

RELEASE

on the preliminary economic and financial indicators as of 31 December 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.

By EGMS Resolution 10/12.12.2017 it was approved the establishment of Eurotransgaz SRL on the territory of the Republic of Moldova for participation in the privatization of State Enterprise Vestmoldtrasgaz.

Transgaz is the sole shareholder of EUROTRANSGAZ S.R.L..

From year 2018, as a result of the procurement of Vestmoldtrasgaz SRL in Moldova by Eurotransgaz SRL, Transgaz, as a parent company, prepares group consolidated financial statements.

Consolidated companies in the Transgaz group:

		Share (%)
SNTGN Transgaz SA	Parent company	
Eurotransgaz SRL	Company held by SNTGN Transgaz SA	100%
Vestmoldtrasgaz SRL	Company held by Eurotransgaz SRL	100%

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.

Until 30 September 2019 the revenue obtained from the transmission activity was 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 as of 1 October 2019 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 2/20 January 2021 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, relating to the period comprised between the date of entry into force 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 and the date of entry into force of Law 244/2020 on the approval of Government Emergency Ordinance 103/2020 on the prorogation of the deadline for the application of the measures established under Government Emergency Ordinance 26/2018 on the adoption of some measures for the security of power supply*. 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.

For investments in tangible and intangible assets, commissioned/accepted during the fourth regulatory period, which are gas transmission system objectives, achieved from own funds, in projects for which European grants were obtained, an incentive of 2 percentage points above the approved rate of return on invested capital is established. This provision (incentive of 2 percentage points) does not apply to investments in tangible and intangible assets made following the development of investment projects provided for in Regulation (EU) 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure, for which European grants were obtained.

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, and by ANRE Order 149/29 July 2020 the total revenue and the transmission tariffs applicable for the 1 October 2019- 30 September 2020 period are approved, 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.*

The intense negotiations between the European Commission (DG-ENER), SNTGN Transgaz SA and Gazprom Export LLC resulted in an Agreement for the termination of the legacy contract between SNTGN Transgaz SA and GPE concluded for gas transmission through the T3 transit pipeline on the territory of Romania to third countries.

This Agreement is of particular importance, since on the one hand it creates the preconditions for the application of the European regulatory framework for the gas transmission capacity booking through the T2 and T3 transit pipelines and at the same time ensures the optimal protection of Transgaz's financial interests arising from the legacy gas transmission contract through the T3 transit pipeline.

The Agreement for the termination of the legacy contract between SNTGN Transgaz SA and Gazprom Export LLC creates the necessary framework for concluding the interconnection agreements for the Isaccea 2,3 and Negru Vodă/Kardam 2,3 interconnection points, providing free access of third parties to booking capacity on the T2 and T3 transit pipelines, ensures the collection of the amounts remaining to be paid under the legacy contract and creates the premises for increasing the degree of use of the gas transmission infrastructure in Romania.

 **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 consolidated financial and economic indicators (SNTGN Transgaz SA, Eurotransgaz SRL, Vestmoldtransgaz SRL)

* thousand lei *

Indicator	Consolidated preliminary 2020	Preliminary Transgaz 2020	Preliminary ETG, VMTG, adjustments 2020
Revenue from the domestic transmission activity	1.150.465	1.150.465	-
Revenue from the international transmission activity	114.223	114.223	-
Other revenue	72.465	67.969	4.496
Operational revenue before the balancing and construction activity according to IFRIC12	1.337.153	1.332.657	4.496
Depreciation	(246.884)	(245.174)	(1.710)
Employees costs	(433.968)	(431.360)	(2.609)
Technological consumption, materials and consumables used	(115.609)	(115.609)	-
Cost of royalty	(107.760)	(107.622)	(138)
Maintenance and transmission	(30.454)	(30.363)	(91)
Taxes and duties due to the state	(71.870)	(71.870)	-
Revenue/ (Costs) of provisions for risks and charges	15.749	15.797	(48)
Other operating cost	(112.545)	(112.802)	258
Operational profit before the balancing and construction activity according to IFRIC12	233.812	233.654	158
Revenue from the balancing activity	199.239	199.239	-
Cost of balancing gas	(199.239)	(199.239)	-
Revenue from the construction activity according to IFRIC12	1.575.005	1.575.005	-
Cost of constructed assets according to IFRIC12	(1.575.005)	(1.575.005)	-
Operational profit	233.812	233.654	158
Financial revenue	71.134	60.465	10.669
Financial cost	(35.477)	(19.574)	(15.903)
Financial revenue, net	35.657	40.891	(5.234)
Profit before tax	269.469	274.545	(5.076)
Profit tax expense	(44.905)	(44.755)	(149)
Net profit for the period	224.564	229.790	(5.225)
Exchange rate differences	(19.372)	-	(19.372)
Actuarial (gain)/loss for the period	(15.713)	(15.713)	-
Total comprehensive income for the period	189.479	214.077	(24.597)

