



**SOCIETATEA NAȚIONALĂ DE TRANSPORT
GAZE NATURALE "TRANSGAZ" SA MEDIAȘ**

Capital social: 117 738 440,00 LEI

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RELEASE

on the position of the economic and financial indicators estimated as at 31 December 2015

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:

👉 **Natural 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);
- *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 period is 1 July 2012 – 30 September 2017), and 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:

- 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 put in operation after 1 July 2012, according to National Energy Regulatory Authority Order 23/11.06.2012.

Main amendments on transmission activity revenue setting under National Energy Regulatory Authority Order 32/2014, as compared to National Energy Regulatory Authority Order 22/2013:

- The setting of the annual economic efficiency growth rate for the gas transmission activity at 3.5% for each year of the third regulatory period, between July 2014 and September 2017.
- From the fourth year of the third regulatory period (2012-2017), the year's start date within the periods will be 1 October. Until the third year (2014-2015), the regulatory year started on 1 July.
- The introduction of the following terms into the revenue calculation formula:
 - $\Delta VA(i)$** – value allowed to be recovered in year (i) of the value approved by the ANRE Regulatory Committee and calculated according to the laws in force through the offsetting of the unachieved revenue acknowledged by the ANRE for the second regulatory period with the aggregated value of the efficiency gains obtained from the performance of the gas transmission activity calculated for each year of the second regulatory period;
 - $\Delta CT(i)$** – previous years' technological consumption correction component.
- OPEX, the technological consumption included, is adjusted with the inflation diminished with the annual economic efficiency growth rate under Order 22; under Order 32 OPEX, the technological consumption excluded, is similarly adjusted, and the technological consumption **$CT(i)$** is calculated as the product of technological consumption gas amount set according to the laws in force for year (i-1) and of procurement cost estimated for year (i).

- At RAB determination at the beginning of the regulatory period, under Order 32, the RAB values in the previous period are no longer inflated with the cumulative inflation rate in the previous regulatory period, as stipulated in Order 22/2012.

Tariff setting amendments

Setting **capacity booking tariffs** by entry – exit points / point groups clustered by the `neighbouring system type` criterion, namely:

- group of entry points from the production fields, LNG terminals, biogas facilities or facilities for the production of other gas compliant with the quality conditions required for NTS delivery / transmission;
- entry points from the interconnections with other gas transmission systems;
- group of entry points from underground storages;
- group of exit points to distribution systems, upstream pipeline networks and final clients connected directly to the transmission system;
- group of exit points to underground storages;
- exit points from interconnection with other gas transmission systems.

Setting **types of services** for gas transmission for which capacity booking tariffs are established, namely:

- **long-term** gas transmission services:
 - firm transmission services for a gas year or multiple gas years;
 - interruptible transmission services for a gas year;
- **short-term** gas transmission services:
 - firm/interruptible transmission services for a quarter or multiple quarters of the gas year;
 - firm/interruptible transmission services for a month or multiple months of the quarter;
 - firm/interruptible transmission services for a gas day or multiple gas days of the month.

Based on the above methodology new tariffs were approved (including entry/exit capacity booking tariffs) from 1 August 2014.

👉 **International transmission of natural gas**, which is mainly a natural 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 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 achieved on 31 December 2015 compared to 31 December 2014

The main economic and financial indicators estimated on 31 December 2015, as compared to the similar period of year 2014, are presented in the table below:

thousand RON

No.	Name	Achieved in 2014	Estimated in 2015	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue	1.655.319	1.656.023	0%
2.	Financial revenue	33.375	43.237	30%
3.	TOTAL REVENUE	1.688.694	1.699.259	1%
4.	Operating costs	1.063.751	1.069.668	1%
5.	Financial costs	14.356	22.315	55%
6.	TOTAL COSTS	1.078.107	1.091.983	1%
7.	GROSS PROFIT -total , of which:	610.587	607.277	-1%
	• from operation	591.568	586.355	-1%
	• from the financial activity	19.019	20.922	10%
8.	Income tax	108.071	119.525	11%
9.	NET PROFIT	502.516	487.752	-3%
10.	Other comprehensive income	-16.131	10.211	X
11.	Total comprehensive income for the period	486.385	497.963	2%

The total revenue is higher by **RON 10.565 thousand** as compared to 2014.

