



ENGIE Romania Group

Budget 2022 – ENGIE Romania Consolidated
Budget 2022 – ENGIE Romania S.A.

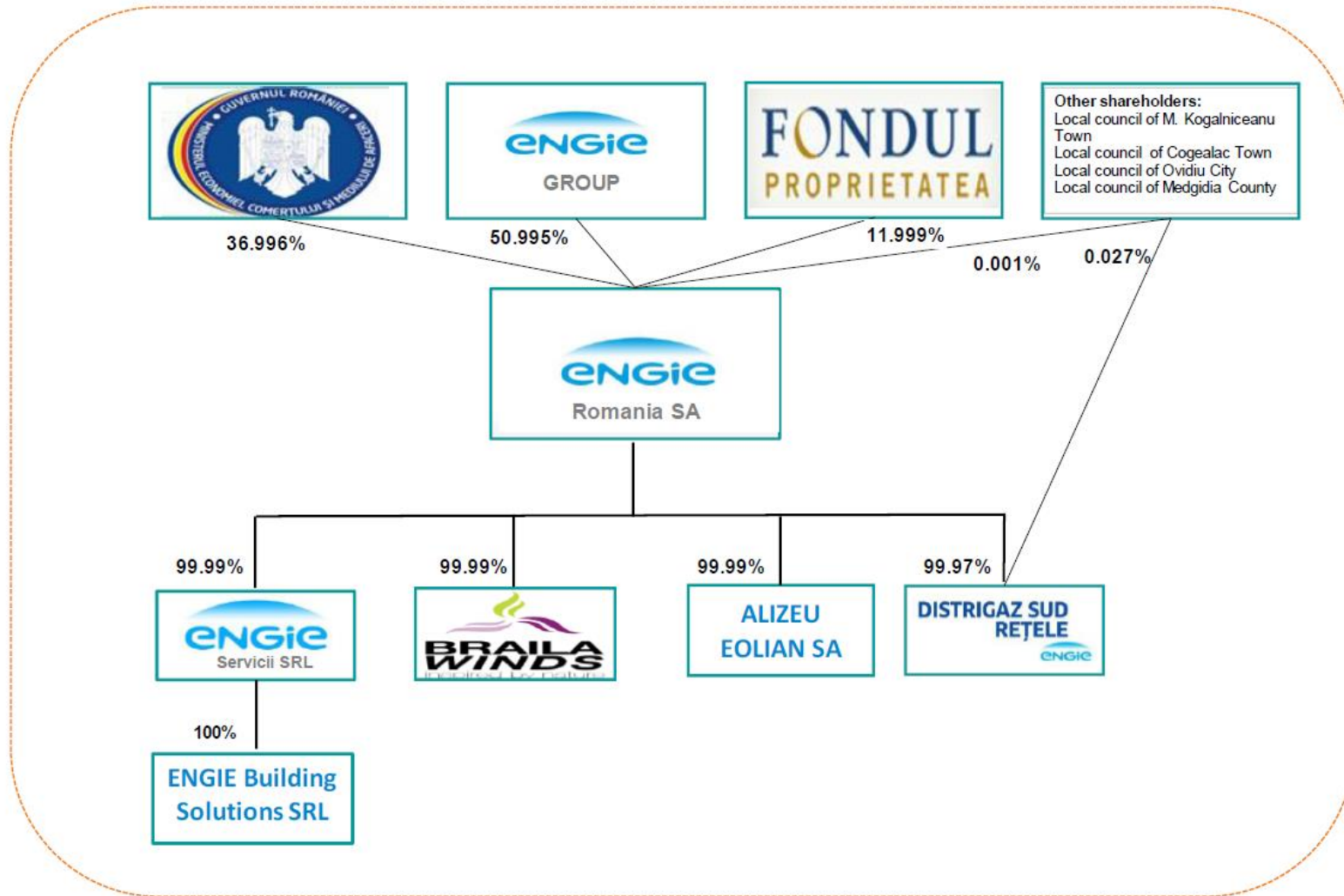


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Organizational chart – December 2021

