

REPORT AND ISSUER IDENTIFICATION DATA

Quarterly report according to the provisions of art. 227 of Law no. 297/2004
Date of report: 14 November 2018
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 30.09.2018 (1 January-30 September 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 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. 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

1.1 Analysis of revenue and expense at 30 September 2018 compared to the as compared to the revenue and expense obtained at 30 September 2017.

The main financial and economic indicators obtained at 30 September 2018, compared to the indicators obtained in the same period in 2017, are presented in the following table:

* thousand LEI *

No.	Name	Obtained between 01.01-30.09.2017	Obtained between 01.01-30.09.2018	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.302.437	1.115.708	-14%
2.	Revenue from the balancing activity	92.299	118.838	29%
3.	Revenue from the construction activity according to IFRIC12	28.067	109.545	290%
4.	Financial revenue	176.284	36.560	-79%
5.	Operating costs before the construction activity, according to IFRIC12	811.971	777.746	-4%
6.	Costs from the balancing activity	87.337	118.838	36%
7.	Cost of assets built according to IFRIC12	28.067	109.545	290%
8.	Financial costs	147.972	18.009	-88%
9.	GROSS PROFIT , of which:	523.742	356.513	-32%
	• from operation	495.429	337.962	-32%
	• from the financial activity	28.313	18.551	-34%
10.	Income tax	90.190	57.231	-37%
11.	NET PROFIT	433.552	299.282	-31%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by **14%** as compared to the corresponding period in 2017, which is lower by **LEI 186.729 thousand**.

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by **LEI 61.219 thousand** due to:
 - the capacity booking tariff lower by Lei 0,16 /MWh, with a negative influence of LEI 41.045 thousand;
 - booked capacities lower by 8.590.389 MWh, with a negative influence of LEI 20.174 thousand.
- commodity component revenue lower by **LEI 109.799 thousand** due to:
 - the gas transmitted capacities lower 432.043 MWh/33.305 thousand cm (▼ 0,44%), as compared to the same period in 2017, detailed by categories of consumers as follows:

		9 months 2017	9 months 2018	Differences
Quantity transmitted for direct consumers	MWh	45.899.329	47.441.365	1.542.036
	thousand m ³	4.289.099	4.439.435	150.336
Quantity transmitted for distribution	MWh	53.106.341	51.132.262	-1.974.079
	thousand m ³	4.929.394	4.745.753	-183.641
Total*)	MWh	99.005.670	98.573.627	-432.043
	thousand m ³	9.218.493	9.185.188	-33.305

*) transmitted quantity for which transmission servicesd are invoiced

The tariffs between 01.01 and 30.09.2018 as compared to 01.01-30.09.2017 decreased mainly due to a lower approved revenue in gas year October 2017- September 2018 as compared to the revenue approved in gas year October 2016 and September 2017 mainly because of the differences for the adjustment of the revenue in gas year 2017-2018 (efficiency gain redistribution component of -112 million lei, 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 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.

- revenue from capacity booking lower by **LEI 13.439 thousand** due to foreign currency exchange gain regarding the (TII and TIII) contract currency and the application of ANRE Order 34/19 July 2016 (for TI) based on:
 - a capacity higher by 275.098.263 kWh with a positive influence of Lei 294 thousand
 - the decreasing of short-term products (with a higher price per unit) procurement in 2018, with a negative influence of Lei 6.605 thousand.
- other operating revenue lower by **LEI 2.272 thousand**.

Revenue from the balancing activity increased by **LEI 26.538 thousand** based on the following factors:

- quantity higher by 89.288 MWh with a positive influence of LEI 7.042 thousand;
- trading price higher by LEI 15,48 /MWh, with a positive influence of LEI 19.496 thousand.

Revenue from the construction activity higher by **LEI 81.478 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 139.724 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 discontinued 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 **4%** as compared to the same periods of 2017, which is lower by **LEI 34.225 thousand**.

