THE ROMANIAN GAS TRANSMISSION SYSTEM OPERATOR

INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2016

(UNAUDITED)

PREPARED IN ACCORDANCE WITH IFRS -UE

17 November 2016

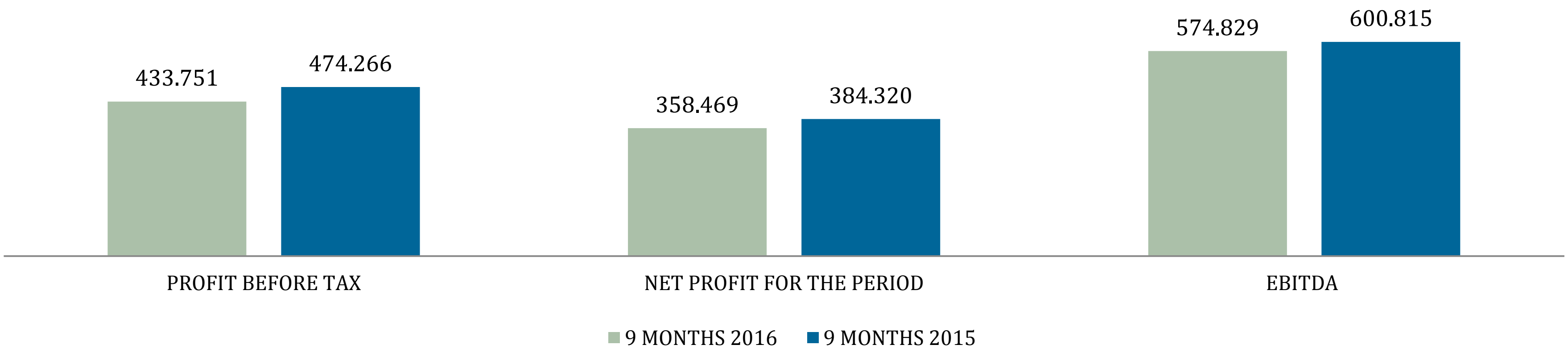
Summary

1. Interim Income statement as of 30.09.2016 (1)

MAIN INDICATORS
9M2016 compared to 9M2015

COMPREHENSIVE INCOME - THOUSAND RON	9 MONTHS 2016 unaudited	9 MONTHS 2015 unaudited	Changes 9M2016 / 9M2015	
			Absolute	Relative
Operational revenue before the construction activity according to IFRIC12	1,264,283	1,233,069	31,214	3%
Income from the construction activity according to IFRIC12	49,223	133,585	-84,362	-63%
Financial income	19,837	24,446	-4,609	-19%
Operational costs before the construction activity according to IFRIC12	845,366	775,914	69,452	9%
Cost of assets constructed according to IFRIC12	49,223	133,585	-84,362	-63%
Financial expenses	5,002	7,335	-2,333	-32%
Profit before tax	**433,751**	**474,266**	**-40,515**	**-9%**
Income tax expenses	75,282	89,945	-14,664	-16%
Net profit for the period	**358,469**	**384,320**	**-25,851**	**-7%**
EBITDA	**574,829**	**600,815**	**-25,986**	**-4%**
Turnover	1,168,911	1,189,983	-21,072	-2%

Thousand RON



1. Interim Income statement Q III 2016(2)

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MAIN INDICATORS
3Q2016 compared to 3Q2015

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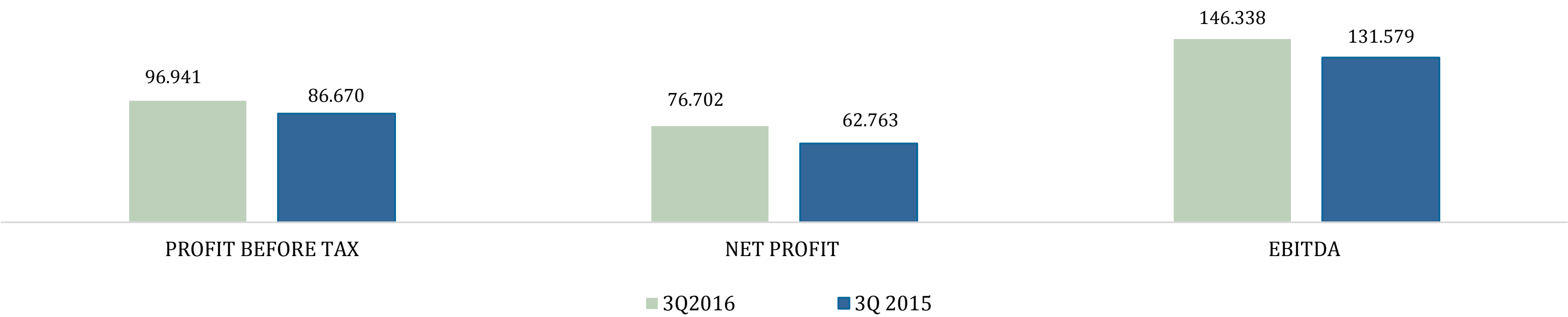
THOUSAND RON	3Q 2016	3Q 2015	Changes
Operational revenue before the construction activity according to IFRIC12	371,802	384,937	-3%
Income from the construction activity according to IFRIC12	15,552	91,700	-83%
Financial income	5,212	6,974	-25%
Operational costs before the construction activity according to IFRIC12	277,993	301,380	-8%
Cost of assets constructed according to IFRIC12	15,552	91,700	-83%
Financial expenses	2,081	3,861	-46%
Profit before tax	**96,941**	**86,670**	**12%**
Profit tax expense	20,238	23,906	-15%
Net profit for the period	**76,702**	**62,763**	**22%**
EBITDA	**146,338**	**131,578**	**11%**
Turnover	354,375	369,602	-4%

