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GAZE NATURALE "TRANSGAZ" SA MEDIAȘ
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RELEASE

on the statement of the economic-financial indicators as at 31 March 2015

Overview

SNTGN Transgaz SA is a public company operating according to the Romanian laws and to the Articles of Incorporation.

According to Government Decision 334/2000 and to the Articles of Incorporation, Transgaz is committed to comply with the national strategy for gas transmission, international transit, dispatching and research and design for gas transmission, by performing activities pursuant to its scope of business and in compliance with the Romanian laws.

Transgaz revenues are generated from the following activities:

- ✦ **Gas transmission** – which, given its monopoly nature, is an activity regulated by the Romanian Energy Regulatory Authority.

The revenues from gas transmission are regulated based on *Order no. 32/21.05.2014* of the Romanian Energy Regulatory Authority *endorsing the Methodology for setting regulated tariffs, regulated revenues and total revenues related to the gas transmission*.

The total regulated revenues generated from gas transmission underlying the setting of regulated tariffs are determined based on the above-mentioned methodology, in relation to the booked capacities and to the transported gas volumes, respectively. The structure of the total regulated revenues consists of the following elements:

- ✦ *Operational costs* as acknowledged by the energy regulatory authority (materials, energy and water, technological consumption, salaries, maintenance and repair works and others);
- ✦ *Regulated depreciation* of gas transmission assets;
- ✦ *Pass-through costs*, direct costs beyond the control of the operator (royalty for the NTS concession, transmission license-related fee, wages, salaries and other employment related expenses, tax and other state dues);
- ✦ *Regulated profit* as determined by applying the regulated rate of capital return to the value of the regulated assets used for gas transmission.

The regulated revenue is substantiated over a 5 years' cycle (the current period being 1st July 2012 – 30th September 2017). During the regulatory period, the regulated revenues are adjusted every year based on: the annual inflation rate decreased by the economic efficiency increase factor; the value of the commissioned fixed assets (by the related regulated depreciation and the related regulated profit) and the achievement or non-achievement of the approved regulated revenues for the previous gas year, as follows:

- If, during the previous year, higher than approved regulated revenues were achieved, the margin is deducted from the regulated revenues of the following year;
- If, during the previous year, lower than approved regulated revenues were achieved, the margin is added to the regulated revenues of the following year;

Given that gas transmission is a regulated activity based on the above-mentioned methodology, the resulted revenues cover the relevant incurred costs and allow for a regulated profit capped to 7.72% of the capital tied-up in such activity and to 9.12% in relation to the investments commissioned after 1st July 2012, pursuant to Order no. 23/11.06.2012 of the Romanian Energy Regulatory Authority.

The main modifications regarding the setting of the revenues from transmission by Order No. 32/2014 of the Romanian Energy Regulatory Authority compared to Order No. 22/2013 of the Romanian Energy Regulatory Authority are the following:

- Setting the yearly rate of economic efficiency increase related to gas transmission to 3,5% for every year of the third regulatory period, during July 2014 and September 2017;
- From the fourth year of the third regulatory period (2012-2017) the beginning of the year is 1 October. Until the third year (2014-2015), the regulatory year would start on 1 July.
- The insertion of the following terms in the formula for the determination of the revenue:

$\Delta VA(i)$ – the value allowed to be recovered in year (i) of the value approved by the Regulatory Committee of the Romanian Energy Regulatory Authority (ANRE), determined according to the applicable legal provisions by the compensation of unachieved revenues recognized by ANRE for the second regulatory period with the aggregated value of the efficiency increase rates achieved from the performance of the gas transmission activity determined for every year of the second regulatory period;

$\Delta CT(i)$ – the component for the correction of the technological consumption related to the previous years;

- OPEX including the technological consumption is adjusted by Order 22 by the inflation reduced by the yearly efficiency increase rate; OPEX is similarly adjusted by Order 32 excluding the technological consumption and the technological consumption $CT(i)$ – is determined by the multiplication of the gas quantity related to the technological consumption set according to the legal provisions in force for year (i-1) and the purchasing cost estimated for year (i);
- According to Order 32 at the determination of RAB in the beginning of the regulatory period, the values of the RAB in the previous period are no longer inflated by the aggregated rate of the inflation in the previous regulatory period, as provided by Order 22/2012.

