

REPORT AND ISSUER IDENTIFICATION DATA

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

Date of report: 13 November 2020

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 30.09.2020
(1 January-30 September 2020)

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.

For the period ended on 30 September 2019 the revenue obtained from the transmission activity is regulated by **ANRE Order 32/21 May 2014 on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariff Setting Methodology**, and for the period ended on 30 September 2020 by **ANRE Order 41/15 March 2019 on the approval of the Regulated Gas Transmission Tariff Setting Methodology**.

The above-mentioned methodologies establish 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 recognised by ANRE at the pass-through costs and implicitly at the regulated revenue; by ANRE Order 203/28 October 2020 the Tariff Setting Methodology was amended, the royalties for the concession of the assets owned by the State and the royalties established under the contracts for the concession of the gas transmission service and/or related assets owned by the State or an administrative-territorial unit not being recognised as gas transmission activity expenses, with the exception of those relating to the period up to the date of entry into force of the provisions of Law 155/2020 on the amending and supplementation of Electricity and Gas Law 123/2012 and on the amending and supplementation of other normative acts. Law 244/9 November 2020 established the annual royalty rate paid by the gas transmission operator to 0.4% of the gross revenue obtained from gas transmission and transit operations through the national transmission systems, owned by the State.
- ✎ *regulated depreciation* of the assets related to the transmission activity;
- ✎ *regulated profit* set by applying the regulatory rate of return to the regulatory value of the assets used for the performing 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 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% for the 1 October 2018 – 30 September 2019 period, to 6,9% of the amount of capital invested in this activity for the 1 October 2019 - 30 April 2020 period, to 5,66 % for the 30.04.2020-12.05.2020 period and to 6,39% for the 13.05.2020-30.09.2020 period.

For the capital invested in tangible and intangible assets, assets put into service/received in the fourth regulatory period, which are objectives of the gas transmission system, an incentive of 1 percentage point above the regulated rate of

return on invested capital approved by ANRE for the natural gas transmission activity is granted.

From 1 October 2019 with the entry into force of ANRE Order 41/15 March 2019 the efficiency gain achieved by the TSO from the fourth regulatory period (1 October 2019 - 30 September 2024) will be 60% transferred by linearization to natural gas consumers and 40% will be retained by the TSO.

👉 **international gas transmission activity**, which is a gas transmission activity performed through dedicated transmission pipelines (which 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 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 99/29 May 2018 for the period 1 October 2018 – 30 September 2019. From 1 October 2019 following connection of this pipeline with the National Transmission

System, the revenue related to the Isaccea 1 - Negru Voda 1 pipeline is regulated revenue stated according to the methodology approved by ANRE Order 41/2019.

Considering Order 34/2016 amended by Order 158/2019, by Order 166/24 July 2019 ANRE establishes the total regulated revenue for a gas year for the Isaccea 2- Negru Vodă 2 pipeline gas transmission activity performed by the National Gas Transmission Company TRANSGAZ S.A., and the transmission tariffs valid for the 1 October 2019 - 30 September 2020 period, tariffs applicable only if interconnection agreements with the neighbouring operators are concluded (according to Art. 3 of ANRE Order 34/2016).

For the Isaccea 3 – Negru Vodă 3 gas transmission pipeline 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 operating revenue 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

1.1 Analysis of revenue and expense at 30 September 2020 compared to the revenue and expense obtained at 30 September 2019

The main financial and economic indicators obtained at 30 September 2020, compared to the indicators obtained in the same period in 2019 are presented in the following table:

* thousand LEI *

No.	Name	Obtained 01.01- 30.09.2019	Obtained 01.01- 30.09.2020	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.085.513	1.006.351	-7%
2.	Revenue from the balancing activity	250.930	148.026	-41%
3.	Revenue from the construction activity according to IFRIC12	521.459	1.018.106	95%
4.	Financial revenue	41.522	50.148	21%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	840.997	795.814	-5%
6.	Costs from the balancing activity	250.930	148.026	-41%
7.	Cost of constructed assets according to IFRIC12	521.459	1.018.106	95%
8.	Financial costs	20.742	12.458	-40%
9.	GROSS PROFIT , of which:	265.297	248.227	-6%
	• from operation	244.516	210.537	-14%
	• from the financial activity	20.781	37.690	81%
10.	Income tax	40.608	43.430	7%
11.	NET PROFIT	224.689	204.796	-9%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by **7%** as compared to 9 months 2019, which is lower by **LEI 79.162 thousand**.

