

## THE ROMANIAN GAS TRANSMISSION SYSTEM OPERATOR

### INTERIM FINANCIAL STATEMENTS FOR the NINE MONTHS PERIOD ended 30 SEPTEMBER 2018 (UNAUDITED)



PREPARED IN ACCORDANCE WITH IFRS -UE



## Summary

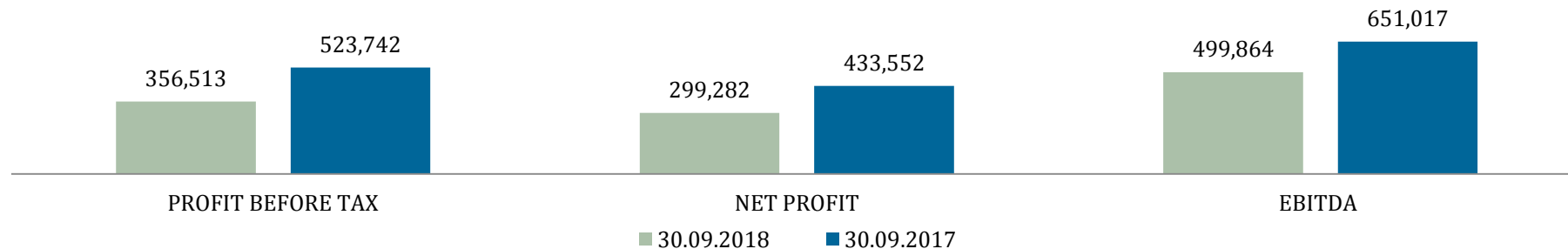
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1. Interim Income statement as of 30.09.2018
  2. Interim Balance sheet as of 30.09.2018
  3. Main revenue drivers
  4. Main costs drivers
  5. Main business drivers
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-

# 1. Interim Income statement as of 30.09.2018

## MAIN INDICATORS 9 months 2018 vs. 9 months 2017

| THOUSAND RON  | 30.09.2018     | 30.09.2017     | Changes                           |             |
|---|----------------|----------------|-----------------------------------|-------------|
|   |                |                | 30.09.2018/30.09.2017<br>Absolute | Relative    |
| Operational revenue before the balancing and construction activity according to IFRIC12 | 1,115,708      | 1,302,437      | -186,729                          | -14%        |
| Revenue from the balancing activity   | 118,838        | 92,299         | 26,539                            | 29%         |
| Revenue from the construction activity according to IFRIC12                             | 109,545        | 28,067         | 81,478                            | 290%        |
| Financial revenue   | 36,560         | 176,284        | -139,724                          | -79%        |
| Operational costs before the balancing construction activity according to IFRIC12       | 777,746        | 811,971        | -34,225                           | -4%         |
| Costs from the balancing activity   | 118,838        | 87,337         | 31,501                            | 36%         |
| Cost of assets built according to IFRIC12   | 109,545        | 28,067         | 81,478                            | 290%        |
| Financial costs   | 18,009         | 147,972        | -129,963                          | -88%        |
| <b>Profit before tax</b>  | <b>356,513</b> | <b>523,742</b> | <b>-167,229</b>                   | <b>-32%</b> |
| Income tax  | 57,231         | 90,190         | -32,959                           | -37%        |
| <b>Net profit</b>   | <b>299,282</b> | <b>433,552</b> | <b>-134,270</b>                   | <b>-31%</b> |
| <b>EBITDA</b>   | <b>499,864</b> | <b>651,017</b> | <b>-151,153</b>                   | <b>-23%</b> |

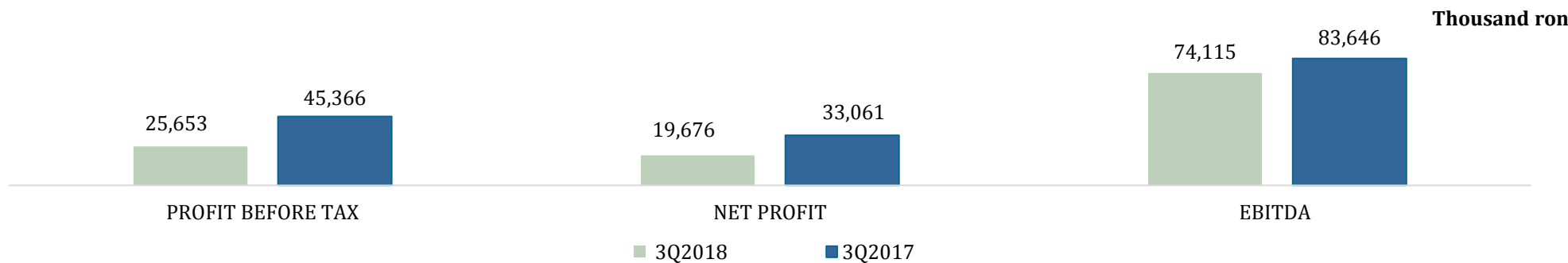
Thousand ron



# 1. Interim Income statement as of 30.09.2018 (2)

Main indicators  
3Q2018 vs. 3Q2017

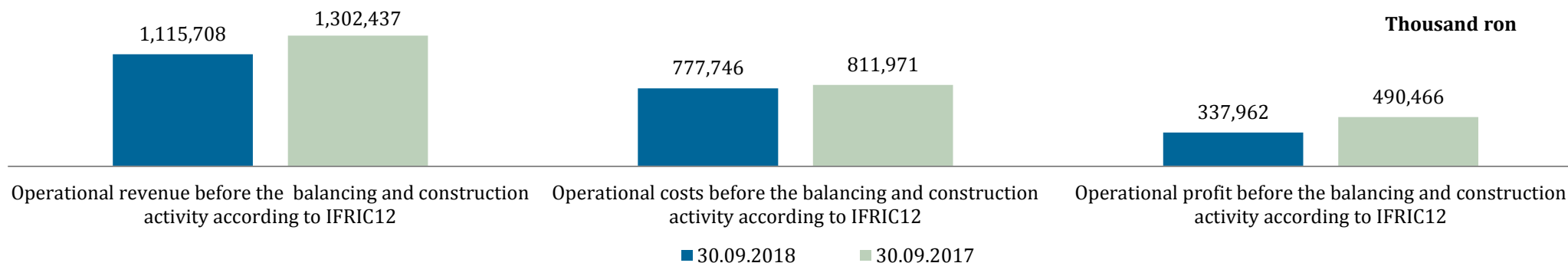
| THOUSAND RON  | 3Q2018        | 3Q2017        | Changes<br>3Q2018/3Q2017 |             |
|---|---------------|---------------|--------------------------|-------------|
|   |               |               | absolute                 | relative    |
| Operational revenue before the balancing and construction activity according to IFRIC12   | 291,801       | 321,960       | -30,159                  | -9%         |
| Revenue from the balancing activity   | 28,354        | 15,608        | 12,746                   | 82%         |
| Revenue from the construction activity according to IFRIC12                               | 74,626        | 10,535        | 64,091                   | 608%        |
| Financial revenue   | 14,582        | 154,517       | -139,935                 | -91%        |
| Operational costs before the balancing and the construction activity according to IFRIC12 | 271,599       | 291,994       | -20,395                  | -7%         |
| Costs from the balancing activity   | 28,354        | 15,425        | 12,929                   | 84%         |
| Cost of assets built according to IFRIC12   | 74,626        | 10,535        | 64,091                   | 608%        |
| Financial costs   | 9,131         | 139,300       | -130,169                 | -93%        |
| <b>Profit before tax</b>  | <b>25,653</b> | <b>45,366</b> | <b>-19,713</b>           | <b>-43%</b> |
| Income tax  | 5,977         | 12,305        | -6,328                   | -51%        |
| <b>Net profit for the period</b>  | <b>19,676</b> | <b>33,061</b> | <b>-13,385</b>           | <b>-40%</b> |
| <b>EBITDA</b>   | <b>74,115</b> | <b>83,646</b> | <b>-9,531</b>            | <b>-11%</b> |
| Turnover  | 304,989       | 319,161       | -14,172                  | -4%         |



