

RELEASE

on the estimated economic and financial indicators on 31 December 2017

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:

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

The revenue obtained from the transmission activity is regulated under **National Energy Regulatory Authority Order 32/21 May 2014 on the approval of the Gas Transmission Regulated Revenue, Total Revenue and Regulated Tariff Setting Methodology**.

The above-mentioned methodology establishes the total 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);
- *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, transmission licence fee, wage fund contributions, other taxes and duties);
- *regulated profit* set on the basis of the regulatory asset value and on the regulatory rate of return.

The substantiation of the regulated revenue is made by regulatory periods of 5 years (the current regulatory period started on 1 July 2012 – and by exemption from art. 5, paragraph (1) of ANRE Order no. 32/2014 will end on 30 September 2019), 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 the obtaining or non-obtaining the approved regulated revenue for the previous gas year, as follows:

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- 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 the regulation of the transmission activity according to the methodology 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% of the value of the capital invested in this activity, namely 9,12% for the investment commissioned after 1 July 2012, according to National Energy Regulatory Authority Order 23/11.06.2012.

- 👉 **international gas transmission activity**, which is a gas transmission activity performed through dedicated transmission pipelines (that 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 No. 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 43/ 24 August 2016, for the period 1 October 2016 – 30 September 2017 and by ANRE Order no. 73/2 August 2017 for the period 1 October 2017 – 30 September 2018. For the Isaccea 2 and Isaccea 3 - Negru Voda 2 and Negru Voda 3 gas transmission pipelines *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, the operating costs and the financial costs 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. The analysis of the estimated revenue and expense on 31 December 2017 compared to 31 December 2016

The main estimated economic and financial indicators on 31 December 2017, as compared to the indicators obtained in the similar period of year 2016 are presented in the table below:

* thousand RON *

No.	Name	Obtained 2016	Estimated 2017	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue before the balancing and the construction activity, according to IFRIC12	1.815.385	1.748.372	-4%
2.	Revenues from balancing	57.404	129.056	125%
3.	Revenue from the construction activity, according to IFRIC12	118.504	63.950	-46%
4.	Financial revenue	32.231	190.577	491%

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No.	Name	Obtained 2016	Estimated 2017	Increase
5.	Operating costs before the balancing and the construction activity, according to IFRIC12	1.125.268	1.070.401	-5%
6.	Costs related to Balancing	56.093	129.056	130%
7.	Cost of assets built according to IFRIC12	118.504	63.950	-46%
8.	Financial costs	9.683	148.590	1434%
9.	GROSS PROFIT , of which:	713.975	719.957	1%
	• from operation	690.117	677.971	-2%
	• from the financial activity	22.547	41.986	86%
10.	Income tax	119.410	117.779	-1%
11.	NET PROFIT	594.565	602.179	1%
12.	Other elements of the comprehensive income	-1.026	-	x
13.	Total comprehensive income related to the period	593.539	602.179	1%

Operating revenue before the balancing activity and the construction activity, according to IFRIC12 decreased by 4 % as compared to the corresponding period of year 2016, which is lower by RON 67.012 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by **RON 6.818 thousand** due to:
 - booked capacity lower by 124.355.410 MWh, with a negative influence of 239.145 thousand lei
 - capacity booking tariff higher by 0,729 lei/MWh based on the increase in short-term bookings, with a positive influence of 232.327 thousand lei
- commodity component revenue lower by **RON 15.490 thousand** due to:
 - the commodity tariff lower by 0,348 lei/MWh with a negative influence of 49.919 thousand lei caused by the decrease of the variable component share in the total revenue from 40% to 35%;
 - the quantity of transmitted gas higher than as opposed to 2016 by 8.321.654 MWh /795.231 thousand cm (▲ 6%), detailed by categories of consumers as follows:

		12 months 2016	12 months 2017	Differences
Quantity transmitted for direct consumers	MWh	53.346.659	59.201.654	5.854.995
	thousand m ³	4.968.826	5.537.653	568.827
Quantity transmitted for distribution	MWh	76.439.715	78.906.375	2.466.660
	thousand m ³	7.105.851	7.332.255	226.404
Total*	MWh	129.786.374	138.108.028	8.321.654
	thousand m ³	12.074.677	12.869.908	795.231

*) the transmitted gas quantity in respect to which the gas transmission services are invoiced

Starting with the sixth year of the third regulatory period (2017 – 2018), the total revenue at the basis of the tariff setting for the transmission activity is allocated 65% for the fix component and 35% for the volumetric component, which results in the redistribution of the transmission revenue as follows: the decreasing of transmission revenue in winter quarters, based on the lowering of revenue from the volumes transmitted, and the increasing of transmission revenue

in summer quarters, based on the increasing of revenue from capacity booking, compared to the previous gas year.

