



THE ROMANIAN GAS TRANSMISSION SYSTEM OPERATOR

1

PRELIMINARY FINANCIAL STATEMENTS FOR 2017 (UNAUDITED) Prepared in accordance with IFRS -UE

1. Preliminary Income statement as of 31.12.2017

2. Preliminary Balance sheet as of 31.12.2017

3. Main revenue drivers

4. Main costs drivers

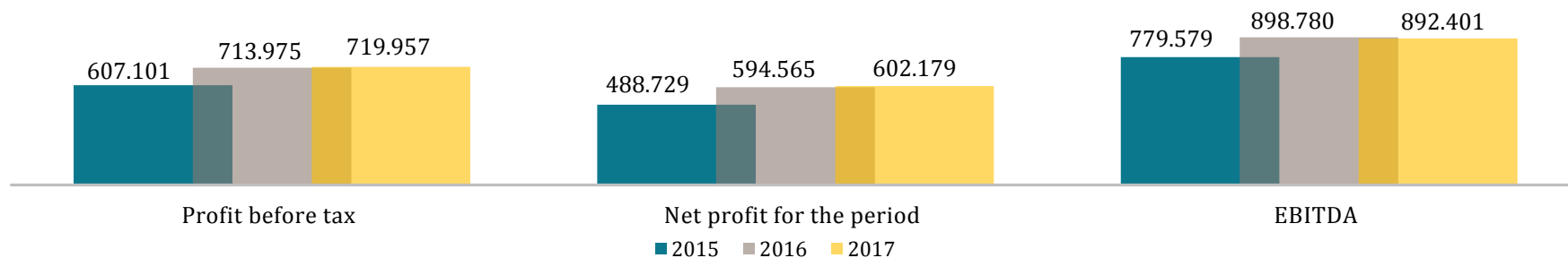
5. Main business drivers

6. Main indicators

1. Preliminary income statement as of 31.12.2017 (1)

3

THOUSAND LEI	2015	2016	2017	Changes 2017/2016	
				Absolute	Relative
Operational income before the balancing and construction activity according to IFRIC12	1,663,398	1,815,385	1,748,372	- 67,013	-4%
Revenue from the balancing activity	0	57,404	129,056	71,652	125%
Income from the construction activity according to IFRIC12	211,125	118,504	63,950	-54,554	-46%
Financial income	43,237	32,231	190,577	158,346	491%
Operational costs before the balancing and construction activity according to IFRIC12	1,077,219	1,125,268	1,070,401	-54,867	-5%
Expenses with balancing gas	0	56,093	129,056	72,963	130%
Cost of assets constructed according to IFRIC12	211,125	118,504	63,950	-54,554	-46%
Financial expenses	22,315	9,683	148,590	138,907	1,434%
Profit before tax	607,101	713,975	719,957	5,982	1%
Profit tax expense	118,372	119,410	117,779	-1,631	-1%
Net profit for the period	488,729	594,565	602,179	7,614	1%
EBITDA	779,579	898,780	892,401	-6,379	-1%
Turnover	1,581,470	1,750,203	1,808,448	58,245	3%

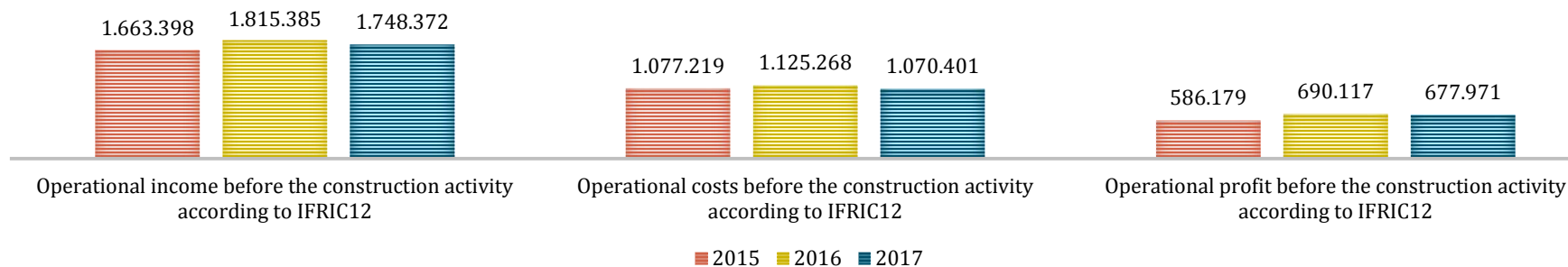


1. Preliminary income statement as of 31.12.2017 (2)

OPERATING ACTIVITY

4

THOUSAND LEI	2015	2016	2017	Changes 2017/2016	
				Absolute	Relative
Revenues from domestic gas transmission activity	1,259,788	1,360,355	1,338,047	-22,308	-2%
Revenues from international gas transmission activity	318,752	328,571	333,290	4,719	1%
Other revenues	84,858	126,459	77,036	-49,423	-39%
Operational income before the balancing and construction activity according to IFRIC12	1,663,398	1,815,385	1,748,372	-67,013	-4%
Employees costs	357,731	369,161	384,981	15,820	4%
Technological consumption, materials and consumables used	106,966	110,011	105,029	-4982	-5%
Expenses with royalties	157,854	168,893	167,134	-1,759	-1%
Maintenance and transport	33,181	29,569	27,398	-2,171	-7%
Taxes and other amounts owed to the State	70,183	67,544	71,564	4,020	6%
Revenues/ Expenses with provision for risks and expenses	1,255	1,707	-431	x	x
Other operating expenses	159,160	169,718	100,296	-69,422	-41%
Depreciation	193,401	208,663	214,430	5,767	3%
Operational costs before the balancing and construction activity according to IFRIC12	1,077,219	1,125,268	1,070,401	-54,867	-5%
Operational profit before the balancing and construction activity according to IFRIC12	586,179	690,117	677,971	-12,146	-2%

