



## THE ROMANIAN GAS TRANSMISSION SYSTEM OPERATOR

1

### PRELIMINARY FINANCIAL STATEMENTS FOR 2016 ( UNAUDITED) Prepared in accordance with IFRS -UE

# Summary

2

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1. Preliminary Income statement as of 31.12.2016

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2. Preliminary Balance sheet as of 31.12.2016

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3. Main revenue drivers

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4. Main costs drivers

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5. Main business drivers

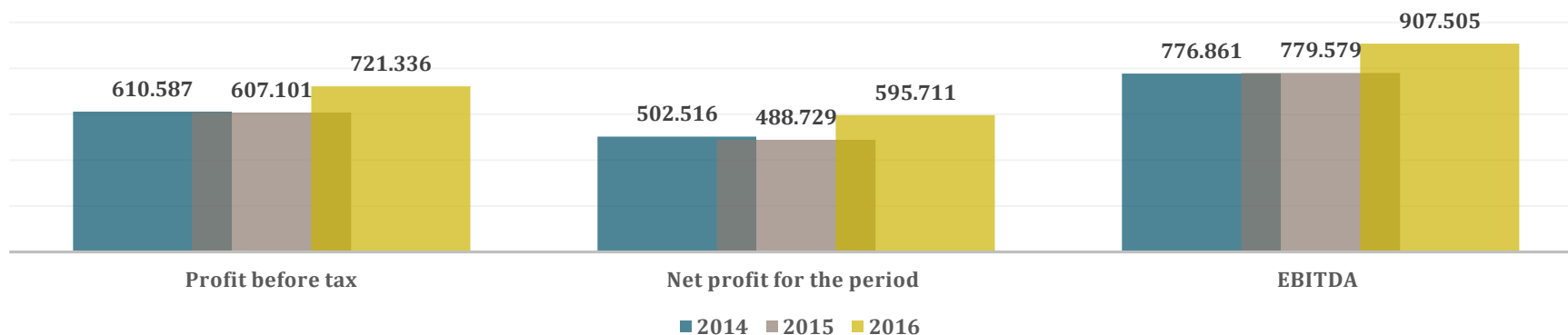
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6. Main indicators

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# 1. Preliminary income statement as of 31.12.2016 (1)

COMPREHENSIVE INCOME - THOUSAND RON	2014	2015	2016	Changes 2016 / 2015	
				Absolute	Relative
Operational income before the construction activity according to IFRIC12	1,655,319	1,663,398	1,864,376	200,978	12%
Income from the construction activity according to IFRIC12	136,635	211,125	118,884	-92,241	-44%
Financial income	33,375	43,237	32,177	-11,060	-26%
Operational costs before the construction activity according to IFRIC12	1,063,751	1,077,219	1,165,534	88,315	8%
Cost of assets constructed according to IFRIC12	136,635	211,125	118,884	-92,241	-44%
Financial expenses	14,356	22,315	9,683	-12,632	-57%
<b>Profit before tax</b>	<b>610,587</b>	<b>607,101</b>	<b>721,336</b>	<b>114,235</b>	<b>19%</b>
Income tax expenses	108,071	118,372	125,625	7,253	6%
<b>Net profit for the period</b>	<b>502,516</b>	<b>488,729</b>	<b>595,711</b>	<b>106,982</b>	<b>22%</b>
<b>EBITDA</b>	<b>776,861</b>	<b>779,579</b>	<b>907,505</b>	<b>127,926</b>	<b>16%</b>
Turnover	1,618,089	1,578,518	1,750,186	171,668	11%

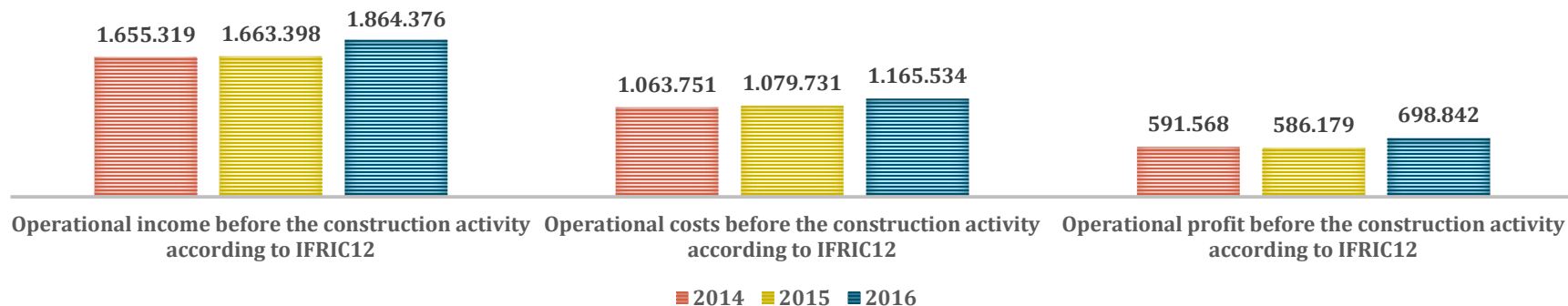


# 1. Preliminary income statement as of 31.12.2016 (2)

## OPERATING ACTIVITY

4

	2014	2015	2016	Changes 2016/2015	
				Absolute	Relative
Revenues from domestic gas transmission activity	1,340,853	1,259,788	1,360,355	100,567	8%
Revenues from international gas transmission activity	273,760	318,752	328,571	9,819	3%
Revenues from the balancing activity	0	0	57,387	57,387	n/a
Other revenues	40,706	84,858	118,063	33,205	39%
<b>Operational income before the construction activity according to IFRIC12</b>	<b>1,655,319</b>	<b>1,663,398</b>	<b>1,864,376</b>	<b>200,978</b>	<b>12%</b>
Employees costs	351,859	357,731	369,161	11,430	3%
Technological consumption, materials and consumables used	113,169	106,966	110,026	3,060	3%
Expenses with balancing gas	0	0	56,093	56,093	n/a
Expenses with royalties	161,461	157,854	168,893	11,039	7%
Maintenance and transport	62,306	33,181	21,676	-11,505	-35%
Taxes and other amounts owed to the State	77,874	70,183	66,860	-3,323	-5%
Revenues/ Expenses with provision for risks and expenses	4,646	-1,255	23,528	22,273	1775%
Other operating expenses	116,435	159,160	140,634	-18,526	-12%
Depreciation	185,293	193,401	208,663	15,262	8%
<b>Operational costs before the construction activity according to IFRIC12</b>	<b>1,063,751</b>	<b>1,079,731</b>	<b>1,165,534</b>	<b>85,803</b>	<b>8%</b>
<b>Operational profit before the construction activity according to IFRIC12</b>	<b>591,568</b>	<b>586,179</b>	<b>698,842</b>	<b>112,663</b>	<b>19%</b>

