

**REPORT AND ISSUER IDENTIFICATION DATA**

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

Date of report: 14 May 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 31.03.2019**  
**(1 January-31 March 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, will end 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 (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, 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, 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.

## 1. Analysis of the financial and economic indicators

### 1.1 Analysis of revenue and expense at 31 March 2019 compared to the revenue and expense obtained at 31 March 2018.

The main financial and economic indicators obtained at 31 March 2019, compared to the indicators obtained in the same period in 2018, are presented in the following table:

\* thousand LEI \*

No.	Name	Obtained in Q I 2018	Obtained in Q I 2019	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	527.946	472.980	-10%
2.	Revenue from the balancing activity	72.328	103.961	44%
3.	Revenue from the construction activity according to IFRIC12	16.354	150.176	818%
4.	Financial revenue	8.129	22.687	179%
5.	Operating costs before the construction activity, according to IFRIC12	250.545	255.737	2%
6.	Costs from the balancing activity	72.328	103.961	44%
7.	Cost of assets built according to IFRIC12	16.354	150.176	818%
8.	Financial costs	2.875	10.909	279%
9.	<b>GROSS PROFIT</b> , of which:	<b>282.655</b>	<b>229.021</b>	<b>-19%</b>
	• from operation	277.401	217.243	-22%
	• from the financial activity	5.254	11.778	124%
10.	<b>Income tax</b>	<b>46.050</b>	<b>37.634</b>	<b>-18%</b>
11.	<b>NET PROFIT</b>	<b>236.605</b>	<b>191.388</b>	<b>-19%</b>

**Operating revenue before the balancing and construction activity, according to IFRIC12** decreased by **10%** as compared to the corresponding period of Q I 2018, which is lower by **LEI 54.966 thousand**.

**The revenue was influenced mainly by the following factors:**

- commodity component revenue lower by **LEI 26.294 thousand** due to:
  - the commodity transmission tariff lower by Lei 0,48/MWh, with a negative influence of LEI 21.545 thousand;
  - the gas transmitted capacities lower by 1.852.922 MWh/165.550 thousand cm (▼4%), as compared to Q I 2018, with a negative influence of LEI 4.749 thousand, detailed by categories of consumers as follows:

		3 months 2018	3 months 2019	Differences
Quantity transmitted for direct consumers	MWh	11.554.374	11.274.702	-279.672
	thousand m <sup>3</sup>	1.080.725	1.051.352	-29.373
Quantity transmitted for distribution	MWh	35.183.382	33.610.132	-1.573.250
	thousand m <sup>3</sup>	3.270.281	3.134.104	-136.177
Total	MWh	46.737.756	44.884.834	-1.852.922
	thousand m <sup>3</sup>	4.351.006	4.185.456	-165.550

\*) transmitted quantity for which transmission services are invoiced

The tariffs in 01.01-31.03.2019 as compared to 01.01-31.03.2018 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 **33.600** thousand due to:
    - booked capacities lower by 2.265.028 MWh, with a negative influence of LEI 6.147 thousand;
    - capacity booking tariff lower by LEI 0,24 /MWh, with a negative influence of LEI 27.453 thousand;
- international gas transmission revenue higher by **LEI 5.950 thousand** due to the appreciation of the contract currencies;
- other operating revenue lower by **LEI 1.021 thousand**.

Revenue from the balancing activity increased by **LEI 31.634 thousand** based on the following factors:

- quantity higher by 211.427 MWh with a positive influence of LEI 21.133 thousand;
- trading price higher by LEI 11,23 /MWh, with a positive influence of LEI 10.501 thousand.

Revenue from the construction activity higher by **LEI 133.822 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 14.558 thousand** based on the foreign exchange gains.

**Operating costs before the balancing and construction activity according to IFRIC12** increased by **2%** as compared to Quarter I 2018, which is higher by **LEI 5.192 thousand**.

**The company made savings of LEI 10.324 thousand**, mainly in relation to the following cost elements:

- 👍 cost of royalty: LEI 5.394 thousand;
- 👍 cost of taxes and duties: LEI 3.463 thousand;
- 👍 cost of maintenance and transmission: LEI 1.467 thousand;

**An expense surplus of LEI 15.516 thousand** was recorded mainly in relation to the following cost elements:

- cost of auxiliary materials and other material costs: LEI 1.478 thousand;
- cost of personnel: LEI 1.150 thousand;
- depreciation costs: LEI 782 thousand;
- cost of provision for risks and charges: LEI 235 thousand;
- cost of technological consumption: LEI 207 thousand;
- other operating costs: LEI 11.663 thousand, mainly due to the establishing of corrections for the depreciation of the current assets, recording an increase of LEI 12.376 thousand.