1.1 Analysis of consolidated preliminary revenue and expense at 31 December 2020 compared to the consolidated revenue and expense obtained at 31 December 2019

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

** thousand lei **

No.	Name	Consolidated obtained 2019	Consolidated preliminary 2020	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.575.925	1.337.153	-15%
2.	Revenue from the balancing activity	324.688	199.239	-39%
3.	Revenue from the construction activity according to IFRIC12	868.357	1.575.005	81%
4.	Financial revenue	101.618	71.134	-30%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	1.234.622	1.103.340	-11%
6.	Costs from the balancing activity	324.688	199.239	-39%
7.	Cost of constructed assets according to IFRIC12	868.357	1.575.005	81%
8.	Financial costs	30.779	35.477	15%
9.	GROSS PROFIT , of which:	412.143	269.469	-35%
	• from operation	341.303	233.812	-31%
	• from the financial activity	70.840	35.657	-50%
10.	Income tax	70.749	44.905	-37%
11.	NET PROFIT	341.394	224.564	-34%

The variation of the consolidated preliminary economic and financial indicators on 31 December 2020, compared to those obtained in the same period of 2019 is mainly determined by the variation of the individual preliminary economic-financial indicators registered by SNTGN Transgaz SA on 31 December 2020 compared to those obtained in the same period of 2019.

The main impact of the subsidiaries in the consolidated result is determined by the evolution of the MDL (Moldovan leu) exchange rate compared to the EUR currency in which the source of financing of the investment project developed by the subsidiary was partially obtained and compared to the reporting currency of the consolidated financial statements (RON) .

2. Analysis of the financial and economic indicators according to the individual financial statements of SNTGN Transgaz SA

2.1 Analysis of the preliminary revenue and expense at 31 December 2020 compared to the consolidated revenue and expense obtained at 31 December 2019

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

* thousand LEI *

No.	Name	Obtained 2019	Preliminary 2020	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and construction activity, according to IFRIC12	1.576.667	1.332.657	-15%
2.	Revenue from the balancing activity	324.688	199.239	-39%
3.	Revenue from the construction activity according to IFRIC12	868.357	1.575.005	81%
4.	Financial revenue	98.952	60.465	-39%
5.	Operating costs before the balancing and construction activity, according to IFRIC12	1.228.699	1.099.003	-11%
6.	Costs from the balancing activity	324.688	199.239	-39%
7.	Cost of constructed assets according to IFRIC12	868.357	1.575.005	81%
8.	Financial costs	27.818	19.574	-30%
9.	GROSS PROFIT , of which:	419.102	274.545	-34%
	• from operation	347.968	233.654	-33%
	• from the financial activity	71.134	40.891	-43%
10.	Income tax	70.843	44.755	-37%
11.	NET PROFIT	348.259	229.790	-34%

Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by **15%** as compared to 2019, which is lower by **LEI 244.010 thousand**.

The revenue was influenced mainly by the following factors:

- *commodity revenue lower by LEI 106.379 thousand* due to:
 - *the commodity transmission tariff lower by LEI 0,60 /MWh, with a negative influence of LEI 73.280 thousand;*
 - *the transmitted gas quantity lower by 12.380.000MWh/847.235 thousand cm (▼9%), compared to 2019, with a negative influence of LEI 33.098 thousand, detailed by categories of consumers as follows:*

		12 months 2019	12 months 2020	Differences
Quantity transmitted for direct consumers	MWh	69.513.278	57.162.565	-12.350.713
	thousand m ³	6.147.306	5.309.374	-837.932
Quantity transmitted for distribution	MWh	76.102.315	76.073.028	-29.287
	thousand m ³	7.080.195	7.070.892	-9.303
Total	MWh	145.615.593	133.235.593	-12.380.000
	thousand m ³	13.227.501	12.380.266	-847.235

The commodity tariffs decreased in 2020 as compared to 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 2019-2020 the variable component of the total revenue at the basis of the commodity tariffs is 25% of the total revenue and in gas year 2020-2021 to 20% of the total revenue;
- at the substantiation of the tariffs for gas years 2019-2020 and 2020-2021, 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 64.246 thousand** due to:
 - *capacity booking tariff* higher by LEI 0,19/MWh, with a positive influence of LEI 69.510 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 2.213.274 MWh, with a negative influence of LEI 5.264 thousand.
- *international gas transmission revenue* lower by **LEI 213.474 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 11.596 thousand**.

