



RELEASE

On the position of the economic-financial indicators as at 30 September 2013

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. 22/2012* of the Romanian Energy Regulatory Authority *endorsing the Methodology for approving prices and for setting regulated tariffs related to the gas sector*, amended from time to time.

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 1st July 2013 – 30th June 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 1st July 2012, pursuant to Order no. 23/11.06.2012 of the Romanian Energy Regulatory Authority.

- ⌘ **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 30th September as opposed to 30th September 2012

The following table illustrates the synthesis of the financial results as at 30th September 2013 and 30th September 2012:

Thousand lei

Tag no.	Name	Achieved 1.01-30.09.2012	Achieved 1.01-30.09.2013	Ratios (%)
0	1	2	3	4=3/2x100
1.	Operating revenues	968,384	1,054,638	108.91
2.	Financial revenues	48,302	15,395	31.87
3.	TOTAL REVENUES	1,016,686	1,070,033	105.25
4.	Operating expenses	688,401	706,516	102.63
5.	Financial expenses	19,638	117,859	600.16
6.	TOTAL EXPENSES	708,039	824,375	116.43
7.	GROSS RESULT (row 3- row 6) of which:	308,647	245,658	79.59
	⌚ Operating	279,983	348,122	124.34
	⌚ Financial	28,664	-102,464	X
8.	Income tax	54,414	86,183	158.38
9.	Net profit	254,233	159,475	62.73

The total achieved revenues amount to **105.25%** as opposed to the similar period of 2012, recording an excess of **Lei 53,347 thousand**. The revenues were mainly influenced by the following factors:

- *Capacity charge* higher by 0.69 Lei/MWh as opposed to the similar period of the previous year, with a positive impact of **Lei 165,624 thousand**;
- *Gas transported amount* lower by 7,740,656 MWh/733,203 thousand cm as opposed to the period 1.01-30.09.2012 (1.01-30.09.2012: 90,286,780 MWh/8,492,075 thousand cm, 1.01-30.09.2013: 82,546,124 MWh/7,758,872 thousand cm), with a negative impact of **Lei 58,055 thousand**;
- *Commodity charge* lower by 0.16 lei/MWh as opposed to the similar period of the previous year, with a negative impact of **Lei 13,261 thousand**;
- *Transmission capacity booking* lower by 159.3 MWh/h as opposed to the similar period of the previous year, with a negative impact of **Lei 2,297 thousand**;
- *Revenues from international gas transit* lower by **Lei 4,370 thousand** as opposed to the similar period of the previous year because of an average Lei/EURO, Lei/USD exchange rate lower as opposed to the similar period of the previous year;
- *Financial revenues* with a negative impact of **Lei 32,907 thousand** based on the lower level of the company's bank accounts as opposed to the similar period of the previous year.

The total expenses incurred amounted to **116.43%** as opposed to the similar period of 2012, being overrun by **Lei 116,336 thousand**.

The operating expenses incurred amounted to 102.63%.

Savings of Lei 37,419 thousand were accounted mainly in relation to the following cost elements:

- ✦ technological consumption and loss related to the gas transmission system amounting to Lei 16,767 thousand due to two factors:
 - gas amount for technological consumption lower by 561,138 MWh/49,762 thousand cm as opposed to 2012, having a positive impact of Lei 26,420 thousand;
 - the average purchase price as at 30th September 2013 higher by Lei 7.34/MWh as opposed to the similar period of 2012, having a negative impact of Lei 9,653 thousand;
- ✦ materials and consumables: Lei 8,602 thousand;
- ✦ works and services provided by third parties : Lei 4,835 thousand.
- ✦ License related fee: Lei 2,861 thousand.

Overruns amounting to Lei 55,532 thousands were accounted, out of which the following cost elements:

- ✦ Monopoly tax: Lei 26,676 thousand;
- ✦ Asset depreciation: Lei 12,768 thousand;
- ✦ Employment related expenses: Lei 6,335 thousand;
- ✦ Royalty for the NTS concession: Lei 8,764 thousand;
- ✦ Other operating costs: Lei 2,197 thousand.

The financial expenses were overrun by **Lei 98,221 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 following the deselection of the Nabucco West project as a route for the transmission of Shah Deniz gas.

As opposed to the achievements as at 30th September 2012, the total revenues as at 30th September 2013 increased by 5.25% and as the total expenses increased by 16.43%, the gross profit as at 30th September 2013 is lower by 20.41% (i.e. Lei 62,989 thousand) than the same as at 30th September 2012.

The analysis of the economic-financial indicators as at 30th September 2013 in relation to the income and expense budget approved by GD no. 302/29.05.2013

The indicators under the approved income and expense budget for 2013 were substantiated according to the applicable laws effective at the date of preparation without considering the rules of the EU IFRS enforcement.

