

RELEASE

on the interim economic and financial indicators as of 31 December 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 domestic and international gas transmission, 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.

For year 2019 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 for the period 1 January 2019 – 30 September 2019, and **ANRE Order 41/15 March 2019** on the approval of the Gas Transmission Regulated Revenue Methodology for the period 1 October 2019 - 31 December 2019.

The above-mentioned methodologies establishes the 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);
- ☛ *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); according to ANRE Order 41/15 March 2019, from 1 October 2019 the monopoly tax is not recognized by ANRE at the category of the passed-through costs and implicitly at the regulated revenue.
- ☛ *regulated depreciation* of the assets related to the transmission activity;

- ✎ *regulated profit* set on the basis of the regulated profit determined by applying the regulated rate of return on capital to the value of the regulated assets used for the performance of the transmission activity.

The substantiation of the regulated revenue is made by regulatory periods of 5 years (the current regulatory period started on 1 October 2019 and will end on 30 September 2024), 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 methodologies 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 for the period 1 October 2018 – 30 September 2019, and to 6,9% for the regulatory period 1 October 2019 – 30 September 2024.

From 1 October 2019 with the entry into force of ANRE Order 41/15 March 2019 the efficiency gain obtained by the TSO starting with the fourth regulatory period (1 October 2019 – 30 September 2024) will be 60% transferred by linearizing to the gas consumers, and 40% will be kept by the TSO.

✎ **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 for the period 1 October 2018 – 30 September 2019 by ANRE Order 99/29 May 2018. From 1 October 2019 following connection of this pipeline with the NTS, revenue related to the Isaccea 1 - Negru Voda 1 pipeline is regulated revenue treated according to the methodology approved by ANRE Order 41/2019..

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

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

** thousand LEI **

No.	Name	Obtained in 2018	Interim 2019	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.608.437	1.575.558	-2%
2.	Revenue from the balancing activity	235.427	324.688	38%
3.	Revenue from the construction activity according to IFRIC12	405.794	851.696	110%
4.	Financial revenue	46.844	48.536	4%
5.	Operating costs before the construction activity, according to IFRIC12	1.046.952	1.178.853	13%
6.	Costs from the balancing activity	235.427	324.688	38%
7.	Cost of assets built according to IFRIC12	405.794	851.696	110%
8.	Financial costs	25.449	29.018	14%
9.	GROSS PROFIT , of which:	582.880	416.223	-29%
	• from operation	561.485	396.705	-29%
	• from the financial activity	21.396	19.518	-9%
10.	Income tax	87.205	66.744	-23%
11.	NET PROFIT	495.675	349.479	-29%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 2% as compared to 2018, which is lower by **LEI 32.879 thousand**.

The revenue was influenced mainly by the following factors:

- commodity component revenue lower by **LEI 61.286 thousand** due to:
 - a commodity transmission tariff lower by Lei 0,54/MWh with a negative influence of LEI 83.934 thousand;
 - the gas transmitted capacities higher by 6.450.960 MWh, as compared to 2018, with a positive influence of LEI 22.647 thousand detailed by categories of consumers as follows:

		12 months 2018	12 months 2019	Differences
Quantity transmitted for direct consumers	MWh	60.559.629	69.513.278	8.953.649
	thousand m ³	5.672.485	6.147.306	474.821
Quantity transmitted for distribution	MWh	78.605.004	76.102.315	-2.502.689
	thousand m ³	7.303.436	7.080.195	-223.241
Total	MWh	139.164.633	145.615.593	6.450.960
	thousand m ³	12.975.921	13.227.501	251.580

The decreasing of the tariffs in 2019 as compared to 2018 is 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 2018-2019 the variable component of the total revenue at the basis of the commodity tariffs is 30% of the total revenue and in gas year 2019-2020 it decreased to 25% of the total revenue.
- At the substantiation of the tariffs for gas year 2019-2020 the monopoly tax was not recognized by ANRE at the category of the passed-through costs and implicitly at the regulated revenue.
- *capacity booking revenue* higher by **LEI 75.464 thousand** due to:
 - *the capacity booking tariff* higher by Lei 0,08/MWh, with a positive influence of LEI 28.611 thousand;
 - *booked capacities* higher by 20.335.403 MWh, with a positive influence of LEI 46.854 thousand;
- revenue from international gas transmission activity higher by LEI **3.316** thousand due to the appreciation of the contract currency;
- *other operating revenue* lower by LEI **50.372** thousand due to the registration in 2018 of compensation revenue, as a result of the exercising of the right to unilaterally terminate gas transmission contracts concluded following the carrying out of the incremental capacity process having as object incremental capacity allocation.