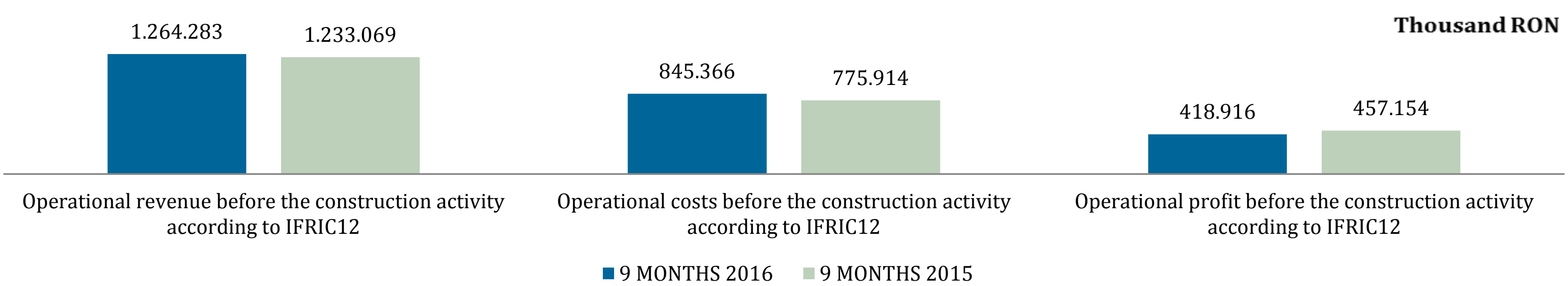
Thousand RON



1. Interim Income statement as of 30.09.2016 (3)

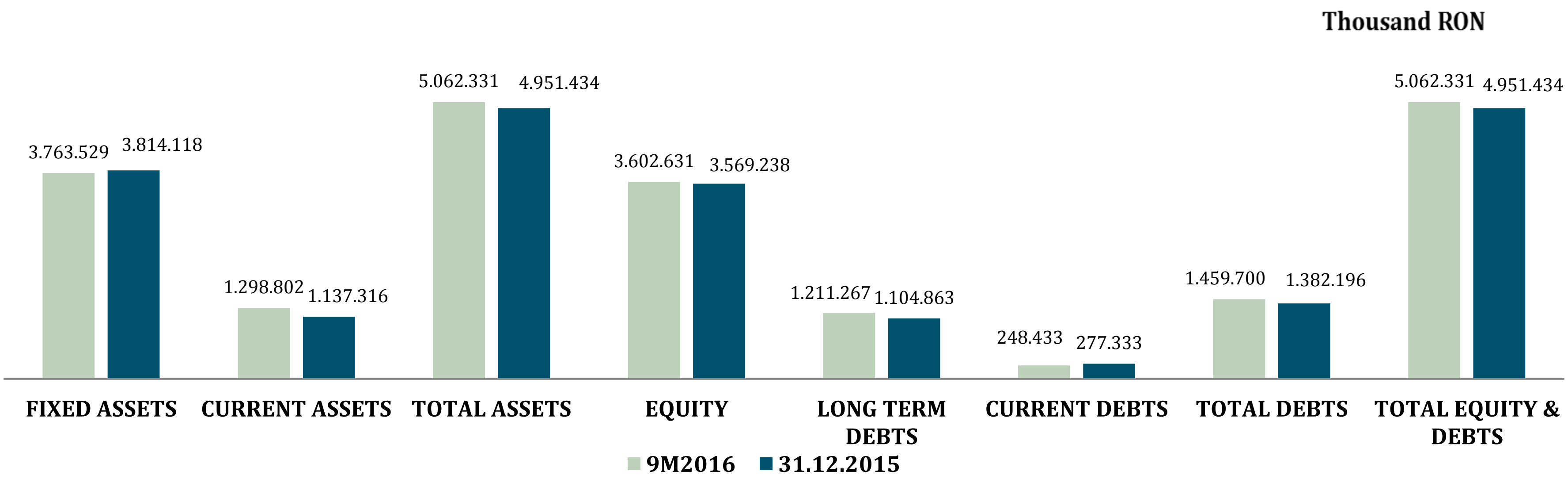
OPERATING ACTIVITY

Thousand RON	9 MONTHS 2016	9 MONTHS 2015	Changes 9M2016 / 9M2015 Absolute	Relative
Revenues from domestic gas transmission activity	902,349	950,326	-47,977	-5%
Revenues from international gas transmission activity	240,299	237,404	2,895	1%
Revenues from the balancing activity	23,809	-	-	-
Other revenues	97,826	45,340	52,486	116%
Operational revenue before the construction activity according to IFRIC12	**1,264,283**	**1,233,069**	**31,214**	**3%**
Employees costs	277,793	265,428	12,365	5%
Technological consumption, materials and consumables used	86,585	66,894	19,691	29%
Expenses with balancing gas	23,037	-	-	-
Expenses with royalties	114,265	118,773	-4,508	-4%
Maintenance and transport	18,415	23,567	-5,152	-22%
Taxes and other amounts payable to the State	49,339	54,568	-5,229	-10%
Revenues / (Expenses) with provisions for risks and expenses	19,278	-5,727	25,005	-437%
Other operating expenses	100,742	108,750	-8,008	-7%
Depreciation	155,913	143,661	12,252	9%
Operational costs before the construction activity according to IFRIC12	**845,366**	**775,914**	**69,452**	**9%**
Operational profit before the construction activity according to IFRIC12	**418,916**	**457,154**	**-38,238**	**-8%**



