

REPORT AND ISSUER IDENTIFICATION DATA

Quarterly report according to the provisions of art. 227 of Law no. 297/2004

Date of report: 15 May 2018

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: LEI 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 31.03.2018 (1 January-31 March 2018)

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 2019), 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 73/2 August 2017, for the period 1 October 2017 – 30 September 2018. 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 Medias on 31 March 2018, compared to the corresponding period of the previous year and to the revenue and expense budget approved by OGMS Resolution 2/06.03.2018.

* thousand LEI *

No.	Name	Obtained in Q I 2017	Obtained in Q I 2018	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	638.662	535.496	-16%
2.	Revenue from the balancing activity	46.982	72.328	54%
3.	Revenue from the construction activity according to IFRIC12	7.421	16.354	120%
4.	Financial revenue	11.075	8.129	-27%
5.	Operating costs before the construction activity, according to IFRIC12	266.633	258.095	-3%
6.	Costs from the balancing activity	43.138	72.328	68%
7.	Cost of assets built according to IFRIC12	7.421	16.354	120%
8.	Financial costs	4.152	2.875	-31%
9.	GROSS PROFIT , of which:	382.795	282.655	-26%
	• from operation	375.873	277.401	-26%
	• from the financial activity	6.922	5.254	-24%
10.	Income tax	62.662	46.050	-27%
11.	NET PROFIT	320.133	236.605	-26%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 16% as compared to the corresponding period of Q I 2017, which is lower by LEI 103.166 thousand.

The revenue was influenced mainly by the following factors:

- commodity component revenue lower by LEI 54.717 thousand due to:
 - the commodity transmission tariff lower by Lei 1,12 /MWh, with a negative influence of LEI 51.879 thousand;
 - the gas transmitted capacities lower by 586.735 MWh/51.306 thousand cm (▼ 1%), as compared to Q I 2017, with a negative influence of LEI 2.839 thousand, detailed by categories of consumers as follows:

		3 months 2017	3 months 2018	Differences
Quantity transmitted for direct consumers	MWh	12.554.087	11.554.374	-999.713
	thousand m ³	1.174.023	1.080.725	-93.298
Quantity transmitted for distribution	MWh	34.770.404	35.183.382	412.978
	thousand m ³	3.228.289	3.270.281	41.992
Total	MWh	47.324.490	46.737.756	-586.734
	thousand m ³	4.402.312	4.351.006	-51.306

*) transmitted quantity for which transmission services are invoiced

- revenue from capacity booking lower by LEI 38.846 thousand due to:
 - booked capacities lower by 4.236.635 MWh, with a negative influence of LEI 12.536 thousand;
 - capacity booking tariff lower by LEI 0,23 /MWh, with a negative influence of LEI 26.310 thousand;

- international gas transmission revenue lower by **LEI 11.334 thousand** due to the application of ANRE Order 34/19 July 2016;
- other operating revenue higher by **LEI 1.732 thousand**.

Revenue from the balancing activity increased by **LEI 25.346 thousand** based on the following factors:

- quantity higher by 164.420 MWh with a positive influence of LEI 13.814 thousand;
- trading price higher by LEI 15,94 /MWh, with a positive influence of LEI 11.531 thousand.

Revenue from the construction activity higher by **LEI 8.932 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 negative influence of **LEI 2.945 thousand** based on the foreign exchange gains.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by **3%** as compared to Quarter I 2017, which is lower by **LEI 8.538 thousand**.

The company made savings of LEI 12.775 thousand, mainly in relation to the following cost elements:

- 👉 cost of royalty: LEI 10.490 thousand;
- 👉 transmission system technological gas consumption and loss decreased by **LEI 1.261 thousand** due to the following:
 - amount of gas for technological consumption lower by 68.172 MWh (▼ 20%), with a positive influence of LEI 4.594 thousand;
 - average purchase price in Quarter I 2018 higher as compared to Quarter I 2017 by LEI 11,89 /MWh, with a negative influence of LEI 3.333 thousand;
- 👉 cost of personnel: LEI 698 thousand;
- 👉 other material costs: LEI 237 thousand;
- 👉 other operating costs: LEI 90 thousand.

An expense surplus of LEI 4.238 thousand was recorded mainly in relation to the following cost elements:

- cost of maintenance and transmission: LEI 2.490 thousand;
- cost of taxes and duties: LEI 748 thousand;
- depreciation costs: LEI 732 thousand;
- cost of provision for risks and charges: LEI 267 thousand.

The financial cost is lower by **LEI 1.277 thousand** based on the foreign exchange gains.

As compared to Quarter I 2017 the gross profit obtained in Quarter I 2018 decreased by 26%, which is lower by LEI 100.140 thousand.

The analysis of the economic and financial indicators obtained at 31 March 2018 compared to the revenue and expense budget approved by OGMS Resolution 2/06.03.2018

The main economic and financial indicators obtained in Quarter I 2018 as compared to the REB indicators are as follows:

thousand LEI

No.	Name	REB Q I 2018	Obtained in Q I 2018	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	441.840	535.496	21%
2.	Revenue from the balancing activity	13.648	72.328	430%
3.	Revenue from the construction activity, according to IFRIC12	34.604	16.354	-53%
4.	Financial revenue	8.462	8.129	-4%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	316.500	258.095	-18%
6.	Costs from the balancing activity	13.648	72.328	430%
7.	Cost of assets built according to IFRIC12	34.604	16.354	-53%
8.	Financial costs	3.750	2.875	-23%
9.	GROSS PROFIT , of which:	130.052	282.655	117%
	• from operation	125.340	277.401	121%
	• from the financial activity	4.712	5.254	12%
10.	Income tax	18.925	46.050	143%
11.	NET PROFIT	111.127	236.605	113%

