

S.N.G.N. ROMGAZ S.A. GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS ADOPTED BY THE EUROPEAN
UNION AND THE ORDER OF THE MINISTRY OF PUBLIC FINANCE 2844/2016**

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STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

| | Note | Year ended December 31, 2020 '000 RON | Year ended December 31, 2019 '000 RON restated * | Year ended December 31, 2019 '000 RON restatements * | Year ended December 31, 2019 '000 RON as reported |
|---|-------|--|--|--|---|
| Revenue | 3 | 4,074,893 | 5,080,482 | - | 5,080,482 |
| Cost of commodities sold | 5 | (18,617) | (107,800) | - | (107,800) |
| Investment income | 4 | 47,845 | 38,124 | - | 38,124 |
| Other gains and losses | 6 | (6,534) | 7,519 | 70,588 | (63,069) |
| Impairment losses on trade receivables | 16 | 17,551 | (81,221) | - | (81,221) |
| Changes in inventory of finished goods and work in progress | | (16,151) | 80,008 | - | 80,008 |
| Raw materials and consumables used | 5 | (58,282) | (76,048) | - | (76,048) |
| Depreciation, amortization and impairment expenses | 7 | (672,063) | (1,451,766) | (93,516) | (1,358,250) |
| Employee benefit expense | 8 | (767,251) | (670,408) | - | (670,408) |
| Finance cost | 9 | (17,000) | (24,740) | - | (24,740) |
| Exploration expense | 13 | (26,509) | (1,636) | 22,928 | (24,564) |
| Share of profit of associates | 25 | 1,330 | 1,474 | - | 1,474 |
| Other expenses | 10 | (1,158,143) | (1,551,642) | - | (1,551,642) |
| Other income | 3 | 25,439 | 32,834 | - | 32,834 |
| Profit before tax | | 1,426,508 | 1,275,180 | - | 1,275,180 |
| Income tax expense | 11 | (178,604) | (185,557) | - | (185,557) |
| Profit for the year | | 1,247,904 | 1,089,623 | - | 1,089,623 |
| Other comprehensive income | | | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | | | |
| Actuarial gains/(losses) on post-employment benefits | 19 c) | (16,877) | 27,411 | - | 27,411 |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | 11 | 2,700 | (4,387) | - | (4,387) |
| Total items that will not be reclassified subsequently to profit or loss | | (14,177) | 23,024 | - | 23,024 |
| Other comprehensive income for the year net of income tax | | (14,177) | 23,024 | - | 23,024 |
| Total comprehensive income for the year | | 1,233,727 | 1,112,647 | - | 1,112,647 |
| Basic and diluted earnings per share | | 0.0032 | 0.0028 | - | 0.0028 |

*) Starting 2020, the Group presents the release to income of the impairment for non-current assets written-off as a decrease of the expense generated by the write-off of the respective assets, as "other gains and losses" or as "exploration expense". Previously, the release to income was presented as "depreciation, amortization and impairment". For comparability purposes, 2019 was restated.

These financial statements were endorsed by the Board of Directors on March 23, 2021.

Aristotel Marius Jude
Chief Executive Officer

Răzvan Popescu
Chief Financial Officer

The accompanying notes form an integral part of these financial statements.
This is a free translation of the original Romanian version.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 2020

| | Note | December 31, 2020 '000 RON | December 31, 2019 '000 RON |
|--------------------------------------|-------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 5,613,122 | 5,543,177 |
| Other intangible assets | 14 | 14,774 | 9,164 |
| Investments in associates | 25 | 26,102 | 24,772 |
| Deferred tax asset | 11 | 275,328 | 230,947 |
| Right of use asset | 14 | 7,915 | 8,590 |
| Other financial assets | 26 | 5,378 | 5,388 |
| Total non-current assets | | 5,942,619 | 5,822,038 |
| Current assets | | | |
| Inventories | 15 | 244,563 | 311,013 |
| Trade and other receivables | 16 a) | 592,875 | 638,158 |
| Contract costs | | 651 | 312 |
| Other financial assets | 29 | 1,995,523 | 1,075,224 |
| Other assets | 16 b) | 68,023 | 42,485 |
| Cash and cash equivalents | 28 | 416,913 | 363,943 |
| Total current assets | | 3,318,548 | 2,431,135 |
| Total assets | | 9,261,167 | 8,253,173 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 17 | 385,422 | 385,422 |
| Reserves | 18 | 2,251,909 | 1,587,409 |
| Retained earnings | | 5,149,919 | 5,201,222 |
| Total equity | | 7,787,250 | 7,174,053 |
| Non-current liabilities | | | |
| Retirement benefit obligation | 19 | 128,690 | 114,876 |
| Deferred revenue | 20 | 136,308 | 21,244 |
| Lease liability | | 7,845 | 8,285 |
| Provisions | 19 | 538,931 | 366,393 |
| Total non-current liabilities | | 811,774 | 510,798 |

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STATEMENT OF CONSOLIDATED FINANCIAL POSITION AS OF DECEMBER 31, 2020

| | <u>Note</u> | <u>December 31, 2020</u> <u>'000 RON</u> | <u>December 31, 2019</u> <u>'000 RON</u> |
|-------------------------------------|-------------|---|---|
| Current liabilities | | | |
| Trade payables | 21 | 89,132 | 109,910 |
| Contract liabilities | | 81,318 | 42,705 |
| Current tax liabilities | | 59,831 | 64,342 |
| Deferred revenue | 20 | 10,899 | 3,729 |
| Provisions | 19 | 156,415 | 82,701 |
| Lease liability | | 767 | 694 |
| Other liabilities | 21 | 263,781 | 264,241 |
| Total current liabilities | | 662,143 | 568,322 |
| Total liabilities | | 1,473,917 | 1,079,120 |
| Total equity and liabilities | | 9,261,167 | 8,253,173 |

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Aristotel Marius Jude
 Chief Executive Officer

Răzvan Popescu
 Chief Financial Officer

STATEMENT OF CONSOLIDATED CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020

| | Share capital | Legal reserve | Other reserves (note 18) | Retained earnings **) | Total |
|---|------------------|------------------|-----------------------------|--------------------------|------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Balance as of January 1, 2020 | 385,422 | 79,921 | 1,507,488 | 5,201,222 | 7,174,053 |
| Profit for the year | - | - | - | 1,247,904 | 1,247,904 |
| Allocation to dividends *) | - | - | - | (620,530) | (620,530) |
| Increase in legal reserves | - | 3,616 | - | (3,616) | - |
| Allocation to other reserves | - | - | 598,840 | (598,840) | - |
| Increase in reinvested profit reserves | - | - | 62,044 | (62,044) | - |
| Other comprehensive income for the year | - | - | - | (14,177) | (14,177) |
| Balance as of December 31, 2020 | 385,422 | 83,537 | 2,168,372 | 5,149,919 | 7,787,250 |
| Balance as of January 1, 2019 | 385,422 | 77,487 | 1,747,512 | 5,458,196 | 7,668,617 |
| Profit for the year | - | - | - | 1,089,623 | 1,089,623 |
| Allocation to dividends *) | - | - | (362,297) | (1,244,914) | (1,607,211) |
| Increase in legal reserves | - | 2,434 | - | (2,434) | - |
| Allocation to other reserves | - | - | 106,265 | (106,265) | - |
| Increase in reinvested profit reserves | - | - | 16,008 | (16,008) | - |
| Other comprehensive income for the year | - | - | - | 23,024 | 23,024 |
| Balance as of December 31, 2019 | 385,422 | 79,921 | 1,507,488 | 5,201,222 | 7,174,053 |

*) In 2020 the Group's shareholders approved the allocation of dividends of RON 620,530 thousand (2019: RON 1,607,211 thousand), dividend per share being RON 1.61 (2019: RON 4.17).

**) Retained earnings include the geological quota reserve set up in accordance with the provisions of Government Decision no. 168/1998 on the establishment of the expense quota for the development and modernization of oil and natural gas production, refining, transportation and oil distribution. Following the Group's transition to IFRS, the reserve existing as of December 31, 2012 was transferred to retained earnings. This result is allocated based on the depreciation, respectively write-off of the assets financed using this source, based on decision of General Meeting of Shareholders. As of December 31, 2020 the geological quota reserve is of RON 927,499 thousand (December 31, 2019: RON 1,081,148 thousand).

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Aristotel Marius Jude
Chief Executive Officer

Răzvan Popescu
Chief Financial Officer

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STATEMENT OF CONSOLIDATED CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2020

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON restated * |
| Cash flows from operating activities | | |
| Net profit | 1,247,904 | 1,089,623 |
| Adjustments for: | | |
| Income tax expense (note 11) | 178,604 | 185,557 |
| Share of associates' result (note 25) | (1,330) | (1,474) |
| Interest expense (note 9) | 593 | 543 |
| Unwinding of decommissioning provision (note 9, note 19) | 16,407 | 24,197 |
| Interest revenue (note 4) | (47,845) | (38,124) |
| Net loss on disposal of non-current assets (note 6) | 7 | (2,542) |
| Change in decommissioning provision recognized in profit or loss, other than unwinding (note 19) | 24,273 | (51,760) |
| Change in other provisions (note 19) | 66,467 | (5,402) |
| Net impairment of exploration assets (note 7, note 12, note 13) | 97,695 | 231,278 |
| Exploration projects written off (note 13) | 836 | 123 |
| Net impairment of property, plant and equipment and intangibles (note 7, note 12) | 125,997 | 699,531 |
| Depreciation and amortization (note 7) | 448,371 | 520,957 |
| Amortization of contract costs | 795 | 651 |
| Change in investments at fair value through profit and loss (note 6) | 10 | 4,424 |
| Net receivable write-offs and movement in allowances for trade receivables and other assets | (19,700) | 67,297 |
| Other gains and losses | - | (52) |
| Net movement in write-down allowances for inventory (note 6, note 15) | 8,427 | 5,125 |
| Liabilities written off | (368) | (89) |
| Subsidies income (note 20) | (7) | (81) |
| | 2,147,136 | 2,729,782 |
| Movements in working capital: | | |
| (Increase)/Decrease in inventory | 58,516 | (38,428) |
| (Increase)/Decrease in trade and other receivables | 38,311 | 116,143 |
| Increase/(Decrease) in trade and other liabilities | 17,600 | (78,115) |
| Cash generated from operations | 2,261,562 | 2,729,382 |
| Interest paid | (3) | - |
| Income taxes paid | (224,796) | (297,059) |
| Net cash generated by operating activities | 2,036,763 | 2,432,323 |

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STATEMENT OF CONSOLIDATED CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2020

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON restated * |
| Cash flows from investing activities | | |
| Bank deposits set up and acquisition of state bonds | (2,964,757) | (2,591,658) |
| Bank deposits and state bonds matured | 2,060,925 | 2,387,686 |
| Interest received | 38,601 | 43,470 |
| Proceeds from sale of non-current assets | 1,733 | 1,305 |
| Acquisition of non-current assets | (547,215) | (694,349) |
| Acquisition of exploration assets | (66,516) | (173,563) |
| Net cash used in investing activities | (1,477,229) | (1,027,109) |
| Cash flows from financing activities | | |
| Dividends paid | (620,346) | (1,607,246) |
| Repayment of lease liability | (1,196) | (861) |
| Subsidies reimbursed | (50) | - |
| Subsidies received (note 20) | 115,027 | - |
| Net cash used in financing activities | (506,565) | (1,608,107) |
| Net increase/(decrease) in cash and cash equivalents | 52,969 | (202,893) |
| Cash and cash equivalents at the beginning of the year | 363,943 | 566,836 |
| Cash and cash equivalents at the end of the year | 416,912 | 363,943 |

*) Please see the comment in the statement of consolidated comprehensive income.

These financial statements were endorsed by the Board of Directors on March 23, 2021.

Aristotel Marius Jude
Chief Executive Officer

Răzvan Popescu
Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**1. BACKGROUND AND GENERAL BUSINESS*****Information regarding S.N.G.N. Romgaz S.A. Group (the "Group")***

The Group is formed of S.N.G.N. Romgaz S.A. ("the Company"/"Romgaz"), as parent company, its fully owned subsidiary S.N.G.N. ROMGAZ S.A. - Filiala de Înmagazinare Gaze Naturale DEPOGAZ Ploiești S.R.L. ("Depogaz") and its associates – S.C. Depomures S.A. (40% of the share capital) and S.C. Agri LNG Project Company S.R.L. (25% of the share capital).

Romgaz is a joint stock company, incorporated in accordance with the Romanian legislation.

