



# SOCIETATEA NATIONALA DE TRANSPORT GAZE NATURALE "TRANSGAZ"-S.A. MEDIAS

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## PRESS RELEASE

### On the economic - financial indicators on September, 30<sup>th</sup> 2010

#### 1. Background data

SNTGN "Transgaz" SA is a joint-stock company operating under the Romanian laws and under the Incorporation Document.

According to GD no. 334/2000 and Transgaz' Incorporation Document, the company's goal is to achieve the national strategy established for gas transmission, international transit, dispatching and research-design in the field of gas transmission by means of trading deeds compliant with its scope of activity and in line with the national legislation.

Transgaz' income comes from the performance of the following activities:

- **Natural gas transmission** activities are regulated by the National Energy Regulating Authority because of their monopoly.

The revenues coming from the transmission activity are regulated according to the ANRGN Decision no. 1078/2003 *regarding the approval of the criteria and methods to approve prices and regulated tariffs determination in the field of natural gas.*

The total regulated revenue from

transmission activities is determined according to the above mentioned methodology constituting the basis for setting regulated tariffs for natural gas transmission. The following elements are included within the structure of the total regulated revenue:

- *operating costs* acknowledged by authorities (materials, water and energy, technological consumption, salaries, maintenance and repair, etc.);
- *regulated amortization* of transmission activity assets;
- *direct costs*, costs that are out of the operator's control (contributions to the salaries funds, SNT concession royalty, other duties and taxes);
- *regulated profit* determined according to the regulated value of the assets and to the rate of return on capital (7,88%) to the value of the regulated assets used for the performance of transmission activities;

The substantiation of the regulated revenue is performed for 5 year regulating periods (the current period is July, 1, 2007 – June, 30, 2012) and within the regulating period the adjustment of the regulated revenue is performed according to the annual inflation index reduced by the growth factor of the economic efficiency (0,91%), the value of the fixed assets put into operation (by the related regulated amortization and the related regulated profit) and to the achievement or failure to achieve the regulated income approved for the previous gas year, thus:

- when in the previous year the regulated revenue was greater than the approved one the difference is decreased from the regulated revenue of the next year;
- when in the previous year the regulated revenue was smaller than the approved one the difference is added to the regulated revenue of the next year;

Subsequent to the regulation of the transmission activity according to the above mentioned methodology, the revenue obtained from the transmission activity covers the expenses it generated and provides the opportunity to gain a regulated profit limited to 7,88% of the value of the capital invested in this activity. The sole possibility to gain a greater profit than the regulated one, within a regulating period, is to achieve some savings at the operational costs.

- **Natural gas international transit activity** which is a gas transmission activity as well but because of the fact that it is carried out through dedicated transmission pipelines, which are not interconnected to the national transmission system, *it is not a regulated activity, and the transit tariffs are set on commercial basis through negotiation between parties;*

The total revenues of the company are supplemented by revenues from other activities with a marginal contribution to the turnover (asset sale, rents and royalties, investment subsidies) and by financial revenues (revenues from income and revenues from currency exchange differences).

### **Preliminary revenue and expenses analysis on the 30<sup>th</sup> of September 2010 as opposed to the achievements of the 30<sup>th</sup> of September 2009**

The key economic-financial indicators achieved on the 30<sup>th</sup> of September 2010, as opposed to the same period of 2009 are as follows:

*\*Thousand lei\**

Tag no.	Name	Achieved 1.01-30.09.2009	Achieved 1.01-30.09.2010	Indices (%)
0	1	2	3	$4=3/2 \times 100$
1.	Operating revenues	831,243	941,734	113.29
2.	Financial revenues	34,060	27,109	79.59
<b>3.</b>	<b>TOTAL REVENUES</b>	<b>865,303</b>	<b>968,843</b>	<b>111.97</b>
4.	Operating expenses	624,300	610,699	97.82
5.	Financial expenses	14,790	20,901	141.32

6.	<b>TOTAL EXPENSES</b>	<b>639,090</b>	<b>631,600</b>	<b>98,83</b>
7.	<b>GROSS RESULT</b> (row 3.- row 6.) total of which:	<b>226,213</b>	<b>337,243</b>	<b>149,08</b>
	☛ From operation	206,943	331,035	159.96
	☛ From the financial activity	19,270	6,208	32.22
8.	<b>Tax on profit</b>	<b>36,856</b>	<b>53,025</b>	<b>143.87</b>
9.	<b>NET PROFIT</b>	<b>189,357</b>	<b>284,218</b>	<b>150.10</b>