# 1. Interim Income statement as of 30.09.2018 (3)

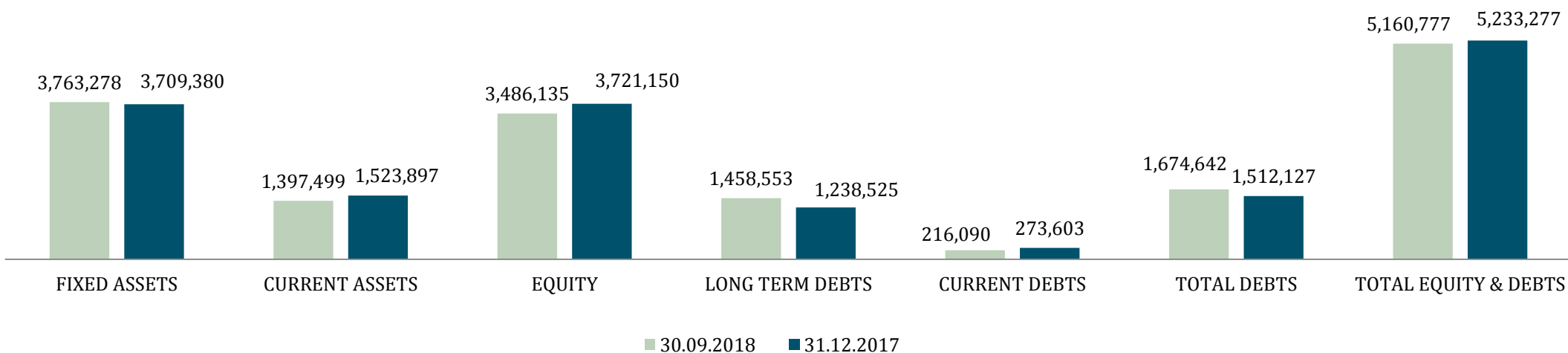
## OPERATING ACTIVITY

| THOUSAND RON   | 30.09.2018       | 30.09.2017       | Changes         |             |
|--|------------------|------------------|-----------------|-------------|
|  |                  |                  | Absolute        | Relative    |
| Revenues from domestic gas transmission activity   | 828,181          | 999,199          | -171,018        | -17%        |
| Revenues from international gas transmission activity  | 238,801          | 252,240          | -13,439         | -5%         |
| Other revenues   | 48,726           | 50,998           | -2,272          | -4%         |
| <b>Operational revenue before the balancing and construction activity according to IFRIC12</b> | <b>1,115,708</b> | <b>1,302,437</b> | <b>-186,729</b> | <b>-14%</b> |
| Employees costs  | 287,022          | 290,272          | -3,250          | -1%         |
| Technological consumption, materials and consumables used                                      | 70,532           | 79,251           | -8,719          | -11%        |
| Expenses with royalties  | 106,698          | 125,144          | -18,446         | -15%        |
| Maintenance and transport  | 23,982           | 18,030           | 5,952           | 33%         |
| Taxes and other amounts payable to the state   | 58,283           | 53,915           | 4,368           | 8%          |
| Revenues / (Expenses) with provisions for risks and expenses                                   | 4,458            | 5,652            | -1,194          | -21%        |
| Other operating expenses   | 73,785           | 90,461           | -16,676         | -18%        |
| Depreciation   | 161,902          | 160,550          | 1,352           | 1%          |
| <b>Operational costs before the balancing and construction activity according to IFRIC12</b>   | <b>777,746</b>   | <b>811,971</b>   | <b>-34,225</b>  | <b>-4%</b>  |
| <b>Operational profit before the balancing and construction activity according to IFRIC12</b>  | <b>337,962</b>   | <b>490,466</b>   | <b>-152,504</b> | <b>-31%</b> |



