

REPORT AND ISSUER IDENTIFICATION DATA

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

Date of report: 14 November 2019

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 30.09.2019
(1 January-30 September 2019)

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:

👍 **Domestic 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 regulatory period started on 1 July 2012, and by derogation from Art. 5 (1) of ANRE Order 32/2014, it ends on 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. 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, and by ANRE Order 99/29 May 2018 for the period 1 October 2018 – 30 September 2019. 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, and the financial revenue 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.

1. Analysis of the financial and economic indicators

1.1 Analysis of revenue and expense at 30 September 2019 compared to the revenue and expense obtained at 30 September 2018.

The main financial and economic indicators obtained at 30 September 2019, compared to the indicators obtained in the same period in 2018, are presented in the following table:

* thousand LEI *

No.	Name	Obtained 01.01-30.09.2018	Obtained 01.01-30.09.2019	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.093.054	1.085.513	-1%
2.	Revenue from the balancing activity	118.838	250.930	111%
3.	Revenue from the construction activity according to IFRIC12	109.545	521.459	376%
4.	Financial revenue	36.560	41.522	14%
5.	Operating costs before the construction activity, according to IFRIC12	755.092	840.997	11%
6.	Costs from the balancing activity	118.838	250.930	111%
7.	Cost of assets built according to IFRIC12	109.545	521.459	376%
8.	Operating costs before the construction activity, according to IFRIC12	18.009	20.742	15%
9.	GROSS PROFIT , of which:	356.513	265.297	-26%
	• from operation	337.962	244.516	-28%
	• from the financial activity	18.551	20.781	12%
10.	Income tax	56.568	40.608	-28%
11.	NET PROFIT	299.946	224.689	-25%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by **1%** as compared to the corresponding period of 2018, which is lower by **LEI 7.541 thousand**.

The revenue was influenced mainly by the following factors:

- commodity component revenue lower by **LEI 35.088 thousand** due to:
 - the commodity transmission tariff lower by Lei 0,47 lei/MWh, with a negative influence of LEI 49.677 thousand;
 - the gas transmitted capacities higher by 4.920.755 MWh as compared to the period of 9 months in 2018, with a positive influence of LEI 14.588 mii lei, thousand, detailed by categories of consumers as follows:

		9 months 2018	9 months 2019	Differences
Quantity transmitted for direct consumers	MWh	47.441.365	50.818.152	3.376.787
	thousand m ³	4.439.435	4.781.956	342.521

		9 months 2018	9 months 2019	Differences
Quantity transmitted for distribution	MWh	51.132.262	52.676.229	1.543.967
	thousand m ³	4.745.753	4.900.812	155.059
Total	MWh	98.573.627	103.494.381	4.920.754
	thousand m ³	9.185.188	9.682.768	497.580

The tariffs in 01.01-30.09.2019 as compared to 01.01-30.09.2018 decreased mainly due to:

- a lower approved revenue in gas year October 2018- September 2019 (Lei 882.983 thousand) as compared to the revenue approved in gas year October 2017 - September 2018 (Lei 954.322 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2018-2019 (the efficiency gain redistribution component, the correction component of the total revenue, etc).
- the commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing of Order 32/2014 of ANRE President on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariffs Methodology, which establishes the increasing by 5% per year of the percentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2017-2018 the variable component of the total revenue at the basis of the commodity tariffs is 35% of the total revenue and in gas year 2018-2019 to 30% of the total revenue.
 - revenue from capacity booking lower by **LEI 1.615 thousand** due to:
 - capacity booking tariff lower by LEI 0,15/MWh, with a negative influence of LEI 40.780 thousand;
 - booked capacities higher by 17.918.601 MWh, with a positive influence of LEI 39.164 thousand.
- international gas transmission revenue higher by **LEI 16.703 thousand** due to the appreciation of the contract currencies;
- other operating revenue higher by **LEI 12.460 thousand**.

Revenue from the balancing activity increased by **LEI 132.092 thousand** based on the following factors:

- quantity higher by 1.133.839 MWh with a positive influence of LEI 106.972 thousand;
- trading price higher by LEI 10,50/MWh, with a positive influence of LEI 25.120 thousand.

Revenue from the construction activity higher by **LEI 411.914 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 **LEI 4.962 thousand** based on the increasing of the foreign exchange gains.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **11%** as compared to period of 9 months in 2018, which is higher by **LEI 85.905 thousand**.

The company made savings of LEI 7.522 thousand, mainly in relation to the following cost elements:

- 👉 cost of royalty: LEI 2.747 thousand;
- 👉 cost of maintenance and transmission: LEI 4.775 thousand.

