



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

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RELEASE

on the economic and financial indicators on 31 March 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 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.

- 👉 **international gas transmission activity**, which is 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 tariffs are set on commercial bases, through negotiations between the parties.*
- 👉 **balancing activity** performed from 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 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 indicators between 01.01 and 31.03.2016

1.1 The analysis of the revenue and expense achieved on 31 March 2016 compared to 31 March 2015

The main economic and financial indicators obtained on 31 March 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 between 1.01-31.03.2015	Obtained between 1.01-31.03.2016	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the construction activity, according to IFRIC12	462.852	482.369	4%
2.	Revenue from the construction activity, according to IFRIC12	15.727	7.300	-54%
3.	Financial revenue	8.430	6.982	-17%
4.	Operating costs before the construction activity, according to IFRIC12	230.388	276.849	20%
5.	Cost of assets built according to IFRIC12	15.727	7.300	-54%
6.	Financial costs	2.184	2.135	-2%

No.	Name	Obtained between 1.01-31.03.2015	Obtained between 1.01-31.03.2016	Increase
0	1	2	3	4=3/2x100-100
7.	GROSS PROFIT , of which:	238.710	210.367	-12%
	• from operation	232.464	205.520	-12%
	• from the financial activity	6.246	4.847	-22%
8.	Income tax	39.404	37.871	-4%
9.	NET PROFIT	199.306	172.496	-13%

Operating revenue before the construction activity, according to IFRIC12 increased by 4% as compared to the corresponding period of year 2015, which is higher by RON 19.517 thousand.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 69.114 thousand** due to:
 - the increase of the fix component share in the total revenue to 60%;
 - the invoicing of the booking capacity surplus for Q I 2016 amounting to RON 49.487 thousand according to Art. 3, paragraph (6) of ANRE Order 1/18.01.2016;
- volumetric component revenue lower by **RON 68.141 thousand** due to:
 - the decrease of the variable component share in the total revenue 40%;
 - the decrease of the quantity of invoiced gas by 2.181.911 MWh (211.784 thousand m³), detailed by categories of consumers as follows:

		Q I 2015	Q I 2016	Differences
Quantity transmitted for direct consumers	MWh	10.247.090	8.856.355	-1.390.735
	thousand m ³	964.619	835.324	-129.295
Quantity transmitted for distribution	MWh	31.722.921	30.931.744	-791.176
	thousand m ³	2.972.665	2.890.176	-82.488
Total	MWh	41.970.010	39.788.099	-2.181.911
	thousand m ³	3.937.284	3.725.500	-211.784

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 1.778 thousand** due to the changes in the foreign currency of the contracts;
- *revenue from the balancing activity* according to ANRE Order 1/18.01.2016 amounting to **RON 17.523 thousand**;
- *other operating revenue* lower by **RON 756 thousand**;
- *financial revenue* with a negative influence of **RON 1.448 thousand** based on the changes in the foreign exchange rates.

Operating costs before the construction activity, according to IFRIC12 increased by 20% as compared to Q I 2015, which is higher by RON 46.461 thousand.

The company made savings of RON 3.609 thousand, mainly in relation to the following cost elements:

- 👍 maintenance and transmission: RON 2.305 thousand;
- 👍 tax and duties: RON 908 thousand;
- 👍 provision for risks and charges: RON 397 thousand.

An expense surplus of RON 50.070 thousand was recorded mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **RON 15.672 thousand** due to the following factors:
 - amount of gas for technological consumption higher by 263.740 MWh/ 24.161 thousand m³ (▲ 155%), as compared to Q I 2015, with a negative influence of RON 23.712 thousand;
 - average purchase price in Q I 2016 lower by RON 18,54/MWh as compared to Q I 2015, with a positive influence of RON 8.040 thousand;
- balancing activity cost: RON 15.573 thousand;
- other operating cost: RON 11.659 thousand;
- fixed asset depreciation cost: RON 3.561 thousand;
- cost of personnel: RON 3.057 thousand;
- royalty for NTS concessioning: RON 275 thousand;
- auxiliary materials and other material costs: RON 273 thousand.

The financial cost is lower by **RON 49 thousand** based on the foreign exchange gain.

As compared to the gross profit obtained on 31 March 2015 the gross profit in Q I 2016 decreased by 12%, wich is lower by RON 28.343 thousand.

