TRANSGAZ
MAGISTRALA ENERGIEI

THE ROMANIAN GAS TRANSMISSION SYSTEM OPERATOR

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED JUNE 30,2016(UNAUDITED)

PREPARED IN ACCORDANCE WITH IFRS -UE

2016, August 19

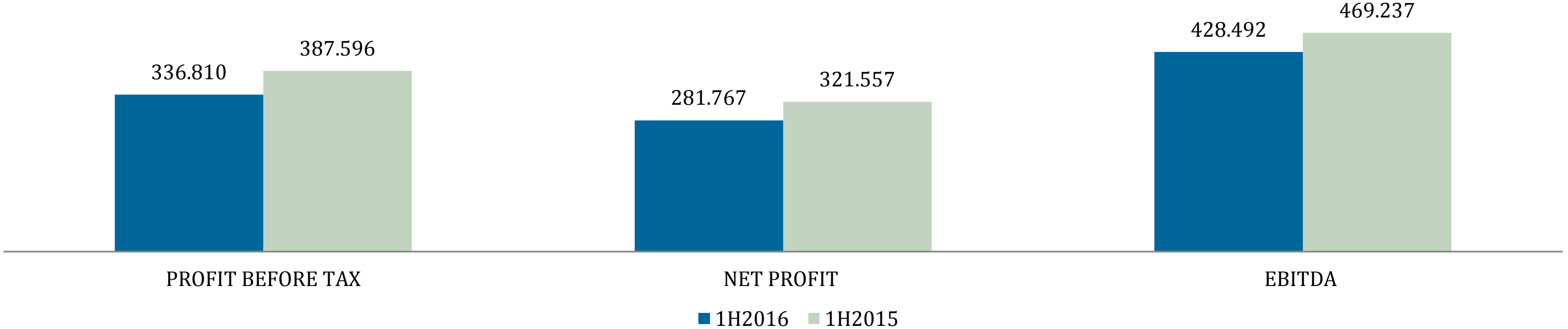
Summary

1. Interim Income statement as of 30.06.2016 (1)

MAIN INDICATORS
1H2016 compared to 1H2015

COMPREHENSIVE INCOME - RON	1H2016 unaudited	1H2015 unaudited retreated	Changes 1H2016/1H2015 Absolute	Relative
Operational revenue before the construction activity according to IFRIC12	892,480,605	848,131,557	44,349,048	5%
Income from the construction activity according to IFRIC12	33,671,167	41,884,866	-8,213,699	-20%
Financial income	14,624,562	17,472,765	-2,848,203	-16%
Operational costs before the construction activity according to IFRIC12	567,373,315	474,534,232	92,839,083	20%
Cost of assets constructed according to IFRIC12	33,671,167	41,884,866	-8,213,699	-20%
Financial expenses	2,921,371	3,473,945	-552,574	-16%
Profit before tax	**336,810,481**	**387,596,145**	**-50,785,664**	**-13%**
Income tax expenses	57,297,625	68,513,529	-11,215,904	-16%
Deferred tax income	2,253,982	2,474,378	-220,396	-9%
Net profit for the period	**281,766,838**	**321,556,994**	**-39,790,156**	**-12%**
EBITDA	**428,491,547**	**469,236,509**	**-40,744,962**	**-9%**
Turnover	814,535,286	820,381,660	-5,846,374	-1%

Thousand RON

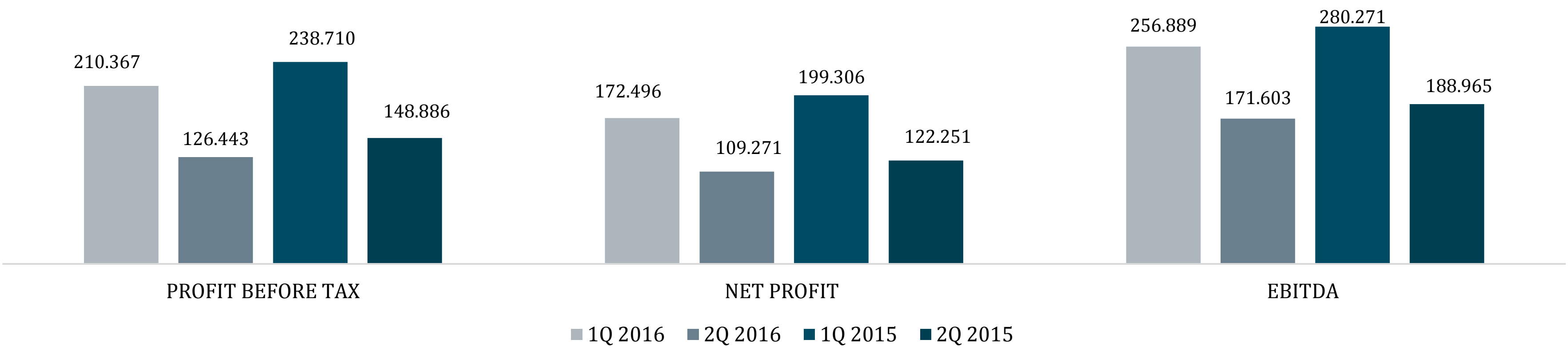


1. Interim Income statement as of 30.06.2016 (2)

MAIN INDICATORS
1Q2016 & 2Q2016 compared to 1Q2015 & 2Q2015

THOUSAND RON	1Q 2016	2Q 2016	1Q 2015	2Q 2015
Operational revenue before the construction activity according to IFRIC12	482,369	410,112	462,852	385,280
Income from the construction activity according to IFRIC12	7,300	26,371	15,727	26,158
Financial income	6,982	7,642	8,430	9,043
Operational costs before the construction activity according to IFRIC12	276,849	290,525	230,388	244,146
Cost of assets constructed according to IFRIC12	7,300	26,371	15,727	26,158
Financial expenses	2,135	786	2,184	1,290
Profit before tax	**210,367**	**126,443**	**238,710**	**148,886**
Profit tax expense	37,871	17,173	39,404	26,635
Net profit for the period	**172,496**	**109,271**	**199,306**	**122,251**
EBITDA	**256,889**	**171,603**	**280,271**	**188,965**
Turnover	470,226	344,309	449,832	370,550