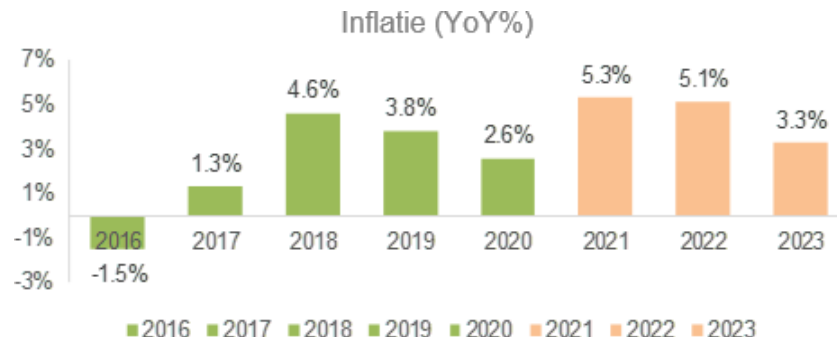
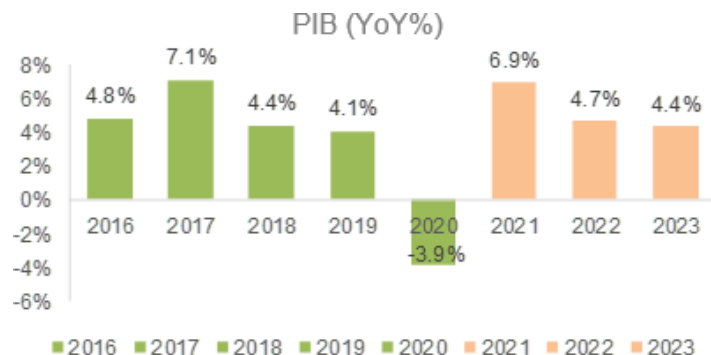


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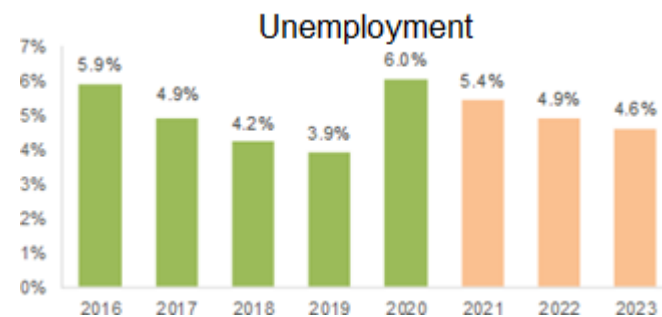


Economic context and macroeconomic indicators (1/2)



⇒ **GDP growth:** The market consensus (Bloomberg and local bank opinion) indicates a strong recovery in 2021, followed by a period of sustained growth (largely fueled by European Union funds). Romania's GDP decreased by 3.9% in 2020, a slight contraction compared to other economies in the European Union. The economy had a very good start in Q1 2021 (only -0.2% YoY) and confirmed the trend in Q2 2021 with a significant increase (+13% YoY), proving a remarkable level of resistance to shocks. However, the accelerated growth in Q2 2021 slowed down in Q3 2021, reaching 7.2%.

⇒ **YoY inflation increase:** According to NBR expectations, inflation will reach a peak of 7.5% at the end of 2021 and will decrease to 5.9% at the end of 2022 to return within the target range in Q2 2023 at the earliest.



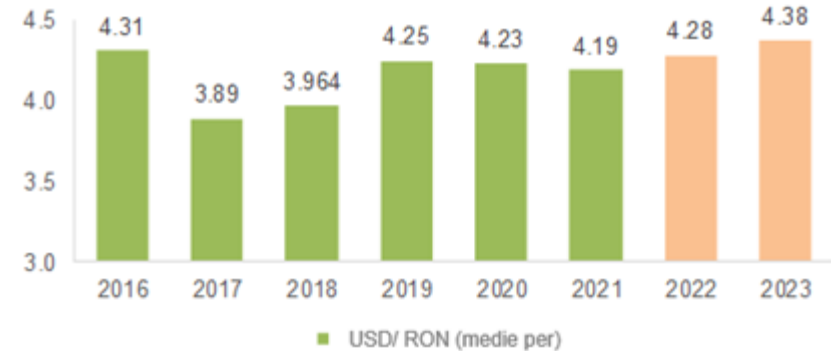
⇒ **Labor market:** The positive salary's evolution ended in 2020 after four consecutive years of growth. The evolution of nominal salaries is expected to slow down significantly in 2021, as companies have adjusted their activity to consumer behavior. Salaries in the public sector were frozen in 2021. However, an average salary increase of approximately 7%/year will still be recorded in 2022-2025 as a result of the reduced incomes of a large part of employees (poorly qualified, social pressure for the increase salaries) and competition for highly qualified resources. The minimum salary was increased by 10% (starting with 2022).