Tariff setting modifications

Setting the **capacity booking tariffs** by entry/exit points/groups of points grouped according to the “adjacent system type” criterion, that is:

- The group of entry points from the production fields, from the LNG terminals and from the biogas production equipment or other gas complying with the quality conditions in order to be supplied /transported in/through the NTS;
- The entry points from the interconnection with other gas transmission systems;
- The group of entry points from the underground storage facilities;
- The group of exit points to the distribution systems, upstream pipeline networks and final consumers connected directly to the transmission system;
- The group of exit points to the underground storage facilities;
- The exit points from the interconnection with other gas transmission systems.

The determination of the type of gas transmission services for which capacity booking tariffs are set, as follows:

- **Long term** gas transmission services:
 - Firm transmission services contracted for a gas year or multiple gas years;
 - Interruptible transmission services contracted for a gas year;
- **Short term** gas transmission services:
 - firm/interruptible transmission services contracted for a quarter or for multiple quarters, during the gas year;
 - firm/interruptible transmission services contracted for a month or for multiple months during a quarter;
 - firm/interruptible transmission services contracted for a gas day or for multiple gas days within a month.

Based on the abovementioned methodology new tariffs were approved (including entry-exit capacity booking tariffs) starting with 1 August 2014.

✎ **International transmission of gas**, which is a gas transmission activity, performed through dedicated transmission pipelines (that are not connected to the national transmission system); *therefore, this activity is not a regulated activity, and the related tariffs are set on commercial bases, through negotiations between the parties.*

The company's total revenues are supplemented by revenues from other activities with a small contribution to the turnover, such as asset sales, renting, royalty, and the financial revenues from interest and foreign exchange gains as well as by the operating and financial revenues associated to the receivables in relation to the regulated value of the regulated asset base which remains undepreciated upon the termination of the Concession Agreement.

1. Analysis of the economic-financial indicators

1.1 Analysis of the revenues and expenses incurred as at 31 March 2015 compared to the achievements as at 31 March 2014

The main economic-financial indicators achieved as at 31 March 2015 vs. the same period of 2014 are illustrated in the table below:

lei thousand

Tag no.	Name	Achieved 1.01-31.03.2014	Achieved 1.01-31.03.2015	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenues	522.718	462.852	-11%
2.	Financial revenues	4.039	8.430	109%
3.	TOTAL REVENUES	526.757	471.281	-11%
4.	Operating expenses	254.129	230.388	-9%
5.	Financial expenses	1.702	2.184	28%
6.	TOTAL EXPENSES	255.831	232.572	-9%
7.	GROSS RESULT (row 3.- row 6.) out of which:	270.926	238.710	-12%
	• operating	268.589	232.464	-13%
	• financial	2.337	6.246	167%
8.	Income tax	44.319	39.404	-11%
9.	NET PROFIT	226.607	199.306	-12%

The total revenues decreased by 11%, precisely by Lei 55.476 thousand compared to the achievements of 2014.

The revenues were mainly influenced by the following factors:

- revenues from capacity booking higher by Lei 43.414 thousand due to:
 - *the increase in the share of the capacity charge in the total revenues from 35% to 50%;*
 - *the booked capacity increase by 51.834.396 MWh due to the application of the entry/exit capacity booking procedures as of 1 August 2014;*
- revenues from the commodity charge lower by Lei 121.147 thousand because of:
 - *the decrease of the commodity charge share in the total revenues from 65% to 50%;*
 - *the decrease of the invoiced gas amount by 2.750.106 MWh (267.576 thousand cm), split on consumer categories as follows:*

		Q I 2014	Q I 2015	Margins
Amount transported for direct consumers	MWh	15.622.633	10.247.090	-5.375.544
	thousand cm	1.470.480	964.619	-505.861
Amount transported for distribution	MWh	29.097.483	31.722.921	2.625.437
	thousand cm	2.734.380	2.972.665	238.285
Total	MWh	44.720.116	41.970.010	-2.750.106
	thousand cm	4.204.860	3.937.284	-267.576

Starting with the third year of the third regulatory period (2014-2015), the means of allocating the total revenues underlying the setting of tariffs for gas transmission is 50% for the capacity charge and 50% for the commodity charge. This leads to a re-distribution of the transmission tariffs as follows: the decrease of transmission revenues during the winter quarters based on the diminished transmission revenues and the increase in the transmission revenues during the summer quarters based on the increase in the revenues from capacity booking compared to the previous gas year.

