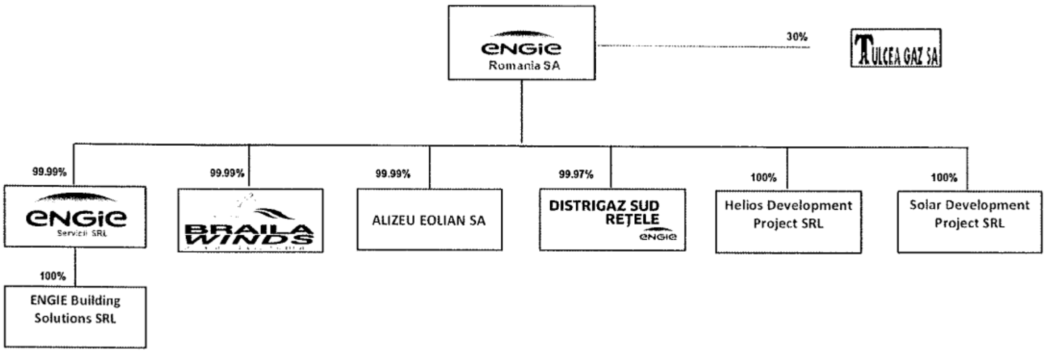
Directors' Report
on the Consolidated Financial Statements
of ENGIE Group Romania
as on December 31, 2021

Contents

I. The Group's organizational structure

Structure of **Engie Romania Group** as on December 31, 2021



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 on 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 name was changed from GDF SUEZ Energy Romania SA to ENGIE Romania.

Distrigaz Sud Retele SRL was established 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 license.

Distrigaz Sud Retele is a limited liability company. ENGIE Romania holds 99.9738% of the equity shares. The Company is coordinated by the Shareholders' General Assembly which, in turn, is led by the Board of Directors.

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 organized into 4 Regional Directorates (not registered as legal entities) and 56 working places 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 license 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 Board of Directors. 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 license 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 license 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.

Helios Development Project SRL and Solar Development Project SRL are two companies owning photovoltaic parks located in Stalpu, Buzău County, 100% acquired by ENGIE Romania on December 22, 2021.

II. Activity analysis – Consolidated results of ENGIE Romania and its subsidiaries for 2021

The net result decreased by 86%, mainly due to the decrease in the gas supply margin for both the domestic and non-domestic segments considering the significant increase in purchase expenses, establishment of provisions for onerous contracts considering the negative impact from the application the capping mechanism, increase in salary costs and operational expenses, effects partially offset by the increase in revenues from electricity production and revenues from natural gas distribution.

MRON		Note	*2020*	2021	Variation
Revenues			**6,229,0**	**6,683,5**	**7%**
	Natural gas	*1.1*	*4,791,3*	*5,460,9*	
	Electricity	*1.2*	*1,315,8*	*1,069,5*	
	Others		*121,8*	*153,1*	
Cost of goods sold			**-4,675,8**	**-5,225,6**	**12%**
	Natural gas	*1.1*	-3,430,2	-4,236,8	
	Electricity	*1.2*	-1,245,7	-873,3	
Other operating income and expenses		*2*	-785,0	-1,145,9	
Other operating expenses and provisions		*3*	-210,6	-226,1	
Operational result			**557,4**	**86,0**	**-85%**
Financial result		*4*	22,9	-4,5	
Net result			**492,8**	**69,9**	**-86%**

1. Analysis of turnover

1.1. Supply and distribution of natural gas

The revenues registered (supply and distribution of natural gas) for the period ended on December 31, 2021 are MRON 5,460.9, 14% higher compared to the period ended on December 31, 2020 when they had the value of MRON 4,791.3, due to the increase in revenues related to household consumers and BtB customers as a result of the increase in the selling price in 2021 compared to 2020 and as a result of the increase in volumes sold to domestic consumers, as well as the increase in distributed income (volume effect), effects partially offset by the decrease in sales activity on the wholesale market during 2021 and the capping of the final selling price starting November 2021 for domestic and non-domestic consumers who have met the conditions provided by law.

The gas margin for the period ended December 31, 2021 is MRON 1,224.1, decreasing 10% compared to the previous year, mainly due to the following effects:

> obtaining a significantly lower margin on the BtB customer segment as a result of the increase in acquisition costs mainly in the second half of 2021;

> lower margins on the domestic customer segment due to the increase in purchasing costs not fully reflected in the final sale price for domestic customers and the negative effect of capping the final sale price starting November 2021;

> the increase in the price related to the technological consumption for the activity of natural gas distribution;

effects partially offset by:

> higher revenues from natural gas distribution, due to increase in distributed volumes in 2021 (positive climate effect in the first and fourth quarters of 2021), effect partially compensated by the consecutive reduction of the distribution rate by an average of 2.4% starting with July 1, 2020 and with 2.1% starting July 1, 2021;

> the positive impact of the reversal in 2021 of the provision for "windfall profit tax" recorded in 2020 for the period July - December 2020 (registered in gas purchase expenses).

