



**Administrators' Report
on the Individual Financial Statements
of ENGIE Romania S.A. as at December 31, 2018**

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I. Analysis of ENGIE Romania company's activity

<i>Mil. RON</i>	2017	2018	Variation
Income from customer contracts	4,420.6	5,386.4	22%
<i>natural gas</i>	4,008.9	4,457.3	
<i>electricity</i>	411.7	929.1	
Cost of goods sold	-4,412.8	-5,228.2	18%
<i>natural gas</i>	-3,969.1	-4,303.3	
<i>electricity</i>	-443.7	-924.9	
<i>Other operating income</i>	661.7	677.7	
<i>Other operating expenses and provisions</i>	-278.0	-386.0	
<i>Depreciation and amortization costs</i>	-160.4	-163.1	
Operating profit/loss	231.1	337.8	48%
<i>Financial outturn</i>	145.7	156.2	
Net outturn	336.9	455.9	35%

• *Natural gas supply*

Income from the supply of gas increased by 11% compared with the previous year, from 4,008.9 mil. RON as at December 31, 2017 to 4,457.3 mil. RON as at December 31, 2018, due to price increases 2018.

The gas margin for the period concluded on December 31, 2018 increased from 39.8 mil. RON to 154 mil. RON, primarily as a result of the price increases throughout 2018, on the regulated market, and the higher margin obtained on the free market.

Throughout 2018, the volumes sold amounted to 37.1 TWh, a decrease by 0.1 TWh compared with the previous year.

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.

• *Electricity supply*

The electricity supply margin increased by 36.2 mil. RON compared with the previous year, 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, an increase by 1.88 TWh compared with the previous year as a result of an increase in wholesales.

• *Other operating income*

Other operating income increased by 2% compared with the period concluded on December 31, 2017, primarily due to an increase in income from the affiliated parties (primarily leases and services).

• **Other operating expenses and provisions**

The Company recorded other operating expenses amounting to 337 mil. RON, an increase by 58.9 mil. RON compared with 2017, primarily due to the increase in labour costs, the costs associated to the service activity of ENGIE Servicii, the increase of other costs (facility management, utilities, security costs, bank charges, marketing) and the effect of reversing provisions for risks in 2017.

The average number of employees in 2018 was 655 (2017: 618).

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

• **Depreciation and amortization costs**

Depreciation and amortization costs amount to 161.1 mil. RON, fairly comparable with the previous period.

• **Financial outturn**

The financial outturn for the period concluded on December 31, 2018 is 156.2 mil. RON (profit), an increase by 10.5 mil. RON from the financial outturn of the period concluded on December 31, 2017 (145.7 mil. RON in profit).

The financial outturn increase is determined by the higher income from dividends received from the subsidiaries, higher interest income (interest rate increases), a decrease in interest expense (taking into account the redemption of bonds in October 2017), outcomes partially offset by a decrease in impairment reversals for the two wind farms in which the Company holds stakes (24.3 mil. RON vs. 48.6 mil. RON in 2017).

• **Net outturn**

The Company's net outturn is 455.9 mil. RON (profit), compared with 336.9 mil. RON (profit) for the period concluded on December 31, 2017.

• **Main financial indicators**

INDICATOR	2017	2018
I. Liquidity indicators		
Current liquidity		
Current assets (A)	2,597,145,299	3,367,154,108
Short-term liabilities (B)	1,693,084,884	2,184,727,441
A/B - as a number of times	1.63	1.54
II. Risk indicators		
Indebtedness levels		
Borrowed capital (A)	0	0
Own equity (B)	4,340,242,783	4,637,783,497
A/B	n/a	n/a
Interest coverage ratio		
Profit before interest and corporate income tax (A)	359,629,500	484,420,834
Interest expenses (B)	17,547,999	9,621,861
A/B - as a number of times	20	50
Profitability indicators		
ROCE - Return on capital employed		
Operating profit after corporate income tax (A)	377,177,499	494,042,695
Employed capital (equity plus long-term liabilities) (B)	4,547,164,714	4,837,565,920
A/B	8%	10%

The main economic and financial indicators reflect the Company's good performance.

The value of current liquidity indicates the Company's solid capacity of covering its current liabilities.

• **Investments**

Investments in assets

The total value of the investments conducted in 2018 is 254.2 mil. RON (2018: 178.5 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 27.2 mil. RON at the end of 2018 (2017: 27.3 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.

II. Corporate governance

• 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 Company'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 the Company pursuant to the mandate received from the Management Board, by means of regularly analysing the Company'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.

• Governance Code

Since it is not listed, the Company is not bound to comply with the Corporate Governance Code of Bucharest Stock Exchange ("Codes"). However, the Company believes that its current organisational and management set-up, the internal procedures and policies of ENGIE Group are largely aligned to the provisions of the Code.