Thousand RON



1. Interim Income statement as of 30.06.2016 (3)

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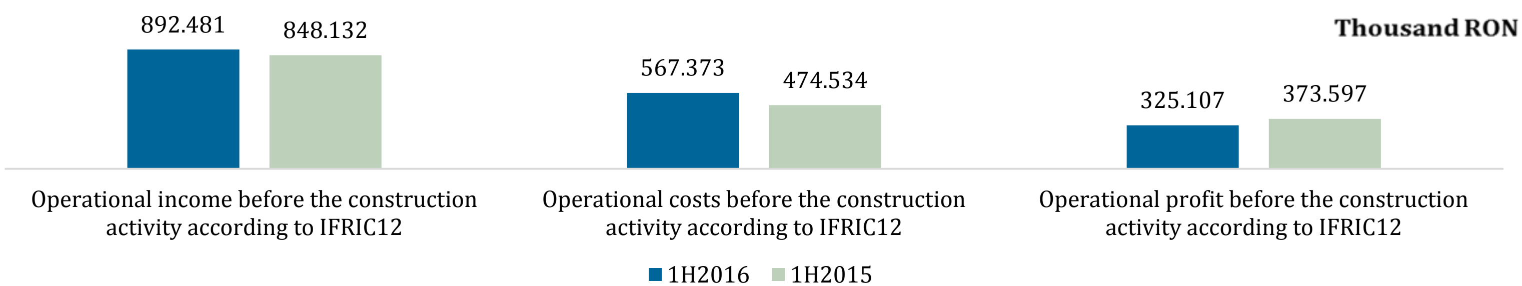
OPERATING ACTIVITY

COMPREHENSIVE INCOME - RON	1H2016 unaudited	1H2015 unaudited retreated	Changes 1H2016/1H2015 Absolute	Relative
Revenues from the domestic transmission activity	630,318,247	660,192,988	-29,874,741	-5%
Revenues from the international transmission activity	160,727,757	158,798,414	1,929,343	1%
Revenues from the balancing activity	22,012,034	-	22,012,034	-
Other revenues	79,422,567	29,140,155	50,282,412	173%
Operational revenue before the construction activity according to IFRIC12	**892,480,605**	**848,131,557**	**44,349,048**	**5%**
Employees costs	179,915,930	173,310,450	6,605,480	4%
Technological consumption, materials and consumables used	64,362,448	34,142,702	30,219,746	89%
Expenses with balancing gas	20,948,122	-	20,948,122	-
Expenses with royalties	79,100,122	81,899,141	-2,799,019	-3%
Maintenance and transport	13,824,044	17,408,099	-3,584,055	-21%
Taxes and other amounts owed to the state	29,852,315	33,296,774	-3,444,459	-10%
Revenues / (Expenses) with provisions for risks and expenses	16,511,542	-8,415,685	24,927,227	-296%
Other operating expenses	59,474,536	47,253,566	12,220,970	26%
Depreciation	103,384,256	95,639,185	7,745,071	8%
Operational costs before the construction activity according to IFRIC12	**567,373,315**	**474,534,232**	**92,839,083**	**20%**
Operational profit before the construction activity according to IFRIC12	**325,107,290**	**373,597,325**	**-48,490,035**	**-13%**



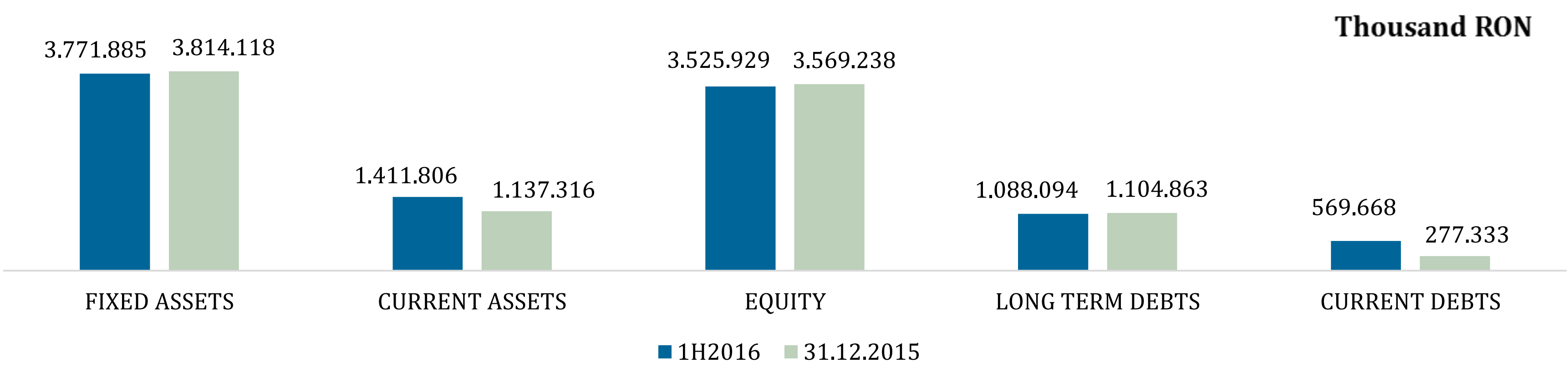
Operational revenue before the construction activity according to IFRIC12 increased by 5%

