

REPORT AND ISSUER IDENTIFICATION DATA

Quarterly report according to the provisions of art. 227 of Law no. 297/2004
Date of report: 13 November 2017
Company name: SNTGN TRANSGAZ SA
Headquarters: Mediaș, 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: RON 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 30.09.2017 (1 January-30 September 2017)

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 regulatory period started at 1 July 2012 and, by derogation from Art. 5 (1) of ANRE Order 32/2014, will end at 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 43/24 August 2016, for the period 1 October 2016 – 30 September 2017. 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 economic and financial indicators

1.1 Analysis of revenue and expense obtained at 30 September 2017 compared to 30 September 2016

The main economic and financial indicators obtained at 30 September 2017 compared to the same period of 2016 are presented below:

RON thousand

No.	Name	Obtained between 01.01-30.09.2016	Obtained between 01.01-30.09.2017	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.240.474	1.302.437	5%
2.	Revenue from the balancing activity	23.809	92.299	288%
3.	Revenue from the construction activity according to IFRIC12	49.223	28.067	-43%
4.	Financial revenue	19.837	176.284	789%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	822.329	811.971	-1%
6.	Costs from the balancing activity	23.037	87.337	279%
7.	Cost of assets built according to IFRIC12	49.223	28.067	-43%
8.	Financial costs	5.002	147.972	2.858%
9.	GROSS PROFIT , of which:	433.751	523.742	21%
	• from operation	418.916	495.429	18%
	• from the financial activity	14.835	28.313	91%
10.	Income tax	75.282	90.190	20%
11.	NET PROFIT	358.469	433.552	21%

Operating revenue before the balancing and construction activity, according to IFRIC12 increased by **5%** as compared to the 9 months period of 2016, which is higher by **RON 61.963 thousand**.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 56.321 thousand** due to:
 - a capacity booking tariff higher by RON 0,72/MWh (larger capacity bookings over the short term), with a positive influence of RON 187.894 thousand;
 - capacity booked lower by 80.827.818 MWh, with a negative influence of RON 131.573 thousand.
- volumetric component revenue higher by **RON 40.529 thousand** due to:
 - the gas transmitted capacities higher by 11.828.843 MWh/1.107.109 thousand cm (▲ 14%) as compared to the period of 9 months of 2016, detailed by categories of consumers as follows:

		9 months 2016	9 months 2017	Differences
Quantity transmitted for direct consumers	MWh	39.871.709	45.899.329	6.027.620
	thousand m ³	3.710.463	4.289.099	578.636
Quantity transmitted for distribution	MWh	47.305.118	53.106.341	5.801.223
	thousand m ³	4.400.920	4.929.394	528.474
Total	MWh	87.176.827	99.005.670	11.828.843
	thousand m ³	8.111.383	9.218.493	1.107.110

*) transmitted quantity for which the transmission services are invoiced

- international gas transmission revenue higher by **RON 11.942 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue lower by **RON 46.828 thousand**.

Revenue from the balancing activity increased by **RON 68.491 thousand** based on the following factors:

- quantity higher by 908.807 MWh with a positive influence of RON 82.739 thousand;
- trading price lower by RON 12,17/MWh, with a negative influence of RON 14.248 thousand.

Revenue from the construction activity decreased by **RON 21.156 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.

The financial revenue with a positive influence of **RON 156.448 thousand** due to taking over in the revenue of the provision set up for the impairment of Transgaz's equity share in Nabucco Gas Pipeline International GmbH in the amount of RON 138.544.435. In September 2017 the Decision of the Commercial Court of Vienna was issued according to which Nabucco Gas Pipeline International GmbH ('NIC') was deregistered and the company removed on 30 September 2017 from its accounting books the asset in the amount of RON 138.544.435, taking over at the same time the provision set up in the previous years for the same amount in the revenues.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by 1% as compared to the period of 9 months of 2016, which is lower by **RON 10.358 thousand**.

The company made savings of RON 49.280 thousand, mainly in relation to the following cost elements:

- 👍 transmission system technological gas consumption and loss decreased by **RON 13.684 thousand** due to the following:
 - amount of gas for technological consumption lower by 170.055 MWh (▼ 18%), with a positive influence of RON 12.224 thousand;
 - average purchase price for the period of 9 months of 2017 lower as compared to the period of 9 months of 2016 by RON 1,88/MWh, with a positive influence of RON 1.460 thousand;
- 👍 maintenance and transmission: RON 385 thousand;
- 👍 cost of provision for risks and charges: RON 24.930 thousand;
- 👍 other operating costs: RON 10.281 thousand.