The table below illustrates the main economic-financial indicators achieved for the period 1.01-30.09.2013 as opposed to the income and expense budget:

**Lei thousand **

Tag no.	Name	Income & expense budget 1.01.-31.09.2013	Achieved 1.01.-31.09.2013	Ratios (%)
0	1	2	3	4=3/2x100
1.	Operating revenues	1,023,132	1,054,638	103.08
2.	Financial revenues	34,413	15,395	44.74
3.	TOTAL REVENUES	1,057,545	1,070,033	101.18
4.	Operating expenses	865,182	706,516	81.66
5.	Financial expenses	23,455	117,859	502.49
6.	TOTAL EXPENSES	888,637	824,375	92.77
7.	GROSS RESULT (row 3 – row 6)	168,908	245,658	145.44
	out of which:			
	↳ operating	157,950	348,122	220.40
	↳ financial	10,958	-102,464	X
8.	Income tax	34,271	86,183	251.48
9.	NET PROFIT	134,637	159,475	118.45

The total achieved revenues amounting to **101.18%** recorded an overrun of **Lei 12,488 thousand** in relation to the income and expense budget. The revenues were influenced by the following factors:

1. Gas transmission services increased by **Lei 36,114 thousand** due to:

- *Capacity charge* higher by 0.693 Lei/MWh/h than as budgeted, with a positive impact of **Lei 165,624 thousand**;
- *Gas transported amount* lower by 9,453,876 MWh than as budgeted (1.01-30.09.2013 budgeted: 92,000,000 MWh, 1.01-30.09.2013 achieved: 82,546,124 MWh, with a negative impact of **Lei 75,377 thousand**;
- *Commodity charge* lower by 0.63 lei/MWh than as budgeted, with a negative impact of **Lei 52,319 thousand**;

Following the approval of new transmission tariffs by the Romanian Energy Regulatory Authority starting with 1st April 2013, the share of the fixed expenses in the total revenues increased from 6% to 35% thus increasing the capacity charge and decreasing the commodity charge.

2. *The revenues from international gas transit* decreased by **Lei 6,876 thousand** because of an average Lei/EURO, Lei/USD exchange rate lower than forecasted;
3. *Other operating revenues* increased by **Lei 2,269 thousand**.
4. *The financial revenues* decreased as opposed to the income and expense budget by **Lei 19,018 thousand** (revenues from interests and exchange rate spreads) based on the lower-than-estimated company's bank accounts.

The total expenses incurred amounted to **92.77%** as opposed to the approved budget, i.e. by **Lei 64,262 thousand** lower than as budgeted.

The operating expenses amounted to 81.66%.

Savings of Lei 168,841 thousand were accounted mainly in relation to the following cost elements:

- ✦ technological consumption and loss related to the gas transmission system amounting to Lei 57,752 thousand due to two factors:
 - gas amount for technological consumption lower by 1,029,722 MWh than as budgeted, with a positive impact of Lei 56,791 thousand;
 - the average purchase price lower by Lei 0.73/MWh than as budgeted, with a positive impact of Lei 960 thousand;
- ✦ depreciation: Lei 29,898 thousand. The decrease in depreciation was generated by the assessment of fixed assets based on the inflated historical cost and by the application of the IFRIC 12 – “Service concession arrangements”, following TRANSGAZ’ application of the International Financial Reporting Standards starting with 2012 according to Order no. 881/2012 of the Ministry of Public Finance *on the application of the IFRS by the companies having securities admitted to trading on a regulated market*;
- ✦ works and services provided by third parties: Lei 37,903 thousand;
- ✦ employee related expenses: Lei 24,433 thousand;
- ✦ materials and consumables: Lei 14,569 thousand;
- ✦ taxes and other state dues: Lei 763 thousand;
- ✦ licence related fee: Lei 2,462 thousand.

Overruns of Lei 10,175 thousand were recorded in relation to the royalty for the concession of the national gas transmission system and other operating costs.

The financial expenses overrun the level estimated in the income and expense budget as a result of the provision made for the impairment of financial assets following the deselection of the Nabucco West project as a route for the transmission of Shah Deniz gas.

The gross profit amounted to **145.44%**, overrunning by **Lei 76,750 thousand** the income and expense budget and **the net profit** amounted to **118.45%**, higher by **Lei 24,838 thousand** than as budgeted.

The total investment expenses incurred as at 30th September 2013 amounted to **Lei 154,851 thousand**, out of which:

- Lei 86,658 thousand – investment works;
- Lei 33,187 thousand – Transgaz’ contribution to the share capital of Nabucco Gas Pipeline International GmbH;
- Lei 17,006 thousand – NTS connection equipment based on the regulation for access to the NTS approved under GD no. 1043/2004;
- Lei 18,000 thousand – payment of investment loan instalments.

During 1.01-30.09.2013, investments amounting to **Lei 113,326** were commissioned.

During January 1st – September 30th, 2013 the amount of **Lei 442,476 thousand** was paid up to the state budget, out of which:

- VAT: Lei 154,572 thousand;
- Income tax: Lei 116,480 thousand;
- Oil royalty: Lei 112,512 thousand;
- Salary tax: Lei 26,476 thousand;
- Monopoly tax: Lei 23,759 thousand;
- Dividend tax: Lei 8,677 thousand.

The amount of Lei 90,104 thousand was also paid up to local budgets, special funds and social insurance budgets.

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