



RELEASE

on the position of the economic-financial indicators estimated as at 31 December 2014

Overview

SNTGN Transgaz SA is a public 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 achieving the national strategy established for internal and international gas transmission, dispatching, research and design in the field of gas transmission through commercial deeds complying with the Romanian laws and according to its object of activity.

The income is obtained by Transgaz from the following activities:

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

The income obtained from the transmission activity is regulated under *Order 32 of 21 May 2014 of the National Energy Regulatory Authority for the approval of the Methodology for setting the regulated revenue, the total revenue and of the regulated tariffs for the gas transmission activity*. The above-mentioned methodology establishes the total regulated revenue resulting from the transmission activity, based on which the regulated gas transmission tariffs are set, in relation to the booked capacities and to the transmitted gas volumes. The following items are included into the total regulated revenue:

- *operating expense* acknowledged by the authority (materials, energy and water, technological consumption, salaries, maintenance and repair and other);
- 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-related fee, wages fund contributions, other taxes);
- *regulated profit* set by the application of the regulatory return on capital employed to the value of the regulated assets used for gas transmission.

The regulated revenue is substantiated over periods of 5 years (the current period being 1 July 2012 – 30 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 regulated revenues than as approved were achieved, the margin is deducted from the regulated revenues of the following year;

- If, during the previous year, lower regulated revenues than as approved 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 invested in such activity and to 9,12% in relation to the investments commissioned after 1 July 2012, pursuant to Order no. 23/11.06.2012 of the Romanian Energy Regulatory Authority.

The main modifications regarding the setting of the income related to the transmission activity 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 increase of the economic efficiency for the gas transmission activity to 3,5% for every year of the third regulatory period, between 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 started on 1 July.
- The introduction of the following terms in the formula for the determination of the revenue:
 - $\Delta VA(i)$ – the admissible value to be recovered in year (i) out of the value approved by the Regulatory Committee of the Romanian Energy Regulatory Authority (RERA), determined according to the legal provisions in force by the compensation of unachieved revenues recognized by RERA 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 capacity booking tariffs by entry-exit points) 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 revenue from other activities with a small contribution to the turnover, such as asset sales, renting, royalty, and the financial income from interest and foreign exchange gains complete the total income of the Company.

1 The analysis of the estimated income and expense on 31 December 2014 compared to the achievements on 31 December 2013.

The main economic and financial indicators estimated on 31 December 2014, as compared to the similar period of year 2013, are presented in the table below:

thousand RON

No.	Name	Achieved in 2013	Estimated for 2014	Increase
0	1	2	3	$4 = \frac{3-2}{2} \times 100$
1.	Operating income	1.516.640	1.661.746	10%
2.	Financial income	40.721	33.375	-18%
3.	TOTAL INCOME	1.557.361	1.695.121	9%
4.	Operating costs	980.843	1.064.072	8%
5.	Financial costs	146.586	13.146	-91%
6.	TOTAL COSTS	1.127.429	1.077.218	-4%
7.	GROSS PROFIT (row 3 – row 6)- total, of which:	429.933	617.903	44%
	☞ from operation	535.798	597.674	12%
	☞ from the financial activity	-105.865	20.229	X
8.	Income tax	95.441	110.476	16%
9.	NET PROFIT	334.491	507.428	52%
10.	Operating income	1.231	-534	X
11.	Financial income	335.722	506.894	51%

The total income increases by 9% compared to year 2013, which is higher by **RON 137.760 thousand**.

The income was influenced mainly by the following factors:

- *Capacity booking tariff* higher by 0,25 RON/MWh than 2013 tariff, with a positive effect of 98.146 thousand RON;
- *Capacity booking* higher by 74.640.329 MWh due to the implementation, starting with the 1st of August 2014, of the capacity booking on entry-exit points, with a positive effect of 77.029 thousand RON;
- *Quantity of transmitted gas invoiced* higher by 6.961.825 MWh/624.772 thousand cubic meters (6%) based on the gas transmitted for storage, with a positive effect of **RON 51.681 thousand**;
- *Volumetric component of the transmission tariff* lower by RON 0,76 /MWh, with a negative influence of **RON 96.484 thousand**;
- *Financial income* with a negative influence of **RON 7.346 thousand** due to the fact that in 2013 the Company benefitted from the financing of a Nabucco equity increase equivalent to EUR 5 million.

The total cost decreases by 4% compared to twelve months of 2013, which is lower by **RON 50.211 thousand**.

The operating costs are higher by 8% compared to twelve months of 2013, which is higher by **RON 83.229 thousand**.