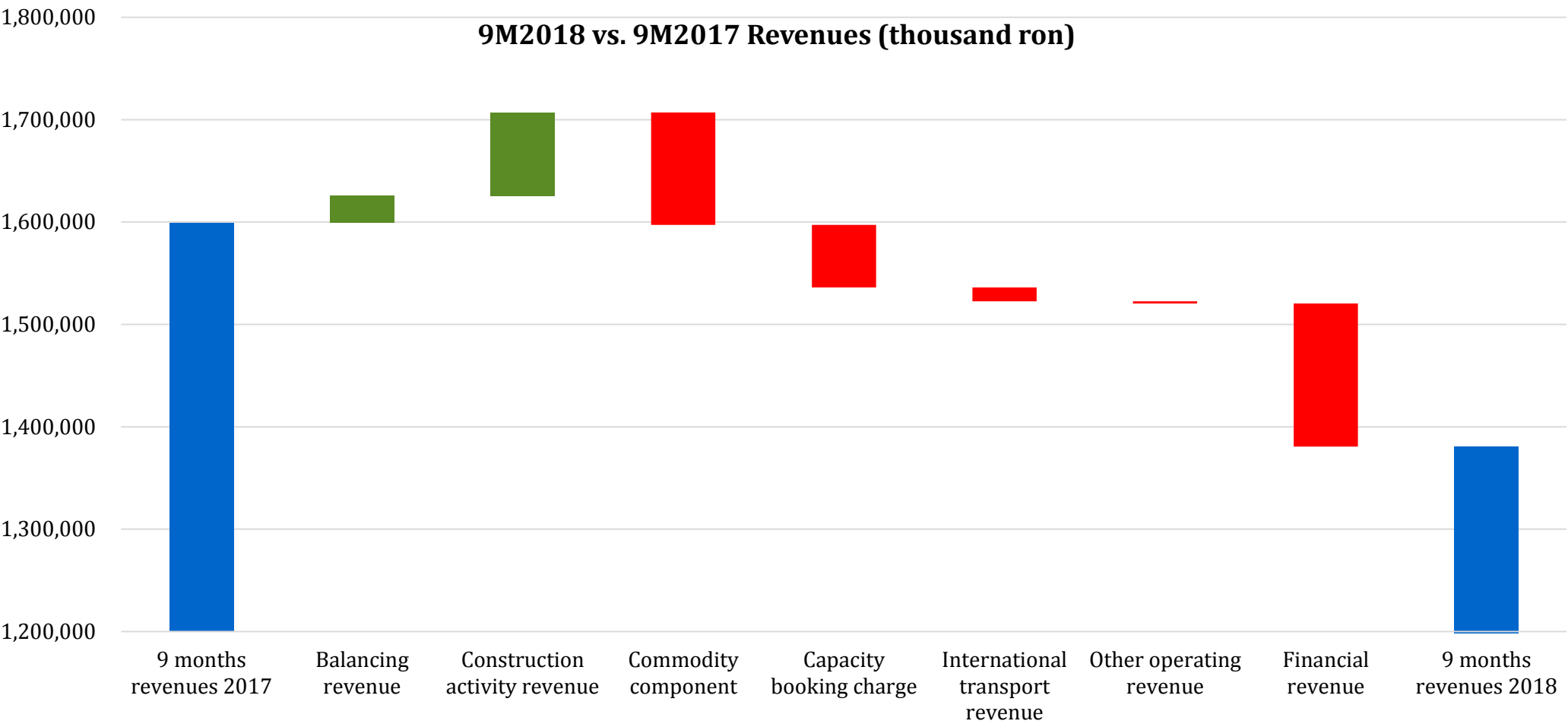
## 2. Interim Balance Sheet as of 30.09.2018

| THOUSAND RON                    | 30.09.2018       | 31.12.2017       | CHANGES         |            |
|---------------------------------|------------------|------------------|-----------------|------------|
|                                 |                  |                  | Absolute        | Relative   |
| FIXED ASSETS                    | 3,763,278        | 3,709,380        | 53,898          | 1%         |
| CURRENT ASSETS                  | 1,397,499        | 1,523,897        | -126,398        | -8%        |
| <b>TOTAL ASSETS</b>             | <b>5,160,777</b> | <b>5,233,277</b> | <b>-72,500</b>  | <b>-1%</b> |
| <b>EQUITY</b>                   | <b>3,486,135</b> | <b>3,721,150</b> | <b>-235,015</b> | <b>-6%</b> |
| LONG TERM DEBTS                 | 1,458,553        | 1,238,525        | 220,028         | 18%        |
| CURRENT DEBTS                   | 216,090          | 273,603          | -57,513         | -21%       |
| <b>TOTAL DEBTS</b>              | <b>1,674,642</b> | <b>1,512,127</b> | <b>162,515</b>  | <b>11%</b> |
| <b>TOTAL EQUITY &amp; DEBTS</b> | <b>5,160,777</b> | <b>5,233,277</b> | <b>-72,500</b>  | <b>-1%</b> |



### 3. Main revenue drivers (1)

#### REVENUES





### 3. Main revenue drivers (2)

9M2018 vs.9M2017

**Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 14% as compared to the corresponding period in 2017, which is lower by LEI 186,729 thousand.**

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

- *capacity booking revenue* lower by **LEI 61,219 thousand** due to:
  - the capacity booking tariff lower by Lei 0,16 /MWh, with a negative influence of LEI 41,045 thousand;
  - booked capacities lower by 8,590,389 MWh, with a negative influence of LEI 20,174 thousand.
- *commodity component* revenue lower by **LEI 109,799 thousand** due to:
  - the gas transmitted capacities lower 432,043 MWh/33,305 thousand cm (▼0,44%), as compared to the same period in 2017, detailed by categories of consumers as follows:

|   |                         | 9M2017     | 9M2018     | Changes    |
|---|-------------------------|------------|------------|------------|
| Quantity transmitted for direct consumers | MWh                     | 45,899,329 | 47,441,365 | 1,542,036  |
|   | thousand m <sup>3</sup> | 4,289,099  | 4,439,435  | 150,336    |
| Quantity transmitted for distribution     | MWh                     | 53,106,341 | 51,132,262 | -1,974,079 |
|   | thousand m <sup>3</sup> | 4,929,394  | 4,745,753  | -183,641   |
| Total                                     | MWh                     | 99,005,670 | 98,573,627 | -432,043   |
|   | thousand m <sup>3</sup> | 9,218,493  | 9,185,188  | -33,305    |

The tariffs between 01.01 and 30.09.2018 as compared to 01.01-30.09.2017 decreased mainly due to a lower approved revenue in gas year October 2017-September 2018 as compared to the revenue approves in gas year October 2016 and September 2017 mainly because of the differences for the adjustment of the revenue in gas year 2017-2018 (efficiency gain redistribution component of -112 million lei, the correction component of the total revenue, etc).

The commodity tariff is lower according to Order 10/2017 of the ANRE President on the amending and supplementing of Order 32/2014 of ANRE President on the approval of the gas transmission regulated revenue, total revenue and regulated tariffs Methodology, which establishes the increasing by 5% per year of the precentage by which the approved revenue is recovered by the application of the capacity booking tariff, up to 85%, and the decreasing of the percentage by which the approved revenue is recovered by the application of the commodity tariff. In gas year 2016-2017 the variable component of the total revenue at the basis of the commodity tariffs is 40% of the total revenue and in gas year 2017-2018 it decreased to 35% of the total revenue.