2. Interim Balance Sheet as of 30.09.2016

Thousand RON	9M2016 unaudited	31.12.2015	Changes Absolute	Relative
FIXED ASSETS	3,763,529	3,814,118	-50,589	-1%
CURRENT ASSETS	1,298,802	1,137,316	161,486	14%
TOTAL ASSETS	**5,062,331**	**4,951,434**	110,897	2%
EQUITY	**3,602,631**	**3,569,238**	33,393	1%
LONG TERM DEBTS	1,211,267	1,104,863	106,404	10%
CURRENT DEBTS	248,433	277,333	-28,900	-10%
TOTAL DEBTS	**1,459,700**	**1,382,196**	77,504	6%
TOTAL EQUITY & DEBTS	**5,062,331**	**4,951,434**	110,897	2%

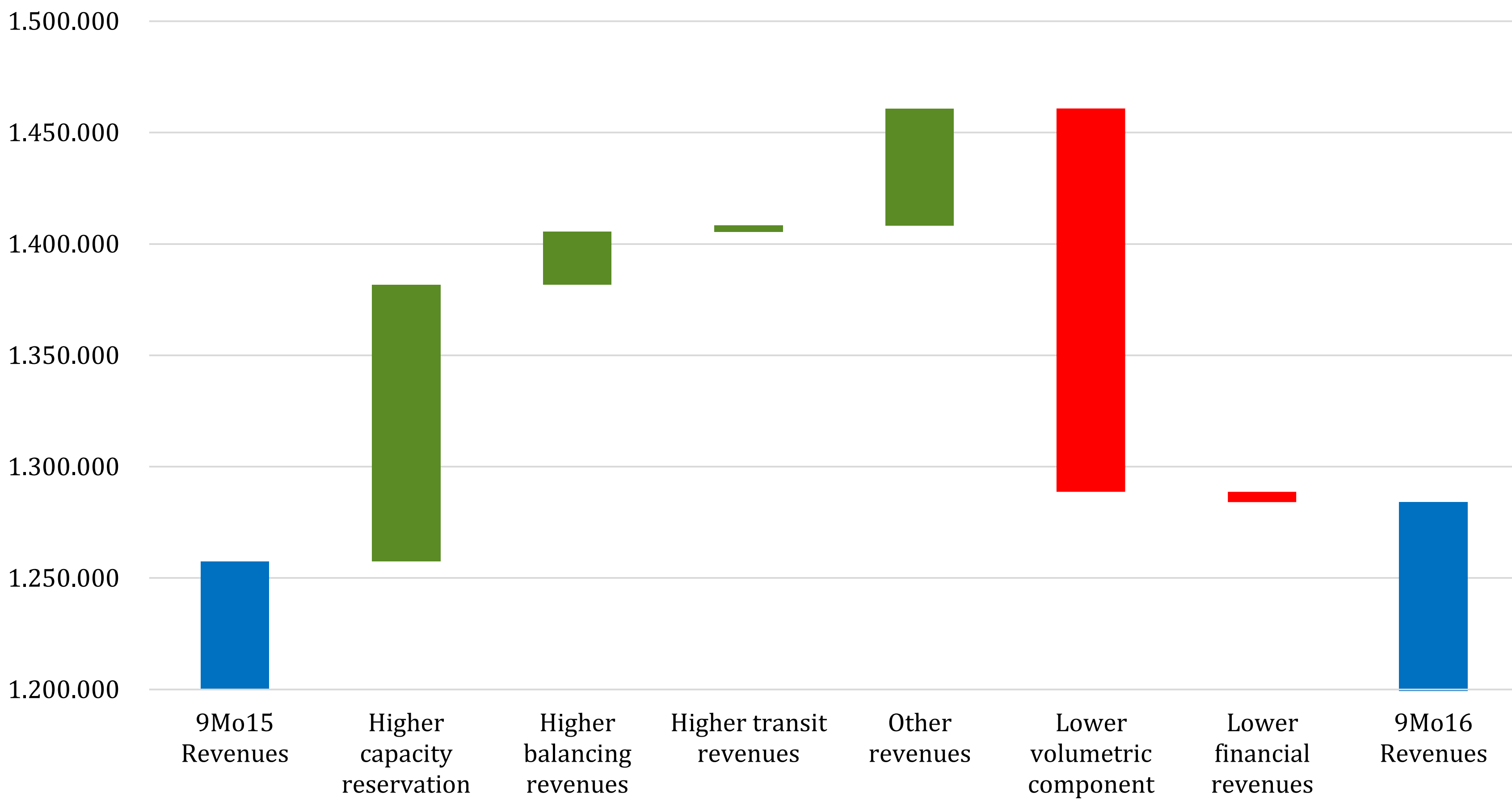


CURRENT ASSETS UP 14 % | **TOTAL ASSETS & TOTAL EQUITY & DEBTS UP 2%** | **10% LOWER CURRENT DEBTS**

3. Main revenue drivers (1)

REVENUES

Higher capacity, lower volumetric components ('000 RON)



3. Main revenue drivers (2)

Operating revenue before the construction activity, according to IFRIC12 increased by 3% as compared to the corresponding period of year 2015, which is higher by **RON 31,214 thousand**.

