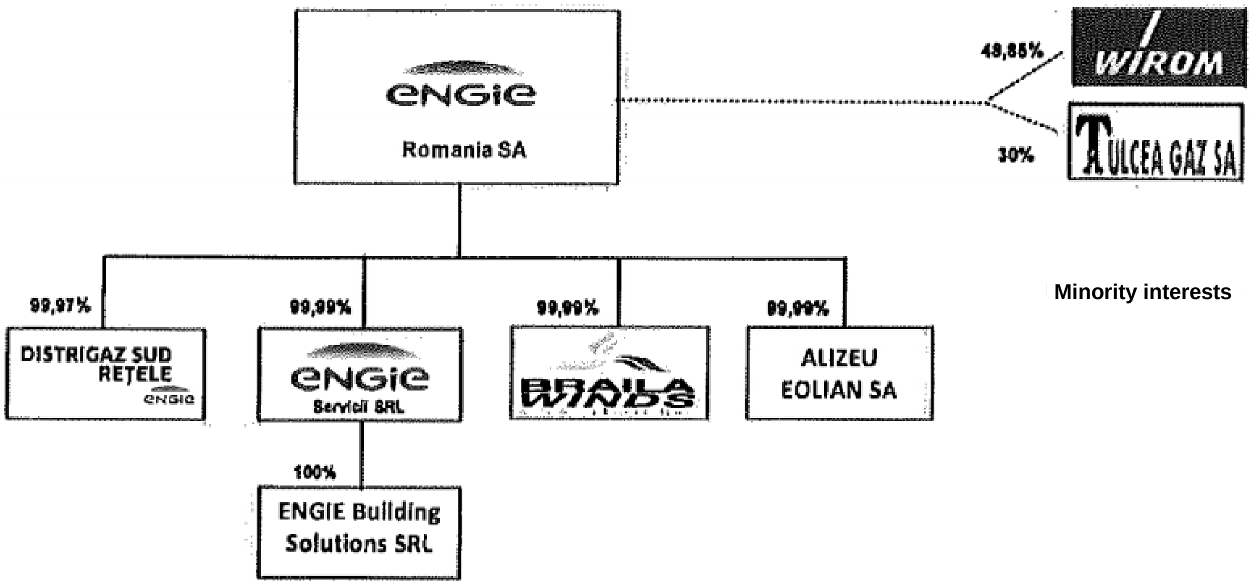
Administrators' Report
on the Consolidated Financial Statements
of ENGIE Group Romania
as at December 31, 2018

Contents

I. The Group's organisational structure

Engie Romania Group
Structure as at December 31, 2018



ENGIE Romania SA is a joint-stock company whose scope of business consists in the supply of natural gas. The Company was created pursuant to Government Decision no. 491/1998, implemented as of August 31, 1998, and its name was changed in April 2009 from S.C. DGN DISTRIGAZ SUD S.A. to S.C. GDF SUEZ Energy Romania S.A. As of March 21, 2016, the Company's initial name was changed from GDF SUEZ Energy Romania SA to ENGIE Romania.

Distrigaz Sud Retele SRL was set up in March 2008 following the process of legal and accounting separation of the natural gas supply and distribution activities, and the related services from the activities of ENGIE Energy Romania SA. The Company took over, by way of transfer, a part of the parent company's assets, and became the holder of the concession contracts concluded for the natural gas distribution service and of the distribution licence.

Distrigaz Sud Retele is a limited liability company. As at December 31, 2018, following the partition and integration process undergone by Congaz company in 2015, ENGIE Romania holds 99.9722% of the equity shares (2017: 99.9722%). The Company is coordinated by the Shareholders' General Assembly which, in turn, is led by the Management Board.

The Company's scope of business is primarily the regulated activity of natural gas distribution. In addition to this, the Company carries out other non-regulated activities such as access to the distribution system. From a territorial standpoint, it is organised into 4 Regional Directorates (not registered as legal entities) and 51 places of business not registered with the Trade Register.

ENGIE Servicii SRL was established on July 1, 2009, following the approval of the new technical rules for natural gas distribution, which allowed technical inspections and verifications of operating equipment and facilities for household consumers to be conducted by other companies outside distribution operators, as well. Furthermore, as per ANRE Order 7/2009, the validity requirements for the distribution licence underwent changes that allowed outsourcing the technical inspections and verifications of operating equipment and facilities.

The Company's operational activity commenced on October 1, 2009, via business transfer from S.C. Distrigaz Sud Rețele.

