



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

Capital social: 117 738 440,00 LEI

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RELEASE

on the estimated economic and financial indicators on 31 December 2016

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 period is 1 July 2012 – 30 September 2017), 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:

- 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;

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- 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 interconnection points Isaccea 1 and Negru Voda 1 the provisions of ANRE Order no. 34/19 July 2016 were applied, by which the methodology for capacity booking and the tariffs setting on gas transmission pipelines Isaccea - Negru Voda was approved. According to this methodology the total revenue and the tariffs for gas transmission through the pipeline Isaccea 1 - Negru Voda 1 were substantiated, being approved by ANRE Order no.43 / August 24, 2016, for the period October 1, 2016 - September 30, 2017. For the gas transmission pipelines Isaccea 2 and Isaccea 3 - Negru Voda 2 and Negru Voda 3 *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 2016 compared to 31 December 2015

The main estimated economic and financial indicators on 31 December 2016, as compared to the indicators obtained in the similar period of year 2015 are presented in the table below:

* thousand RON *

No.	Name	Obtained 2015	Estimated 2016	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the construction activity, according to IFRIC12	1.663.398	1.864.376	12%
2.	Revenue from the construction activity, according to IFRIC12	211.125	118.884	-44%
3.	Financial revenue	43.237	32.177	-26%
4.	Operating costs before the construction activity, according to IFRIC12	1.077.219	1.165.534	8%
5.	Cost of assets built according to IFRIC12	211.125	118.884	-44%
6.	Financial costs	22.315	9.683	-57%
7.	GROSS PROFIT , of which:	607.101	721.335	19%

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No.	Name	Obtained 2015	Estimated 2016	Increase
	• from operation	586.179	698.842	19%
	• from the financial activity	20.922	22.494	8%
8.	Income tax	118.372	125.625	6%
9.	NET PROFIT	488.729	595.710	22%
10.	Other elements of the comprehensive income	10.211	-1.026	x
11.	Total comprehensive income related to the period	498.940	594.684	19%

Operating revenue before the construction activity, according to IFRIC12 increased by 12% as compared to the corresponding period of year 2015, which is higher by RON 200.978 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 247.771 thousand** due to:
 - the increase of the fix component share in the total revenue to 60%;
 - the invoicing of the value of the booked capacity surplus related to 2016 amounting to RON 143.132 thousand in line with ANRE Order no.1/18.01.2016, ANRE Order no.14/30 March 2016 and ANRE Order no.160/26 November 2015 and ANRE Order no.39 - August 2016. In the period October –December 2016 the company calculated the capacity surplus in line with ANRE Order no 14/30 March 2016 and no 160/26 November 2015. The calculation method used by the company for the capacity surplus as of 1 October 2016 could be the subject of some disputes to be settled by ANRE, their impact amounting to approximately RON 38.200 thousand;
- volumetric component revenue lower by **RON 147.204 thousand** due to:
 - the decrease of the variable component share in the total revenue 40%;
 - the decrease of the quantity of invoiced gas by 1.473.299 MWh (220.016 thousand m³), detailed by categories of consumers as follows:

		12 months 2015	12 months 2016	Differences
Quantity transmitted for direct consumers	MWh	58.206.285	53.346.659	-4.859.626
	thousand m ³	5.472.877	4.968.826	-504.051
Quantity transmitted for distribution	MWh	73.053.388	76.439.715	3.386.327
	thousand m ³	6.821.816	7.105.851	284.035
Total	MWh	131.259.673	129.786.374	-1.473.299
	thousand m ³	12.294.693	12.074.677	-220.016

Starting with the fourth year 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 fix 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 revenue* higher by **RON 9.819 thousand** due to the changes in the foreign currency of the contracts and to the application of the provisions of ANRE Order no 34/19 July 2016;

- *revenue from the balancing activity* according to ANRE Order 1/18.01.2016 and ANRE Order no 14/30 March 2016 (until 1 November 2016) respectively ANRE Order 160/26 November 2015 (as of 1 November 2016) amounting to **RON 57.387 thousand**;
- *other operating revenue* higher by **RON 33.205 thousand**, mainly due to the limitation period of the default interest related to the dividends received in arrears in the period 2000-2003, amounting to RON 51.718 thousand, the decrease of the revenue from penalties by RON 4.999 thousand and the decrease of other revenues from the recovered materials by 15.795 thousand;

Revenue from the construction activity lower by **RON 92.241 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 revenue with a negative influence of **RON 11.060 thousand** based on account of the changes in the foreign exchange rates.