An expense surplus of RON 38.921 thousand was recorded mainly in relation to the following cost elements:

- cost of personnel: RON 12.479 thousand;
- royalty costs: RON 10.879 thousand;
- cost of auxiliary materials and other material costs: RON 6.349 thousand;
- depreciation costs: RON 4.637 thousand;
- cost of tax and other amounts due to the state: RON 4.576 thousand.

The financial cost is higher by **RON 142.969 thousand** based on removal on 30 September 2017 from the accounting books of the asset amounting to RON 138.544.435, representing Transgaz's share in the equity of Nabucco Gas Pipeline International GmbH ('NIC').

As compared to the achievements in the 9 months period of 2016, the gross profit obtained in the period of 9 months of 2017 increased by 21%, which is higher by **RON 89.991 thousand**.

The main economic and financial indicators obtained in Q III 2017 compared to the same period of 2016 are presented below:

RON thousand				
No.	Name	Obtained Q III 2016	Obtained Q III 2017	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	370.006	321.960	-13%
2.	Revenue from the balancing activity	1.797	15.608	769%
3.	Revenue from the construction activity according to IFRIC12	15.552	10.535	-32%
4.	Financial revenue	5.212	154.517	2.865%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	275.904	291.994	6%
6.	Costs from the balancing activity	2.089	15.425	638%
7.	Cost of assets built according to IFRIC12	15.552	10.535	-32%
8.	Financial costs	2.081	139.300	6.595%
9.	GROSS PROFIT , of which:	96.941	45.366	-53%
	• from operation	93.810	30.149	-68%
	• from the financial activity	3.132	15.218	386%
10.	Income tax	20.238	12.305	-39%
11.	NET PROFIT	76.703	33.061	-57%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 13% as compared to the corresponding period of 2016, which is lower by **RON 48.046 thousand**.

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by **RON 50.148 thousand** due to:
 - capacity booked lower by 45.735.161 MWh, with a negative influence of RON 69.463 thousand;
 - a capacity booking tariff higher by RON 0,29/MWh (larger capacity bookings over the short term), with a positive influence of RON 19.315 thousand;
- volumetric component revenue higher by **RON 2.973 thousand** due to:
 - the invoiced gas quantities higher by 1.146.682 MWh/122.962 thousand cm (▲ 5%), detailed by categories of consumers as follows:

		Q III 2016	Q III 2017	Differences
Quantity transmitted for direct consumers	MWh	17.364.601	18.143.854	779.253
	thousand m ³	1.609.689	1.695.190	85.501
Quantity transmitted for distribution	MWh	6.824.252	7.191.681	367.429
	thousand m ³	628.655	666.117	37.462
Total	MWh	24.188.854	25.335.535	1.146.681
	thousand m ³	2.238.344	2.361.307	122.963

- international gas transmission revenue lower by **RON 1.973 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue higher by **RON 1.102 thousand**.
- revenue from the balancing activity according to ANRE Order 1/18.01.2016 increased by **RON 13.811 thousand** based on the following factors:
 - quantity higher by 191.841 MWh with a positive influence of RON 13.450 thousand;
 - trading price higher by RON 1,66 /MWh, with a positive influence of RON 361 thousand.
- revenue from the construction activity decreased by **RON 5.017 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.
- the financial revenue with a positive influence of **RON 149.305 thousand** due to taking over in the revenue of the provision set up for the impairment of Transgaz's equity share in Nabucco Gas Pipeline International GmbH in the amount of RON 138.544.435. In September 2017 the Decision of the Commercial Court of Vienna was issued according to which Nabucco Gas Pipeline International GmbH ('NIC') was deregistered and the company removed on 30 September 2017 from its accounting books the asset in the amount of RON 138.544.435, taking over at the same time the provision set up in the previous years for the same amount in the revenues.

Operating costs before the balancing and construction activity according to IFRIC12 increased by 6% as compared to Q III 2016, which is higher by **RON 16.090 thousand**.

The company made savings of RON 4.919 thousand in relation to the NTS concessioning cost.