- *international gas transmission revenues* higher by **Lei 11.460 thousand** due to the fluctuating exchange rates of the currency under the applicable contracts;
- *other operating revenues higher* by **Lei 6.406 thousand** due to the registration of the amounts related to the revenue reversal in advance recognized by Transgaz based on the right to cash in the remaining value of the investments in the NTS upon termination of the Concession Agreement;
- *the financial revenues* with a positive influence of **Lei 4.391 thousand** due to the revenues from interests as a result of receivables discounting in relation to the regulated amount of the regulated asset base which remains undepreciated upon the termination of the Concession Agreement.

The total expenses decreased by **9%** compared to Q1 2014, precisely by **Lei 23.259 thousand**.

The operating expenses are lower by **9%** compared to precisely by **Lei 23.741 thousand**.

The company made savings of Lei 26.080 thousand mainly in relation to the following expense elements:

- ⌘ technological gas consumption and loss decreased by **Lei 3.729 thousand** due to two factors:
 - Gas amount meant for technological consumption lower by 91.526 MWh/7.973 thousand cm (▼35%) as opposed to Q1 2014, with a favourable influence of Lei 6.653 thousand;
 - Average purchase price for Q1 2015 higher compared to Q1 2014 by 17,21 lei/MWh, with a negative influence of Lei 2.925 thousand;
- ⌘ NTS concession royalty: lei 6.627 thousand;
- ⌘ Monopoly tax: lei 4.307 thousand;
- ⌘ Other fees and tax expenses: lei 4.088 thousand;
- ⌘ Other operating expenses: lei 2.284 thousand;
- ⌘ Personnel expenses: lei 2.087 thousand;
- ⌘ Auxiliary materials and other material expenses: lei 1.617 thousand;
- ⌘ Maintenance and transmission: lei 1.341 thousand.

An expense surplus of Lei 2.339 thousand was registered on account of the increase in the depreciation expenses (▲lei 1.694 thousand) and in the other operating expenses (▲lei 645 thousand).

The financial expenses increased by lei **482 thousand** based on the expenses related to exchange rate differences.

The gross profit achieved in Q1 2015 is lower by 12%, precisely by Lei 32.217 thousand compared to the achievements as at 31 March 2014.

1.2 Analysis of the economic-financial indicators achieved as at 31 March 2015 compared to the revenues and expense budget as approved by GD no. 237/07.04.2015.

The achieved vs. budgeted main economic-financial indicators for Q1 2015 are illustrated below:

** lei thousand**

Tag no.	Name	Budgeted 01.01-31.03.2015	Achieved 01.01-31.03.2015	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenues	463.198	462.852	0%
2.	Financial revenues	3.519	8.430	140%
3.	TOTAL REVENUES	466.717	471.281	1%
4.	Operating expenses	299.379	230.388	-23%
5.	Financial expenses	1.463	2.184	49%
6.	TOTAL EXPENSES	300.842	232.572	-23%
7.	GROSS RESULT (row 3.- row 6.), out of which:	165.875	238.710	44%
	↳ operating	163.819	232.464	42%
	↳ financial	2.056	6.246	204%
8.	Income tax	26.857	39.404	47%
9.	NET PROFIT	139.018	199.306	43%

The total revenues are sensibly equal with the budgeted values with an increase of **Lei 4.565 thousand**. The revenues were influenced by the following factors:

- The gas transmission revenues decreased by **Lei 13.371 thousand** because of:
 - *gas transmitted amount* lower by 1.348.618 MWh/149.379 thousand cm (▼3%) compared to the budget, with a negative influence of **Lei 8.911 thousand**;
 - *average capacity tariff* lower by 0,030 lei/MWh/h as opposed to the budget, with a negative influence of **Lei 3.785 thousand**;
 - *booked capacity* lower by 551.114 MWh, with a negative influence of **Lei 674 thousand**.
- The revenues from international gas transmission increased by **Lei 9.418 thousand** due to the fluctuations in the exchange rates of the currency under the applicable contracts;
- *Other operating revenues* increased by **Lei 3.607 thousand** compared to the budget due to due to the registration of the amounts related to the revenue reversal in advance recognized by Transgaz based on the right to cash in the remaining value of the investments in the NTS upon termination of the Concession Agreement;
- *The financial revenues* with a positive influence of **Lei 4.911 thousand** due to the revenues from interests as a result of receivables discounting in relation to the regulated amount of the regulated asset base which remains undepreciated upon the termination of the Concession Agreement.

