

Analysis of the economic and financial performance of Romania's state owned companies in 2015

A potential risk for the fiscal sustainability on the medium term is represented by the accumulation of losses and arrears in the sector of companies where the state is the major shareholder (SOEs), because if these companies fail to streamline their activity, the Government will eventually be forced to intervene with public resources, which may lead to a deterioration of public finances, respectively increasing the budget deficit.

According to the Ministry of Public Finance, the arrears of state owned companies represent delayed payments to banks, state budget, social security budget, suppliers and other creditors by more than 30 days compared to contractual or legal terms that generate payment obligations. It is worth noting that since 2000, reducing the arrears of the state owned companies has been a constant concern of the Government, the SOEs being closely monitored, inclusively under the agreements with the international financial institutions (IFIs). However the pace of their decline was a slow one, the assumed targets being missed on several occasions.

State owned companies' arrears have a higher share in total economy compared to the contribution of these enterprises to the economic activity, but it has diminished significantly in the recent years, 2015 marking the post-crisis minimum. Thus, the state owned companies' financial discipline has improved.

At the end of 2015, there were 1,143 SOEs that reported financial statements to the Ministry of Public Finance, most of them being organized as companies and autonomous administrations (additional information on the evolution of the number and type of state-owned companies are included in [Table 1](#)), with an aggregate turnover of nearly 48.57 bln. lei.

Although the state owned companies' aggregate turnover grew by more than 4 bln. lei compared to the value recorded in 2014, it is far below the maximum value obtained in 2011 (58.51 bln. lei). Although the contribution of these companies to the overall economy turnover was only 4.09% in 2015 (4% in 2014) and the value added produced stands at 10.24% of the total (9.85% in 2014), the accumulated outstanding payments represented 18.28% of the arrears registered in the economy. However, this level represents the minimum of the period 2007-2015, being by about 2.36 pp (or 11.5%) lower than in 2014 and respectively 17.26 pp (or approximately 48.5%) lower than the peak of the period reached in 2009. In nominal terms, the state owned companies' arrears decreased by 12.9% compared to 2014 and with approximately 38.3% compared to

2009, while the outstanding payments of private firms increased compared to 2014 with 1.46%, but was with 4.2% lower than the peak recorded in 2013. Basically, the state owned companies have reduced their arrears in a fast pace in the post-crisis period, while private firms experienced a significant increase in their arrears in 2009-2013, followed by a slight decrease between 2014-2015. Given these aspects, it can be concluded that state owned companies' financial discipline has improved, and the higher share of their stock of arrears in the total economy is also caused by the higher starting point.

The development of the main economic indicators of Romania's state owned companies is presented in [Table 2](#).

The labour productivity in state owned companies increased in 2015 compared to 2014, reaching the post-crisis peak, but it was achieved mainly by reducing the number of employees.

The number of employees in state owned companies in the period 2007-2015 has experienced a continuous decrease to a level of about 291 thousand persons, with 6 thousand (or 2%) lower than the previous year and about 115 thousand persons lower than in 2007 (or 28.32%), provided that the gross added value in these companies increased in nominal terms by 5.81% compared to 2014 and 40.1% respectively compared to 2007. Considering values expressed in real terms¹, the gross value added increased in 2015 by 2.82% compared to the previous year, but decreased by 7.5% compared to 2007. In these circumstances, the labor productivity in state owned companies increased by 4.9% in 2015 compared to the previous year and by about 29% compared to 2007, mainly due to the decrease in the number of employees.

Apparently, the profitability of state owned companies, considering the gross profit level is in 2015 the post-crisis peak, but a significant part comes from the debt cancellation of S.C. Oltchim S.A. Without this factor, total

In terms of profitability of state owned companies, measured through the level of gross profit obtained, it is apparently at the maximum level of the analyzed period, reaching in 2015 a level of 4,890 mln. lei. But this evolution must be mandatory analyzed in the context of the special situation recorded by S.C. Oltchim S.A. Thus, this company recorded a net profit of 2,329.78 mln. lei, representing 47.64% of the total gross profit recorded by the state owned companies. The profit reported last year by S.C. Oltchim S.A. resulted from debt cancellation, according to the reorganization plan, the insolvent² company's

¹ The price index used for expressing values in constant prices is the GDP deflator.

² 2,371 million lei scriptic gross result caused by debt cancellation, mainly unsecured claims, as a result of the confirmation of the reorganization plan by the syndic judge by Sentence no. 892 /

profit has fallen, but remains significantly better compared to the 2007-2012 period.

current activity actually generating a loss of approximately 41 million lei. Thus, the total profit achieved was an accounting one that hasn't resulted from the company's core activity and had no impact on cash flows. If from the total profit of state owned companies we subtract the artificial profit recorded by S.C. Oltchim S.A. caused by erasing a large portion of the debt, we see that the total gross profit actually records a decrease in 2015 (reaching approximately 2,560 million lei) compared to the previous year (when it reached 3,568 million lei), being very close to the 2013 value. In these circumstances, it is appropriate to exclude the scriptic profit recorded by this company from the following detailed analysis to obtain undistorted results. Even excluding the influence of this factor it can be appreciated that the profitability of state owned companies at the aggregate level has improved during 2013-2015, being well above the levels recorded in 2007-2012 period.

A small number of state owned companies generates a profit higher than the total, and the analysis will consider separately both the aggregated values and those obtained by excluding the five most profitable state owned companies - Top 5.

The analysis of the profitability of state owned companies may be extended by excluding from the total the Top 5 companies in terms of the level of gross profit obtained³ (Top 5 from now - they are found in [Table 3](#)) provided that to a small number of companies are attributable significant profits that influence considerably the aggregate results. Thus, if we eliminate the influence of the Top 5 state owned companies in terms of profit, one can notice a deepening of the negative aggregate result in 2015 compared to 2014, from -957 million lei to -1,527 million lei.

Moreover, throughout the analyzed period of time, the aggregate gross profit of state owned companies, excluding Top 5, remained in negative territory, the 2008-2012 period being characterized by high losses, which declined considerably in 2013 and 2014, followed by a worsening in 2015. In contrast, Top 5 recorded significant profits consistently in the last three years, their gross profit increasing

04.22.2015, rendered in the Case of insolvency no. 887/90/2013 before the Court Valcea. Under the provisions of the Insolvency Act and the Tax Code, the cancellation of debt is a scriptic income of the period, influencing the result.

³ S.C. Oltchim S.A. is not included in this Top from considerations mentioned above and all analyzes that include the indicator net/gross profit do not take into account the value from this company's debt cancellation.

by 1.65 times compared to 2012 (i.e. from 2,465 million lei to 4,088.16 million lei at the end of 2015).

It should be noted that the profit of Top 5 in 2015 amounted 3,311.29 million lei, thus below the profit of Top 5 in 2014 (3,724 million lei). We note, however, the good profitability recorded by the companies S.N.G.N. Romgaz S.A., S.P.E.E.H. Hidroelectrica S.A., S.N.T.G.N. Transgaz S.A. Medias and C.N.A.D.N.R. S.A., which are in Top 5 in the last three years (2013-2015).

In the case of C.N.A.D.N.R. S.A. we can talk also about an apparent profit, the company having revenues arising mainly from amounts received from the state budget and from the European Union, to which are added revenues from sales of the vignette and fees for roads and bridges, and the most of the company's expenses are actually investment in construction and rehabilitation of roads. A very high net profit is determined by the failure of the investment objectives to materialize and does not reflect a favorable situation from an economic point of view.

Thus, it can be noticed a decisive influence of Top 5 on the aggregated performance of state owned companies, and in this context, in order to analyze more closely the evolution of the financial performance of the whole sector of state owned companies, in this analysis will be presented specific indicators both at the aggregate level and eliminating the influence of Top 5.

Table 1: The evolution of the number of SOEs that report financial statements by components

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Autonomous administrations	128	117	150	152	173	180	196	193	135
Companies owned 100% by the state	385	358	333	389	437	431	479	479	500
National companies and societies	50	41	45	50	61	48	45	46	43
Other companies entirely owned by state or where the state is the major shareholder	62	51	51	57	130	132	158	154	161
State-owned companies, local and foreign state capital (state capital >= 50%)	13	5	25	9	44	40	56	54	66
State-owned companies, local and foreign private capital (state capital >= 50%)	21	7	20	9	16	18	20	28	23
State-owned companies and with local private capital (state capital >=50%)	105	85	87	82	98	85	103	102	102
State-owned companies and with foreign private capital (state capital >=50%)	5	4	11	12	15	12	21	22	17
State-owned companies, privatized in the reporting year	50	50	52	31	74	60	73	77	96
Total number of SOEs	819	718	774	791	1,048	1,006	1,151	1,155	1,143

Table 2: The evolution of certain financial indicators of Romanian companies that report financial statements considering the form of ownership

	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Number of companies	SOEs	819	718	774	791	1,048	1,006	1,151	1,155	1,143
	Total companies excluding financial sector	617,272	663,860	602,190	613,080	644,379	630,066	657,500	643,644	647,872
	Share of SOEs in total	0.13%	0.11%	0.13%	0.13%	0.16%	0.16%	0.18%	0.18%	0.18%
Total income, mil. lei	SOEs	51,953	56,660	50,756	55,022	58,511	49,853	51,208	44,487	48,578
	Total companies excluding financial sector	779,968	977,619	845,396	920,600	1,056,190	1,072,777	1,101,386	1,113,445	1,186,900
	Share of SOEs in total	6.66%	5.80%	6.00%	5.98%	5.54%	4.65%	4.65%	4.00%	4.09%
Gross value added, mil. lei	SOEs	19,048	21,744	20,454	22,881	24,202	22,339	25,131	25,220	26,687
	Total companies excluding financial sector	166,722	203,875	189,633	195,849	196,151	197,392	233,734	255,957	260,530
	Share of SOEs in total	11.42%	10.67%	10.79%	11.68%	12.34%	11.32%	10.75%	9.85%	10.24%
Gross value added in real terms, mil. lei (constant prices 2010)	SOEs	24,316	24,013	21,562	22,881	23,107	20,373	22,162	21,872	22,488
Employees number, thous. of persons	SOEs	406	390	364	364	343	327	321	297	291
	Total companies excluding financial sector	4,620	4,618	4,019	3,962	4,040	3,898	4,016	3,882	3,959
	Share of SOEs in total	8.79%	8.44%	9.05%	9.19%	8.49%	8.40%	8.00%	7.64%	7.36%
Labour productivity mil. lei /1,000 employees (constant prices 2010)	SOEs	59.89	61.57	59.24	62.86	67.37	62.30	69.04	73.64	77.28
Percentage change in labor productivity (relative to the previous year)	SOEs		2.8%	-3.8%	6.1%	7.2%	-7.5%	10.8%	6.7%	4.9%
Gross profit, mil. lei	SOEs	1,400	(1,026)	(2,777)	(2,101)	1,372	(561)	2,203	3,568	4,890
	SOEs, excluding best performing 5 comp.	(563)	(3,927)	(4,329)	(4,202)	(2,449)	(3,026)	(1,278)	(957)	(1,527)
	Private companies	43,008	23,513	19,914	27,934	10,421	15,623	22,570	27,479	42,753
Arrears, mil. lei	SOEs	13,690	17,294	34,405	28,012	26,251	25,363	26,217	24,369	21,226
	Private companies	44,050	53,127	62,406	69,193	88,882	91,536	99,052	93,508	94,874
	Total companies excluding financial sector	57,740	70,422	96,811	97,205	115,133	116,899	125,269	117,878	116,101
	Share of SOEs in total	23.71%	24.56%	35.54%	28.82%	22.80%	21.70%	20.93%	20.67%	18.28%
Arrears, % of GDP	SOEs	3.3%	3.3%	6.7%	5.2%	4.6%	4.3%	4.11%	3.6%	3.0%
	Private companies	10.5%	10.1%	12.2%	13.0%	15.7%	15.4%	15.54%	14.0%	13.3%

