



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

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RELEASE

on the economic and financial indicators on 30 September 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:

☛ **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 32/2014 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 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 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 economic and financial operators for the period 01.01 – 30.09.2015

1.1. The analysis of the revenue and expense achieved on 30 September 2015 compared to 30 September 2014

The main economic and financial indicators obtained on 30 September 2015, as compared to the indicators obtained in the similar period of year 2014 are presented in the table below:

****thousand RON****

No.	Name	Obtained between 1.01-30.09.2014	Obtained between 1.01-30.09.2015	Increase
0	1	2	3	$4=2/3 \times 100 - 100$
1.	Operating revenue	1.202.238	1.233.069	3%
2.	Financial revenue	23.884	24.446	2%
3.	TOTAL REVENUE	1.226.122	1.257.515	3%
4.	Operating costs	767.416	775.914	1%
5.	Financial costs	3.762	7.335	95%
6.	TOTAL COSTS	771.178	783.249	2%
7.	GROSS PROFIT -total, of which:	454.944	474.266	4%
	• from operation	434.822	457.154	5%
	• from the financial activity	20.122	17.112	-15%
8.	Income tax	80.907	89.946	11%
9.	NET PROFIT	374.037	384.320	3%

The total revenue recorded on 30 September 2015 is higher by **RON 31.393 thousand** as compared to the corresponding period of year 2014 .

The revenue was influenced mainly by the following factors:

- *capacity booking revenue* higher by **RON 89.875 thousand** due to:
 - the increase of the fix component share in the total revenue from 35% to 50%;
 - the increasing of the capacity booked by 113.261.175 MWh due to the introduction of the entry/exit capacity booking from 1 August 2014;
- *volumetric component revenue* lower by **RON 120.288 thousand** due to:
 - the decrease of the variable component share in the total revenue from 65% to 50%;
 - the increase of the quantity of invoiced gas by 7.847.730 MWh (725.294 thousand m³), detailed by categories of consumers as follows:

		9 months 2015	9 months 2014	Differences
Quantity transmitted for direct consumers	MWh	46.817.612	41.877.343	4.940.269
	thousand m ³	4.398.450	3.929.835	468.615
Quantity transmitted for distribution	MWh	49.089.173	46.181.711	2.907.461
	thousand m ³	4.586.826	4.330.146	256.680
Total	MWh	95.906.785	88.059.055	7.847.730
	thousand m ³	8.985.276	8.259.982	725.294

Starting with the third year of the third regulatory period (2014-2015), the total revenue at the basis of the tariff setting for the transmission activity is allocated 50% for the fix component and 50% 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 35.633 thousand** due to the changes in the foreign currency of the contracts;
- *other operating revenues* higher by **RON 25.610 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;
- *the financial revenues* with a positive influence of **RON 562 thousand**.

The total costs increased by **2%** compared to the same period of year 2014, which is higher by **RON 12.071 thousand**.

The operating costs increased by **1%** compared to the same period of year 2014, which is higher by **RON 8.498 thousand**.

The company made savings of RON 33.933 thousand mainly in relation to the following cost elements:

- ✎ transmission system technological gas consumption and loss decreased by **RON 14.524 thousand** due to the following factors:
 - amount of gas for technological consumption lower by 191.669 MWh/18.479 thousand m³(▼26%), as compared to the same period of the previous year, with a positive influence of RON 16.589 thousand;
 - average purchase price for 9 months of 2015 higher by RON 3,74/MWh compared to the same period of the previous year, with a positive influence of RON 2.064 thousand;
- ✎ costs with other tax and duties: RON 4.388 thousand;
- ✎ cost of staff: RON 2.702 thousand;
- ✎ maintenance and transmission: RON 12.581 thousand.

An expense surplus of RON 42.431 thousand, generated from of the increase in the depreciation expenses (▲ RON 5.585 thousand), the adjustment of the provisions for risks and charges (▲ RON 1.549 thousand), cost of royalty (▲ RON 522 thousand) and other operating costs (▲ RON 34.777 thousand).

In 2015 and 2014 provisions for receivables from insolvent companies or from companies in significant financial difficulties were established. The increasing of the provision for the impairment of the trade receivables is mainly due to the additional provision with Interagro and Electocentrale Bucuresti.

The financial costs increased by **RON 3.573 thousand** mainly based on the foreign exchange loss.

Compared to 30 September 2014, the gross profit obtained on 30 September 2015 is higher by 4%, meaning by RON 19.322 thousand.

1.2 Analysis of the economic-financial indicators achieved on 30 September 2015 compared to the revenues and expense budget approved by GR 237/07.04.2015

The main economic and financial indicators obtained between 1 January – 30 September 2015, compared to the revenues and expense budget indicators are presented below:

thousand RON

No.	Name	Budgeted 01.01-30.09.2015	Obtained between 01.01-30.09.2015	Increase
0	1	2	3	$4=3/2 \times 100 - 100$
1.	Operating revenue	1.254.744	1.233.069	-2%
2.	Financial revenue	7.808	24.446	213%
3.	TOTAL REVENUE	1.262.552	1.257.515	0%
4.	Operating costs	905.192	775.914	-14%
5.	Financial costs	2.990	7.335	145%
6.	TOTAL COSTS	908.182	783.249	-14%
7.	GROSS PROFIT (row 3–row 6) of which:	354.370	474.266	34%
	from operation	349.552	457.154	31%
	from the financial activity	4.818	17.112	255%
8.	Income tax	51.617	89.946	74%
9.	NET PROFIT	302.753	384.320	27%

The total revenue is lower by **RON 5.037 thousand**, being sensibly equal with the budgeted values.