### 3. Main revenue drivers (3)

9M2018 vs. 9M2017

- *revenue from international transport* lower by **LEI 13,439 thousand** due to foreign currency exchange gain regarding the (TII and TIII) contract currency and the application of ANRE Order 34/19 July 2016 (for TI) based on:
  - a capacity higher by 275.098.263 kWh with a positive influence of Lei 294 thousand
  - the decreasing of short-term products (with a higher price per unit) procurement in 2018, with a negative influence of Lei 6,605 thousand.
- *other operating revenue* lower by **LEI 2,272 thousand**.
- *Revenue from the balancing activity* increased by **LEI 26,538 thousand** based on the following factors:
  - quantity higher by 89.288 MWh with a positive influence of LEI 7.042 thousand;
  - trading price higher by LEI 15,48 /MWh, with a positive influence of LEI 19.496 thousand.
- *Revenue from the construction activity* higher by **LEI 81,478 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts.
- *Financial revenue* have a negative influence of **Lei 139,724 thousand** due to the transfer of the provision for the impairment of Transgaz's share in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138,544,435 to revenues in 2017. In September 2017 the Vienna Commercial Court issued the decision by which 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 established in the previous years in the same amount.

|  | 9M2017  | 9M2018  |
|--|---------|---------|
| Revenue from domestic transport, as follows: | 999,199 | 828,181 |
| - commodity component                        | 386,885 | 277,086 |
| - capacity booking revenue                   | 612,314 | 551,095 |

### 3. Main revenue drivers (4)

3Q2018 vs. 3Q2017

**Operating revenue before the balancing and construction activity, according to IFRIC12 decreased by 9% as compared to the corresponding period in 2017, which is lower by LEI 30,159 thousand.**

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

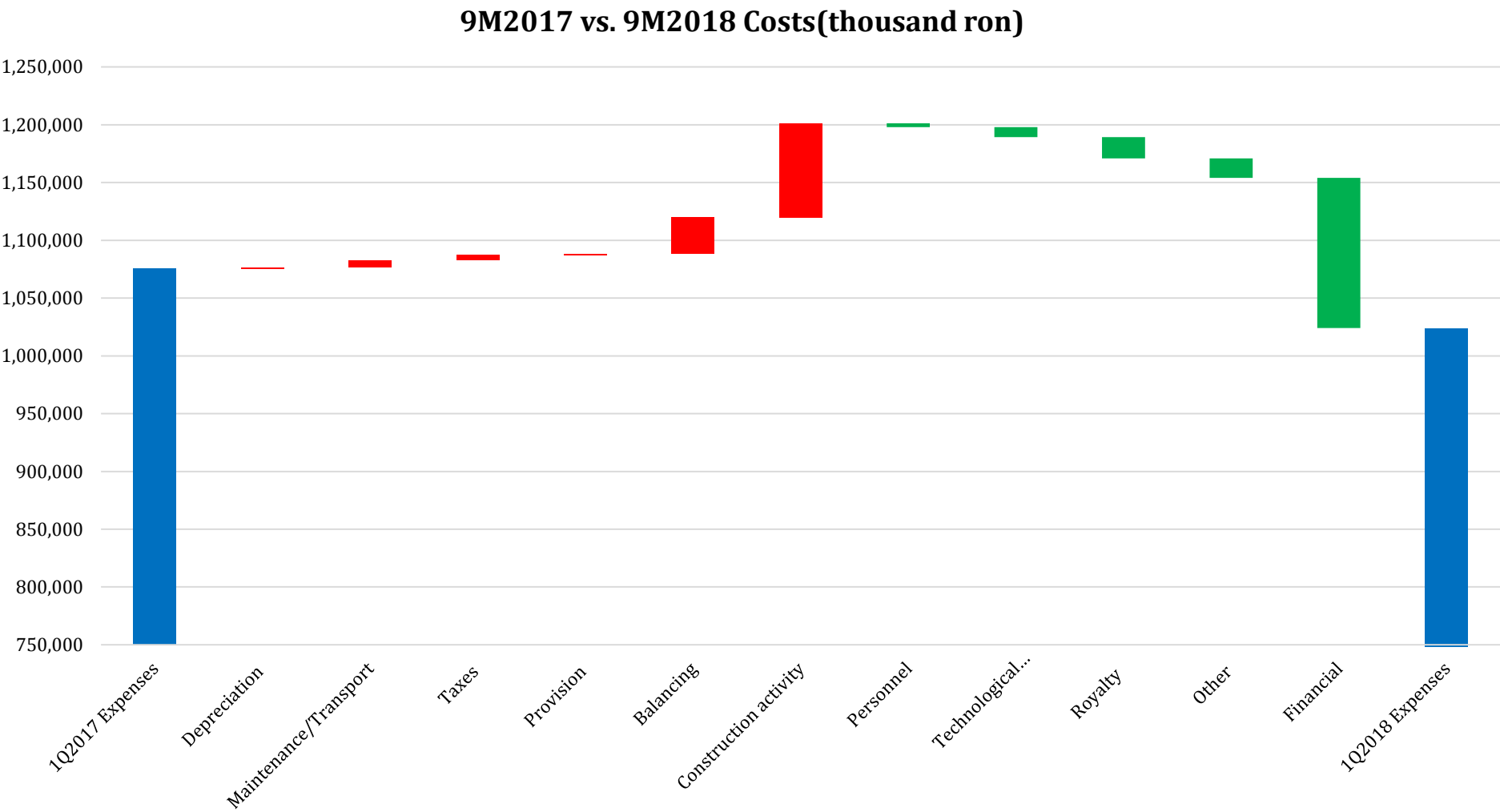
- *capacity booking revenue* lower by **LEI 5,622 thousand** due to:
  - booked capacities lower by 233,721 MWh, with a negative influence of LEI 422thousand;
  - the capacity booking tariff lower by Lei 0.08/MWh, with a negative influence of LEI 5.200 thousand.
- *commodity component revenue* lower by **LEI 22,452 thousand** due to:
  - the invoiced gas capacities higher by 1,754,458 MWh/165,414 thousand cm (▲ 7%), detailed by categories of consumers as follows:

|   |                    | 3Q2017     | 3Q2018     | Changes   |
|---|--------------------|------------|------------|-----------|
| Quantity transmitted for direct consumers | MWh                | 18,143,854 | 19,974,406 | 1,830,552 |
|   | Mii m <sup>3</sup> | 1,695,190  | 1,869,293  | 174,103   |
| Quantity transmitted for distribution     | MWh                | 7,191,681  | 7,115,587  | -76,094   |
|   | mii m <sup>3</sup> | 666,117    | 657,427    | -8,690    |
| Total                                     | MWh                | 25,335,535 | 27,089,993 | 1,754,458 |
|   | mii m <sup>3</sup> | 2,361,307  | 2,526,720  | 165,413   |

- *revenue from capacity booking* higher by **LEI 1,293 thousand** due to foreign currency exchange gain regarding the contract currency and the application of ANRE Order 34/19 July 2016;
- *other operating revenue* lower by **LEI 3,377 thousand**;
- *revenue from the balancing activity* according to ANRE Order 1/18.01.2016 increased by **LEI 12,747 thousand** based on the following factors:
  - quantity higher by 100,100 MWh with a positive influence of LEI 7,184 thousand;
  - trading price higher by LEI 17.52/MWh, with a positive influence of LEI 5,563 thousand.
- *revenue from the construction* activity higher by **LEI 64,091 thousand**, registered in line with IFRIC 12, according to which revenue and costs related to the construction activity or the improvement of the transmission network, in exchange of which the intangible asset is registered, must be acknowledged in line with IAS 11, Construction Contracts.
- *Financial revenue* have a negative influence of **Lei 139,935 thousand** due to the transfer of the provision for the impairment of Transgaz's share in the share capital of Nabucco Gas Pipeline International GmbH amounting to Lei 138,544,435 to revenues in 2017.

