



## RELEASE

### On the position of the economic-financial indicators as at 30 September 2014

#### Background

The National Gas Transmission Company, "Transgaz" SA, is a public company operating under the Romanian Laws and the Articles of Incorporation.

According to GD no. 334/2000 and the Articles of Incorporation, Transgaz is committed to comply with the national strategy for gas transmission, international transit, dispatching and research and design for gas transmission, by performing activities pursuant to its scope of business and in compliance with the Romanian laws.

Transgaz revenues are generated from the following activities:

- ☛ **Gas transmission** – which, given its monopoly nature, is an activity regulated by the Romanian Energy Regulatory Authority.

The revenues from gas transmission are regulated based on **Order no. 32/21 May 2014 of the Romanian Energy Regulatory Authority endorsing the Methodology for approving prices and for setting regulated tariffs related to the gas sector.**

The total regulated revenues generated from gas transmission underlying the setting of regulated tariffs are determined based on the above-mentioned methodology, in relation to the booked capacities and to the transported gas volumes, respectively. The structure of the total regulated revenues consists of the following elements:

- ☞ *Operational costs* as acknowledged by the energy regulatory authority (materials, energy and water, technological consumption, salaries, maintenance and repair works and others);
- ☞ *Regulated depreciation* of gas transmission assets;
- ☞ *Pass-through costs*, direct costs beyond the control of the operators (royalty for the NTS concession, transmission license-related fee, wages, salaries and other employment related expenses, tax and other state dues);

- ✎ *Regulated profit* as determined by applying the regulated rate of capital return 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<sup>st</sup> July 2012 – 30<sup>th</sup> 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 tied-up in such activity and to 9.12% in relation to the investments commissioned after 1<sup>st</sup> July 2012, pursuant to Order no. 23/11.06.2012 of the Romanian Energy Regulatory Authority.

**The main amendments to setting the income related to the transmission activity by the Order of the Romanian Energy Regulatory Authority no. 32/2014 versus the Order of the Romanian Energy Regulatory Authority no. 22/2013 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 regulating period, between the interval July 2014 – September 2017;
- From the fourth year of the third regulating period (2012-2017) the beginning of the year is 1 October. Until the third year (2014-2015), the regulating 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 the year (i) out of the value, approved by the Regulatory Committee of RERA, determined according to the legal provisions in force by the compensation of unachieved revenues recognized by RERA for the second regulating 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 regulating period;  $\Delta CT(i)$  – the component for the correction of the technological consumption related to the previous years;

- OPEX the technological consumption is also adjusted in the 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 the year (i) and the purchasing cost estimated for the year (i);
- According to Order 32 at the determination of RAB in the beginning of the regulating period, the values of the RAB in the previous period are no longer inflated by the aggregated rate of the inflation in the previous regulating period, as provided by Order 22/2012.

#### **Amendments to setting tariffs**

Setting the **capacity booking tariffs** according to 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, respectively:

- **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 trimester or for multiple trimesters, during the gas year;
  - firm/interruptible transmission services contracted for a month or for multiple months during a trimester;

- 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 on entry-exit points) starting with 1 August 2014.**

☞ **International gas transit** – which is also a gas transmission activity, but as it performed by dedicated gas transmission pipelines (not interconnected with the national gas transmission system), *it is not regulated and the transit tariffs are established on commercial basis, by direct negotiations between the parties.*

The share of revenues from other activities such as asset sales, rents, royalties, financial revenues from interests and differences in currency exchange rates, out of the total revenues in the company's turnover, is low.

### Analysis of the economic- financial indicators as at 30<sup>th</sup> September 2014 as opposed to 30<sup>th</sup> September 2013

The following table illustrates the synthesis of the financial results as at 30<sup>th</sup> September 2014 and 30<sup>th</sup> September 2013:

