

REPORT AND ISSUER IDENTIFICATION DATA

Quarterly report at 31.03.2017

Date of report: 15 May 2017

Company name: SNTGN TRANSGAZ SA

Headquarters: Medias, 1 Constantin I. Motas Square, code: 551130

Telephone/fax: 0269-803333/0269-839029

Tax identification code: RO13068733

Trade Register number: J32/301/2000

Subscribed and paid-up capital: RON 117,738,440

Regulated market on which issued securities are traded: Bucharest Stock Exchange

QUARTERLY REPORT ON THE ECONOMIC AND FINANCIAL ACTIVITY OF TRANSGAZ as of 31.03.2017 (1 January-31 March 2017)

Overview

SNTGN Transgaz SA is a public limited liability company operated according to the Romanian laws and to the Articles of Incorporation.

According to Government Resolution 334/2000 and to the Articles of Incorporation, Transgaz aims at giving effect to the national strategic goals set for gas transmission, international transit, dispatching, research and design, by performing trading acts according to its object of activity, in line with the Romanian laws in force.

The revenue obtained by Transgaz results from the following activities:

☞ **Gas transmission**, which, due to its monopolistic feature, is regulated by the National Energy Regulatory Authority.

The revenue obtained from the transmission activity is regulated under **ANRE Order 32/21 May 2014** on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariff Setting Methodology.

The above-mentioned methodology establishes the total regulated revenue resulting from the transmission activity, based on which the regulated gas transmission tariffs are set, considering the capacities booked and the amounts of gas transmitted. The following items are included into the total regulated revenue:

- *operating expense* allowed by the authority (materials, energy and water, technological consumption, salaries, maintenance and repair, and others);
- *regulated depreciation* of the assets related to the transmission activity;
- *pass-through costs*, which are beyond the control of the operator (national transmission system royalty, transmission licence fee, wage fund contributions, other taxes and duties);
- *regulated profit* set on the basis of the regulatory asset value and on the regulatory rate of return.

The substantiation of the regulated revenue is made by regulatory periods of 5 years (the current period is 1 July 2012 – 30 September 2017), and the regulated revenue is adjusted annually within the regulatory period, based on the annual inflation rate minus the growth factor of economic efficiency, the

operational fixed assets value (through the related regulated depreciation and regulated profit) and on obtaining or non-obtaining the approved regulated revenue for the previous gas year, as follows:

- if during the previous year the regulated revenue obtained is higher than the approved regulated revenue, the difference is subtracted from the regulated revenue of the following year;
- if during the previous year the regulated revenue obtained is lower than the approved regulated revenue, the difference is added to the regulated revenue of the following year.

Following the regulation of the transmission activity according to the methodology above, the revenue from the transmission activity covers the costs generated by it and allows the possibility to obtain a regulated profit limited to 7,72% of the value of the capital invested in this activity, namely 9,12% for the investment commissioned after 1 July 2012, according to ANRE Order 23/11.06.2012.

👉 **international gas transmission activity**, which is a gas transmission activity performed through dedicated transmission pipelines (that are not connected to the national transmission system). As of 1 October 2016 for the Isaccea 1 and Negru Voda 1 interconnection points the provisions of ANRE Order No. 34/19 July 2016 were applied, by which the Isaccea - Negru Voda gas transmission pipelines capacity booking and tariff setting methodology was approved. According to this methodology the total revenue and the tariffs for gas transmission through the Isaccea 1 - Negru Voda 1 pipeline were substantiated, being approved by ANRE Order 43/24 August 2016, for the period 1 October 2016 – 30 September 2017. For the Isaccea 2 and Isaccea 3 - Negru Voda 2 and Negru Voda 3 gas transmission pipelines *the related tariffs are set on a commercial basis through negotiations between the parties.*

👉 **balancing activity** performed as of 1 December 2015 based on ANRE Order 160/2015 establishing the obligations of the Company on the balancing of the national transmission system, a financially neutral activity, any profit or loss from this activity following to be distributed to the customers for which the domestic transmission services are provided.