Table 3: Top 5 SOE's net profit

Top 5 net profit in 2015

	Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A..	1,194.29
2	S.P.E.E.H. HIDROELECTRICA S.A.	899.41
3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	488.73
4	C.N.A.D.N.R. S.A.	368.80
5	C.N.T.E.E. TRANSELECTRICA S.A.	360.05
	Total	3,311.29

Top 5 net profit in 2014

	Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A.	1,409.88
2	S.P.E.E.H. HIDROELECTRICA S.A.	941.54
3	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	502.52
4	SOCIETATEA UZINA MECANICĂ CUGIR S.A.	442.01
5	C.N.A.D.N.R. S.A.	428.61
	Total	3,724.56

Top 5 net profit in 2013

	Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A.	1,300.64
2	S.P.E.E.H. HIDROELECTRICA S.A.	901.58
3	S.N. NUCLEARELECTRICA S.A.	517.69
4	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	429.93
5	C.N.A.D.N.R. S.A.	330.39
	Total	3,480.24

Top 5 net profit in 2012

	Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A	1,244.05
2	S.N.T.G.N. TRANSGAZ S.A. MEDIAȘ	329.31
3	C.N.A.D.N.R. S.A.	174.14
4	COMPANIA NATIONALĂ DE CĂI FERATE CFR S.A.	144.65
5	COMPLEXUL ENERGETIC OLTENIA S.A.	118.33
	Total	2,010.47

Top 5 net profit in 2011

	Company name	Net profit (mil. lei)
1	TERMOELECTRICA S.A.	1,597.22
2	S.N.G.N.ROMGAZ S.A.	1,031.75
3	S.N.T.G.N. TRANSGAZ S.A.	379.57
4	C.N.A.D.N.R. S.A.	246.29
5	S.C. ELECTROCENTRALE BUCUREȘTI S.A.	106.85
	Total	3,361.69

Top 5 net profit in 2010

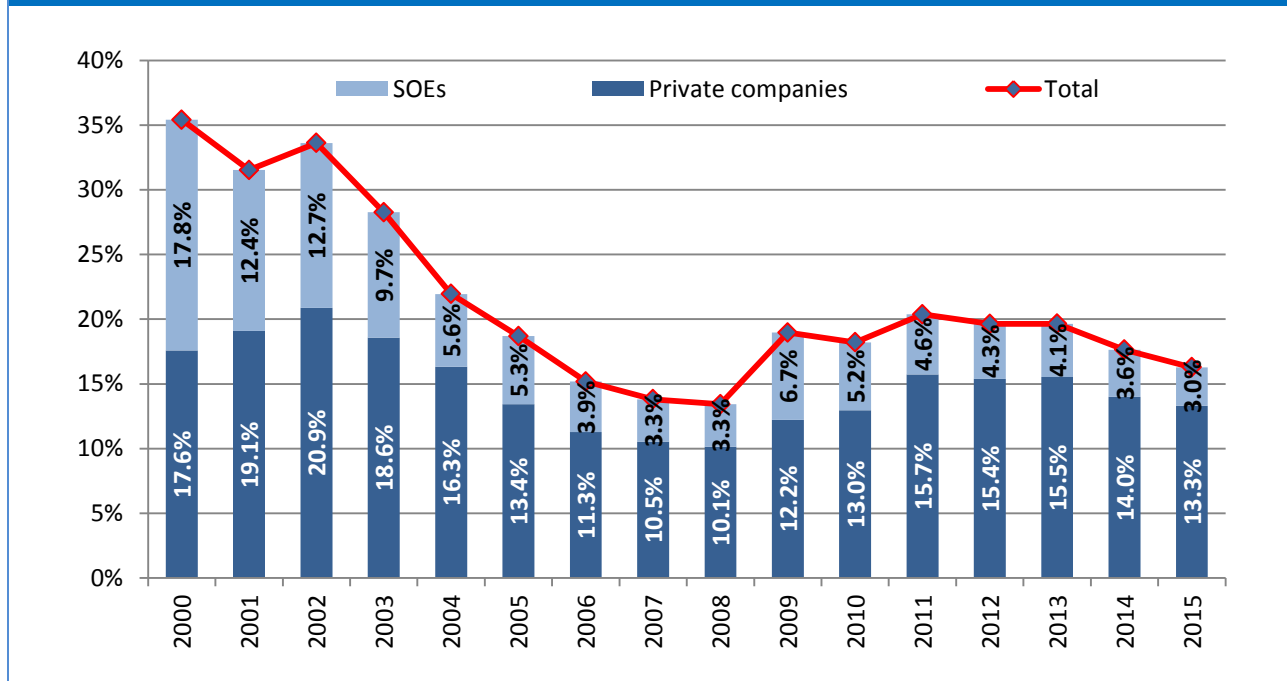
	Company name	Net profit (mil. lei)
1	S.N.G.N. ROMGAZ S.A.	651.21
2	S.N.T.G.N. TRANSGAZ S.A.	376.35
3	S.C. HIDROELECTRICA S.A.	292.37
4	S.C. ELECTROCENTRALE BUCUREȘTI S.A.	166.97
5	COMPANIA NATIONALĂ LOTERIA ROMÂNĂ S.A.	121.15
	Total	1,608.05

Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

The state owned companies' arrears as a percentage of GDP have declined starting with 2009, respectively from 6.7% of GDP to 3.0% of GDP in 2015 under the measures agreed with the international financial institutions in 2011-2015.

Since 2000, the share of the accumulated outstanding payments in the economy has considerably declined, from 35.4% of GDP in 2000 to 13.7% of GDP in 2008 (i.e. a reduction in nominal value amounting to 41.7 billion lei), but the financial crisis that started in 2008 led to their increase to a maximum of 20.7% of GDP in 2011, but without reaching the very high values from the early 2000s. The SOEs' and private companies' arrears as a percentage of GDP have declined starting with 2012 (19.6% of GDP), reaching a level of 16.3% of GDP in 2015. The state owned companies' arrears as a percentage of GDP have declined starting with 2009, respectively from 6.7% of GDP to 3.0% of GDP in 2015 under the measures agreed in the context of the balance of payments agreements with the international financial institutions (European Commission, IMF, World Bank), established in 2011-2015. These measures aimed at framing the arrears in the quarterly indicative targets and included budget transfers, placing SOEs into voluntary liquidation or insolvency or arrears' conversion into shares.

Figure 1: The evolution of SOEs' and private companies' arrears (% of GDP)

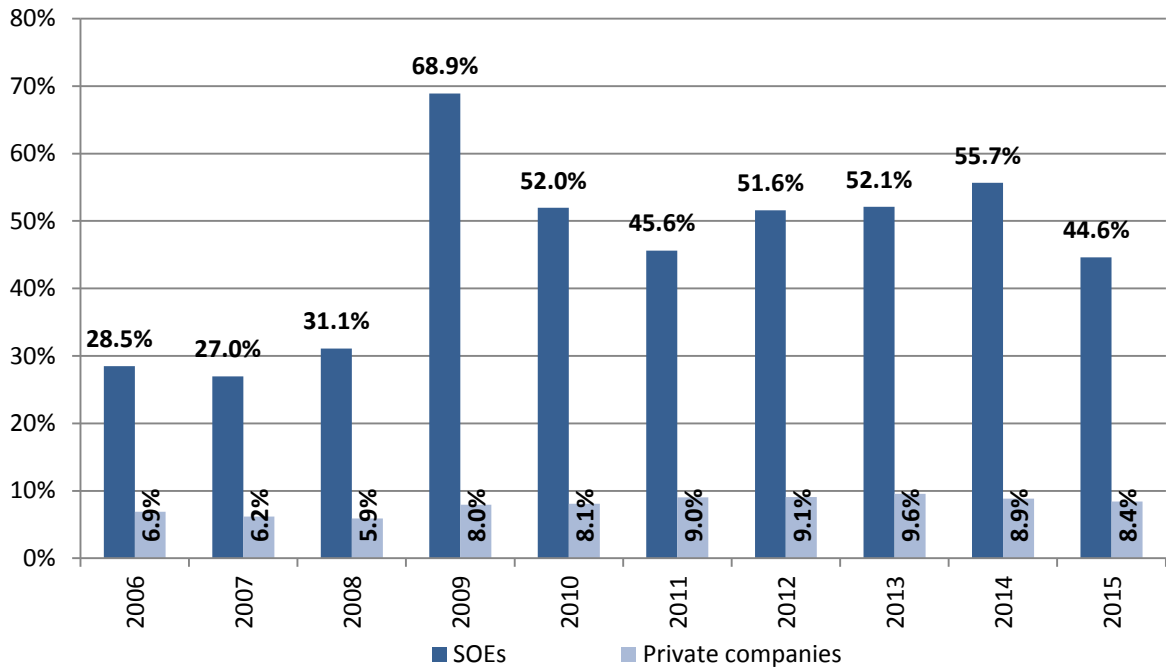


Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

In the private sector the share of arrears had declined since 2012, reaching a level of 13.3% of GDP at the end of 2015.