An expense surplus of RON 21.009 thousand was recorded mainly in relation to the following cost elements:

- technological consumption: RON 2.520 thousand;
- costs of depreciation of fixed assets: RON 1.152 thousand;
- cost of personnel: RON 7.920 thousand;
- cost of auxiliary materials and other materials: RON 3.161 thousand;
- maintenance and transmission: RON 2.384 thousand
- other operating costs: RON 3.645 thousand.

The financial cost is higher by **RON 137.219 thousand** based on removal on 30 September 2017 from the accounting books of the asset amounting to RON 138.544.435, representing Transgaz's share in the equity of Nabucco Gas Pipeline International GmbH ('NIC').

As compared to the achievements in Q III 2016, the gross profit obtained in Q III 2017 decreased by 53%, which is lower by RON 51.575 thousand.

1.2 The analysis of the economic and financial indicators obtained at 30 September 2017 compared to the revenue and expense budget approved by OGMS Resolution 1/27.04.2017

The main economic and financial indicators obtained between 01.01-30.09.2017, as compared to the REB indicators are as follows:

RON thousand

No.	Name	REB 01.01-30.09.2017	Obtained 01.01-30.09.2017	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.144.889	1.302.437	14%
2.	Revenue from the balancing activity	47.565	92.299	94%
3.	Revenue from the construction activity, according to IFRIC12	242.629	28.067	-88%
4.	Financial revenue	23.127	176.284	662%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	887.766	811.971	-9%
6.	Costs from the balancing activity	47.565	87.337	84%
7.	Cost of assets built according to IFRIC12	242.629	28.067	-88%
8.	Financial costs	6.396	147.972	2214%
9.	GROSS PROFIT , of which:	273.854	523.742	91%
	• from operation	257.123	495.429	93%
	• from the financial activity	16.731	28.313	69%
10.	Income tax	41.480	90.190	117%
11.	NET PROFIT	232.374	433.552	87%

Operating revenue before the balancing and construction activity according to IFRIC12 increased by **RON 157.548 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **RON 154.626 thousand** due to:
 - Capacities booked higher by 28.149.883 MWh with a positive influence of **RON 118.970 thousand**, mainly due to the invoicing of the booking capacity surplus for 9 months 2017, 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 9.696.101 MWh/832.618 thousand cm (▲ 11%) than planned, with a positive influence of **RON 35.656 thousand**;
- Revenue from international gas transmission services increased by **RON 10.782 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- Revenue from the balancing activity increased by **RON 44.734 thousand** based on the following:
 - quantity higher by 630.368 MWh with a positive influence of RON 55.530 thousand;
 - trading price lower by RON 9,22/MWh, with a negative influence of RON 10.796 thousand.
- Other operating revenue decreased by **RON 7.860 thousand** as compared to the REB.

The financial revenues increased by **RON 153.157 thousand** as compared to the level provided in the REB due to taking over in the revenue of the provision set up for the impairment of Transgaz's equity share in Nabucco Gas Pipeline International GmbH in the amount of RON 138.544.435. In September 2017 the Decision of the Commercial Court of Vienna was issued according to which Nabucco Gas Pipeline International GmbH ('NIC') was deregistered and the company removed on 30 September 2017 from its accounting books the asset in the amount of RON 138.544.435 taking over at the same time the provision set up in the previous years for the same amount in the revenues.

The operating costs before the balancing and construction activity according to IFRIC12 decreased by **9%** as compared to the plan approved, which is lower by **RON 75.795 thousand** as compared to the REB.

Savings amounting to RON 119.851 thousand were recorded mainly at the following cost elements:

- 👉 transmission system technological gas consumption and loss amounting to **RON 9.727 thousand**, due to the following:
 - average purchase price lower by RON 1,27 /MWh as compared to the REB, with a positive influence of RON 984 thousand;
 - amount of gas for technological consumption lower by 122.678 MWh (▼ 14%), with a positive influence of RON 8.743 thousand;
- 👉 costs of auxiliary materials and other material costs: RON 25.991 thousand;
- 👉 costs of personnel: RON 29.248 thousand;
- 👉 maintenance and transmission: RON 51.133 thousand;
- 👉 cost of other tax and duties: RON 2.948 thousand;
- 👉 depreciation: RON 804 thousand.