4. Main costs drivers (1)

COSTS



## 4. Main costs drivers(2)

9M2018 vs. 9M2017

**Operating costs before the balancing and construction activity according to IFRIC12** decreased by **4%** as compared to the same periods of 2017, which is lower by **LEI 34,225 thousand**.

The company made savings of **LEI 47,091 thousand**, mainly in relation to the following cost elements:

- *transmission system technological gas consumption and loss* decreased by **LEI 4,448 thousand** due to the following:
  - amount of gas for technological consumption lower by 146.158 MWh (▼19%), with a positive influence of LEI 10,232 thousand;
  - average purchase price in the first nine months of 2018 higher as compared to the same period of time in 2017 by LEI 9.17 /MWh, with a negative influence of LEI 5,784 thousand;
- *cost of personnel*: LEI 3,250 thousand;
- *cost of royalty*: LEI 18,446 mii lei
- *cost of auxiliary materials and other material costs*: LEI 4,271 thousand;
- *other operating costs*: LEI 16,676 thousand, mainly due to lower cost of provision for depreciation of current assets.

|   |                    | 30.09.2018 | 30.09.2017 | Changes  |
|---|--------------------|------------|------------|----------|
| Quantities of technological consumption | MWh                | 630,451    | 776,609    | -146,158 |
|   | mii m <sup>3</sup> | 59,550     | 73,497     | -13,947  |

An expense surplus of **LEI 12,866 thousand** was recorded mainly in relation to the following cost elements:

- *depreciation costs*: LEI 1,352 thousand;
- *cost of maintenance and transmission*: LEI 5,952 thousand;
- *cost of taxes and duties*: LEI 4,368 thousand;
- *cost of provision for risks and charges*: LEI 1,194 thousand.

**As compared to the same period in 2017 the gross profit obtained in the first nine months of 2018 decreased by 32%, which is lower by LEI 167,228 thousand.**

## 4. Main costs drivers (3)

3Q2018 vs. 3Q2017

**Operating costs before the balancing and construction activity according to IFRIC12 decreased by 7% as compared to QIII 2017, which is lower by LEI 20,394 thousand.**

**The company made savings of LEI 25,959 thousand**, mainly in relation to the following cost elements:

- *technological consumption* : LEI 8,172 thousand;
- *cost of personnel*: LEI 5,764 thousand;
- *cost of royalty*: LEI 18,446 mii lei
- *cost of auxiliary materials and other materials*: LEI 2,657 thousand;
- *cost of royalty*: LEI 2,678 thousand;
- *other operating costs*: LEI 6.688 thousand.

|   |                    | 3Q2018  | 3Q2017  | Changes  |
|---|--------------------|---------|---------|----------|
| Quantities of technological consumption | MWh                | 125,974 | 248,792 | -122,818 |
|   | mii m <sup>3</sup> | 11,240  | 23,202  | -11,962  |

**An expense surplus of LEI 5,565 thousand** was recorded mainly in relation to the following cost elements:

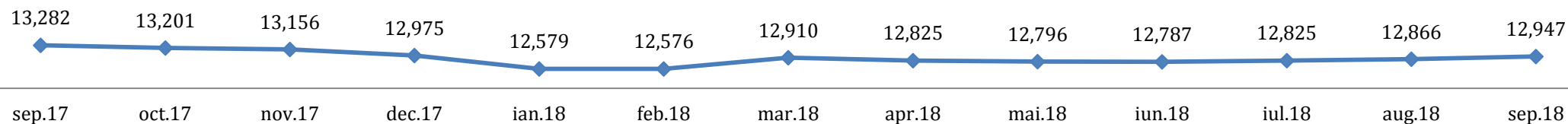
- *fixed assets depreciation costs*: LEI 232 thousand;
- *cost of maintenance and transmission*: LEI 2,671 thousand;
- *cost of taxes and duties*: LEI 2,294 thousand;
- *cost of provision for risks and charges*: LEI 367 thousand.

**The financial cost** is lower by **LEI 130,169 thousand** mainly based on the the removal from its accounting records on 30 September 2017 of the asset amounting to Lei 138,544,435, representing Transgaz's share in the share capital of Nabucco Gas International Company GmbH.

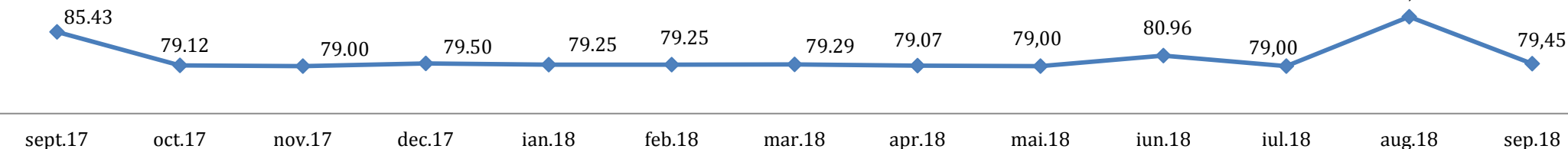
**As compared to QIII 2017 the gross profit obtained in QIII 2018 decreased by 43%, which is lower by LEI cu 19,713 thousand.**

## 5. Main business drivers

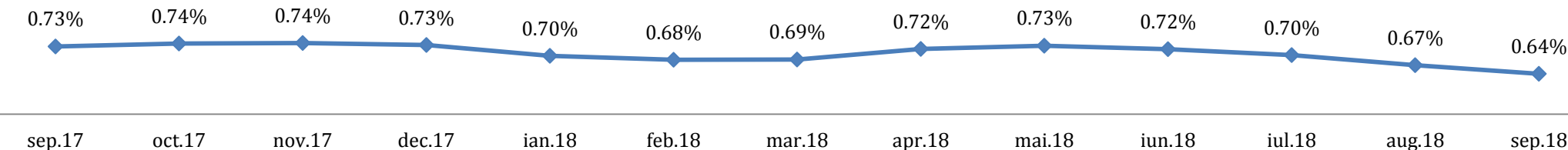
**Natural gas volumes circulated(including storage quantities) - mil.cm - rolling 12 months**