The revenue was influenced mainly by the following factors:

- *capacity booking revenue* higher by **RON 104.726 thousand** due to:
 - the increasing of the fixed component share in the total revenue to 60%;
 - the increasing of the capacity booked by 96.633.402 MWh due to the introduction of the entry/exit capacity booking from 1 August 2014;
- *volumetric component revenue* lower by **RON 188.742 thousand** due to:
 - the decreasing of the variable component share in the total revenue to 40%;
 - the increasing of the quantity of invoiced gas by 4.556.484 MWh (410.979 thousand m³), detailed by categories of consumers as follows:

		12 months 2014	12 months 2015	Differences
Quantity transmitted for direct consumers	MWh	55.957.573	58.206.285	2.248.712
	thousand m ³	5.254.118	5.472.877	218.759
Quantity transmitted for distribution	MWh	70.745.615	73.053.388	2.307.773
	thousand m ³	6.629.595	6.821.816	192.221
Total	MWh	126.703.188	131.259.673	4.556.484
	thousand m ³	11.883.713	12.294.693	410.979

Starting with the fourth of the third regulatory period (2015 – 2016), the total revenue at the basis of the tariff setting for the transmission activity is allocated 60% for the fixed component and 40% 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 revenues* higher by **RON 44.992 thousand** due to the changes in the foreign currency of the contracts;
- *other operating revenues* higher by **RON 39.728 thousand**, mainly due to recording of the amounts related to the reversal of the deferred revenue acknowledged Transgaz considering the right to receive the remaining value of the NTS investments at the end of the Concession Agreement (RON 26.391 thousand);
- *the financial revenues* with a positive influence of **RON 9.861 thousand**.

The total costs increased by 1% compared to the same period of year 2014, which is higher by **RON 13.876 thousand**.

The operating costs increased by 1% compared to the same period of year 2014, which is higher by **RON 5.917 thousand**.

Overruns amounting to RON 61.647 thousand were recorded, mainly in relation to the following cost elements:

- ☞ other operating expenses increased by RON 44.788 thousand, mainly due to the 2015 provisions for impairment on Interagro and Electrocentrale Bucharest receivables. On 31 December 2015 the Interagro SA and Interagro SRL accounts receivable balance is of RON 82.777 thousand, amount fully provisioned, and the Electrocentrale Bucharest accounts receivables balance is of RON 79.915 thousand, with a provision amounting to RON 57.091 thousand;
- ☞ tangible and intangible assets amortization: RON 8.026 thousand;
- ☞ personnel expenses: RON 3.917 thousand;
- ☞ auxiliary materials expenses: RON 2.774 thousand;
- ☞ tax on monopoly: RON 2.142 thousand;

The Company managed to compensate part of the negative impact by savings of RON 55.728 thousand in relation to the following cost items:

- transmission system technological gas consumption and loss decreased by **RON 8.961 thousand** due to the following factors:
 - gas amount for technological consumption lower by 80.561 MWh/8.836 thousand cubic meters (8%) as compared to the same period of 2014 with a positive effect of RON 7.092 thousand;
 - average purchase price for 2015 lower by RON 1,94/MWh as compared to 2014, with a positive effect of RON 1.869 thousand;
- works and services provided by third parties: RON 33.530 thousand;
- NTS concession royalty: RON 3.902 thousand;
- licence fee: RON 7.149 thousand;
- other expenses: RON 2.184 thousand;

The financial costs increased by **RON 7.958 thousand** based on the foreign exchange loss.

Compared to 31 December 2014 the gross profit estimated for 2015 is lower by 1%, meaning by **RON 3.311 thousand**.

2. Status of investment programme

Investment costs estimated at 31 December 2015 amounted to **RON 238.056 thousand**, of which *RON 4.991 thousand* represent NTS connection installations under the NTS access rules approved by GR1043/2004. In 2015 credit loans for investments amounting to *RON credit loans for investments amounting to RON 24.000 thousand* were reimbursed.

3. Receivables and arrears

On 31 December 2015 the balance of long-term receivables increased by RON 40.511 thousand as compared to 31 December 2014, mainly as a result of discounting the liabilities for the regulated value of the regulated asset base remaining undepreciated at the end of the Concession Agreement according to the modifications recorded in the regulated asset base.

On 31 December 2015 the arrears amounted to RON 186.479 thousand, which is higher by RON 86.755 thousand as compared to the same period of the previous year (RON 99.724 thousand).

On 31 December 2015 Transgaz had no outstanding payments.

4. Debts to the state budget

In 2015 the amount of **RON 614.399 thousand** was paid up to the state budget, out of which:

- VAT: RON 215.878 thousand;
- income tax: RON 126.979 thousand;
- oil royalty: RON 161.983 thousand;
- salary tax: RON 38.653 thousand;
- dividend tax: RON 12.187 thousand;
- special construction tax: RON 1.238 thousand;
- tax on natural monopoly: RON 57.479 thousand.

The amount of **RON 109.895 thousand** was paid at the local budgets, special funds budgets and social security budgets

Director General

Petru Ion Văduva

Endorsed by:

Chief Financial Officer

Marius Lupean