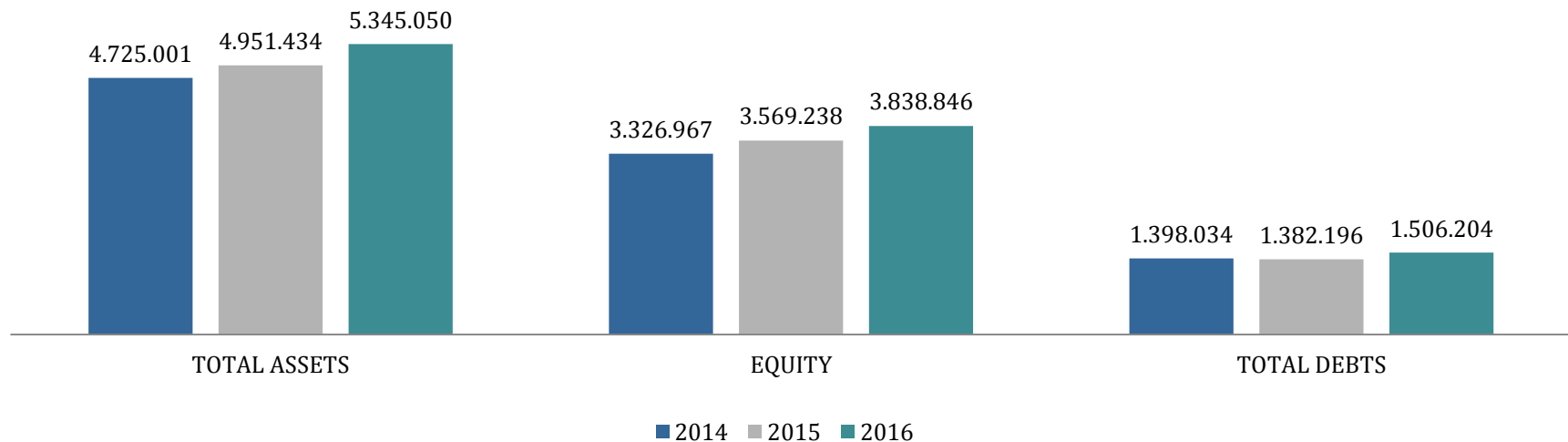


## 2. Interim Balance Sheet as of 31.12.2016

5

Thousand RON	2014	2015	2016	Changes 2016/2015	
				Absolute	Relative
Non-current assets	3,728,936	3,814,118	3,802,023	-12,095	0%
Current assets	996,065	1,137,316	1,543,027	405,711	36%
<b>Total assets</b>	<b>4,725,001</b>	<b>4,951,434</b>	<b>5,345,050</b>	<b>393,616</b>	<b>8%</b>
<b>Equity</b>	<b>3,326,967</b>	<b>3,569,238</b>	<b>3,838,846</b>	<b>269,608</b>	<b>8%</b>
Long term debts	1,077,684	1,104,863	1,214,101	109,238	10%
Current debts	320,350	277,333	292,103	14,770	5%
<b>Total debts</b>	<b>1,398,034</b>	<b>1,382,196</b>	<b>1,506,204</b>	<b>124,008</b>	<b>9%</b>
<b>Total equity and debts</b>	<b>4,725,001</b>	<b>4,951,434</b>	<b>5,345,050</b>	<b>393,616</b>	<b>8%</b>

