

## RELEASE

### on the economic and financial indicators as of 30 June 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 Semester 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 Semester 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, 6,9% of the amount of capital invested in this activity for the 1 October 2019 - 30 April 2020 period, 5,66% for the 30.04.2020-12.05.2020 period, and 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 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 30 June 2020 compared to the revenue and expense obtained at 30 June 2019

The main economic and financial indicators obtained on 30 June 2020, compared to the indicators obtained in the similar period of 2019 are presented in the table below:

*\*thousand lei\**

No.	Name	Obtained Sem I 2019	Obtained Sem 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	774.994	759.029	-2%
2.	Revenue from the balancing activity	183.208	111.953	-39%
3.	Revenue from the construction activity, according to IFRIC12	297.898	673.000	126%
4.	Financial revenue	33.199	42.417	28%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	560.033	517.072	-8%
6.	Cost of balancing gas	183.208	111.953	-39%
7.	Cost of assets built according to IFRIC12	297.898	673.000	126%
8.	Financial costs	16.433	7.228	-56%
<b>9.</b>	<b>GROSS PROFIT</b> , of which:	<b>231.726</b>	<b>277.146</b>	<b>20%</b>
	• from operation	214.961	241.957	13%
	• from the financial activity	16.765	35.189	110%
<b>10.</b>	<b>Income tax</b>	<b>36.225</b>	<b>45.978</b>	<b>27%</b>
<b>11.</b>	<b>NET PROFIT</b>	<b>195.501</b>	<b>231.168</b>	<b>18%</b>

**Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 2% as compared to Semester I 2019, which is lower by lei 15.965 thousand.**

**The revenue was influenced mainly by the following factors:**

- commodity component revenue lower by **lei 59.551 thousand** due to:
  - the commodity transmission tariff lower by lei 0,74 lei/MWh, with a negative influence of lei 51.931 thousand;
  - the gas transmitted capacities lower by 3.318.172 MWh/337.992 thousand cm (▼5%), as compared Semester I 2019, with a negative influence of lei 7.620 thousand, detailed by categories of consumers as follows:

		Sem. I 2020	Sem. I 2019	Differences
Quantity transmitted for direct consumers	MWh	26.331.627	27.775.663	-1.444.036
Quantity transmitted for distribution	MWh	43.629.956	45.504.092	-1.874.136
Total <sup>*)</sup>	MWh	69.961.583	73.279.756	-3.318.172

*\*) transmitted quantity for which transmission services are invoiced*

The commodity tariffs decreased in 01.01-30.06.2020 as compared to 01.01-30.06.2019 mainly due 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 in the category of the costs passed-through and implicitly in the regulated revenue.
- revenue from capacity booking higher by **lei 155.058 thousand** due to:
  - capacity booking tariff higher by 9.250.046 MWh, with a positive influence of lei 20.131 thousand;
  - booked capacities higher by 0,67 lei/MWh, with a positive influence of lei 134.927 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 111.200 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 lower by **lei 272 thousand**.

Revenue from the balancing activity decreased by **lei 71.256 thousand** based on the following factors:

- trading price lower by lei 41,74 lei/MWh, with a negative influence of lei 73.278 thousand.
- quantity higher by 19.165 MWh with a positive influence of lei 2.022 thousand.

Revenue from the construction activity higher by **lei 375.102 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 9.218 thousand** due to the increasing of exchange gain.

**Operating costs before the balancing and construction activity according to IFRIC12** decreased by **8%** as compared to Semester I 2019, which is lower by **lei cu 42.961 thousand**.

**The company made savings of lei 70.682 thousand**, in relation to the following cost elements:

- other operating costs: lei 41.016 thousand, mainly based on the decreasing of the cost of the adjustment for impairment of current assets, compared to Semester I 2019;
- cost of taxes and amounts due to the state: lei 16.032 thousand;
- costs of NTS concession royalty: lei 1.569 thousand;
- cost of auxiliary materials and other material costs: lei 9.113 thousand;
- cost of maintenance and transmission: lei 2.952 thousand.

**Exceedings amounting to lei 27.721 thousand** were recorded to the following cost elements:

- 👉 transmission system gas consumption amounting to **lei 128 thousand**, due to the following:
  - average purchase price higher by lei 9,06/MWh as compared to the one obtained in Semester I 2020, with a negative influence of lei 3.246 thousand;

- amount of gas for NTS gas consumption lower by 30.921 MWh as compared to Semester I 2019 , with a positive influence of lei 3.118 thousand;

- costs of personnel: lei 17.903 thousand;
- cost of depreciation: lei 8.100 thousand;
- cost of provision for risks and charges: lei 133 thousand;
- cost of repairs: lei 1.457 thousand.