Operating revenue before the balancing and construction activity according to IFRIC12 increased by **LEI 93.656 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **LEI 100.662 thousand** due to:
 - Capacities booked higher by 16.878.831 MWh, with a positive influence of **LEI 89.061 thousand**, mainly due to the invoicing of the booking capacity surplus for Q I 2018 (Lei 51.847 thousand), 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 4.123.151 MWh/349.635 thousand cm (▲ 10%), with a positive influence of **LEI 11.601 thousand**;
- Revenue from international gas transmission services decreased by **LEI 285 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- Other operating revenue decreased by **Lei 6.722 thousand** as compared to the REB.
- Revenue from the balancing activity increased by **LEI 58.679 thousand** based on the following:
 - Quantity higher by 563.469 MWh, with a positive influence of LEI 48.023 thousand;
 - Trading price lower by LEI 14,73/MWh, with a positive influence of LEI 10.656 thousand.

Financial revenue decreased by **LEI 333 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 **18%** as compared to the plan approved, which is lower by **LEI 58.405 thousand** as compared to the REB.

Savings amounting to LEI 74.252 thousand were recorded mainly the following cost elements:

- 👍 transmission system technological gas consumption and loss amounting to **LEI 14.904 thousand**, due to the following:
 - average purchase price lower by LEI 0,02 /MWh as compared to the REB, with a positive influence of LEI 5 thousand;
 - amount of gas for technological consumption lower by 187.882 MWh (40%) than planned, with a positive influence of LEI 14.899 thousand;
- 👍 other operating costs: LEI 19.663 thousand;
- 👍 costs of personnel: LEI 17.754 thousand;
- 👍 costs of auxiliary materials and other materials: LEI 11.500 thousand;
- 👍 maintenance an transmission: LEI 8.833 thousand;
- 👍 depreciation: LEI 1.598 thousand.

An expense surplus of LEI 15.847 thousand was recorded mainly in relation to the following cost elements:

- NTS concession royalty: LEI 10.038 thousand;
- cost of provision for risks and charges: LEI 3.587 thousand;
- cost of taxes and duties: LEI 2.223 thousand.

The financial cost is lower by **LEI 875 thousand** as compared to the REB, based on the foreign currency exchange gain.

The gross profit increased by 117% as compared to the plan, which is higher by LEI 152.603 thousand as compared to the REB, and the net profit increased by 113% as compared to the plan, which is higher by LEI 125.478 thousand as compared to the REB.

Investment programme achievement status

The capital expenditure achieved at 31 March 2018 amounted to **LEI 23.712 thousand**, of which LEI 0,4 thousand are NTS connection installations under the NTS access rules approved by GR1043/2004.

Investments amounting to LEI 13.847 thousand were commissioned within the period analysed.

Receivables and arrears

On 31 March 2018 the outstanding receivables amounted to LEI 299.959 thousand, which uis lower by LEI 50.333 thousand as compared to the same period of the previous year (LEI 350.292 thousand).

On 31 March 2018 Transgaz has no outstanding payments.

Debts to the state budget

On 31 March 2018 the amount of **LEI 118.008 thousand** was paid up to the state budget, out of which:

- VAT: LEI 50.669 thousand;

- Oil royalty: LEI 41.990 thousand;
- Natural monopoly tax: LEI 14.050 thousand;
- Tax on salary: LEI 7.713 thousand.
- Excises: LEI 1.874 thousand;
- Income tax: LEI 1.525 thousand;
- Dividend tax: LEI 187 thousand.

The amount of LEI 38.432 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 2018 are not audited and were prepared according to the IFRS-EU.

DIRECTOR - GENERAL

Ion STERIAN

Chief Financial Officer

Marius Lupean

Annex no.1**The synthesis of the Statement of financial position as of 31.03.2018*****LEI***

No.	Name	31.12.2017	31.03.2018
1.	Assets		
	Non-current assets	3.709.379.966	3.730.293.254
	Current assets	1.523.897.156	1.837.011.523
	Total	5.233.277.122	5.567.304.777
2.	Equity and liabilities		
	Equity	3.721.150.034	3.957.754.823
	Non-current liabilities	1.238.524.550	1.299.059.340
	Current liabilities	273.602.538	310.490.614
	Total	5.233.277.122	5.567.304.777

Annex no. 2**The synthesis of the Statement of comprehensive income for the
01.01.2018 - 31.03.2018 reporting period*****LEI***

No.	Name	31.03.2016	31.03.2017
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	31.03.2017	31.03.2018
	- revenue from the domestic transmission activity	638.661.518	535.495.772
	- revenue from the international transmission activity	532.226.455	438.662.944
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	91.650.179	80.315.900
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	266.632.791	258.095.123
	Revenue from the balancing activity	372.028.727	277.400.649
	Cost from the balancing activity	46.982.058	72.327.765
	Revenue from the construction activity according to IFRIC12	43.138.060	72.327.765
	Cost of assets built, according to IFRIC12	7.421.425	16.353.774
2.	Operating result (profit)	7.421.425	16.353.774
	Financial revenue	375.872.725	277.400.649
	Financial cost	11.074.534	8.129.090
3.	Financial result	4.152.071	2.874.931
4.	Gross result (profit)	6.922.463	5.254.159
5.	Income tax	382.795.188	282.654.808
6.	Net result (profit)	62.662.377	46.050.019

Annex no.3**The main economic and financial indicators for
the 01.01.2018 - 31.03.2018 reporting period**

No.	Name	31.03.2018	Result
1.	Current liquidity ratio	Current assets / Current liabilities	5,92
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	3,53%
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	3,41%
3.	Days sales outstanding	Average balance clients x 90 / Turnover	105,34
4.	Non-current assets turnover	Turnover/ Non-current assets	0,16