Thousand RON



CURRENT ASSETS UP 36 %

TOTAL ASSETS & TOTAL EQUITY & DEBTS UP 8%

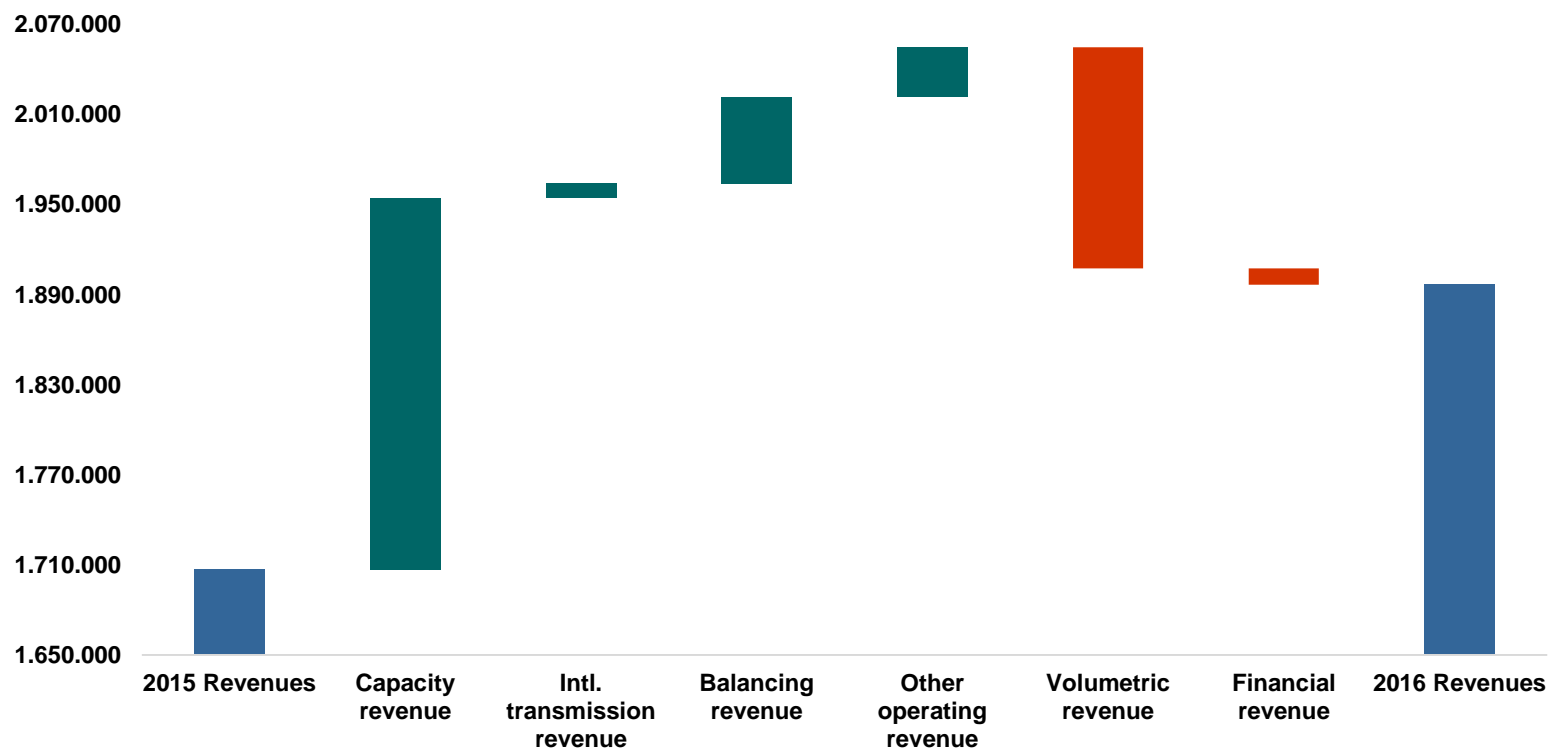
5% LOWER CURRENT DEBTS

### 3. MAIN REVENUE DRIVERS (1)

6

Higher Capacity Component Balances Lower Volumetric Component

Total Revenue 2015 vs. 2016 variation (000 RON)



### 3. Main revenue drivers (2)

Operating revenue before the construction activity, according to IFRIC12 increased by 12% as compared to the corresponding period of year 2015, which is higher by RON 200.978 thousand.



**The revenue was influenced mainly by the following factors:**

- capacity booking revenue higher by **RON 247.771 thousand** due to:
  - the increase of the fix component share in the total revenue to 60%;
  - the invoicing of the value of the booked capacity surplus related to 2016 amounting to RON 143.132 thousand in line with ANRE Order no.1/18.01.2016, ANRE Order no.14/30 March 2016 and ANRE Order no.160/26 November 2015 and ANRE Order no.39 - August 2016. In the period October –December 2016 the company calculated the capacity surplus in line with ANRE Order no 14/30 March 2016 and no 160/26 November 2015. The calculation method used by the company for the capacity surplus as of 1 October 2016 could be the subject of some disputes to be settled by ANRE, their impact amounting to approximately RON 38.200 thousand;
- volumetric component revenue lower by **RON 147.204 thousand** due to:
  - the decrease of the variable component share in the total revenue 40%;
  - the decrease of the quantity of invoiced gas by 1.473.299 MWh (220.016 thousand m<sup>3</sup>), detailed by categories of consumers as follows:

		12 months 2015	12 months 2016	Differences
Quantity transmitted for direct consumers	MWh	58.206.285	53.346.659	-4.859.626
	thousand m <sup>3</sup>	5.472.877	4.968.826	-504.051
Quantity transmitted for distribution	MWh	73.053.388	76.439.715	3.386.327
	thousand m <sup>3</sup>	6.821.816	7.105.851	284.035
Total	MWh	131.259.673	129.786.374	-1.473.299
	thousand m <sup>3</sup>	12.294.693	12.074.677	-220.016

*Starting with the fourth year of the third regulatory period (2015 – 2016), the total revenue at the basis of the tariff setting for the transmission activity is allocated 60% for the fix component and 40% for the volumetric component, which results in the redistribution of the transmission revenue as follows: the decreasing of transmission revenue in winter quarters, based on the lowering of revenue from the volumes transmitted, and the increasing of transmission revenue in summer quarters, based on the increasing of revenue from capacity booking, compared to the previous gas year.*

- international gas transmission revenue higher by **RON 9.819 thousand** due to the changes in the foreign currency of the contracts and to the application of the provisions of ANRE Order no 34/19 July 2016;
- revenue from the balancing activity according to ANRE Order 1/18.01.2016 and ANRE Order no 14/30 March 2016 (until 1 November 2016) respectively ANRE Order 160/26 November 2015 (as of 1 November 2016) amounting to **RON 57.387 thousand**;
- other operating revenue higher by **RON 33.205 thousand**, mainly due to the limitation period of the default interest related to the dividends received in arrears in the period 2000-2003, amounting to RON 51.718 thousand, the decrease of the revenue from penalties by RON 4.999 thousand and the decrease of other revenues from the recovered materials by 15.795 thousand;

Revenue from the construction activity lower by **RON 92.241 thousand** registered in line with IFRIC 12, according to which revenues and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, shall be acknowledged in line with IAS 11, Construction Contracts;

Financial revenue with a negative influence of **RON 11.060 thousand** based on account of the changes in the foreign exchange rates.

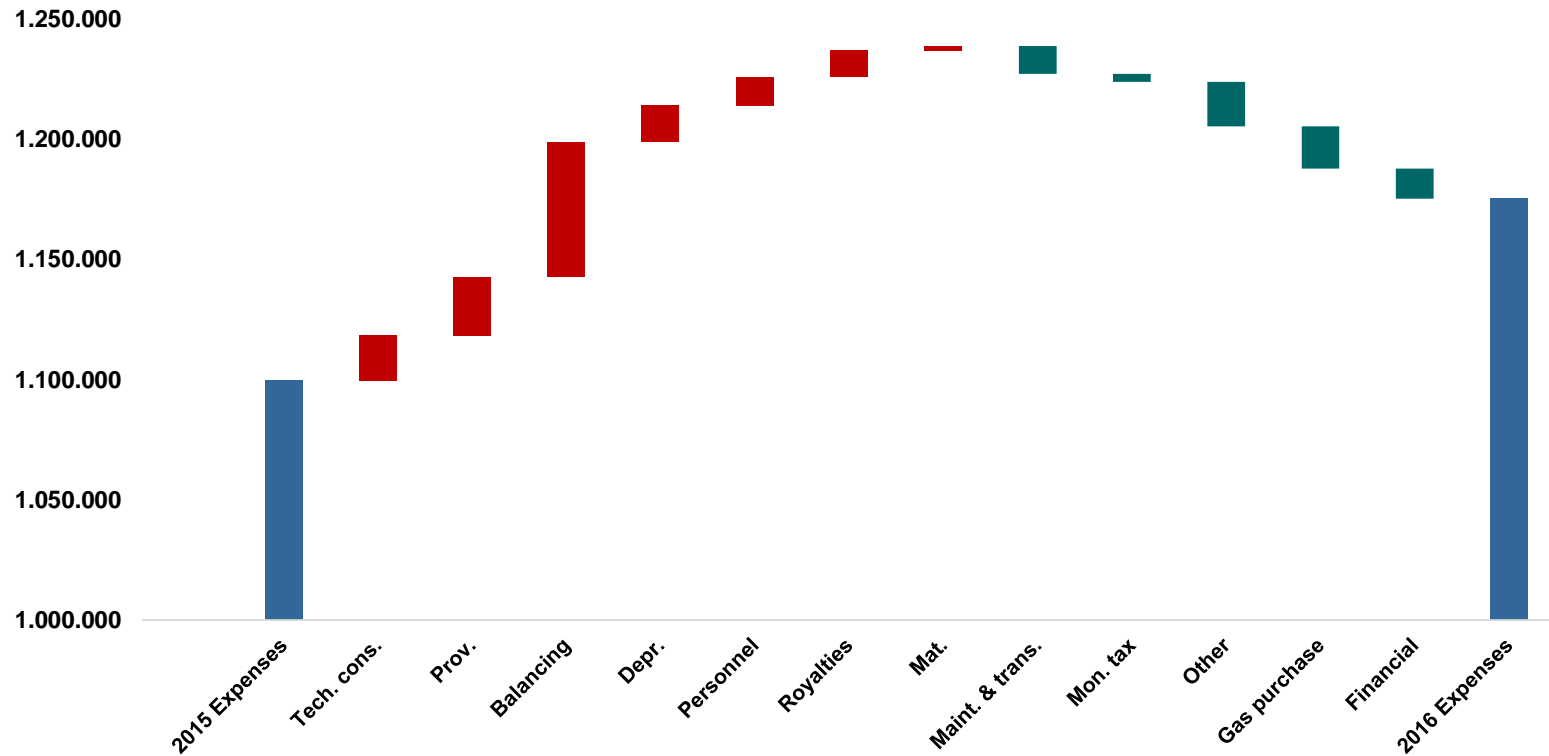
**Operating revenue before the construction activity, according to IFRIC12 increased by 12% as compared to the corresponding period of year 2015**