An expense surplus of LEI 93.427 thousand was recorded mainly in relation to the following cost elements:

- cost of auxiliary materials and other material costs: LEI 7.501 thousand;
- cost of personnel: LEI 9.582 thousand;
- depreciation costs: LEI 5.921 thousand;
- cost of provision for risks and charges: LEI 169 thousand;
- cost of technological consumption: LEI 2.702 thousand;
- cost of taxes and duties: LEI 21.417 thousand, following the introduction of the 2% turnover payment contribution according to Art. 78 of GEO 114/2018;
- other operating costs: LEI 46.134 thousand, mainly due to the establishing of corrections for the depreciation of the current assets, recording an increase of LEI 44.420 thousand.

The financial cost is higher by **LEI 2.733 thousand** based on the increasing of the foreign exchange gains.

As compared to 2018 the gross profit obtained at the end of Quarter III 2019 decreased by 26%, which is lower by LEI 91.217 thousand.

The main economic and financial indicators obtained in Q III 2019 as compared to Q III 2018 are presented below:

** thousand LEI **

No.	Name	Obtained in Q III 2018	Obtained in Q III 2019	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	284.248	310.519	9%
2.	Revenue from the balancing activity	28.354	67.721	139%
3.	Revenue from the construction activity, according to IFRIC12	74.626	223.561	200%
4.	Financial revenue	14.582	8.324	-43%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	264.046	280.964	6%
6.	Costs from the balancing activity	28.354	67.721	139%
7.	Cost of assets built according to IFRIC12	74.626	223.561	200%
8.	Financial costs	9.131	4.308	-53%

No.	Name	Obtained in Q III 2018	Obtained in Q III 2019	Increase
9.	GROSS PROFIT , of which:	25.653	33.570	31%
	• from operation	20.202	29.555	46%
	• from the financial activity	5.451	4.015	-26%
10.	Income tax	5.977	4.383	-27%
11.	NET PROFIT	19.676	29.188	48%

Operating revenue before the balancing and construction activity, according to IFRIC12 increased by 9% as compared to the corresponding period of 2018, which is higher by LEI 26.271 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **LEI 16.924 thousand** due to:
 - booked capacities higher by 11.643.982 MWh, with a positive influence of LEI 20.136 thousand.
 - the capacity booking tariff lower by Lei 0,04/MWh with a negative influence of LEI 3.212 thousand;
- commodity component revenue lower by **LEI 4.546 thousand** due to:
 - the commodity transmission tariff lower by Lei 0,46/MWh, with a negative influence of LEI 14.502 thousand;
 - the increasing of the invoiced gas quantity by 3.124.633 MWh, with a positive influence of LEI 9.956 thousand, detailed by categories of consumers as follows:

		Q III 2018	Q III 2019	Differences
Quantity transmitted for direct consumers	MWh	19.974.406	23.042.489	3.068.083
	thousand m ³	1.869.293	2.174.541	305.248
Quantity transmitted for distribution	MWh	7.115.587	7.172.137	56.550
	thousand m ³	657.427	662.292	4.865
Total	MWh	27.089.993	30.214.626	3.124.633
	thousand m ³	2.526.720	2.836.833	310.113

The tariffs in Q III 2019 as compared to Q III 2018 decreased mainly due to:

- a lower approved revenue in gas year October 2018- September 2019 (Lei 882.983 thousand) as compared to the revenue approved in gas year October 2017 - September 2018 (Lei 954.322 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2018-2019 (the efficiency gain redistribution component, the correction component of the total revenue, etc).
- the commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing of Order 32/2014 of ANRE President on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariffs Methodology, which establishes the increasing by 5% per year of the percentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2017-

2018 the variable component of the total revenue at the basis of the commodity tariffs is 35% of the total revenue and in gas year 2018-2019 to 30% of the total revenue.

- international gas transmission revenue higher by **LEI 6.183 thousand** due to the contract currencies foreign exchange gains and the application of ANRE Order 34/19 July 2016;
- other operating revenue higher by **LEI 7.710 thousand**.
- revenue from the balancing activity according to ANRE Order 1/18.01.2016 higher by **LEI 39.367 thousand** based on the following factors:
 - quantity higher by 339.320 MWh with a positive influence of LEI 30.296 thousand;
 - trading price higher by LEI 13,81 /MWh, with a positive influence of LEI 9.071 thousand;
- revenue from the construction activity higher by **LEI 148.935 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 6.259 thousand** due to the foreign exchange rate.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **6%** as compared to Q III 2018, which is higher by **LEI 16.918 thousand**.