The revenue was influenced mainly by the following factors:

- *commodity revenue lower by LEI 100.062 thousand* due to:
 - *the commodity transmission tariff lower by Lei 0,83 lei/MWh, with a negative influence of LEI 75.820 thousand;*
 - *the gas transmitted capacities lower by 9.497.483 MWh/956.221 thousand cm (▼9%), as compared to 9 months 2019, with a negative influence of LEI 24.243 thousand, detailed by categories of consumers as follows:*

		9 months 2019	9 months 2020	Differences
Quantity transmitted for direct consumers	MWh	50.818.152	43.441.474	-7.376.678
	thousand m ³	4.781.956	4.033.556	-748.400
Quantity transmitted for distribution	MWh	52.676.229	50.555.424	-2.120.805
	thousand m ³	4.900.812	4.692.991	-207.821
	MWh	103.494.381	93.996.898	-9.497.483

		9 months 2019	9 months 2020	Differences
Total	thousand m ³	9.682.768	8.726.547	-956.221

The commodity tariffs decreased in 01.01-30.09.2020 as compared to 01.01-30.09.2019, mainly due to:

- Order 10/2017 of the ANRE President on the amending 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 to 25% of the total revenue;
- at the substantiation of the tariffs for gas year 2019-2020, the tax on the monopoly was not recognised by ANRE at the pass-through costs and implicitly at the regulated revenue.
- *revenue from capacity booking* higher by **LEI 186.911 thousand** due to :
 - *booked capacities* higher by 3.997.776 MWh, with a positive influence of LEI 8.134 thousand;
 - *capacity booking tariff* higher by LEI 0,65 lei/MWh, with a positive influence of LEI 178.777 thousand, increase mainly determined by the invoicing of revenue from the auction premium, following the capacity booking auctions performed according to the CAM-NC by interconnection points.
- *international gas transmission revenue* lower by **LEI 168.426 thousand** due to the termination of the transmission contract with Gazprom Export Ltd for the Isaccea 2 - Negru Voda 2 pipeline and regulation of the Isaccea 1 – Negru Voda 1 pipeline transmission revenue according to the methodology approved by ANRE Order 41/2019 following the connection of this pipeline to the National Transmission System from 1 October 2019;
- *other operating revenue* higher by **LEI 2.415 thousand**.

Revenue from the balancing activity lower by **LEI 102.904 thousand** based on the following factors:

- trading price lower by LEI 42,51 /MWh, with a negative influence of LEI 100.965 thousand;
- quantity lower by 18.490 MWh with a negative influence of LEI 1.938 thousand;

Revenue from the construction activity higher by **LEI 496.646 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 8.626 thousand** mainly due to the recording of revenue as a consequence of the updating of the regulated assets value with the inflation and foreign currency exchange gains.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by **5%** as compared to 9 months 2019, which is lower by **LEI 45.183 thousand**.

The company made savings of LEI 91.989 thousand, mainly in relation to the following cost elements:

- transmission system gas consumption LEI 2.706 thousand, due to:
 - quantity of natural gas for NTS gas consumption lower by 65.057 MWh as compared to 9 months 2019, with a positive influence of LEI 6.656 thousand;
 - average purchase price higher by LEI 8,79 /MWh as compared to the one obtained in 9 months 2019, with a negative influence of LEI 3.950 thousand;
 - other operating costs: LEI 49.219 thousand, mainly based on the decreasing of the cost of the adjustment for impairment of current assets, compared to 9 months 2019;
 - cost of taxes and amounts due to the state: LEI 25.793 thousand;
 - costs of NTS concession royalty: LEI 7.411 thousand;
 - cost of auxiliary materials and other material costs: LEI 3.835 thousand;
 - cost of maintenance and transmission: LEI 3.025 thousand.