The revenue was influenced mainly by the following factors:

- capacity booking revenue higher by RON 124,152 thousand due to:
  - the increase of the fix component share in the total revenue to 60%;
  - the invoicing of the booking capacity surplus for 9 months of 2016 amounting to RON 50,106 thousand according to Art. 3, paragraph (6) of ANRE Order 1/18.01.2016;
- volumetric component revenue lower by RON 172,128 thousand due to:
  - the decrease of the variable component share in the total revenue 40%;
  - the decrease of the quantity of invoiced gas by 8,729,958 MWh (873,893 thousand m^3), detailed by categories of consumers as follows:

		9M 2015	9M 2016	Differences
Quantity transmitted for direct consumers	MWh	46,817,612	39,871,709	-6,945,903
	thousand m^3	4,398,450	3,710,463	-687,987
Quantity transmitted for distribution	MWh	49,089,173	47,305,118	-1,784,055
	thousand m^3	4,586,826	4,400,920	-185,906
Total	MWh	95,906,785	87,176,827	-8,729,958
	thousand m^3	8,985,276	8,111,383	-873,893

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.*

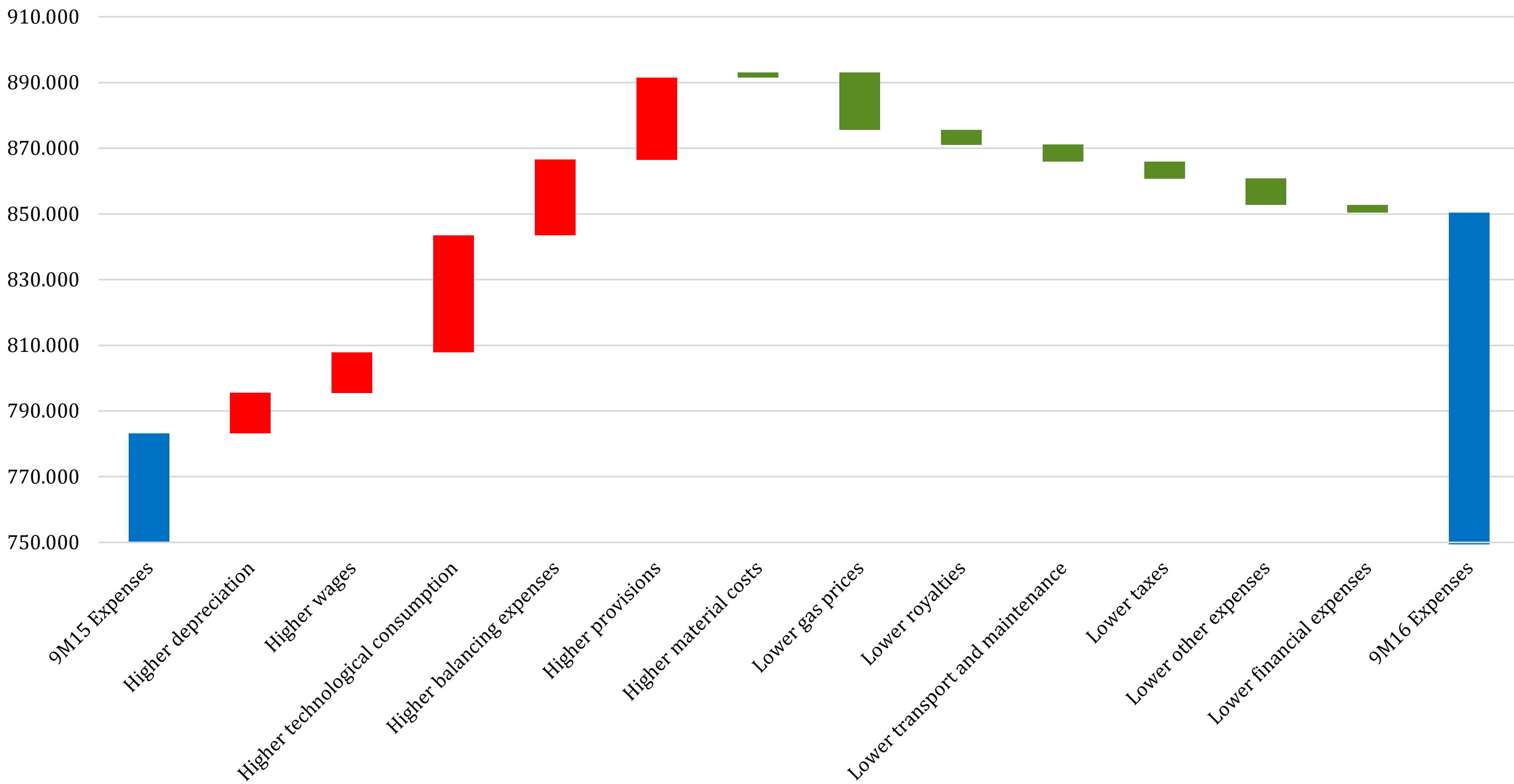
- international gas transmission revenue higher by **RON 2,895 thousand** due to the changes in the foreign currency of the contracts;
- revenue from the balancing activity according to ANRE Order 1/18.01.2016 amounting to **RON 23,809 thousand;**
- other operating revenue higher by **RON 52,486 thousand** due to the limitation period of the default interest related to the dividends received in arrears in the period 2000-2003;
- revenue from the construction activity lower by **RON 84,362 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 4,610 thousand** based on the changes in the foreign exchange rates.

