



## RELEASE

### On the unaudited annual estimated financial results for 2013

#### Background

The National Gas Transmission Company, "Transgaz" SA, is a public joint-stock company operating under the Romanian Laws and its 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. 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> 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, regulated revenues higher than as approved were achieved, the margin is deducted from the regulated revenues of the following year;
- If, during the previous year, regulated revenues lower 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.

☞ **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 exchange rate spreads, out of the total revenues, in the company's turnover, is low.

This report illustrates TRANSGAZ' estimated indicators for 2013 as opposed to the achieved indicators for 2012 and the income statement approved by GD no. 302/29 May 2013.

## I. **Analysis of the economic-financial indicators achieved as at 31 December 2013 as opposed to 31 December 2012**

The following table illustrates the synthesis of the financial results as at 31 December 2013 and 31 December 2012:

\* Lei thousand \*

| Tag no.   | Name  | Achieved 2012    | Estimated 2013   | Increase      |
|-----------|---|------------------|------------------|---------------|
| 0         | 1   | 2                | 3                | 4=3/2x100-100 |
| 1.        | Operating revenues                                  | 1.365.369        | 1.516.458        | 11%           |
| 2.        | Financial revenues                                  | 54.789           | 40.778           | -26%          |
| <b>3.</b> | <b>TOTAL REVENUES</b>                               | <b>1.420.158</b> | <b>1.557.236</b> | <b>10%</b>    |
| 4.        | Operating expenses                                  | 1.000.448        | 987.818          | -1%           |
| 5.        | Financial expenses                                  | 26.795           | 141.597          | 428%          |
| <b>6.</b> | <b>TOTAL EXPENSES</b>                               | <b>1.027.243</b> | <b>1.129.415</b> | <b>10%</b>    |
| <b>7.</b> | <b>GROSS RESULT</b> (row 3- row 6)<br>out of which: | <b>392.915</b>   | <b>427.821</b>   | <b>9%</b>     |
|           | ↳ Operating   | 364.921          | 528.640          | 45%           |
|           | ↳ Financial   | 27.994           | -100.819         | x             |
| <b>8.</b> | <b>Income tax</b>                                   | <b>63.610</b>    | <b>90.955</b>    | <b>43%</b>    |
| <b>9.</b> | <b>Net profit</b>                                   | <b>329.305</b>   | <b>336.866</b>   | <b>2%</b>     |

*The total estimated revenues* increased by **10%** as opposed to the achieved ones for 2012, recording an excess of **Lei 137,078 thousand**. The revenues were mainly influenced by the following factors:

- *Capacity charge* higher by 0.812 Lei/MWh as opposed to 2012, with a positive impact of **Lei 253,026 thousand**;
- *Gas transported amount* lower by 10,725,281 MWh/1,014,634 thousand cm (8%), with a negative impact of **Lei 80,440 thousand**;
- *Commodity charge* lower by 0.076 lei/MWh, with a negative impact of **Lei 9,159 thousand**;
- *Revenues from international gas transit* lower by **Lei 7,338 thousand** as opposed to 2012 because of an average Lei/EURO, Lei/USD exchange rate lower as opposed to 2012;
- *Financial revenues* with a negative impact of **Lei 14,011 thousand** based on the lower level of the company's bank accounts.

*The total estimated expenses* increased by **10%** as opposed to 2012, i.e. by **Lei 102,172 thousand**.

*The operating expenses* decreased by **1%** as opposed to 2012, i.e. by **Lei 12,630 thousand**.

*Savings of Lei 96,050 thousand* were accounted mainly in relation to the following cost elements:

- ↳ technological consumption and loss related to the gas transmission system amounting to Lei 23,425 thousand due to two factors:
  - gas amount for technological consumption lower by 879,325 MWh/79,082 thousand cm (35%) as opposed to 2012, having a positive impact of Lei 41,144 thousand;

- the estimated average purchase price for 2013 higher by Lei 10,659/MWh as opposed to 2012, having a negative impact of Lei 17,719 thousand;

- ☞ works and services provided by third parties : Lei 38,051 thousand.
- ☞ Other operating expenses: Lei 32,876 thousand resulted from the higher provision costs for 2012.

*Overruns amounting to **Lei 83,420 thousands** were accounted, out of which in relation to the following cost elements:*

- ☞ Monopoly tax: Lei 40,121 thousand;
- ☞ Asset depreciation: Lei 16,354 thousand;
- ☞ Employment related expenses: Lei 11,244 thousand;
- ☞ Royalty for the NTS concession: Lei 15,103 thousand;

**The financial expenses** accounted for an excess of **Lei 114,802 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.

The estimated gross profit for 2013 is higher by **9%, i.e. Lei 34,906 thousand** as opposed to the achievements as at 31 December 2012.

