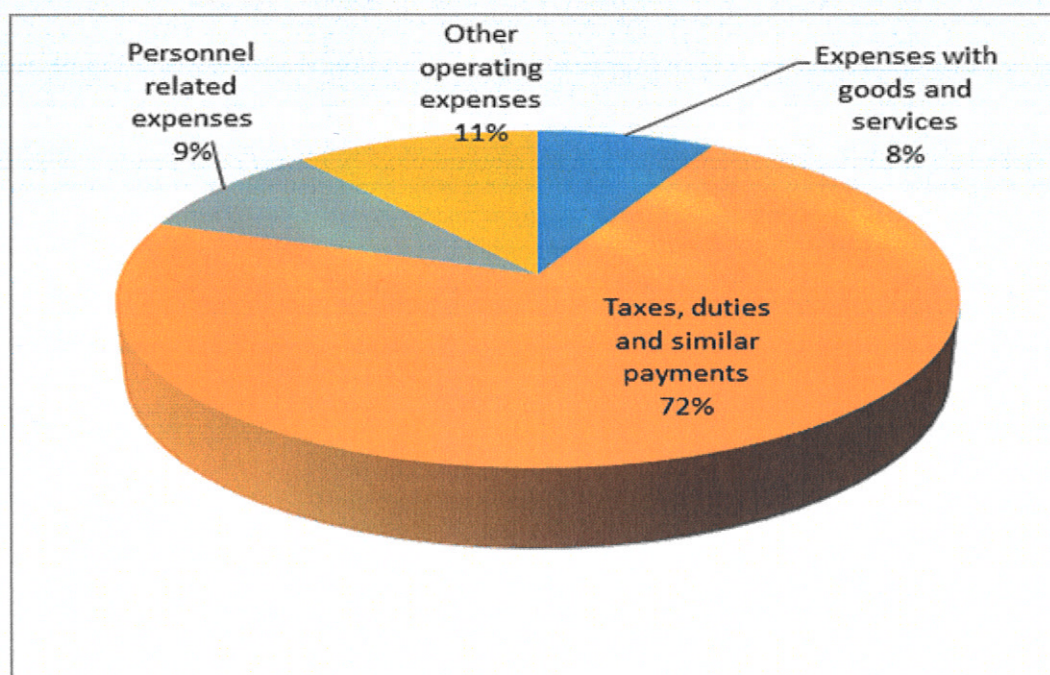
- A. Expenses with goods and services;
- B. Expenses with taxes, duties and similar payments;
- C. Personnel related expenses;
- D. Other operating expenses.

**Table3**

RON thousand	Preliminary 2021	Proposals 2022	Ratios 2022/2021
A. Expenses with goods and services	774 474	802 966	103.7%
B. Taxes, duties and similar payments	1 950 671	7 408 312	379.8%
C. Personnel related expenses	805 949	916 118	113.7%
D. Other operating expenses	728 077	1 110 680	152.5%
<b>Total Operating Expenses</b>	<b>4 259 171</b>	<b>10 238 077</b>	<b>240.4%</b>

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 802,966 thousand, an increase by 3.7% is estimated as compared to the 2021 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 the rise of expenses with geological studies, gas transmission and distribution services (re-invoiced at income as well, for customers requesting such services to be contracted by the company with the system operators) as compared to 2021), due to the necessity to perform well repairs and recompletion operations, works which could not be performed in 2021 due to the pandemic and to the increase of consumables, spare parts necessary for periodic repairs and recompletion operations.

#### ***B. Expenses with Taxes, Duties and Similar Payments***

These expenses include royalty calculated as percentage from the physical production and condensate (RON 1,387,579 thousand), windfall tax (RON 6,000,359 thousand), contributions due to ANRE (RON 12,350 thousand), as well as land and building taxes, all permitting, environmental and other taxes and duties (RON 8,024 thousand). Expenses with taxes and duties represent 72% of all expenses.

Royalty in amount of RON 1,387,579 thousand increased by RON 681,033 thousand compared to the 2021 preliminary mainly due to the increase of reference prices used in calculating the royalty payment obligation.

Windfall tax increased by RON 4,772,357 thousand as a result of the gas prices increase.

The increase of royalty and windfall tax amounts to RON 5.453.390 thousand and represents 90.7 % of the total increases in the 2022 expenses.