Operating revenue before the construction activity, according to IFRIC12 increased by **3%, RON 31,214 thousand**, compared to 9M2015

4. Main costs drivers (1)

EXPENSES

9M16 vs. 9M15 expenses ('000 RON)



4. Main costs drivers (2)

Operating costs before the construction activity, according to IFRIC12 increased by 9% as compared to the 9 months of 2015, which is higher by **RON 69,452 thousand**.

The company made savings of RON 22,897 thousand, mainly in relation to the following cost elements:

- tax and duties: RON 5,230 thousand;
- maintenance and transmission: RON 5,152 thousand;
- NTS concession royalty: RON 4,508 thousand;
- other operating expenses: RON 8,008 thousand.

An expense surplus of RON 92,349 thousand was recorded mainly in relation to the following cost elements:

- transmission system technological gas consumption and loss increased by **RON 18,155 thousand** due to the following factors:
  - amount of gas for technological consumption higher by 394,013 MWh/ 35,151 thousand m^3 (▲71%), with a negative influence of RON 35,572 thousand;
  - average purchase price in the 9 months of 2016 is lower by RON 18.40/MWh as compared to the 9 months of 2015, with a positive influence of RON 17,418 thousand;
- expense provision for liabilities and costs: RON 25,005 thousand on account of the provision related to the additional public service obligations issued by the National Agency for Fiscal Administration;
- balancing activity cost: RON 23,037 thousand;
- fixed asset depreciation cost: RON 12,252 thousand;
- cost of personnel: RON 12,364 thousand;
- auxiliary materials and other material costs: RON 1,536 thousand.

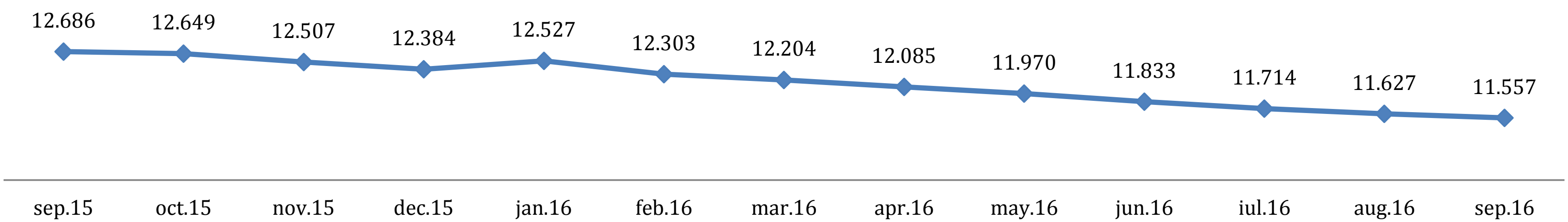
The financial cost is lower by **RON 2,333 thousand** based on the foreign exchange gain.

As compared to the gross profit obtained on 30 September 2015 the gross profit achieved in the 9 months of 2016 decreased by 9%, which is lower by RON 40,515 thousand.

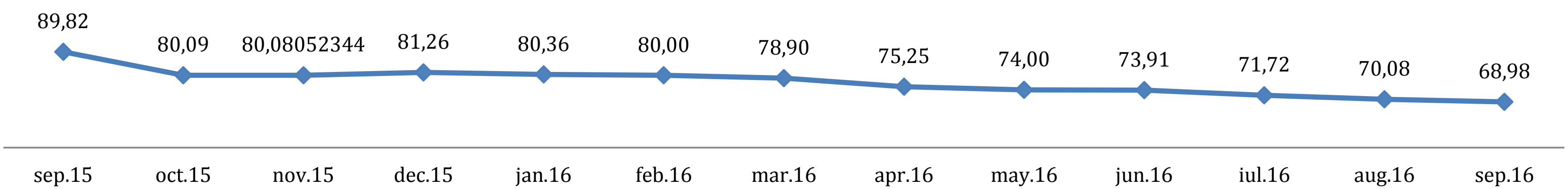
Operating costs before the construction activity, according to IFRIC12 **increased by 9%, RON 69,452 thousand,** as compared to 9M2016

5. Main business drivers

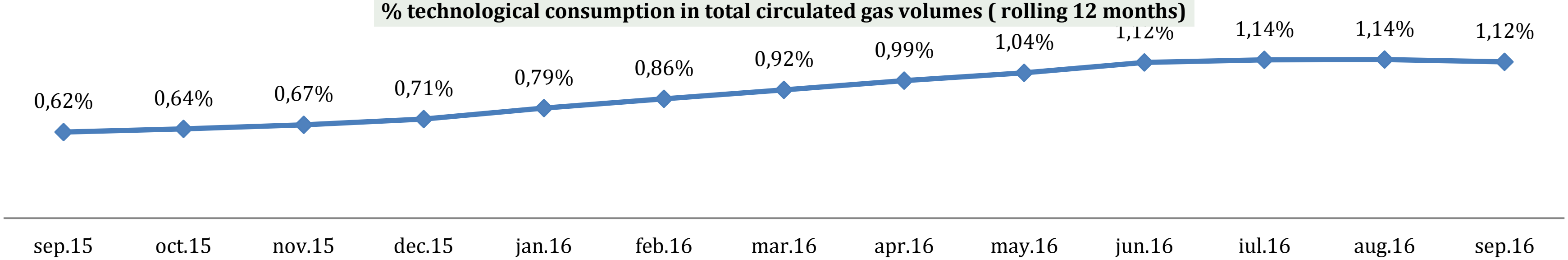
Natural gas volumes transported (including storage quantities) - mill.cm - rolling 12 months