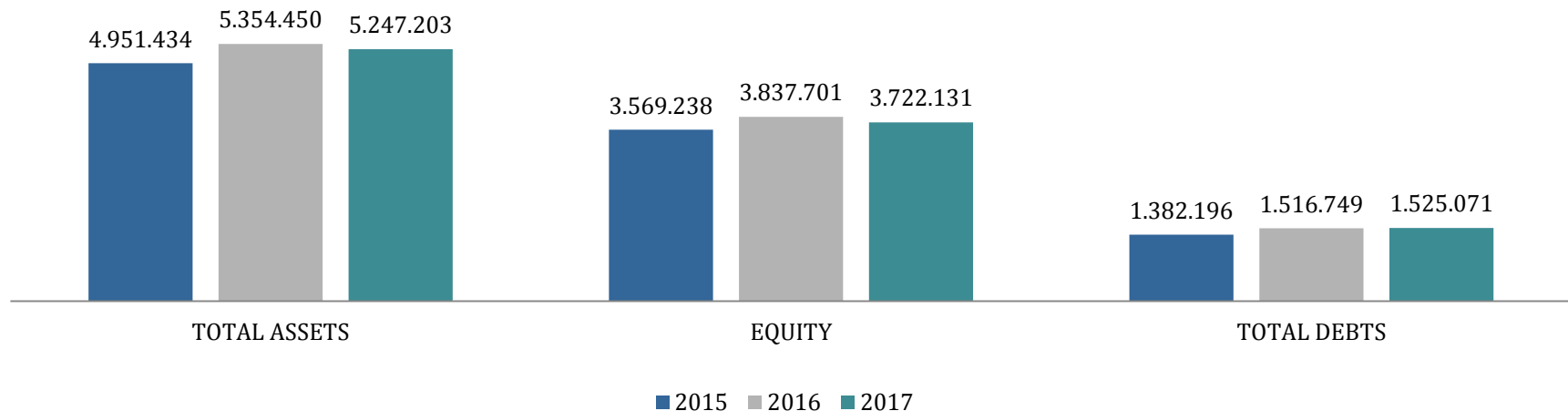


2. Interim Balance Sheet as of 31.12.2017

5

Thousand RON	2015	2016	2017	Changes 2017/2016	
				Absolute	Relative
Fixed assets	3,814,118	3,797,954	3,717,003	-80,951	-2%
Current assets	1,137,316	1,556,496	1,530,200	-26,296	-2%
Total assets	4,951,434	5,354,450	5,247,203	-107,247	-2%
Equity	3,569,238	3,837,701	3,722,131	-115,570	-3%
Long term debts	1,104,863	1,211,416	1,256,629	45,213	4%
Current debts	277,333	305,332	268,442	-36,890	-12%
Total debts	1,382,196	1,516,749	1,525,071	8,322	1%
Total equity and debts	4,951,434	5,354,450	5,247,203	-107,247	-2%

Thousand RON



CURRENT ASSETS LOW 2 %

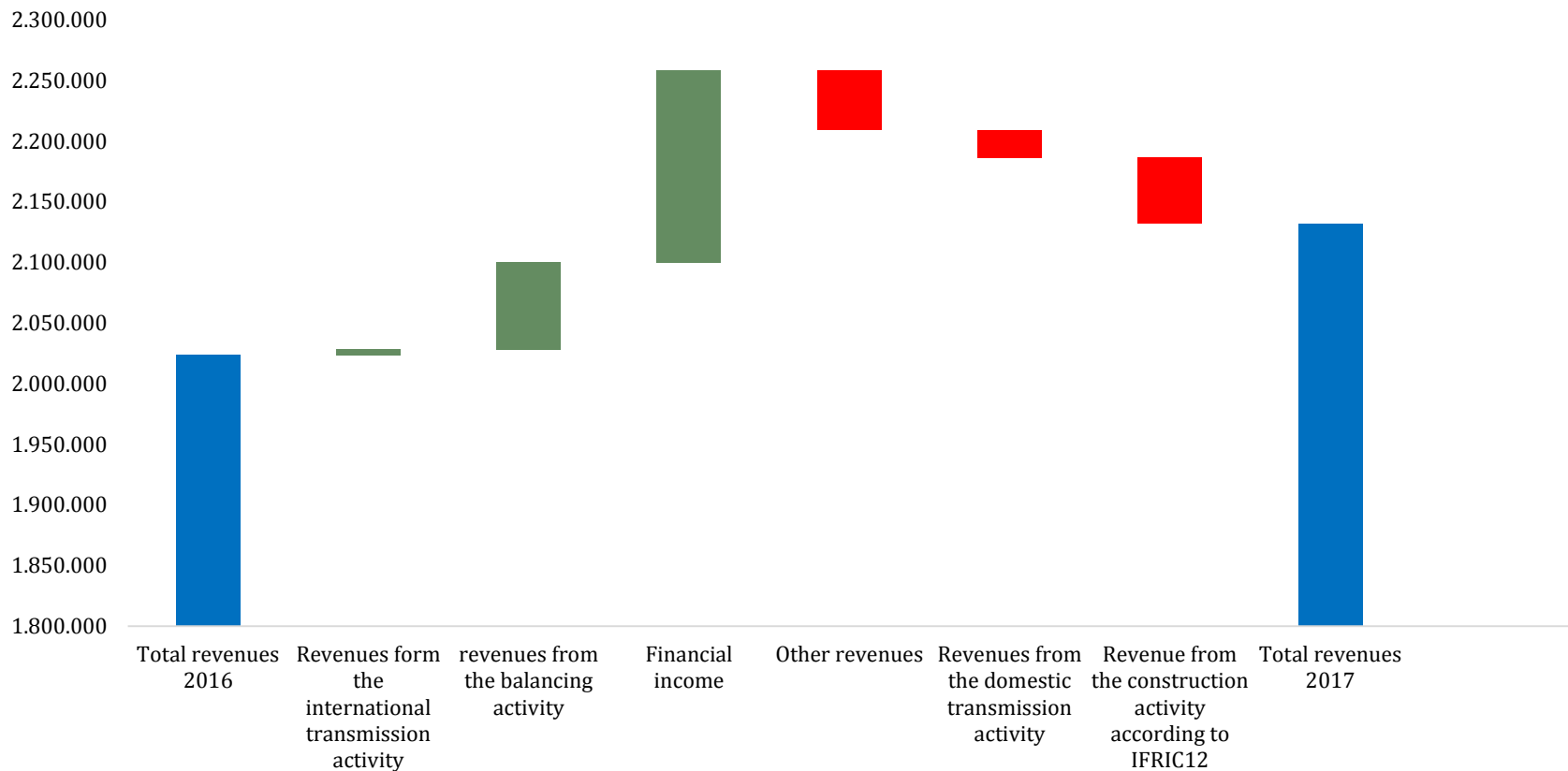
TOTAL ASSETS & TOTAL EQUITY & DEBTS LOW 2 %

12% LOWER CURRENT DEBTS

3. Main revenue drivers (1)

6

Total Revenue 2017 vs. 2016 (000 RON)



3. Main revenue drivers (2)

Operating revenue before the balancing activity and the construction activity, according to IFRIC12 decreased by 4 % as compared to the corresponding period of year 2016, which is lower by RON 67.012 thousand.