- international gas transmission revenue higher by **RON 4.719 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue lower by **RON 49.423 thousand**, mainly due to the prescription in 2016 of default interest related to the dividends received in arrears for the period 2000-2003, amounting to RON 51.718 thousand, revenues which are not to be found in the achievements of 2017.

Revenue from balancing higher by Lei 71.652 thousand due to the following factors:

- higher gas amount by 761.271 MWh with a positive influence of Lei 59.225 thousand
- trading price higher by 8,29 lei MWh, with a positive influence of Lei 12.427 thousand

Revenue from the construction activity lower by **RON 54.554 thousand** registered in line with IFRIC 12, according to which revenues and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, shall be acknowledged in line with IAS 11, Construction Contracts;

Financial revenues with a positive influence of **Lei 158.346 thousand** due to the return to the revenues of the provision made-up for the impairment of Transgaz' participation in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138.544.435. In September 2017, the Commercial Court of Vienna issued the resolution contemplating that Nabucco Gas Pipeline International GmbH (NIC) was disincorporated and, on 30 September 2017, the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenues the provision made-up in the previous years in the same amount.

Operating costs before the balancing and the construction activity, according to IFRIC12 decreased by 5% as compared to 2016, which is lower by RON 54.866 thousand.

The company made savings of RON 86.066 thousand, mainly in relation to the following cost elements:

- 👉 transmission system technological gas consumption and loss decreased by **RON 10.575 thousand** due to the following:
 - amount of gas for technological consumption lower by 171.425 MWh/ 13.631 thousand m³ (▼ 14%), with a positive influence of RON 1.642 thousand;
 - average purchase price for 2017 is higher by RON 11,62 /MWh as compared to 2016, with a negative influence of RON 17.538 thousand;
- 👉 Maintenance and transport: Lei 2.172 thousand
- 👉 Royalty expenses: Lei 1.759 thousand
- 👉 Other operating expenses: Lei 71.560 thousand mainly due to the reduction of provisions for risks and expenses and for the impairment of current assets (-Lei 74.865 thousand).
- Overruns amounting to Lei 31.200 thousand were recorded mainly with respect to the following cost elements:
 - fixed asset depreciation cost: Lei 5.767 thousand;
 - cost of personnel: Lei 15.820 thousand;
 - charges and tax costs: Lei 4.020 thousand;
 - auxiliary materials and other material costs: Lei 5.593 thousand.

The financial cost is higher by **RON 138.907 thousand** due to the fact that, on 30 September 2017, the company removed the asset, in amount of Lei 138.544.435, representing Transgaz' share in the share capital of Nabucco Gas International Company GmbH from its accounting records.

As compared to the gross profit obtained in 2016, the estimated gross profit for 2017 increased by 1%, which is higher by RON 5.983 thousand.

2. Investment programme achievement status

The capital expenditure estimated on 31 December 2017 amounted to **RON 95.777 thousand**, of which RON 4.500 thousand represent NTS connection facilities achieved according to the NTS access rules approved by GD 1043/2004.

3. Receivables and arrears

On 31 December 2017 the balance of long-term receivables increased by RON 39.227 thousand as compared to 31 December 2016, based on the receivables calculated according to Law 127 of 5 October 2014, stipulating that upon termination of the concession agreement, irrespective of the reason, the investment made by the national transmission system operator are taken over by the owner of the national transmission system or by any other licensor, subject to the payment of the of a compensation equal with the regulated value which remains undepreciated, as set by the Romanian Energy Regulator. Starting with 2014 Transgaz registered receivables related to the regulated value remaining unamortised and a deferred revenue. The deferred revenue is registered in the revenue and expense budget for the remaining duration of the concession agreement. The RON 39.227 thousand increase as compared to 31 December 2016 is determined mainly by discounting the receivables with the changes registered in the regulated asset base.

As at 31 December 2017 the arrears amounted to RON 307.371 thousand, being higher by RON 38.961 thousand as compared to the same period of the previous year (RON 268.410 thousand).

As at 31 December 2017 Transgaz has no outstanding payments.

4. Debts to the state budget

In 2017 the amount of **RON 692.111 thousand**, was paid up to the state budget, out of which:

- VAT: RON 238.212 thousand;
- Oil royalty: RON 179.772 thousand;
- Income tax: RON 160.915 thousand;
- Natural monopoly tax: RON 58.653 thousand.
- Labour taxation: RON 43.123 thousand.
- Tax on dividends: RON 9.167 thousand.

The amount of RON 134.304 thousand was also paid up to local budgets, special funds and social insurance budgets.

Ion STERIAN
Director - General

Endorsed by:
Chief Financial Officer
Marius Lupean