Economic Context and macroeconomic indicators (2/2)

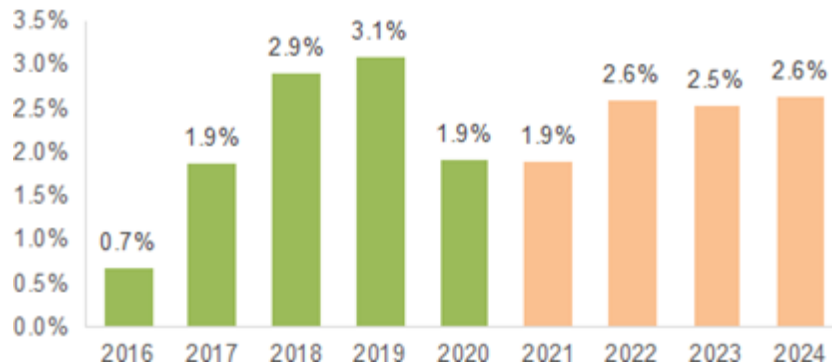
EUR/ RON



USD/ RON



Interest Rate 3M



⇒ **EUR/RON:** Local market predictions indicate a significant depreciation for the local currency. According to bank's forecasts, the EUR/RON exchange rate will continue to grow in the coming years due to the high dependence on imports, inflationary pressures, and the competitiveness of exports. However, the local currency is rigorously managed by the NBR through the high transmission of the exchange rate to inflation (a 1% increase in EUR/RON - a 0.3% increase in the inflation rate). By applying this mechanism, a gradual depreciation will be ensured.

⇒ **USD/RON:** Parity is volatile being very dependent on the international context and a period of uncertainty will follow.

⇒ **Interest rate:** NBR started to reduce the key interest rate in March 2020, after two years of stability. However, rate increases were recently carried out (25 bp in October and another 25 bp in November) and other short- and medium-term measures are expected to reduce inflation (the rate is currently 1.75% and expect to reach 3% by mid-2022). The 3M rate will follow this trend.

2021-2024 data based on local banks expectations (ING, BRD - SocGen, Unicredit, Raiffeisen, BCR and BT) and Bloomberg Data



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Important events 2021 (1/2)

- **Purchase prices for gas and electricity:** purchase prices on the wholesale markets have increased significantly during 2021, with a strong acceleration in recent months (unprecedented volatility) → extreme pressure on gas supply activity, because purchase costs cannot be fully recovered through the final sales prices from consumers.
- **Price increase for household customers (BtC):**
 - o ENGIE Romania sent a notification in April to implicit household customers announcing a price increase for the final consumer by 25% starting on July 1, an increase justified by the level of market prices available at that time.
 - o Since wholesale market prices increased significantly between April and August, ENGIE Romania had, in order to avoid significant financial losses, to send a new notification to this category of customers (approximately 920 thousand at that time), announcing a new increase of the price for the final consumer by 38% applied starting from November 2021.
 - o ENGIE Romania received in September the ANPC decision requesting the suspension of the last price increase notification. The impact of this decision would be -24 MEUR in 2021 and -50 MEUR in 2022. At the beginning of December, ENGIE Romania obtained in court the suspension of this decision until the judgment regarding its cancellation is pronounced.
 - o in October, ENGIE Romania received from ANRE a fine of 0.8 MRON for minor violations and was ordered to withdraw the price increase notifications from November 1 for default customers. The decision was appealed, thus suspending the execution of the order.
- **Compensation and price ceiling scheme:** the compensation scheme for domestic customers was adopted by the Government and the Parliament in October, the main amendments being the following:
 - o Compensation of the monthly gas and electricity bills for household customers between November 2021 and March 2022 up to a certain amount of consumption. In case of gas, the compensation will be percentage-wise, with a 33% decrease in the value of the natural gas price component for household customers who have supply contracts with a natural gas price that exceeds the reference price of 125 lei/MWh. The suppliers will recover the compensation granted from the agencies of the Ministry of Labor, based on the data to be provided within 15 days from the end of the month of delivery, with settlement in the next 30 days. Until the end of July 2022, the final value of the support granted will be established based on the meter readings for the relevant period by the distribution system operator.
 - o Compensations applicable to SMEs, micro-enterprises and liberal professions in the form of an exemption from infrastructure costs, green certificates, cogeneration certificates and excise duties in the case of electricity, and exemptions from infrastructure costs and excise duties in the case of gas.
 - o Capping the final prices billed to household customers for gas and electricity (at most 370 RON/MWh for gas) and the price components at a maximum value (250 RON/MWh for gas). Prices above these levels cannot be invoiced by suppliers between November 2021-March 2022. If the average purchase price between April 2021-March 2022 will be higher than the price ceiling, the suppliers will be compensated from the state's budget by the Ministry of Energy.
 - o The price ceiling for household customers is also applicable to public and private hospitals, public and private schools, NGOs, churches and social service providers.
 - o Additional tax of 80% of the monthly profit made by electricity producers (with the exception of electricity producers based on fossil fuels) following prices above the level of 450 RON/MWh.
 - o The application rules were published at the end of November.

Important events 2021 (2/2)

The application of the price compensation and capping scheme is being implemented: the complexity of the scheme has a significant impact on suppliers, affecting invoicing and customer information processes, as well as IT systems. A transversal working group (commercial, IT, financial) was mobilized to implement the necessary changes in the IT system (invoicing of customers for gas supply started on December 7, and for electricity it is estimated to start on December 13).