7

The revenue was influenced mainly by the following factors:

- capacity booking revenue lower by **RON 6.818 thousand** due to:
 - booked capacity lower by 124.355.410 MWh, with a negative influence of 239.145 thousand lei
 - capacity booking tariff higher by 0,729 lei/MWh based on the increase in short-term bookings, with a positive influence of 232.327 thousand lei
- commodity component revenue lower by **RON 15.490 thousand** due to:
 - the commodity tariff lower by 0,348 lei/MWh with a negative influence of 49.919 thousand lei caused by the decrease of the variable component share in the total revenue from 40% to 35%;
 - the quantity of transmitted gas higher than as opposed to 2016 by 8.321.654 MWh /795.231 thousand cm (▲6%), detailed by categories of consumers as follows:

		12 months 2016	12 months 2017	Differences
Quantity transmitted for direct consumers	MWh	53.346.659	59.201.654	5.854.995
	thousand m ³	4.968.826	5.537.653	568.827
Quantity transmitted for distribution	MWh	76.439.715	78.906.375	2.466.660
	thousand m ³	7.105.851	7.332.255	226.404
Total	MWh	129.786.374	138.108.028	8.321.654
	thousand m ³	12.074.677	12.869.908	795.231

Starting with the sixth year of the third regulatory period (2017 – 2018), the total revenue at the basis of the tariff setting for the transmission activity is allocated 65% for the fix component and 35% 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 4.719 thousand** due to the changes in the foreign currency of the contracts and to the application of ANRE Order 34/19 July 2016;
- other operating revenue lower by **RON 49.423 thousand**, mainly due to the prescription in 2016 of default interest related to the dividends received in arrears for the period 2000-2003, amounting to RON 51.718 thousand, revenues which are not to be found in the achievements of 2017.
- Revenue from balancing higher by Lei 71.652 thousand due to the following factors:
 - higher gas amount by 761.271 MWh with a positive influence of Lei 59.225 thousand
 - trading price higher by 8,29 lei MWh, with a positive influence of Lei 12.427 thousand
- Revenue from the construction activity lower by **RON 54.554 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;

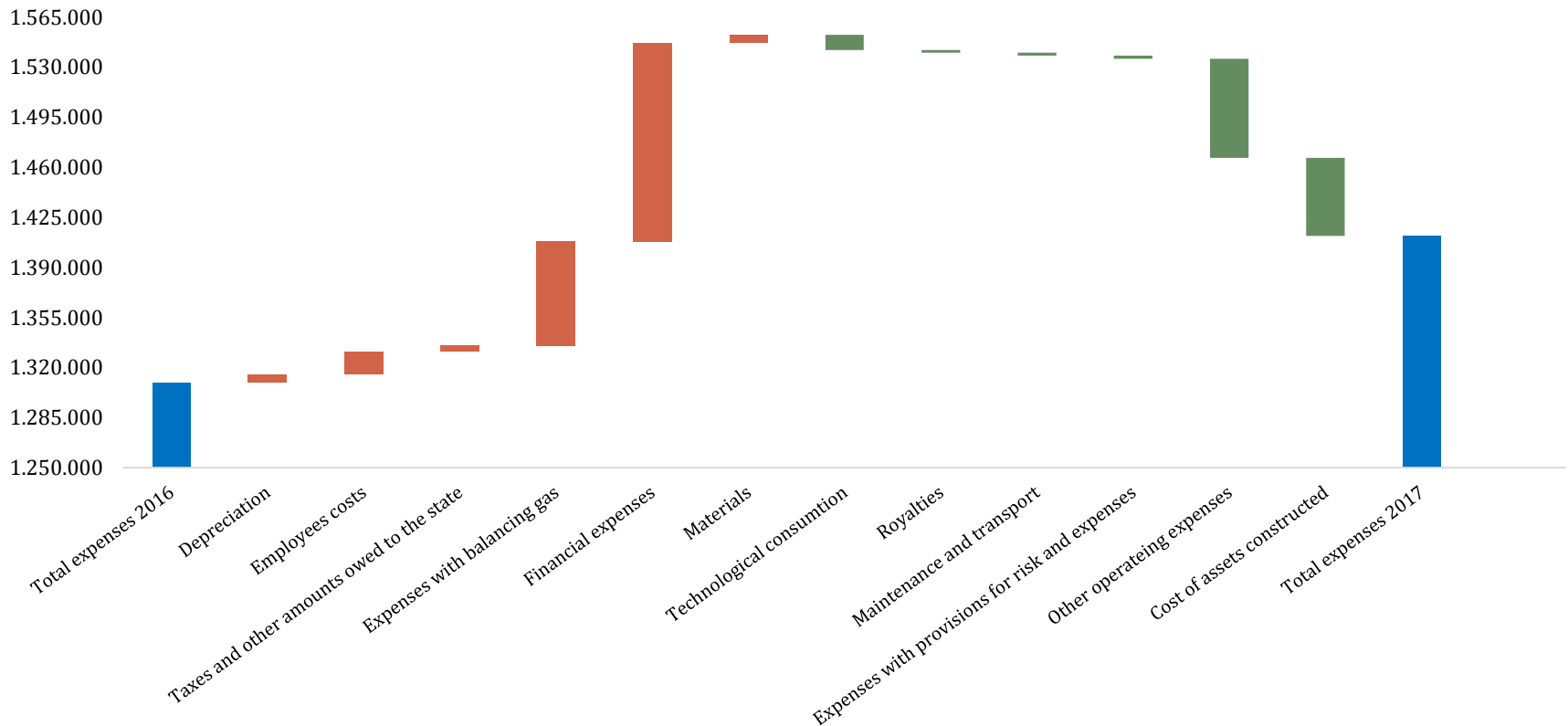
Financial revenues with a positive influence of **Lei 158.346 thousand** due to the return to the revenues of the provision made-up for the impairment of Transgaz' participation in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138.544.435. In September 2017, the Commercial Court of Vienna issued the resolution contemplating that Nabucco Gas Pipeline International GmbH (NIC) was disincorporated and, on 30 September 2017, the company removed the asset in amount of Lei 138.544.435 from its accounting records and returned to the revenues the provision made-up in the previous years in the same amount.