Overruns amounting to RON 100.167 thousand were recorded mainly in relation to the following cost elements:

- 👉 NTS royalty: RON 13.560 thousand;
- 👉 Tax on monopoly: RON 14.518 thousand;
- 👉 Personnel expenses: RON 7.192 thousand;
- 👉 Licence granting fee: RON 6.722 thousand;
- 👉 Tangible and intangible assets amortization: RON 4.403 thousand;
- 👉 Other operating expenses: RON 51.472 thousand, mainly related to the adjustments for the depreciation of current assets (RON 44.908 thousand).

The Company managed to compensate most of the negative impact by savings of RON 16.938 thousand in relation to the following cost items:

- 👉 technological consumption and loss related to the gas transmission system amounting to **RON 3.376 thousand** due to two factors:
 - gas amount for technological consumption lower by 615.860 MWh/ 63.200 cubic meters (37%) compared to 12 months of 2013, with a positive effect of RON 35.381 thousand;
 - the average purchase price for 2014 higher by RON 30,58/MWh compared to 2013, with a negative effect of RON 32.005 thousand.
- 👉 works and services provided by third parties: RON 10.776 thousand;
- 👉 expenses with the provision for risks and charges: RON 5.580 thousand.

The financial costs decreased by **RON 133.440 thousand** as a result of the provision made for the RON 132.591 thousand impairment of financial assets representing TRANSGAZ contribution to the share capital of Nabucco Gas Pipeline International GmbH, as a consequence of the non-selection of the Nabucco West project as a gas transmission route.

As compared the achievements on 31 December 2013, the gross profit estimated for year 2014 is higher by 44%, meaning RON 187.971 thousand.

2. Status of investment programme

Investment costs estimated at 31 December 2014 amounted to **RON 152.294 thousand**, of which *RON 5.943 thousand* represent NTS connection installations under the NTS access rules approved GR 1043 / 2004. In 2014 credit loans for investments amounting to *RON 24.000 thousand* were reimbursed.

The status of the investment costs is as follows:

	<i>*thousand RON*</i>
	Obtained
▪ Investments, of which:	152.294
- <i>NTS connection installations</i>	5.943
▪ Reimbursement of credits for investments	24.000
TOTAL	176.294

Financing sources for investment costs:

	<i>* thousand RON*</i>
	Obtained
▪ Net profit allocated for own financing	248.286
▪ Depreciation	168.191
▪ NTS connection tariff	5.943
▪ Surplus for previous year	194.487
TOTAL	616.907

During the period analyzed investment amounting to RON 119.347 thousand were commissioned.

3. Liabilities and debts

According to Law 127 of 30 September 2014, amending and supplementing Electricity and Gas Law 123/2012, and to the Petroleum Law 238/2004, amending the modality of compensation of the transmission operator at the termination of the Concession Agreement: *upon termination for any reason of the concession contract, the assets related to the investments made by the transmission system operator of the National Gas Transmission System, as the concessionaire, are taken over by the owner of the National Gas Transmission System, as grantor, by another concessionaire with the grantor`s agreement, upon payment of compensation equal to the regulated value remaining undepreciated, as set by the RERA.* Transgaz recorded in the statement of financial position a long-term liability and a deferred revenue amounting to RON 467.054 thousand, representing the estimated regulated value remained undepreciated at the end of the Concession Agreement, discounted at the current date. The deferred revenue is reversed monthly to other operating income over the remaining period of the Concession Agreement, and the liability is updated according to the modifications recorded in the regulated asset base and to the interest income as a result of the updating through discounting.

4. Debts to the state budget

In 2014 the amount of RON 629.690 thousand were paid to the state budget, of which:

- VAT: RON 254.788 thousand;
- income tax: RON 106.405 thousand;
- oil royalty: RON 163.505 thousand;
- salary tax: RON 37.664 thousand;
- special construction tax: RON 1.922 thousand;
- tax on natural monopoly: RON 55.387 thousand.

The amount of **RON 123.820 thousand** was paid at the local budgets, special funds budgets and social security budgets.

5. Bank loans

a) Medium- and long-term bank loans with no state guarantee

On 31 December 2014 the situation of the medium - and long-term loans of Transgaz is as follows:

No.	Creditor	Loan currency	Loan value (thousand RON)	Balance on 31.12.2014 (thousand RON)
0	1	2	3	4
1.	BRD GSG	RON	120.000,00	24.000,00

b) Short-term domestic loans

According to Contract 22/31.08.2006 and its addenda Transgaz received a credit facility amounting to RON 100.000.000 granted by BRD GSG, the Medias Branch, having the reimbursement date on 29 August 2014. The facility was not extended after expiration.

Over the duration of this credit Transgaz fully paid its obligations under the contracts related to fees for commitment and current interest.

Director-General

Petru Ion Vaduva