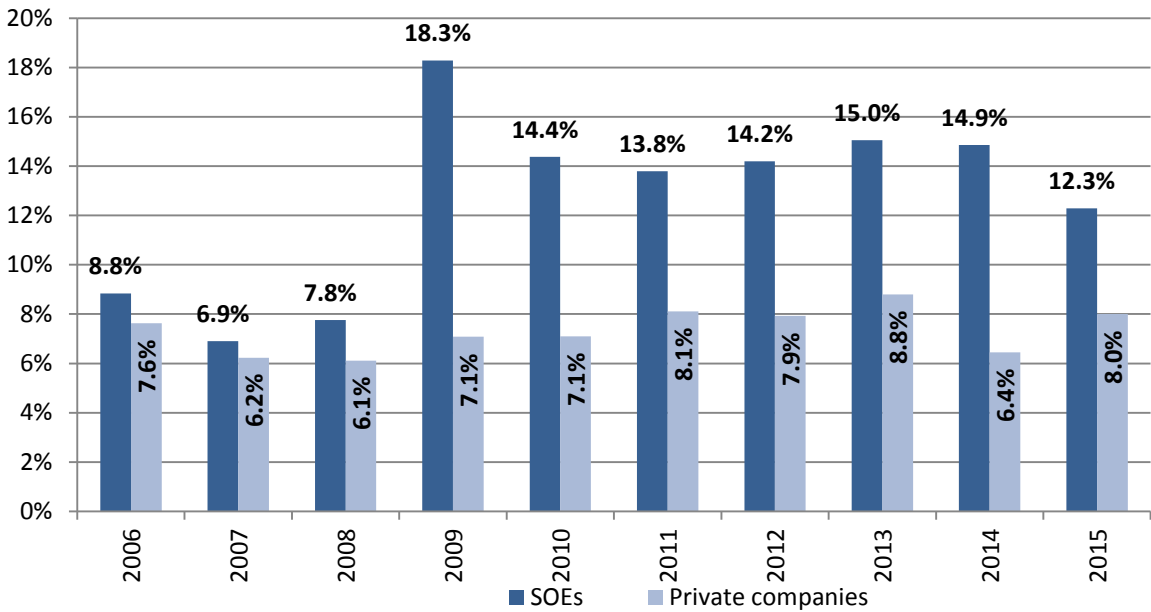
In the private sector the share of arrears recorded a peak in 2002 (20.9%), while during 2003-2008 it has been reduced significantly to 10.1% of GDP in 2008. The effects of the financial crisis led to an accumulation of arrears in 2009-2011 (from 12.2% of GDP to 15.7% of GDP), since 2012 being registered a decrease to a level of 13.3% of GDP at the end of 2015.

Figure 2: Arrears (% of turnover)



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

Figure 3: Arrears (% of total assets)



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

The evolution of the share of arrears in the turnover for the state owned companies registered a significant reduction from the peak of 68.9% in 2009 to 44.6% at the end of 2015, while during the same period the private sector has experienced a slightly deterioration of this indicator (from 7.1% in 2009 to 8% in 2015).

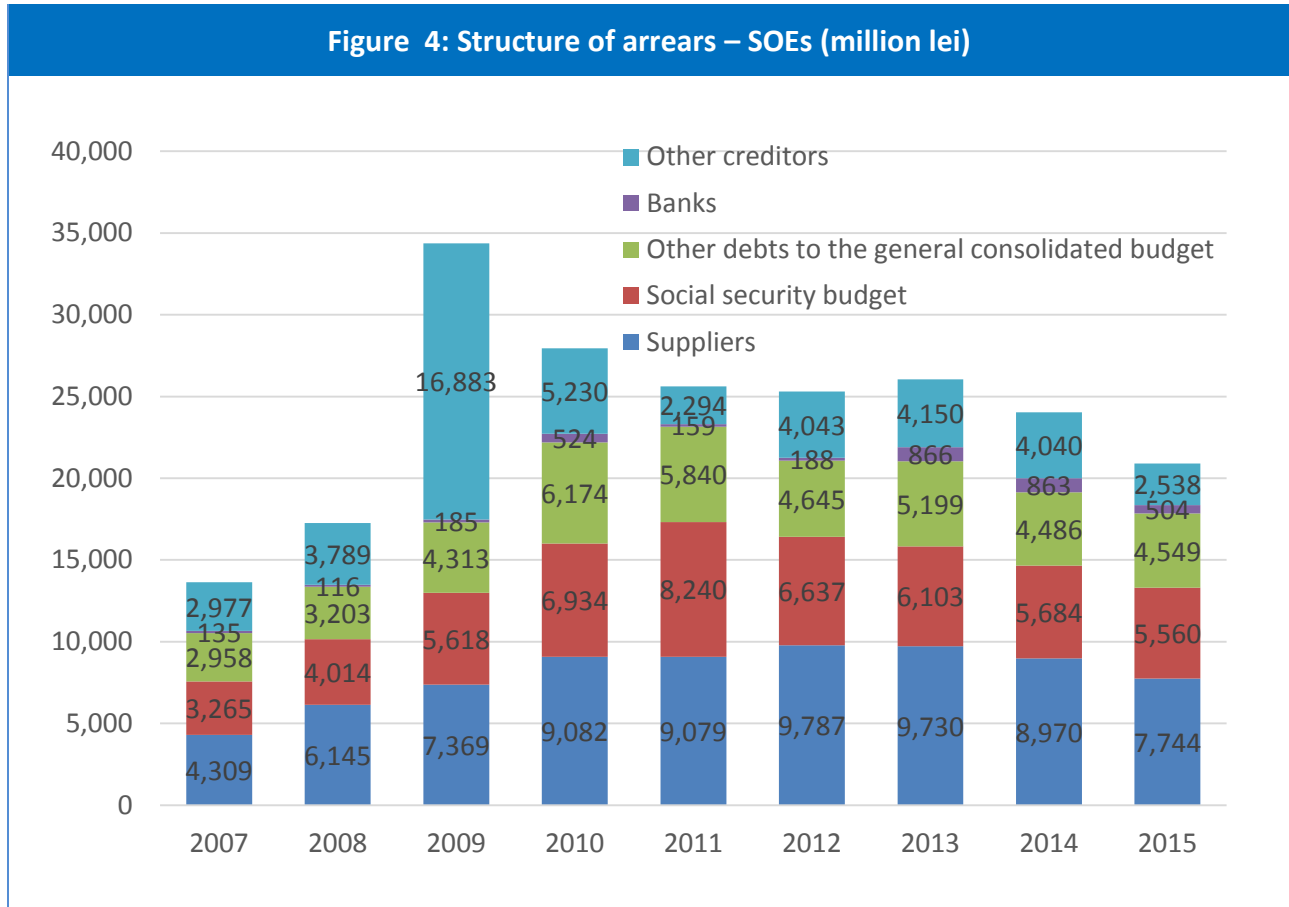
From the perspective of the structure by creditor, in 2015 the state owned companies recorded a share of 48% of total arrears to the general consolidated budget and 36% of the total arrears to suppliers, while private companies have cumulated 50% of the total arrears to suppliers and 22% to the general consolidated budget.

With the onset of the financial crisis, the share of arrears in the turnover reached a peak in 2009, when the share of SOEs' arrears in the turnover recorded a significant jump compared to the previous year of over 100% (from 31.1% in 2008 to 68.9%), while the share of private companies' arrears in the turnover recorded a lower jump (from 5.9% to 8% of the turnover). After a significant reduction in the share of arrears in the turnover in 2009-2011 (with of 23.3 pp), the state owned companies were on a upward trend in the share of arrears in the turnover from 2012 to 2014, this ratio reaching a level of 55.7% at the end of 2014 (compared to 45.6% in 2011), then in 2015 registering a significant reduction (11 pp, to 44.6%) below the level of 2011. Note that the decreasing share of arrears in the turnover for the state owned companies in 2015 compared to the previous year can be explained by a rapid decline in the value of arrears (-13%) and an increase in turnover (+9%). In nominal terms, in 2015, unlike the state owned companies that have managed to reduce arrears by 13%, the private companies' arrears increased by 1% compared to the previous year, but as the private companies' turnover increased by 7%, the share of arrears in the turnover reduced to 8.4% from 8.9% in the previous year.

In addition, most of the state owned companies' arrears in 2015 are directed towards the general consolidated budget (48% of total arrears and among these 55% are to the social security budget), followed by arrears to suppliers (accounting for 36% of total arrears, of which 74% represents outstanding payments over 1 year), unlike private companies that have arrears mostly to suppliers (50% of total arrears, of which 61% represents outstanding payments over 1 year) and a share of 22% of total arrears to the general consolidated budget.

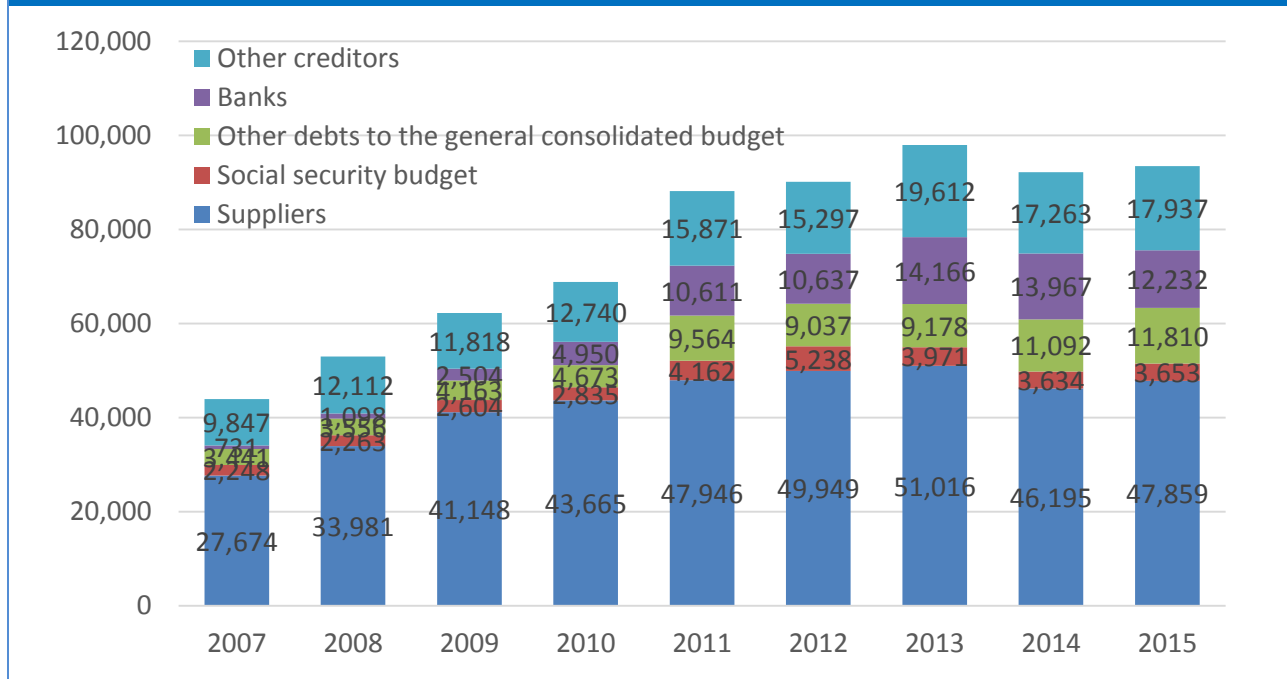
The total state owned companies' outstanding debts towards the general consolidated budget amounted 10.1 billion lei (1.4% of GDP) in December 2015, of which 5.6 billion lei were towards the social security budgets (0.8% of GDP). In general, the state owned companies do not pay on time their debts to the general consolidated budget (especially to the social security budgets) and to other state owned companies. The suppliers were ranked

the second place among creditors of SOEs in 2015, the amount due by them being 7.7 billion lei (1.1% of GDP). Compared to the previous year, in 2015 the share of SOEs' arrears to the suppliers and to the general consolidated budget declined with 13.7% and 1%.