Operational costs before the construction activity according to IFRIC12 increased by 20%

Operational profit before the construction activity according to IFRIC12 decreased by 13%

2. Interim Balance Sheet as of 30.06.2016

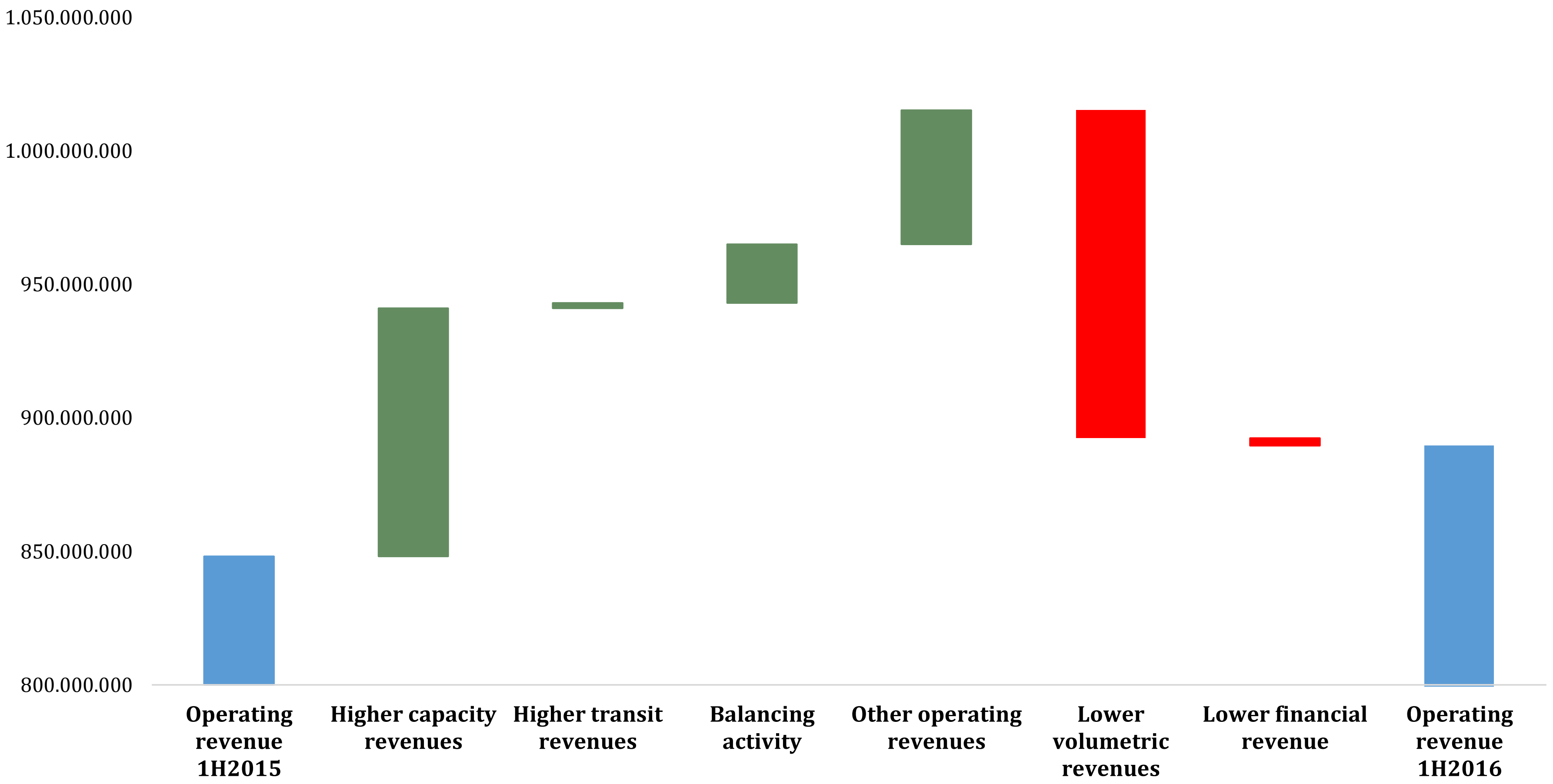
Thousand RON	1H2016	31/12/2015	Changes Absolute	Relative
FIXED ASSETS	3,771,885	3,814,118	-42,233	-1%
CURRENT ASSETS	1,411,806	1,137,316	274,490	24%
TOTAL ASSETS	**5,183,691**	**4,951,434**	**232,257**	**5%**
EQUITY	3,525,929	3,569,238	-43,309	-1%
LONG TERM DEBTS	1,088,094	1,104,863	-16,769	-2%
CURRENT DEBTS	569,668	277,333	292,335	105%
TOTAL DEBTS	**1,657,762**	**1,382,196**	**275,566**	**20%**
TOTAL EQUITY & DEBTS	**5,183,691**	**4,951,434**	**232,257**	**5%**