The company made savings of LEI 47.091 thousand, mainly in relation to the following cost elements:

- ☞ transmission system technological gas consumption and loss decreased by **LEI 4.448 thousand** due to the following:
 - amount of gas for technological consumption lower by 146.158 MWh (▼ 19%), with a positive influence of LEI 10.232 thousand;
 - average purchase price in the first nine months of 2018 higher as compared to the same period of time in 2017 by LEI 9,17 /MWh, with a negative influence of LEI 5.784 thousand;
- ☞ cost of personnel: LEI 3.250 thousand;
- ☞ cost of royalty: LEI 18.446 mii lei
- ☞ cost of auxiliary materials and other material costs: LEI 4.271 thousand;
- ☞ other operating costs: LEI 16.676 thousand, mainly due to lower cost of provision for depreciation of current assets.

An expense surplus of LEI 12.866 thousand was recorded mainly in relation to the following cost elements:

- depreciation costs: LEI 1.352 thousand;
- cost of maintenance and transmission: LEI 5.952 thousand;
- cost of taxes and duties: LEI 4.368 thousand;
- cost of provision for risks and charges: LEI 1.194 thousand.

The financial cost is lower by **LEI 129.963 thousand** mainly based on the 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 the same period in 2017 the gross profit obtained in the first nine months of 2018 decreased by 32%, which is lower by LEI 167.228 thousand.

The main economic and financial indicators obtained in Quarter III 2018 as compared to the same period in 2017 are as follows:

thousand LEI

No.	Name	Obtained in Q III 2018	Obtained in Q III 2017	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	321.960	291.801	-9%
2.	Revenue from the balancing activity	15.608	28.354	82%
3.	Revenue from the construction activity, according to IFRIC12	10.535	74.626	608%
4.	Financial revenue	154.517	14.582	-91%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	291.994	271.599	-7%
6.	Costs from the balancing activity	15.425	28.354	84%
7.	Cost of assets built according to IFRIC12	10.535	74.626	608%
8.	Financial costs	139.300	9.131	-93%
9.	GROSS PROFIT , of which:	45.366	25.653	-43%
	• from operation	30.149	20.202	-33%

No.	Name	Obtained in Q III 2018	Obtained in Q III 2018	Increase
	• from the financial activity	15.218	5.451	-64%
10.	Income tax	12.305	5.977	-51%
11.	NET PROFIT	33.061	19.676	-40%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 9% as compared to the corresponding period in 2017, which is lower by LEI 30.159 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by **LEI 5.622 thousand** due to:
 - booked capacities lower by 233.721 MWh, with a negative influence of LEI 422thousand;
 - the capacity booking tariff lower by Lei 0,08/MWh, with a negative influence of LEI 5.200 thousand.
- commodity component revenue lower by **LEI 22.452 thousand** due to:
 - the invoiced gas capacities higher by 1.754.458 MWh/165.414 thousand cm (▲ 7%), detailed by categories of consumers as follows:

		QIII 2017	QIII 2018	Differences
Quantity transmitted for direct consumers	MWh	18.143.854	19.974.406	1.830.552
	thousand m ³	1.695.190	1.869.293	174.103
Quantity transmitted for distribution	MWh	7.191.681	7.115.587	-76.094
	thousand m ³	666.117	657.427	-8.690
Total	MWh	25.335.535	27.089.993	1.754.458
	thousand m ³	2.361.307	2.526.720	165.413

The tariffs in QIII 2018 as compared to QIII 2017 decreased mainly due to a lower approved revenue in gas year October 2017- September 2018 as compared to the revenue approved in gas year October 2016 and September 2017 mainly because of the differences for the adjustment of the revenue in gas year 2017-2018 (efficiency gain redistribution component of -112 million lei, 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 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.

- revenue from capacity booking higher by **LEI 1.293 thousand** due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- other operating revenue lower by **LEI 3.377 thousand**;

- revenue from the balancing activity according to ANRE Order 1/18.01.2016 increased by **LEI 12.747 thousand** based on the following factors:
 - quantity higher by 100.100 MWh with a positive influence of LEI 7.184 thousand;
 - trading price higher by LEI 17,52/MWh, with a positive influence of LEI 5.563 thousand.
- revenue from the construction activity higher by **LEI 64.091 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 139.935 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 **7%** as compared to QIII 2017, which is lower by **LEI 20.394 thousand**.