## 4. MAIN COSTS DRIVERS (1)

8

Cost cutting efforts continue

Total expenses 2015 vs. 2016 variation





## 4. Main costs drivers (2)

9

**Operating costs before the construction activity, according to IFRIC12 increased by 8% as compared to 2015, which is higher by RON 88.315 thousand.**

*The company made savings of RON 33.353 thousand, mainly in relation to the following cost elements:*

- maintenance and transmission: RON 11.504 thousand;
- tax and duties owed to the state: RON 3.323 thousand, mainly due to the reduction of the monopoly tax by RON 3.792 thousand;
- other operating expenses: RON 18.526 thousand, mainly due to the reduction of provisions from the impairment of receivables by RON 30.389 as compared to the previous year and to the increase of expenses due to: guarding objectives (RON 1.137 thousand), telecommunications (RON 1.483 thousand), gas underground storage (RON 1.880 thousand).

*An expense surplus of RON 121.668 thousand was recorded mainly in relation to the following cost elements:*

- transmission system technological gas consumption and loss increased by **RON 1.260 thousand** due to the following factors:
  - amount of gas for technological consumption higher by 218.381 MWh/ 20.770 thousand m<sup>3</sup> (▲23%), with a negative influence of RON 18.798 thousand;
  - average purchase price in the year 2016 is lower by RON 14,81 /MWh as compared to 2015, with a positive influence of RON 17.538 538 thousand;
- expense provision for liabilities and costs: RON 24.446 thousand on account of the provision related to the additional public service obligations issued by the National Agency for Fiscal Administration (25.410 thousand);
- balancing activity cost: RON 56.093 thousand;
- fixed asset depreciation cost: RON 15.263 thousand;
- cost of personnel: RON 11.767 thousand;
- costs related to royalty: RON 11.039 thousand;
- auxiliary materials and other material costs: RON 1.800 thousand.

**The financial cost** is lower by **RON 12.631 thousand** based on the foreign exchange gain.

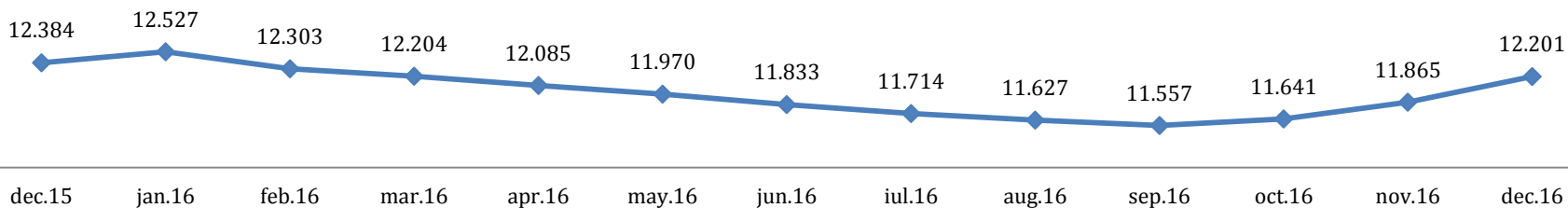
**As compared to the gross profit obtained in 2015 the estimated gross profit for 2016 increased by 19%, respectively by RON 114.235 thousand.**

**Operating costs before the construction activity, according to IFRIC12 increased by 8% as compared to 2015**

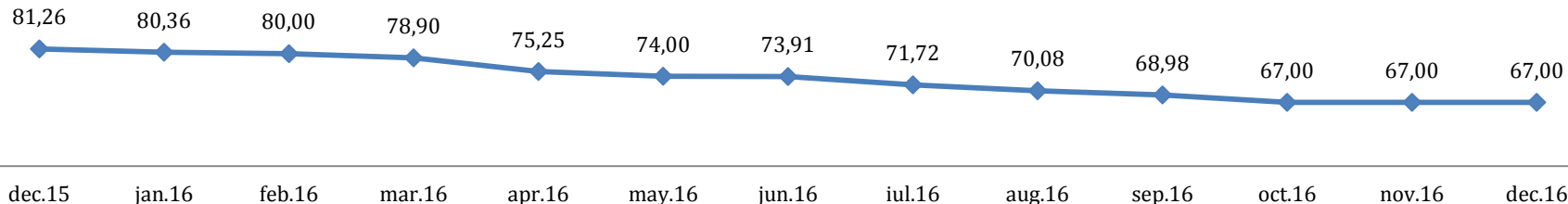
# 5. Main business drivers (1)

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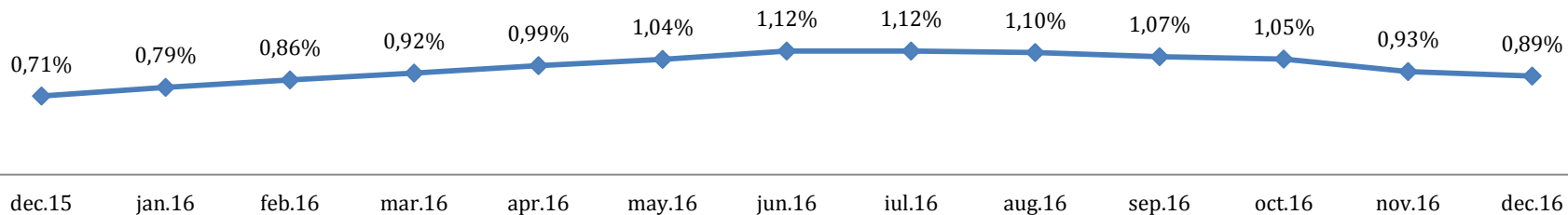
**Natural gas volumes circulated (including storage quantities) - mill.cm - rolling 12 months**