The Company's headquarter is in Mediaș, 4 Constantin I. Motaș Square, 551130, Sibiu County.

The Romanian State, through the Ministry of Economy, Energy and Business Environment, is the majority shareholder of S.N.G.N. Romgaz S.A. together with other legal and physical persons (note 17).

The Group has as main activity:

1. geological research for the discovery of natural gas, crude oil and condensed reserves;
2. operation, production and usage, including trading, of mineral resources;
3. natural gas production for:
 - ensuring the storage flow continuity;
 - technological consumption;
 - delivery in the transmission system.
4. underground storage of natural gas provided by Depogaz and Depomures;
5. commissioning, interventions, capital repairs for wells equipping the deposits, as well as the natural gas resources extraction wells, for its own activity and for third parties;
6. electricity production and distribution.

2. SIGNIFICANT ACCOUNTING POLICIES***Statement of compliance***

The consolidated financial statements ("financial statements") of the Group have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Ministry of Finance Order 2844/2016 to approve accounting regulations in accordance with IFRS (MOF 2844/2016). For the purposes of the preparation of these financial statements, the functional currency of the Group is deemed to be the Romanian Leu (RON). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board (IASB), however, the differences have no material impact on the Group's financial statements for the periods presented.

Basis of preparation

The financial statements have been prepared on a going concern basis. The principal accounting policies are set out below.

Accounting is kept in Romanian and in the national currency. Items included in these financial statements are denominated in Romanian lei. Unless otherwise stated, the amounts are presented in thousand lei (thousand RON).

These financial statements are prepared for general purposes, for users familiar with the IFRS as adopted by EU; these are not special purpose financial statements. Consequently, these financial statements must not be used as sole source of information by a potential investor or other users interested in a specific transaction.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 "Inventory" or value in use in IAS 36 "Impairment of assets".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance to the Group of the inputs to the fair value measurement, which are described as follows:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

Basis for consolidation***Subsidiaries***

The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when it loses control of that subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All intra-group assets and liabilities, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation

Associated entities

An associate is a company over which the Company exercises significant influence through participation in decision making on financial and operational policies of the entity invested in. Investments in associates are recorded using the equity method of accounting. By this method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the investee's net assets. The Group's profit or loss includes its share of the investee's profit or loss and the Group's other comprehensive income includes its share of the investee's other comprehensive income.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint ventures.

Joint operations

The Group recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

As joint operator, the Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

If the Group participates in, but does not have joint control of, a joint operation it accounts for its interest in the arrangement in accordance with the paragraphs above if it has rights to the assets, and obligations for the liabilities, relating to the joint operation.

If the Group participates in, but does not have joint control of, a joint operation, does not have rights to the assets, and obligations for the liabilities, relating to that joint operation, it accounts for its interest in the joint operation in accordance with the IFRSs applicable to that interest.

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020*Joint ventures*

As a partner in a joint venture, in its financial statements, the Group recognizes its interest in a joint venture using the equity method of accounting.

Standards and interpretations valid for the current period

The following standards and amendments or improvements to existing standards issued by the IASB and adopted by the EU have entered into force for the current period:

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after January 1, 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IAS 1 and IAS 8: Definition of materiality (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IFRS 16 Covid-19-Related Rent Concessions (effective for annual periods beginning on or after June 1, 2021).

The adoption of these amendments, interpretations or improvements to existing standards has not led to changes in the Group's accounting policies.

Standards and interpretations issued by IASB not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS adopted by the IASB except from the following standards, amendments or improvements to the existing standards and interpretations, which were not endorsed for use in EU as at date of publication of financial statements:

- IFRS 17 Insurance Contracts including Amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after January 1, 2022);
- Amendments to IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after January 1, 2022);
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (effective for annual periods beginning on or after January 1, 2022);
- Annual Improvements 2018-2020 (effective for annual periods beginning on or after January 1, 2022);
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective for annual periods beginning on or after January 1, 2021).

The Group is currently evaluating the effect that the adoption of these standards, amendments or improvements to the existing standards and interpretations will have on the financial statements of the Group in the period of initial application.

Standards and interpretations issued by IASB and adopted by the EU, but not yet effective

At the date of issue of the financial statements, the following standards were adopted by the EU, but not yet effective:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (effective for annual periods beginning on or after January 1, 2021).

The Group did not adopt these standards and amendments before their effective dates. The Group does not expect these amendments to have a material impact on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**Segment information**

The information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the upstream segment, gas storage, electricity production and distribution, and other activities, including headquarter activities. The Directors of the Group have chosen to organize the Group around differences in activities performed.

Specifically, the Group is organized in the following segments:

- upstream, which includes exploration activities, natural gas production and trade of gas extracted by Romgaz or acquired from domestic production or import, for resale; these activities are performed by Medias, Mures and Bratislava branches;
- storage activities, performed by Depogaz and Depomures;
- electricity production and distribution activities, performed by Iernut branch;
- other activities, such as technological transport, operations on wells and corporate activities.

Transactions between the companies within the Group are at current market prices. Unrealized profits are eliminated in the financial statements.

Transactions between Groups segments within the same company are at cost.

Revenue recognition*a) Revenue from contracts with customers*

The Group recognizes customer contracts when all of the following criteria are met:

- the parties to the contract have approved the contract and are committed to perform their respective obligations;
- the Group can identify each party's rights regarding the goods or services to be transferred;
- the Group can identify the payment terms;
- the contract has commercial substance;
- it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods delivered or the services provided.

Revenue from contracts with customers is recognized when, or as the Group transfers the goods or services to the customer, respectively, the client obtains control over them.

Depending on the nature of the goods or services, revenues are recognized over time or at a point in time.

Revenue is recognized over time if:

- the customer receives and consumes simultaneously the benefits provided by obtaining the goods and services as the Group performs the obligation;
- the Group creates or enhances an asset that the customer controls as the asset is created or enhanced;
- the Group's performance does not create an asset with an alternative use to the Group.

All other revenues that do not meet the above criteria are recognized at a point in time.

For revenue to be recognized over time, the Group assesses progress towards meeting the execution obligation, using output methods or input methods, depending on the nature of the good or service transferred to the client. Revenues are recognized only if the Group can reasonably assess the result of the execution obligation or, if it cannot be estimated, only at the level of the costs it is expected to recover from the customer.

Revenue from contracts with customers mainly relates to gas sales, electricity supply and related services, storage services. Revenue from these contracts are recognized at a point in time on the basis of the actual quantities at the prices fixed in the contracts concluded or at the rates set by the regulatory authority, as the case may be.

Contracts concluded by the Group do not contain significant financing components.

b) Other revenue

Rental revenue for operating lease contracts where the Group operates as lessor is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Interest income is recognized periodically and proportionally as the respective income is generated, on accrual basis.

Dividends are recognized as income when the legal right to receive them is established.

The accompanying notes form an integral part of these financial statements.

This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020***Exploration expenses***

The costs of seismic exploration, geological, geophysical and other similar exploration activities are recognized as exploration expenses in the statement of comprehensive income in the period in which they arise.

Exploration expenses also include the cost of exploration assets that have not identified gas resources and have been written-off.

Foreign currencies

The functional currency is the currency of the primary economic environment in which the Group operates and is the currency in which the Group primarily generates and expends cash. The Group operates in Romania and it has the Romanian Leu (RON) as its functional currency.

In preparing the financial statements of the Group, transactions in currencies other than the functional currency (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Exchange differences are recognized in the statement of comprehensive income in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Employee benefits***Benefits granted upon retirement***

In the normal course of business, the Group makes payments to the Romanian State on behalf of its employees at legal rates. All employees of the Group are members of the Romanian State pension plan. These costs are recognized in the statement of comprehensive income together with the related salary costs.

Based on the Collective Labor Agreement, the Group is liable to pay to its employees at retirement a number of gross salaries, according to the years worked in the gas industry/electrical industry, work conditions etc. To this purpose, the Group recorded a provision for benefits upon retirement. This provision is updated annually and computed according to actuarial methods based on estimates of the average salary, the average number of salaries payable upon retirement, on the estimate of the period when they shall be paid and it is brought to present value using a discount factor based on interest related to a maximum degree of security investments (government securities). As the benefits are paid, the provision is reduced together with the reversal of the provision against income.

Gains or actuarial losses, are recognized in other comprehensive income. These are changes in the present value of the defined benefit obligation as a result of statistical adjustments and changes in actuarial assumptions. Any other changes in the provision are recognized in the result of the year.

The Group does not operate any other pension scheme or post-retirement benefit plan and, consequently, has no obligation in respect of pensions.

Employee participation to profit

The Group records in its financial statements a provision related to the fund for employee participation to profit in compliance with legislation in force.

Liabilities related to the fund for employee participation to profit are settled in less than a year and are measured at the amounts estimated to be paid at the time of settlement.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Greenhouse gas provisions

The Group recognizes a provision for the deficit between actual CO₂ emissions and certificates held, measured at the best estimate of expenditure required to settle the obligation.

Provisions for decommissioning of wells

Liabilities for decommissioning costs are recognized due to the Group's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

The Group recorded a provision for decommissioning wells.

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This provision was computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it was brought to present value using the interest rate on long term treasury bonds. The rate is updated annually.

A corresponding item of property, plant and equipment of an amount equivalent to the provision is also recognized. The item of property, plant and equipment is subsequently depreciated as part of the asset.

The Group applies IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" related to changes in existing decommissioning, restoration and similar liabilities.

The change in the decommissioning provision for wells is recorded as follows:

- a. subject to b., changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b. the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in the statement of comprehensive income;
- c. if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss.

Once the related asset has reached the end of its useful life, all subsequent changes of debt are recognized in the income statement in the period when they occur.

The periodical unwinding of the discount is recognized periodically in the comprehensive income as a finance cost, as it occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current tax for the period is recognized as an expense in the statement of comprehensive income. Deferred tax for the period is recognized as an expense or income in the statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

Property, plant and equipment

(1) Cost

(i) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of any decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

(ii) Gas cushion

This is a quantity of natural gas constituted as a reserve at the level of gas storages, physically recoverable, which ensures the optimum conditions necessary to maintain their technical-productive flow characteristics. The gas cushion is recorded as an item of property, plant and equipment in the Storage segment.

(iii) Development expenditure

Expenditure on the construction, installation and completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including the commissioning of wells, is capitalized within property, plant and equipment and is depreciated from the commencement of production as described below in the property, plant and equipment accounting policies.

(iv) Maintenance and repairs

The Group does not recognize within the assets' costs the current expenses and the accidental expenses for that asset. These costs are expensed in the period in which they are incurred.

The cost for current maintenance are mainly labor costs and consumables and also small inventory items. The purpose of these expenses is usually described as "repairs and maintenance" for property, plant and equipment.

The expenses with major activities, inspections and repairs comprise the replacement of the assets or other asset's parts, the inspection cost and major overhauls. These expenses are capitalized if an asset or part of an asset, which was separately depreciated, is replaced and is probable that they will bring future economic benefits for the Group. If part of a replaced asset was not considered as a separate component and, as a result, was not separately depreciated, the replacement value will be used to estimate the net book value of the asset which is replaced and is immediately written-off. The inspection costs associated with major overhauls are capitalized and depreciated over the period until next inspection.

The cost for major overhauls for wells are also capitalized and depreciated using the unit of production depreciation method.

All other costs with the current repairs and usual maintenance are recognized directly in expenses.

(2) Depreciation

The depreciable amount of a tangible asset is the cost less the residual value of the asset. The residual value is the estimated value that the Group would currently obtain from the disposal of an asset, after deducting the estimated costs associated with the disposal if the asset would already have the age and condition expected at the end of its useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

For directly productive tangible assets (natural gas resources extraction wells), the Group applies the depreciation method based on the unit of production in order to reflect in the statement of comprehensive income, an expense proportionate with the production obtained from the total natural gas reserve certified at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the proved developed reserves at the beginning of the period.

Assets representing gas cushion are not depreciated, as the residual value exceeds their cost.

For indirectly productive tangible assets and storage assets, depreciation is computed using the straight–line method over the estimated useful life of assets, as follows:

| <u>Asset</u> | <u>Years</u> |
|--------------------------------------|--------------|
| Specific buildings and constructions | 10 - 50 |
| Technical installations and machines | 3 - 20 |
| Other plant, tools and furniture | 3 – 30 |

Land is not depreciated as it is considered to have an indefinite useful life.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at historical cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Items of tangible fixed assets that are disposed of are eliminated from the statement of financial position along with the corresponding accumulated depreciation and impairment. Any gain or loss resulting from such retirement or disposal is included in the result of the period.