Exceedings amounting to LEI 46.806 thousand were recorded to the following cost elements:

- 👍 costs of personnel: LEI 22.109 thousand;
- 👍 cost of depreciation: LEI 23.424 thousand;
- 👍 costs of repairs: LEI 849 thousand;
- 👍 costs of provision for risks and charges: LEI 423 thousand.

The financial cost is lower by **LEI 8.284 thousand** mainly based on the foreign currency exchange loss.

Compared to 9 months 2019 the gross profit obtained in 9 months 2020 decreased by 6%, which is lower by LEI 17.070 thousand.

The main financial and economic indicators obtained in Q III 2020, compared to the same period in 2019 are presented in the following table:

* thousand LEI *

No.	Name	Obtained Q III 2019	Obtained Q III 2020	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	310.519	247.322	-20%
2.	Revenue from the balancing activity	67.721	36.073	-47%
3.	Revenue from the construction activity according to IFRIC12	223.561	345.105	54%

No.	Name	Obtained Q III 2019	Obtained Q III 2020	Increase
4.	Financial revenue	8.324	7.731	-7%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	280.964	278.742	-1%
6.	Costs from the balancing activity	67.721	36.073	-47%
7.	Cost of constructed assets according to IFRIC12	223.561	345.105	54%
8.	Financial costs	4.308	5.230	21%
9.	GROSS PROFIT , of which:	33.570	-28.919	-186%
	• from operation	29.555	-31.421	-206%
	• from the financial activity	4.015	2.502	-38%
10.	Income tax	4.383	-2.547	-158%
11.	NET PROFIT	29.188	-26.372	-190%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by **20%** as compared to the same period of 2019, which is lower by **LEI 63.197 thousand**.

The revenue was influenced mainly by the following factors:

- *commodity revenue lower by LEI 40.511 thousand* due to:
 - *the commodity transmission tariff lower by Lei 1,03 lei/MWh, with a negative influence of LEI 23.889 thousand;*
 - *the decreasing of the invoiced gas quantity by 6.179.311 MWh, with a negative influence of LEI 16.623 thousand, detailed by categories of consumers as follows:*

		Q III 2019	Q III 2020	Differences
Quantity transmitted for direct consumers	MWh	23.042.489	17.109.847	-5.932.642
	thousand m ³	2.174.541	1.577.359	-597.182
Quantity transmitted for distribution	MWh	7.172.137	6.925.468	-246.669
	thousand m ³	662.292	641.245	-21.047
Total	MWh	30.214.626	24.035.315	-6.179.311
	thousand m ³	2.836.833	2.218.604	-618.229

The commodity tariffs decreased in Q III 2020 as compared to Q III 2019, mainly due to:

- Order 10/2017 of the ANRE President on the amending 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 to 25% of the total revenue;
- at the substantiation of the tariffs for gas year 2019-2020, the tax on the monopoly was not recognised by ANRE at the pass-through costs and implicitly at the regulated revenue.
 - *revenue from capacity booking* higher by **LEI 31.853 thousand** due to :
 - *capacity booking tariff* higher by LEI 0, 56 lei/MWh, with a positive influence of LEI 40.721 thousand, increase mainly determined by the invoicing of revenue from the auction premium, following the capacity booking auctions performed according to the CAM-NC by interconnection points;
 - *booked capacities* lower by 5.252.270 MWh, with a negative influence of LEI 8.868 thousand.
 - *international gas transmission revenue* lower by **LEI 57.226 thousand** due to the termination of the transmission contract with Gazprom Export Ltd for the Isaccea 2 - Negru Voda 2 pipeline and regulation of the Isaccea 1 – Negru Voda 1 pipeline transmission revenue according to the methodology approved by ANRE Order 41/2019 following the connection of this pipeline to the National Transmission System from 1 October 2019;
 - *other operating revenue* higher by **LEI 2.687 thousand**.
 - *revenue from the balancing activity* according to ANRE Order 1/18.01.2016 lower by **LEI 31.648 thousand** based on the following factors:
 - quantity lower by 37.655 MWh with a negative influence of LEI 3.882 thousand;
 - trading price lower by LEI 44,84/MWh, with a negative influence of LEI 27.766 thousand;
 - *revenue from the construction activity* higher by **LEI 121.544 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* with a negative influence of **LEI 592 thousand** due to foreign exchange currency loss.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by **1%** as compared to the same period of 2019, which is lower by **LEI 2.221 thousand**.