Operating revenue before the balancing activity and the construction activity, according to IFRIC12 decreased by 4% as compared to the corresponding period of year 2016

4. Main costs drivers (1)

8

Total expenses 2017 vs. 2016 (000 RON)



4. Main costs drivers (2)

Operating costs before the balancing and the construction activity, according to IFRIC12 decreased by 5% as compared to 2016, which is lower by RON 54.866 thousand.

The company made savings of RON 86.066 thousand, mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss decreased by **RON 10.575 thousand** due to the following:
 - amount of gas for technological consumption lower by 171.425 MWh/ 13.631 thousand m³ (▼14%), with a positive influence of RON 12.218 thousand;
 - average purchase price for 2017 is higher by RON 1,62/MWh as compared to 2016, with a negative influence of RON 1.642 thousand;
- Maintenance and transport: Lei 2.172 thousand
- Royalty expenses: Lei 1.759 thousand
- Other operating expenses: Lei 71.560 thousand mainly due to the reduction of provisions for risks and expenses and for the impairment of current assets (-Lei 74.865 thousand).

		2017	2016	Change
Quantities of technological consumption	MWh	1,012,875	1,184,300	-171,425
	thousand m ³	95,242	108,874	-13,632

Overruns amounting to Lei 31.200 thousand were recorded mainly with respect to the following cost elements:

- fixed asset depreciation cost: Lei 5.767 thousand;
- cost of personnel: Lei 15.820 thousand;
- charges and tax costs: Lei 4.020 thousand;
- auxiliary materials and other material costs: Lei 5.593 thousand.

The financial cost is higher by **RON 138.907 thousand** due to the fact that, on 30 September 2017, the company removed the asset, in amount of Lei 138.544.435, representing Transgaz' share in the share capital of Nabucco Gas International Company GmbH from its accounting records.

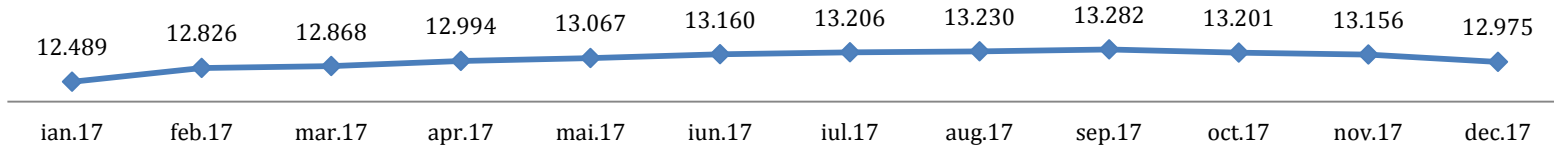
As compared to the gross profit obtained in 2016, the estimated gross profit for 2017 increased by 1%, which is higher by RON 5.983 thousand.

Operating costs before the balancing and the construction activity, according to IFRIC12 decreased by 5% as compared to 2016

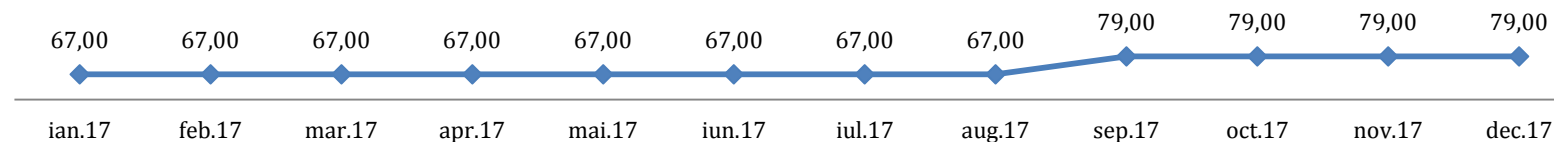
5. Main business drivers

10

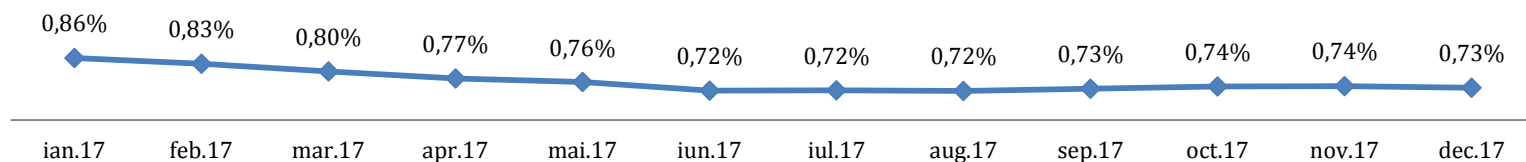
Natural gas volumes circulated (including storage quantities) - mil.cm - rolling 12 months