**Natural gas acquisition price for technological consumption - RON/MWh**



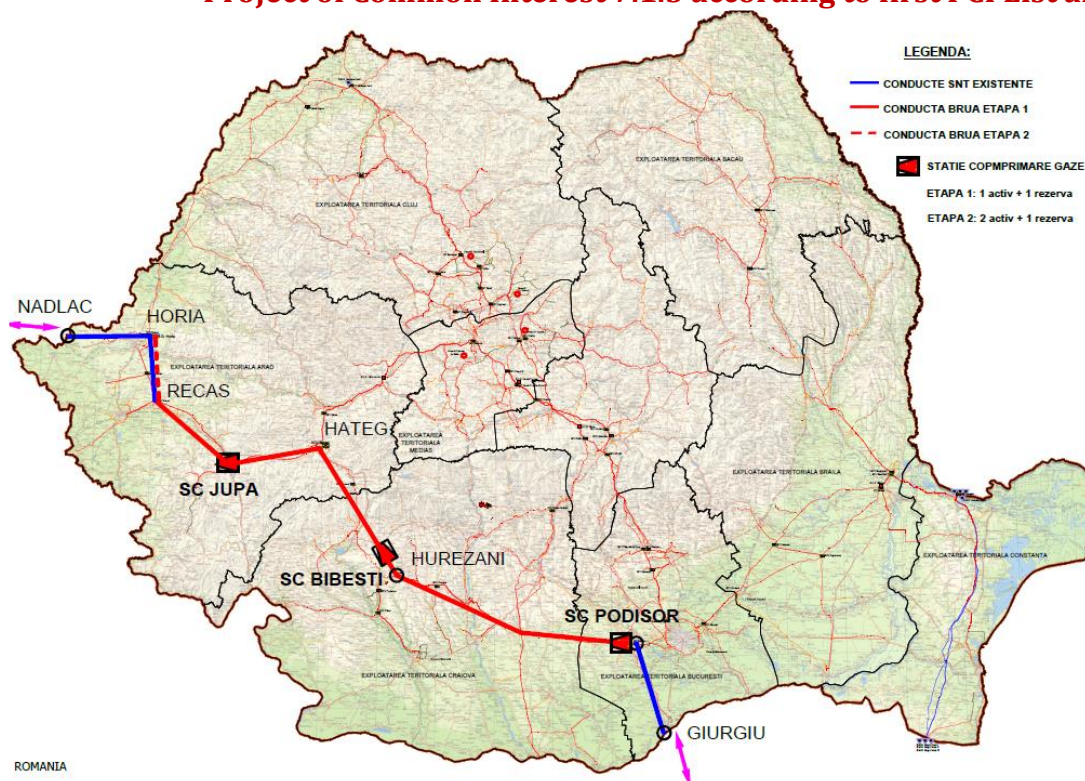
**% technological consumption in total circulated gas volumes (rolling 12 months)**



## 5. MAIN BUSINESS DRIVERS (2)

### Corridor Between Bulgaria and Hungary (ROHUAT/BRUA), PHASE 1

Project of Common Interest 7.1.5 according to first PCI List and 6.24.2 according to the second list of PCI 2015



#### **Purpose:**

Access to future major infrastructures running through Greece and Bulgaria or to sources from Central Europe.

#### **Capacity:**

1.75 bcm/yr to Hungary  
1.5 bcm/yr to Bulgaria

#### **Required investments**

- 32"x63 bar pipeline ~478 km  
- 3 compressor stations

#### **Total estimated costs**

Around 479 mil. Euro

#### **E.U. contribution: 179 mil. Euro**

Final Investment Decision – 2016

Estimated Commissioning December – 2019

## 5. MAIN BUSINESS DRIVERS (3)

12

### Corridor Between Bulgaria and Hungary (ROHUAT/BRUA), PHASE 2

Project of Common Interest 7.1.5 according to first PCI List and 6.24.7 (conditional) according to the second list of PCI 2015

#### Purpose:

Increase capacity of Phase 1 in order to be able to transport gas from the Black Sea reserves.

#### Capacity increase:

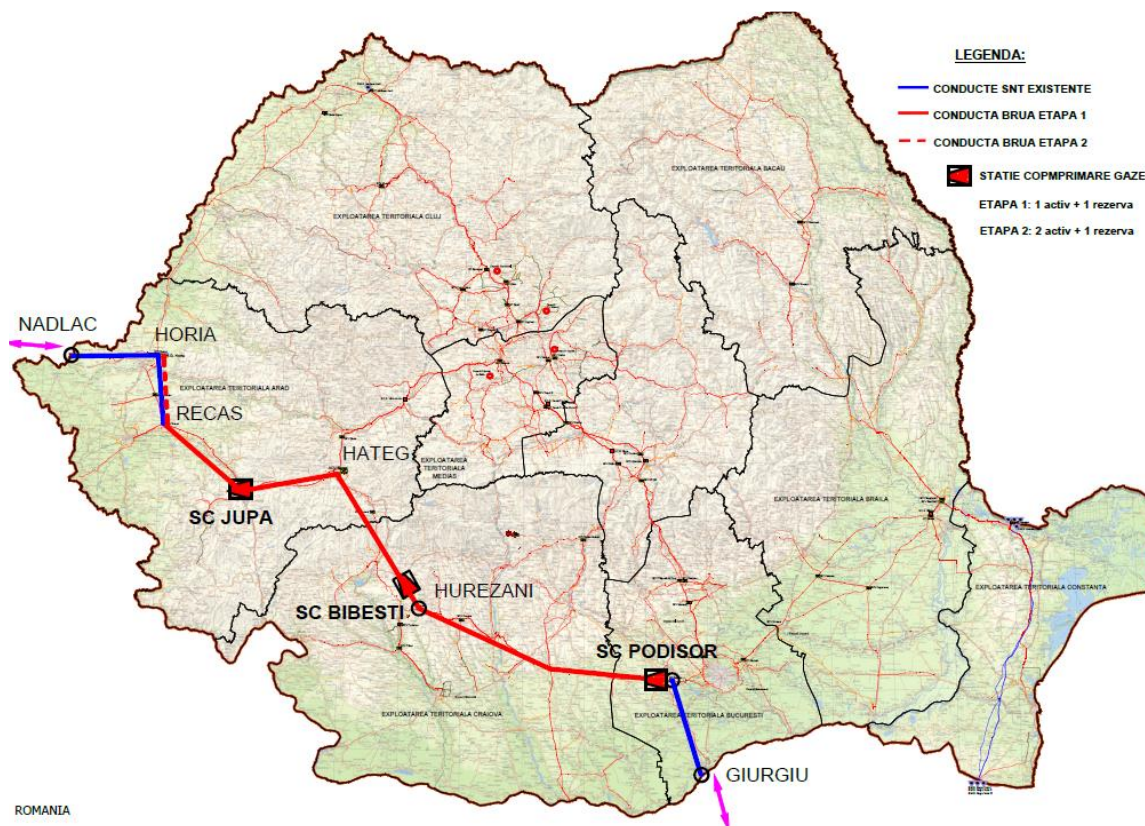
From 1.75 bcm/yr to 4.4 bcm/yr to Hungary