## **II. The analysis of the estimated economic-financial indicators for 2013 as opposed to the income statement approved by GD no. 302/29.05.2013**

*The indicators under the approved income statement 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 estimate economic-financial indicators for 2013 as opposed to the income statement:

*\*Lei thousand \**

| <b>Tag no.</b> | <b>Name</b>                         | <b>Income statement 2013</b> | <b>Estimated 2013</b> | <b>Increase</b> |
|----------------|-------------------------------------|------------------------------|-----------------------|-----------------|
| 0              | 1                                   | 2                            | 3                     | 4=3/2x100-100   |
| 1.             | Operating revenues                  | 1.561.638                    | 1.516.458             | -3%             |
| 2.             | Financial revenues                  | 45.883                       | 40.778                | -11%            |
| <b>3.</b>      | <b>TOTAL REVENUES</b>               | <b>1.607.521</b>             | <b>1.557.236</b>      | <b>-3%</b>      |
| 4.             | Operating expenses                  | 1.232.866                    | 987.818               | -20%            |
| 5.             | Financial expenses                  | 32.184                       | 141.597               | 340%            |
| <b>6.</b>      | <b>TOTAL EXPENSES</b>               | <b>1.265.050</b>             | <b>1.129.415</b>      | <b>-11%</b>     |
| <b>7.</b>      | <b>GROSS RESULT (row 3 – row 6)</b> |                              |                       |                 |
|                | out of which:                       | <b>342.471</b>               | <b>427.821</b>        | <b>25%</b>      |
|                | ☞ operating                         | 328.772                      | 528.640               | 61%             |
|                | ☞ financial                         | 13.699                       | -100.819              | x               |
| <b>8.</b>      | <b>Income tax</b>                   | <b>70.547</b>                | <b>90.955</b>         | <b>29%</b>      |
| <b>9.</b>      | <b>NET PROFIT</b>                   | <b>271.924</b>               | <b>336.866</b>        | <b>24%</b>      |

**The total estimated revenues** are lower by **3%** as opposed to the income statement, i.e. by **Lei 50,285 thousand**.

The revenues were influenced by the following factors:

1. Gas transmission services decreased by **Lei 37,566 thousand** due to:
  - *Capacity charge* higher by 0.813 Lei/MWh/h than as budgeted, with a positive impact of **Lei 253,026 thousand**;
  - *Gas transported amount* lower by 24,444,035 MWh/2,334,477 thousand cm \*17%) than as budgeted, with a negative impact of **Lei 199,252 thousand**;
  - *Commodity charge* lower by 0.728 lei/MWh than as budgeted, with a negative impact of **Lei 87,152 thousand**;

*Following the approval of new transmission tariffs by the Romanian Energy Regulatory Authority starting with 1<sup>st</sup> 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 10,525 thousand** because of an average Lei/EURO, Lei/USD exchange rate lower than forecasted;
3. *Other operating revenues* increased by **Lei 2,911 thousand**.
4. *The financial revenues* decreased as opposed to the income statement by **Lei 5,106 thousand** (revenues from interests and exchange rate spreads) as a result of the lower-than-estimated company's bank accounts.

**The total estimated expenses** decreased by **11%** as opposed to the approved budget, i.e. by **Lei 135,635 thousand** lower than as budgeted.

**The estimated operating expenses** decreased by 20% as opposed to the approved budget, i.e. by **Lei 245,048 thousand**.

**Savings of Lei 257,303 thousand** were accounted mainly in relation to the following cost elements:

- 👉 technological consumption and loss related to the gas transmission system amounting to Lei 88,316 thousand due to two factors:
  - gas amount for technological consumption lower by 1,480,373 MWh/136,146 thousand cm (47%) than as budgeted, with a positive impact of Lei 86,586 thousand;
  - the average purchase price lower by Lei 1.040/MWh than as budgeted, with a positive impact of Lei 1,729 thousand;
- 👉 depreciation: Lei 40,167 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 84,206 thousand;
- 👉 employee related expenses: Lei 20,363 thousand;
- 👉 materials and consumables: Lei 16,644 thousand;
- 👉 taxes and other state dues: Lei 1,522 thousand;
- 👉 monopoly tax: Lei 5,699 thousand.

Overruns of Lei 12,254 thousand were recorded in relation to other operating costs.

**The estimated financial expenses** overrun the level of the income statement by **Lei 109,413 thousand** 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 estimated gross profit** increased by **25%**, i.e. by **Lei 85,350 thousand** as opposed to the income statement and **the net profit** is higher by **24%**, i.e. by **Lei 64,942 thousand** than as budgeted.

*The total estimated investment expenses* for 2013 amounted to **Lei 205,984 thousand**, out of which:

- Lei 149,425 thousand – investment works;
- Lei 11,268 thousand – Transgaz' contribution to the share capital of Nabucco Gas Pipeline International GmbH;
- Lei 21,291 thousand – NTS connection equipment based on the regulation for access to the NTS approved under GD no. 1043/2004;
- Lei 24,000 thousand – payment of investment loan instalments.

In 2013, investments amounting to **Lei 204,831 thousand** were commissioned.

In 2013, the amount of **Lei 576,450 thousand** was paid up to the state budget, out of which:

- VAT: Lei 208,875 thousand;
- Income tax: Lei 146,050 thousand;
- Oil royalty: Lei 141,563 thousand;
- Salary tax: Lei 35,410 thousand;
- Monopoly tax: Lei 34,613 thousand;
- Dividend tax: Lei 9,802 thousand.

The amount of Lei 118,349 thousand was also paid up to local budgets, special funds and social insurances.

**Petru Ion VĂDUVA**  
**Director General**