An expense surplus of RON 44.055 thousand was recorded mainly in relation to the following cost elements:

- NTS concession royalty: RON 16.541 thousand;
- monopoly tax: RON 2.107 thousand;
- other operating costs: RON 24.994 thousand;
- cost of provision for risks and charges: RON 413 thousand.

The financial cost is higher by **RON 141.576 thousand** as compared to the REB, based on removal from the accounting books on 30 September 2017 of the asset amounting to RON 138.544.435 representing Transgaz's share in the equity of Nabucco Gas Pipeline International GmbH ('NIC').

The gross profit increased by 91% as compared to the plan, which is higher by RON 249.888 thousand as compared to the REB, and the net profit increased by 87% as compared to the plan, which is higher by RON 201.178 thousand as compared to the REB.

2. Investment programme achievement status

The **capital expenditure** achieved at 30 September 2017 amounted to **RON 46.026 thousand**, of which RON 2.669 thousand are NTS connection installations under the NTS access rules approved by GR 1043/2004.

The capital expenditure financing sources:

	* RON thousand*
	Achievements
▪ Net profit allocated for own financing	197.565
▪ Depreciation	121.450
▪ Non-monetary expenses	35.678
▪ Previous year surplus	885.038
TOTAL	1.239.731

Investments amounting to RON 36.136 thousand were commissioned within the period analysed.

3. Receivables and arrears

At 30 September 2017 the arrears amounted to RON 306.917 thousand, being higher by RON 56.498 thousand as compared to the same period of the previous year (RON 250.419 thousand).

At 30 September 2017 Transgaz has no outstanding payments.

4. Debts to the state budget

At 30 September 2017 the amount of **RON 536.775 thousand** was paid up to the state budget, out of which:

- VAT: RON 203.759 thousand;
- Oil royalty: RON 149.526 thousand;
- Income tax: RON 97.500 thousand;
- Natural monopoly tax: RON 44.288 thousand;
- Tax on salary: RON 32.466 thousand.

The amount of RON 102.183 thousand was also paid up to local budgets, special funds and social insurance budgets.

**DIRECTOR - GENERAL
ION STERIAN**

**Chief Financial Officer
Marius Lupean**

ANNEX 1**The synthesis of the Statement of financial position as of 30.09.2017*****RON***

No.	Name	31.12.2016	30.09.2017
1.	Assets		
	Non-current assets	3.797.953.860	3.708.706.484
	Current assets	1.556.496.136	1.426.829.298
	Total	5.354.449.996	5.135.535.782
2.	Equity and liabilities		
	Equity	3.837.701.435	3.725.770.794
	Non-current liabilities	1.211.416.178	1.194.849.098
	Current liabilities	305.332.383	214.915.890
	Total	5.354.449.996	5.135.535.782

ANNEX 2**The synthesis of the Statement of comprehensive income for the
01.01.2017 - 30.09.2017 reporting period*****RON***

No.	Name	30.09.2016	30.09.2017
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	1.240.473.864	1.302.436.850
	- revenue from the domestic transmission activity	902.349.421	999.198.970
	- revenue from the international transmission activity	240.298.540	252.240.143
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	822.329.036	811.970.592
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	418.144.828	490.466.258
	Revenue from the balancing activity	23.808.757	92.299.433
	Cost from the balancing activity	23.037.297	87.337.083
	Revenue from the construction activity according to IFRIC12	49.223.495	28.067.161
	Cost of assets built, according to IFRIC12	49.223.495	28.067.161
2.	Operating result (profit)	418.916.288	495.428.608
	Financial revenue	19.836.788	176.284.454
	Financial cost	5.002.047	147.971.513
3.	Financial result	14.834.741	28.312.941
4.	Gross result (profit)	433.751.029	523.741.549
5.	Income tax	75.282.105	90.189.999
6.	Net result (profit)	358.468.924	433.551.550

ANNEX 3**The main economic and financial indicators for
the 01.01.2017 - 30.09.2017 reporting period**

No.	Indicator	30.09.2017	Result
1.	Current liquidity ratio	Current assets / Current liabilities	6,64
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	0
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	0
3.	Days sales outstanding	Average balance clients x 273 / Turnover	129,72
4.	Non-current assets turnover	Turnover/ Non-current assets	0,36