TOTAL ASSETS & TOTAL EQUITY AND DEBTS UP 5% **CURRENT ASSETS UP 24 %** **CURRENT DEBTS UP 105 %**

3. Main revenue drivers (1)

REVENUES



3. Main revenue drivers (2)

Operating revenue before the construction activity according to IFRIC12 increased by 5% as compared to the corresponding period of year 2015, which is higher by **RON 44,349 thousand**.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by **RON 93,005 thousand** mainly due to:
  - the increase of the fix component share in the total revenue to 60%;
  - the invoicing of the booking capacity surplus for semester I 2016 amounting to RON 49,487 thousand according to Art. 3 (6) of ANRE Order 1/18.01.2016;
- volumetric component revenue lower by **RON 122,880 thousand** due to:
  - the decrease of the variable component share in the total revenue to 40%;
  - the decrease of the quantity of invoiced gas by 6,130,351 MWh (607,252 thousand m^3), detailed by categories of consumers as follows:

		1H 2016	1H 2015	Differences
Quantity transmitted for direct consumers	MWh	22,507,108	26,733,698	-4,226,590
	thousand m^3	2,100,774	2,514,729	-413,955
Quantity transmitted for distribution	MWh	40,480,865	42,384,625	-1,903,760
	thousand m^3	3,772,265	3,965,562	-193,297
Total	MWh	62,987,973	69,118,324	-6,130,351
	thousand m^3	5,873,039	6,480,291	-607,252

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:

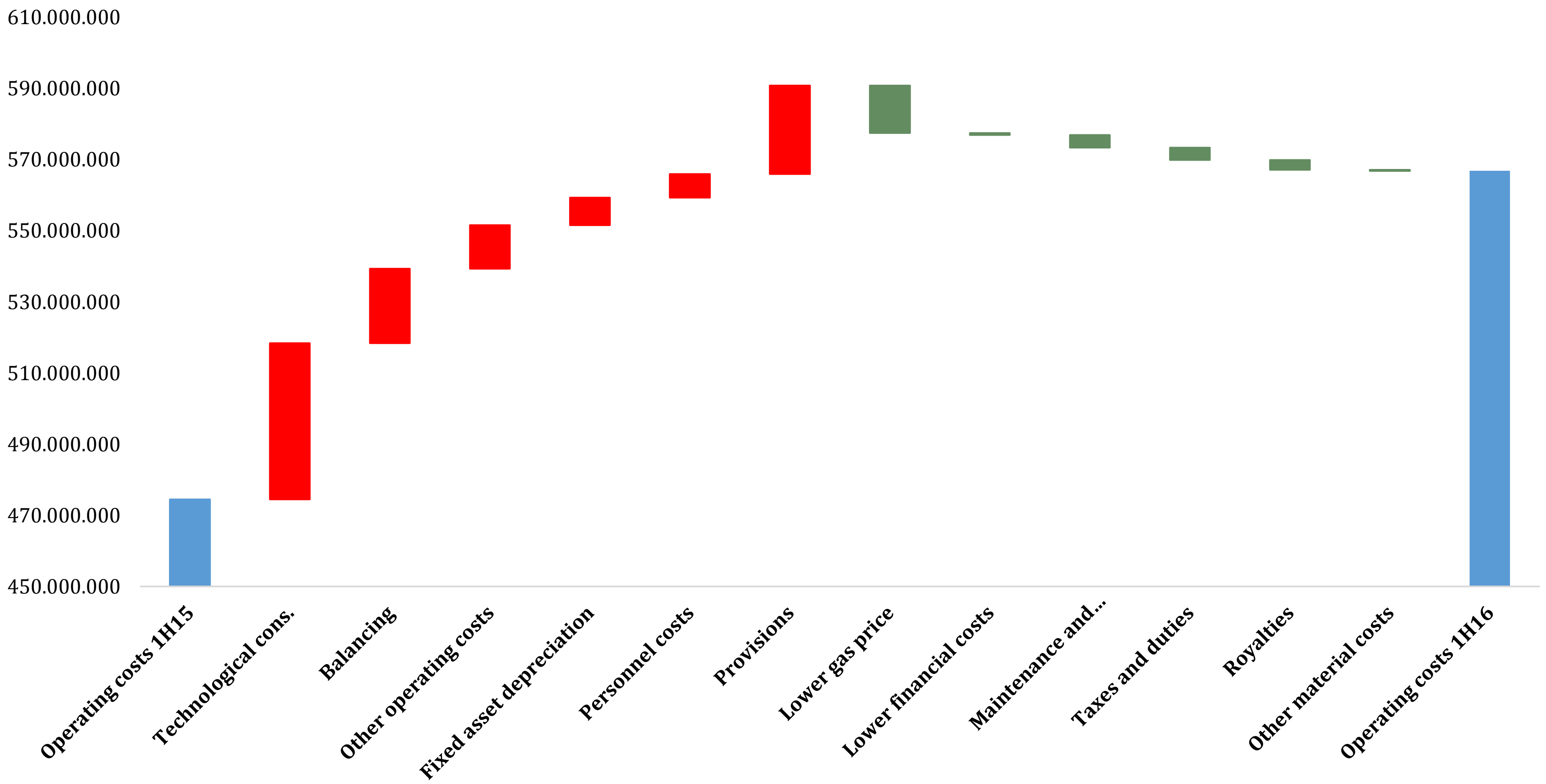
- *the decreasing of transmission revenue in winter quarters, based on the lowering of revenue from the volumes transmitted;*
- *the increasing of transmission revenue in summer quarters, based on the increasing of revenue from capacity booking, compared to the previous gas year.*

- international gas transmission revenue higher by **RON 1,929 thousand** due to the changes in the foreign currency of the contracts;
- revenue from the balancing activity according to ANRE Order 1/18.01.2016 amounting to **RON 22,012 thousand;**
- other operating revenue higher by **RON 50,282 thousand** to the prescribing of the delay increase for the payment of years 2000-2003 dividends paid with a delay;
- financial revenue with a negative influence of **RON 2,848 thousand** based on the changes in the foreign exchange rates.

