

REPORT AND ISSUER IDENTIFICATION DATA

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

Date of report: 14 May 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 31.03.2020
(1 January-31 March 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 Q I 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 Q I 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.

- ✎ 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 and to 6,9% of the amount of capital invested in this activity for the 1 October 2019 - 30 April 2020 period.

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 all 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 31 March 2020 compared to the revenue and expense obtained at 31 March 2019

The main financial and economic indicators obtained at 31 March 2020, compared to the indicators obtained in the same period in 2019 are presented in the following table:

* thousand LEI *

No.	Name	Obtained Q I 2019	Obtained Q I 2020	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	472.980	512.801	8%
2.	Revenue from the balancing activity	103.961	64.515	-38%
3.	Revenue from the construction activity according to IFRIC12	150.176	339.363	126%
4.	Financial revenue	22.687	7.271	-68%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	255.737	272.333	6%
6.	Costs from the balancing activity	103.961	64.515	-38%
7.	Cost of constructed assets according to IFRIC12	150.176	339.363	126%
8.	Financial costs	10.909	5.381	-51%
9.	GROSS PROFIT , of which:	229.021	242.358	6%
	▪ from operation	217.243	240.469	11%
	▪ from the financial activity	11.778	1.889	-84%
10.	Income tax	37.634	40.491	8%
11.	NET PROFIT	191.388	201.867	5%

Operating revenue before the balancing and construction activity, according to IFRIC12 increased by **8%** as compared to Q I 2019, which is higher by **LEI 39.821 thousand**.

The revenue was influenced mainly by the following factors:

- *revenue from capacity booking* higher by **LEI 125.579 thousand** due to :
 - *booked capacities* higher by 11.897.295 MWh, with a positive influence of LEI 29.423 thousand;
 - *capacity booking tariff* higher by Lei 0,76 lei/MWh, with a positive influence of LEI 96.156 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;
- *commodity revenue* lower by **LEI 30.080 thousand** due to:
 - the commodity transmission tariff lower by Lei 0,65 lei/MWh, with a negative influence of LEI 29.008 thousand;
 - the gas transmitted capacities lower by 646.721 MWh/68.088 thousand cm (▼1%), as compared to Q I 2019, with a negative influence of LEI 1.071 thousand, detailed by categories of consumers as follows:

		3 months 2019	3 months 2020	Differences
Quantity transmitted for direct consumers	MWh	11.274.702	11.545.026	270.324
	thousand m ³	1.051.352	1.078.004	26.652
Quantity transmitted for distribution	MWh	33.610.132	32.693.087	-917.045
	thousand m ³	3.134.104	3.039.364	-94.740
Total	MWh	44.884.834	44.238.113	-646.721
	thousand m ³	4.185.456	4.117.368	-68.088

The tariffs decreased inn 01.01-31.03.2020 as compared to 01.01-31.03.2019, 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.
- *international gas transmission revenue* lower by **LEI 56.719 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 Transmssion System from 1 October 2019;

- *other operating revenue* higher by **LEI 1.040 thousand**.

Revenue from the balancing activity lower by **LEI 39.446 thousand** based on the following factors:

- quantity lower by 6.907MWh with a negative influence of LEI 768 thousand;
- trading price lower by LEI 41,67 /MWh, with a negative influence of LEI 38.678 thousand;

Revenue from the construction activity higher by **LEI 189.187 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 negative influence of **LEI 15.417 thousand** due to the decreasing of exchange gains due to the diminishing of foreign currency holdings.

Operating costs before the balancing and construction activity according to IFRIC12 increased by **6%** as compared to Q I 2019, which is higher by **LEI 16.596 thousand**.

The company made savings of LEI 17.833 thousand, mainly in relation to the following cost elements:

- other operating costs: LEI 14.379 thousand, mainly due to the fact that in Q I 2020 the establishing/recording of adjustments for impairment of current assets was not necessary;
- cost of auxiliary materials and other material costs: LEI 3.124 thousand;
- cost of provisions for risks and charges: LEI 329 thousand.