For items of tangible fixed assets that are retired from use, but not yet written off by the reporting date, an impairment adjustment is recorded for the carrying value at the time of retirement.

(3) Impairment

Non-current assets must be recognized at the lower of the carrying amount and recoverable amount. If and only if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to be equal to its recoverable amount. Such a reduction represents an impairment loss that is recognized in the result of the period.

Thus at the end of each reporting period, the Group assesses whether there is any indication of impairment of assets. If such indication is identified, the Group tests the assets to determine whether they are impaired.

The Group's assets are allocated to cash-generating units. The cash-generating unit is the smallest identifiable asset group that generates independent cash inflows to a large extent from cash inflows generated by other assets or asset groups. The Group considers each commercial field as a separate cash-generating unit.

All gas storages held by the Group are considered as part of a single cash-generating unit, as the regulatory authority sets regulated tariffs by analyzing the storage activity as a whole, not every single storage.

In 2020, the Group conducted an impairment test in the Upstream segment, as the conditions existing when the previous test was conducted changed; the results of the impairment test are presented in note 12.

In 2020, no indications of impairment were observed for storage assets..

Recoverable amount is the largest of the fair value of an asset or a cash-generating unit less costs associated with disposal and its value in use. Considering the nature of the Group's assets, it was not possible to determine the fair value of the cash-generating units, being determined only the value in use of the assets.

Exploration and appraisal assets

(1) Cost

Natural gas exploration (other than seismic, geological, geophysical and other similar activities), appraisal and development expenditure is accounted for using the principles of the successful efforts method of accounting.

Costs directly associated with an exploration well are initially capitalized as an asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, drilling costs and payments made to contractors. If potentially commercial quantities of hydrocarbons are not found, the exploration well is eliminated from the statement of financial position, by recording an impairment, until National Agency for Mineral Resources (Agentia Nationala pentru Resurse Minerale – ANRM) approvals are obtained in order to be written off. If hydrocarbons are found and, subject to further appraisal activity, are likely to be capable of commercial development, the costs continue to be carried as an asset. Costs directly associated with appraisal activity, undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalized as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, an impairment is recorded for the assets, until the completion of the legal steps necessary for them to be written off. When proved reserves of natural gas are determined and development is approved by management, the relevant expenditure is transferred to property, plant and equipment other than exploration assets.

(2) Impairment

At each reporting date, the Group's management reviews its exploration assets and establishes the necessity for recording in the financial statements an impairment loss in these situations:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gas resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gas resources in the specific area have not led to the discovery of commercially viable quantities of gas resources and the Group has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Other intangible assets**(1) Cost**

Licenses for software, patents and other intangible assets are recognized at acquisition cost.

Intangible assets are not revalued.

(2) Amortization

Patents and other intangible assets are amortized using the straight-line method over their useful life, but not exceeding 20 years. Licenses related to the right of use of computer software are amortized over a period of 3 years.

Inventories

Inventories are recorded initially at cost of production, or acquisition cost, depending on the case. The cost of finished goods and production in progress includes materials, labour, expense incurred for bringing the finished goods at the location and in the existent form and the related indirect production costs. Write down adjustments are booked against slow moving, damaged and obsolete inventory, when necessary.

At each reporting date, inventories are measured at the lower of cost and net realizable value. The net realizable value is estimated based on the selling price less any completion and selling expenses. The cost of inventories is assigned by using the weighted average cost formula.

Financial assets and liabilities

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables, loans, bank deposits and bonds with a maturity from acquisition date of over three months and other investments in equity instruments. Financial liabilities include interest-bearing bank borrowings and overdrafts and trade and other payables. For each item, the accounting policies on recognition and measurement are disclosed in this note. Management believes that the estimated fair values of these instruments approximate their carrying amounts.

Cash and cash equivalents include petty cash, cash in current bank accounts and short-term deposits with a maturity of less than three months from the date of acquisition.

The Group recognizes a financial asset or financial liability in the statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. Upon initial recognition, financial assets are classified at amortized cost or measured at fair value through profit or loss. The classification depends on the Group's business model for managing the financial assets and their contractual cash flows.

The Group does not have financial assets measured at fair value through other comprehensive income.

On initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of assets measured at amortized cost, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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Receivables resulting from contracts with customers represent the unconditional right of the Group to a consideration. The right to a consideration is unconditional if only the passage of time is required before payment of the consideration is due. These are measured at initial recognition at the transaction price.

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments plus or minus cumulative depreciation using the effective interest method for each difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any impairment.

Any difference between the entry amount and the reimbursement amount is recognized in the income statement for the period of the borrowings using the effective interest method.

Financial instruments are classified as liabilities or equity in accordance with the nature of the contractual arrangement. Interest, dividends, gains and losses on a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are recorded directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and discharge the obligation simultaneously.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each reporting period.

Except for trade receivables, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk associated with the financial instrument, has increased significantly since initial recognition. If, at the reporting date, the credit risk for a financial instrument has not increased significantly since the initial recognition, the Group measures the loss allowance for that financial instrument at a value equal to 12-month expected credit losses.

The loss allowance on trade receivables resulting from transactions that are subject to IFRS 15 is measured at an amount equal to lifetime expected credit losses. The Group considers the risk or probability of a default occurring, reflecting the possibility of a default to occur or not to occur, even if the possibility of a credit loss is very low.

The Group measures the expected credit losses of a financial instrument in a manner that reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The carrying amount of the financial asset, other than those at fair value through profit or loss, is reduced through the use of an allowance account.

De-recognition of financial assets and liabilities

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Reserves

Reserves include (note 18):

- legal reserves, which are used annually to transfer to reserves up to 5% of the statutory profit, but not more than 20% of the statutory share capital of the companies within the Group;
- other reserves, which represent allocations from profit in accordance with Government Ordinance no. 64/2001, paragraph (g) for the Company's development fund;
- reserves from reinvested profit, set up based on the Fiscal Code. The amount of profit that benefited from tax exemption under the fiscal legislation less the legal reserve, is distributed at the end of the year by setting up the reserve;
- development quota reserve, non-distributable, set up until 2004. Development quota reserve set up after 2004 is distributable and presented in retained earnings. Development quota set up after 2004 is allocated together with the profit allocation, as approved by the General Meeting of Shareholders, based on depreciation, respectively write-off of the assets financed using the development quota;
- other non-distributable reserves, set up from retained earnings representing translation differences recorded at transition to IFRS. These reserves are set up in accordance with MOF 2844/2016.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**Subsidies**

Subsidies are non-reimbursable financial resources granted to the Group with the condition of meeting certain criteria. In the category of subsidies are included grants related to assets and grants related to income.

Grants related to assets are government grants for whose primary condition is that the Group should purchase, construct, or otherwise acquire long-term assets.

Grants related to income are government grants other than those related to assets.

Subsidies are not recognized until there is reasonable assurance that:

- (a) the Group will comply with the conditions attaching to it; and
- (b) subsidies will be received.

Grants related to assets are presented in the statement of financial position as "Deferred revenue", which is then recognized in profit or loss on a systematic basis over the useful life of the asset.

Grants related to income are recognized in the statement of profit or loss under "Other income", as the related expenses are recorded. Until the time the expense occurs, the grant received is recognized as "Deferred revenue".

Use of estimates

The preparation of the financial information requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of reporting date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments that the management has made in the process of applying the Group's accounting policies, and that have the most significant effect on the amounts recognized in the financial statements.

Estimates related to impairment losses on trade receivables

At each period end, the Group evaluates the risks attached to current and overdue receivables and the probability of such risks to materialize. The Group's receivables are generally due in maximum 30 days from the date of issue. However, the Group may be forced by court decisions to sell gas to insolvent clients deemed "captive" according to insolvency legislation. Invoices issued to these clients for gas delivered are due in 90 days from the date of issue. Based on the information available at period end related to such clients and previous experience, the Group estimates the lifetime expected credit loss of receivables, both current and overdue, and records appropriate impairment losses (note 16).

Estimates related to the exploration expenditure on undeveloped fields

If field works prove that the geological structures are not exploitable from an economic point of view or that they do not have hydrocarbon resources available, an impairment is recorded. The impairment assessment is performed based on geological experts' technical expertise (note 7).

Estimates related to the developed proved reserves

The Group applies the depreciation method based on the unit of production in order to reflect in the income statement an expense proportionate with the production obtained from the total natural gas reserve at the beginning of the period. According to this method, the value of each production well is depreciated according to the ratio of the natural gas quantity extracted during the period compared to the gas reserve at the beginning of the period. The gas reserves are updated annually according to internal assessments that are based on certifications of ANRM (note 7).

Estimates related to the decommissioning provision

Liabilities for decommissioning costs are recognized for the Group's obligation to plug and abandon a well, dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made.

This provision is computed based on the estimated future expenditure determined in accordance with local conditions and requirements and it is brought to present value using the interest rate on long term treasury bonds. The rate is updated annually (note 19).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Estimates related to the retirement benefit obligation

Under the Collective Labor Agreement, the Group is obliged to pay to its employees when they retire a multiplier of the gross salary, depending on the seniority within the gas industry/electricity industry, working conditions etc. This provision is updated annually and calculated based on actuarial methods to estimate the average wage, the average number of employees to pay at retirement, the estimate of the period when they will be paid and brought to present value using a discount factor based on interest on investments with the highest degree of safety (government bonds) (note 19).

The Group does not operate any other pension plan or retirement benefits, and therefore has no other obligations relating to pensions.

Contingencies

By their nature, contingencies end only when one or more uncertain future events occur or not. In order to determine the existence and the potential value of a contingent element, is required to exercise the professional judgment and the use of estimates regarding the outcome of future events (note 32).

Comparative information

For each item of the statement of financial position, the statement of comprehensive income and, where is the case, for the statement of changes in equity and for the statement of cash flows, for comparative information purposes is presented the value of the corresponding item for the previous period ended, unless the changes are insignificant. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements, which has a material impact on the Group.

3. REVENUE AND OTHER INCOME

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Revenue from gas sold - domestic production | 3,226,448 | 4,151,626 |
| Revenue from gas sold – other arrangements | 66,915 | 128,737 |
| Revenue from gas acquired for resale – import gas | - | 77,867 |
| Revenue from gas acquired for resale – domestic gas | 15,545 | 23,368 |
| Revenue from storage services-capacity reservation | 282,363 | 265,962 |
| Revenue from storage services-extraction | 43,151 | 22,410 |
| Revenue from storage services-injection | 49,343 | 42,418 |
| Revenue from electricity | 189,289 | 145,714 |
| Revenue from services | 175,877 | 184,564 |
| Revenue from sale of goods | 18,192 | 30,243 |
| Other revenues from contracts | 367 | 402 |
| Total revenue from contracts with customers | 4,067,490 | 5,073,311 |
| Other revenues | 7,403 | 7,171 |
| Total revenue | 4,074,893 | 5,080,482 |
| Other operating income *) | 25,439 | 32,834 |
| Total revenue and other income | 4,100,332 | 5,113,316 |

*) Other operating income relates mainly to penalties charged to clients for late payment.

Revenue from contracts with customers is recognized as or when the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of goods sold by the Group usually coincides with title passing to the customer and the customer taking physical possession.

Revenues from gas and electricity are recognized when the delivery has been made at the prices fixed in the contracts with customers.

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Revenues from storage services are recognized when they are provided at the rates set by the regulatory authority. Usually, injection services are provided in the period April – October, and those for extraction in October – April. The capacity reservation services are being provided each month of the storage cycle, which begins on April 1 and ends on March 31 of the next year.

In measuring the revenue from gas, electricity and storage services, the Group uses output methods. According to these methods, revenues are recognized based on direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. The Group recognizes the revenue in the amount it has the right to charge.

The Group does not disclose information about the remaining performance obligations, applying the practical expedient in IFRS 15, as the contracts with the customers are generally signed for periods of less than one year and the revenues are recognized at the amount which the Group has the right to charge.

4. INVESTMENT INCOME

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|-----------------|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Interest income | 47,845 | 38,124 |
| Total | 47,845 | 38,124 |

Interest income is derived from the Group's investments in bank deposits and government bonds.