The company made savings of LEI 8.710 thousand, mainly in relation to the following cost elements:

- 👉 maintenance and transmission: LEI 1.217 thousand;
- 👉 other operating expense: LEI 7.493 thousand.

An expense surplus of LEI 25.628 thousand was recorded mainly in relation to the following cost elements:

- cost fixed assets depreciation: LEI 2.031 thousand;
- cost of personnel: LEI 7.568 thousand;
- cost of technological consumption: LEI 3.219 thousand;
- cost of auxiliary materials and other material costs: LEI 1.458 thousand;
- cost of royalty: LEI 1.109 thousand;
- cost of taxes and duties: LEI 9.838 thousand, following the introduction of the 2% turnover payment contribution according to Art. 78 of GEO 114/2018;
- cost of provision for risks and charges: LEI 404 thousand.

The financial cost is lower by **LEI 4.823 thousand** mainly based on the increasing of the foreign exchange loss.

As compared to Quarter III 2018 the gross profit obtained in Quarter III 2019 increased by 31%, which is lower by LEI 7.917 thousand.

2. Investment plan achievement status

The **capital expenditure** achieved at 30 September 2019 amounted to **LEI 626.839 thousand**, of which LEI 4.861 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

This value does not include the pipes procured for the achievement of the investment projects and not mounted up to 30 September 2019.

3. Receivables and arrears

On 30 September 2019 the outstanding receivables amounted to LEI 402.070 thousand, which is higher by LEI 92.926 thousand as compared to the same period of the previous year (LEI 309.144 thousand).

On 30 September 2019 Transgaz has no outstanding payments.

4. Debts to the state budget

On 30 September 2019 the amount of **LEI 271.216 thousand** was paid up to the state budget, out of which:

- VAT: LEI 29.959 thousand;
- Oil royalty: LEI 118.857 thousand;
- Natural monopoly tax: LEI 46.735 thousand;
- Tax on salary: LEI 20.573 thousand;
- Excises: LEI 1.495 thousand;
- Income tax: LEI 50.440 thousand;
- Dividend tax: LEI 3.157 thousand.

The amount of LEI 132.340 thousand was also paid up to local budgets, special funds and social insurance budgets.

DIRECTOR - GENERAL
STERIAN ION

Chief Financial Officer
Lupean Marius

Annex no.1**The synthesis of the Statement of financial position as of 30.09.2019****lei**

No.	Name	31.12.2018	30.09.2019
1.	Assets		
	Non-current assets	3.490.423.765	4.122.240.335
	Current assets	1.505.383.695	1.199.065.649
	Total	4.995.807.460	5.321.305.984
2.	Equity and liabilities		
	Equity	3.712.731.065	3.682.398.124
	Non-current liabilities	864.288.167	1.232.403.253
	Current liabilities	418.788.228	406.504.607
	Total	4.995.807.460	5.321.305.984

Annex no. 2**The synthesis of the Statement of comprehensive income for the 01.01.2019 - 30.09.2019 reporting period****lei**

No.	Name	30.09.2018 restated	30.09.2019
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	1.093.053.782	1.085.512.634
	- revenue from the domestic transmission activity	828.181.273	791.477.564
	- revenue from the international transmission activity	238.801.097	255.503.605
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	755.091.694	840.996.737
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	337.962.088	244.515.897
	Revenue from the balancing activity	118.837.728	250.929.758
	Cost from the balancing activity	118.837.728	250.929.758
	Revenue from the construction activity according to IFRIC12	109.545.456	521.459.417
	Cost of assets built, according to IFRIC12	109.545.456	521.459.417
2.	Operating result (profit)	337.962.088	244.515.897
	Financial revenue	36.560.161	41.522.259
	Financial cost	18.008.942	20.741.548
3.	Financial result	18.551.219	20.780.711
4.	Gross result (profit)	356.513.307	265.296.608
5.	Income tax	56.567.543	40.608.088
6.	Net result (profit)	299.945.764	224.688.520

Annex no. 3**The main economic and financial indicators for
the 01.01.2019 - 30.09.2019 reporting period**

No.	Name	30.09.2019	Result
1.	Current liquidity ratio	Current assets / Current liabilities	2,95
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	12,85%
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	11,38%
3.	Days sales outstanding	Average balance clients x 273 / Turnover	134,73
4.	Non-current assets turnover	Turnover/ Non-current assets	0,316