**Natural gas price for technological consumption – Lei/MWh**



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

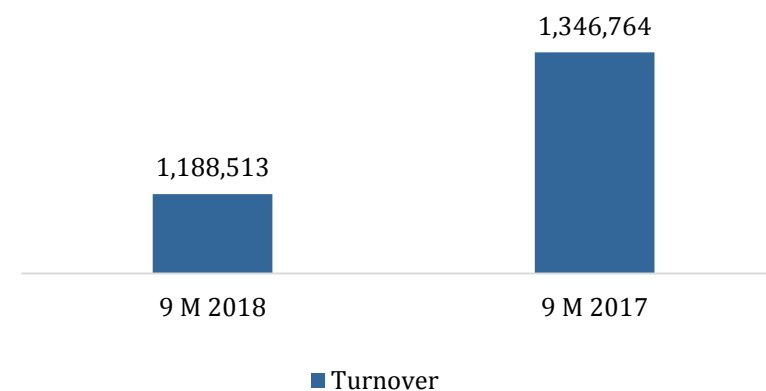


|                               |                    | 1Q2018         | 2Q2018         | 3Q2018         | 9M2018         |
|-------------------------------|--------------------|----------------|----------------|----------------|----------------|
| Circulated gas, our of which: | MWh                | 46,975,236.501 | 25,167,343.607 | 27,230,967.333 | 99,373,547.442 |
|                               | mii m <sup>3</sup> | 4,374,858.158  | 2,346,384.527  | 2,539,374.064  | 9,260,616.749  |
|                               | - storage          |                |                |                |                |
|                               | MWh                | 263,565.147    | 8,431,856.599  | 10,895,380.254 | 19,590,801.999 |
|                               | mii m <sup>3</sup> | 24,652.100     | 786,541.285    | 1,018,216.897  | 1,829,410.282  |
| Circulated gas storage share  |                    | 0.56%          | 33.50%         | 40.01%         | 19.71%         |

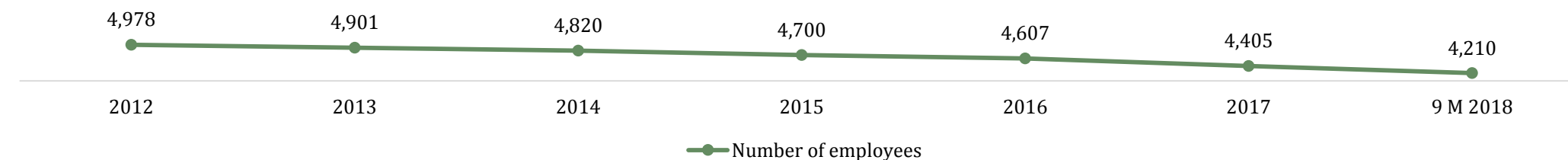
## 6. Main indicators

|   | 9M2018 | 9M2017 |
|---|--------|--------|
| EBITDA in total sales                     | 42.06% | 48.34% |
| EBITDA in total equity                    | 14.34% | 17.47% |
| Gross profit ratio                        | 30.00% | 38.89% |
| Return on capital                         | 8.58%  | 11.64% |
| Current liquidity ratio                   | 6.47   | 6.64   |
| Quick liquidity ratio                     | 5.92   | 6.27   |
| Gearing                                   | 6.69%  | 0      |
| Interest coverage ratio                   | 193.88 | 0      |
| Turnover speed for clients debit -days    | 134.60 | 129.72 |
| Turnover speed for credit providers -days | 24.63  | 13.93  |