ENGIE Servicii is a limited liability company. 99.99% of the total equity chares is held by ENGIE Romania SA. The Company is coordinated by the Shareholders' General Assembly which, in turn, is led by a Management Board. The Company's core business consists in technical inspections and verifications of operating equipment and facilities, as well as related services. The company's current business name as of March 21, 2016 was changed from Distrigaz Confort to ENGIE Servicii.

Braila Winds SRL is a limited liability company established in 2009 and purchased 99.995% by ENGIE Energy Romania SA in December 2011. Its scope of business is wind-based electricity production. The wind-based electricity production licence was obtained in early 2013.

Alizeu Eolian SA is a public limited company, set up in 2010 and purchased 99.995% by ENGIE Romania SA in December 2012. Its scope of business is wind-based electricity production. The wind-based electricity production licence was obtained at the end of 2013.

ENGIE Building Solutions SRL is a limited liability company purchased by ENGIE Servicii in October 2016 (100% of its equity shares purchased from Cofely Holding GmbH and Cofely GEBÄUDETECHNIK GmbH). The company's core business is the performance of plumbing, heating and air conditioning works, as well as the provision of technical services for industrial customers. The company's name was changed following the purchase, from Cofely Building Services and Maintenance SRL to ENGIE Building Solutions SRL.

II. Activity analysis – Consolidated results of ENGIE Romania and its subsidiaries for the year 2018

A net outturn decrease by 25%, primarily due to an increase in the gas and electricity supply margin, an outcome partially offset by the higher level of provisions for doubtful receivables and an increase in labour costs and operational expenditure.

Mil. RON	**Note**	**2018**	**2019**	**Variation**
Income from customer contracts		**4,841.2**	**5,791.3**	**20%**
natural gas	*1.1*	***4,234.4***	***4,674.4***	
electricity	*1.2*	*428.2*	*934.0*	
others	*1.3*	*178.6*	*183.0*	
Cost of goods sold		**-3,625.9**	**-4,424.8**	**22%**
natural gas	*1.1*	-3,200.3	-3,531.0	
electricity	*1.2*	-425.6	-893.8	
Other operating income and expenses	*2*	-609.3	-690.8	
Other operating expenses and provisions	*3*	-183.6	-190.0	
Operating profit/loss		**422.4**	**485.7**	**15%**
Financial outturn	*4*	-9.3	6.2	
Net outturn		**342.6**	**428.7**	**25%**

1. Turnover analysis

1.1. Natural gas supply and distribution

The consolidated income from customer contracts (natural gas supply and distribution) recorded for the period concluded on December 31, 2018 amounted to 4,674.4 mil. RON, 10% higher than for the period concluded on December 31, 2017, when they were 4,234.4 mil. RON.

The gas margin for the period concluded on December 31, 2018 was 1,143.4 mil. RON, a decrease by 11% compared with the previous year, primarily on account of the following effects:

- the price increases obtained on the regulated market throughout 2018 (cumulated increase of approximately 22% compared with the previous year);
- obtaining a higher margin on the free market;
- an 18% increase in the distribution tariff starting from April 1, 2018.

Partially offset by:

- diminished distributed and sold volumes compared with the previous period (in 2017, the volumes were influenced by the positive climatic effect).

Throughout 2018, the volumes sold were 35.9 TWh (2017: 36 TWh), whereas the volumes distributed were 46.1 TWh (2017: 46.4 TWh), relatively in line with the previous period.

The number of customers as at the end of 2018 was 1,743,422, 3% more than in 2017, primarily due to the increase in the number of household customers.

1.2. Electricity supply activity

The electricity margin is 40.1 mil. RON for the period concluded on December 31, 2018, 37.5 mil. RON higher compared with 2017 due to an increase in the unit margin obtained (the results obtained in 2017 were negatively affected by the increase of purchase costs on the spot market) and a growth in the customer portfolio and wholesales.

Throughout 2018, the sold volumes amounted to 3.45 TWh (2017: 1/74 TWh), an increase by 1.88 TWh compared with 2017, primarily as a result of an increase in wholesales.

2. Other operating income and expenses

Other operating income and expenses amount to 690.8 mil. RON, an increase by 81.4 mil. RON compared with the previous year, primarily due to the increase in labour costs and other costs (facility management, utilities, security expenses, bank charges, marketing), as well as due to the higher level of the provisions set up for doubtful receivables and the effect of reversing other provisions for risks in 2017.

The group's average number of employees in 2018 was 3,713 (2017: 3,687).

Throughout 2018, the Group's employees benefitted from various training programs, primarily in order to enhance the technical skills required as part of the operational activities.

3. Depreciation and amortization costs

Depreciation and amortization costs amount to 190 mil. RON, 3% higher compared with the previous period, primarily due to the capitalised investments during the period and the effect of the depreciation reversal carried out for the wind farms in 2017.