The total revenue from other activities with a small contribution to the turnover, such as asset sales, renting and royalty, interest revenue and foreign exchange gains, the operating costs and the financial costs related to the debt for the regulated value remaining unamortised of the regulated asset base at the end of the Concession Agreement complete the total revenue of the Company.

This report analyses the indicators obtained by SNTGN Transgaz SA Mediaș on 31 March 2017, compared to the corresponding period of the previous year and to the revenue and expense budget approved by OGMS Resolution 1/27.04.2017.

* thousand RON *

No.	Name	Obtained in Q I 2016	Obtained in Q I 2017	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	464.846	638.662	37%
2.	Revenue from the balancing activity	17.523	46.982	168%
3.	Revenue from the construction activity according to IFRIC12	7.300	7.421	2%
4.	Financial revenue	6.982	11.075	59%
5.	Operating costs before the construction activity, according to IFRIC12	261.275	266.633	2%
6.	Costs from the balancing activity	15.573	43.138	177%
7.	Cost of assets built according to IFRIC12	7.300	7.421	2%
8.	Financial costs	2.135	4.152	94%

No.	Name	Obtained in Q I 2016	Obtained in Q I 2017	Increase
9.	GROSS PROFIT , of which:	210.367	382.795	82%
	• from operation	205.520	375.873	83%
	• from the financial activity	4.847	6.922	43%
10.	Income tax	37.871	62.662	65%
11.	NET PROFIT	172.496	320.133	86%

Operating revenue before the balancing and construction activity, according to IFRIC12 increased by 37% as compared to the corresponding period of Q I 2016, which is higher by RON 173.815 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 134.034 thousand** due to:
 - the increasing of the capacity booked by 2.534.904 MWh, mainly due to the invoicing of the booking capacity surplus for Q I 2017, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
- volumetric component revenue higher by **RON 26.818 thousand** due to:
 - the gas transmitted capacities higher by 7.536.391 MWh/676.812 thousand cm (▲ 19%), as compared to Q I 2016, detailed by categories of consumers as follows:

		Q I 2016	Q I 2017	Differences
Quantity transmitted for direct consumers	MWh	30.931.744	34.770.404	3.838.660
	thousand m ³	2.890.176	3.228.289	338.113
Quantity transmitted for distribution	MWh	8.856.355	12.554.086	3.697.731
	thousand m ³	835.324	1.174.023	338.699
Total	MWh	39.788.099	47.324.490	7.536.391
	thousand m ³	3.725.500	4.402.312	676.812

- international gas transmission revenue higher by **RON 11.102 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue higher by **RON 1.861 thousand**.

Revenue from the balancing activity increased by **RON 29.460 thousand** based on the following factors:

- quantity higher by 385.112 MWh with a positive influence of RON 38.765 thousand;
- trading price lower by RON 16,64/MWh, with a negative influence of RON 9.306 thousand.

Revenue from the construction activity higher by **RON 121 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts.

Financial revenue has a positive influence of **RON 4.092 thousand** based on the changes in the foreign exchange rates.

Operating costs before the balancing and construction activity according to IFRIC12 increased by 2% as compared to Quarter I 2016, which is higher by RON 5.357 thousand.

The company made savings of RON 18.289 thousand, mainly in relation to the following cost elements:

- ☞ transmission system technological gas consumption and loss decreased by **RON 7.473 thousand** due to the following:
 - amount of gas for technological consumption lower by 85.306 MWh/5.855 thousand m³ (▼ 20%), with a positive influence of RON 6.088 thousand;
 - average purchase price in Quarter I 2017 lower as compared to Quarter I 2016 by RON 3,98 /MWh, with a positive influence of RON 1.385 thousand;
- ☞ other operating costs: RON 11.362 thousand.

An expense surplus of RON 23.646 thousand, was recorded mainly in relation to the following cost elements:

- royalty costs: RON 17.195 thousand;
- monopoly tax costs: RON 3.527 thousand;
- depreciation costs: RON 1.975 thousand;
- cost of personnel: RON 159 thousand.

The financial cost is higher by RON 2.017 thousand based on the foreign exchange loss.

As compared to Quarter I 2016 the gross profit obtained in Quarter I 2017 increased by 82%, which is higher by RON 172.428 thousand.