### **C. Personnel Related Expenses**

Personnel related expenses were estimated based on Law no. 317/December 28, 2021 on the 2022 State Budget providing, under Chapter III "Final Provisions" art. 48, 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 Mediaş, complies with the provisions of art. 48, paragraph (1) item a) stating that economic operators may provide increases of salary costs compared to the level scheduled in the last approved budget "with amounts representing increases of the salary costs related to the average price increase index forecasted for 2022". The resulted salary costs are RON 859,025 thousand, 6.5%, higher than the approved 2021 budget and 13.2% higher than the 2021 preliminary expenses. Personnel expenses are higher by 13.7% as compared to the 2021 preliminary.

### **D. Other operating expenses**

This category records an increase of expenses by 52.5% as a result of the increased expenses with transmission and distribution services, CO<sub>2</sub> 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** are in amount of RON 51,667 thousand, higher by RON 34,550 thousand 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 and estimations related to the provision for well decommissioning and include estimations of expenses with unfavourable differences in the exchange rate, expenses with interests and estimations related to the unwinding of the decommissioning provision.

## **IV. 2022 Profit Distribution Proposal**

Profit distribution was made in the 2022 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 1,248,612 thousand for the end of 2022.

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

## VII. Investment Program

For 2022 S.N.G.N. ROMGAZ S.A. proposes to carry out an Investment Program with a total budget of RON 5,962,775 thousand consisting of investment expenses of RON 5,720,000 thousand and credit reimbursements in amount of RON 242,775 thousand.

The substantiation of the 2022 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 electric power generation, by way of:

- Full payment of the acquisition by Romgaz of all shares representing 100% of the share capital of ExxonMobil Exploration and Production Romania Limited;
- Continuing geological research works by drillings new exploration wells to discover new natural gas reserves, developing the production potential by providing new capacity;
- Developing the electricity production potential by: continuing and finalising the construction of the Combined Cycle Gas Turbine Power Plant - Iernut and the construction of a Photovoltaic Park with an installed capacity of approx. 60 MW;
- upgrading and retrofitting of well intervention and special operations equipment and facilities, refurbishment/refurbishment/repairs that can be capitalised, upgrading of drying stations and compressor stations;
- the acquisition of new equipment and high-performance installations specific to the core business;
- the purchase of specific equipment to ensure the technological transport and maintenance of the core activity and the maintenance of the road infrastructure in the gas fields in optimal conditions.

## VIII. Summary of Main Indicators

Table 4

	RON million	2021 Preliminary	2022 Proposals	Ratios 2022/2021 %	2023 Estimations	2024 Estimations
1	Total Income	6,240.6	12,285.2	196.9%	9,439.6	9,877.8
2	Total Expenses	4,276.3	10,289.7	240.6%	7,475.4	7,501.4
3	Gross Result	1,964.3	1,995.5	101.6%	1,964.3	2,376.4

## IX. 2023 - 2024 Indicator Forecast

The 2023-2024 forecast rests on those assumptions underlying the substantiation of the 2022 budget, the market demand and conditions and current legislation on natural gas delivery prices.

We would like to emphasize that the indicators forecasted for 2023 and 2024 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.

Please note that the preliminary indicators for 2021 may change and there may be differences from the preliminary indicators for 2021 included in the consolidated financial statements of Romgaz Group to be published according to the financial calendar on February 25, 2022.

***Romgaz Board of Directors endorsed the 2022 Income and Expenditures Budget Proposal and the 2023-2024 Forecast during the meeting of January 20, 2022.***

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 S.N.G.N. Romgaz S.A. Medias 2022 Individual Income and Expenditure Budget.

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

- Annex 1: 2022 Income and Expenditure Budget (including 2023-2024 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 Reduction of Outstanding Payments.

Information related to the years 2023 - 2024 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 February 28, 2022.