The negative financial impact of the application of the price ceiling system: because the ceiling for the price component of natural gas is established at 250 RON/MWh and suppliers are eligible for compensation only if the average purchase cost between April 2021-March 2022 exceeds this threshold, practically very difficult to reach, there is a high probability that the suppliers will not be compensated for the customers to whom the ceiling is applied - the estimate of the negative impact for the supply of gas to household customers is -35 MEUR (-5 MEUR in 2021 and - 30 MEUR in 2022, excluding from the calculation the customers for whom ENGIE Romania is the supplier of last resort).

- **Supply of last resort:** an increasing number of small gas suppliers, due to the financial problems plus the impact of a very cold October, had exit the market by returning the license or by stopping payments to the transport operator for accessing the virtual trading point. These exits trigger the supplier of last resort mechanism and ENGIE Romania has already been designated in seven such situations, having to take over around 65,000 customers. The process is very difficult, it generates significant operational problems and, thanks to the price ceiling mechanism, the margins are negative for these customers.
- **Climate effect:** the low temperatures in October and November had a negative impact on the gas supply margin because part of the additional volumes of gas were purchased from the wholesale market at high prices (the difference being covered by extraction from storage). The climate effect had a positive impact on the distribution activity (larger volumes distributed)
- **Distribution rates:** distribution rates decreased by -2.1% on average (from 23.33 RON/MWh to 22.84 RON/MWh starting July 1, 2021), mainly because effect of reducing the cost of technological consumption included in the rate.
- **The cost of technological consumption** is significantly higher than anticipated, considering the evolution of gas prices during 2021.
- **Order 18/2021 approved in March 2021,** establishes the regulatory framework regarding the connection to the natural gas distribution system.
- **Draft GEO for the amendment and amendment of the Energy Law 123/2012:** the main amendment is related to the elimination of the article regarding the recovery of connection costs by the distribution operator in the distribution rate through accelerated depreciation in 5 years (however, this is not in accordance with the methodology for establishing distribution rates published at the end of September). The proposal was included on the Government's agenda at the beginning of December
- **Congaz excise dispute:** reimbursement of 30.9 MRON during 2021, as a result of the annulment of the fiscal decision obtained in court last year.
- **Credit events:** two of the counterparties on the electricity trading side failed to pay the debts. The negative impact generated by the replacement of the quantities purchased at the market price was partially recovered following the agreements signed with the parties involved.
- **RES projects:** the purchase of PV Mavrodin of 5.46 MW was completed in May 2021 (assets taken over in ENGIE Romania).
- **An additional reversal** of the depreciation could be recorded at the end of the year for the two wind farms (under evaluation).

Budget assumptions 2022

⇒ Distribution:

- In 2022, an average increase of 23% in distribution rate is estimated, mainly as an effect of the significantly higher cost of technological consumption (impact of +5.2 RON/MWh in rates), the impact of connections to the distribution system (included in RAB and amortized over a period of 5 years), partially compensated by the negative impact of excess revenues recorded in 2021 partially reimbursed through rates;
- The existence of a gap between the recognition of the cost of technological consumption in rates and the registering the cost in the profit and loss account had a negative impact in the 2022 budget;

⇒ Gas supply:

- Price increases and unprecedented volatility on a completely deregulated but immature natural gas market. The budget assumption was based on the purchase price curve updated on November 25 → for 2022 the estimated margin for the supply of gas to household customers is negative, because the purchase costs are not fully transferred into the sales prices in the first half of 2022
- The assumption of a 30% increase in the average final sale price for the portfolio of household customers starting on July 1, 2022.
- Significant negative impact of price capping calculated for household customers whose sales price is higher than the cap (0.6 TWh consumption for the first semester of 2022) and for the categories of non-household clients eligible for capping;
- Negative impact in the case of customers for whom ENGIE Romania was designated as supplier of last resort: capping of prices fully compensating for the margin (0.2 TWh);
- Exposure to credit risk regarding receivables due to the deterioration of collection rates;