The revenue was influenced by the following factors:

- The gas transmission revenues decreased by **RON 66.146 thousand**, due to:
 - *Gas amount transmitted* lower by 5.206.897 MWh/553.750 thousand m³ (▼5%) as compared to the amount programmed, with a negative influence of **RON 31.046 thousand**;
 - *Average capacity booking tariff* lower by RON 0,08/MWh/ as compared to the amount programmed, with a negative influence of **RON 28.993 thousand**;
 - *Booked capacity* lower by 4.877.696 MWh with a negative influence of **RON 6.107 thousand**.
- The revenues from international gas transmission increased by **RON 29.347 thousand** due by the changes in the foreign exchange of the contract currency;
- Other operating revenues increased by **RON 15.124 thousand** as compared to the IEB 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;

- Financial revenues increased by **RON 16.638 thousand** as compared to the IEB, mainly due to interest income recorded following determination of the debt present value for the regulated value remaining unamortised of the regulated asset base at the end of the concession agreement.

The total costs decreased by **14%** compared to the approved programme, which is lower by **RON 124.933 thousand** as compared to the IEB.

The operating costs decreased by **14%** as compared to the IEB approved, which is lower by **RON 129.277 thousand**.

Savings of RON 179.490 thousand were obtained mainly regarding the following cost elements:

- ✎ transmission system technological gas consumption and loss of **RON 68.745 thousand**, due to the following factors:
 - amount of gas for technological consumption lower by 737.598 MWh/72.558 thousand m³ (▼57%) as compare to the programme, with a positive influence of RON 67.823 thousand;
 - average purchase price obtained lower by RON 1,67/MWh as compared to the IEB, with a positive influence of RON 922 thousand;
- ✎ third party works and services: RON 68.439 thousand;
- ✎ cost of staff: RON 14.045 thousand;
- ✎ auxiliary materials and other material expenses: RON 15.045 thousand;
- ✎ tax on the monopole: RON 5.324 thousand;
- ✎ tax and duties: RON 4.030 thousand;
- ✎ cost of the provision for risks and charges: RON 182 thousand;
- ✎ cost of royalty: RON 3.680 thousand.

An expense surplus of RON 50.212 thousand was recorded mainly based on the depreciation expense (▲RON 1.881 thousand) and of other operating costs (▲RON 48.331 thousand). The increase in other operating expenses is mainly due to the fact that, in 2015, an additional provision related to Interagro and Electrocentrale Bucuresti was set up.

The financial costs are higher than budgeted by **RON 4.345 thousand** based on the foreign exchange loss.

The gross profit achieved is higher by 34% as compared to the programme, which is higher by **RON 119.897 thousand** as compared to the IEB, and the net profit is higher by **27%** as compared to the programme, which is higher by **RON 81.568 thousand** as compared to the IEB.

2. Investment programme achievement status

The capital expenditures obtained on 30 September 2015 amounted to **RON 152.513 thousand**, of which *RON 1.267 thousand* represent NTS connection facilities achieved according to the NTS access regulation as approved by GR 1043/2004. Between 1.01 – 30.09.2015 investment loan instalments amounting to *RON 18.000 thousands* were reimbursed.

Investments amounting to **RON 90.965 thousands** were commissioned during the reference period.

3. Receivables and arrears

On 30 September 2015 the balance of long-term receivables increased by RON 589.489 thousand as compared to 30 September 2014, mainly as a result of the following:

- Based on Law 127/30.09.2014 amending Energy and Gas Law 123/2012, and Oil Law and supplementing the provisions on the compensation of 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*, on 30 September 2015 Transgaz registered in the statement of financial position long-term receivables amounting to RON 589.489 thousand representing the estimated regulated value remaining unamortised at the end of the Concession Agreement currently discounted and a deferred revenue amounting to RON 546.821 thousand. The deferred revenue is monthly reversed to other operating revenues over the remaining duration of the concession agreement and the debt is discounted against the adjustments registered in the regulated asset base and against the interest income as a result of the discounting.

On 30 September 2015 the arrears amounted to RON 173.843 thousand, being higher by RON 56.447 thousand as compared to the same period of the previous year (Ron 117.396 thousand).

On 30 September 2015 Transgaz has no outstanding payments.

4. Debts to the state budget

Between 1.01 – 30.09.2015 the amount of **RON 484.811 thousand**, was paid up to the state budget, out of which:

- VAT: RON 176.099 thousand;
- Income tax: RON 97.500 thousand;
- Oil royalty: RON 125.109 thousand;
- Salary tax: RON 29.049 thousand;
- Natural monopoly tax: RON 43.817 thousand.

The amount of RON 75.029 thousand was also paid up to local budgets, special funds and social insurance budgets.

Director - General
Petru Ion Văduva

Endorsed by:

Chief Financial Officer

Marius Lupean