**CHIEF EXECUTIVE OFFICER**  
**Aristotel Marius JUDE**

**CHIEF FINANCIAL OFFICER,**  
**Răzvan POPESCU**

**LEGAL DEPARTMENT,**  
**Endre IOO**

**DIRECTOR OF ACCOUNTING DIRECTION,**  
**Marius Leonte VEZA**



2022 INCOME AND EXPENDITURE BUDGET - INDIVIDUAL

RON thousand

		INDICATORS	Row No.	Preliminary 2021	Proposals 2022	Ratios 2022 / 2021 (%)
0	1	2	3	4	5	6=5/4
I.		<b>TOTAL INCOME (Row1=Row2+Row5)</b>	1	<b>6 240 554</b>	<b>12 285 226</b>	<b>196,9%</b>
	1	Total operating income out of which:	2	6 169 648	12 269 045	198,9%
		a) subsidies, according to legal provisions in force	3			
		b) transfers, according to legal provisions in force	4			
	2	Financial income	5	70 906	16 182	22,8%
II		<b>TOTAL EXPENSES (Row6=Row7+Row19)</b>	6	<b>4 276 287</b>	<b>10 289 744</b>	<b>240,6%</b>
	1	Operating expenses (row7=row8+row9+row10+row18),out of which:	7	<b>4 259 171</b>	<b>10 238 077</b>	<b>240,4%</b>
	A.	expenses for goods and services	8	774 474	802 966	103,7%
	B.	expenses for taxes, duties and similar payments	9	1 950 671	7 408 312	379,8%
	C.	personnel-related expenses (Row10=Row11+Row14+Row16+Row17), out of which:	10	805 949	916 118	113,7%
	C0	Wages and Salaries Expense (Row11=Row12+Row13)	11	759 044	859 025	113,2%
	C1	Salaries expense	12	683 802	773 837	113,2%
	C2	Bonus expense	13	75 242	85 188	113,2%
	C3	other personnel expense, out of which:	14	535	1 524	284,9%
		expenses with termination benefits	15			
	C4	expenses for the mandate contract and for other management and control bodies, committees and commissions	16	3 100	3 577	115,4%
	C5	expenses with contributions owed by the employer	17	43 271	51 992	120,2%
	D.	other operating expenses	18	728 077	1 110 680	152,5%
	2	Financial expenses	19	<b>17 117</b>	<b>51 667</b>	<b>301,8%</b>
III		<b>GROSS RESULT (profit/loss) (Row20=Row1-Row6)</b>	20	<b>1 964 266</b>	<b>1 995 483</b>	<b>101,6%</b>
IV		CURRENT PROFIT TAX	21	259 325	314 668	121,3%
		DEFERRED PROFIT TAX	22	25 630		
		INCOME FROM DEFERRED PROFIT TAX	23	18 373	52 826	287,5%
		ACTIVITY SPECIFIC TAX	24	24	48	200,0%
		OTHER TAXES NOT REPRESENTED IN THE ABOVE ELEMENTS	25			
V		<b>NET PROFIT/LOSS of the reporting period (Row 26=Row20-Row21-Row22+Row23-Row24-Row25), out of which:</b>	26	<b>1 697 660</b>	<b>1 733 593</b>	<b>102,1%</b>
	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	<b>1 697 660</b>	<b>1 733 593</b>	<b>102,1%</b>

RON thousand

	INDICATORS	Row No.	Preliminary 2021	Proposals 2022	Ratios 2022 / 2021 (%)	
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	35 978	36 985	102,8%
	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	<b>866 819</b>	<b>885 289</b>	<b>102,1%</b>
	a)	- dividends to the state budget	35	606 773	619 702	102,1%
	b)	- dividends to the local budget	36			
	c)	- dividends to other shareholders	37	260 046	265 587	102,1%
	9	Profit not allocated to rows 33-34 is allocated to other reserves and represents the company's equity finance	38	<b>830 841</b>	<b>848 304</b>	<b>102,1%</b>
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 I		INVESTMENT FINANCING SOURCES, out of which:	46	<b>450 000</b>	<b>5 962 775</b>	<b>1325,1%</b>
	1	Allocations from the budget, out of which:	47			
		budget allocations related to payments of previous years commitments	48			
IX		INVESTMENTS EXPENSES	49	<b>450 000</b>	<b>5 962 775</b>	<b>1325,1%</b>
X		SUPPORTING DATA				
	1	Forecasted number of employees at the end of the year	50	5 363	5 787	107,9%
	2	Total average number of employees	51	5 339	5 702	106,8%
	3	Average monthly income per employee (RON/ person) determined on basis of salary-related expenses	52	11 038	11 678	105,8%
	4	Average monthly income per employee (RON/ person) determined on basis of salary expenses recalculated under the Annual Law of the State Budget	53	11 038	10 912	98,9%
	5	Labour productivity in financial units per total average number of employees (thousand RON/person) (Row2/Row51)	54	1 156	2 152	186,2%
	6	Labour productivity in financial units per total average number of employees recalculated under the Annual Law of the State Budget	55	1 156	2 152	186,2%
	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	685	838	122,3%
	9	Outstanding payments	58			
	10	Overdue accounts receivables	59	1 252 131	1 248 612	99,7%

CHIEF EXECUTIVE OFFICER,  
ARISTOTEL MARIUS JUDE

CHIEF FINANCIAL OFFICER,  
RĂZVAN POPESCU

ACCOUNTING DEPARTMENT  
DIRECTOR,  
MARIUS VEZA