5. COST OF COMMODITIES SOLD, RAW MATERIALS AND CONSUMABLES

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Consumables used | 35,005 | 40,338 |
| Technological consumption | 19,257 | 32,143 |
| Cost of gas acquired for resale, sold – import | - | 74,410 |
| Cost of gas acquired for resale, sold – domestic | 7,650 | 9,863 |
| Cost of electricity imbalance | 10,375 | 22,414 |
| Cost of other goods sold | 592 | 1,114 |
| Other consumables | 4,020 | 3,566 |
| Total | 76,899 | 183,848 |

6. OTHER GAINS AND LOSSES

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Forex gain | 52 | 2,579 |
| Forex loss | (291) | (2,029) |
| Net loss on disposal of non-current assets | (7) | 2,542 |
| Net allowances for other receivables (note 16 c) | 2,151 | 13,926 |
| Net write down allowances for inventory (note 15) | (8,427) | (5,125) |
| Net gain/(loss) on financial assets at fair value through profit or loss (note 26) | (10) | (4,424) |
| Other gains and losses from lease contracts | - | 52 |
| Losses from other debtors | (2) | (2) |
| Total | (6,534) | 7,519 |

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

7. DEPRECIATION, AMORTIZATION AND IMPAIRMENT EXPENSES

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Depreciation and amortization *) | 448,371 | 520,957 |
| out of which: | | |
| - depreciation of property, plant and equipment | 445,327 | 517,833 |
| - amortization of intangible assets | 2,130 | 2,376 |
| - amortization of write-of use assets | 914 | 748 |
| Net impairment of non-current assets (note 12) **) | 223,692 | 930,809 |
| Total depreciation, amortization and impairment | 672,063 | 1,451,766 |

*) The decrease in the depreciation expense for property, plant and equipment is due to a reduction in natural gas production, as they are depreciated using the unit of production method, as mentioned in note 2.

***) Net impairment of non-current assets have decreased as compared to the previous year as in 2020 the Group did not record any impairment losses from impairment tests unlike 2019. More information on the impairment test performed in 2020 is presented in note 12.

8. EMPLOYEE BENEFIT EXPENSE

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Wages and salaries | 798,382 | 717,927 |
| Social security charges | 28,044 | 20,589 |
| Meal tickets | 23,231 | 19,044 |
| Other benefits according to collective labor contract | 20,613 | 29,865 |
| Private pension payments | 11,763 | 10,783 |
| Private health insurance | 5,980 | - |
| Total employee benefit costs | 888,013 | 798,208 |
| Less, capitalized employee benefit costs | (120,762) | (127,800) |
| Total employee benefit expense | 767,251 | 670,408 |

9. FINANCE COSTS

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Interest expense | 593 | 543 |
| Unwinding of the decommissioning provision (note 19) | 16,407 | 24,197 |
| Total | 17,000 | 24,740 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

10. OTHER EXPENSES

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Energy and water expenses | 40,945 | 61,428 |
| Expenses for capacity booking and gas transmission services | 167,937 | 164,142 |
| Expenses with other taxes and duties *) | 633,160 | 1,070,181 |
| (Net gain)/Net loss from provisions movement (note 19) | 90,740 | (57,162) |
| Other operating expenses **) | 225,361 | 313,053 |
| Total | 1,158,143 | 1,551,642 |

*) In the year ended December 31, 2020, the major taxes and duties included in the amount of RON 633,160 thousand (year ended December 31, 2019: RON 1,070,181 thousand) are:

- RON 414,943 thousand represent windfall tax resulting from the deregulation of prices in the natural gas sector according to Government Ordinance no. 7/2013 with the subsequent amendments for the implementation of the windfall tax following the deregulation of prices in the natural gas sector (year ended December 31, 2019: RON 716,908 thousand);
- RON 196,875 thousand represent royalty on gas production and storage activity (year ended December 31, 2019: RON 342,992 thousand).

***) At the start of 2020, the monetary contribution from license holders in the electric power and natural gas sectors of 2% from revenues obtained from the activities under the scope of licenses granted by the Romanian Regulatory Authority for Energy ("ANRE"), as introduced by Government Emergency Ordinance no. 114/2018, was repealed. The 2019 operating expenses of RON 313,053 thousand included this contribution of RON 86,975 thousand. In 2020 the contribution paid to ANRE was of RON 12,883 thousand.

In 2020 other operating expenses of RON 225,361 thousand include an expense of RON 24,284 thousand representing dividends deemed by ANAF as payable to the Romanian state according to the provisions of Government Emergency Ordinance no. 114/2018. The Company did not agree with the conclusions of the report and started legal actions against it. The deemed dividends attributable to the main shareholder and related penalties were offset by ANAF against receivables of the Company from ANAF, although the Company requested the receivables to be offset against other tax liabilities when due. As there is no shareholders' decision to allocate additional dividends, the amount offset by ANAF was expensed.

11. INCOME TAX

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--------------------------------------|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Current tax expense *) | 220,285 | 293,400 |
| Deferred income tax (income)/expense | (41,681) | (107,843) |
| Income tax expense | 178,604 | 185,557 |

*) The 2020 current tax expense of RON 220,285 thousand includes additional income tax of RON 6,923 thousand, as determined by ANAF following a tax audit for the period 2014-2018; the Company filed a complaint against the report. The tax audit report included penalties of RON 37,941 thousand, which were written-off due to facilities introduced by Government Emergency Ordinance no. 69/2020.

The tax rate used for the reconciliations below for the year ended December 31, 2020, respectively year ended December 31, 2019 is 16% payable by corporate entities in Romania on taxable profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The total charge for the period can be reconciled to the accounting profit as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|--|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Accounting profit before tax | 1,426,508 | 1,275,180 |
| (Profit)/loss of activities not subject to income tax | 6,298 | 1,821 |
| Accounting profit subject to income tax | 1,432,806 | 1,277,001 |
| Income tax expense calculated at 16% | 229,249 | 204,320 |
| Effect of income exempt of taxation | (39,800) | (44,977) |
| Effect of expenses that are not deductible in determining taxable profit | 68,978 | 171,689 |
| Effect of current income tax reduction, due to tax facilities | (11,023) | (15,054) |
| Effect of tax incentive for reinvested profit | (9,950) | (2,746) |
| Effect of legal reserves | (579) | (390) |
| Effect of the benefit from tax credits, used to reduce current tax expense | 27,362 | 28,791 |
| Effect of deferred tax relating to the origination and reversal of temporary differences | (57,632) | (145,040) |
| Effect of the benefit from tax credits, used to reduce deferred tax expense | (34,924) | (11,036) |
| Effect of the previous years' tax expense | 6,923 | - |
| Income tax expense | 178,604 | 185,557 |

Components of deferred tax (asset)/liability:

| | December 31, 2020 | | December 31, 2019 | |
|---|--|------------------------------------|--|---------------------------------------|
| | Cumulative temporary differences | Deferred tax (asset)/ liability | Cumulative temporary differences | Deferred tax (asset)/ liability |
| | '000 RON | '000 RON | '000 RON | '000 RON |
| Provisions | (736,102) | (117,776) | (540,560) | (86,490) |
| Property, plant and equipment | 274,492 | 43,919 | 236,238 | 37,798 |
| Exploration assets *) | (828,989) | (132,638) | (928,679) | (148,589) |
| Financial investments | (977) | (156) | (977) | (156) |
| Inventory | (29,817) | (4,771) | (17,940) | (2,870) |
| Trade receivables and other receivables | (395,488) | (63,278) | (191,509) | (30,641) |
| Right of use asset | 474 | 76 | 554 | 89 |
| Deferred revenue | 9 | 1 | 17 | 3 |
| Lease liability | (507) | (81) | (567) | (91) |
| Other intangible assets | (3,900) | (624) | - | - |
| Total | (1,720,805) | (275,328) | (1,443,423) | (230,947) |
| Change, out of which: | | 44,381 | | 103,456 |
| - in current year's result | | 41,681 | | 107,843 |
| - in other comprehensive income | | 2,700 | | (4,387) |

*) According to the Fiscal Code applicable in Romania, expenses related to location, exploration, development or any preparatory activity for the exploitation of natural resources, which, according to the applicable accounting regulations, are recorded directly in the result, are recovered in equal rates for a period of 5 years, starting with the month in which the expenses are incurred. Also, for fixed assets specific to the exploration and production of gas resources, the carrying tax value of fixed assets written-off is deducted using the tax depreciation method used before their write-off for the remaining period. All of these costs are treated as assets only from a tax point of view and generate a deferred tax asset.

The accompanying notes form an integral part of these financial statements.
This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
12. PROPERTY, PLANT AND EQUIPMENT

| | Land and land improvements | Buildings | Gas properties | Plant, machinery and equipment | Fixtures, fittings and office equipment | Storage assets | Tangible exploration assets | Capital work in progress | Total |
|---------------------------------|----------------------------------|----------------|-------------------|---|--|-------------------|-----------------------------------|--------------------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Cost | | | | | | | | | |
| As of January 1, 2020 | 109,368 | 909,979 | 6,730,173 | 1,017,465 | 104,110 | 1,693,062 | 402,445 | 1,794,654 | 12,761,256 |
| Additions | 8,049 | 1 | 130,268 | 9 | - | 9,819 | 66,516 | 554,384 | 769,046 |
| Transfers | 254 | 7,477 | 259,441 | 82,079 | 10,876 | 20,109 | (4,690) | (375,546) | - |
| Disposals | - | (1,342) | (16,051) | (8,928) | (286) | (506) | (130,665) | (58,493) | (216,271) |
| As of December 31, 2020 | 117,671 | 916,115 | 7,103,831 | 1,090,625 | 114,700 | 1,722,484 | 333,606 | 1,914,999 | 13,314,031 |
| Accumulated depreciation | | | | | | | | | |
| As of January 1, 2020 | - | 328,847 | 4,022,145 | 646,360 | 77,281 | 648,959 | - | - | 5,723,592 |
| Charge *) | - | 30,872 | 306,002 | 66,428 | 7,141 | 56,536 | - | - | 466,979 |
| Disposals | - | (839) | (3,014) | (8,882) | (286) | (69) | - | - | (13,090) |
| As of December 31, 2020 | - | 358,880 | 4,325,133 | 703,906 | 84,136 | 705,426 | - | - | 6,177,481 |
| Impairment | | | | | | | | | |
| As of January 1, 2020 | 8,255 | 40,306 | 493,729 | 80,567 | 1,148 | 378,332 | 245,532 | 246,618 | 1,494,487 |
| Charge | - | 1,664 | 85,085 | 557 | 76 | (11,341) | 100,189 | 106,849 | 283,079 |
| Transfers | - | - | 25,804 | 2,374 | - | - | - | (28,178) | - |
| Release | - | (382) | (50,993) | (400) | (19) | (656) | (132,323) | (69,365) | (254,138) |
| As of December 31, 2020 | 8,255 | 41,588 | 553,625 | 83,098 | 1,205 | 366,335 | 213,398 | 255,924 | 1,523,428 |
| Carrying value | | | | | | | | | |
| As of January 1, 2020 | 101,113 | 540,826 | 2,214,299 | 290,538 | 25,681 | 665,771 | 156,913 | 1,548,036 | 5,543,177 |
| As of December 31, 2020 | 109,416 | 515,647 | 2,225,073 | 303,621 | 29,359 | 650,723 | 120,208 | 1,659,075 | 5,613,122 |

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 21,649 thousand.