The total expenses decreased by **23%** compared to the approved budget, precisely by **Lei 68.270 thousand** lower than the budget.

The operating expenses are lower by **23%** than the approved budget, precisely by **Lei 68.991 thousand**.

Savings of Lei 69.832 thousand, were mainly made in relation to the following expense elements:

- ✧ technological gas consumption and loss – **Lei 40.831 thousand** due to two factors:
 - Gas amount meant for technological consumption lower by 440.271 MWh/41.297 thousand cm (▼72%), with a favourable influence of Lei 40.483 thousand;
 - Average purchase price lower than budgeted by 2,05 lei/MWh, with a positive influence of Lei 348 thousand;
- ✧ Third party works and services: Lei 11.066 thousand
- ✧ Personnel expenses: lei 5.620 thousand;
- ✧ Other operating expenses: Lei 4.618 thousand
- ✧ Fees and tax: Lei 4.381 thousand
- ✧ Auxiliary materials and other material expenses: lei 2.565 thousand;

An expense surplus of Lei 842 thousand was registered on account of the increase in the depreciation expenses (▲lei 547 thousand) and in the risk and expense provision expenses (▲lei 294 thousand).

The financial expenses are higher than budgeted by **Lei 721 thousand** based on the expenses related to exchange rate differences.

The gross profit achieved is higher by 44% than budgeted, precisely by Lei 72.835 thousand and the net profit is higher by 43%, precisely by Lei 60.288 thousand compared to the budget.

2. Investment programme achievement status

The capital expenses incurred as at 31 March 2015 amounted to **Lei 19.741 thousand**, out of which Lei 1.661 thousand representing NTS connection facilities achieved according to the NTS access regulation as approved by GD 1043/2004. In Q1 2015, investment loan instalments amounting to Lei 6.000 thousand were reimbursed.

Investments amounting to **lei 26.345 thousand** were commissioned during the reference period.

3. Receivables and arrears

As at 31 March 2015, the balance of long-term receivables increased by lei 546.848 thousand compared to Q 1 2014, as a result of:

- Based on Law no. 127/30.09.2014 amending Energy and Gas Law no. 123/2012 and Oil Law no. 238/2004 and supplementing the provisions on the means of compensation for the transmission system operator upon termination of the Concession Agreement: *"upon termination of the concession contract, irrespective of the reason, the assets related to the investments made in the NTS by the TSO, as licensor, shall be taken over by the owner of the NTS, as concession provider, or by any other licensor based on the concession provider's consent, subject to the payment of a compensation equal with the regulated value which remains undepreciated, as set by the Romanian Energy Regulator"*, as at 31 March 2015, Transgaz registered long-term receivables amounting to Lei 546.848 thousand representing the value of the regulated value which remains undepreciated at the termination of the Concession Agreement, currently discounted and advance revenues amounting to Lei 525.783 thousand. The advance revenues are monthly reversed to other operating revenues related to the

remaining period until the termination of the Concession Agreement and the receivables are discounted against the adjustments registered with the regulated asset base and against the interest revenues as a result of the discounting.

As at 31 March 2015, the arrears amounted to Lei 140.675 thousand, higher by lei 50.603 thousand as opposed to the same period of the previous year (lei 90.072 thousand).

As at 31 March 2015, Transgaz has no outstanding payments.

4. State budget dues

In Q 1 I 2015, the amount of Lei **177.403 thousand** was paid up to the state budget, out of which:

- VAT: lei 73.673 thousand;
- Income tax: lei 38.542 thousand;
- Oil royalty: lei 43.210 thousand;
- Salary tax: Lei 8.942 thousand;
- Natural monopoly tax: Lei 13.004 thousand.

The amount of Lei 25.518 thousand was also paid up to local budgets, special funds and social insurance budgets.

Petru Ion Văduva
DIRECTOR GENERAL

Endorsed by:

Chief Financial Officer

Marius Lupean