Operating revenue before the construction activity according to IFRIC12 increased by **5%, RON 44,349 thousand**, compared to 1H 2015

4. Main costs drivers (1)

COSTS



4. Main costs drivers (2)

Operating costs before the construction activity according to IFRIC12 increased by 20% as compared to the corresponding period of year 2015, which is higher by **RON 92,839 thousand**.

The Company made savings of RON 10,162 thousand, mainly in relation to the following cost elements:

- maintenance and transportation: RON 3,584 thousand;
- tax and duties: RON 3,444 thousand;
- royalty: RON 2,799 thousand;
- auxiliary materials and other material costs: RON 335 thousand.

An expense surplus of RON 103,002 thousand was recorded mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **RON 30,555 thousand** due to the following factors**:**
  - amount of gas for technological consumption higher by 482,018 MWh/ 44,234 thousand m^3 (▲203%), as compared to semester I 2015, with a negative influence of RON 43,905 thousand;
  - average procurement price in semester I 2016 lower by RON 18.54/MWh as compared to semester I 2015, with a positive influence of RON 13,350 thousand;
- balancing activity cost: RON 20,948 thousand;
- other operating cost: RON 12,221 thousand;
- fixed asset depreciation cost: RON 7,745 thousand;
- cost of personnel: RON 6,605 thousand;
- provision for risk and charges: RON 24,927 thousand.

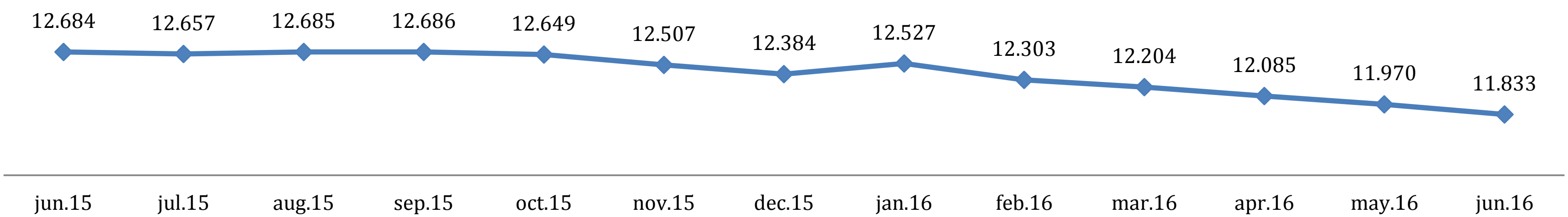
The financial cost is lower by **RON 553 thousand** based on the foreign exchange gain.

As compared to the gross profit obtained on 30 June 2015 the gross profit in 1H 2016 decreased by 13%, which is lower by RON 50,786 thousand.

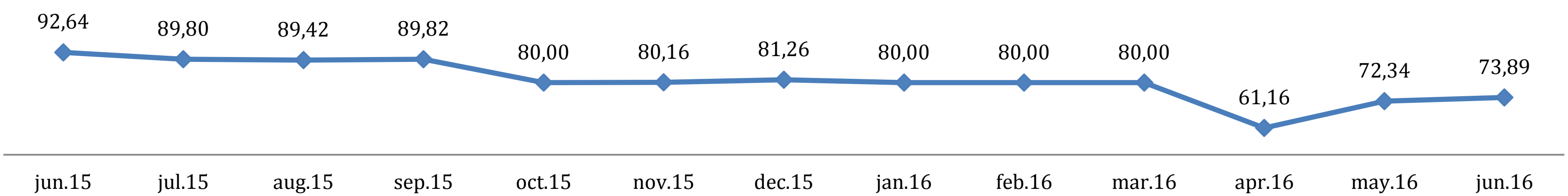
Operating costs before the construction activity according to IFRIC12 increased by **20%, RON 92,839 thousand**, compared to 1H 2015

5. Main business drivers

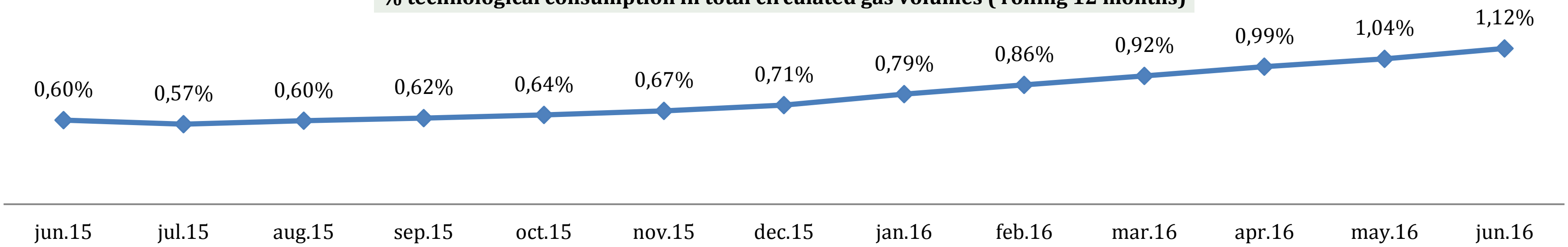
Natural gas volumes transported (including storage quantities) - mill.cm - rolling 12 months