The accompanying notes form an integral part of these financial statements.
This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

| | Land and land improvements | Buildings | Gas properties | Plant, machinery and equipment | Fixtures, fittings and office equipment | Storage assets | Tangible exploration assets | Capital work in progress | Total |
|---------------------------------|----------------------------------|----------------|-------------------|---|--|-------------------|-----------------------------------|--------------------------------|-------------------|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| Cost | | | | | | | | | |
| As of January 1, 2019 | 108,954 | 892,035 | 6,454,087 | 984,695 | 102,099 | 1,718,601 | 332,457 | 1,565,368 | 12,158,296 |
| Additions | 374 | 18 | 16,346 | 25 | 21 | - | 210,521 | 673,880 | 901,185 |
| Transfers | 40 | 18,209 | 466,419 | 41,290 | 4,124 | 9,035 | (117,482) | (421,635) | - |
| Disposals | - | (283) | (206,679) | (8,545) | (2,134) | (34,574) | (23,051) | (22,959) | (298,225) |
| As of December 31, 2019 | 109,368 | 909,979 | 6,730,173 | 1,017,465 | 104,110 | 1,693,062 | 402,445 | 1,794,654 | 12,761,256 |
| Accumulated depreciation | | | | | | | | | |
| As of January 1, 2019 | - | 297,747 | 3,671,297 | 590,345 | 72,921 | 589,044 | - | - | 5,221,354 |
| Charge *) | - | 31,348 | 370,794 | 64,108 | 6,463 | 68,617 | - | - | 541,330 |
| Transfers | - | - | 5,906 | - | - | (5,906) | - | - | - |
| Disposals | - | (248) | (25,852) | (8,093) | (2,103) | (2,796) | - | - | (39,092) |
| As of December 31, 2019 | - | 328,847 | 4,022,145 | 646,360 | 77,281 | 648,959 | - | - | 5,723,592 |
| Impairment | | | | | | | | | |
| As of January 1, 2019 | 3,180 | 31,523 | 390,424 | 71,226 | 909 | 3,521 | 37,266 | 119,145 | 657,194 |
| Charge | 5,075 | 11,893 | 179,095 | 4,526 | 288 | 375,073 | 231,409 | 192,449 | 999,808 |
| Transfers | - | 931 | 24,890 | 6,808 | 279 | - | (84) | (32,824) | - |
| Release | - | (4,041) | (100,680) | (1,993) | (328) | (262) | (23,059) | (32,152) | (162,515) |
| As of December 31, 2019 | 8,255 | 40,306 | 493,729 | 80,567 | 1,148 | 378,332 | 245,532 | 246,618 | 1,494,487 |
| Carrying value | | | | | | | | | |
| As of January 1, 2019 | 105,774 | 562,765 | 2,392,366 | 323,124 | 28,269 | 1,126,036 | 295,191 | 1,446,223 | 6,279,748 |
| As of December 31, 2019 | 101,113 | 540,826 | 2,214,299 | 290,538 | 25,681 | 665,771 | 156,913 | 1,548,036 | 5,543,177 |

*) The amounts include depreciation of tangible assets used in the production of other fixed assets, capitalized in their cost, amounting to RON 23,498 thousand.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Impairment of property, plant and equipment

Note 2 contains information on the conditions under which impairment losses for individual assets are recognized.

Impairment of assets in the Upstream segment

Based on the current market conditions (the effects of the COVID-19 pandemic on Romanian economy, 2020 gas production 14% lower compared to previous year, lower gas prices), the Group identified impairment indicators for its upstream assets.

Based on its assessment, the Group considered each commercial field a separate cash-generating unit. The infrastructure common to several gas fields (e.g., compression stations, drying stations) was allocated to each field according to the quantities processed for each field served. The corporate assets were allocated to each field according to the estimated revenue to be earned by each field in the total revenue over the period considered in the impairment test.

The impairment test took into account the economic life of the fields, according to the latest studies approved by the National Agency of Mineral Resources, but no later than 2043, this being the limit year of the concession agreements, according to the legislation in force.

Following the impairment test, there was no additional impairment identified.

In the impairment test the following assumptions were used:

- Weighted average cost of capital: 10%;
- The inflation rate for the years 2021-2023 was the one reported by the National Prognosis Commission in the 2021 winter forecast. For the period 2024-2043 a constant inflation rate of 2.4% was used;
- Average estimated price for the period was 87.51 lei/MWh.

13. EXPLORATION AND APPRAISAL FOR NATURAL GAS RESOURCES

The following financial information represents the amounts included within the Group's totals relating to activity associated with the exploration for and appraisal of natural gas resources. All such activities are recorded within the Upstream segment.

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---------------------------------|---------------------------------|
| | '000 RON | '000 RON |
| Exploration assets written off (note 12) | (836) | (123) |
| Seismic, geological, geophysical studies | (25,673) | (1,513) |
| Total exploration expense | (26,509) | (1,636) |
| Net movement in exploration assets' impairment (note 12) (net income)/net loss | 97,695 | 231,278 |
| Net cash used in exploration investing activities | (66,516) | (173,563) |
| | December 31, 2020 | December 31, 2019 |
| | '000 RON | '000 RON |
| Exploration assets (note 12) | 120,208 | 156,913 |
| Liabilities | (5,285) | (49,270) |
| Net assets | 114,923 | 107,643 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

14. OTHER INTANGIBLE ASSETS. RIGHT OF USE ASSETS

a) Other intangible assets

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|----------------|----------------|
| | '000 RON | '000 RON |
| Cost | | |
| As of January 1 | 186,136 | 179,658 |
| Additions | 7,990 | 6,593 |
| Disposals | (7,227) | (115) |
| As of December 31 | 186,899 | 186,136 |
| Accumulated amortization | | |
| As of January 1 | 176,972 | 174,688 |
| Charge | 2,130 | 2,376 |
| Disposals | (6,977) | (92) |
| As of December 31 | 172,125 | 176,972 |
| Carrying value | | |
| As of January 1 | 9,164 | 4,970 |
| As of December 31 | 14,774 | 9,164 |

b) Right of use assets

| | <u>2020</u> | <u>2019</u> |
|------------------------------------|--------------|--------------|
| | '000 RON | '000 RON |
| Cost | | |
| As of January 1 | 9,275 | - |
| Implementation of IFRS 16 "Leases" | - | 4,959 |
| Additions | - | 5,036 |
| Effects of rent index updates | 239 | - |
| Disposals | - | (720) |
| As of December 31 | 9,514 | 9,275 |
| Accumulated amortization | | |
| As of January 1 | 685 | - |
| Charge | 914 | 748 |
| Disposals | - | (63) |
| As of December 31 | 1,599 | 685 |
| Carrying value | | |
| As of January 1 | 8,590 | - |
| As of December 31 | 7,915 | 8,590 |

The accompanying notes form an integral part of these financial statements.
This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
15. INVENTORIES

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| Spare parts and materials | 171,990 | 170,030 |
| Finished goods (gas) | 123,638 | 183,842 |
| Other inventories | 686 | 465 |
| Write-down allowance for spare parts and materials | (51,747) | (43,323) |
| Write-down allowance for other inventories | (4) | (1) |
| Total | 244,563 | 311,013 |

16. ACCOUNTS RECEIVABLE
a) Trade and other receivables

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| Trade receivables | 1,561,742 | 1,554,652 |
| Allowances for expected credit losses (note 16 c) | (1,279,164) | (1,252,267) |
| Accrued receivables | 312,991 | 382,915 |
| Allowances for expected credit losses on accrued receivables (note 16 c) | (2,694) | (47,142) |
| Total | 592,875 | 638,158 |

Trade receivables from gas deliveries are generally due within 30 days of invoice issue. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that natural gas is paid in advance.

The Group is forced by court orders to sell gas to insolvent clients considered "captive" by the insolvency law. These clients provide no guarantees, do not pay for deliveries in advance and have a payment term of 90 days from invoice issue date.

Trade receivables from the sale of electricity are generally due within 7 days of the date of invoice transmission. These must be guaranteed by customers through bank letters of guarantee. If customers do not provide such a guarantee, they must ensure that electricity is paid in advance.

Trade receivables from storage services are due within 15 days of invoice issue. Customers must provide a 5% guarantee for the services value.

b) Other assets

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| Advances paid to suppliers | 18,374 | 386 |
| Joint operation receivables | 2,384 | 2,125 |
| Other receivables *) | 64,471 | 62,343 |
| Allowance for expected credit losses other receivables (note 16 c) *) | (28,981) | (33,703) |
| Other debtors | 50,079 | 47,529 |
| Allowance for expected credit losses for other debtors (note 16 c) | (49,016) | (46,445) |
| Prepayments | 5,808 | 3,911 |
| VAT not yet due | 4,898 | 6,339 |
| Other taxes receivable | 6 | - |
| Total | 68,023 | 42,485 |

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This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

*) During May 13, 2014 – September 30, 2014 the National Agency for Tax Administration (Agentia Nationala de Administrare Fiscala - ANAF) ran a tax investigation at Romgaz regarding the tax statements and/or operations relevant for the investigation as well as the organization and management of tax and accounting evidence. The period under control was 2008 – 2013 for income tax and 2009 – 2013 for VAT.

Following the tax inspection, an additional liability was established for Romgaz of RON 22,440 thousand, representing income tax, VAT, penalties and related interest. Of the total amount, Romgaz paid RON 2,389 thousand.

For the remaining amount of RON 20,051 thousand, Romgaz performed a legal assessment which concluded that the additional tax, penalties and interest are not correct. Romgaz filed an appeal to the Ministry of Public Finance. The appeal was partially rejected for the amount of RON 15,872 thousand.

For RON 4,179 thousand a new fiscal control was ordered, which resulted in a tax burden of RON 2,981 thousand. The appeal filed to ANAF was rejected.

In 2015, Romgaz sued the Ministry of Finance to cancel the above mentioned administrative acts, including the partial cancelation of the decision issued for the appeal.

The payment made in 2016 generated additional penalties of RON 13,697 thousand, also paid. Considering the disagreement regarding the conclusions of the tax control, the Company recorded a receivable and an allowance.

In 2019, the Company won some of the points claimed in the case filed against ANAF and the allowance of RON 18,499 thousand was reversed against income. The Company took action to recover the amount paid, but the amounts were not received by December 31, 2020.

During the period December 2016 - April 2017 ANAF resumed the tax inspection on VAT for the period December 2010 – June 2011 and on income tax for the period January 2010 – December 2011, regarding the discounts granted by Romgaz to interruptible clients for deliveries during 2010 - 2011. This status was attributed to companies by Transgaz, the Romanian natural gas transmission operator. Following the tax inspection, additional tax obligations of RON 15,284 thousand were determined, and also penalties and late payment charges in amount of RON 3,129 thousand. The tax decision and the tax inspection report were appealed to ANAF. Romgaz paid the additional tax obligation and the late payment charges and based on the appeal, the Company recorded a receivable for which it recorded an allowance.

The total receivable impaired in connection with this control is RON 28,981 thousand.

c) Changes in the allowance for expected credit losses for trade and other receivables and other assets

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| At January 1 | 1,379,557 | 1,312,262 |
| Charge in the allowance for other receivables (note 6) | 2,792 | 4,641 |
| Charge in the allowance for trade receivables | 61,595 | 84,783 |
| Release in the allowance for other receivables (note 6) | (4,943) | (18,567) |
| Release in the allowance for trade receivables | (79,146) | (3,562) |
| At December 31 | 1,359,855 | 1,379,557 |

As of December 31, 2020, the Group recorded allowances for expected credit losses, of which Interagro RON 271,621 thousand (December 31, 2019: RON 275,137 thousand), GHCL Upsom of RON 68,103 thousand (December 31, 2019: RON 60,183 thousand), CET Iasi of RON 46,271 thousand (December 31, 2019: RON 46,271 thousand), Electrocentrale Galati with RON 226,338 thousand (December 31, 2019: RON 222,075 thousand), Electrocentrale Bucuresti with RON 576,080 thousand (December 31, 2019: RON 616,330 thousand), G-ON EUROGAZ of RON 14,848 thousand (December 31, 2019: RON 14,848 thousand) and Electrocentrale Constanta of RON 58,227 thousand (December 31, 2019: RON 39,113 thousand) due to existing financial conditions of these clients as well as ongoing litigating cases related to these receivables or exceeding payment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
d) Credit risk exposure for trade receivables

| December 31, 2020 | <u>Gross carrying amount</u> '000 RON | <u>Expected credit loss rate</u> % | <u>Lifetime expected credit losses</u> '000 RON |
|--|--|---------------------------------------|--|
| Current receivables, including accrued receivables | 584,068 | 0.89 | 5,210 |
| less than 30 days overdue | 13,874 | 3.91 | 542 |
| 30 to 90 days overdue | 4,861 | 86.85 | 4,222 |
| 90 to 360 days overdue | 23,890 | 99.81 | 23,844 |
| over 360 days overdue | 1,248,040 | 100.00 | 1,248,040 |
| Total trade receivables | 1,874,733 | | 1,281,858 |

| December 31, 2019 | <u>Gross carrying amount</u> '000 RON | <u>Expected credit loss rate</u> % | <u>Lifetime expected credit losses</u> '000 RON |
|--|--|---------------------------------------|--|
| Current receivables, including accrued receivables | 673,695 | 7.01 | 47,198 |
| less than 30 days overdue | 14,820 | 22.24 | 3,296 |
| 30 to 90 days overdue | 1,460 | 95.62 | 1,396 |
| 90 to 360 days overdue | 25,203 | 99.71 | 25,130 |
| over 360 days overdue | 1,222,389 | 100.00 | 1,222,389 |
| Total trade receivables | 1,937,567 | | 1,299,409 |

17. SHARE CAPITAL

| | <u>December 31, 2020</u> '000 RON | <u>December 31, 2019</u> '000 RON |
|--|--------------------------------------|--------------------------------------|
| 385,422,400 fully paid ordinary shares | 385,422 | 385,422 |
| Total | 385,422 | 385,422 |