4. Financial outturn

The increase in financial outturn is primarily caused by the evolution of interest income, following the increase in interest rates, and the decrease of interest-related expenses, taking into account the redemption of bonds in October 2017.

5. Investments

The total value of the investments conducted in 2018 is 256.5 mil. RON (2017: 176.1 mil. RON).

The Company's main investments comprise the "Distribution system rehabilitation" chapter, amounting to 91.6 mil. RON (2017: 70 mil. RON), representing 36% of the investment total. The investments in the "Pipeline extensions" chapter amount to 11.4 mil. RON (2017: 5.9 mil. RON). The investments related to "New gas connections and concessions" amount to 66 mil. RON (2017: 43.8 mil. RON).

The value of the "Meters" chapter reached 26.8 mil. RON at the end of 2018 (2017: 27.2 mil. RON), determined by regular replacements, meters purchased for new customers, as well as by replacements of defective meters.

The investments in "*Technical equipment*" (GPS kits, portable gas analysers, gas detection devices) and in "*Non-technical equipment*" (machines, laptops and other IT equipment) reached the amount of 32.5 mil. RON at the end of 2018 (2017: 17 mil. RON).

The value of the "IT projects" chapter for 2018 is 8 mil. RON (2017: 2.8 mil. RON), whereas 17.4 mil. RON (2017: 9 mil. RON) were invested in building renovations and new projects..

III. Corporate governance

1. Administrative, management and supervisory bodies

The Company is a joint-stock company established in accordance with the laws in Romania, that has a Management Board acting in a capacity of governing body and, in this capacity, having a collective responsibility for all of the Company's operations.

The Management Board's key activities focus on increasing the value of the shares, enhancing efficiency and rate of return and securing transparency across the group's activities. Furthermore, their objective is to ensure adequate risk management, environmental protection and safe working conditions.

The Management Board delegate the Company's top management to the President of the Board, who also holds the Chief Executive Officer position. The President and Chief Executive Officer coordinates the Company's leadership and delegates some of his or her responsibilities to the Executive Committee members.

The Executive Committee's objective is to lead ENGIE Romania Group pursuant to the mandate received from the Management Board, by means of regularly analysing ENGIE Romania Group's results and making sure that the financial objectives are fulfilled, discussing and adopting decisions in regard to all the significant aspects of the company and ensuring the adequate implementation of the adopted decisions.

2. Governance Code

The Parent company considers it has implemented a clearly defined and effective framework of procedures intended to prevent and settle any potential conflicts of interests. This policy has been carefully developed in accordance with all the relevant laws and ENGIE Group's policy on ethics and conflicts of interests.

Within the Parent company there is a Corporate Legislation and Shareholder Relations Department, which ensures permanent communication with, and the submission of necessary information to, the Company in its entirety and organises the shareholders' general ordinary and extraordinary assemblies in line with the legal provisions in force.

The structures of the Financial Directorate, namely the Accounting Department, the Controlling Department and the Audit Committee, make sure that financial reports are drawn up in accordance with the local and international reporting standards. At present, the Company's financial statements are audited by Ernst & Young Assurances Services SRL, a member of an international audit company.

3. Internal control system

The Group's internal control comprises the following main components: the identification of each significant process, the clear definition of occupational responsibilities and procedures, the internal communication of relevant information, the analysis of main risks and methods to manage them, control activities specific for each process.

Control focuses on how the internal control rules and procedures are applied across all hierarchical and operational tiers: approval, authorisation, review, assessing the efficiency and effectiveness of these rules and procedures and segregation of duties.

The internal control system implemented across the Company:

- is part of a control environment implemented on 3 tiers, relying on clearly defined roles and responsibilities: the first control tier is ensured by process managers, the second by the Internal Control Service, and the third by the Internal Audit Service;
- is a unified system implemented as part of all the significant processes;
- relies on identifying the significant risks, both overall and at a process level, for each activity type (financial and accounting, sales, human resources, legal, etc);
- pursues implementing the control activities intended to reduce the identified risks to acceptable levels;
- is regularly monitored and assessed.

The Internal Control Service and the Internal Audit Service are subordinated to the Deputy Chief Executive Officer and comprise teams of 3 and 6 employees, respectively. The engagements carried out are in compliance with the internal control and audit plans, approved on an annual basis by the Executive Committee and the Audit Committee.

IV. Foreseeable corporate development

In 2019, the Group will continue the development endeavours carried out over the previous years. The main development paths for the Group will continue to be: business development (retention of existing customers, acquisition of new customers, increasing in the quality of services rendered, increasing electricity sales, particularly to household consumers), upgrading the distribution network by carrying out investments, development of energy service suites, optimising the Group's organisational set-up, by increasing productivity and business quality, job and skill management, as well as employee motivation.