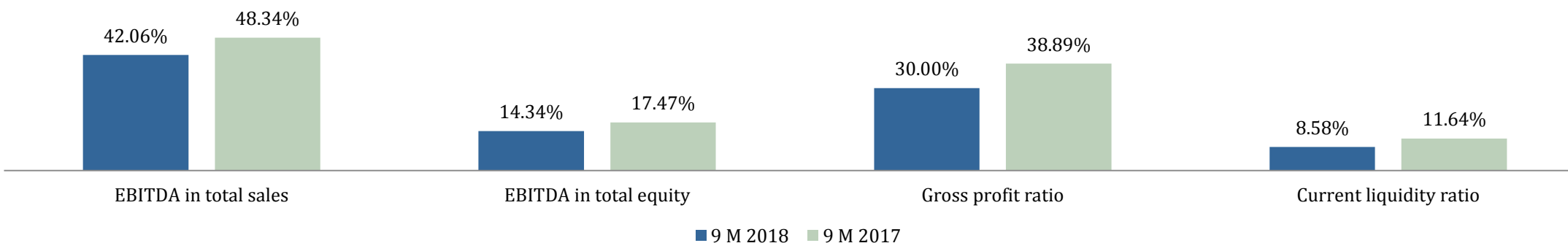
9M2018 vs. 9M2017



■ Turnover



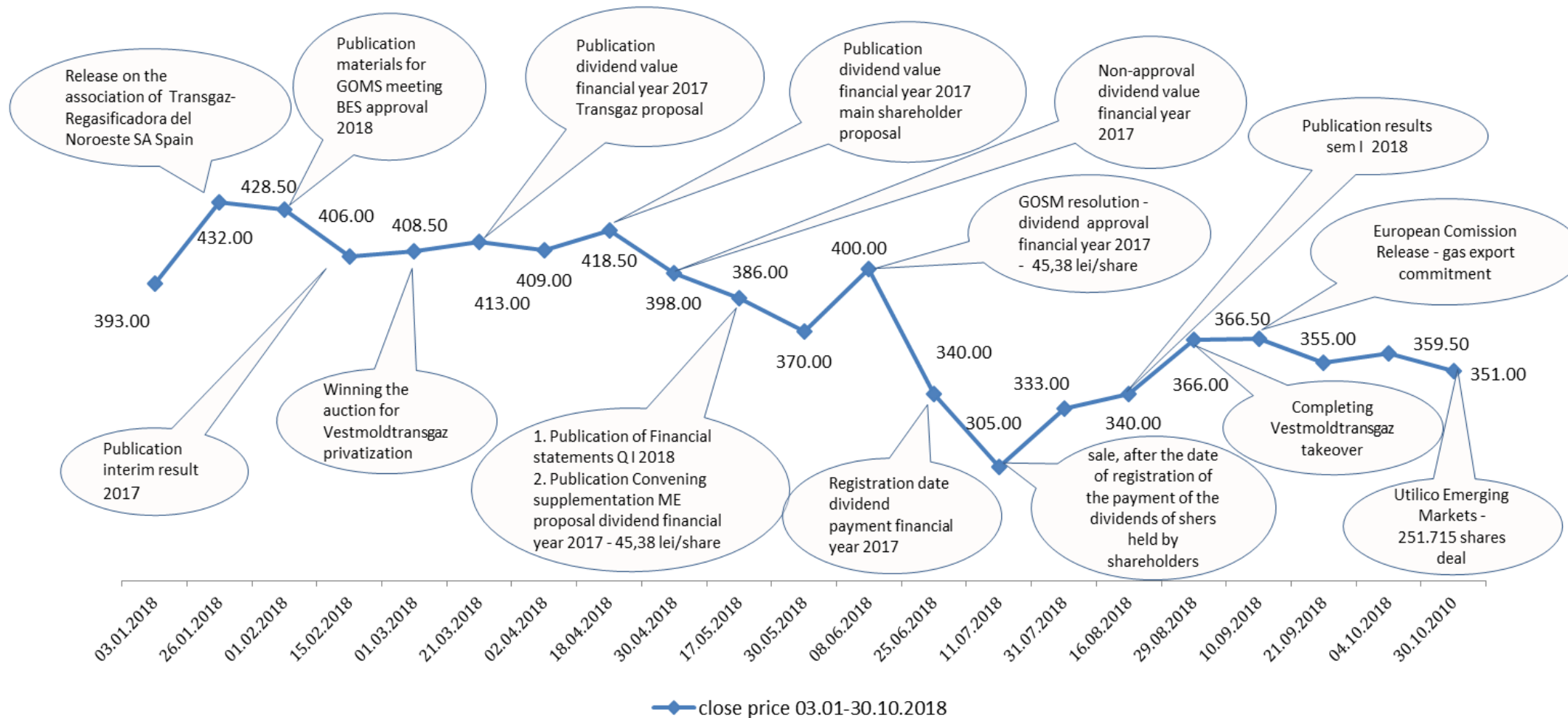
—●— Number of employees



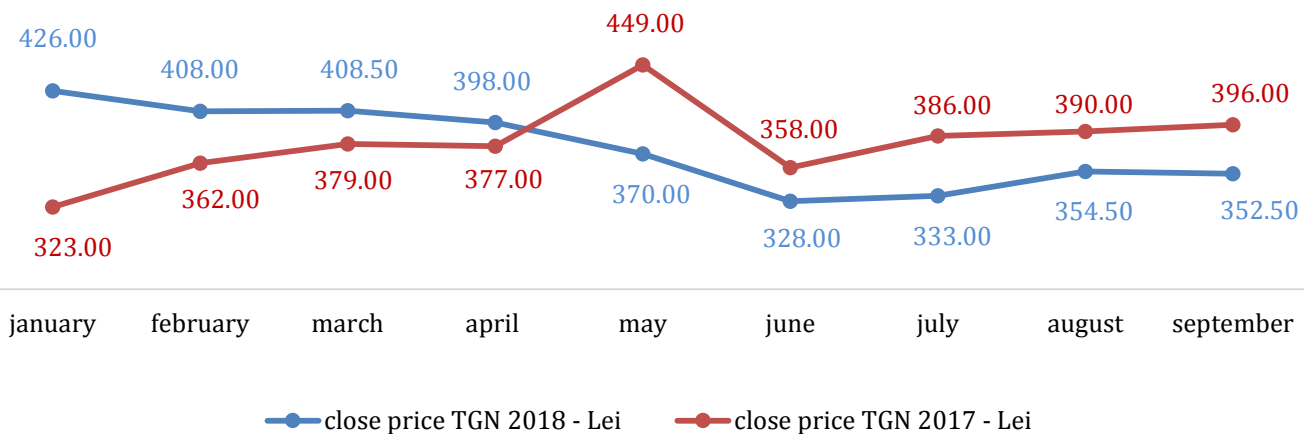
■ 9 M 2018 ■ 9 M 2017



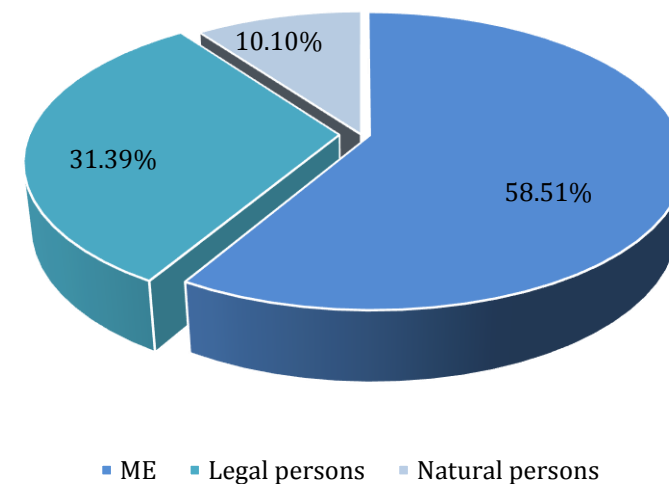
# Stock exchange TGN evolution(1)



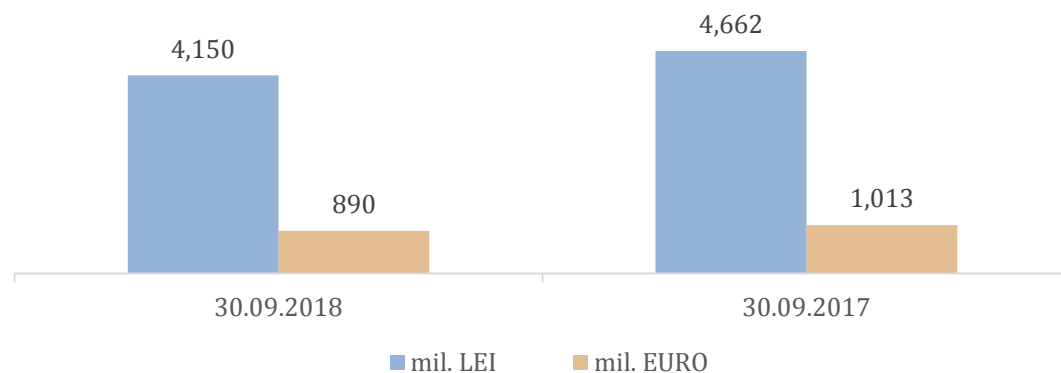
## Stock exchange TGN evolution(2)