The company made savings of LEI 27.320 thousand, mainly in relation to the following cost elements:

- cost of technological consumption: LEI 2.834 thousand;
- cost of royalty: LEI 5.842 thousand;
- costs of maintenance and transmission: LEI 680 thousand;
- cost of taxes and duties: LEI 9.761 thousand;
- other operating costs: LEI 8.203 thousand.

Exceedings amounting to LEI 25.099 thousand were recorded mainly to the following cost elements:

- 👉 costs of depreciation of fixed assets: LEI 15.324 thousand;
- 👉 cost of personnel: LEI 4.206 thousand;
- 👉 costs of provision for risks and charges: LEI 290 thousand;
- 👉 costs of auxiliary materials and other materials: LEI 5.278 thousand.

The financial cost is higher by **LEI 921 thousand** mainly based on the foreign currency exchange gain.

Compared to Q III 2019 the gross profit obtained in Q III 2020 decreased by 186%, which is lower by LEI 62.489 thousand.

2. Investment plan achievement

The capital expenditure achieved at 30 September 2020 amounted to **LEI 1.115.791 thousand**, of which LEI 6.792 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

Investment amounting to LEI 984.082 thousand were commissioned in the analysed period.

3. Receivables and arrears

On 30 September 2020 the outstanding receivables amounted to LEI 421.769 thousand, which is higher by LEI 17.260 thousand as compared 31.12.2019.

On 30 September 2020 Transgaz has no outstanding payments.

4. Debts to the state budget

On 30 September 2020 the amount of **LEI 294.146 thousand** was paid up to the state budget, out of which:

- VAT: LEI 50.263 thousand;
- Oil royalty: LEI 121.037 thousand;
- Natural monopoly tax: LEI 42.067 thousand;
- Tax on salary: LEI 22.468 thousand;
- Excises: LEI 726 thousand;
- Income tax: LEI 55.534 thousand;
- Dividend tax: LEI 2.051 thousand.

The amount of LEI 143.911 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 30.09.2020

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No.	Name	31.12.2019	30.09.2020
1.	Assets		
	Non-current assets	4.484.129.289	5.585.376.999
	Current assets	1.285.039.006	975.364.949
	Total	5.769.168.295	6.560.741.948
2.	Equity and liabilities		
	Equity	3.781.940.387	3.804.595.412
	Non-current liabilities	1.489.789.170	2.161.693.409
	Current liabilities	497.438.738	594.453.127
	Total	5.769.168.295	6.560.741.948

Annex no. 2

**The synthesis of the Statement of Comprehensive Income
for the 01.01.2020 - 30.09.2020 reporting period**

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No.	Name	30.09.2019	30.09.2020
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	1.085.512.634	1.006.350.619
	- revenue from the domestic transmission activity	791.477.564	878.326.912
	- revenue from the international transmission activity	255.503.605	87.077.386
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	840.996.737	795.814.039
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	244.515.897	210.536.580
	Revenue from the balancing activity	250.929.758	148.025.924
	Cost from the balancing activity	250.929.758	148.025.924
	Revenue from the construction activity according to IFRIC12	521.459.417	1.018.105.706
	Cost of constructed assets, according to IFRIC12	521.459.417	1.018.105.706
2.	Operating result (profit)	244.515.897	210.536.580

	Financial revenue	41.522.259	50.147.965
	Financial cost	20.741.548	12.457.688
3.	Financial result	20.780.711	37.690.277
4.	Gross result (profit)	265.296.608	248.226.857
5.	Income tax	40.608.088	43.430.466
6.	Net result (profit)	224.688.520	204.796.391

Annex no. 3

The main economic and financial indicators for the 01.01.2020 – 30.09.2020 reporting period

No.	Name	30.09.2020	Result
1.	Current liquidity ratio	Current assets / Current liabilities	1,64
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	31,15%
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	23,75%
3.	Days sales outstanding	Average balance clients x 273 / Turnover	151,53
4.	Non-current assets turnover	Turnover/ Non-current assets	0,200