Natural gas acquisition price for technological consumption - RON/MWh



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



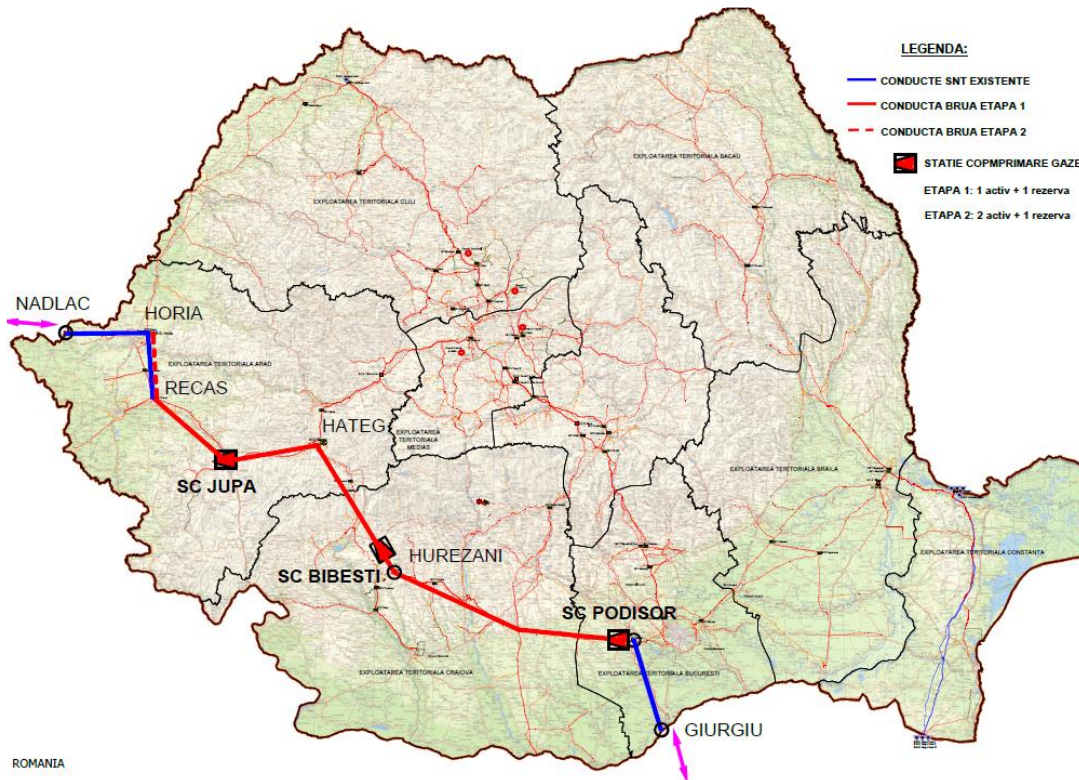
		2017 Quarter I	2017 Quarter II	2017 Quarter III	2017 Quarter IV	
Circulated gas, our of which:	MWh	47.707.788,887	26.508.656,090	25.533.982,957	39.473.538,924	
	thousand m ³	4.440.162,309	2.469.093,702	2.378.777,717	3.686.784,955	
	- storage	MWh	121.323,382	7.813.470,756	9.874.283,402	1.416.650,351
	thousand m ³	11.219,631	727.606,280	916.593,272	132.680,303	
Circulated gas storage share		0,25%	29,48%	38,67%	3,59%	

5. MAIN BUSSINESS DRIVERS(2) - Strategic Investment Projects

11

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

Project of Common Interest 7.1.5 according to first PCI list, 6.24.2 according to the second PCI list 2015 and 6.24.1 according to the third PCI list 2017



Purpose:

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

Capacity:

1.75 bscm/y to Hungary
1.5 bscm/y to Bulgaria

Required investments

- 32"x63 bar pipeline ~478 km
- 3 compressor stations, each station being equipped with 2 compressor units

Total estimated costs

Around Euro479 million

E.U. contribution:

- Euro1.5 million -to finance the design of the 3 compressor stations;
- Euro 179 million - to finance the implementing works related to BRUA Phase 1

Final Investment Decision - 2016

Estimated Commissioning December 2019

Linking Romania To Neighboring Transit

5. MAIN BUSSINESS DRIVERS(3) – Strategic Investment Projects

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 and 6.24.4 according to the third PCI list 2017

Purpose:

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

Capacity increase:

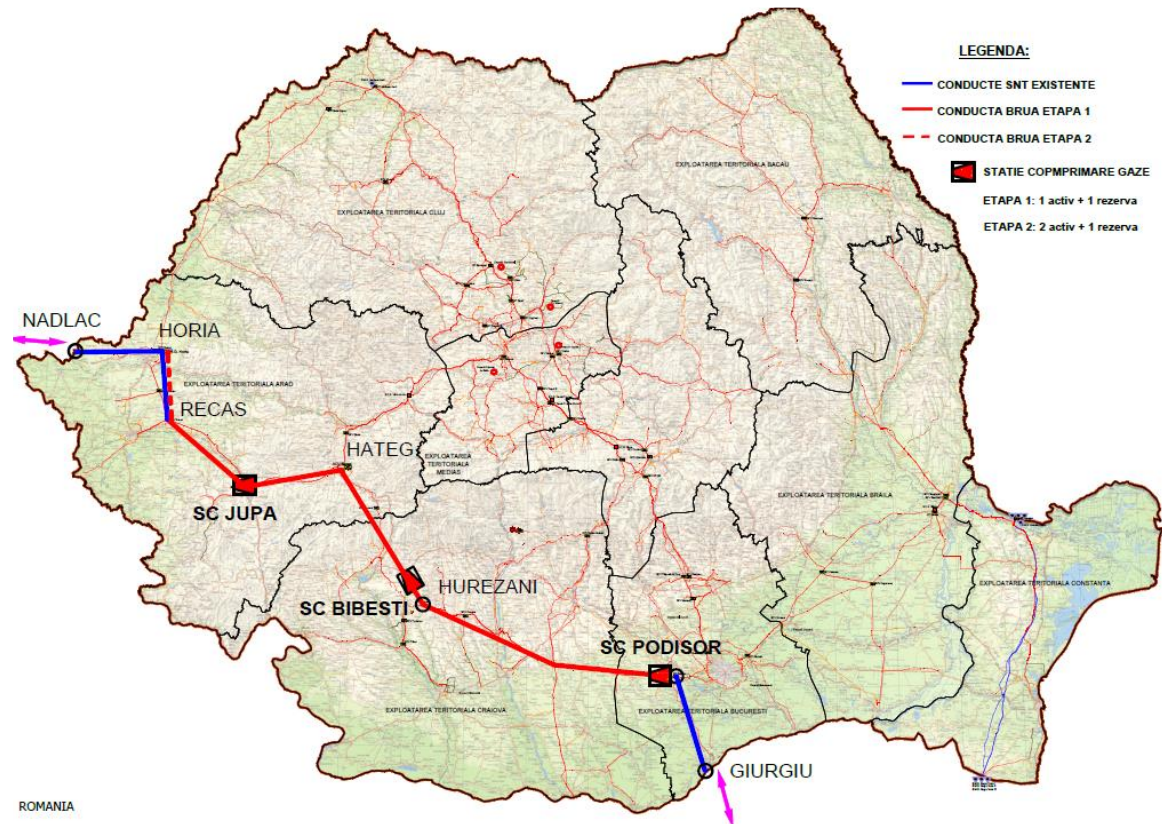
From 1.75 bscm/y to 4.4 bcm/y to Hungary

Required investments

- 32"x63 bar pipeline ~50 km
- Capacity increase of 3 compressor stations (Podișor, Bibești, Jupa)
- Capacity increase of the metering station (GMS Horia)

Total estimated costs

Around Euro 69 million



Estimated Commissioning 2022, in accordance with the calendar of the Binding Open Season Procedure for capacity booking

5. MAIN BUSINESS DRIVERS (4) - Strategic Investment Projects

13

Access To Black Sea New Gas Supply Project of Common Interest (conditional) 6.24.8 and 6.24.4 according to the third PCI list 2017