The company made savings of LEI 25.959 thousand, mainly in relation to the following cost elements:

- ↳ technological consumption : LEI 8.172 thousand;
- ↳ cost of personnel: LEI 5.764 thousand;
- ↳ cost of royalty: LEI 18.446 mii lei
- ↳ cost of auxiliary materials and other materials: LEI 2.657 thousand;
- ↳ cost of royalty: LEI 2.678 thousand;
- ↳ other operating costs: LEI 6.688 thousand.

An expense surplus of LEI 5.565 thousand was recorded mainly in relation to the following cost elements:

- fixed assets depreciation costs: LEI 232thousand;
- cost of maintenance and transmission: LEI 2.671 thousand;
- cost of taxes and duties: LEI 2.294 thousand;
- cost of provision for risks and charges: LEI 367thousand.

The financial cost is lower by **LEI 130.169 thousand** mainly based on the 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 QIII 2017 the gross profit obtained in QIII 2018 decreased by 43%, which is lower by LEI cu 19.713 thousand.

1.2 The analysis of the economic and financial indicators obtained at 30 September 2018 compared to the revenue and expense budget approved by OGMS Resolution 2/06.03.2018

The main economic and financial indicators obtained between 01.01 and 30.09.2018 as compared to the REB indicators are as follows:

thousand LEI

No.	Name	REB 01.01-30.09.2018	Obtained between 01.01-30.09.2018	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.058.551	1.115.708	5%
2.	Revenue from the balancing activity	13.648	118.838	771%
3.	Revenue from the construction activity, according to IFRIC12	597.871	109.545	-82%
4.	Financial revenue	25.902	36.560	41%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	911.851	777.746	-15%
6.	Costs from the balancing activity	13.648	118.838	771%
7.	Cost of assets built according to IFRIC12	597.871	109.545	-82%
8.	Financial costs	11.250	18.009	60%
9.	GROSS PROFIT , of which:	161.352	356.513	121%
	• from operation	146.699	337.962	130%
	• from the financial activity	14.652	18.551	27%
10.	Income tax	19.440	57.231	194%
11.	NET PROFIT	141.912	299.282	111%

Operating revenue before the balancing and construction activity according to IFRIC12 increased by **LEI 57.157 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **LEI 81.803 thousand** due to:
 - Capacities booked higher by 15.006.451 MWh, with a positive influence of **LEI 83.854 thousand**, mainly due to the invoicing of the booking capacity surplus for the first nine months of 2018 amounting to LEI 58.795 thousand, 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 lower by 315.930 MWh/100.217 thousand cm (▼ 0,32%), with a negative influence of **LEI 2.051 thousand**;
- Revenue from international gas transmission services decreased by **LEI 3.654 thousand**, due to foreign currency exchange gain regarding the contract currency;
- Other operating revenue decreased by **Lei 20.992 thousand** as compared to the REB.
- Revenue from the balancing activity increased by **LEI 105.189 thousand** based on the following:
 - Quantity higher by 1.099.470 MWh, with a positive influence of LEI 93.705 thousand;
 - Trading price higher by LEI 9,12/MWh, with a positive influence of LEI 11.484 thousand.

Financial revenue increased by **LEI 10.658 thousand** as compared to the REB.

The operating costs before the balancing and construction activity according to IFRIC12 decreased by **15%** as compared to the plan approved, which is lower by **LEI 134.105 thousand** as compared to the REB.

Savings amounting to LEI 152.744 thousand were recorded mainly the following cost elements:

- 👉 transmission system technological gas consumption and loss amounting to **LEI 27.447 thousand**, due to the following:
 - average purchase price lower by LEI 0,12 /MWh as compared to the REB, with a positive influence of LEI 77 thousand;
 - amount of gas for technological consumption lower by 345.140 MWh ((▼ 35%) than planned, with a positive influence of LEI 27.370 thousand;
- 👉 costs of auxiliary materials and other materials: LEI 16.456 thousand;
- 👉 costs of personnel: LEI 48.219 thousand;
- 👉 maintenance and transmission: LEI 37.872 thousand;
- 👉 cost of taxes and duties: LEI 2.001 thousand;
- 👉 depreciation: LEI 5.121 thousand;
- 👉 other operating costs: LEI 19.663 thousand.