Operating costs before the construction activity, according to IFRIC12 increased by **8%** as compared to 2015, which is higher by **RON 88.315 thousand**.

The company made savings of RON 33.353 thousand, mainly in relation to the following cost elements:

- ☞ maintenance and transmission: RON 11.504 thousand;
- ☞ tax and duties owed to the state: RON 3.323 thousand, mainly due to the reduction of the monopoly tax by RON 3.792 thousand;
- ☞ other operating expenses: RON 18.526 thousand, mainly due to the reduction of provisions from the impairment of receivables by RON 30.389 as compared to the previous year and to the increase of expenses due to: guarding objectives (RON 1.1.37 thousand), telecommunications (RON 1.483 thousand), gas underground storage (RON 1.880 thousand).

An expense surplus of RON 121.668 thousand was recorded mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **RON 1.260 thousand** due to the following factors:
 - amount of gas for technological consumption higher by 218.381 MWh/ 20.770 thousand m³ (▲ 23%), with a negative influence of RON 18.798 thousand;
 - average purchase price in the year 2016 is lower by RON 14,81 /MWh as compared to 2015, with a positive influence of RON 17.538 538 thousand;
- expense provision for liabilities and costs: RON 24.446 thousand on account of the provision related to the additional public service obligations issued by the National Agency for Fiscal Administration (25.410 thousand);
 - balancing activity cost: RON 56.093 thousand;
 - fixed asset depreciation cost: RON 15.263 thousand;
 - cost of personnel: RON 11.767 thousand;
 - costs related to royalty: RON 11.039 thousand;
 - auxiliary materials and other material costs: RON 1.800 thousand.

The financial cost is lower by **RON 12.631 thousand** based on the foreign exchange gain.

As compared to the gross profit obtained in 2015 the estimated gross profit for 2016 increased by 19%, respectively by RON 114.235 thousand.

2. Investment programme achievement status

The capital expenditure estimated on 31 December 2016 amounted to **RON 139.173 thousand**, of which RON 8.078 thousand represent NTS connection facilities achieved according to the NTS access rules approved by GD 1043/2004.

3. Receivables and arrears

On 31 December 2016 the balance of long-term receivables increased by RON 48.597 thousand as compared to 31 December 2015, 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 48.597 thousand increase as compared to 31 December 2015 is determined mainly by discounting the receivables with the changes registered in the regulated asset base.

On 31 December 2016 the arrears amounted to RON 268.554 thousand, being higher by RON 82.075 thousand as compared to the same period of the previous year (RON 186.479 thousand).

The accounts receivable registered with Electrocentrale Bucureşti subsequent to the opening of the insolvency proceedings and uncollected at the date of this release, amount to RON 37.850 thousand. These receivables are not outstanding and were not provisioned on 31 December 2016, Electrocentrale Bucureşti paid in due time the invoices issued subsequent to the opening of the insolvency proceedings.

On 31 December 2016 Transgaz has no outstanding payments.

4. Debts to the state budget

In 2016 the amount of **RON 525.814 thousand**, was paid up to the state budget, out of which:

- VAT: RON 150.563 thousand;
- Oil royalty: RON 153.346 thousand;
- Income tax: RON 123.280 thousand;
- Natural monopoly tax: RON 51.747 thousand.
- Labour taxation: RON 40.671 thousand.
- Tax on dividends: RON 4.756 thousand.
- Tax on special constructions: RON 1.418 thousand.

The amount of RON 125.753 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