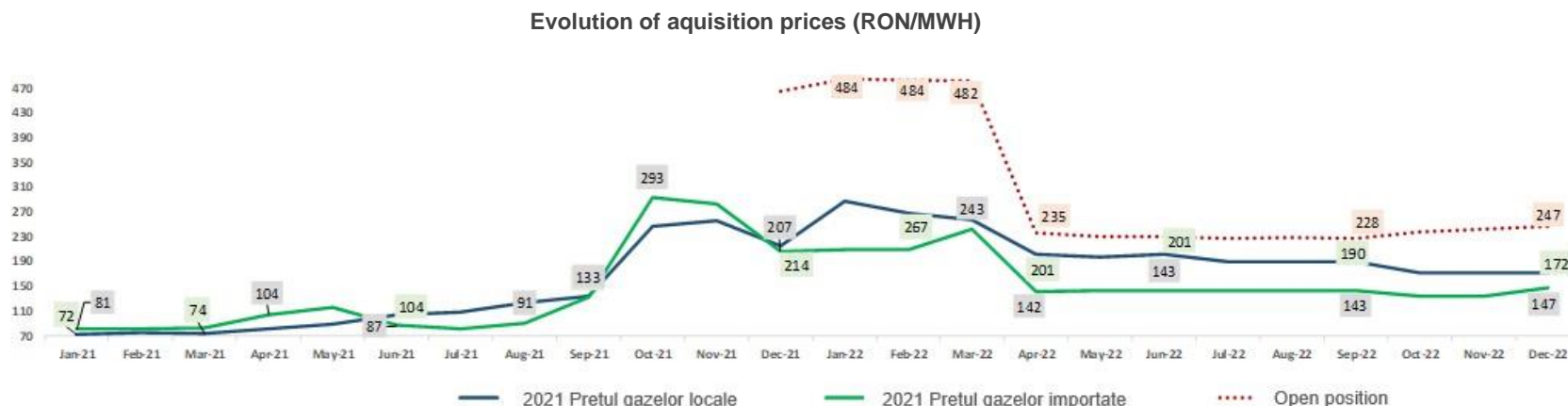
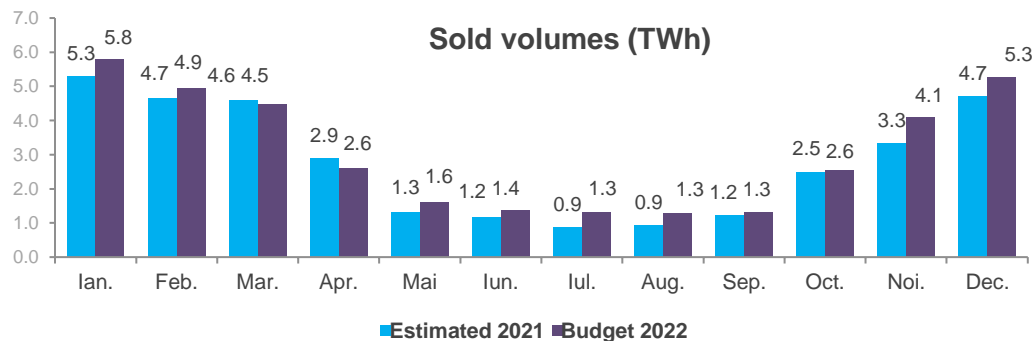
⇒ **Higher OPEX year-on-year**, as more resources are needed to cope with the increasing complexity of activities: increasing human resource costs (4.5% salary increase starting July 2022), considering the difficult force market of work and the lack of qualified resources;

⇒ **Purchases in the field of renewable energy**: estimated investments in RES projects (11 MW installed capacity);

⇒ Cash flow under pressure in 2022 considering all factors:

- Greater need for working capital for the supply activity: increases in gas and electricity prices have widened the gap between debts and receivables (shorter payment term for suppliers compared to the collection of receivables from customers), the impact of the compensation system and price capping;
- The need to finance investments for the distribution activity (development CAPEX as a result of the increase in the number of requests for connections);