#### Required investments

- 32"x63 bar pipeline ~50 km
- Capacity increase of 3 compressor stations
- Capacity increase of measuring station

#### Total estimated costs

Around 69 mil. Euro



Final Investment Decision – 2017

Estimated Commissioning 2020

## 5. MAIN BUSINESS DRIVERS (4)

13

### Access To Black Sea New Gas Supply

### Project of Common Interest (conditional) 6.24.8

New pipeline project for connecting the Black Sea shore with the transmission corridor connecting the interconnections RO – HU and RO-BG:

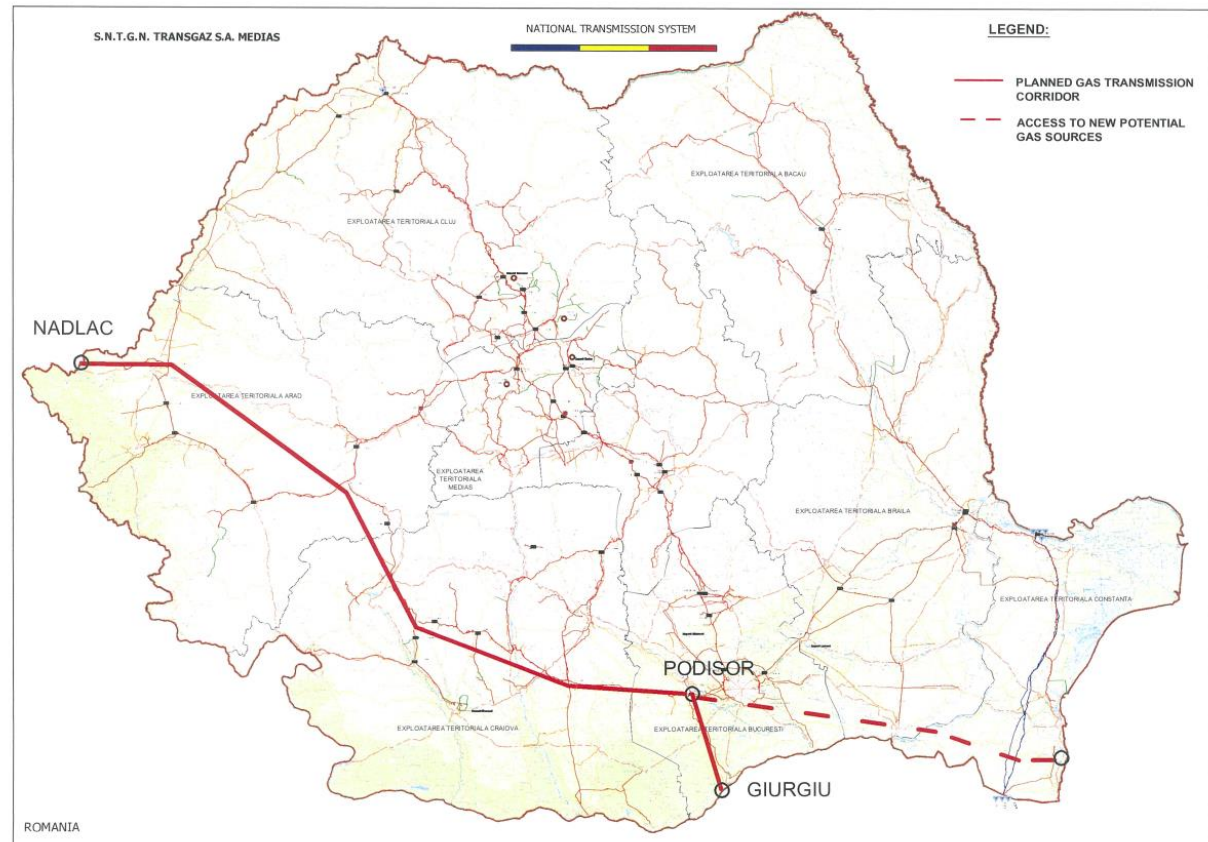
#### Required investments:

New pipeline section with a total length of 285 km

#### Estimated investment cost:

**263 mil Euro**

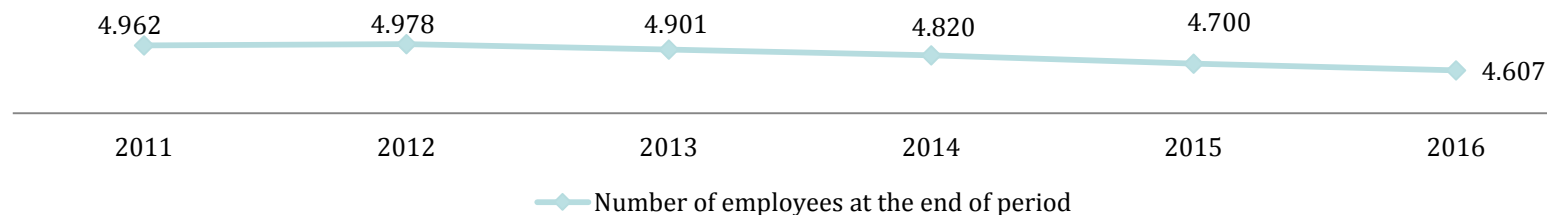
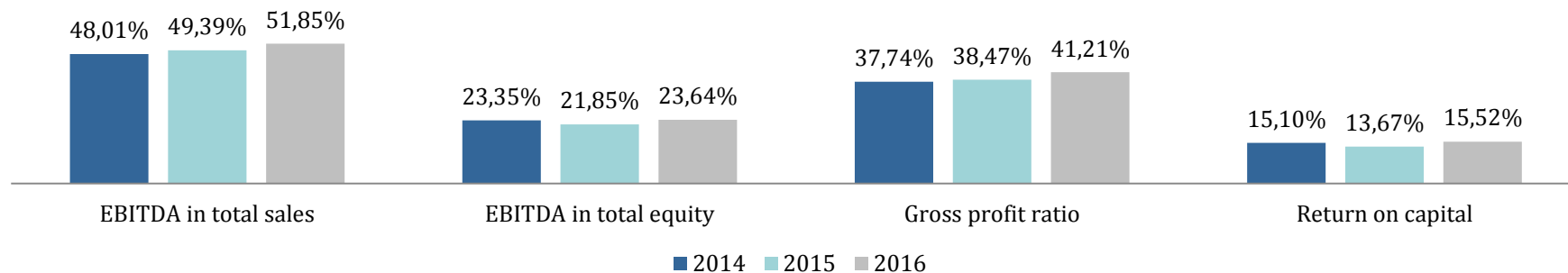
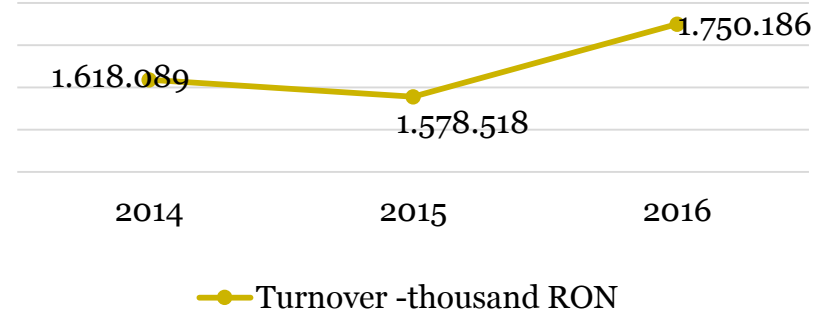
**Estimated completion: 2020**



## 6. Main indicators

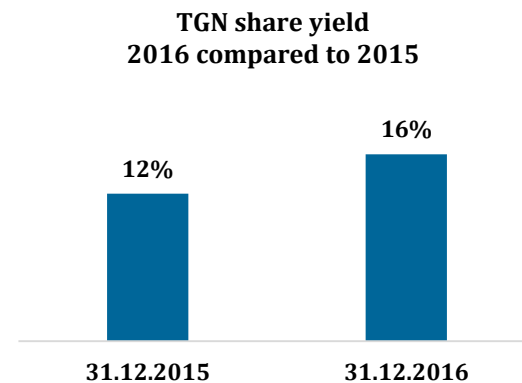
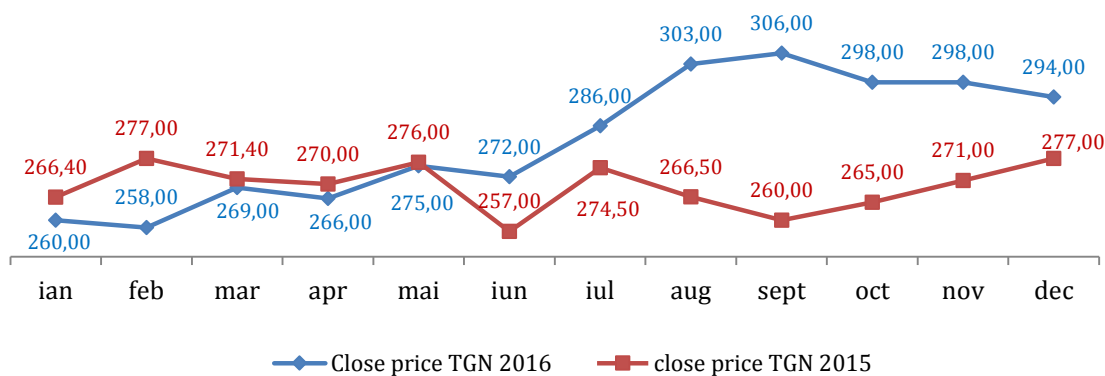
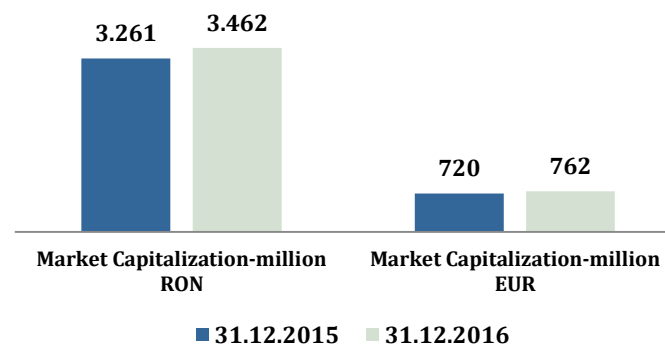
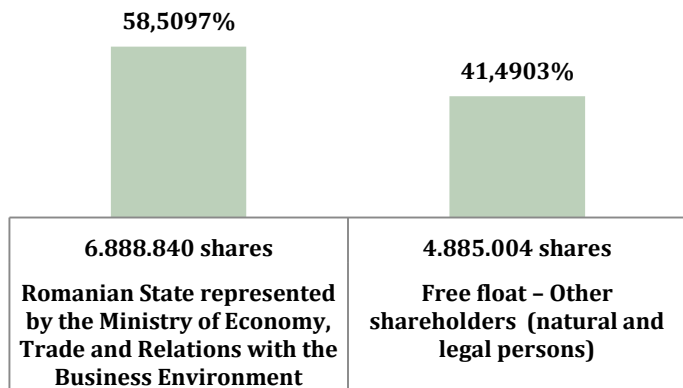
14

	2014	2015	2016
EBITDA in total sales	48,01%	49,39%	51,85%
EBITDA in total equity	23,35%	21,85%	23,64%
Gross profit ratio	37,74%	38,47%	41,21%
Return on capital	15,10%	13,67%	15,52%
Current liquidity ratio	3,11	4,08	5,28
Quick liquidity ratio	2,99	3,81	5,00
Gearing	0,00%	0,00%	0,00%
Interest coverage ratio	616,54	1904,18	-
Turnover speed for clients debit -days	94,18	99,32	125,87
Turnover speed for credit providers -days	17,61	19,46	17,38