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

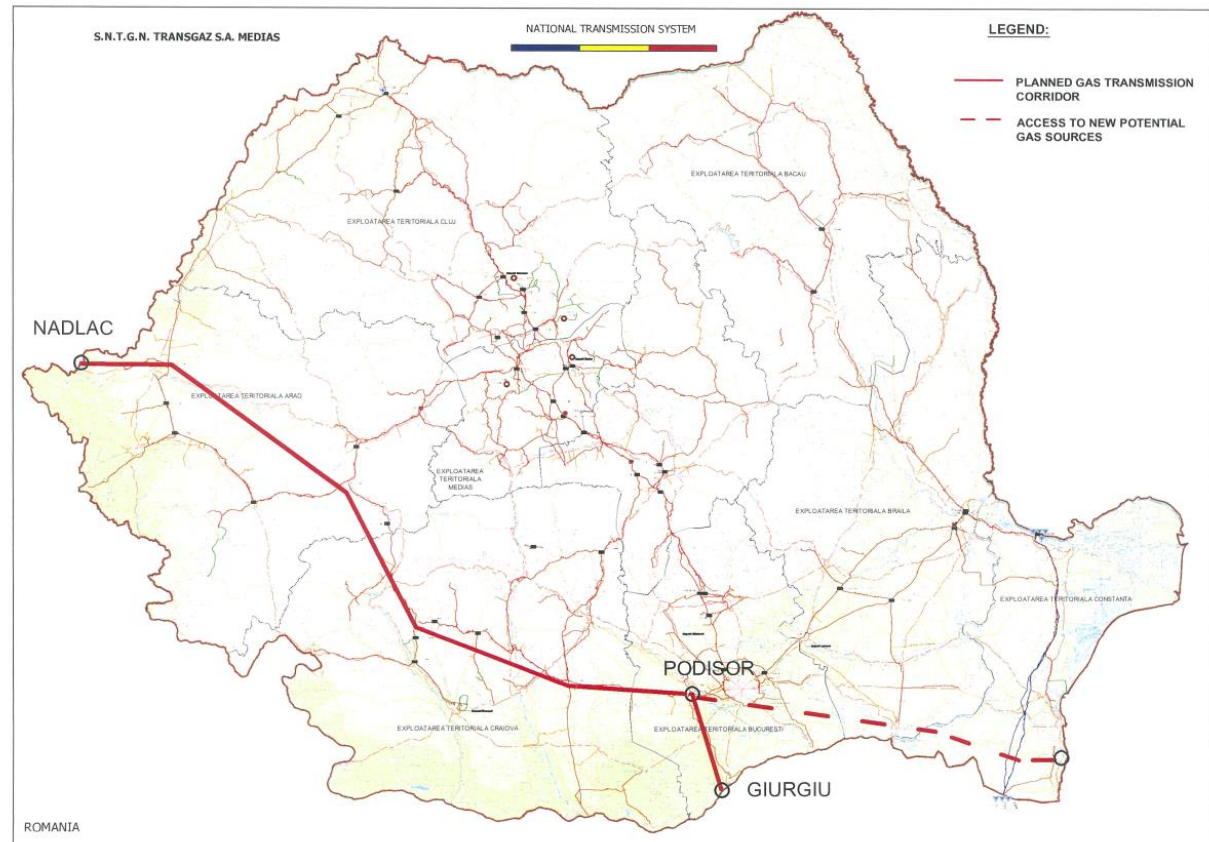
Required investments:

New pipeline section with a total length of 308 km

Estimated investment cost:

298 mil Euro

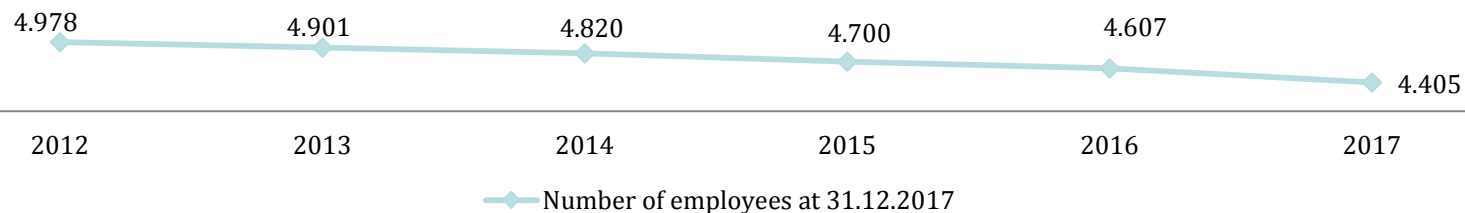
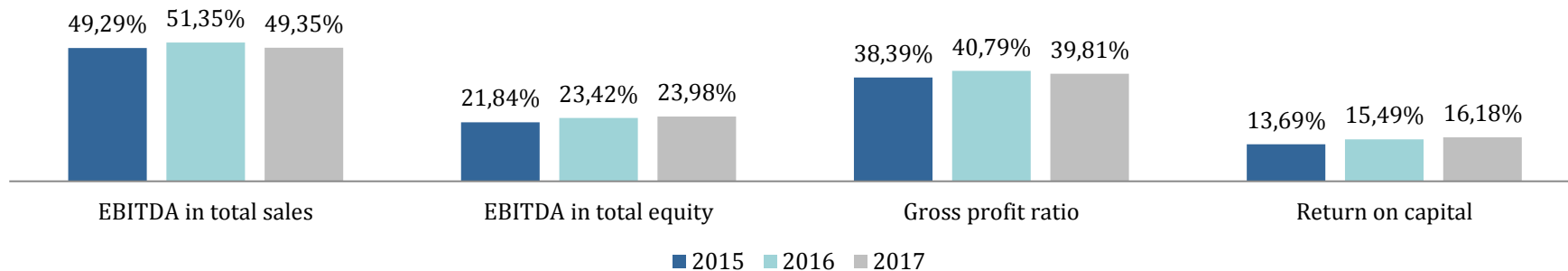
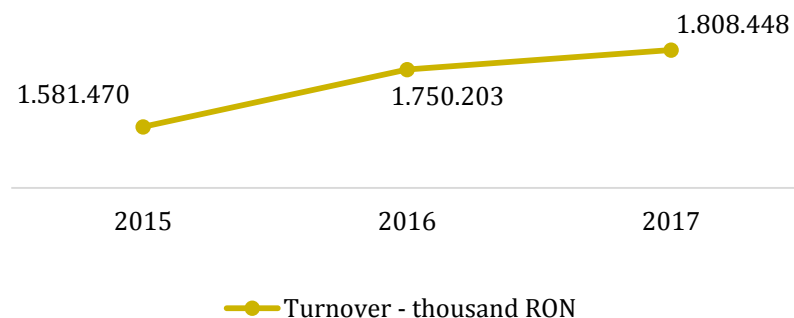
Estimated completion: 2020