An expense surplus of LEI 18.638 thousand was recorded mainly in relation to the following cost elements:

- NTS concession royalty: LEI 7.815 thousand;
- cost of provision for risks and charges: LEI 10.824 thousand.

The financial cost is higher by **LEI 6.759 thousand**.

The gross profit increased by 121% as compared to the plan, which is higher by **LEI 195.162 thousand** as compared to the REB, and the net profit increased by **111%** as compared to the plan, which is higher by **LEI 157.370 thousand** as compared to the REB.

2. Investment plan achievement status

The capital expenditure achieved at 30 September 2018 amounted to **LEI 168.624 thousand**, of which LEI 3.950 thousand are NTS connection installations under the NTS access rules approved by GR1043/2004.

Investments amounting to LEI 25.769 thousand were commissioned within the period analysed.

3. Receivables and arrears

On 30 September 2018 the outstanding receivables amounted to LEI 309.144 thousand, which is higher by LEI 2.227 thousand as compared to the same period of the previous year (LEI 306.917 thousand).

On 30 September 2018 Transgaz has no outstanding payments.

4. Debts to the state budget

Between 01.01 and 30.09.2018 the amount of **LEI 388.868 thousand** was paid up to the state budget, out of which:

- VAT: LEI 129.227 thousand;
- Oil royalty: LEI 121.121 thousand;
- Income tax: LEI 64.595 thousand;
- Natural monopoly tax: LEI 44.351 thousand;
- Tax on salary: LEI 21.350 thousand;
- Dividend tax: LEI 6.350 thousand
- Excises: LEI 1.874 thousand.

The amount of LEI 121.548 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 30.09.2018*****LEI***

No.	Name	31.12.2017	30.09.2018
1.	Assets		
	Non-current assets	3.709.379.966	3.763.278.178
	Current assets	1.523.897.156	1.397.499.028
	Total	5.233.277.122	5.160.777.206
2.	Equity and liabilities		
	Equity	3.721.150.034	3.486.134.938
	Non-current liabilities	1.238.524.550	1.458.552.529
	Current liabilities	273.602.538	216.089.739
	Total	5.233.277.122	5.160.777.206

Annex no. 2**The synthesis of the Statement of comprehensive income for the
01.01.2018 - 30.09.2018 reporting period*****LEI***

No.	Name	30.09.2017	30.09.2018
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	1.302.436.850	1.115.707.957
	- revenue from the domestic transmission activity	999.198.970	828.181.273
	- revenue from the international transmission activity	252.240.143	238.801.097
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	811.970.592	777.745.869
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	490.466.258	337.962.088
	Revenue from the balancing activity	92.299.433	118.837.728
	Cost from the balancing activity	87.337.083	118.837.728
	Revenue from the construction activity according to IFRIC12	28.067.161	109.545.456
	Cost of assets built, according to IFRIC12	28.067.161	109.545.456
2.	Operating result (profit)	495.428.608	337.962.088
	Financial revenue	176.284.454	36.560.161
	Financial cost	147.971.513	18.008.942
3.	Financial result	28.312.941	18.551.219
4.	Gross result (profit)	523.741.549	356.513.307
5.	Income tax	90.189.999	57.231.362
6.	Net result (profit)	433.551.550	299.281.945

Annex no.3**The main economic and financial indicators for
the 01.01.2018 - 30.09.2018 reporting period**

No.	Name	30.09.2018	Result
1.	Current liquidity ratio	Current assets / Current liabilities	6,47
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	6,69
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	6,27
3.	Days sales outstanding	Average balance clients x 273 / Turnover	134,60
4.	Non-current assets turnover	Turnover/ Non-current assets	0,32