The total preliminary revenues represent 111.97% as opposed to the achievements related to 2009, registering 103,540 thousand lei exceed. The revenues were mainly influenced by the following factors:

- ☛ *The adjustment of the regulated revenue* for the gas year 1<sup>st</sup> of July 2009 – 30<sup>th</sup> of June 2010 mainly because of the inclusion in the revenue of some unachieved revenues acknowledged by ANRE in the previous gas years and because of the commissioning of some fixed assets for the transmission activities in the period July, 1, 2008 - June, 30<sup>th</sup> 2009 with a positive influence of **57,915 thousand lei**;
- ☛ *Gas quantities transmitted* in the period January, 1 – September, 30<sup>th</sup> 2010 greater than the similar period of 2009 with 6,492,661 MWh (575,957 thousand cm) with a positive impact of **45,366 thousand lei**.
- ☛ *Natural gas international transit services revenues* had increased by **6,198 thousand lei** because of the increase of currency exchange in 2010 as opposed to 2009.
- ☛ *The reduction of the financial revenues from interests* with **6,952 thousand lei**.

The total expenses were achieved **98.83%** as opposed to the similar period of 2009, their level being **7,490 thousand lei** lower.

The operating expenses achieved were 2.18% lower than the achievements of 2009.

*As opposed to 2009 the company registered lower values*, mainly at the following expense elements:

- ☛ Adjust the value of the current assets: **34,878 thousand lei** determined by recording the revenue reserves from the previous years after the collection of outstanding receivables from Termoelectrica SA and Interagro SA;
- ☛ Works and services performed by third parties: **9,190 thousand lei**. These expenses indicate, mainly, the rehabilitation of the NTS postponed because of the unfavorable weather conditions and because of the fact that the approvals from the owners of the land affected by the works were delayed and difficult to obtain;
- ☛ Natural gas consumption and technological loss on the transmission system: **5,736 thousand lei** because of the gas quantities destined for technological loss lower by 135,972 MWh (13,192 thousand cm) as opposed to 2009;
- ☛ Expenses caused by other duties and taxes: 6,042 thousand lei;

✍ Auxiliary materials: **2,617 thousand lei**.

*The company registered outruns in some expense elements as opposed to the similar period in 2009 out of which we have to mention the following:*

- ✍ Personnel expenses: **16,086 thousand lei** in compliance with the provisions of the GEO no. 79/2008 and the correlation of the wage increase with work productivity respectively;
- ✍ Royalty for the concession of the national transmission system: **10,984 thousand lei** because of greater revenues;
- ✍ Depreciation of fixed assets: **6,806 thousand lei** on account of commissioning after the 1<sup>st</sup> of September 2009..

Compared to the achievements of September, 30<sup>th</sup>, 2009, the preliminary total revenue for 9 months in 2010 is higher by 11.97%, and under the circumstances in which the total expense registered a decrease of 1.17% the gross preliminary profit is higher by 49.08% and the net profit by 50.10%.

**The total expenses for the investment** achieved on the 30<sup>th</sup> of September 2010 summed up lei **322,577 thousand** of which 100,174 thousand lei represent the installation of the connection to the NTS achieved based on the access regulation approved by the GD no. 1043/2004, that is 53,650 thousand lei reimbursement of the installments for investment credits. As opposed to the achievements of 2009 (337,348 thousand lei) these decreased by **14,771 thousand lei**, that is **4.38%**.

The total value of investment expenses estimated according to the approved REB is lei **270,090 thousand** the schedule being surpassed with **19.43%**.

In the period analyzed the investment of **266,009 thousand lei** were commissioned.

Considering:

- According to the GEO no. 55/23<sup>rd</sup> of June 2010 regarding the allocation of the net profit of state owned companies, minimum 90% of it represents dividends;
- Transgaz leased the public property of the equipment related to the national transmission system for which he has to pay in favor of the state royalties representing 10% of the gross income achieved from the gas transmission and international transit activities,

The amount due to the state budget on the 30<sup>th</sup> of September 2010 is of **332,362 thousand lei** of which:

- Oil royalty: 91,276 thousand lei;
- Tax on profit: 53,025 thousand lei;
- Dividends for the majority shareholder (MECMA – the Ministry of Economy, Commerce and Business Environment – 73.52% of the shares) payable in 2011: 188,061 thousand lei.

We would like to mention that the net profit not allocated, summing up 28.422 thousand lei is used first for the development of the national natural gas transmission system, the resulting

goods are part of the national transmission system being consequently a part of the state public property according to the provisions of the Concession Agreement for the NTS.

**GENERAL MANAGER**

**Florin Cosma**