*\*Thousand*

*Lei\**

Tag no.	Name	Achieved 1.01-30.09.2013	Achieved 1.01-30.09.2014	Ratios (%)
0	1	2	3	$4=3/2 \times 100$
1.	Operating revenues	1.050.117	1.206.655	15%
2.	Financial revenues	15.395	23.884	55%
<b>3.</b>	<b>TOTAL REVENUES</b>	<b>1.065.512</b>	<b>1.230.539</b>	<b>15%</b>
4.	Operating expenses	709.649	771.832	9%
5.	Financial expenses	117.858	3.762	-97%
<b>6.</b>	<b>TOTAL EXPENSES</b>	<b>827.507</b>	<b>775.594</b>	<b>-6%</b>
<b>7.</b>	<b>GROSS RESULT</b> (row 3- row 6) of which:	<b>238.005</b>	<b>454.944</b>	<b>91%</b>
	☞ Operating	340.468	434.822	28%
	☞ Financial	-102.463	20.122	X
<b>8.</b>	<b>Income tax</b>	<b>76.385</b>	<b>80.907</b>	<b>6%</b>
<b>9.</b>	<b>Net profit</b>	<b>161.620</b>	<b>374.037</b>	<b>131%</b>

*The total achieved revenues* increased by **15%** as opposed to the nine months achievements in 2013, recording an excess of **Lei 165.027 thousand**.

**The revenues were mainly influenced by the following factors:**

- *Capacity booking tariff* higher as opposed to the 9 months period of 2013 by 0,43 Lei/MWh, with a positive impact of **Lei 109.369 thousand**;
- *Invoiced gas quantity* higher by 5.512.931 MWh/501.110 thousand cm (7%) for the gas transported to underground storage, with a positive impact of **Lei 40.461 thousand**;

- *Volumetric component of the transmission tariff* lower by 0,09 Lei/MWh, with a negative impact of **Lei 7.525 thousand**;
- *Financial revenues* with a positive impact of **Lei 8.489 thousand** based on the advance payment from the liquidation of NIC amounting to EUR 959.350,39 and the reconciliation of the amounts transferred in an escrow account by the Shah Deniz Consortium amounting to EUR 1.468.500.

**The total expenses** decreased by **6%** as opposed to the 9 months period of 2013, being by **Lei 51.913 thousand** lower.

**The operating expenses** are higher by 9% as opposed to the 9 months period of 2013, respectively **Lei 62.183 thousand**.

*Overruns amounting to Lei 93.653 thousand* were accounted mainly in relation to the following cost elements:

- ☞ Royalty for the NTS concession: Lei 15.604 thousand;
- ☞ Monopoly tax: Lei 13.538 thousand;
- ☞ Personnel expenses: Lei 9.817 thousand;
- ☞ License granting fee: Lei 9.602 thousand;
- ☞ Fixed assets amortization: Lei 2.690 thousand;
- ☞ Other operating expenses: Lei 40.546 thousand, mainly related to the adjustments for the depreciation of current assets.

*The company managed to compensate most of the negative impact by savings of Lei 31.469 thousand* in relation to the following cost elements:

- ☞ technological consumption and loss related to the gas transmission system amounting to **Lei 7.161 thousand due to two factors**:
  - gas amount for technological consumption lower as opposed to the 9 months period of 2013 by 570,958 MWh/59,160 thousand cm (43%) having a positive impact of Lei 31,073 thousand;
  - the average purchase price for 9 months period of 2014 higher as opposed to the 9 months period of 2013 by Lei 32,13/MWh, having a negative impact of Lei 23,912 thousand;
- ☞ works and services provided by third parties : Lei 22.716 thousand.
- ☞ Expenses related to the liabilities and charges provision: Lei 3,572 thousand.

**The financial expenses** decreased by **Lei 114,097 thousand** as a result of the provision made for the impairment of financial assets (Lei 110,671 thousand) representing TRANSGAZ contribution to the share capital of Nabucco Gas Pipeline International GmbH.

As opposed to the achievements as at 30<sup>th</sup> September 2013, the total revenues related to the 9 months period of 2014 are higher by 91% respectively by Lei 216.939 thousand.

The analysis of the economic-financial indicators as at 30<sup>th</sup> September 2014 in relation to the income and expense budget approved by GD no. 462/04.06.2014

The table below illustrates the main economic-financial indicators achieved for the 9 months period of 2014 as opposed to the income and expense budget:

*\*Lei thousand \**

Tag no.	Name	Income & expense budget 1.01.-31.09.2014	Achieved 1.01.-31.09.2014	Ratios (%)
0	1	2	3	4=3/2x100
1.	Operating revenues	1.210.299	1.206.655	0%
2.	Financial revenues	12.679	23.884	88%
<b>3.</b>	<b>TOTAL REVENUES</b>	<b>1.222.978</b>	<b>1.230.539</b>	<b>1%</b>
4.	Operating expenses	911.523	771.832	-15%
5.	Financial expenses	7.814	3.762	-52%
<b>6.</b>	<b>TOTAL EXPENSES</b>	<b>919.337</b>	<b>775.594</b>	<b>-16%</b>
<b>7.</b>	<b>GROSS RESULT</b> (row 3 – row 6) out of which:	<b>303.641</b>	<b>454.944</b>	<b>50%</b>
	↳ operating	298.776	434.822	46%
	↳ financial	4.865	20.122	314%
<b>8.</b>	<b>Income tax</b>	<b>66.663</b>	<b>80.907</b>	<b>21%</b>
<b>9.</b>	<b>NET PROFIT</b>	<b>236.978</b>	<b>374.037</b>	<b>58%</b>

*The total achieved revenues* are equal to the ones provided in the income and expense budget, registering an increase of Lei **7.561 thousand** . The revenues were influenced by the following factors:

1. Gas transmission services decreased by **Lei 3.689 thousand** due to:
  - *Gas transported amount* lower by 5.821.022 MWh than as budgeted: 596.629 thousand cm (6%), with a negative impact of **Lei 41.936 thousand**;
  - *Capacity booking tariff* higher than the budgeted one by 0,087 Lei/MWh/h, with a positive impact of **Lei 22.120 thousand**;
  - *Volumetric transmission tariff* higher by 0.05 Lei/MWh than as budgeted, with a positive impact of **Lei 4.379 thousand**;
  - *Capacity charge* higher by 9.359.920 MWh with a positive impact of **Lei 11.749 thousand**;
2. *The revenues from international gas transit* increased by **Lei 1.035 thousand**.
3. *The financial revenues* increased as opposed to the income and expense budget by **Lei 11,205 thousand** because of the advance payment for the liquidation of NIC amounting to EUR 959.350,39 and to the reconciliation of the amounts transferred

in an escrow account by the Shah Deniz Consortium amounting to EUR 1.468.500.

**The total expenses** incurred decreased by **16%** as opposed to the approved budget, i.e. **Lei 143,743 thousand** lower than as budgeted.

**The operating expenses** are lower by 15% as opposed to the approved budget, i.e. **Lei 139.691 thousand**.

**Savings of Lei 163,483 thousand** were accounted mainly in relation to the following cost elements:

- 👉 technological consumption and loss related to the gas transmission system amounting to **Lei 66,776 thousand** due to two factors:
  - gas amount for technological consumption lower by 773.007 MWh/75.501 thousand cm (60%) than as budgeted, with a positive impact of Lei 66,838 thousand;
  - the average purchase price higher by Lei 0.08/MWh than as budgeted, with a negative impact of Lei 62 thousand;
- 👉 works and services provided by third parties: Lei 58.465 thousand;
- 👉 employee related expenses: Lei 13.283 thousand;
- 👉 taxes and other state dues: Lei 9.521 thousand;
- 👉 depreciation: Lei 1.884 thousand.

**Overruns of Lei 23.788 thousand** were recorded in relation to the operating costs (adjustments for the depreciation of the current assets).

**The financial expenses** are lower than the level estimated in the income and expense budget by **Lei 4.052 thousand** as a result of the expenses related to the interests and unfavourable currency differences.

**The gross profit is by 50% higher than as budgeted, overrunning by Lei 151.303 thousand than as budgeted and the net profit being 58% higher, amounting to Lei 137.059 thousand than as budgeted.**

**The total investment expenses** incurred as at 30<sup>th</sup> September 2014 amounted to **Lei 90.317 thousand**, out of which Lei 5.222 representing installations for the connection to the NTS achieved based on the regulation related to the NTS approved by GD no. 1043/2004. During the nine months of 2014 the instalments related to the investments loans were reimbursed amounting to Lei 18.000 thousand.

During the analysed period investments amounting to **Lei 63.599 thousand** were commissioned.

Until September 30<sup>th</sup>, 2014 the amount of **Lei 479,388 thousand** was paid up to the state budget, out of which:

- VAT: Lei 204,124 thousand;
- Oil royalty: Lei 130,017 thousand;
- Income tax: Lei 66,034 thousand;
- Monopoly tax: Lei 40.167 thousand;
- Salary tax: Lei 28,485 thousand;
- Dividend tax: Lei 8,640 thousand.
- Tax on special constructions: Lei 1.922 thousand

The amount of Lei 93,657 thousand was also paid up to local budgets, special funds and social insurance budgets.

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