6. MAIN INDICATORS (1)

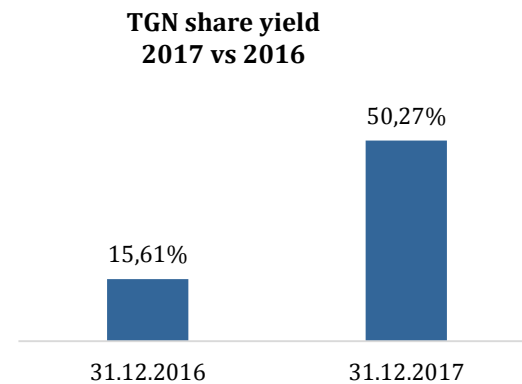
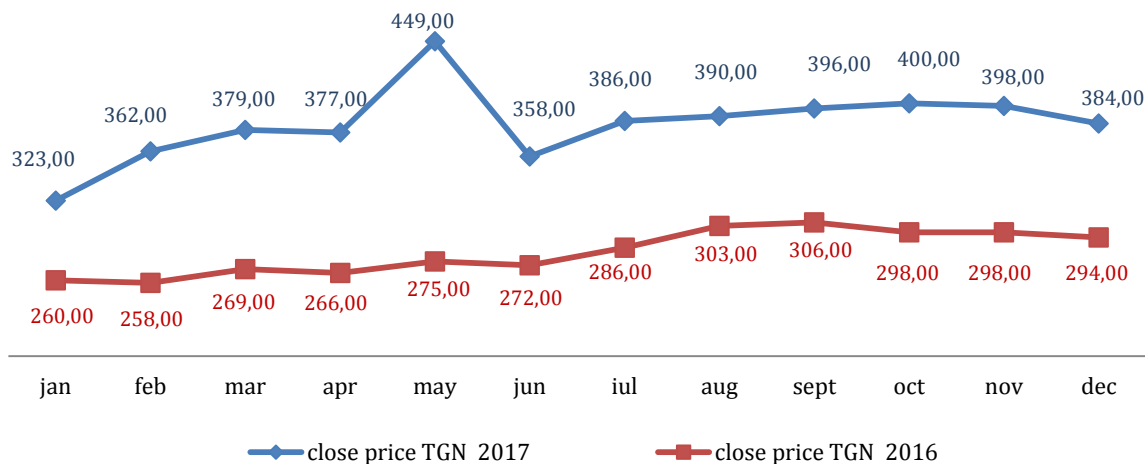
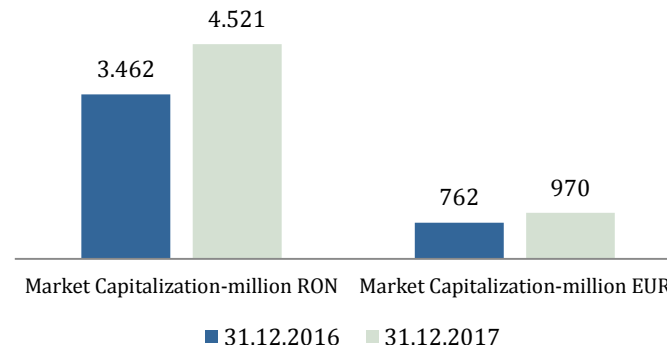
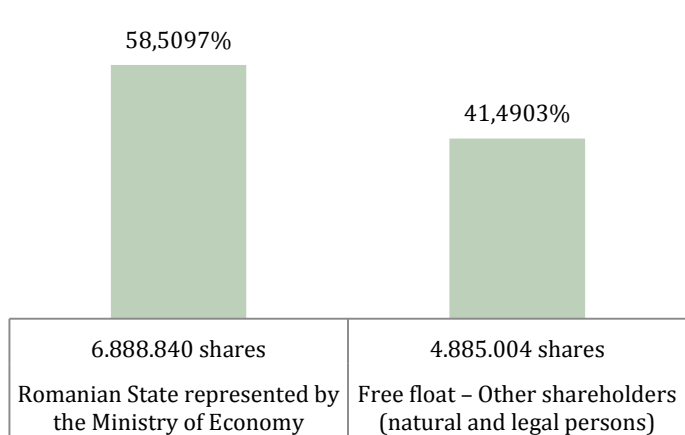
14

	2015	2016	2017
EBITDA in total sales	49.29%	51.35%	49.35%
EBITDA in total equity	21.84%	23.42%	23.98%
Gross profit ratio	38.39%	40.79%	39.81%
Return on capital	13.69%	15.49%	16.18%
Current liquidity ratio	4.10	5.10	5.70
Quick liquidity ratio	3.83	4.82	5.38
Gearing	0.00%	0.00%	1.88%
Interest coverage ratio	1,903.61	-	9,112.14
Turnover speed for clients debit -days	99.56	125.88	142.20
Turnover speed for credit providers -days	19.32	17.64	19.19