The main challenges of ENGIE Romania Group for 2019 are:

- Making sure the Company's ambitions budget-wise are fulfilled, particularly in terms of materialising margin-related expectations, lowering cost levels and executing the investment plan;
- Making sure the regulations set forth by ANRE (*Regulatory Authority for Energy*) are properly applied;
- Further pursuing the network security enhancing policy by means of investments in the modernisation of assets;
- Continuing the endeavours related to the development of trade management – customer-oriented, economic and financial management, as well as of a forecast culture. To that end, provisions were issued to conduct personnel skills upgrade courses as part of a three-year plan, which is currently in progress;
- Developing/diversifying service energy efficiency and energy service offers, as well as identifying new business opportunities (alternative car fuels with a low environmental impact, decentralised generation);
- Continuous improvement of productivity.

V. Analysis of financial risks

The Group is primarily exposed to the market risk, the credit risk and the liquidity risk.

The Group leaders supervise the management of these risks. All the activities concerning derivatives, intended to manage the risks, are performed by teams of specialists with suitable skills and experience. The Company's policy is not to perform transactions with derivatives for speculative gains.

The Management Board reviews and approves the management policies of each of these risks, presented in brief below.

a) The market risk

The market risk is the risk of having the fair value of future cash flows of an instrument fluctuate on account of changes in market prices. Market prices are accompanied by three risk types: the commodity price risk, the interest rate risk and the foreign exchange risk.

The commodity price risk – natural gas

Since the Group operates on a regulated market that is underpinned by a pass-through mechanism, it is normally protected against the price risk in relation to the regulated customers, as any unfavourable evolution of the gas price (and, with it, of foreign exchange for imported gas) and of other recognised components of costs is transferred to the regulated customers. The regulatory risk may appear in cases where ANRE does not acknowledge certain costs at their actual value or does not allow their subsequent recovery in accordance with the principles of the pass-through mechanism.

In regard to customers on the free market, the Group applies in relation to them pricing methods based on analyses starting from various scenarios on the evolution of costs for gas and related services, so that the risk associated to the evolution of costs should be lowered to an acceptable level.

The commodity price risk – electricity

The market risk is generated by the volatility of the prices used to trade in electricity. It is possible to witness a mismatch between the electricity purchase price and its selling price, a risk covered by means of a mechanism that passes costs through to customers and a hedging policy implemented across the Group.

The commodity price risk – green certificates

The two wind farms, part of the Group, are entitled to receive green certificates for the energy produced. As such, they are exposed to the following risks:

- the risk related to the regulatory aspects (between July 1, 2013 and March 1, 2017 a single tradable green certificate for each MWh produced was allocated, the second one being postponed until January 1, 2018. As of January 1, 2018, the Group has been receiving 1 green certificate per MWh produced)
- the risk related to the absorption, and maintaining the value of, green certificates the trading of which is postponed
- the risk related to the price at which green certificates are traded due to market volatility

The interest rate risk

The cash flow risk triggered by interest rates is the risk of interest expenses and interest income fluctuating because of variable interest rates.

Since the Group does not have interest-bearing financial assets or liabilities that could be measured at their fair value within the statement of financial position, it is not exposed to the fair value variation risk as a result of its fixed interest rates.

The foreign exchange risk

The foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of foreign exchange fluctuations primarily concerns the Group's operating activities when the income or expenditure is denominated in a currency different from the Group's functional currency.

The Group conducts transactions in currencies different from its functional currency (RON), primarily for natural gas imports expressed in USD.
The foreign exchange risk associated to the regulated segment is theoretically covered by the pricing formula elaborated by ANRE, which recognises most of the gas cost under tariffs, with the exception of the foreign exchange variation between the date when the import invoice is entered in the accounting records and the payment date. For this risk portion not covered by the tariff, the Company hedges itself by way of USD (forward or spot) purchases on the date when the invoice is entered in the accounting records.