**The financial cost** is higher by **LEI 8.035 thousand** based on the foreign exchange gains.

**As compared to Quarter I 2018 the gross profit obtained in Quarter I 2019 decreased by 19%, which is lower by LEI 53.634 thousand.**

## **2. Investment programme achievement status**

**The capital expenditure** achieved at 31 March 2019 amounted to **LEI 154.539 thousand**, of which LEI 375 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

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

### 3. Receivables and arrears

On 31 March 2019 the outstanding receivables amounted to LEI 358.610 thousand, which is higher by LEI 58.651 thousand as compared to the same period of the previous year.

On 31 March 2019 Transgaz has no outstanding payments.

### 4. Debts to the state budget

On 31 March 2019 the amount of **LEI 124.824 thousand** was paid up to the state budget, out of which:

- VAT: LEI 28.006 thousand;
- Oil royalty: LEI 43.582 thousand;
- Natural monopoly tax: LEI 14.168 thousand;
- Tax on salary: LEI 6.196 thousand.
- Excises: LEI 1.495 thousand;
- Income tax: LEI 31.058 thousand;
- Dividend tax: LEI 320 thousand.

The amount of LEI 42.917 thousand was also paid up to local budgets, special funds and social insurance budgets.

**DIRECTOR - GENERAL**  
**Ion STERIAN**

**Chief Financial Officer**  
**Marius Lupean**

**Annex no.1****The synthesis of the Statement of financial position as of 31.03.2019****\*LEI\***

<b>No.</b>	<b>Name</b>	<b>31.12.2018</b>	<b>31.03.2019</b>
<b>1.</b>	<b>Assets</b>		
	Non-current assets	3.490.423.765	3.601.624.209
	Current assets	1.505.383.695	1.588.791.648
	<b>Total</b>	<b>4.995.807.460</b>	<b>5.190.415.857</b>
<b>2.</b>	<b>Equity and liabilities</b>		
	Equity	3.712.731.065	3.904.118.568
	Non-current liabilities	864.288.167	860.611.483
	Current liabilities	418.788.228	425.685.806
	<b>Total</b>	<b>4.995.807.460</b>	<b>5.190.415.857</b>

**Annex no. 2****The synthesis of the Statement of comprehensive income for the  
01.01.2019 - 31.03.2019 reporting period****\*LEI\***

<b>No.</b>	<b>Name</b>	<b>31.03.2018</b>	<b>31.03.2019</b>
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	527.945.818	472.980.258
	- revenue from the domestic transmission activity	438.662.944	378.768.801
	- revenue from the international transmission activity	80.315.900	86.265.849
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	250.545.169	255.736.863
<b>1.</b>	<b>Operating result before the balancing and construction activity, according to IFRIC12 (profit)</b>	<b>277.400.649</b>	<b>217.243.395</b>
	Revenue from the balancing activity	72.327.765	103.961.449
	Cost from the balancing activity	72.327.765	103.961.449
	Revenue from the construction activity according to IFRIC12	16.353.774	150.175.759
	Cost of assets built, according to IFRIC12	16.353.774	150.175.759
<b>2.</b>	<b>Operating result (profit)</b>	<b>277.400.649</b>	<b>217.243.395</b>
	Financial revenue	8.129.090	22.687.277
	Financial cost	2.874.931	10.909.490
<b>3.</b>	<b>Financial result</b>	<b>5.254.159</b>	<b>11.777.787</b>
<b>4.</b>	<b>Gross result (profit)</b>	<b>282.654.808</b>	<b>229.021.182</b>

<b>5.</b>	Income tax	46.050.019	37.633.679
<b>6.</b>	<b>Net result (profit)</b>	<b>236.604.789</b>	<b>191.387.503</b>

**Annex no.3**

**The main economic and financial indicators for  
the 01.01.2019 - 31.03.2019 reporting period**

<b>No.</b>	<b>Name</b>	<b>31.03.2019</b>	<b>Result</b>
1.	Current liquidity ratio	Current assets / Current liabilities	3,73
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	6,10%
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	5,75%
3.	Days sales outstanding	Average balance clients x 90 / Turnover	109,70
4.	Non-current assets turnover	Turnover/ Non-current assets	0,158