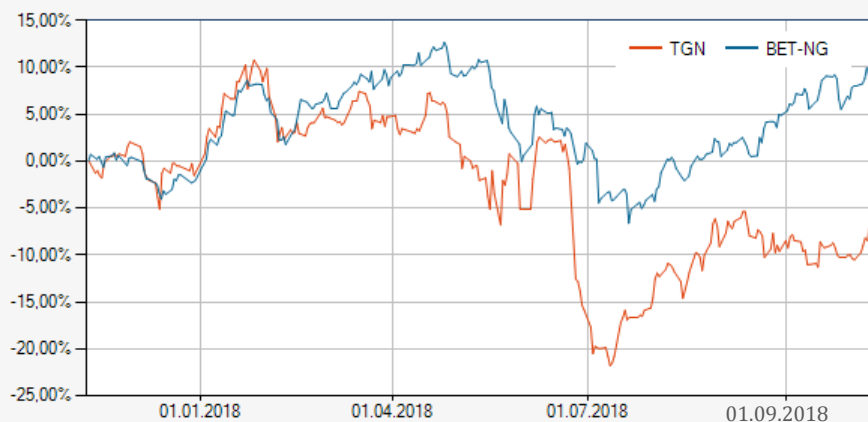
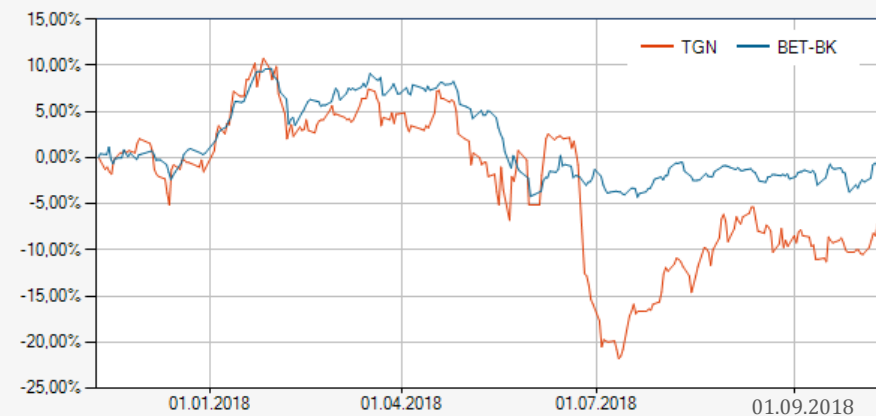
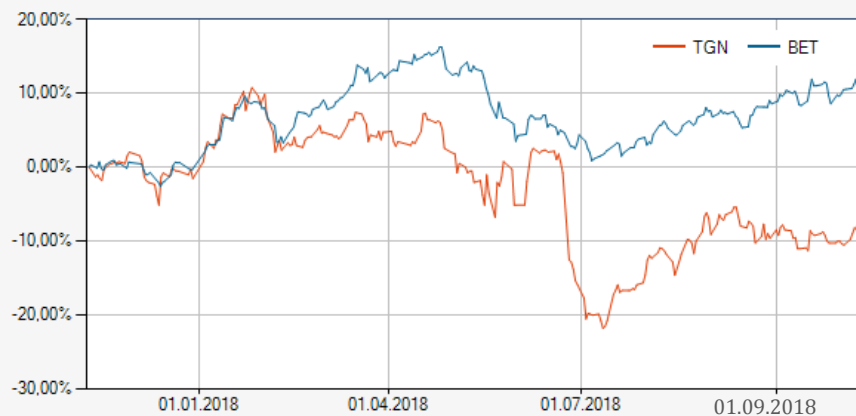
TGN Shareholders structure at 6 September 2018



Market capitalization

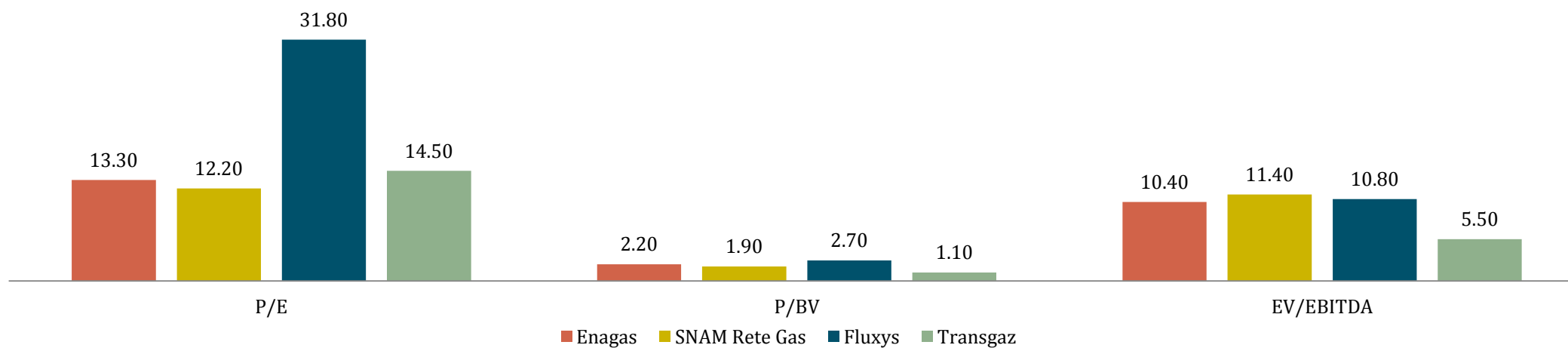
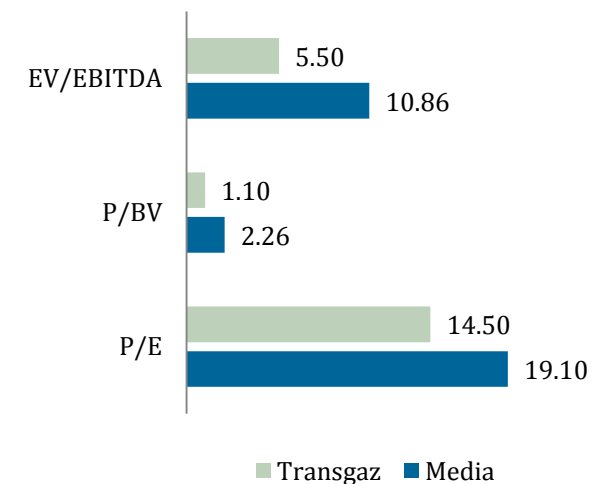


## Stock exchange TGN evolution(3)



# TRANSGAZ COMPARED TO PEERS

| Compania          |                | P/E         | P/BV        | EV/EBITDA    |
|-------------------|----------------|-------------|-------------|--------------|
| Enagas            | Spania         | 13,3        | 2,2         | 10,4         |
| SNAM SpA          | Italia         | 12,2        | 1,9         | 11,4         |
| Fluxys            | Belgia         | 31,8        | 2,7         | 10,8         |
| <b>Media</b>      |                | <b>19,1</b> | <b>2,26</b> | <b>10,86</b> |
| <b>Transgaz</b>   | <b>Romania</b> | <b>14,5</b> | <b>1,1</b>  | <b>5,5</b>   |
| Premium /Discount |                | 24%         | 51%         | 49%          |





**Thank you for your kind attention!**