1.2 Analysis of the economic-financial indicators achieved on 31 March 2016 compared to the revenue and expense budget approved by OGMS Resolution 1/21 March 2016

The main financial and economic indicators obtained in QI 2016, compared to revenue and expense budget indicators, are presented in the following table:

*** thousand RON ***

No.	Name	REB 01.01-31.03.2016	Obtained between 1.01-31.03.2016	Increase
0	1	2	3	4=3/2x100-100
1.	Operating revenue before the construction activity, according to IFRIC12	476.224	482.369	1%
2.	Revenue from the construction activity, according to IFRIC12	0	7.300	X
3.	Financial revenue	7.522	6.982	-7%
4.	Operating costs before the construction activity, according to IFRIC12	347.771	276.849	-20%
5.	Cost of assets built according to IFRIC12	0	7.300	X
6.	Financial costs	1.449	2.135	47%

No.	Name	REB 01.01-31.03.2016	Obtained between 1.01-31.03.2016	Increase
0	1	2	3	4=3/2x100-100
7.	GROSS PROFIT , of which:	134.526	210.367	56%
	• from operation	128.453	205.520	60%
	• from the financial activity	6.073	4.847	-20%
8.	Income tax	21.126	37.871	79%
9.	NET PROFIT	113.400	172.496	52%

Operating revenue before the construction activity according to IFRIC12 are higher by **RON 6.145 thousand** as compared to the REB. The revenue was influenced by the following factors:

- The gas transmission revenue increased by **RON 46.055 thousand**, due to:
 - the increasing of the booked capacity by 3.930.920 MWh with a positive influence of **RON 52.557 thousand**, obtained mainly due to the invoicing of the booking capacity surplus related to Q I 2016 amounting to **RON 49.487 thousand**, according to Art. 3, paragraph (6) of ANRE Order 1/18.01.2016;
 - the decreasing of the quantity of transmitted gas by 1.529.758 MWh/172.411 thousand m³ (▼ 4%) as compared to the programme, with a negative influence of **RON 6.503 thousand**.
- international gas transmission revenue higher by **RON 2.030 thousand** due to the changes in the foreign currency of the contracts;
- revenue from the balancing activity lower by **RON 36.384 thousand** based on the following factors:
 - trading price higher by RON 13,39/MWh, with a positive influence of **RON 2.331 thousand**;
 - quantity lower by 443.623 MWh, with a negative influence of **RON 38.715 thousand**.
- other operating revenue lower by **RON 5.555 thousand** as compared to the REB;
- the financial revenue decreased by **RON 540 thousand** as compared to the REB due to the interest income and the foreign exchange gains.

Operating costs before the construction activity, according to IFRIC12 decreased by **20%** as compared to the programme approved, which is lower by **RON 70.922 thousand** compared to the REB.

Savings of RON 81.342 thousand were obtained mainly regarding the following cost elements:

- 👍 balancing activity cost: **RON 38.333 thousand**;
- 👍 auxiliary materials cost: **RON 20.598 thousand**;
- 👍 maintenance and transport: **RON 9.750 thousand**;
- 👍 cost of personnel: **RON 5.812 thousand**;
- 👍 fixed assets depreciation cost: **RON 3.720 thousand**;
- 👍 tax and duties: **RON 2.467 thousand**;
- 👍 cost of the provision for risks and charges: **RON 360 thousand**;
- 👍 transmission system technological gas consumption and loss: **RON 302 thousand**, due to the following factors:
 - average purchase price obtained lower by RON 10,83/MWh as compared to the REB, with a positive influence of RON 4.696 thousand;
 - amount of gas for technological consumption higher by 53.455 MWh/4.561thousand m³ (▲ 14%) as compared to the programme, with a negative influence of RON 4.394 thousand.

An expense surplus of RON 10.420 thousand was recorded mainly based on the royalty cost (▲ RON 4.808 thousand) and of other operating costs (▲ RON 5.612 thousand).

The financial costs are higher by RON 686 thousand than budgeted based on the foreign exchange loss.

The gross profit is higher by 56% as compared to the programme, being higher by RON 75.841 thousand as compared to the REB, and the net profit is higher by 52% as compared to the programme, being higher by RON 59.095 thousand as compared to the REB.

2. Investment programme achievement status

The capital expenditure obtained on 31 March 2016 amounted to RON 12.044 thousand, of which RON 471 thousand represent NTS connection facilities achieved according to the NTS access rules approved by GR 1043/2004.

The total capital expenditure achieved at 31 March 2016 represent 30 % of the Q I 2016 programme (RON 39.583 thousand).

The capital expenditure financing sources are:

	*thousand RON *
	Obtained
▪ Net profit allocated for own financing	80.272
▪ Amortization	39.975
▪ Non-cash expenses	18.345
▪ NTS connection tariff	433
▪ Previous year surplus	594.534
TOTAL	733.559

Investments amounting to RON 12.691 thousands were commissioned during the reference period.

3. Receivables and arrears

On 31 March 2016 the balance of long-term receivables increased by RON 2.585 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 2.585 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 March 2016 the arrears amounted to RON 220.359 thousand, being higher by RON 79.684 thousand as compared to the same period of the previous year (RON 140.675 thousand).

On 31 March 2016 Transgaz has no outstanding payments.

4. Debts to the state budget

In Q I 2016 the amount of **RON 137.081 thousand**, was paid up to the state budget, out of which:

- VAT: RON 44.175 thousand;
- Income tax: RON 32.285 thousand;
- Oil royalty: RON 39.081 thousand;
- Salary tax: RON 9.714 thousand;
- Natural monopoly tax: RON 11.671 thousand.

The amount of RON 29.797 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**