The foreign exchange risk specific to the segment of customers on the free market is covered by the pricing formula applied.

b) The credit risk

The credit risk is the risk that a counterparty might not fulfil its obligations according to a financial instrument or according to a customer contract, thus leading to a financial loss. The Group is exposed to the credit risk resulted from its operating activities (primarily in relation to trade receivables) and from its financial activities, including its deposits with banks, foreign exchange transactions and other financial instruments. This risk is monitored by a purposely assigned team.

c) Regulatory risks

The Group conducts its business within a strictly regulated environment and has to abide by the series of laws and regulations than can be amended.
In particular, many of the Group's activities, including natural gas distribution and electricity production, are subject to strict regulations at European, national and local levels (for instance, obtaining licences, permits and authorisations). Changes in regulations can affect operations, prices, margins, investments and, as a result, the Group's strategy and profitability.

d) Operational risks

Volume-related risks

Risks concerning volumes related to weather conditions

In the energy sector, significant weather changes (mainly temperature-related) from one year to the next can give birth to major fluctuations of volumes, with direct effects upon the Group's revenues. In the case of gas sales, unfavourable weather effects (higher temperatures) can lead to the failure to achieve estimated sales volumes. The wind level risk is generated by the possibility that the wind levels will drop below the levels estimated at the time of project implementation approval, with a negative impact upon the Group's financial standing.

Risks concerning volumes related to the competitive environment and the increase of final selling prices

On the free market, the Company is facing intense competition both from domestic producers and from the other well-established suppliers, leading to a loss of customers.

Furthermore, the successive increase of the final selling prices following the deregulation of the price for domestically sourced gas may lead to a consumption decrease for certain consumer categories, with an impact on the Group's sales volumes.

Risks from the application of the Network Code provisions

As of November 1, 2016, each natural gas supplier is bound to perform the daily balancing between sources and consumptions for the customers in their portfolio. If forecasts indicate imbalances, the supplier will try to cover the surplus/deficit by means of transactions with other suppliers or on the centralised market. Since the spot prices used to perform the balancing are highly volatile, the supplier bears the risk of incurring additional costs.

In order to reduce this risk, the Group continuously improves its consumption estimating process and transfers this risk via the free market customer pricing system. On the regulated market, these costs should be recognised by ANRE based on the methodologies in effect.

Wind farm management risks

The curtailment risk

This risk is generated by possible measures taken by Transelectrica in order to eliminate network constraints. The Group estimates that this risk will not be significant.

The balancing risk

This risk is generated by the possible erroneous projections of hourly volumes, which can have an impact upon the Group's financial standing in the form of emergent balancing costs. The Group estimates that this risk is decreased by the implementation of an adequate forecasting methodology and the specialisation level.

e) The liquidity risk

The Group monitors the risk of facing a lack of funds by employing a recurring liquidity planning instrument. The Group carefully plans and monitors cash flows in order to prevent this risk and is also able to contract funding from the main partner banks.

VI. Events subsequent to the reporting period

At the end of 2018, GEO 114/2018 (subsequently amended by GEO 19/2019) was published, stipulating the following changes with an impact upon the manner in which the electricity and natural gas market operates:

- The regulation of the purchase price paid by the suppliers for the domestically sourced natural gas required to cover the consumption of household customers, and by thermal energy producers which supply the centralised systems, at 68 RON/MWh over an interval ending on May 1, 2019 and ending on February 28, 2022;
- The regulation of electricity supply to household customers, lasting from March 1, 2019 to February 28, 2022;
- The level of monetary contributions due for licensed activities, set forth at 2% of the turnover achieved by economic operators through their business subject to the licences granted by ANRE. The turnover is calculated as per the ANRE regulations;
- The rate of return on invested capital, for the calculation of electricity and natural gas transmission and distribution tariffs, is 6.9%.

As of February 14, 2019, the Company has been subject to an inspection by ANAF (*National Agency for Fiscal Administration*) on the value added tax and the corporate income tax over the January 1, 2017 – December 31, 2018 interval.

In February 2019, ENGIE Romania purchased the shares held by GAZPROM Schweiz AG and its subsidiaries in WIROM Gas SA company, thus becoming the majority shareholder and enjoying a stake increase from 48.85% to 99.999995%.

According to the General Extraordinary Assembly of ENGIE Romania's Shareholders from April 10, 2019, the approval in principal was issued for initiating the process of WIROM Gas partition, as well as for the project of solvent merger for Brăila Winds and Alizeu Eolian affiliates.

The Parent-company proposes distributing to the shareholders, in the form of dividends, 30% of the 2018 net profit.

Law 227/2015 on the Fiscal Code (which repealed Law 571/2003) contains certain legal provisions applicable as of 2019, of which we shall mention the following:

- The transposition of the provisions of Directive 2016/1184/EU in regard to the deductibility of interest expenses and foreign exchange losses, which have new applicable limits (i.e. a 1 million EUR threshold plus 30% of fiscally adjusted EBITDA);
- Additions brought to the requirements for granting sponsorships to corporate income tax-paying entities.

PRESIDENT OF THE MANAGEMENT BOARD

ERIC STAB
Signature: [illegible]

Bucharest, April 18, 2019