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

Figure 5: Structure of arrears – private companies (million lei)



Source: MPF, based on balance sheets data submitted by the economic agents from non-financial sector

The accumulation of outstanding payments by the companies in the public sector is concentrated in the following sectors: mining, distribution of heat and chemical industry and in a proportion of about 63% is attributable to the first 10 SOEs ranked in terms of outstanding payments in total economy. Within the Top 10, the first 3 companies with the largest outstanding debts have accumulated over the past three years about 70% of the total arrears for the Top 10.

Besides direct fiscal consequences generated by SOE's arrears – revenue shortfalls to the general consolidated budget - the accumulation of outstanding payments towards the private sector is likely to create liquidity problems and to hamper economic growth. The top 10 companies in terms of outstanding payments account for over 62,9% of the total arrears of SOEs, the arrears being particularly high in the mining, distribution of heat and chemical sectors. Like in the previous years, the first three companies in the top are Compania Națională a Huilei, RADET București and S.C. Oltchim S.A. which have aggregate arrears representing over 71% of the top 10's total arrears, or 45% of the total arrears of the public sector in 2015. The first 10 companies in the top of bad payers have accumulated at the end of 2015 about 72% of the total arrears of state owned companies towards the general consolidated budget, standing out Compania Națională a Huilei with over 60% of total debts of top 10 and a share of 23% of the total arrears of state owned companies.

Table 4: Top 10 SOE's arrears

Top 10 arrears in Dec 2015

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,865.05
2	RADET BUCUREȘTI	3,407.85
3	S.C. OLTCHIM S.A.	1,224.,82
4	S.C. COMPLEXUL ENERGETIC HUNEDOARA SA	662.83
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFERO	572.35
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	559.39
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A	557.35
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	518.80
9	ELECTROCENTRALE BUCUREȘTI S.A.	498.46
10	S.N.T.F.C. CFR CĂLĂTORI S.A.	490.28
	% total	62.93%

Top 10 arrears to consolidated general budget in Dec 2015

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,851.92
2	S.C. COMPLEXUL ENERGETIC HUNEDOARA SA	531.69
3	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	505.68
4	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	459.49
5	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A	419.91
6	MOLDOMIN S.A.	261.41
7	SOCIETATEA NAȚIONALĂ A CĂILOR FERATE ROMÂNE R.A.	241.71
8	SC ELECTROCENTRALE CONSTANȚA	197.58
9	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE RA	174.39
10	AVERSA S.A.	160.93
	% total	77.20%

Top 10 arrears in Dec 2014

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,865.05
2	S.C. OLTCHIM S.A.	3,397.19
3	RADET BUCUREȘTI	3,157.86
4	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE R.A.	1,097.06
5	COMPANIA NAȚIONALĂ A METALELOR PREȚIOASE ȘI NEFERO	570.30
6	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	553.10
7	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A	545.38
8	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	518.77
9	FORTUS S.A.	405.21
10	CENTRALA ELECTRICĂ DE TERMOFICARE BRAȘOV S.A.	394.55
	% total	63.62%

Top 10 arrears to consolidated general budget in Dec 2014

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI S.A. ÎN LICHIDARE	4,851.92
2	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI S.A.	505.66
3	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	454.51
4	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A.	407.93
5	SC COMPLEXUL ENERGETIC HUNEDOARA S.A.	293.48
6	MOLDOMIN S.A.	260.77
7	SOCIETATEA NAȚIONALĂ A CĂILOR FERATE ROMÂNE R.A.	241.74
8	SC ELECTROCENTRALE CONSTANȚA	185.97
9	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE RA	175.80
10	INTERVENȚII FERROVIARE S.A.	175.01
	% total	74.27%

Top 10 arrears in Dec 2013

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI SA ÎN LICHIDARE	4,978.38
2	S.C. OLTCHIM S.A.	3,372.78
3	RADET BUCUREȘTI	2,763.47
4	CNCF CFR S.A.	1,051.87
5	S.N.T.F.C. CFR CĂLĂTORI S.A.	914.45
6	REGIA AUTONOMĂ PENTRU ACTIVITĂȚI NUCLEARE	651.71
7	C.N.A.D.N.R. S.A.	592.86
8	C.N.M.P.N REMIN S.A.	580.95
9	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	547.76
10	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A	525.63
	% total	60.95%

Top 10 arrears to consolidated general budget in Dec 2013

	Company name	Arrears (mil. lei)
1	COMPANIA NAȚIONALĂ A HUILEI SA ÎN LICHIDARE	4,968.50
2	SOCIETATEA NAȚIONALĂ A CĂRBUNELUI SA	505.37
3	SOCIETATEA ROMÂNĂ DE TELEVIZIUNE	501.87
4	COMPANIA NAȚIONALĂ ROMARM S.A. BUCUREȘTI FILIALA S	453.54
5	S.C. ELECTROCENTRALE BUCUREȘTI S.A.	421.53
6	CENTRALA ELECTRICĂ DE TERMOFICARE IAȘI (C.E.T.) S.A	388.18
7	SNCFR R.A.	267.51
8	S.C.MOLDOMIN S.A.	263.03
9	S. U.M.SADU S.A.	183.17
10	S.C. INTERVENȚII FERROVIARE S.A.	168.99
	% total	71.86%

Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Table 5: SOEs arrears evolution by type of company

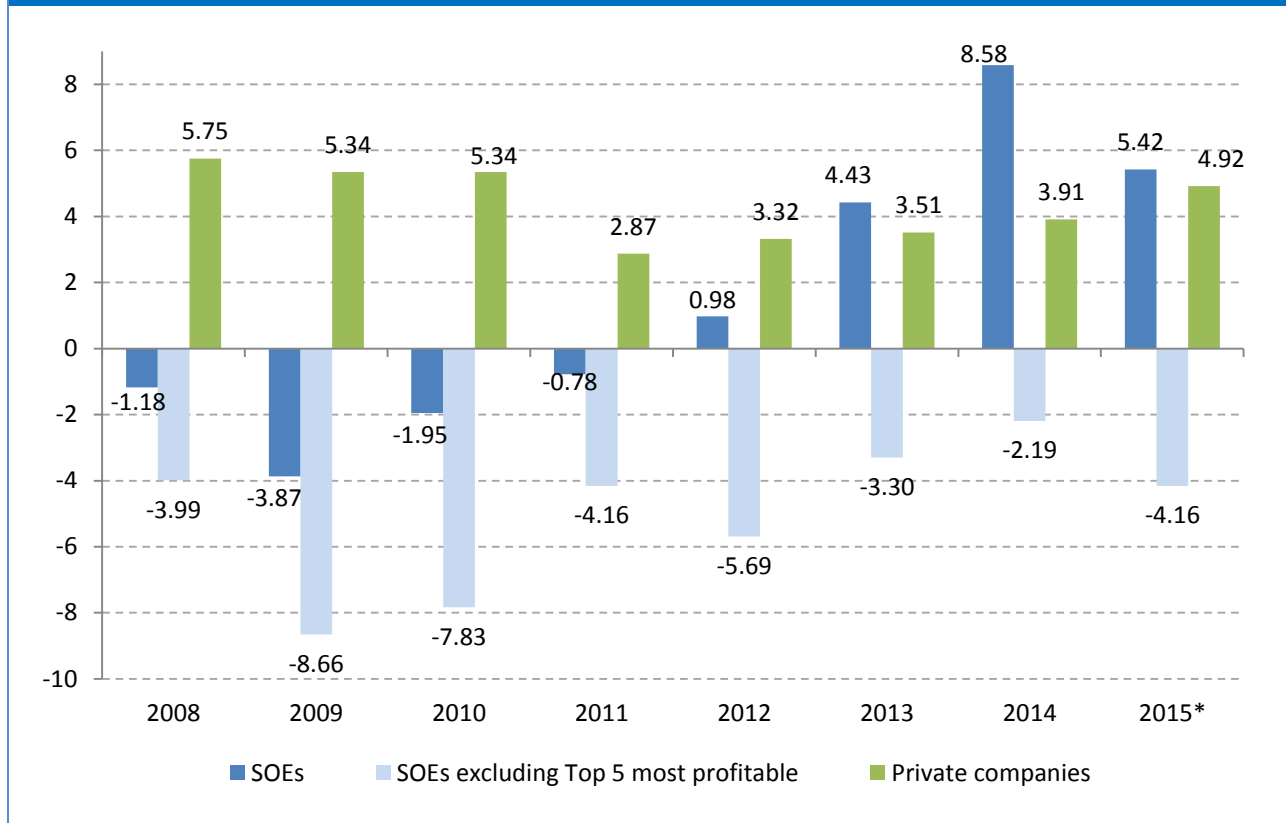
Total arrears (million lei)	2008	2009	2010	2011	2012	2013	2014	2015
Autonomous administrations	1,130.70	1,411.14	2,019.32	3,153.75	3,662.52	4,541.85	5,515.00	5,110.99
Companies owned 100% by the state	6,802.97	8,102.41	9,648.19	7,670.87	5,605.94	6,341.70	5,378.51	5,174.00
National companies and societies	7,945.22	23,710.69	15,032.90	12,773.24	10,350.17	8,658.11	7,300.42	7,071.76
Other state – owned companies or majority-state – owned companies	77.60	184.32	298.81	769.32	879.87	1,484.98	1,187.36	914.92
State – owned companies, local and foreign state capital (state capital >= 50%)	5.52	1.05	0.26	46.28	3.27	0.81	1.76	2.60
State –owned companies, local and foreign private capital (state capital >=50%)	717.28	35.38	78.59	330.44	2,551.90	3,412.91	3,423.14	1,229.97
State –owned companies and with local private capital (state capital >=50%)	609.37	957.00	932.08	1,504.96	2,308.42	1,775.47	1,560.32	1,699.95
State –owned companies and with foreign private capital (state capital >=50%)	0.86	1.66	0.37	0.47	0.43	0.77	1.17	2.80
State –owned companies, privatized in the reporting year	4.81	1.38	1.79	2.06	0.62	0.51	1.80	19.30
TOTAL arrears	17,294.33	34,405.02	28,012.31	26,251.39	25,363.13	26,217.11	24,369.48	21,226.29

Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

The rate of the operating surplus for state owned companies has deteriorated in 2015 compared to the previous year, from 8.58% to 5.42%, remaining, however, higher than in the private sector. Excluding the Top 5 companies, the indicator has recorded negative values throughout the period 2008-2015 showing a persistently lack of performance of the state companies.

