

## **RELEASE**

### **Draft unaudited annual financial results for year 2012**

#### **1. Overview**

SNTGN Transgaz SA is a joint-stock trading 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 gas transmission, international transit, 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 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 income obtained from the transmission activity is regulated under *National Energy Regulatory Authority Order 22/2012 for the approval of the Methodology for the approval of prices and setting of regulated tariffs in the gas sector*. The above-mentioned methodology establishes the total regulated income resulting from the transmission activity, based on which the regulated gas transmission tariffs are set. The following items are included into the total regulated income:

- *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 (wages fund contributions, national transmission system royalty, other taxes);
- *regulated profit* set on the basis of the regulatory asset value and on the regulatory rate of return (7,72% as of 1 July 2012).

- 👍 **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; *therefore, this activity is not a regulated activity, and*

*the transit tariffs are set on commercial bases, through negotiations between the parties;*

The income from other activities with a small contribution to the turnover (asset sales, renting and royalty, investment subsidies), and the financial income (interest income and foreign exchange gains) completes the total income of the Company.

## **2. The financial position of Transgaz on 31 December 2012**

### **2.1 The analysis of the estimated income and expense on 31 December 2012 compared to year 2011**

The economic and financial activity of Transgaz was based on the indicators in the income and expense budget approved by Resolution 1267 as of 18 December 2012.

The main economic and financial indicators estimated for year 2012, as compared to year 2011, are presented in the table below:

*\*thousand RON\**

No.	Name	Achieved in 2011	Estimated for 2012	Indicators (%)
0	1	2	3	4=3/2x100
1.	Operating income	1.398.503	1.365.369	97,63
2.	Financial income	59.118	54.789	92,68
<b>3.</b>	<b>TOTAL INCOME</b>	<b>1.457.621</b>	<b>1.420.158</b>	<b>97,43</b>
4.	Operating costs	956.468	1.000.448	104,60
5.	Financial costs	39.422	26.795	67,97
<b>6.</b>	<b>TOTAL COSTS</b>	<b>995.890</b>	<b>1.027.243</b>	<b>103,15</b>
<b>7.</b>	<b>GROSS PROFIT</b> (row 3 – row 6)-total, of which:	<b>461.731</b>	<b>392.915</b>	<b>85,10</b>
	↳ from operation	442.035	364.921	82,55
	↳ from the financial activity	19.696	27.994	142,13
<b>8.</b>	<b>Income tax</b>	<b>77.393</b>	<b>111.874</b>	<b>144,55</b>
<b>9.</b>	<b>NET PROFIT</b>	<b>384.338</b>	<b>281.041</b>	<b>73,12</b>

**The total income** estimated represents **97,43%** compared to year 2011, which is lower by **37.463 thousand RON**. The income was influenced mainly by the following factors:

- ↳ a *quantity of transmitted gas* lower by 5.666.507 MWh (546.957 thousand cubic meters) as compared to 2011, with a negative effect of **39.911 thousand RON**;

- 👍 *income from international gas transit service* increased by **30.919 thousand RON** due to the RON depreciation in 2012 against the EURO and the USD, considering that the income is invoiced in foreign currency;
- 👍 the diminishing of other income from delayed payment fees charged to the clients.

**The total cost** estimated represents **103,15%** compared to year 2011, which is higher by **31.353 thousand RON**.

**The operating costs** were 104,60% achieved.

*As compared to year 201, savings amounting to 22.106 thousand RON were recorded mainly regarding the following items:*

- 👍 technological consumption and loss of transmission system: 14.972 thousand RON.
- 👍 third party works and services: 5.540 thousand RON.

*Exceedings amounting to 66.088 thousand RON were recorded regarding some items e.g.:*

- 👍 fixed assets depreciation: 4.981 thousand RON;
- 👍 personnel expenses: 11.301 thousand RON;
- 👍 employee stock ownership (not granted in 2011): 10.025 thousand RON;
- 👍 other operating expenses: 32.781 thousand RON, mainly based on the provision for employee benefits.

**The gross profit** estimated for year 2012 is lower by **68.816 thousand RON (14,9%)** than the actual gross profit for 2011, and the net profit by **103.297 thousand RON (26,88%)**.

Over the period considered, **409.416 thousand RON** were paid as State budget contributions as follows:

- value added tax: 152.353 thousand RON;
- royalty: 134.184 thousand RON;
- income tax: 82.872 thousand RON;
- salary tax: 33.668 thousand RON.

The amount of **113.231 thousand RON** was paid at the local budgets, special funds budgets and social security budgets.

***The draft financial statements for year 2012 are audited and prepared according to the international financial reporting standards (IFRS) adopted by the European Union, under Order of the Minister of the Public Finances 881/25 June 2012.***

The main accounting treatments used for the preparation of the IFRS financial statements, different from the ones used at the preparation of the financial statements, according to Order of the Minister of the Public Finances 3055/2009, are the following:

✍ **The application of IAS 29 “Financial reporting in hyperinflationary economies”**

Romania has passed through relatively high inflation periods and was considered to be hyperinflationary according to IAS 29 “**Financial reporting in hyperinflationary economies**”. IAS 29 required that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the pricing power on 31 December 2003. Since the characteristics of the economic environment in Romania indicate the ceasing of the hyperinflation, from 1 January 2004, the Company has no longer applied the provisions of IAS 29. Therefore, the values reported in terms of pricing power on 31 December 2003 are treated as a basis for the accounting values in the financial statements prepared according to the IFRS.

✍ **The application of IAS 12 “Income tax”**

According to IAS 12, if the recovery or the settlement of the accounting value of an asset or liability may lead to larger (or smaller) future tax payments compared to their value if such recovery or settlement had had no tax consequences, then there are recognized deferred tax liabilities (or deferred tax assets).

✍ **The application of IFRIC 12 “Service concession arrangements”**

IFRIC 12 addresses the infrastructure existing at the moment of the signature of the concession arrangement and also the upgrading and development of the gas transmission system, transferred to the regulatory authority (the National Agency for Mineral Resources) at the end of the concession arrangement.

Transgaz is entitled to charge the users of the public service and, consequently an intangible asset was recognised for this entitlement.

Since IFRIC 12 could not be applied retroactively, according to the transition requirements, on 31 December 2008 Transgaz recognised as intangible assets the outstanding value of the tangible assets of the National Transmission System used for the performing of the regulated transmission activity.

The Company tested the intangible asset recognised at that date without identifying any depreciation.

As they appear, the costs of the replacements are recognised as expense, and the development of the assets used within the Service Concession Arrangement are recorded at fair value. The intangible asset is depreciated over the remaining duration of the concession arrangement.

✍ **The application of IAS 23 “Borrowing costs”**

According to IAS 29, Transgaz includes the borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use in the cost of the asset. Where funds are borrowed for obtaining an asset that takes a substantial period of time to get ready for its intended use, the borrowing costs amount eligible for capitalisation is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the entity’s borrowings that are due over the period, other than the borrowings specific to the obtaining of an asset that takes a substantial period of time to get ready for its intended use.

✍ **The application of IAS 16 “Non-current assets”**

When drawing up the IFRS financial statements, Transgaz applies the following accounting treatment for tangible assets: a tangible asset item fulfilling the conditions for recognition as asset must be measured at its cost.

**Director-General,  
Ioan Rusu**

**Endorsed by:**

**Chief Financial Officer**

**Ioan Ștefănescu**