During 2021, volumes sold were 32.2 TWh (2020: 36.7 TWh) and volumes distributed were 47.9 TWh (2020: 42.9 TWh). The decrease in volumes sold is due to the decrease in volumes sold on the wholesale market, partially offset by the increase in volumes sold to BtC consumers due to the positive climate effect in the first and fourth quarters of 2021. The increase in distributed volumes in 2021 is due to the positive climate effect in the first and fourth quarters of 2021.

The number of customers at the end of 2021 was 2,015,932, 5% higher than in 2020, mainly due to the increase in the number of domestic consumers and as a result of the fact that ENGIE Romania was designated as the supplier of last resort, thus taking over the customers whose suppliers' license was withdrawn.

1.2. Electricity supply, trading, and electricity production

Revenues from the sale of electricity decreased by 19% compared to the previous year, from MRON 1,315.8 on December 31, 2020 to MRON 1,069.5 on December 31, 2021, as a result of the fact that starting January 1, 2021, the energy trading activity electricity is reported as a net margin, an effect partially offset by the increase in sales prices.

The electricity margin is MRON 80.7 for the period ended on December 31, 2021, MRON 10.5 higher compared to 2020 due to the increase in revenues from electricity production and the margin from trading activity, effects partially offset by the decreasing the margin from supply of electricity to final consumers.

During 2021, the volumes sold were 4.5 TWh (2020: 4.06 TWh), 0.4 TWh higher than in 2020, mainly due to the increase in sales on the wholesale market.

2. Other operating income and expenses

Other operational revenues and expenses are in the amount of MRON 1,145.9, up by 360.9 MRON compared to the previous year, mainly due to:

> establishing in 2021 a provision for onerous contracts related to the recognition of losses from capping the final sales price for gas and electricity in the amount of MRON 296.7;

> establishing provisions for uncertain receivables considering the deterioration of collection rates during 2021;

> increase in salary expenses: the increase in the average number of employees in 2021 and the impact of salaries' increases;

> increase of other costs: costs of IT licenses, mail and telecommunications, maintenance, consumables, expenses with services provided by third parties, insurance, asphalting works, monopoly tax (volume effect);

increases partially offset by:

> the collection of the excise duty related to Congaz in 2021 as a result of the annulment of the fiscal decision obtained in court.

The average number of employees of the Group in 2021 was 4,183 (2020: 4,016).

During 2021, the Group's employees benefited from various training programs, reduced compared to the previous period, mainly to improve the technical skills required in operational activities.

3. Depreciation and amortization costs

The depreciation and amortization expenses amount to MRON 226.1, an increase of MRON 15.4 compared to the previous period due to the higher amortization expenses related to capitalization of assets in the period.

4. Financial result

The reduction of the financial result by MRON 27.4 is mainly determined by the losses related to economic hedging instruments (gas and electricity and exchange rate - loss in 2021 compared to gain in 2020), interest expenses and exchange rate differences, as well as from the decrease in interests' income.

5. Investments

The total value of the investments in 2021 is MRON 593.3 (2020: MRON 411.1).

The Group's main investments include "Distribution system's rehabilitation" chapter, in value of MRON 153.7 (2020: MRON 148.2), representing 26% of the total invested. Investments from the chapter "Pipeline extensions" amount to MRON 86.6 (2020: MRON 46.9). Investments related to "New gas connections and concessions" amount to MRON 174.3 (2020: MRON 97.6). Investments' increase related to pipeline connections and extensions is explained by the significantly higher number of connection requests considering the regulatory changes regarding the financing of these works.

The value of the "Meters" chapter reached MRON 51.9 at the end of 2021 (2020: MRON 27.9), determined by periodic replacements, meters purchased for new customers, as well as replacements of defective meters.

Investments in "Technical equipment" (GPS kits, portable gas analyzers, gas detection devices) and in "Non-technical equipment" (cars, laptops and other IT equipment) reached the value of MRON 47.1 at the end of 2021 (2020: MRON 41, 1).

The value of the "Informatics Projects" Chapter for 2021 is MRON 11.3 (2020: MRON 9.1) and the investments in the renovation of buildings are in value of MRON 26.5 (2020: MRON 8.2). The acquisition of assets for the production of renewable energy (photovoltaic parks) in 2021 was in value of MRON 41.9.