Gas supply – main assumptions

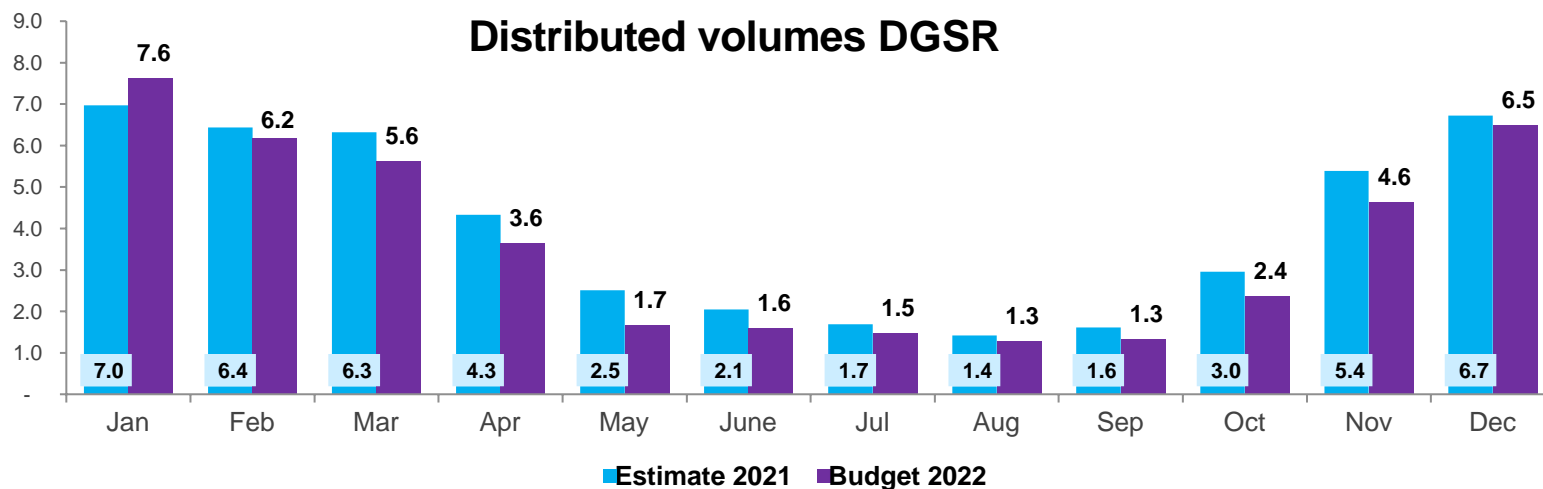


⇒ **Higher volumes sold in 2022 (36.6 TWh vs. 33.4 TWh in 2021)**, mainly due to wholesale sales (+6.6 TWh), partially offset by lower volumes sold to final customers (-2 TWh customers households and -1.5 TWh non-household customers) due to the positive climate effect in 2021.

⇒ **Gas prices:**

- The prices for local and imported gas had a significant increase in 2021 and are estimated to remain at a high level in the first quarter of 2022, due to the evolution of European prices, the high demand at the beginning of the cold season and the increased level of extractions of gas, thus generating a low level of gas in stock (at the end of November 21.3 TWh, 64.5% of the total storage capacity);
- The hypothesis based on the gas price curve updated on November 25, 2021;
- The open positions for final customers are 0.32 TWh in December 2021 (7% of the consumption related to December) and 1.63 TWh in the first quarter of 2022 (13% of the estimated consumption for the first quarter of 2022).

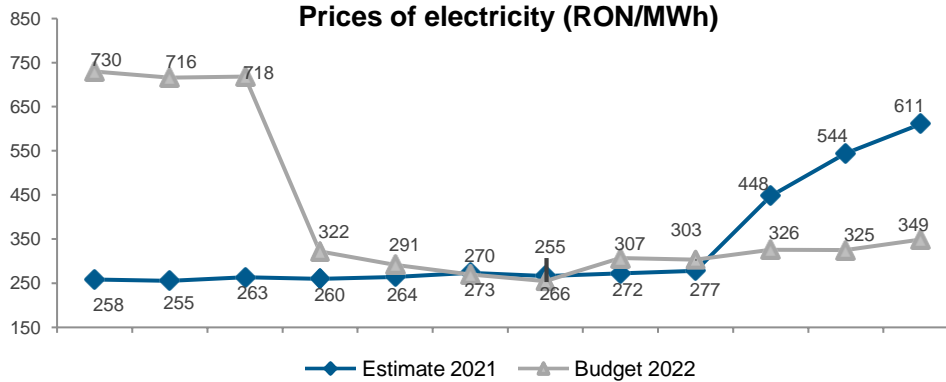
Distribution – Main assumptions



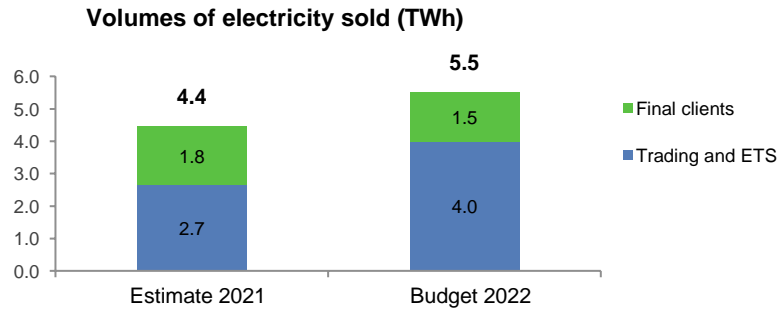
Volume [TWh]	Estimate 2021	Budget 2022	Budget 2022 vs Estimate 2021	
			TWh	%
Distributed volumes, of which:	48.4	44.0	-4.5	9%
<i>Distributed for ENGIE</i>	27.3	24.1	-3.2	-12%
<i>Distributed for third party</i>	21.2	19.9	-1.3	-6%

- Higher volumes in Estimate 2021 mainly due to the positive climate effect from February - May and September - December 2021.
- Technological consumption estimated to remain at the level of 1.2 TWh.