Natural gas acquisition price for technological consumption – RON/MWh



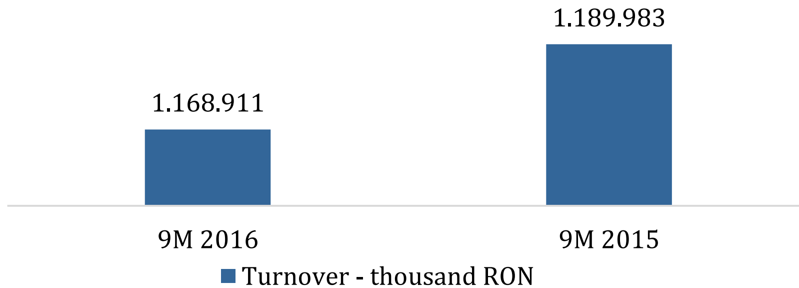
% technological consumption in total circulated gas volumes (rolling 12 months)

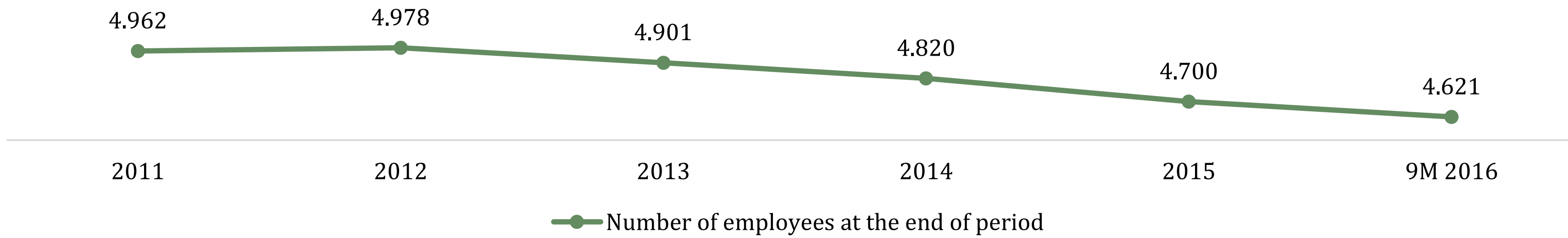


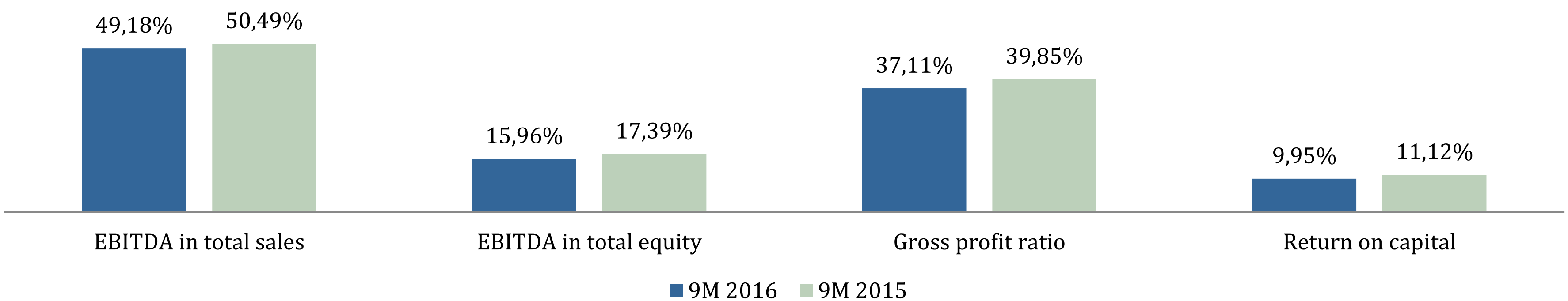
6. Main indicators

9M2016 compared to 9M2015

	9M 2016	9M 2015
EBITDA in total sales	49.18%	50.49%
EBITDA in total equity	15.96%	17.39%
Gross profit ratio	37.11%	39.85%
Return on capital	9.95%	11.12%
Current liquidity ratio	5.23	3.89
Quick liquidity ratio	4.87	3.73
Gearing	0.00%	0.00%
Interest coverage ratio	0	1,647.03
Turnover speed for clients debit -days	107.76	94.02
Turnover speed for credit providers -days	15.27	15.78