The year 2015 marked an unfavorable development of the aggregate financial performance of the state owned companies (the profits resulting from the cancellation of a part of SC Oltchim S.A.' debt were excluded). Considering the indicator rate of operating surplus, which measures the profitability of the core business by reporting incomes before the payment of interest and profit tax to the total revenue, we can notice that its level dropped by 3.16 percentage points compared with 2014, to 5.42%, however being higher than that registered by private companies (4.92%). This development was determined mainly by reduction in the operating profits by about 31%, while the total revenues increased by 9.2%. By excluding the Top 5 most profitable state companies, the indicator is placed in the negative territory throughout the analyzed period, the level registered in 2015 being -4.16%, the operating surplus also worsening compared to the previous year. The gap recorded when we exclude the best performing five state owned companies is significant, suggesting an extremely high impact of these five companies on the aggregate level. In addition, the top five companies manage to record a performance which counterbalance the underperformance of the other state owned companies, positively adjusting the average of the whole sector of state owned companies.

Figure 6: Operating surplus ratio (%)



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: Operating surplus (%) = $\frac{\text{Operating surplus}}{\text{Total income}} \times 100$

*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

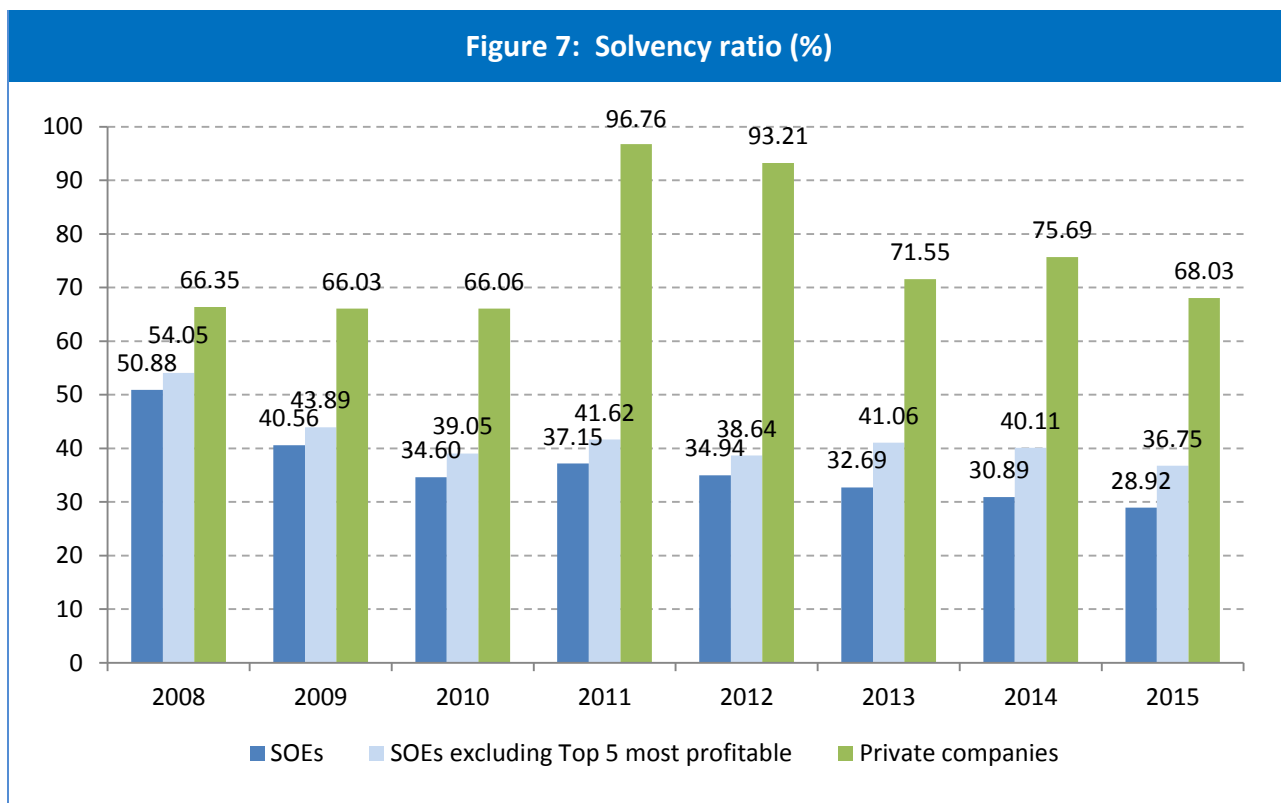
** The operating surplus does not include the interest expenses and those related to income taxes.

The ability of the state companies to cover their debts improved at the aggregate level, but there is an uneven distribution of indebtedness, some of state companies having very low debt, while others being heavily indebted. Overall, the share of debt in total assets of the state

Regarding state companies' ability to cover their debts with the available assets, reflected by the degree of solvency, there has been a favorable development, the share of debt in total assets dropped to 28.92% in 2015 from 30.89% in the previous year, due to reducing total debt, the level being significantly lower than the 68.03% recorded by the private companies. Also, the latter reduced their debt ratio in the past year compared to 2014 when they registered a degree of solvency of 75.69%. This result is influenced, however, by the uneven distribution of indebtedness at the level of the state companies, among which are found very large companies with a very low degree of debt.

companies remains far below compared to the level of private ones.

Thus, excluding the top five best performing companies, the solvency ratio was reduced from 40.11% to 36.75% due to a higher growth of the assets relative to debts. It is worth noting that at the level of all state companies, the solvency ratio falls by 1.97 pp compared to the previous year, while excluding the top five companies, the solvency ratio drops by 3.36, which highlights that in 2015 the debt reduction was driven by lowering the debt of the other state companies.



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

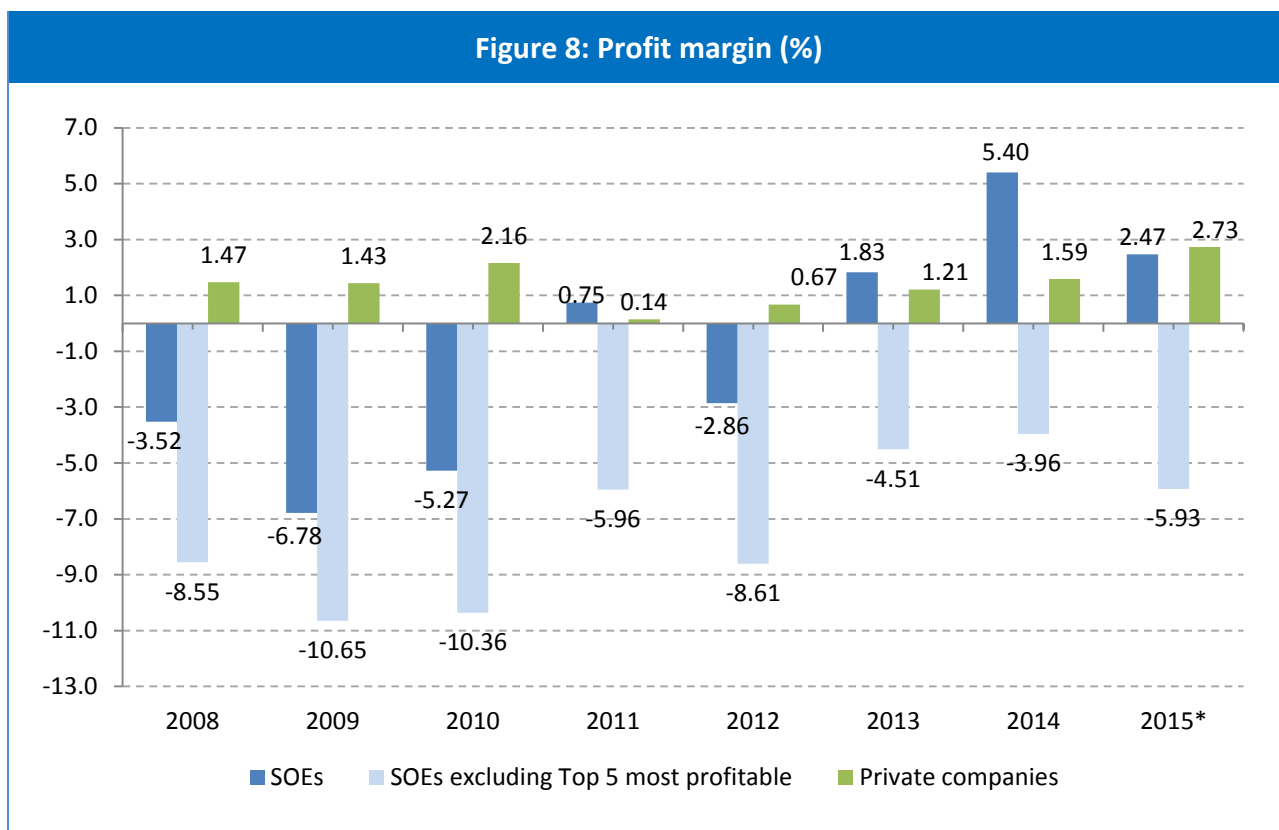
$$\text{Solvency ratio (\%)} = \text{Total debt} / \text{Total assets} * 100$$

The profit margin of state companies has deteriorated significantly in 2015 compared to 2014, from 5.4% to 2.5%, the development being opposite to that registered in the private sector and

The worsening of the operating position of state companies is visible at the level of the profit margin that decreased significantly from 5.4% in 2014 to 2.47% in 2015. Moreover, the profit margin for state companies is lower than that registered by the private companies (2.73% in 2015, superior by 1.14 percentage points compared to the previous year). Thus, when excluding the Top five companies, the profit margin recorded negative values throughout the analyzed period, reaching -5.93%

also to the positive dynamics of the economic activity.

in 2015, respectively it worsened by 1.97 percentage points compared to the previous year, but showing an improvement of 2.68 percentage points compared with 2012. The differences between the rate of operating surplus and the profit margin is explained by the fact that the latter indicator takes into account the financial and the extraordinary results. Thus, due to the negative impact of interest expenses on the net profit, throughout the period under review, the profit margin has lower values compared to the operating surplus.