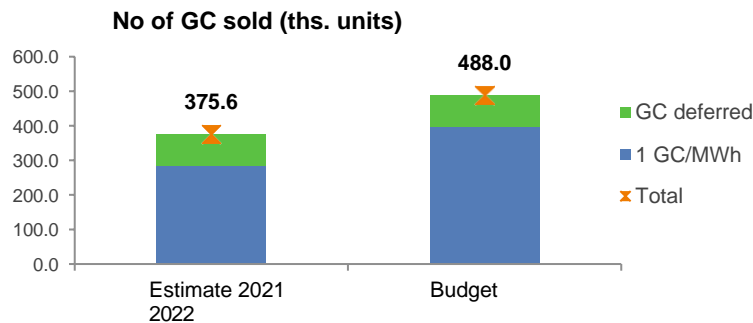
Electricity – Main assumptions



- The prices of energy captured by wind farms were higher considering the evolution of NDM;
- The average electricity prices in 2022 are calculated based on the prices already contracted for the next period and the market evolution estimates for the rest of the quantities.



- An increase in the volumes sold is estimated from 4.4 TWh in 2021 to 5.5 TWh in 2022, mainly due to the development of the trading activity.



- **Wind farms:** a large number of green certificates expected to be sold in 2022, as a result of the increase in energy production (unfavorable weather conditions in 2021) and a new wind project starting in 2022 (installed capacity of 7.5 MW).
- **Solar active acquisitions:** 2 new photovoltaic projects in 2021 (installed capacity of 14.8 MW - Sonne and Mavrodin) and 2 new consolidated photovoltaic parks starting in 2022 (installed capacity of 8.9 MW).



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Consolidated results –ENGIE Romania Group

MRON	Estimate 2021	Budget 2022	Budget 2022 vs Estimate 2021	
			MRON	%
Revenue from gas supply	4,958.5	8,587.9	3,629.4	73%
Revenues from gas distribution - other suppliers	341.9	332.1	-9.8	-3%
Income from the supply of electricity	946.6	963.3	16.7	2%
Income from green certificates	53.8	68.3	14.5	27%
Revenue from services	99.9	132.0	32.1	32%
Other incomes	202.0	185.2	-16.7	-8%
Turnover	6,602.7	10,268.8	3,666.1	56%
Gas purchase expenses	-4,256.0	-8,220.8	-3,964.8	93%
Electricity purchase expenses	-850.1	-856.5	-6.4	1%
Gas margin	1,044.4	699.2	-345.2	-33%
Electricity margin	150.4	175.1	24.8	16%
OPEX	-1,011.3	-1,102.5	-91.2	9%
Employees connected expenses	-512.4	-567.7	-55.4	11%
Other operational expenses	-498.9	-534.7	-35.8	7%
Amortization	-223.6	-243.1	-19.6	9%
Provisions	-35.9	3.5	39.4	-110%
Operational result	225.9	-150.6	-376.4	-2X
Financial result	51.5	22.8	-28.7	-56%
Income tax	-52.0	0.0	52.0	-100%
Net result	225.4	-127.8	-353.2	-2X

Budget 2022 vs. Estimate 2021: Net result lower by -353.2 MRON

Lower gas margin -345.2

- **Gas Supply:** negative margin from the supply of gas to household customers (higher purchase costs in 2022 that cannot be fully recovered through the final sales prices, negative impact from price capping for household customers from the current portfolio and customers for whom ENGIE Romania was designated as the supplier of last resort and the impact of the larger extractions of stored gas to cover the consumption from quarter IV 2021 – positive impact in 2021 / negative impact in 2022), partially offset by the positive margin from the supply of gas for non- households (higher selling price);
- **Gas Distribution:** the cost of higher technological consumption - effect generated by higher prices, lower distributed volumes - significant climate effect in 2021 and lower distribution rates starting from July 2021, partially compensated by higher distribution rates starting from July 2022, influenced by the increase in technological consumption recognized in rates.

❑ **Higher operational expenses by -91.2 MRON**, due to the increase in personnel expenses (as a result of the estimated increase in the average number of employees and salaries), higher capitalized costs (corresponding effect in other incomes as well), materials, rents, maintenance costs mainly for the RES projects to be consolidated in 2022, costs for the replacement of meters, commissions for debt collection and for issuing bank guarantee letters, expenses for the development of the sales team, postal and telecommunications expenses, costs with insurance and OPCOM commissions, partially compensated by the decrease of other costs (earthworks, monopoly tax and royalties - volume effect);

❑ **Other revenues lower by -16.7 MRON**, as a result of the recovery of the Congaz excise tax in 2021, partially offset by higher capitalized costs;

❑ **Lower financial result by -28.7 MRON**, the positive value of MtM in 2021;

❑ **Higher depreciation by -19.6 MRON**, mainly due to the assets put into operation in 2021 and the RES projects that are expected to be consolidated starting from 2022;

effects partially offset by:

❑ **Revenues from services higher by +32.1 MRON**, mainly due to the development of the activity – BtB and BtC, PV and EV services;

❑ **Higher electricity sales margin by +24.8 MRON**, mainly due to the consolidated results of the RES projects starting with 2022, the development of trading activities and better results for the two wind farms (higher prices), partially compensated by the tax on the additional revenues for the two wind farms applied starting from November 2021 until March 2022;

❑ **Expenses with lower provisions +39.4 MRON**, mainly due to the reversal of other provisions for risks in 2022 vs. establishment in 2021

Consolidated CAPEX

MRON	Estimate 2021	Budget 2022	Budget 2022 vs Estimate 2021	
Gross investments	669.3	662.9	-6.4	-1%
<i>DGSR</i>	550.5	558.3	7.8	1%
<i>ENGIE Romania</i>	71.2	61.3	-9.9	-14%
<i>RES Projects</i>	47.6	43.3	-4.3	-9%

Smaller investments in 2022:

CAPEX for the Distribution activity:

- CAPEX maintenance - the pipeline replacement program covers the urgent needs for the distribution network assessed based on the internal analysis as mandatory (105 km);
- CAPEX development – the number of requests for connection to the distribution network has increased (30,000 new budgeted connection requests);

- ❑ **ENGIE Romania:** smaller investments in IT projects (technical equipment and SAP servers) and smaller investments in support equipment;
- ❑ **Projects RES:** 2 projects budgeted in 2022 with an installed capacity of 11 MW. Acquisition of the photovoltaic park Mavrodin (5.5 MW installed capacity) completed in May 2021 and Eximprod (5.5 MW installed capacity) estimated to be completed in December 2021.

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Standalone financial statements of ENGIE Romania S.A

MRON	Estimate 2020	Budget 2021	Budget 2021 vs Estimate 2020	
			MRON	%
Revenue from gas supply	5,091.1	8,895.9	3,804.8	75%
Income from the supply of electricity	905.9	900.6	-5.3	-1%
Income from green certificates	5.3	18.9	13.6	3X
Other incomes	694.6	633.4	-61.2	-9%
Turnover	6,696.9	10,448.8	3,751.9	56%
Gas purchase expenses	-5,043.4	-8,984.6	-3,941.2	78%
Electricity purchase expenses	-876.8	-892.5	-15.7	2%
Gas margin	47.7	-88.7	-136.4	-3X
Electricity margin	34.5	27.0	-7.5	-22%
OPEX	-450.7	-512.1	-61.5	14%
Employees connected expenses	-143.9	-168.0	-24.1	17%
Other operational expenses	-306.8	-344.1	-37.4	12%
Amortization	-195.4	-213.7	-18.3	9%
Provisions	-24.9	-20.0	4.9	-20%
Operational result	105.8	-174.1	-279.9	-3X
Financial result	124.2	23.6	-100.6	-81%
Income tax	-36.2	0.0	36.2	-100%
Net result	193.8	-150.5	-344.3	-2X

□ **Budget 2022 vs. Estimate 2021: Net result lower by -344.3 MRON**

□ **The lower gas margin by -136.4 MRON**, mainly the negative margin from the supply of gas for lower domestic customers (higher purchase costs in 2022 that cannot be fully recovered through the final sales prices, negative impact from capping the price for household customers from the current portfolio and customers for whom ENGIE Romania has been designated as supplier of last resort, plus the impact of higher extractions of stored gas to cover consumption from the fourth quarter of 2021 - positive impact in 2021 / negative impact in 2022), partially compensated by the positive margin from gas supply for non-domestic customers (higher sales prices);

□ **Electricity sales margin lower by -7.5 MRON**, mainly due to higher purchase costs in 2022, impact partially offset by the consolidated results of RES projects starting with 2022 (acquisition of assets) and the development of trading activity (negative impact on the margin in 2021 due to the replacement of the purchase following the termination of the contracts with the two counterparties);

□ **Higher operational expenses by -61.5 MRON**, due to the increase in personnel expenses (as a result of the estimated increase in the average number of employees and salaries) and other costs (commissions for debt collection and for issuing letters of bank guarantee, expenses for the development of the sales team, postal and telecommunications expenses, insurance costs and OPCOM commissions), costs for the development of the service activity offered by ENGIE Servicii in 2022, rents and costs related to the RES projects to be consolidated in 2022;

□ **Other revenues lower by -61.2 MRON**, mainly from the decrease in rent revenues and the recovery of the Congaz excise tax in 2021, effects partially compensated by the increase in revenues from services;

□ **Lower financial result by -100.6 MRON**, dividends from affiliates in 2021 (dividends from affiliates were not included in the 2022 budget) and positive impact from MtM in 2021.