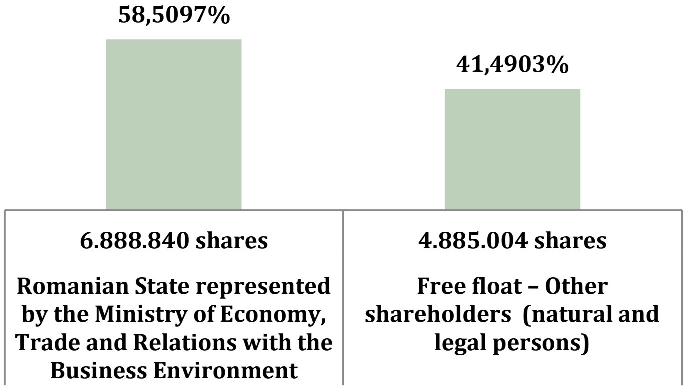


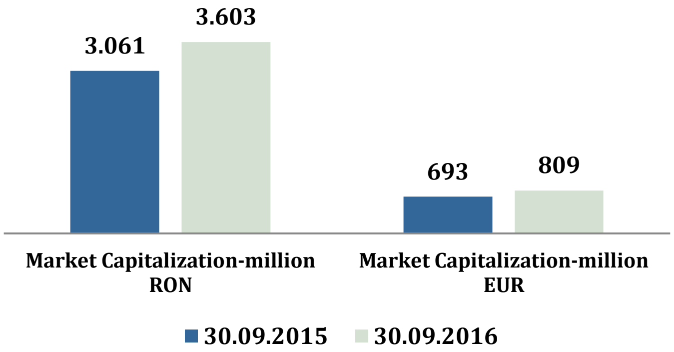


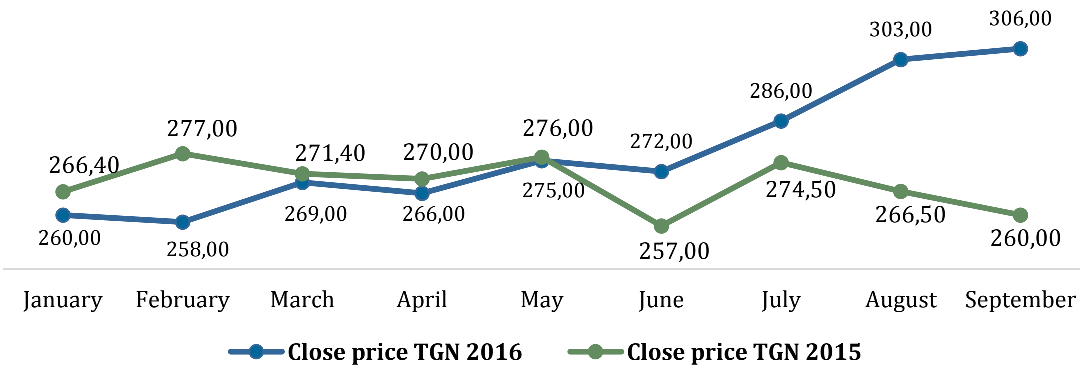


Stock Exchange TGN Evolution (1)