Revenue from the balancing activity decreased by **LEI 125.449 thousand** based on the following factors:

- trading price lower by LEI 35,21/MWh, with a negative influence of LEI 108.948 thousand;
- quantity lower by 165.680 MWh with a negative influence of LEI 16.501 thousand;

Revenue from the construction activity higher by **LEI 706.648 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 38.487 thousand**, mainly based on the registration of the updating of the regulated assets with the inflation rate for 2020, the 2015-2019 inflation rate being used in the previous year.

Operating costs before the balancing and construction activity according to IFRIC12 decreased by **11%** as compared to 2019, which is lower by **LEI 129.697 thousand**.

The company made savings of LEI 216.592 thousand to the following cost elements:

- other operating costs: LEI 67.126 thousand, based on the decreasing of the adjustments for impairment of current assets by LEI 64.161 thousand;
- cost of taxes and duties due to the state: LEI 39.420 thousand, mainly due to the decreasing of the gas transmission licence fee cost by LEI 28.884 thousand and of the monopoly tax cost by LEI 10.501 thousand;
- costs of NTS concession royalty: LEI 43.660 thousand; Transgaz pays a royalty amounting to 0,4% of the gross revenue obtained from the operations of gas transmission and transit through the national transmission systems which are the public property of the state, after the entry into force of Law 244/09.11.2020; before that the rate was 10%;
- costs of provision for risks and charges: LEI 65.615 thousand, mainly due to the recording in 2019 of the provision regarding the investigation performed by the Competition Council amounting to LEI 41.758 thousand, and to decreasing its value in 2020 with the amount of LEI 7.591 thousand, following the decision of the Competition Council to apply a LEI 34.166 thousand penalty on the company;
- other material costs: LEI 771 thousand.

Exceedings amounting to LEI 86.895 thousand were recorded to the following cost elements:

- transmission system gas consumption LEI 12.930 thousand, due to:
 - the quantity of natural gas for NTS gas consumption higher by 64.293 MWh as compared to 2019, with a negative influence of LEI 6.649 thousand;
 - the average purchase price obtained higher by LEI 8,91/MWh as compared to the one obtained in 2019, with a negative influence of LEI 6.281 thousand;
- employee costs: LEI 17.712 thousand;
- cost of depreciation: LEI 51.551 thousand, based on the completion and commissioning of the major investment projects;
- cost of maintenance and transmission: LEI 518 thousand;
- cost of auxiliary materials: LEI 4.184 thousand.

The financial cost is lower by **LEI 8.244 thousand** mainly based on the foreign currency exchange loss.

Compared to 2019 the preliminary gross profit in 2020 decreased by 34%, which is lower by LEI 144.556 thousand.

3. Investment plan achievement

The preliminary **capital expenditure** at 31 December 2020 amounted to **LEI 1.687.321 thousand**, of which LEI 8.526 thousand are NTS connection installations under the NTS access rules approved by ANRE Order 82/2017, the main objectives being:

- Development on the Romanian territory of the National Gas Transmission System on the BRUA Corridor Phase 1;
- The interconnection of the national gas transmission system with the international gas transmission pipeline T1 and reverse flow Isaccea;
- NTS developments in North-East Romania for enhancing gas supply to the area and for ensuring transmission capacities to the Republic of Moldova;
- NTS developments for taking over Black Sea gas;
- Upgrading GMS Isaccea 1 and GMS Negru Vodă 1;
- Craiova Calafat gas transmission pipeline.

Investment amounting to LEI 1.694.816 thousand were commissioned in the analysed period, the main objectives accepted being:

- Development on the Romanian territory of the National Gas Transmission System on the BRUA Corridor Phase 1;
- Craiova Calafat gas transmission pipeline;
- The interconnection of the national gas transmission system with the international gas transmission pipeline T1 and reverse flow Isaccea;
- $\phi 24''$ Masloc-Recaş pipeline, phase I.

In 2020, instalments were reimbursed for the loans taken by the company to finance the investment works amounting to Lei 2.922 thousand.

4. Receivables and arrears

On 31 December 2020 the outstanding receivables amounted to LEI 467.287 thousand, which is higher by LEI 59.777 thousand as compared 31.12.2019.

On 31 December 2020 Transgaz has no outstanding payments.

5. Debts to the state budget

On 31 December 2020 the payments to the state budget amounted to **LEI 353.890 thousand** , out of which:

- VAT: LEI 50.263 thousand;
- Oil royalty: LEI 143.872 thousand;
- Natural monopoly tax: LEI 51.944 thousand;
- Tax on salary: LEI 29.376 thousand;
- Excises: LEI 726 thousand;
- Income tax: LEI 75.641 thousand;
- Dividend tax: LEI 2.068 thousand.

The amount of LEI 177.935 thousand was also paid up to local budgets, special funds and social insurance budgets.

**DIRECTOR - GENERAL
ION STERIAN**

**Chief Financial Officer
Marius Lupean**

**Strategy and Corporate Management Division Director
Elisabeta Ghidiu**