

RELEASE

on the interim economic and financial indicators as of 31 December 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:

👉 **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 31 December 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 – 31 December 2018, and by ANRE Order 99/29 May 2018, for the period 1 October 2018 – 31 December 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 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.

1. Analysis of the financial and economic indicators

The main interim financial and economic indicators obtained at 31 December 2018, compared to the indicators obtained in the same period in 2017, are presented in the following table:

** thousand LEI **

No.	Name	Obtained in 2017	Interim 2018	Increase
0	1	2	3	$4 = \frac{3-2}{2} \times 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.749.946	1.638.578	-6%
2.	Revenue from the balancing activity	120.686	235.427	95%
3.	Revenue from the construction activity according to IFRIC12	63.950	388.554	508%
4.	Financial revenue	190.546	46.853	-75%
5.	Operating costs before the construction activity, according to IFRIC12	1.085.220	1.055.982	-3%
6.	Costs from the balancing activity	120.686	235.427	95%
7.	Cost of assets built according to IFRIC12	63.950	388.554	508%
8.	Financial costs	150.227	25.369	-83%
9.	GROSS PROFIT , of which:	705.045	604.080	-14%
	• from operation	664.726	582.596	-12%
	• from the financial activity	40.319	21.484	-47%
10.	Income tax	122.984	105.124	-15%
11.	NET PROFIT	582.061	498.956	-14%
12.	Other elements of the comprehensive result	17.826	-2.400	X
13.	Total comprehensive result for the period	599.887	496.556	-17%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 6% as compared to 2017, which is lower by LEI 111.368 thousand.

The revenue was influenced mainly by the following factors:

- *capacity booking* revenue lower by **LEI 33.854 thousand** due to:
 - *booked capacities* lower 3.855.158 MWh, with a negative influence of LEI 9.144 thousand;
 - *the capacity booking tariff* lower by Lei 0,07 /MWh, with a negative influence of LEI 24.710 thousand;
- *commodity component revenue* lower by **LEI 125.773 thousand** due to:
 - *a commodity tariff* lower by Lei 0,93/MWh with a negative influence of LEI 130.632 thousand;
 - *the gas transmitted capacities* higher by 1.056.605 MWh/106.013 thousand cm, as compared to 2017, detailed by categories of consumers as follows:

		12 months 2017	12 months 2018	Differences
Quantity transmitted for direct consumers	MWh	59.201.654	60.559.629	1.357.975
	thousand m ³	5.537.653	5.672.485	134.832
Quantity transmitted for distribution	MWh	78.906.375	78.605.004	-301.371
	thousand m ³	7.332.255	7.303.436	-28.819
Total*)	MWh	138.108.028	139.164.633	1.056.605
	thousand m ³	12.869.908	12.975.921	106.013

*) *transmitted quantity for which transmission services are invoiced*

During 01.01 - 31.12.2018 as compared to 01.01-31.12.2017 the tariffs decreased mainly due to:

- a lower approved revenue in gas year October 2017- September 2018 (Lei 954.322 thousand) as compared to the revenue approved in gas year October 2016 - September 2017 (Lei 1.101.667 thousand) mainly because of the differences for the adjustment of the revenue in gas year 2017-2018 (the efficiency gain redistribution component, the correction component of the total revenue, etc);
- 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).
- a lower commodity tariff also determined by 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 2016-2017 the variable component of the total revenue at the basis of the commodity tariffs is 40% of the total revenue and in gas year 2017-2018 it decreased to 35% of the total revenue, and in gas year 2018-2019 to 30%.

- *revenue from capacity booking* lower by LEI **8.909 thousand** because of the foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016 ;
- *other operating revenue* higher by **LEI 57.168 thousand**.

Revenue from the balancing activity increased by **LEI 114.741 thousand** based on the following factors:

- quantity higher by 743.263 MWh with a positive influence of LEI 59.836 thousand;
- trading price higher by LEI 24,49 /MWh, with a positive influence of LEI 54.905 thousand.

Revenue from the construction activity higher by **LEI 324.604 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 have a negative influence of **Lei 143.693 thousand** due to the transfer of the provision for the impairment of Transgaz's share in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138.544.435 to revenues in 2017. In September 2017 the Vienna Commercial Court issued the decision by which Nabucco Gas Pipeline International GmbH ('NIC') was disincorporated and on 30 September 2017 the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenues the provision established in the previous years in the same amount.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by **3%** as compared to 2017, which is lower by **LEI 29.238 thousand**.

The company made savings of LEI 47.052 thousand, mainly in relation to the following cost elements:

- 👉 transmission system technological gas consumption and loss decreased by **LEI 3.828 thousand** because of the following:
 - amount of gas for technological consumption lower by 165.065/14.208 thousand cm (▼16%), with a positive influence of LEI 12.032 thousand;
 - average purchase price in 2018 higher as compared to 2017 by LEI 9,68 /MWh, with a negative influence of LEI 8.204 thousand;
- 👉 cost of royalty: LEI 16.854 thousand;
- 👉 other operating costs: LEI 19.267 thousand, mainly due to lower cost of provisions for depreciation of current assets;
- 👉 other costs of materials: LEI 4.323 thousand;
- 👉 cost of personnel: LEI 2.781 thousand.