Natural gas acquisition price for technological consumption – RON/MWh



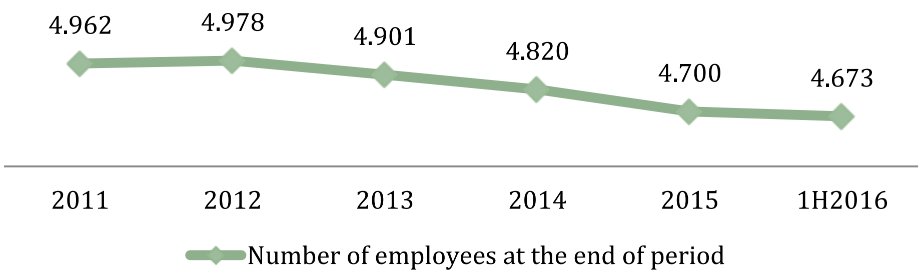
% technological consumption in total circulated gas volumes (rolling 12 months)

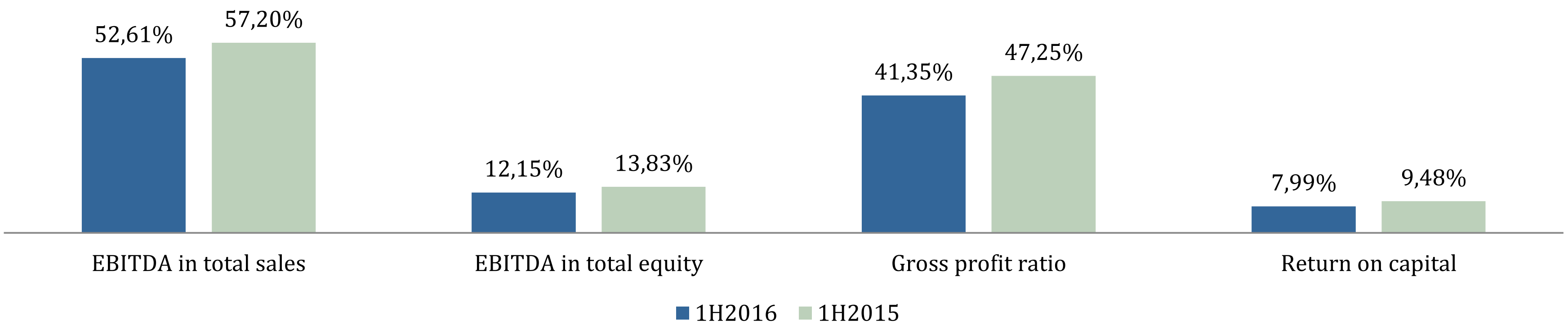


6. Main indicators

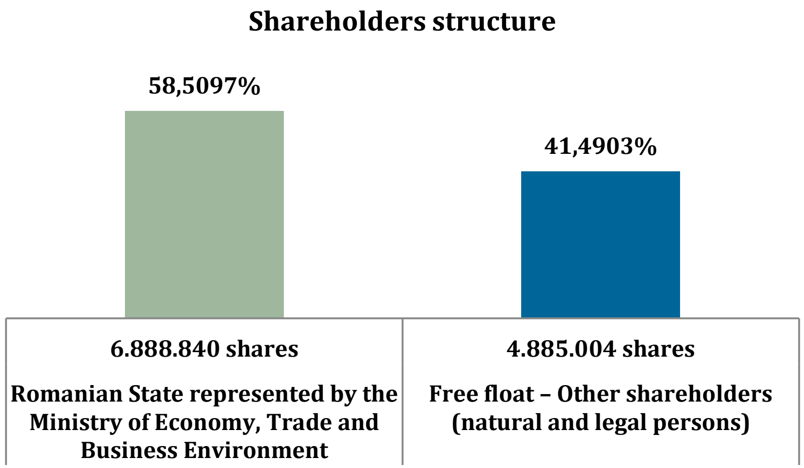
1H2016 compared to 1H2015

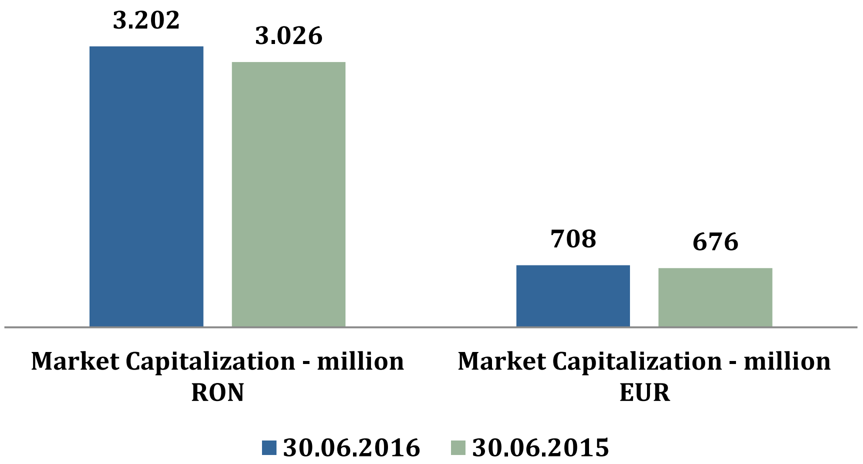
	1H2016	1H2015
EBITDA in total sales	52.61%	57.20%
EBITDA in total equity	12.15%	13.83%
Gross profit ratio	41.35%	47.25%
Return on capital	7.99%	9.48%
Current liquidity ratio	2.48	2.51
Quick liquidity ratio	2.32	2.43
Gearing	0.00%	0.00%
Interest coverage ratio	0	1,675.24
Turnover speed for clients debit -days	98.75	89.83
Turnover speed for credit providers -days	20.76	12.32