1.2 The analysis of the economic and financial indicators obtained at 31 March 2017 compared to the revenue and expense budget approved by OGMS Resolution 1/27.04.2017

The main economic and financial indicators obtained in Quarter I 2017 as compared to the REB indicators are as follows:

thousand RON

No.	Name	REB Q I 2017	Obtained in Q I 2017	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	518.229	638.662	23%
2.	Revenue from the balancing activity	28.333	46.982	66%
3.	Revenue from the construction activity, according to IFRIC12	26.469	7.421	-72%
4.	Financial revenue	8.307	11.075	33%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	306.701	266.633	-13%
6.	Costs from the balancing activity	28.333	43.138	52%
7.	Cost of assets built according to IFRIC12	26.469	7.421	-72%
8.	Financial costs	2.297	4.152	81%
9.	GROSS PROFIT , of which:	217.538	382.795	76%
	• from operation	211.528	375.873	78%
	• from the financial activity	6.010	6.922	15%
10.	Income tax	34.358	62.662	82%
11.	NET PROFIT	183.180	320.133	75%

Operating revenue before the balancing and construction activity according to IFRIC12 increased by **RON 120.433 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **RON 118.085 thousand** due to:
 - Capacities booked higher by 10.647.794 MWh, with a positive influence of **RON 83.678 thousand**, mainly due to the invoicing of the booking capacity surplus for Q I 2017, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
 - the gas transmitted capacities higher by 8.838.202 MWh/788.576 thousand cm (▲ 23%), with a positive influence of **RON 34.408 thousand**;
- Revenue from international gas transmission services increased by **RON 7.183 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- Revenue from the balancing activity increased by **RON 18.649 thousand** based on the following:
 - Quantity higher by 237.559 MWh, with a positive influence of RON 20.927 thousand;
 - Trading price lower by RON 4,07/MWh, with a negative influence of RON 2.278 thousand.
- Other operating revenue decreased by **RON 4.836 thousand** as compared to the REB.

Financial revenue increased by **RON 2.768 thousand** as compared to the REB, based on the foreign currency exchange gain.

The operating costs before the balancing and construction activity according to IFRIC12 decreased by **13%** as compared to the plan approved, which is lower by **RON 40.068 thousand** as compared to the REB.

Savings amounting to RON 55.502 thousand were recorded mainly the following cost elements:

- 👉 transmission system technological gas consumption and loss amounting to **RON 7.212 thousand**, due to the following:
 - average purchase price lower by RON 3,88/MWh as compared to the REB, with a positive influence of RON 1.352 thousand;
 - amount of gas for technological consumption lower by 82.220 MWh/5.855 thousand cm (▼ 19%) than planned, with a positive influence of RON 5.860 thousand;
- 👉 costs of auxiliary materials and other materials: RON 17.333 thousand;
- 👉 maintenance an transmission: RON 15.106 thousand;
- 👉 costs of personnel: RON 9.821 thousand;
- 👉 other operating costs: RON 5.589 thousand;
- 👉 depreciation: RON 441 thousand.

An expense surplus of RON 15.435 thousand was recorded mainly in relation to the following cost elements:

- NTS concession royalty: RON 12.527 thousand;
- taxes and other fees: RON 2.594 thousand;
- cost of provision for risks and charges: RON 313 thousand.

The financial cost is higher by **RON 1.855 thousand** as compared to the REB, based on the foreign currency exchange loss.

The gross profit increased by **76%** as compared to the plan, which is higher by **RON 165.257 thousand** as compared to the REB, and the net profit increased by **75%** as compared to the plan, which is higher by **RON 136.953 thousand** as compared to the REB.

2. Investment programme achievement status

The capital expenditure achieved at 31 March 2017 amounted to **RON 13.084 thousand**, of which RON 98 thousand are NTS connection installations under the NTS access rules approved by GR1043/2004.

The capital expenditure financing sources:

	<i>*RON thousand*</i>
	Obtained
▪ Net profit allocated for own financing	155.223
▪ Depreciation	40.505
▪ Non-monetary expenses	3.124
▪ Previous year surplus	885.038
TOTAL	1.083.890

Investments amounting to RON 7.718 thousand were commissioned within the period analysed.