**The financial cost** is lower by **lei 9.205 thousand** based on the increasing of the foreign exchange loss.

**As compared to Semester I 2019 the gross profit obtained in Semester I 2020 increased by 20%, which is higher by lei 45.419 thousand.**

## 1.2 Analysis of revenue and expense obtained at 30 June 2020 compared to the revenue and expense budget approved by OGMS Resolution 2/4 March 2020

The main economic and financial indicators achieved in 01.01.-30.06.2020 as compared to the Revenue and Expense Budget approved by OGMS Resolution 2/4 March 2020 are as follows:

*\*thousand lei\**

No.	Name	REB Sem. I 2020	Obtained Sem. 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	741.835	759.029	2%
2.	Revenue from the balancing activity	43.553	111.953	157%
3.	Revenue from the construction activity, according to IFRIC12	2.039.614	673.000	-67%
4.	Financial revenue	24.729	42.417	72%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	647.538	517.072	-20%
6.	Cost of balancing gas	43.553	111.953	157%
7.	Cost of assets built according to IFRIC12	2.039.614	673.000	-67%
8.	Financial costs	9.259	7.228	-22%
<b>9.</b>	<b>GROSS PROFIT</b> , of which:	<b>109.767</b>	<b>277.146</b>	<b>152%</b>
	• from operation	94.297	241.957	157%
	• from the financial activity	15.470	35.189	127%
<b>10.</b>	<b>Income tax</b>	<b>13.216</b>	<b>45.978</b>	<b>248%</b>
<b>11.</b>	<b>NET PROFIT</b>	<b>96.551</b>	<b>231.168</b>	<b>139%</b>

**Operating revenue before the balancing and construction activity according to IFRIC12** increased by **lei 17.193 thousand** as compared to the REB. The revenue was influenced by the following:

- Gas transmission services increased by **lei 45.575 thousand** due to:

- capacities booked higher by 6.383.899 MWh with a positive influence of **lei 52.197 thousand**, increase influenced also by the invoicing of the booking capacity surplus for Semester I 2020, according to ANRE Order 1/18.01.2016, ANRE Order 14/30 March 2016 and ANRE Order 160/26 November 2015;
- gas transmitted capacities lower than planned by 4.263.675 MWh (▼6) with a negative influence of **lei 6.622 thousand**;
- revenue from international gas transmission services increased by **lei 1.285 thousand**, due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- other operating revenue decreased by **lei 29.666 thousand** as compared to the REB. The Transgaz financial statements do not present the value of revenue from the production of tangible assets or the amount of the relevant expenses according to Order 2.844/2016 on the approval of the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market.

**Revenue from the balancing activity** increased by **lei 68.400 thousand** based on the following:

- quantity higher by 1.373.415 MWh with a positive influence of lei 156.459 thousand;
- trading price lower by lei 50,16/MWh, cu with a negative influence of lei 88.060 thousand.

**Financial revenue** increased by **lei 17.688 thousand** as compared to the REB, based on the foreign currency gain.

**The operating costs before the balancing and construction activity according to IFRIC12** decreased by **20%** as compared to the plan approved, which is lower by **lei 130.466 thousand** as compared to the REB.

**Savings amounting to lei 145.762 thousand** were recorded mainly the following cost elements:

- cost of depreciation: lei 18.336 thousand;
- costs of personnel: lei 36.399 thousand;
- costs of auxiliary materials and other materials: lei 32.206 thousand;
- costs of maintenance and transmission: lei 31.730 thousand;
- other operating costs: lei 20.650 thousand;
- transmission system consumption: lei 5.753 thousand;
- cost of taxes and duties: lei 687 thousand.

**An expense surplus of lei 15.296 thousand** was recorded mainly in relation to the following cost elements:

- NTS concession royalty cost: lei 4.686 thousand;
- cost of provision for risks and charges: lei 10.610 thousand;

**The financial cost** is lower by **lei 2.031 thousand** as compared to the REB, based on the foreign currency exchange gain.

**The gross profit increased by 152% as compared to the plan, which is higher by lei 167.379 thousand as compared to the REB, and the net profit increased by 139% as compared to the plan, which is higher by lei 134.617 thousand as compared to the REB.**

## **2. Investment plan achievement**

**The capital expenditure** achieved on 30 June 2020 amounted to **lei 753.890 thousand**, of which lei 567 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017.

Investment amounting to lei 744.007 thousand were commissioned in the analysed period.

## **3. Receivables and arrears**

On 30 June 2020 the outstanding receivables amounted to lei 418.880 thousand, which is higher by lei 14.371 thousand as compared to 31.12.2019.

On 30 June 2020 Transgaz has no outstanding payments.

## **4. Debts to the state budget**

On 30 June 2020 the amount of **lei 226.528 thousand** was paid up to the state budget, out of which:

- VAT: lei 50.263 thousand;
- Oil royalty: lei 97.713 thousand;
- Natural monopoly tax: lei 27.048 thousand;
- Tax on salary: lei 15.256 thousand;
- Excises: lei 726 thousand;
- Income tax: lei 35.427 thousand;
- Dividend tax: lei 95 thousand.

The amount of lei 98.548 thousand was also paid up to local budgets, special funds and social insurance budgets.

**DIRECTOR - GENERAL  
ION STERIAN**

**Chief Financial Officer  
Lupean Marius**