The 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 Company there is a Corporate Legislation and Shareholder Relations Department, which ensures permanent communication with, and the submission of necessary information to, all of ENGIE Romania's shareholders 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.

• **Internal control**

The Company'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 5 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.

III. The company's foreseeable development

In 2019, the Company will continue the development endeavours carried out over the previous years. The main development paths for the Company 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), efforts to develop and modernise the distribution network by carrying out investments, development of energy service suites, increasing the renewable energy portfolio, optimising the Company'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 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.

IV. Analysis of financial risks

The Company is exposed to the international markets and has debts in foreign currencies (mainly in USD, for gas imports). Consequently, it can be affected by changes in oil prices, foreign exchange and interest rate changes. Furthermore, the Company grants trade credits to its customers and is exposed to the default risk. The most significant risks are described 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 interest rate risk, the foreign exchange risk and the commodity price risk.

The commodity price risk – natural gas

Since the Company 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 customer by the regulatory authority. 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 Company 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 Company.

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 Company 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 Company 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 payment date and the date when the import invoice is entered in the accounting records. For this risk portion not covered by the tariff, the Company hedges itself by way of USD (forward or spot) purchases.

The foreign exchange risk specific to the segment of eligible customers is covered by the implemented pricing formula.

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 Company 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 and financial institutions, foreign exchange transactions and other financial instruments. This risk is monitored by a purposely assigned team.

c) Regulatory risks

The Company conducts its business within a strictly regulated environment and is bound to abide by a series of law and regulations that can undergo changes. Such changes in regulations can affect operations, prices, margins, investments and, as a result, the Company's strategy and profitability.

d) Operational 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 Company's revenues. In the case of gas sales, unfavourable weather effects (higher temperatures) can lead to the failure to achieve estimated sales volumes.

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. This may lead to the loss of certain customers to competitors.

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 Company's sales volumes.

Risks from the application of the Network Code provisions

As of November 1, 2016, each natural gas supplier is bound to make the daily balancing between sources and consumptions for the customers in their portfolio. If forecasts indicate possible imbalances, the supplier will try to cover the estimated surplus/deficit by means of transactions with other suppliers or on centralised markets. 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 Company 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.

e) The liquidity risk

The Company monitors the risk of facing a lack of funds by employing a recurring liquidity planning instrument. The Company 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 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

Appendix I

Assets inventory

Pursuant to decision no. 196/02.10.2018 of the General Manager of ENGIE Romania SA, an inventory of the company's asset elements was carried out.

The annual stocktaking commenced on 05.10.2018 and was completed on 15.12.2018.

The statement appears as follows:

1. Lands

Account 211	Virtual balance	116,539,178 RON
	Actual balance	116,539,178 RON
	Difference	- RON

2. Fixed assets

Account 212	Virtual balance	3.419,040,603 RON
	Actual balance	3.419,040,603 RON
	Difference	- RON

Account 213	Virtual balance	606,347,495 RON
	Actual balance	606,347,495 RON
	Difference	RON

Account 214	Virtual balance	16,557,738 RON
	Actual balance	16,557,738 RON
	Difference	- RON

4. Customers

	Virtual balance	1,974,104,649 RON
	Actual balance	1,974,104,649 RON
	Difference	RON

5. Cash at bank	Virtual balance	128,555,055 RON
	Actual balance	128,555,055 RON
	Difference	- RON

6. Cash at hand

	Virtual balance	64,575 RON
	Actual balance	64,575 RON
	Difference	- RON

7. Suppliers

	Virtual balance	1,244,176,839 RON
	Actual balance	1,244,176,839 RON
	Difference	- RON

Appendix II

Statement of non-taxable income and non-deductible expenses

The analysis of non-taxable income and of non-deductible expenses from a fiscal standpoint appears as follows:

Carry-overs of provisions	361,134,702
Tax amortization	259,699,387
Dividends received	123,447,470
Other non-taxable income	6,019,491
Total non-taxable income	755,979,716
Wage fund * 5% = 94,308,443 * 5% = 4,715,422	
<i>Social spending</i>	<i>1,972,063</i>
<i>Deductible ceiling</i>	<i>4,085,167</i>
Non-deductible ceilings	339,483,592
Non-deductible amortization	185,215,222
Indemnifications, fines, penalties	12,548,125
Non-taxed revaluation reserves	13,393,950
Sales of disposed of assets	6,013,278
Sponsorship costs	5,660,470
Miscellaneous expenses	5,456,330
Company performance bonus provision	2,078,661
Non-deductible fuel costs	410,674
Non-deductible VAT	105,069
Trip costs overrun	124,039
Expenses from previous years	84,893
Non-deductible welfare	100,835
Total non-deductible expenses	570,675,138
Current corporate income tax costs	43,737,629
Deferred corporate income tax costs	(16,350,493)
Total non-deductible expenses with the corporate income tax statement	630,763,260