The shareholding structure as at December 31, 2020 is as follows:

| | <u>No. of shares</u> | <u>Value</u> '000 RON | <u>Percentage</u> (%) |
|---|----------------------|--------------------------|--------------------------|
| The Romanian State through the Ministry of Economy, Energy and Business Environment | 269,823,080 | 269,823 | 70.01 |
| Legal persons | 95,612,507 | 95,612 | 24.81 |
| Physical persons | 19,986,813 | 19,987 | 5.18 |
| Total | 385,422,400 | 385,422 | 100 |

All shares are ordinary and were subscribed and fully paid as at December 31, 2020. All shares carry equal voting rights and have a nominal value of RON 1/share (December 31, 2019: RON 1/share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
18. RESERVES

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------------|--------------------------|--------------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| Legal reserves | 83,537 | 79,921 |
| Other reserves, of which: | <u>2,168,372</u> | <u>1,507,488</u> |
| - Company's development fund | 1,371,257 | 772,417 |
| - Reinvested profit | 291,002 | 228,958 |
| - Geological quota set up until 2004 | 486,388 | 486,388 |
| - Other reserves | <u>19,725</u> | <u>19,725</u> |
| Total | <u>2,251,909</u> | <u>1,587,409</u> |

19. PROVISIONS

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| Decommissioning provision (note 19 a) | 538,931 | 366,393 |
| Retirement benefit obligation (note 19 c) | <u>128,690</u> | <u>114,876</u> |
| Total long term provisions | <u>667,621</u> | <u>481,269</u> |
| Decommissioning provision (note 19 a) | 22,027 | 17,843 |
| Litigation provision (note 19 b) | 1,380 | 1,337 |
| Other provisions *) (note 19 b) | <u>133,008</u> | <u>63,521</u> |
| Total short term provisions | <u>156,415</u> | <u>82,701</u> |
| Total provisions | <u>824,036</u> | <u>563,970</u> |

*) On December 31, 2020, other provisions of RON 133,008 thousand include the provision for employee's participation to profit of RON 36,938 thousand (December 31, 2019: RON 34,412 thousand), the provision for taxes of RON 6,716 thousand and the provision for CO2 certificates of RON 81,217 thousand (December 31, 2019: RON 23,410). Regarding the CO2 provision, starting 2020 the mechanism for free of charge transitory allocation of greenhouse gas emissions certificates is no longer available.

a) Decommissioning provision

| Decommissioning provision movement | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-----------------------|
| | <u>'000 RON</u> | <u>'000 RON</u> |
| At January 1 | <u>384,236</u> | <u>530,466</u> |
| Additional provision recorded against non-current assets | 139,913 | 16,342 |
| Unwinding effect (note 9) | 16,407 | 24,197 |
| Recorded in profit or loss | 24,273 | (51,760) |
| Decrease recorded against non-current assets | <u>(3,871)</u> | <u>(135,009)</u> |
| At December 31 | <u>560,958</u> | <u>384,236</u> |

The Group makes full provision for the future costs of decommissioning natural gas wells on a discounted basis upon installation. The provision for the costs of decommissioning these wells at the end of their economic lives has been estimated using existing technology, at current prices or future assumptions, depending on the expected timing of the activity, and discounted using a rate of 2.97% (year ended December 31, 2019: 4.41%). While the provision is based on the best estimate of future costs and the economic lives of the wells, there is uncertainty regarding both the amount and timing of these costs

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The increase with 1 percentage point of the discount rate would decrease the decommissioning provision with RON 105,546 thousand. The decrease with 1 percentage point of the discount rate would increase the decommissioning provision with RON 139,304 thousand.

b) Other provisions

| | <u>Litigation provision</u> <u>'000 RON</u> | <u>Other provisions</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
|--|--|--|---------------------------------|
| At January 1, 2020 | 1,337 | 63,521 | 64,858 |
| Additional provision in period | 730 | 146,673 | 147,403 |
| Provisions used in the period | (684) | (75,759) | (76,443) |
| Unused amounts during the period, reversed | (3) | (1,427) | (1,430) |
| At December 31, 2020 | 1,380 | 133,008 | 134,388 |
| | <u>Litigation provision</u> <u>'000 RON</u> | <u>Other provisions</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
| At January 1, 2019 | 229 | 73,064 | 73,293 |
| Additional provision in the period | 2,184 | 70,091 | 72,275 |
| Provisions used in the period | (1,076) | (75,589) | (76,665) |
| Unused amounts during the period, reversed | - | (4,045) | (4,045) |
| At December 31, 2019 | 1,337 | 63,521 | 64,858 |

c) Retirement benefit obligation

| Movement of the retirement benefit obligation | <u>2020</u> <u>'000 RON</u> | <u>2019</u> <u>'000 RON</u> |
|--|--------------------------------|--------------------------------|
| At 1 January | 114,876 | 139,254 |
| Interest cost | 2,642 | 3,994 |
| Cost of current service | 5,904 | 6,686 |
| Payments during the year | (11,609) | (7,647) |
| Actuarial (gain)/loss for the period | 16,877 | (27,411) |
| At December 31 | 128,690 | 114,876 |

With the exception of actuarial gains/losses, all other movements in the retirement benefit obligation are recognized in the result of the period.

In determining the retirement benefit obligation, the following significant assumptions were used:

- No layoffs or restructurings are planned;
- Average discount rate: 3.21%;
- Average inflation rate: 2.00%.

Sensitivity analysis

The discount rate has a significant effect on the obligation. Isolated change in assumptions with 1 percentage point would have the following effect on the obligation:

| | <u>Increase of 1% in assumptions</u> <u>'000 RON</u> | <u>Decrease of 1% in assumptions</u> <u>'000 RON</u> |
|------------------------|---|---|
| Average discount rate | (12,283) | 14,356 |
| Average inflation rate | 13,860 | (12,099) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
Maturity analysis of payment cash flows

| | Benefit payments |
|---------------|-------------------------|
| | '000 RON |
| Up to 1 year | 7,827 |
| 1-2 years | 5,224 |
| 2-5 years | 14,248 |
| 5-10 years | 53,549 |
| Over 10 years | 47,842 |

20. DEFERRED REVENUE

| | December 31, 2020 | December 31, 2019 |
|--|--------------------------|--------------------------|
| | '000 RON | '000 RON |
| Amounts collected from NIP *) | 136,021 | 20,994 |
| Other deferred revenue | 167 | 123 |
| Other amounts received as subsidies | 120 | 127 |
| Total long term deferred revenue | 136,308 | 21,244 |
| Other amounts received as subsidies | 8 | 58 |
| Other deferred revenue | 10,891 | 3,671 |
| Total short term deferred revenue | 10,899 | 3,729 |
| Total deferred revenue | 147,207 | 24,973 |

*) In Government Decision no. 1096/2013 approving the mechanism for free allocation of greenhouse gas emission allowances to electricity producers for the period 2013-2020, Annex no. 3 "National Investment Plan", S.N.G.N. ROMGAZ S.A. is included with the investment "Combined Gas Turbine Cycle".

For this investment, Romgaz signed in 2017 a financing agreement with the Ministry of Energy, whereby the Ministry of Energy undertakes to grant a non-reimbursable financing of RON 320,912 thousand, representing a maximum of 25% of the total value of eligible expenditure of the investment. By December 31, 2020 the Group collected RON 136,021 thousand. Amounts received under this contract will be transferred to income based on the depreciation rate of the investment.

By Government Decision no. 1070/2020 the deadline until the investments financed from the National Investment Plan must be put into operation has been extended until June 30, 2021.

By December 31, 2020, the Group submitted two other reimbursement requests amounting to RON 140,498 thousand.

As the term of the contract for the realization of the investment was not extended, the Group is in the process of identifying solutions for completing the works.

| | Amounts collected from NIP | Other amounts received as subsidies | Total |
|----------------------------------|-----------------------------------|--|-----------------|
| | '000 RON | '000 RON | '000 RON |
| At January 1, 2020 | 20,994 | 185 | 21,179 |
| Received | 115,027 | - | 115,027 |
| Other decreases (reimbursements) | - | (50) | (50) |
| Amounts in revenue | - | (7) | (7) |
| At December 31, 2020 | 136,021 | 128 | 136,149 |

The accompanying notes form an integral part of these financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

| | Amounts collected from NIP | Other amounts received as subsidies | Total |
|--------------------|-------------------------------|--|----------|
| | '000 RON | '000 RON | '000 RON |
| January 1, 2019 | 20,994 | 257 | 21,251 |
| Received | - | - | - |
| Other increases | - | 9 | 9 |
| Amounts in revenue | - | (81) | (81) |
| December 31, 2019 | 20,994 | 185 | 21,179 |

21. TRADE AND OTHER CURRENT LIABILITIES

| | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| | '000 RON | '000 RON |
| Accruals | 30,861 | 32,553 |
| Trade payables | 20,491 | 13,953 |
| Payables to fixed assets suppliers | 37,780 | 63,404 |
| Total trade payables | 89,132 | 109,910 |
| Payables related to employees | 67,922 | 48,055 |
| Royalties | 63,222 | 67,865 |
| Social security taxes | 26,489 | 22,145 |
| Other current liabilities | 6,000 | 5,489 |
| VAT | 64,921 | 57,990 |
| Dividends payable | 2,047 | 2,231 |
| Windfall tax | 31,842 | 59,095 |
| Other taxes | 1,338 | 1,371 |
| Total other liabilities | 263,781 | 264,241 |
| Total trade and other liabilities | 352,913 | 374,151 |

22. FINANCIAL INSTRUMENTS

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, inflation risk, interest rate risk), credit risk, liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance within certain limits. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements. The Group does not use derivative financial instruments to hedge certain risk exposures.

(a) Market risk*(i) Foreign exchange risk*

The Group is exposed to currency risk as a result of exposure to various currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities.

As at December 31, 2020, the official exchange rates were RON 3.9660 to USD 1 and RON 4.8694 to EUR 1 and (December 31, 2019: RON 4.2608 to USD 1 and RON 4.7793 to EUR 1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The Group is mainly exposed to currency risk generated by EUR and USD against RON. The currency risk is not significant, as the Group has limited foreign exchange transactions.

(ii) Inflation risk

The official inflation rate in Romania, during the year ended December 31, 2020 was under 10% as provided by the National Commission for Statistics of Romania. The cumulative inflation rate for the last 3 years was under 100%. This factor, among others, led to the conclusion that Romania is not a hyperinflationary economy.

(iii) Interest rate risk

The Group is exposed to interest rate risk, due to retirement benefit obligations and the decommissioning provision. The Group's sensitivity to changes in the discount rate is detailed in note 19.

Bank deposits and treasury bills bear a fixed interest rate.

(b) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales are made to customers with low credit risk. Also, sales have to be secured, either through advance payments, either through bank letters of guarantee. The carrying amount of accounts receivable, net of bad debt allowances, represents the maximum amount exposed to credit risk. The Group has a concentration of credit risk in respect of its top 4 clients, which together amount to 85.41% of net trade receivable balance at December 31, 2020 (top 4 clients: 85.10% as of December 31, 2019).

In spite of the policies described above, the Group is forced by court orders to deliver gas to insolvent clients deemed "captive" by insolvency legislation. In respect of these clients, the Group makes estimates of the lifetime expected credit losses and records appropriate impairment losses.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the bad debt allowance already recorded.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the dividend policy, issue new shares or sell assets to reduce debt.

The Group's policy is to only resort to borrowing if investment needs cannot be financed internally.

(d) Fair value estimation

Carrying amount of financial assets and liabilities is assumed to approximate their fair values.

