

Net profit of TSO energy company Transelectrica in the first six months decreased by 7% reaching 47,3MEUR.

Income increased in the first half of year by 8.1% to 321,8MEUR, recorded increases in both operating segments (allowed profit activities and zero-profit activities).

EBITDA fell by almost 2.4%, at 410 million lei, the increase being mainly driven by the influence of zero segment profit activities, stated the company quarter report.

Profit will be negatively influenced by an adjustment of electricity consumption.

After adjustments on the tariff structure volume of business of Transelectrica will be more closely linked to domestic consumption growth than the overall electricity production which includes net exports. In other words, exports of electricity will not significantly help financial results, as it was the case in 2014 when Transelectrica has achieved a net profit of 370 million lei.

It is expected that results of second quarter to be relatively close to the Q II 2014 because there might be a slowdown in revenue growth after declining exports of energy.

Financial results for the first half of 2015 should be seen in the context that operating income in 2014 exceeded profitability almost twice regulated by the methodology for calculating the transmission tariff.

Specifically, for a company such as Transelectrica, average operational profitability over several years should be close to the product of the regulated rate of return set by ANRE (7.7% in the period July 2014-June 2019) and recognized by ANRE average assets (ie regulated asset base -bar).

In this context, it should be understood that ANRE adjusted 6.8% transmission rate for the period July 2015-June 2016, which will likely reduce profitability of regulated operational profitability factor.

Increasing net profit of Transelectrica from 22,5MEUR in 2012 to 45,1MEUR in 2013 and then 83,4MEUR in 2014 is explained by two developments: i) successive increases and relatively generous transmission tariff by ANRE (12.7% in January 2013 5.5% in January 2014, 1.5% in July 2015), and ii) reduction of own technological consumption expenditures as a result of drastic electricity price adjustment in Romania and with decreased maintenance expenses.

One of the company's main challenge relate to lower levels of investment in recent years and that, by 2017 their level would be key plan of the new supervisory board at the beginning of the mandate. The consequence of this would be a decrease in regulated assets BAR, leading to a decrease in regulated profitability (calculated as 7.7% multiplied by BAR). It is interesting that one of the reasons why decreased amount of assumed investment is even awarding investment projects in the auctions costs significantly below those estimated in the design documentation, this being due to increasing competition between providers in the market (costs of adjudication were about 35% lower in average according to the annual

report 2014 of the company). Increase of investments of Transelectrica on medium and long term would be very good news which would be welcomed by investors. The reason is related to the fact that there is a very good absorbency of investment through increased transmission tariff, given that its share in the final price of electricity paid by consumers is less than 5%.

Changing profitability profile of the company from 2013 made from Transelectrica typical company dividend, ie a company that can take a clear policy of dividend and dividend attractive enough. Estimated yield of dividend in 2015 above 7% remains more attractive and thus can be interpreted that the market and investors have reacted negatively to the decision of ANRE adjustment by almost 7% the transmission tariff with effect from 1 July 2015.