An expense surplus of LEI 17.814 thousand was recorded mainly in relation to the following cost elements:

- fixed assets depreciation costs: LEI 1.461 thousand;
- cost of maintenance and transmission: LEI 8.489 thousand;
- cost of taxes and duties: LEI 4.883 thousand;
- cost of provision for employees benefits: LEI 2.981 thousand.

The financial cost is lower by **LEI 124.858 thousand** based on the removal from its accounting records on 30 September 2017 of the asset amounting to Lei 138.544.435, representing Transgaz's share in the share capital of Nabucco Gas International Company GmbH.

As compared to 2017 the interim gross profit obtained in 2018 decreased by 14%, which is lower by LEI 100.965 thousand.

2. Investment plan achievement status

The interim **capital expenditure** at 31 December 2018 amounted to **LEI 451.930 thousand**, of which LEI 6.256 thousand are NTS connection installations under the NTS access rules approved by ANRE Order no. 482/2017.

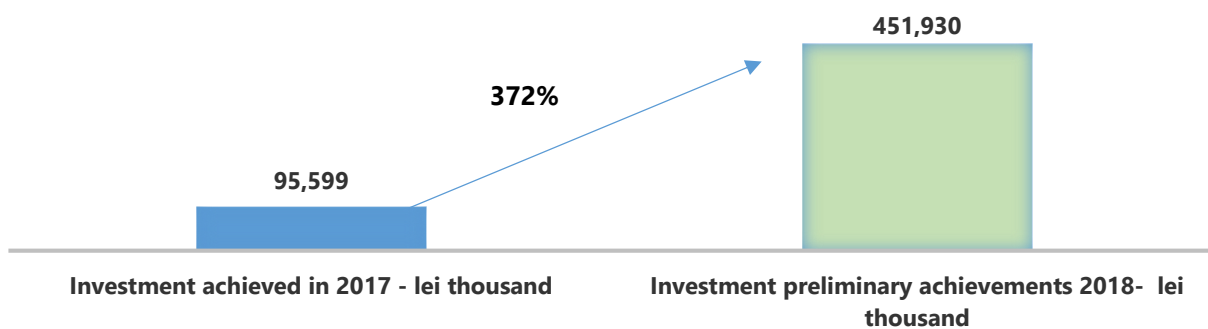
Investments amounting to LEI 65.566 thousand were commissioned within the period analysed.

The total expenses related to the preliminary investments for 2018 amounting to Lei **451.930 thousand** consist mainly in the amounts destined to the works for the development and upgrading of the National Gas Transmission System (Lei 368.883 thousand), for Eurotransgaz S.R.L.' share capital increase (Lei 45.368 thousand), the payment of the securities related to the temporary removal of the lands from agricultural use and the expenses related to the capitalized interest in respect of the Projects included in the Development Plan.

As opposed to the total value of the investment upgrading and development programme amounting to **Lei 687.112 thousand**, the total value of the preliminary achievements for 2018 is **Lei 368.883 thousand** which means that the programme was **53,69%** achieved.

The preliminary achievements for 2018 related to the key projects under the 10 Year Network Development Plan (TYNDP) amount to **Lei 279.239 thousand** which represents **75,70%** of the total preliminary achievements of the investment upgrading and development programme for 2018.

As opposed to the total achievements for 2017 amounting to **Lei 95.599 thousand**, the total value of the preliminary achievements for 2018 is **Lei 451.930 thousand** which represents an increase of **372%**. This increase is mainly due to the investment works related to the key projects under the TYNDP amounting to **Lei 279.239 thousand** and the amounts related to Eurotransgaz S.R.L.' share capital increase (Lei 45.368 thousand).



3. Receivables and arrears

On 31 December 2018 the outstanding receivables amounted to LEI 315.637 thousand, which is higher by LEI 8.427 thousand as compared to the same period of the previous year (LEI 307.210 thousand).

On 31 December 2018 Transgaz has no outstanding payments.

4. Debts to the state budget

In 2018 the amount of **LEI 504.528 thousand** was transferred to the state budget, out of which:

- VAT: LEI 131.382 thousand;
- Oil royalty: LEI 148.689 thousand;
- Income tax: LEI 129.190 thousand;
- Natural monopoly tax: LEI 59.177 thousand;
- Tax on salary: LEI 27.665 thousand;
- Dividend tax: LEI 6.391 thousand
- Excises: LEI 1.874 thousand.
- Other taxes and duties: LEI 160 thousand.

The amount of LEI 160.880 thousand was also paid up to local budgets, special funds and social insurance budgets.

DIRECTOR - GENERAL

Ion STERIAN

Chief Financial Officer

Marius Lupean