



RELEASE

on the economic and financial indicators on 31 March 2014

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 income obtained by Transgaz results from the following activities:

👉 **Gas transmission**, which, due to its monopolistic feature, is regulated by the National Energy Regulatory Authority.

The income obtained from the transmission activity is regulated under *National Energy Regulatory Authority Order 22/2012 for the approval of the Methodology for the approval of prices and setting of regulated tariffs in the gas sector*, as further amended and supplemented.

The above-mentioned methodology establishes the total regulated income 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 income:

- *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, tax on the monopoly, transmission licence fee, wage fund contributions, other taxes);
- *regulated profit* set on the basis of the regulatory asset value and on the regulatory rate of return.

The substantiation of the regulated income is made by regulatory periods of 5 years (the current period is 1 July 2012 – 30 June 2017), and regulated income 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 the obtaining or non-obtaining the approved regulated income for the previous gas year, as follows:

- if during the previous year the regulated income obtained is higher than the approved regulated income, the difference is subtracted from the regulated income of the following year;
- if during the previous year the regulated income obtained is lower than the approved regulated income, the difference is added to the regulated income of the following year.

Following the regulation of the transmission activity according to the methodology above, the income 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 put in operation after 1 July 2012, according to National Energy Regulatory Authority Order 23/11.06.2012.

👉 **International transit of gas**, which is mainly a gas transmission activity, performed through dedicated transmission pipelines that are not connected to the national transmission system, *is not a regulated activity, and the transit tariffs are set on commercial bases, through negotiations between the parties*;

The income from other activities with a small contribution to the turnover, such as asset sales, renting and royalty, interest income and foreign exchange gains, completes the total income of the Company.

The analysis of the income and expense achieved on 31 March 2014 compared to 31 March 2013

The main economic and financial indicators obtained on 31 March 2014, as compared to the indicators obtained in the similar period of year 2013 are presented in the table below:

thousand RON

No.	Name	Obtained between 1.01-31.03.2014	Obtained between 1.01-31.03.2013	Increase
0	1	2	3	$4=2/3 \times 100 - 100$
1.	Operating income	522.718	449.967	16%
2.	Financial income	4.039	6.433	-37%
3.	TOTAL INCOME	526.757	456.400	15%
4.	Operating costs	251.713	241.863	4%

5.	Financial costs	1.702	3.404	-50%
6.	TOTAL COSTS	253.415	245.267	3%
7.	GROSS PROFIT (row 3 – row 6)- total, of which:	273.342	211.134	29%
	• from operation	271.005	208.104	30%
	• from the financial activity	2.337	3.029	-23%
8.	Income tax	24.539	29.570	-17%
9.	NET PROFIT	248.803	181.563	37%

The total income obtained represents **15%** compared to the corresponding period of year 2013, which is higher by **70.357 thousand RON**. The income was influenced mainly by the following factors:

- *capacity booking tariff* higher by 1,22 RON/MWh as compared to the corresponding period of year 2013, with a surplus of **91.497 thousand RON**;
- *volumetric component of the transmission tariff* higher by 0,111 RON/MWh, with a surplus of **4.960 thousand RON**;
- *quantity of transmitted gas* lower by 2.730.745 MWh /260.598 thousand m³ (6%) as compared to the corresponding period of year 2013, with a deficit of **20.481 thousand RON**;
- *capacity booking tariff* lower by 4.433,78 MWh/h (11%) as compared to the previous period, with a deficit of **2.085 thousand RON**;
- *income from international gas transmission service* decreased by **184 thousand RON** due to the RON / USD average exchange rates in the corresponding period of the previous year;
- *other operating expense* lower by **956 thousand RON**;
- *financial income* lower by **2.394 thousand RON** as compared to the corresponding period of year 2013, due to exchange rate losses.

The total costs increased by **3%** compared to the corresponding period of year 2013, which is higher by **8.148 thousand RON**.

The operating costs increased by 4%.

The following cost items were higher compared to the corresponding period of year 2013:

- ☞ transmission system royalty: **7.371 thousand RON**, following increase of income from the gas transmission activity;
- ☞ tax on the natural monopoly: **7.257 thousand RON**, according to Government Ordinance no. 5 of 22 January 2013, from 1 February 2013;

- 👉 tax on special constructions: **3.281 thousand RON**, according to Government Emergency Ordinance no. 102/2013, from 1 January 2014;
- 👉 personnel expenses: **2.909 thousand RON**, according to GEO no. 79/2008, meaning the correlation of wage increase with labour productivity;
- 👉 fixed asset depreciation: **1.142 thousand RON**, based on the operating fixed assets between March 2013 - February 2014;
- 👉 other operating costs: **5.682 thousand RON**, based on the provisions for the depreciation of the current assets, impact the Company manages by applying a complex set of measures aiming at mitigating the risk of not collecting receivables.

*The Company succeeded to compensate significantly for this negative impact by savings of **19.295 thousand RON** regarding the following cost items:*

- 👉 Technological gas consumption and loss in the transmission system: **15.032 thousand RON**, due to two factors:
 - amount of gas for technological consumption lower by 452.630 MWh/43.678 thousand m³ (63%) compared to the corresponding period of the previous year, with savings recorded in amount of 21.576 thousand RON;
 - the average purchase price obtained as at 31 March 2014 higher by 25,03 RON/MWh (51%), compared to the corresponding period of year 2013, with a surplus of 6.544 thousand RON.
- 👉 Third party works and services: **3.838 thousand RON**.

As compared to the same period of year 2013, **the gross profit is higher by 29% (62.209 thousand RON)** and **the net profit is higher by 37% (67.240 thousand RON)**.

The investment costs obtained on 31 March 2014 amounted to **12.875 thousand RON**, of which **2.018 thousand RON** represent NTS connection installations according to the NTS access rules approved by Government Resolution no.1043/2004. During quarter I 2014 investments credit instalments amounting to **6.000 thousand RON** were refunded.

During the period considered, investments amounting to **1.802 thousand RON** were set into operation.

The Company has no outstanding payment obligations to the State budget.

During quarter I 2014 **205.465 thousand RON** were paid to the State budget, of which:

- value added tax: 104.163 thousand RON;
- oil royalty: 45.254 thousand RON;
- tax on profit: 29.570 thousand RON;

- tax on the natural monopoly: 17.046 thousand RON;
- salary tax: 9.097 thousand RON.

The amount of 33.271 thousand RON was paid at the local budgets, special funds budgets and social security budgets.

The financial statements for the period 1 January-31 March 2014 are unaudited and prepared according to the international financial reporting standards (IFRS) adopted by the European Union.

Director - General
Petru Ion Văduva

Endorsed by:

Chief Financial Officer

Marius Lupean