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 Board of Directors acting as governing body and, in this capacity, having a collective responsibility for all of the Company's operations.

Board of Directors' 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 Board of Directors 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 and delegates some of his or her responsibilities to the Executive Committee's members.

The Executive Committee's objective is to lead ENGIE Romania Group pursuant to the mandate received from the Board of Directors, 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: offers support to processes' responsible in identification of each significant process, clear definition of occupational responsibilities and procedures, internal communication of relevant information, 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 Group:

➢ 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 Audit Service is subordinated to the President - Chief Executive Officer and comprises a 7-employee team. The engagements carried out are in compliance with the Internal Audit Plan, approved on an annual basis by the Executive Committee and the Audit Committee.

The Internal Control activities are performed by the Process Performance Service. The engagements carried out are in compliance with the internal control plan, approved on an annual basis by the Executive Committee.

IV. Foreseeable corporate development

The energy market in Romania continued to be characterized in the first part of 2022 by high price volatility, reduced liquidity and an imbalance between demand and supply. In this context, a new compensation and capping scheme was designed to reduce the effects of the increase in energy sales prices to final customers (OG 27/2022).

The main development directions of the Group will continue to be: continuous optimization and maintenance of the economic efficiency of the customer portfolio, in the context of the application of consumer protection legislation in relation to the negative effects of the increase in natural gas and electricity prices, continuing the modernization of the distribution network through making investments, sustainable development through energy efficiency solutions and clean energy production through decentralized units.

The main challenges of the ENGIE Romania Group for 2022 are:

> Ensuring the full recovery of the real purchase costs for gas and electricity through the capping mechanism;

> Ensuring the financing sources necessary to carry out natural gas and electricity supply activities, in the context of significant increase in the working capital requirement determined by the evolution of prices and the extension of supporting measures for consumers;

> The correct application of the regulations in force, taking into account the significant changes in legislation registered in a short period of time;

> The fulfilment of the Group's budgetary ambitions, especially regarding the margins, reducing the level of costs and the fulfilment of the investment plan;

> Continuation of the policy of securing the network through investments in the modernization of assets;

> Increasing the renewable energy portfolio through the acquisition of operational plants (photovoltaic and wind), as well as the development of new greenfield projects in order to build these capacities between 2022-2030;

> Development/diversification of energy efficiency service offers, of decentralized electricity production solutions (especially photovoltaic and high-efficiency cogeneration) and the growth of alternative mobility projects;

> Attracting non-refundable financing to accelerate the company's development;

> Integrating and promoting sustainability criteria in the industrial and economic processes of the ENGIE Romania Group (promoting a clean environment by reducing greenhouse gas emissions, promoting a harmonious relationship with the local communities where ENGIE or its subsidiaries operate, the Group's involvement in CSR type activities).

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 Board of Directors reviews and approves the management policies for each of these risks, which are briefly presented 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.

<u>The commodity price risk – natural gas and electricity</u>

The market risk is generated by the volatility of the prices at which natural gas and electricity are traded, as it is possible that there may be a mismatch between the purchase costs and the sales prices.

The Group manages commodity price risk for the supply business as follows:

• Decides the purchase price for supply contracts signed with a fixed price (or, in some cases, even at the time of the binding offer), through purchases with physical delivery on forward contracts and financial contracts, being established open position limits, on time intervals, which are monitored at least weekly; establishing these limits takes into account market liquidity (especially for natural gas) and other constraints (such as import capacity);

• Correlates variable price sales with purchases with the same variable price (spot purchases or forward contracts and financial contracts);

• Can modify, under certain justified conditions according to the contractual clauses, the prices of the supply contracts.

Regarding the commodity price risk for the trading activity, it is managed through a system of market and time interval exposure limits, value at risk and drawdown limits, which are monitored daily.

The commodity price risk – green certificates

The two wind farms as well as the 5 photovoltaic parks, part of the Group, are entitled to receive green certificates for the energy produced. Thus, they are subject to the risk related to the price at which the 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. As of the date of these financial statements, the Group has no interest-bearing loans at a variable rate.

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 and EURO, but also for part of the transactions on electricity markets, expressed in EURO. For this part of the risk, the Group covers itself by purchasing USD and EUR, forward or spot.

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.

Trade receivables

The credit risk related to customers is managed by the Group based on internal procedures, subject to the risk policy established at the level of the ENGIE group, according to which the risk class is calculated and according to which decisions are made regarding the maximum exposure and, if necessary, risk mitigation instruments are required (e.g. bank guarantees, letters of guarantee issued by the clients' parent companies, advance payments).

The balance of receivables is monitored at the end of each reporting period and any major delivery to a customer is analysed. Impairment indicators are analysed at each reporting date, based on payment delay intervals but also on other specific information about significant individual debtors.