Financial instruments in the balance sheet include trade receivables and other receivables, cash and cash equivalents, other financial assets, short-term loans and borrowings and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts. The carrying amounts represent the Group's maximum exposure to credit risk for existing receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

e) Maturity analysis for financial assets and financial liabilities at amortized cost

| December 31, 2020 | Due in less than a month '000 RON | Due in 1-3 months '000 RON | Due in 3 months to 1 year '000 RON | Due in 1-5 years '000 RON | Due in over 5 years '000 RON | Total '000 RON |
|-------------------|--------------------------------------|-------------------------------|---------------------------------------|------------------------------|---------------------------------|-------------------|
| Trade receivables | 158,907 | 123,643 | 28 | - | - | 282,578 |
| Bank deposits | 137,000 | 376,259 | 412,157 | - | - | 925,416 |
| Treasury bonds | - | 270,000 | 797,505 | - | - | 1,067,505 |
| Total | 295,907 | 769,902 | 1,209,690 | - | - | 2,275,499 |
| Trade payables | (52,811) | (5,458) | (2) | - | - | (58,271) |
| Lease liabilities | (58) | (145) | (564) | (3,365) | (4,480) | (8,612) |
| Total | (52,869) | (5,603) | (566) | (3,365) | (4,480) | (66,883) |
| Net | 243,038 | 764,299 | 1,209,124 | (3,365) | (4,480) | 2,208,616 |

| December 31, 2019 | Due in less than a month '000 RON | Due in 1-3 months '000 RON | Due in 3 months to 1 year '000 RON | Due in 1-5 years '000 RON | Due in over 5 years '000 RON | Total '000 RON |
|-------------------|--------------------------------------|-------------------------------|---------------------------------------|------------------------------|---------------------------------|-------------------|
| Trade receivables | 126,906 | 175,446 | 33 | - | - | 302,385 |
| Bank deposits | 265,000 | 566,254 | 91,000 | - | - | 922,254 |
| Treasury bonds | - | - | 149,560 | - | - | 149,560 |
| Total | 391,906 | 741,700 | 240,593 | - | - | 1,374,199 |
| Trade payables | (73,180) | (4,172) | (5) | - | - | (77,357) |
| Lease liabilities | (52) | (254) | (510) | (2,998) | (5,165) | (8,979) |
| Total | (73,232) | (4,426) | (515) | (2,998) | (5,165) | (86,336) |
| Net | 318,674 | 737,274 | 240,078 | (2,998) | (5,165) | 1,287,863 |

f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Group's management, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and current cash flows and by matching the maturity profiles of financial assets and liabilities.

23. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Sales of goods and services

| | Year ended December 31, 2020 '000 RON | Year ended December 31, 2019 '000 RON |
|---------------------|---|---|
| Romgaz's associates | 10,551 | 14,024 |
| Total | 10,551 | 14,024 |

Transactions with other companies controlled by the Romanian State are not considered transactions with related parties, for financial statements purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

24. INFORMATION REGARDING THE MEMBERS OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

The remuneration of executives and directors

The Group has no contractual obligations on pensions to former executives and directors of the Group.

During the years ended December 31, 2020 and December 31, 2019, no loans and advances were granted to executives and directors of the Group, except for work related travel advances, and they do not owe any amounts to the Group from such advances.

| | <u>Year ended Dec 31, 2020</u> | <u>Year ended Dec 31, 2019</u> |
|--|------------------------------------|------------------------------------|
| | '000 RON | '000 RON |
| Salaries paid to executives (gross) | 17,754 | 18,241 |
| of which, bonuses and variable component (gross) | 1,327 | 786 |
| Remuneration paid to directors (gross) | 2,831 | 2,079 |
| of which, variable component (gross) | 491 | - |
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| | '000 RON | '000 RON |
| Salaries payable to executives | 552 | 385 |
| Salaries payable to directors | 117 | 96 |

In addition to the above, on December 31, 2020 the Group recorded a provision for bonuses for executives and directors of RON 1,299 thousand (December 31, 2019: RON 870 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

25. INVESTMENT IN ASSOCIATES

The Company's investments in associates are accounted using the equity method. The shares are not quoted on the stock exchange. No dividends were received in the years ended December 31, 2020, respectively, December 31, 2019.

The Company's investment in Agri LNG Project Company is not material. The investment is fully impaired.

| Name of associate | Main activity | Place of incorporation and operation | Proportion of ownership interest and voting power held (%) | |
|---------------------------------|------------------------|--------------------------------------|--|-------------------|
| | | | December 31, 2020 | December 31, 2019 |
| SC Depomures SA Tg.Mures | Storage of natural gas | Romania | 40 | 40 |
| SC Agri LNG Project Company SRL | Feasibility projects | Romania | 25 | 25 |

| Name of associate | Cost as of December 31, 2020 | Impairment as of December 31, 2020 | Carrying value as of December 31, 2020 | Cost as of December 31, 2019 | Impairment as of December 31, 2019 | Carrying value as of December 31, 2019 |
|---------------------------------|---------------------------------|---------------------------------------|---|---------------------------------|---------------------------------------|---|
| | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON | '000 RON |
| SC Depomures SA Tg.Mures | 26,102 | - | 26,102 | 24,772 | - | 24,772 |
| SC Agri LNG Project Company SRL | 977 | (977) | - | 977 | (977) | - |
| Total | 27,079 | (977) | 26,102 | 25,749 | (977) | 24,772 |

The accompanying notes form an integrant part of these financial statements.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

Summarized financial information for significant investments in associates (Depomureş)

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| | '000 RON | '000 RON |
| Non-current assets | 72,868 | 77,325 |
| Current assets, out of which: | 11,928 | 8,108 |
| - Cash and cash equivalents | 7,113 | 5,179 |
| Non-current liabilities, out of which: | 12,461 | 15,892 |
| - Long term financial liabilities | 12,461 | 15,892 |
| Current liabilities, out of which: | 4,011 | 4,832 |
| - Short term financial liabilities | 3,435 | 3,436 |

| | <u>Year ended</u> <u>December 31, 2020</u> | <u>Year ended</u> <u>December 31, 2019</u> |
|--------------------------------------|---|---|
| | '000 RON | '000 RON |
| Revenue | 28,994 | 40,348 |
| Interest income | 20 | 17 |
| Amortization and depreciation | (3,959) | (3,941) |
| Interest expense | (723) | (859) |
| Income tax expense | (133) | (830) |
| Net profit from continued operations | 3,325 | 3,684 |

Reconciliation of net book value for the significant investments in associates

| | <u>2020</u> | <u>2019</u> |
|---|---------------|---------------|
| | '000 RON | '000 RON |
| January 1 | 24,772 | 23,298 |
| Interest in the total comprehensive income of significant investments in associates | 1,330 | 1,474 |
| December 31 | 26,102 | 24,772 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
26. OTHER FINANCIAL INVESTMENTS

Other financial investments are measured at fair value through profit or loss.

Except for the investment in Patria Bank, which is a level 1 financial investment, all other investments are included in level 3 category, according to IFRS 13.

| Company | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held (%) | |
|----------------------------------|--|---|---|---|
| | | | December 31, 2020 | December 31, 2019 |
| Electrocentrale București S.A. | Electricity and thermal power producer | Romania | 2.49 | 2.49 |
| Patria Bank S.A. | Other activities – financial intermediations | Romania | 0.03 | 0.03 |
| Mi Petrogas Services S.A. | Services related to oil and natural gas extraction, excluding prospections | Romania | 10 | 10 |
| GHCL Upsom | Manufacture of other chemical, anorganic base products | Romania | 4.21 | 4.21 |
| Lukoil association | Petroleum exploration operations | Romania | 12.2 | 12.2 |
| Company | | | Fair value as of December 31, 2020 | Fair value as of December 31, 2019 |
| | | | '000 RON | '000 RON |
| Electrocentrale București S.A.*) | | | - | - |
| Patria Bank S.A.**) | | | 91 | 101 |
| Mi Petrogas Services S.A. | | | 60 | 60 |
| GHCL Upsom | | | - | - |
| Lukoil association | | | 5,227 | 5,227 |
| Total | | | 5,378 | 5,388 |

*) The fair value of the investment in Electrocentrale Bucuresti at December 31, 2020 was reduced to zero, due to the difficulties encountered in implementing the restructuring plan in the insolvency procedure. The investment in Electrocentrale Bucuresti is not quoted.

**) Patria Bank's shares being quoted, the fair value at the end of the period is determined by taking into account the closing quotation of the share. The variation between the amount at December 31, 2020 and the amount at December 31, 2019 was recorded in the result of the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
27. SEGMENT INFORMATION
a) Segment assets and liabilities

| December 31, 2020 | <u>Upstream</u> <u>'000 RON</u> | <u>Storage</u> <u>'000 RON</u> | <u>Electricity</u> <u>'000 RON</u> | <u>Other</u> <u>'000 RON</u> | <u>Consolidation adjustments</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
|-------------------------------|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|---|---------------------------------|
| Property, plant and equipment | 3,113,584 | 797,012 | 1,182,021 | 592,102 | (71,597) | 5,613,122 |
| Other intangible assets | 2,680 | 743 | - | 11,350 | 1 | 14,774 |
| Investments in associates | - | - | - | 26,102 | - | 26,102 |
| Other financial investments | - | - | - | 5,378 | - | 5,378 |
| Deferred tax asset | - | 2,616 | - | 272,712 | - | 275,328 |
| Other financial assets | - | 20,016 | - | 1,975,507 | - | 1,995,523 |
| Inventories | 212,453 | 14,619 | 2,193 | 15,298 | - | 244,563 |
| Other assets | 14,893 | 11,998 | 2,329 | 38,803 | - | 68,023 |
| Trade and other receivables | 556,565 | 41,867 | 6,994 | 10,714 | (23,265) | 592,875 |
| Contract costs | 651 | - | - | - | - | 651 |
| Cash and cash equivalents | 33,177 | 24,056 | 371 | 359,309 | - | 416,913 |
| Right of use asset | - | 474 | - | 7,442 | (1) | 7,915 |
| Net investments in leasing | - | - | - | 495 | (495) | - |
| Total assets | <u>3,934,003</u> | <u>913,401</u> | <u>1,193,908</u> | <u>3,315,212</u> | <u>(95,357)</u> | <u>9,261,167</u> |
| Retirement benefit obligation | - | 9,257 | - | 119,433 | - | 128,690 |
| Contract liabilities | 81,314 | - | - | 4 | - | 81,318 |
| Provisions | 531,234 | 54,604 | 83,740 | 25,768 | - | 695,346 |
| Trade payables | 49,045 | 21,336 | 8,670 | 33,346 | (23,265) | 89,132 |
| Current tax liabilities | - | 1,941 | - | 57,890 | - | 59,831 |
| Deferred revenue | 294 | - | 136,021 | 10,892 | - | 147,207 |
| Lease liability | - | 507 | - | 8,600 | (495) | 8,612 |
| Other liabilities | 147,207 | 11,631 | 6,104 | 98,839 | - | 263,781 |
| Total liabilities | <u>809,094</u> | <u>99,276</u> | <u>234,535</u> | <u>354,772</u> | <u>(23,760)</u> | <u>1,473,917</u> |

The accompanying notes form an integrant part of these financial statements
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

| December 31, 2019 | <u>Upstream</u> <u>'000 RON</u> | <u>Storage</u> <u>'000 RON</u> | <u>Electricity</u> <u>'000 RON</u> | <u>Other</u> <u>'000 RON</u> | <u>Consolidation</u> <u>adjustments</u> | <u>Total</u> <u>'000 RON</u> |
|-------------------------------|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|--|---------------------------------|
| Property, plant and equipment | 3,153,636 | 974,927 | 1,086,221 | 328,393 | - | 5,543,177 |
| Other intangible assets | 2,447 | 1,034 | - | 5,683 | - | 9,164 |
| Investments in associates | - | - | - | 24,772 | - | 24,772 |
| Other financial investments | - | - | - | 5,388 | - | 5,388 |
| Deferred tax asset | - | 1,110 | - | 229,837 | - | 230,947 |
| Other financial assets | - | 5,933 | - | 1,069,291 | - | 1,075,224 |
| Inventories | 279,069 | 14,871 | 2,339 | 14,734 | - | 311,013 |
| Other assets | 6,594 | 1,679 | 2,423 | 31,789 | - | 42,485 |
| Trade and other receivables | 604,394 | 56,052 | 2,688 | 713 | (25,689) | 638,158 |
| Contract costs | 312 | - | - | - | - | 312 |
| Right of use asset | - | 554 | - | 8,039 | (3) | 8,590 |
| Cash and cash equivalents | 46,592 | 40,837 | 2,958 | 273,556 | - | 363,943 |
| Total assets | 4,093,044 | 1,096,997 | 1,096,629 | 1,992,195 | (25,692) | 8,253,173 |
| Retirement benefit obligation | - | 8,718 | - | 106,158 | - | 114,876 |
| Contract liabilities | 42,703 | - | - | 2 | - | 42,705 |
| Provisions | 364,514 | 42,682 | 25,634 | 16,264 | - | 449,094 |
| Trade payables | 91,144 | 25,272 | 3,669 | 15,514 | (25,689) | 109,910 |
| Current tax liabilities | - | 4,907 | - | 59,435 | - | 64,342 |
| Deferred revenue | 257 | - | 20,994 | 3,722 | - | 24,973 |
| Lease liability | - | 567 | - | 8,958 | (546) | 8,979 |
| Other liabilities | 164,308 | 13,432 | 4,268 | 82,233 | - | 264,241 |
| Total liabilities | 662,926 | 95,578 | 54,565 | 292,286 | (26,235) | 1,079,120 |