Exceedings amounting to LEI 34.428 thousand were recorded to the following cost elements:

- transmission system technological gas consumption and loss amounting to **LEI 3.462 thousand**, due to the following:
 - average purchase price higher by LEI 7,83 /MWh as compared to the one obtained in Q I 2019, with a negative influence of LEI 1.881 thousand;
 - amount of gas for technological consumption higher by 15.813 MWh as compared to Q I 2019 , with a negative influence of LEI 1.581 thousand;
- costs of personnel: LEI 10.229 thousand;
- cost of depreciation: LEI 13.985 thousand;
- costs of NTS concession royalty: LEI 3.878 thousand;
- costs of maintenance and transmission: LEI 482 thousand;
- cost of taxes and amounts due to the state: LEI 2.393 thousand.

The financial cost is lower by **LEI 5.528 thousand** based on the foreign currency exchange loss.

Compared to Q I 2019 the gross profit obtained in Q I 2020 increased by 6%, which is higher by LEI 13.337 thousand.

2. Investment plan achievement

The capital expenditure achieved at 31 March 2020 amounted to **LEI 391.838 thousand**, of which LEI 157 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

Investment amounting to LEI 379.556 thousand were commissioned in the analysed period.

3. Receivables and arrears

On 31 March 2020 the outstanding receivables amounted to LEI 423.606 thousand, which is higher by LEI 19.097 thousand as compared 31.12.2019 (LEI 404.509 thousand).

On 31 March 2020 Transgaz has no outstanding payments.

4. Debts to the state budget

On 31 March 2020 the amount of **LEI 134.465 thousand** was paid up to the state budget, out of which:

- VAT: LEI 50.263 thousand;
- Oil royalty: LEI 47.331 thousand;
- Natural monopoly tax: LEI 14.670 thousand;
- Tax on salary: LEI 7.176 thousand;
- Excises: LEI 726 thousand;
- Income tax: LEI 14.204 thousand;
- Dividend tax: LEI 95 thousand.

The amount of LEI 49.784 thousand was also paid up to local budgets, special funds and social insurance budgets.

DIRECTOR - GENERAL

ION STERIAN

Chief Financial Officer

Lupean Marius

Annex no.1**The synthesis of the Statement of financial position as of 31.03.2020****lei**

No.	Name	31.12.2019	31.03.2020
1.	Assets		
	Non-current assets	4.484.129.289	4.818.223.121
	Current assets	1.285.039.006	1.229.582.492
	Total	5.769.168.295	6.047.805.613
2.	Equity and liabilities		
	Equity	3.781.940.388	3.983.807.417
	Non-current liabilities	1.489.789.170	1.481.388.953
	Current liabilities	497.438.737	582.609.243
	Total	5.769.168.295	6.047.805.613

Annex no. 2**The synthesis of the Statement of Comprehensive Income
for the 01.01.2020 - 31.03.2020 reporting period****lei**

No.	Name	31.03.2019 restated	31.03.2020
	Operating revenue before the balancing and construction activity, according to IFRIC12, of which:	472.980.258	512.801.387
	- revenue from the domestic transmission activity	378.768.801	474.268.118
	- revenue from the international transmission activity	86.265.849	29.547.277
	Operating cost before the balancing and construction activity, according to IFRIC12, and balancing	255.736.863	272.332.554
1.	Operating result before the balancing and construction activity, according to IFRIC12 (profit)	217.243.395	240.468.833
	Revenue from the balancing activity	103.961.449	64.515.238
	Cost from the balancing activity	103.961.449	64.515.238
	Revenue from the construction activity according to IFRIC12	150.175.759	339.362.701
	Cost of constructed assets, according to IFRIC12	150.175.759	339.362.701
2.	Operating result (profit)	217.243.395	240.468.833
	Financial revenue	22.687.277	7.270.531
	Financial cost	10.909.490	5.381.143
3.	Financial result	11.777.787	1.889.388
4.	Gross result (profit)	229.021.182	242.358.221
5.	Income tax	37.633.679	40.491.191
6.	Net result (profit)	191.387.503	201.867.030

Annex no. 3**The main economic and financial indicators for
the 01.01.2020 – 31.03.2020 reporting period**

No.	Name	31.03.2020	Result
1.	Current liquidity ratio	Current assets / Current liabilities	2,11
2.	Indebtness ratios		
2.1	Indebtness ratios 1	Borrowed capital / Equity	16,45%
2.2	Indebtness ratios 2	Borrowed capital / Capital employed	14,13%
3.	Days sales outstanding	Average balance clients x 90 / Turnover	105,24
4.	Non-current assets turnover	Turnover/ Non-current assets	0,118