The Company's exposure to the counterparties with which trading transactions and purchases are concluded for the supply portfolio (both physical delivery contracts and financial contracts) is based on individually granted limits for the counterparty value at risk (which includes both the risk of nonpayment and the risk of not delivering), which is calculated and monitored daily, based on current market prices.

Cash and cash equivalents

The credit risk resulting from balances at banks and financial institutions is managed by the treasury department of the parent Company, according to the Group's policies.

c) Regulatory risks

The Group conducts its business within a strictly regulated environment and has to abide by a 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, but also wind-concerned, for wind-parks) from one year to the next can lead 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. This may lead to the loss of certain customers to competitors and due volumes.

Also, the increase in final sales prices or the effects of other macroeconomic events (such as the war in Ukraine) may lead to a decrease in the consumption of certain categories of consumers 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 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 centralized 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.

Wind farm management risks

Regulatory risk

It is the risk generated by possible changes in the support scheme (reduction of the number of green certificates, reduction of the minimum/maximum value at which they are traded) that could negatively impact the Group's internal rate of return.

Wind level risk

It is generated by the possibility of the wind level being below the level estimated at the approval of the project's implementation, negatively impacting the financial situation of the Group.

The curtailment risk

This risk is generated by the possible measures taken by the National Transport System Operator in order to eliminate congestion in the network. We estimate that this risk will not be very high due to the investments planned by the Transport Operator in the region aimed at smoothing the flow of power.

The balancing risk

This risk is generated by possible erroneous forecasting of hourly volumes that may impact the financial situation of the Group through the appearance of balancing costs. We believe that this risk is quite low due to the implementation of a forecasting methodology in collaboration with the specialized department of the Parent Company.

The risk of technical failures

The risk of technical failures refers to possible failures of some important components of the wind farm, with consequences on the total or partial availability of the installation and implicitly the decrease of revenues, and which can lead to significant repair costs. In order to cover this risk, the Group received guarantees for all components of the wind farm and has signed equipment maintenance contracts with suppliers.

They, in turn, have insurance policies that include service provider liability clauses. Also, the Group holds insurance policies to cover material damages that may affect the patrimony and to cover financial losses following the interruption of the activity.

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 bank.

VI. Events subsequent to the reporting period

Considering the deterioration of the treasury situation at the end of 2021 due to the significant increase in working capital requirements determined by the evolution of prices and the extension of support measures for consumers, the Company increased at the beginning of 2022 the credit facilities and lines of existing letters of guarantees.

On March 18, the Government's Emergency Ordinance 27/18.03.2022 was approved, which establishes the new measures applicable to final customers in the electricity and natural gas market between April 1, 2022 – 31 March 2023. In addition to the price ceiling mechanisms for gas and electricity, the following provisions have impact on the activity of the ENGIE Romania Group:

- The supply margin is set at 12 RON/MWh for gas and 73 RON/MWh for electricity.
- Distribution rates are updated starting on April 1, 2022 and remain unchanged until March 31
- The tax on the additional income of electricity producers, in the amount of 80% of the net income obtained from the sale of electricity produced above the value of 450 RON/MWh, was extended for the period April 1, 2022 - March 31, 2023.

The financial situation of ELCEN Bucharest, the thermal energy producer from Bucharest, which entered into insolvency on October 6, 2016, had improved in 2022 due to the increase in electricity prices. At the same time, the judicial administrator of ELCEN decided in 2022 not to pursue the strategy of transfer of activity to the Compania Municipala Termoenergetica Bucuresti, respectively decided to pursue the exit from insolvency of ELCEN, and on February 8, 2022 the Committee of Creditors approved this new strategy and the payment of ELCEN's historical debts. Thus, in February 2022, the debt owed by ELCEN Bucharest to Distrigaz Sud Retele at the date of insolvency, in the amount of 165 million lei, was fully recovered.

Shortly after the start of the conflict between Russia and Ukraine, the European Union, the United States of America and other countries imposed various sanctions on Russia, including funding restrictions for certain Russian banks and state companies. Given that the Group has no operations in Ukraine or Russia, it does not foresee an impact on its operations. However, the Group continuously monitors geopolitical developments to decide whether an impact could affect its commercial activities. Disturbances in the Russian economy could further affect Europe and accelerate the risk of inflation. These aspects have no impact on the financial statements for the year ended December 31, 2021. At the date of approval of the financial statements, it is not possible to have a reliable estimate of the impact on the financial position of the Group and the results of operations for future periods.

PRESIDENT OF THE BOARD OF DIRECTORS

ERIC STAB Signature: [illegible]