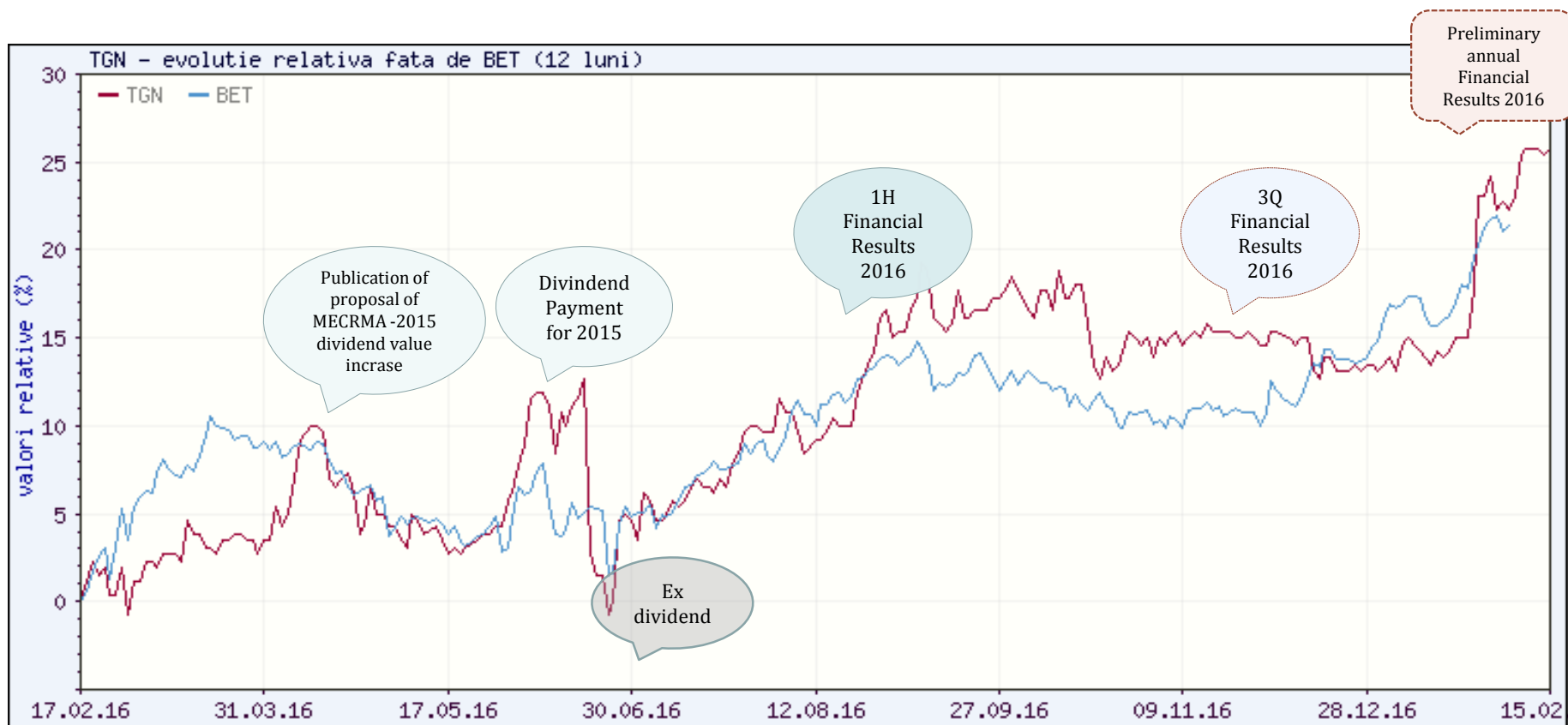


# Stock Exchange TGN Evolution (1)

## Shareholders structure



# Stock Exchange TGN Evolution (2)

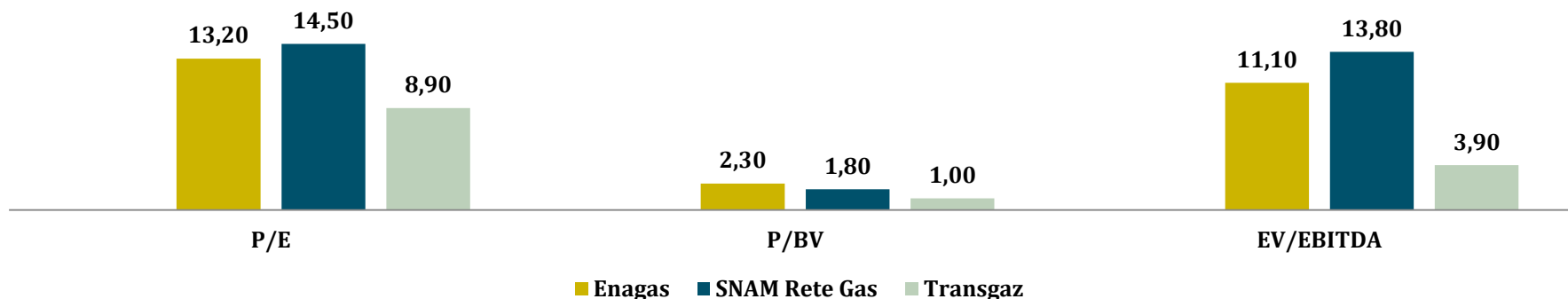
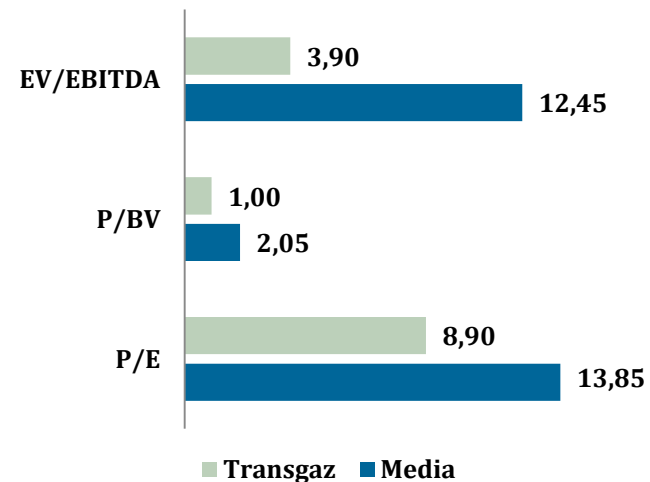




# TRANSGAZ COMPARED TO PEERS

17

Company	Country	P/E	P/BV	EV/EBITDA
Enagas	Spain	13,2	2,3	11,1
SNAM Rete Gas	Italy	14,5	1,8	13,8
<b>Media</b>		<b>13,85</b>	<b>2,05</b>	<b>12,45</b>
Transgaz	Romania	8,9	1,0	3,9
<b>Premium /Discount</b>		<b>36%</b>	<b>51%</b>	<b>69%</b>





**Thank you for your kind attention!**