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

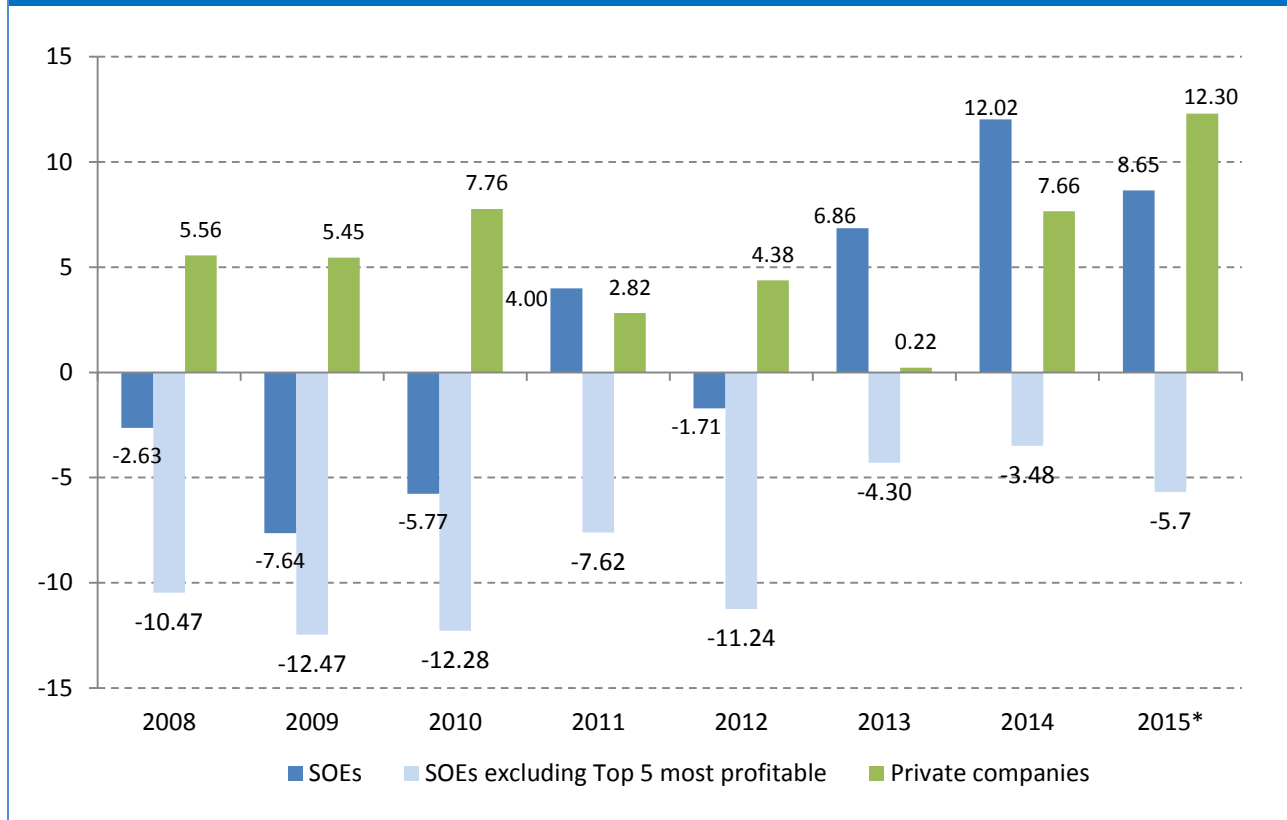
Note: Profit margin (%)=Net result/Total income*100

*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

The indicator gross profit per 1,000 employees has deteriorated at the level of the state companies despite the reduction in the number of employees in 2015 compared to the previous year, both at the aggregate level and by excluding the Top 5, being significantly lower than in the private sector, the latter registering a trend of accelerated growth.

The gross profit per 1,000 employees is an indicator that measures the average revenue generated by each 1,000 employees of the company, representing a measure of the efficiency in the use of its own employees to maximize profits. The indicator registered a decrease in 2015 compared to the previous year for the state companies, the gross profit per 1,000 employees being in 2015 8.65 thousand lei, thus lower than in the previous year by 28%. Also, the level of gross profit per 1,000 employees for the sector of state companies is about 30% lower than in the private sector in 2015. The development of the indicator for the state companies, however, is favored by the top five best performing companies in terms of profit, accounting for a gross profit of 4,088 million lei in 2015, while other state companies recorded losses of 1,527.7 million lei. Consequently, the gap between the gross profit corresponding to the Top 5 companies and the other is considerable, significantly influencing the overall assessment of profitability of the state companies in Romania in a positive sense. Excluding the Top 5, the deterioration is widening compared to last year, as the gross profit per 1,000 employees decreasing at -5.7 thousand lei compared to 2014, when it registered a value of -3.5 thousand lei. The year 2015 represents the maximum of the period in terms of the value of gross profit per 1,000 employees registered by the private sector (12.3 thousand lei), showing a significant improvement compared to 2014, when the indicator recorded a value of 7.66 thousand lei (+ 60.5%).

Figure 9: Gross profit per 1,000 employees (thousands lei)



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

ROE is at a much lower level in the state companies compared with the private ones, 1% versus 8.8% in 2015. Thus, the ability of the state to generate value for shareholders is reduced. Moreover, this indicator decreased notably from the previous year, while private companies recorded a strong upward

The return on equity (ROE) and return on assets (ROA) are some of the most conclusive indicators of a company's profitability, ROE measuring the efficiency of equity in terms of the profit earned and ROA the efficiency of assets relative to the same reference. Therefore, ROE shows how many lei generates in the form of profits a leu invested in equity by the shareholders, while ROA indicates how many lei a leu invested in assets transform into profits.

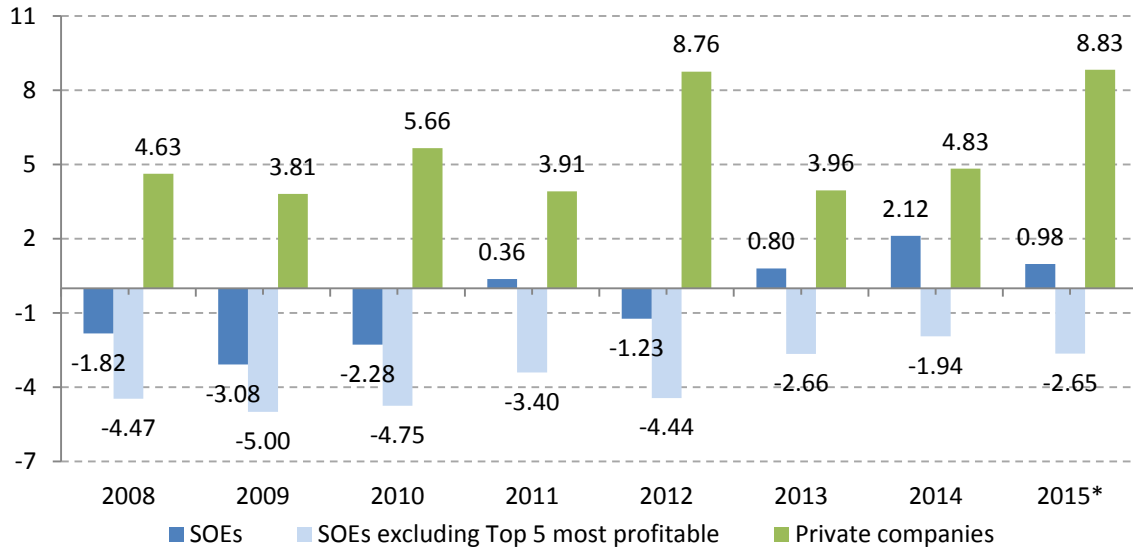
In 2015, at the level of state companies was recorded a deterioration both in terms of ROE and ROA, as they stood at half of the level recorded in 2014, due to an unfavorable dynamic of the net profit compared to the previous year, the state companies recording a total net profit of 1,200 million lei in 2015 while in

trend.

ROA of SOEs experienced a similar trend, decreasing by about 0.7% in 2015 from around 1.5% in 2014, showing a reduced capacity of the assets in state companies to generate profits. In the same period, ROA of private companies has increased from 1.2% to 2.8%.

2014 this indicator recorded a value of 2,401.3 mil. lei (-1,201.3 million. lei, respectively -50%). The return on equity for the state companies has reached a level of 0.98%, lower than in 2014 when it was 2.12% (-54%), while the return on assets was by 0.69% lower than the level recorded in the previous year of 1.46% (-53%), this dynamic being influenced positively by the profit of the Top 5 state companies. Excluding their influence, the change in the two indicators also shows a deterioration in 2015 compared to 2014, registering a level of ROE -2.65% compared to -1.94% in 2014, respectively -1.68% ROA versus -1.16% in the previous year. At the level of the private companies, the return on equity increased significantly, this indicator reaching a value of 8.8% compared to 4.8% in the last year, while the return on assets stood at a level significantly higher than in 2014 (2.8% compared to 1.2%), their net profit standing at 33,459.1 million lei in 2015, compared to 17,020.2 million lei in 2014 (+16,439 million lei, respectively +96.6%).