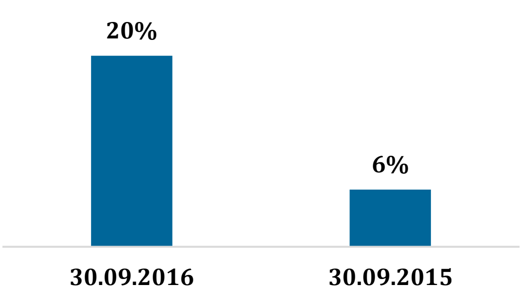
Shareholders structure





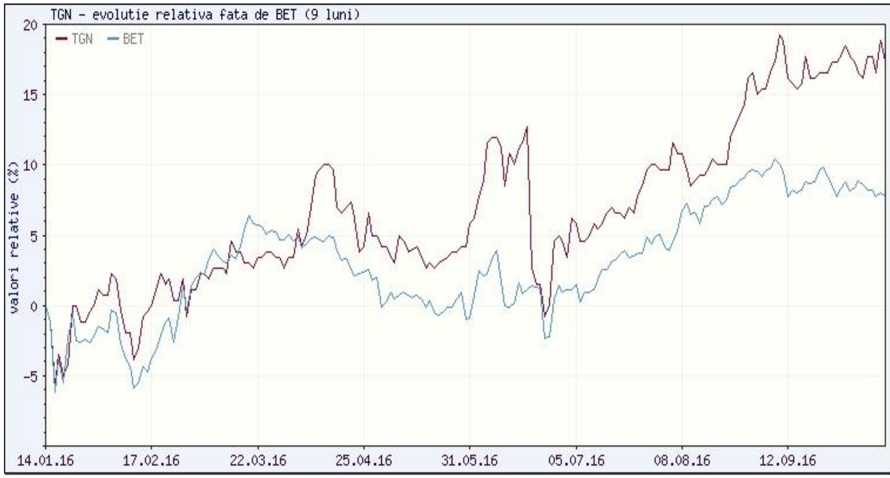


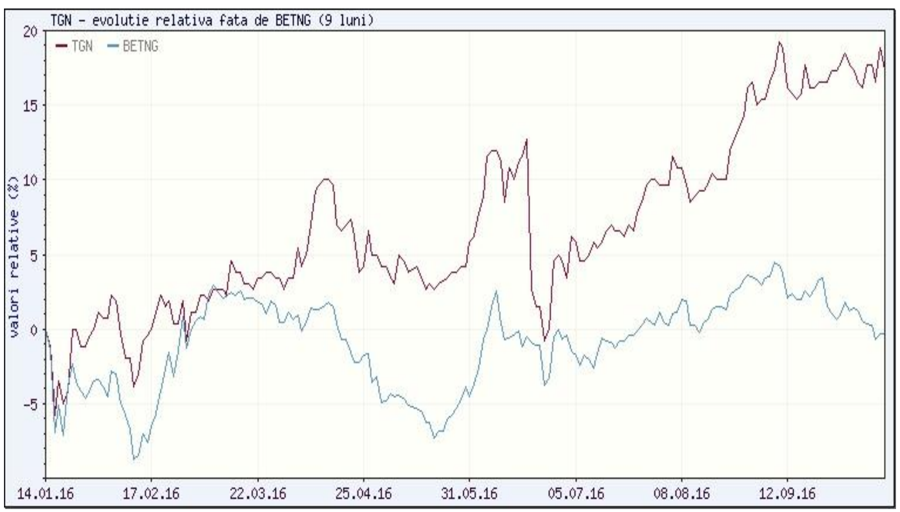
TGN share yield 2016 compared to 2015

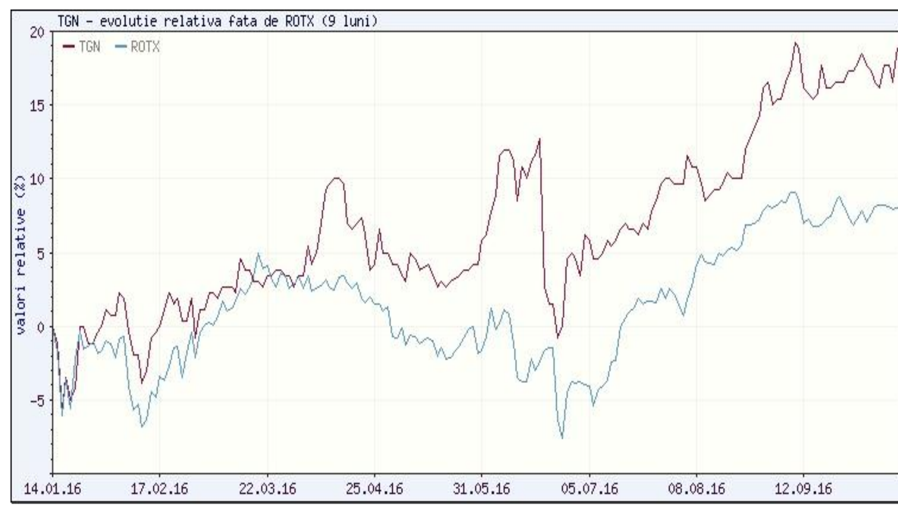


Stock Exchange TGN Evolution (2)

TGN vs BET, BETXT, BETNG, ROTX during 9M2016





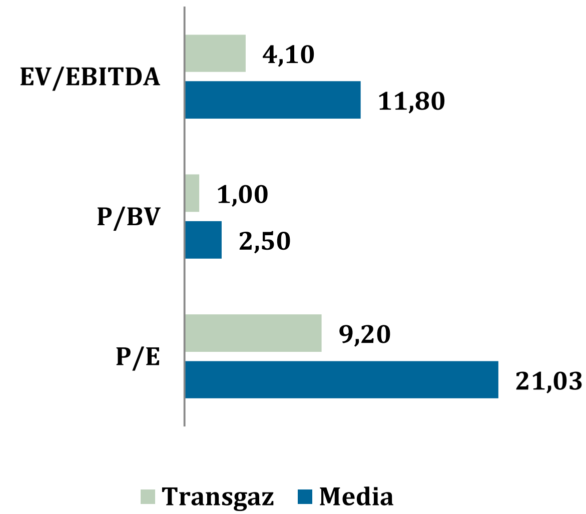


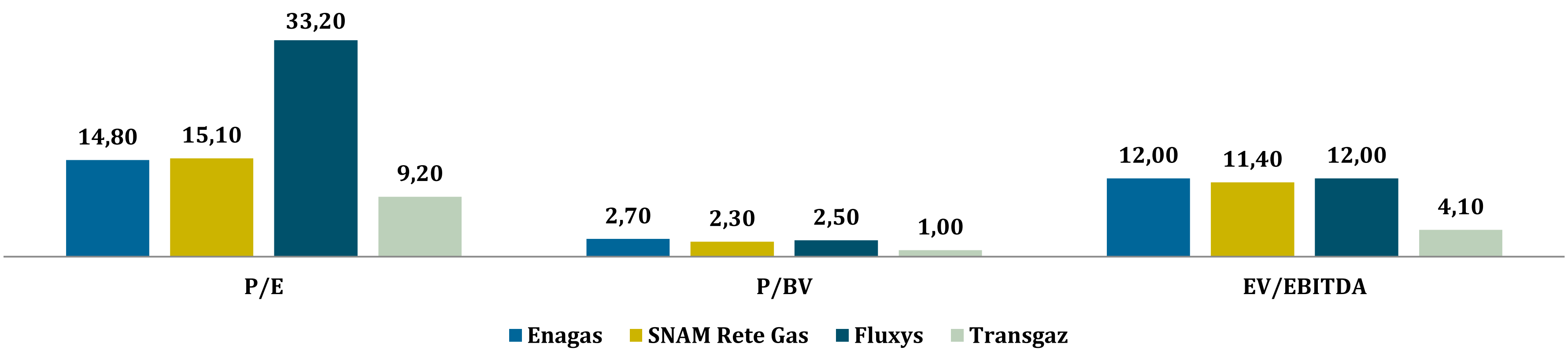
source: www.ktd.ro

TRANSGAZ COMPARED TO PEERS

Company	Country	P/E	P/BV	EV/EBITDA
Enagas	Spain	14.80	2.70	12.00
SNAM Rete Gas	Italy	15.10	2.30	11.40
Fluxys	Belgium	33.20	2.50	12.00
Media		**21.03**	**2.50**	**11.80**
Transgaz	Romania	9.20	1.00	4.10
Premium /Discount		**-56%**	**-60%**	**-65%**

Sursa: Bloomberg 05.10.2016





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Thank you for your kind attention!