Revenue from the balancing activity increased by **LEI 89.261 thousand** based on the following factors:

- quantity higher by 1.068.387 MWh with a positive influence of LEI 114.764 thousand;
- trading price lower by LEI 7,82 /MWh, with a negative influence of LEI 25.503 thousand.

Revenue from the construction activity higher by **LEI 445.902 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 positive influence of **Lei 1.692 thousand** due to the increasing of the foreign exchange gains.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **13%** as compared to 2018, which is higher by **LEI 131.901 thousand**.

The company made savings of LEI 6.215 thousand, mainly in relation to the following cost elements:

- 👉 maintenance and transport costs: LEI 6.075 thousand;
- 👉 cost of provision for risks and charges: LEI 140 thousand.

A surplus of LEI 138.116 thousand was recorded mainly in relation to the following cost elements:

- 👉 cost of technological consumption: LEI 1.185 thousand, due to the following:
 - amount of gas for technological consumption lower as compared to achievements in 2018 by 162.493 MWh, with a positive influence of LEI 13.417 thousand;
 - preliminary average purchase price higher as compared to 2018 by LEI 21,31 /MWh, with a negative influence of LEI 14.602 thousand;
- 👉 cost of auxiliary materials and other material costs: LEI 7.233 thousand;
- 👉 cost of personnel: LEI 28.434 thousand;
- 👉 depreciation costs: LEI 6.630 thousand;
- 👉 cost of royalty: LEI 256 thousand;
- 👉 cost of taxes and duties: LEI 32.248 thousand following the introduction of the 2% turnover payment contribution according to Art. 78 of GEO 114/2018;
- 👉 other operating costs: LEI 62.131 thousand, mainly due to the establishing of corrections for the depreciation of the current assets recording an increase of LEI 54.968 thousand.

The financial cost is higher by **LEI 3.569 thousand** mainly based on the increasing of the foreign exchange gains.

As compared to 2018 the interim gross profit obtained in 2019 decreased by 29%, which is lower by LEI 166.657 thousand.

2. Investment plan achievement status

The interim **capital expenditure** at 31 December 2019 amounted to **LEI 1.046.282 thousand**, of which LEI 6.299 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

Total cost of preliminary investments for year 2019 amounting to LEI **1.046.282** thousand mainly includes the amounts dedicated to the development and modernization of the NTS (LEI 841.471 thousand), the Eurotransgaz S.R.L. share capital increase (LEI 170.286 thousand), cost of capitalized interest for the projects included in the Development Plan and it does not include the pipes procured for the execution of the investment projects and not mounted until 31 December 2019.

3. Receivables and arrears

On 31 December 2019 the outstanding receivables amounted to LEI 404.509 thousand, which is higher by LEI 8.427 thousand as compared to the same period of the previous year (LEI 315.637 thousand).

On 31 December 2019 Transgaz has no outstanding payments.

4. Debts to the state budget

In 2019 the amount of **LEI 358.181 thousand** was paid up to the state budget, out of which:

- VAT: LEI 10.163 thousand;
- Oil royalty: LEI 148.280 thousand;
- Natural monopoly tax: LEI 66.428 thousand;
- Tax on salary: LEI 27.766 thousand;
- Excises: LEI 1.495 thousand;
- Income tax: LEI 100.880 thousand;
- Dividend tax: LEI 3.169 thousand.

The amount of LEI 176.572 thousand was also paid up to local budgets, special funds and social insurance budgets.

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