Figure 10: ROE (%)

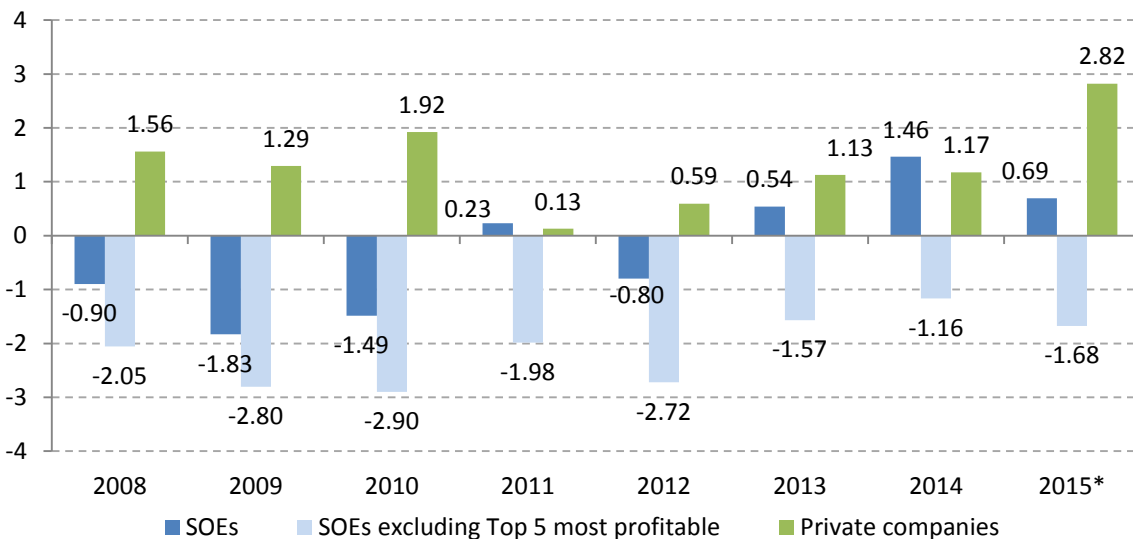


Source:MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: $ROE(\%) = \text{Net Profit} / \text{Equity} * 100$

*In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.

Figure 11: ROA (%)



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: $ROA(\%) = \text{Net income} / \text{Total assets} * 100$

**In 2015 at the level of SOEs was excluded the profit of S.C. Oltchim S.A. originated from the cancellation of a part of debt.*

The interest coverage ratio of the state companies registered a significant boost from 3.23 to 13.1, but this evolution has to be interpreted with caution, being attributable to special circumstances.

The position of the private companies from the perspective of the ability to cover the interest expenditures is better compared to that of the state companies. They recorded a sustainable growth of this indicator in the context of increasing profitability and lower interest expenses.

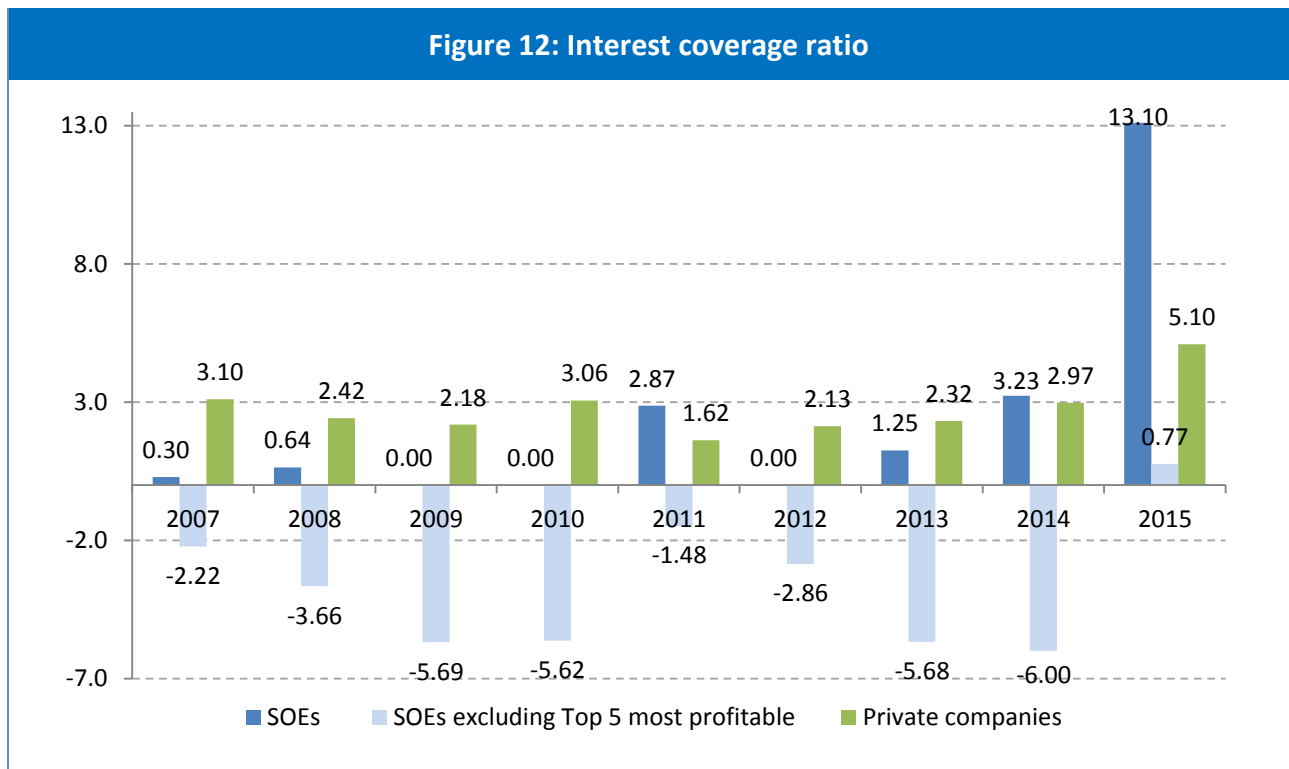
The interest coverage ratio is a solvency indicator that measures a company's ability to realize the payment of interest on the accumulated debt. In essence, this indicator shows how many times a company could pay the interest owed with its available earnings. The indicator is calculated by dividing company's revenues company before interest and taxes (EBIT) by the amount of interest on debts payable over a period of one year. An interest coverage ratio below 1 indicates that the company does not generate enough income to cover interest expenses and will have to use their reserves to cover the liabilities.

Both state and private companies recorded during the 2015 a significant increase of the interest coverage ratio, which reached a peak last year, surpassing even the 2007-2008 boom. The interest coverage ratio for the state companies recorded a significant boost from 3.23 to 13.1, being 4 times higher than the one recorded in 2014, mainly due to the significant increase in adjustments for provisions (+294%) and the increase by 31% of the operating result and the decrease of 23% of the interest costs due to the reduction of nominal interest rates. It is important to note that at the level of state companies the massive improvement of this indicator should be interpreted with caution, being determined by the fact that even if the increase expenses with provisions adversely affected the operating result, it did not involve an actual payment of the sums, their amount temporarily increasing the level of this indicator. When the risks will materialize and the amounts will be paid, both companies' liquidity and interest coverage rate will further deteriorate. Specifically, adjustments for provisions recorded in 2015 an increase of 1.85 billion lei compared to the previous year, mainly because of Hunedoara Energy Complex S.A. (+1.3 billion lei compared to 2014), a company which is in a very difficult financial situation.

Regarding the interest coverage ratio recorded in the state companies excluding Top 5, the value is back in positive territory,

reaching in 2015 a level of 0.77. The value of this indicator is still below the minimum acceptable and suggests that the companies do not generate enough revenue to pay the interest owed. Moreover, the improvement in this indicator was driven primarily by higher expenses with provisions which have not yet affected the companies' liquidity, while the operating result as the financial result remained in negative territory in 2007-2015.

The position of the private companies regarding their ability to pay interest expenditure is better compared to that of state companies. They grew at a lower rate (from 2.97 to 5.10), but represents a more sustainable rate of this indicator in terms of both profitability growth and the reduction of interest expenditures.



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: Interest coverage ratio = (Profit or current loss + Financial profit or loss + Adjustments for provisions - Other income + Other expenses + Interest expenses - Interest incomes)/Interest expenses

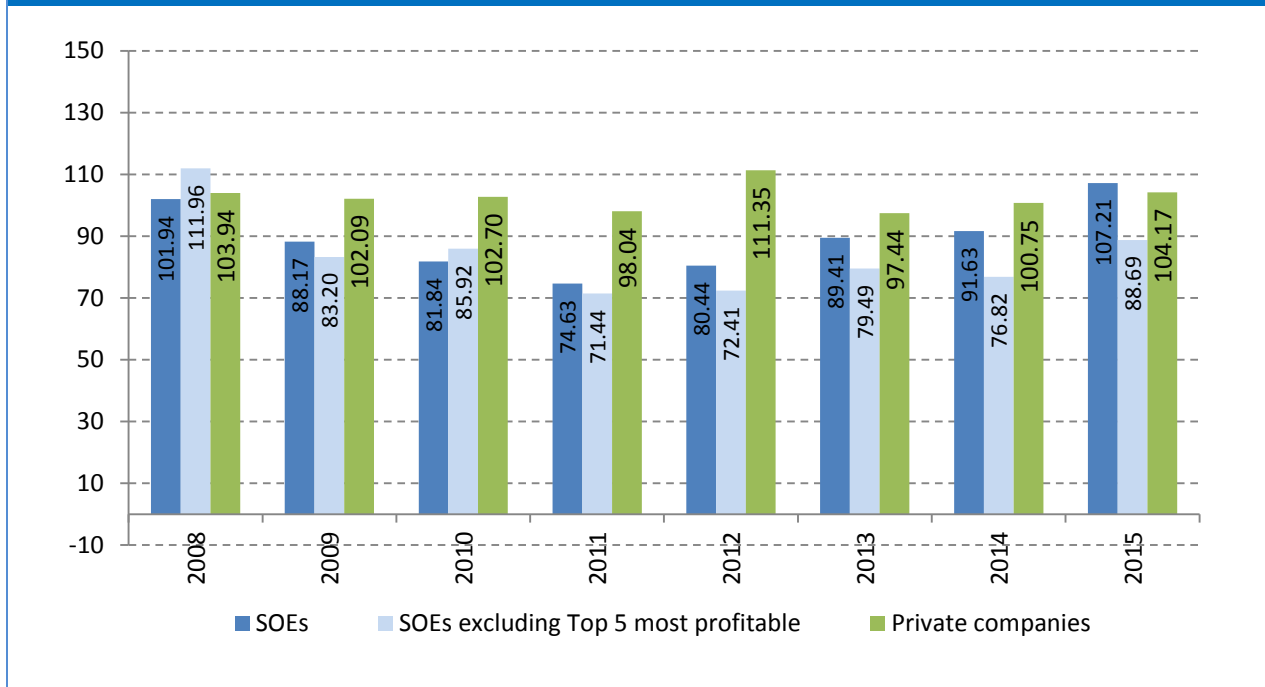
In 2015 the liquidity ratio of the state companies has increased significantly and is situated at a level higher than that registered in the private companies and even than that recorded in the economic boom years.