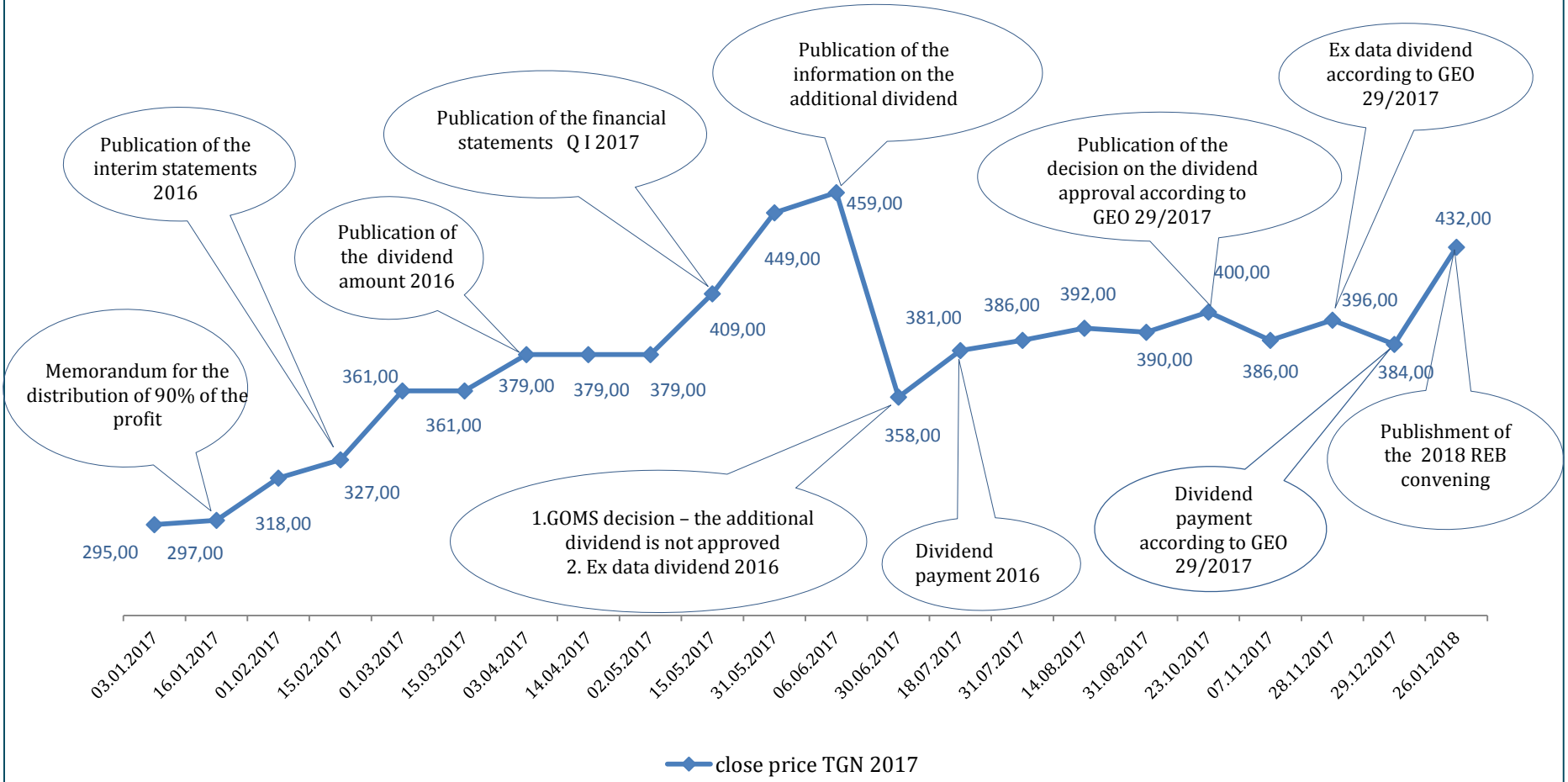


Stock Exchange TGN Evolution (1)

Shareholders structure



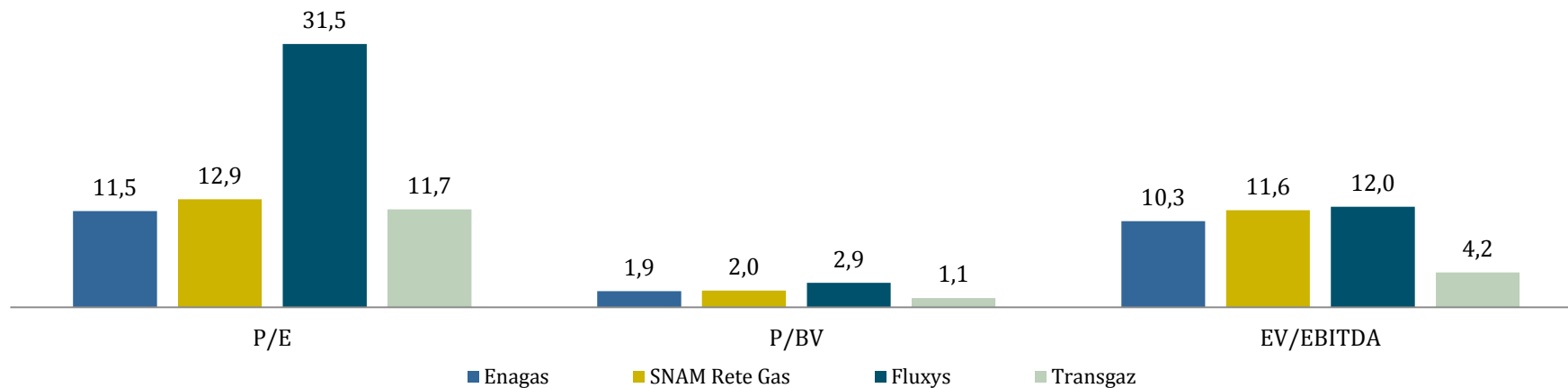
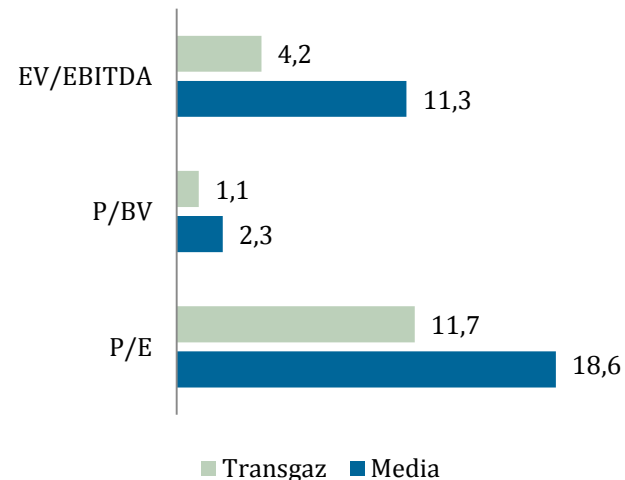
Stock Exchange TGN Evolution (2)



TRANSGAZ COMPARED TO PEERS

Company	Country	P/E	P/BV	EV/EBITDA
Enagas	Spain	11.5	1.9	10.3
SNAM Rete Gas	Italy	12.9	2.0	11.6
Fluxys	Belgia	31.5	2.9	12.0
Media		18,6	2,3	11,3
Transgaz	Romania	11.7	1.1	4.2
Premium /Discount		37%	52%	63%

source: Bloomberg 06.02.2018





Thank you for your kind attention!