The accompanying notes form an integral part of these financial statements
This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020
b) Segment revenues, results and other segment information

| Year ended December 31, 2020 | <u>Upstream</u> <u>'000 RON</u> | <u>Storage</u> <u>'000 RON</u> | <u>Electricity</u> <u>'000 RON</u> | <u>Other</u> <u>'000 RON</u> | <u>Adjustment and eliminations</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|---|---------------------------------|
| Revenue | 3,690,235 | 333,939 | 261,112 | 376,937 | (587,330) | 4,074,893 |
| Less: revenue between segments | <u>(75,994)</u> | <u>(67,757)</u> | <u>(72,203)</u> | <u>(371,376)</u> | <u>587,330</u> | <u>-</u> |
| Third party revenue | 3,614,241 | 266,182 | 188,909 | 5,561 | - | 4,074,893 |
| Interest income | 107 | 1,018 | 152 | 46,602 | (34) | 47,845 |
| Interest expense | (3) | - | - | - | - | (3) |
| Share of profit of associates | - | - | - | 1,330 | - | 1,330 |
| Depreciation and amortization *) | (340,435) | (5,804) | (4,468) | (26,095) | (71,569) | (448,371) |
| Impairment losses recognized during the period in profit or loss | (265,458) | - | (17,482) | (139) | - | (283,079) |
| Impairment losses reversed during the period in profit or loss | <u>58,480</u> | <u>-</u> | <u>189</u> | <u>718</u> | <u>-</u> | <u>59,387</u> |
| Segment result before tax profit/(loss) | <u>1,375,809</u> | <u>67,432</u> | <u>(34,639)</u> | <u>110,595</u> | <u>(92,689)</u> | <u>1,426,508</u> |

*) The amount of RON 71,569 thousand representing adjustments of the depreciation and amortization expense stands for depreciation of assets used in the storage segment. This depreciation expense is not recorded in the accounting records of any of the Group's companies, being a consolidation adjustment.

| Year ended December 31, 2019 | <u>Upstream</u> <u>'000 RON</u> | <u>Storage</u> <u>'000 RON</u> | <u>Electricity</u> <u>'000 RON</u> | <u>Other</u> <u>'000 RON</u> | <u>Adjustment and eliminations</u> <u>'000 RON</u> | <u>Total</u> <u>'000 RON</u> |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------------------|---|---------------------------------|
| Revenue | 4,709,795 | 454,370 | 237,759 | 288,883 | (610,325) | 5,080,482 |
| Less: revenue between segments | <u>(65,048)</u> | <u>(171,865)</u> | <u>(92,281)</u> | <u>(281,131)</u> | <u>610,325</u> | <u>-</u> |
| Third party revenue | 4,644,747 | 282,505 | 145,478 | 7,752 | - | 5,080,482 |
| Interest income | 116 | 464 | 12 | 37,548 | (16) | 38,124 |
| Share of profit of associates | - | - | - | 1,474 | - | 1,474 |
| Depreciation and amortization | (405,163) | (96,016) | (2,375) | (17,403) | - | (520,957) |
| Impairment losses recognized during the period in profit or loss | (604,257) | (389,069) | (6,289) | (813) | - | (1,000,428) |
| Impairment losses reversed during the period in profit or loss | <u>67,650</u> | <u>7</u> | <u>1,504</u> | <u>458</u> | <u>-</u> | <u>69,619</u> |
| Segment result before tax profit/(loss) | <u>1,514,113</u> | <u>(325,703)</u> | <u>12,494</u> | <u>74,279</u> | <u>(3)</u> | <u>1,275,180</u> |

The accompanying notes form an integral part of these financial statements
This is a free translation of the original Romanian version.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

In the year ended December 31, 2020, the Group's three largest clients each individually represents more than 10% of revenue, sales to these clients being of RON 808,818 thousand, RON 863,538 thousand, RON 694,827 thousand, (in the year ended December 31, 2019 the Group's four largest customers represented individually, over 10% of revenue, sales to these clients being of RON 1,107,526 thousand, RON 1,050,066 thousand, RON 561,811 thousand, respectively RON 531,026 thousand), together totaling 58.09% of total revenue (year ended December 31, 2019: 63.9%). Of the total revenue generated by those three clients, 6.08% are shown in the "Storage" segment and 93.92% in the "Upstream" segment (year ended December 31, 2019: 5.37% in the "Storage" segment, 94.63% in the "Upstream" segment).

28. CASH AND CASH EQUIVALENTS

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| | '000 RON | '000 RON |
| Current bank accounts in RON *) | 95,066 | 95,454 |
| Current bank accounts in foreign currency | 174 | 602 |
| Petty cash | 56 | 19 |
| Term deposits in RON | 319,203 | 180,000 |
| Restricted cash **) | 2,412 | 87,867 |
| Amounts under settlement | <u>2</u> | <u>1</u> |
| Total | <u>416,913</u> | <u>363,943</u> |

*) Current bank accounts include overnight deposits.

***) At December 31, 2019 restricted cash included bank accounts used strictly for VAT transactions, as Romgaz opted in to the application of the split-VAT system. In 2020, the split-VAT system was terminated. At December 31, 2020 restricted cash refers to bank accounts used only for dividend payments to shareholders, according to stock market regulations (December 31, 2020: RON 2,412 thousand; December 31, 2019: RON 2,652 thousand).

29. OTHER FINANCIAL ASSETS

Other financial assets represent mainly treasury bonds and deposits with a maturity of over 3 months, from acquisition date.

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| | '000 RON | '000 RON |
| Treasury bonds in RON | 1,045,593 | 144,923 |
| Bank deposits in RON | 925,416 | 922,254 |
| Accrued interest receivable on bank deposits | 2,602 | 3,410 |
| Accrued interest on bonds | <u>21,912</u> | <u>4,637</u> |
| Total other financial assets | <u>1,995,523</u> | <u>1,075,224</u> |

30. COMMITMENTS UNDERTAKEN

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--------------------------------------|--------------------------|--------------------------|
| | '000 RON | '000 RON |
| Endorsements and collaterals granted | <u>224,063</u> | <u>52,729</u> |
| Total | <u>224,063</u> | <u>52,729</u> |

In 2020, Romgaz signed an addendum to the credit agreement with BCR SA representing a facility for issuing letters of guarantee, and opening letters of credit for a maximum amount of USD 100,000 thousand. On December 31, 2020 are still available for use USD 44,204 thousand.

As of December 31, 2020, the Group's contractual commitments for the acquisition of non-current assets are of RON 419,104 thousand (December 31, 2019: RON 433,200 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

31. COMMITMENTS RECEIVED

| | December 31, 2020 | December 31, 2019 |
|---------------------------------------|-------------------|-------------------|
| | '000 RON | '000 RON |
| Endorsements and collaterals received | 1,524,480 | 1,498,056 |
| Total | 1,524,480 | 1,498,056 |

Endorsements and collateral received represent letters of guarantee and other performance guarantees received from the Group's clients.

32. CONTINGENCIES

(a) *Litigations*

The Company is subject to several legal actions arisen in the normal course of business. The management of the Company considers that they will have no material adverse effect on the results and the financial position of the Company.

On December 28, 2011, 27 former and current employees were notified by DIICOT regarding an investigation related to sale contracts signed with one of the Company's clients for allegedly unauthorized discounts granted to this client during the period 2005-2010. DIICOT mentioned that this may have resulted in a loss of USD 92,000 thousand for the Company. On that sum, an additional burden to the state budget consists of income tax in amount of USD 15,000 thousand and VAT in amount of USD 19,000 thousand. The internal analysis carried out by the Company's specialized departments concluded that the agreement was in compliance with the legal provisions and all discounts were granted based on Orders issued by the Ministry of Economy and Finance and decisions of the General Shareholders' Board and Board of Directors. The management of the Company believes the investigation will not have a negative impact on the financial statements, to justify the registration of an adjustment. The Company is fully cooperating with DIICOT in providing all information necessary. On March 18 2014, Romgaz received an address from DIICOT, by which the investigators ordered an accounting expertise, indicating the objectives of the expertise.

Romgaz was notified that, as injured party, it may submit comments relating to objectives of the expertise (additions/changes), and may appoint an additional expert to participate in the expertise.

Thus, Romgaz proceeded to identify and appoint an expert with accounting and financial expertise that can participate to the expertise. After the report was completed, the parties could submit objections by November 2, 2015.

On March 16, 2016, DIICOT – Central Structure informed the persons involved in the cause about the start of legal actions against them. At the request of investigators, the Company announced that in case of a prejudice being established during the investigation, the Company will join the case as civil party.

In November 2016, DIICOT informed the Company the prejudice established in amount of RON 282,630 thousand. Following this request, Romgaz announced that will join the case as a civil party for the amount of RON 282,630 thousand to recover this amount from the respective client and any other person that may be found guilty for causing the prejudice.

In June 2017, DIICOT issued a press release announcing the referral to court of several persons involved in the case. In January 2018, the High Court of Cassation and Justice ruled that the indictment prepared by DIICOT was not legal; the ruling is not final.

At the date of endorsement of these financial statements the case in which Romgaz is a civil party a ruled by the High Court of Cassation and Justice. By the date the financial statements were endorsed for issue, no court decision was issued.

(b) *Taxation*

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Romania, tax periods remain open for fiscal verification for 5 years. The Group's management considers that the tax liabilities included in these financial statements are fairly stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**(c) Environmental contingencies**

Environmental regulations are developing in Romania and the Group has not recorded any liability at December 31, 2020 for any anticipated costs, including legal and consulting fees, impact studies, the design and implementation of remediation plans related to environmental matters, except the amount of RON 560.958 thousand (December 31, 2019: RON 384,236 thousand), representing the decommissioning liability.

(d) Controls by The Romanian Court of Accounts

In 2016, the Company came under scrutiny from the Romanian Court of Accounts.

One of the Romanian Court of Accounts' conclusions was that during 2013-2015 Romgaz delivered gas on the regulated market over the quantities it was legally allowed to, according to the existing legislation. The price on the regulated market being lower than the one on the free market, The Romanian Court of Accounts issued Decision number 26/01.06.2016 and ordered Romgaz to determine and to recover the prejudice as a price difference on gas quantities delivered on the regulated market over its legal obligation, having January 2017 as due date for implementation. The alleged prejudice estimated by the Court of Accounts is over RON 160 million. Romgaz appealed the decision, but the Court of Accounts dismissed the appeal. Subsequently, the Company started legal proceedings against the Court of Accounts' decision no. 26/01.06.2016 and, also, contracted legal services for the annulment of the Court of Accounts' decision and to carry out the measures ordered by the Court of Accounts' decision. The legal case against the Court of Accounts was resolved by the Court of Appeal Alba Iulia, maintaining the findings and measures of Decision no. 26/2016 issued by the Court of Accounts, except for one measure.

The Company's management respects the decision taken by the Court of Appeal Alba Iulia and started legal actions to implement the measures established by the Court of Accounts. The deadline for implementing these measures was extended to June 30, 2021.

33. JOINT ARRANGEMENTS

In January 2002, Romgaz signed a petroleum agreement with Amromco for rehabilitation operations in order to achieve additional production in 11 blocks, namely: Bibești, Strâmba, Finta, Fierbinți-Târg, Frasin-Brazi, Zătreni, Boldu, Roșioru, Gura-Șuții, Balta-Albă and Vlădeni. For the base production, Romgaz holds a share of 100% and for the additional production, Romgaz owns a share of 50% and Amromco Energy SRL - 50%. As the agreement was signed to execute rehabilitation operations to obtain additional production, the mandatory work program is in accordance with the studies approved by ANRM. Accordingly, the annual work program, which includes both works provided in the studies and other works necessary and proposed by the partners, is approved annually by the Board of the joint arrangement before the start of each year. The duration of the joint arrangement is in line with the time frame of each individual concession agreement of the 11 perimeters stated above, which differs for each block.

34. AUDITOR'S FEES

The fee charged by the Group's statutory auditor, S.C. Ernst & Young Assurance Services S.R.L. for the statutory audit of the 2020 annual financial statements is RON 370 thousand.

The fees charged for other assurance services in 2020 are RON 170 thousand.

35. EVENTS AFTER THE BALANCE SHEET DATE

No events after the balance sheet date were identified.

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were endorsed by the Board of Directors on March 23, 2021.

Aristotel Marius Jude
Chief Executive Officer

Răzvan Popescu
Chief Financial Officer