Excluding the Top 5 best performing companies, the liquidity ratio recorded in 2015 compared to 2014 an increase of 12 pp, but remains at a level lower than the recommended threshold.

The current liquidity ratio is an indicator that measures the company's ability to pay its obligations using short-term assets from the balance sheet. The greater this ratio is, the company has a greater ability to pay its obligations, and a ratio below 1 may indicate that a company might be unable to pay its debts if they are exigible at that moment. On the other hand a high liquidity ratio (over 3), does not necessarily imply that the company is in an exceptional situation in terms of liquidity. Depending on how the company's assets are allocated, a high current liquidity may suggest that this company does not use its assets or capital in an efficient manner, or it doesn't attract funding.

In terms of liquidity, state companies were significantly affected by the financial crisis, in 2009-2014 their liquidity rate being significantly lower than in the private sector, as well as lower than the threshold of 100%, indicating a significant deficit of current assets versus current liabilities. Instead, in 2015 the liquidity ratio of state companies has increased significantly and is situated at a level higher than that registered at the private companies and even than that recorded in the economic boom years, both groups of companies reaching a level that can be assessed as adequate. If we do not take into consideration the best performing companies, the liquidity ratio recorded in 2015 compared to 2014 an increase of 12 pp, but it remains at a lower level compared to that recorded at the aggregate level, as well as to the recommended threshold of 100%.

Figure 13: Liquidity ratio (%)



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

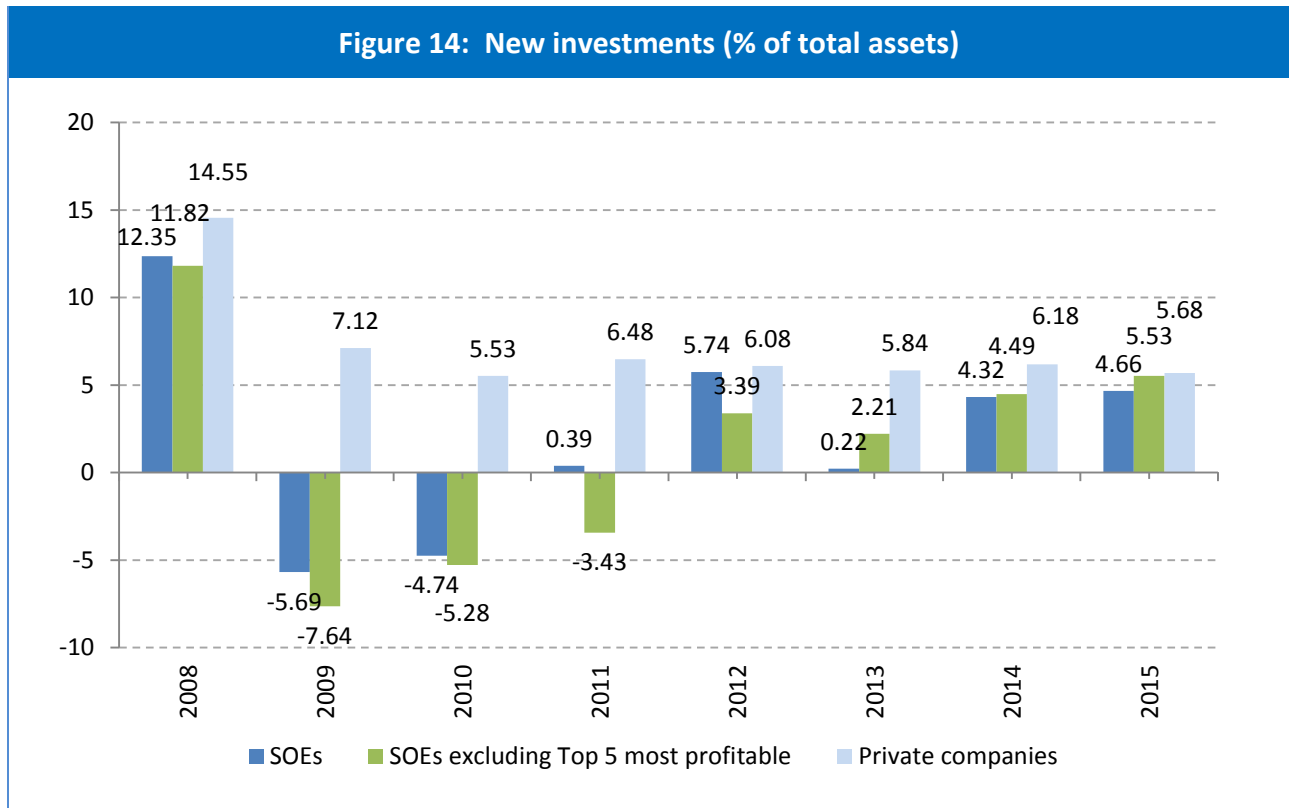
Note: Liquidity ratio (%) = Current assets / Short term debts *100

State owned companies, both at an aggregated level and excluding the Top 5 were characterized by a higher capacity of making new investments, the period 2014-2015 registering a stabilization of the rate of new investments around 4%, lower than the rate achieved by the private sector which is placed at around 6%.

As a result of improved financial performance, the state-owned companies were characterized by a greater capacity of making new investments, the period 2014-2015 registering a stabilization of the rate of new investments around 4%, but lower than the one made by the private sector which is placed at 6%. Moreover, private companies continued to invest in the years that follow the crisis, the volatility of this indicator is much lower compared to that of SOEs. It should also be noted that the level of investments in both categories of companies is significantly lower than the one recorded in the boom period when it exceeded 10%.

For this indicator, the exclusion of Top 5 state companies does not result in a different interpretation of the results, other state enterprises are characterized by a similar investment rate recorded at the aggregated level. Even though the gap compared with private companies narrowed, the need for investment is more pronounced at SOEs than for private companies.

Considering the deleveraging of SOEs, it can be appreciated that the new investments were mainly self-financed.



Source: MPF, based on the balance sheets submitted by the economic agents from non-financial sector

Note: New investments are calculated as the change in non-financial assets + amortization and depreciation expenses.

During 2013-2015, the state owned companies at the aggregate level have visibly improved their financial performance, and this is noticeable regarding almost all financial indicators. If we refer only to 2015, compared to 2014 it can be seen a deterioration of the profitability indicators and an improvement in liquidity and financial discipline. However, it is important to mention that the level of financial performance is not evenly distributed among the state owned companies and there are some highly profitable companies, which developed positively in recent years, but also many companies with problems both in terms of arrears, and profitability. In this context, reform in the domain of state companies must continue, and a special focus should be on the identification of the state companies facing problems and on proposal of some consistent recovery measures.

The improvement of SOEs' performance was also supported by the legislative reforms embodied by the enforcement of the Emergency Ordinance no. 109/2011 regarding corporate

governance of public enterprises. This represented a major step in the implementation of the best corporate governance practices and aimed at depoliticizing and professionalizing the management of SOEs, both regarding the selection, appointment and functioning of the Board of Directors and managers, and in terms of increasing transparency and providing information in order to increase the public companies' accountability. The overall performance of SOEs has improved also due to the entry in liquidation procedure of the National Coal Company and Termoelectrica. However, further important steps should be taken in order to strengthen the progress made and to bring financial performance of SOEs to a level comparable with the private sector.

The impact of state companies on the budget balance in European standards based on commitments (ESA10) may be an additional pressure on the budget deficit targets undertaken by the government in accordance with the Maastricht criteria (below 3% of GDP in ESA10 terms) and the Fiscal Compact (structural deficit below 1% of GDP). The impact on the budget deficit in ESA10 standards manifests: (i) by the issuance of state guarantees (also subject to EU rules on state aid) and especially (ii) by the reclassification of the state enterprises within the public administration.

According to the Eurostat methodology for accrual accounting (ESA10), several SOEs have been reclassified in the government sector. The 168 SOEs consolidated in central government sector had a positive influence on the general consolidated budget balance in ESA10 standards in 2012-2015, except the year 2012. The table below shows the contribution to consolidated budget balance in ESA10 standards of the first 20 state owned companies included in the central government in 2015. Regarding the state owned companies consolidated in the local government, in 2015 they had a positive contribution to the consolidated balance in ESA10 standards, given the negative contributions in 2012-2014.

Table 6: Contribution of state companies included in the public sector to the consolidated budget balance (million lei), ESA10 standards

	2012	2013	2014	2015
1. Total companies at central level	-376.4	2,784.9	3,401.5	1,400.9
CN de Căi Ferate CFR SA	1,532.8	225.5	501.8	424.5
Compania Națională de Autostrăzi și Drumuri Naționale	-1,435.0	2,171.6	2,244.2	341.0
CFR Călători SA	-186.3	95.5	473.0	308.0
Compania Națională de Investiții SA	-34.6	44.5	85.3	229.9
SN Radiocomunicații SA	0.0	138.3	102.4	72.0
SC Societatea de Administrare a Participațiilor în Energie SA	0.0	0.0	-1.7	68.1
Societatea Română de Televiziune	-58.4	56.3	-5.0	51.3
Societatea Română de Radiodifuziune	0.7	24.1	15.2	25.9
Societatea Națională Aeroportul Internațional Mihail Kogălniceanu	-0.1	0.3	3.2	1.0

CN ROMARM SA	-11.3	-9.8	0.0	0.0
Administrația Fluvială Dunărea de Jos Galați	-20.6	25.6	0.0	0.0
Fondul Proprietatea	-6.6	0.0	0.0	0.0
SC Intervenții Feroviare SA	-8.3	-4.4	-3.6	0.0
SN a Cărbunelui	-0.4	1.3	-0.3	-0.2
CN a Huilei Petroșani	-57.9	-35.8	-19.4	-1.0
Regia Autonomă Tehnologii pentru Energie Nucleară	0.0	21.7	0.6	-1.1
CN de Radiocomunicații Constanța	-0.2	0.2	0.1	-1.2
SC Termoelectrica SA	-89.0	-60.0	-8.6	-9.5
CN Administrația Canalelor Navigabile Constanța SA	4.9	13.2	-19.0	-33.8
Metrorex	-6.1	76.8	33.3	-74.0
2. Total companies at local level	-204.3	-235.2	-20.8	43.5
Local airports	-17.3	-11.3	-19.1	13.1
Heating stations with local subordination	-47.0	-66.5	-23.9	-5.2
Other local units	-140.0	-157.5	22.2	35.6
3. Total SOEs	-580.7	2549.7	3,380.7	1,444.4
% of GDP	-0.10%	0.40%	0.51%	0.20%

Source: NIS