3. Receivables and arrears

On 31 March 2017 the balance of long-term receivables increased by RON 7.712 thousand as compared to 31 December 2016, based on the receivables calculated according to Law 127 of 5 October 2014, establishing that upon termination of the concession contract, irrespective of the reason, the investment made by the transmission system operator shall be transferred to the national transmission system owner or to another licensor, subject to the payment of a compensation equal with the regulated value which remains undepreciated, as set by ANRE. Starting with 2014 Transgaz registered receivables related to the regulated value remaining unamortised and a deferred revenue. The deferred revenue is registered in the revenue and expense budget for the remaining duration of the concession contract. The RON 7.712 thousand increase as compared to 31 December 2016 is determined mainly by discounting the receivables with the changes registered in the regulated asset base.

On 31 March 2017 the arrears amounted to RON 350.292 thousand, being higher by RON 129.933 thousand as compared to the same period of the previous year (RON 220.359 thousand).

On 31 March 2017 Transgaz has no outstanding payments.

4. Debts to the state budget

In Quarter I 2017 the amount of **RON 222.199 thousand** was paid up to the state budget, out of which:

- VAT: RON 107.648 thousand;
- Oil royalty: RON 54.628 thousand;
- Income tax: RON 34.085 thousand;
- Natural monopoly tax: RON 15.497 thousand;
- Tax on salary: RON 10.023 thousand.

The amount of RON 33.385 thousand was also paid up to local budgets, special funds and social insurance budgets.

The syntheses of the Statement of financial position and of the Statement of comprehensive income, as well as the main economic and financial indicators of the reporting period are presented in Annexes 1-3.

The financial statements for the period 1 January – 31 March 2017 are not audited and were prepared according to the IFRS-EU.

DIRECTOR - GENERAL

Petru Ion Văduva

Chief Financial Officer

Marius Lupean

Annex no.1**The synthesis of the Statement of financial position as of 31.03.2017*****RON***

No.	Name	31.12.2016	31.03.2017
1.	Assets		
	Non-current assets	3.797.953.860	3.765.141.244
	Current assets	1.556.496.136	1.969.572.166
	Total	5.354.449.996	5.734.713.410
2.	Equity and liabilities		
	Equity	3.837.701.435	4.157.834.246
	Non-current liabilities	1.211.416.178	1.210.829.241
	Current liabilities	305.332.383	366.049.923
	Total	5.354.449.996	5.734.713.410

Annex no. 2**The synthesis of the Statement of comprehensive income for the
01.01.2017 - 31.03.2017 reporting period*****RON***

No.	Name	31.03.2016	31.03.2017
	Operating revenue before the construction and balancing activity, according to IFRIC12, of which:	464.846.142	638.661.518
	- revenue from the domestic transmission activity	371.374.491	532.226.455
	- revenue from the international transmission activity	80.548.213	91.650.179
	Operating cost before the construction activity, according to IFRIC12, and balancing	261.275.447	266.632.791
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	203.570.695	372.028.727
	Revenue from the balancing activity	17.522.541	46.982.058
	Cost from the balancing activity	15.573.348	43.138.060
	Revenue from the construction activity according to IFRIC12	7.300.188	7.421.425
	Cost of assets built, according to IFRIC12	7.300.188	7.421.425
2.	Operating result (profit)	205.519.888	375.872.725
	Financial revenue	6.982.120	11.074.534
	Financial cost	2.134.877	4.152.071
3.	Financial result	4.847.243	6.922.463
4.	Gross result (profit)	210.367.131	382.795.188
5.	Income tax	37.871.034	62.662.377
6.	Net result (profit)	172.496.097	320.132.811

Annex no.3**The main economic and financial indicators for
the 01.01.2017 - 31.03.2017 reporting period**

No.	Name	31.03.2017	Result
1.	Current liquidity ratio	Current assets / Current liabilities	5,38
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	0
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	0
3.	Days sales outstanding	Average balance clients x 90 / Turnover	102,45
4.	Non-current assets turnover	Turnover/ Non-current assets	0,18