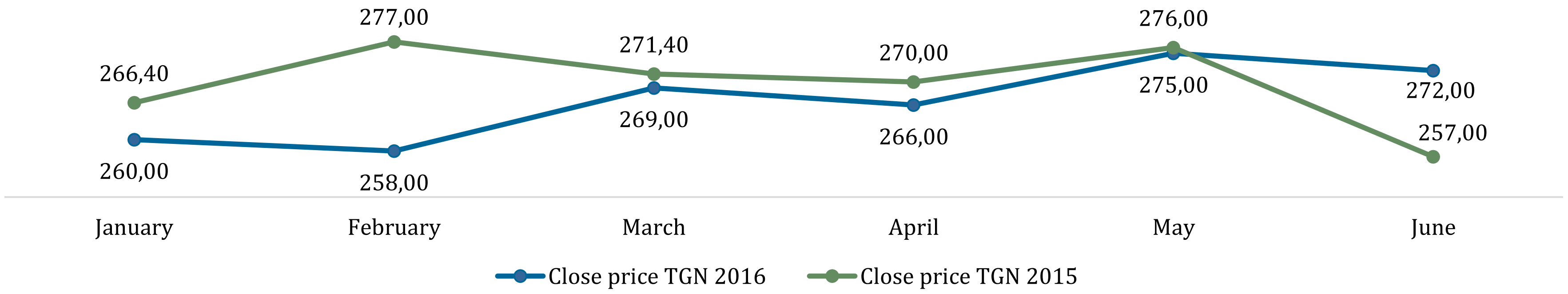




Stock Exchange TGN Evolution

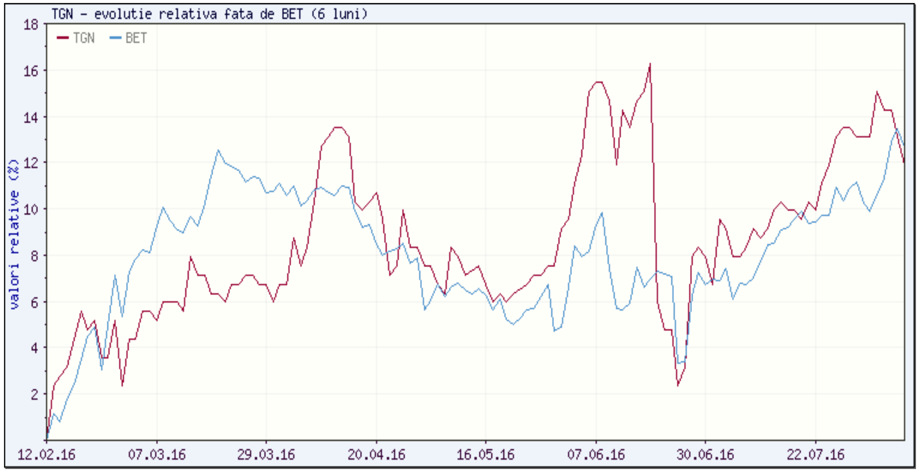


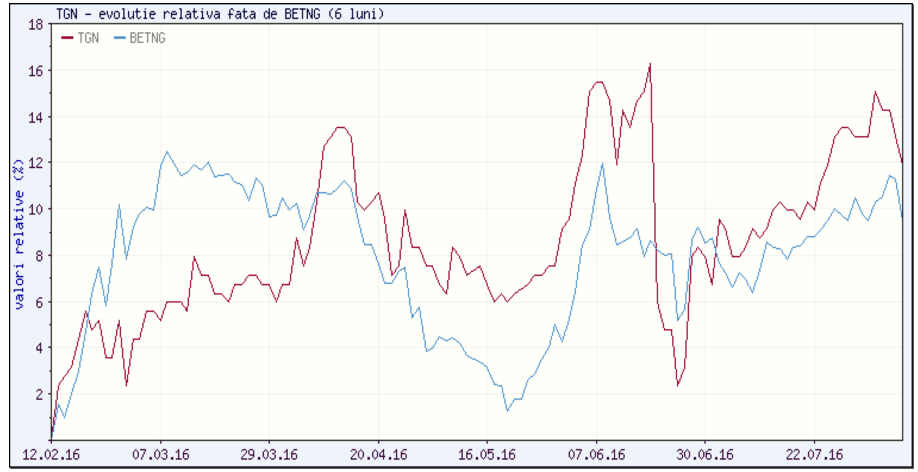


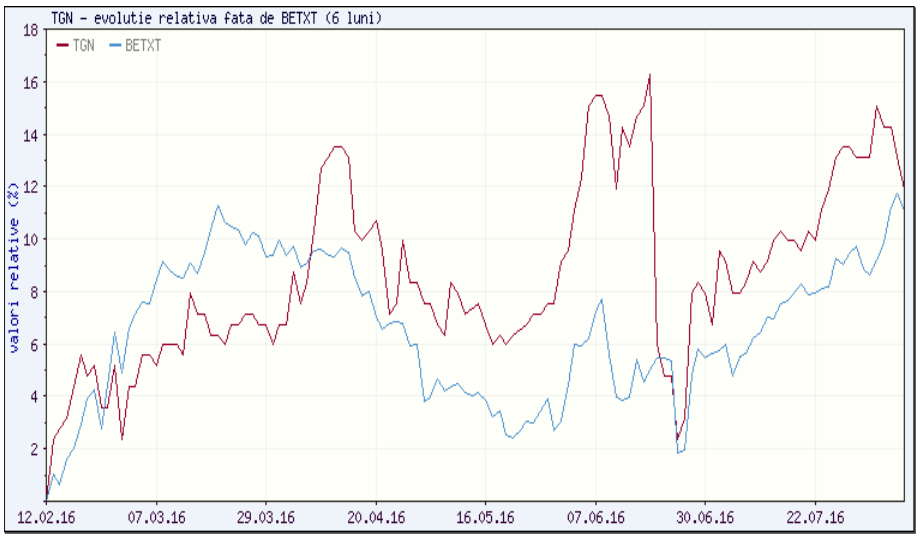


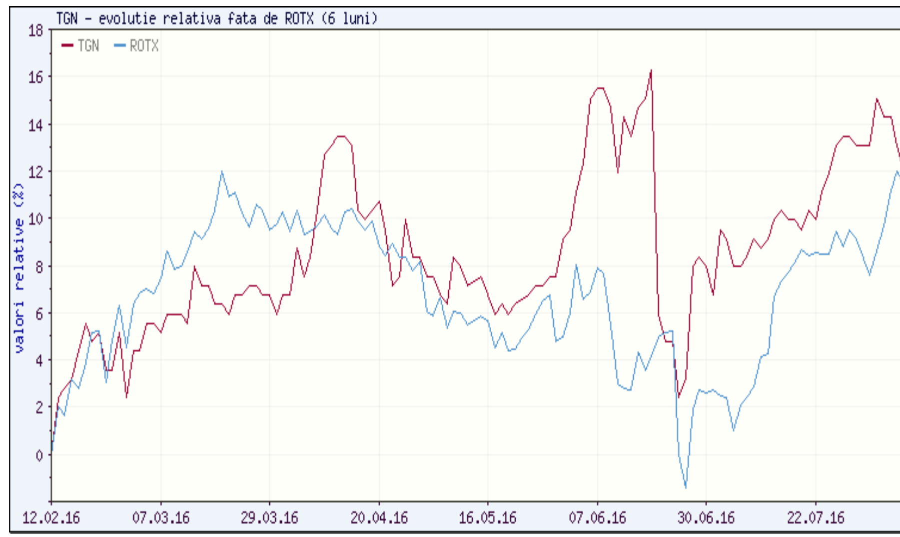
Stock Exchange TGN Evolution (2)

TGN vs BET, BETXT, BETNG, ROTX during 1H2016





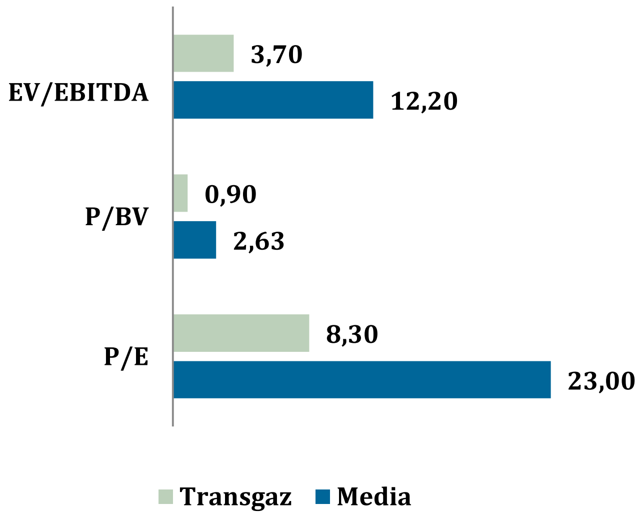


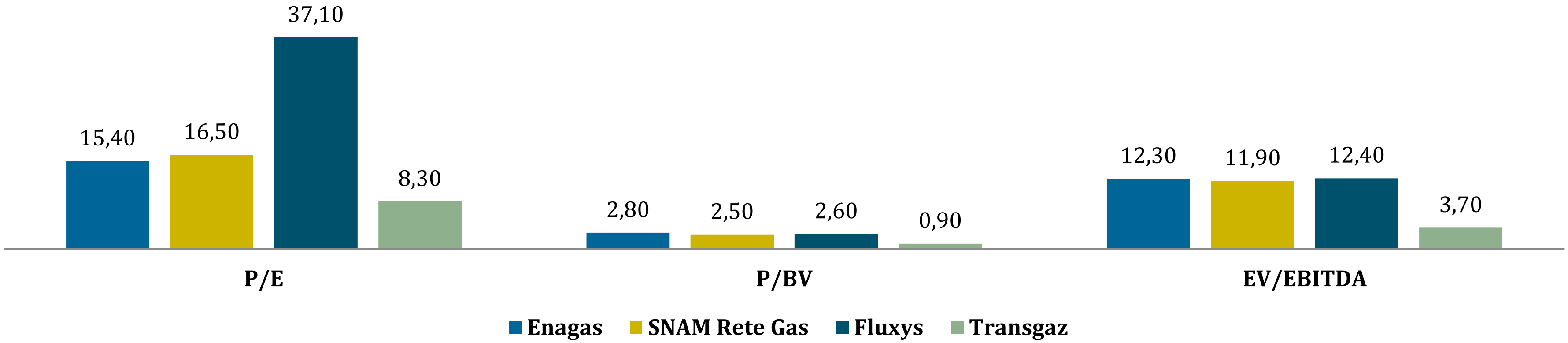


TRANSGAZ COMPARED TO PEERS

Company	Country	P/E	P/BV	EV/EBITDA
Enagas	Spain	15.40	2.80	12.30
SNAM Rete Gas	Italy	16.50	2.50	11.90
Fluxys	Belgium	37.10	2.60	12.40
Media		**23.00**	**2.63**	**12.20**
Transgaz	Romania	8.30	0.90	3.70
Premium /Discount		**-64%**	**-66%**	**-70%**

Source: Bloomberg 11.08.2016





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Thank you for your kind attention!