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The attached document is only addressed to and directed at persons in member states of the European Economic Area who are Qualified Investors. In addition, in the United Kingdom, the attached document is being distributed only to and is directed only at Qualified Investors: (a) who are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”); or (b) who are high net worth entities falling within Article 49 of the Order, and other persons to whom it may otherwise lawfully be communicated under the Order (all such

person together referred to as “**relevant persons**”). Any investment or investment activity to which the document relates is available only to: (i) in the United Kingdom, relevant persons; and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons. In the case of any Securities being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Securities acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any Securities to the public other than their offer or resale in a relevant member state to Qualified Investors as so defined or in circumstances in which the prior consent of the Dealers has been obtained to each such proposed offer or resale.

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The Dealers are acting exclusively for the Issuer and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of the attached document) as their respective clients in relation to the offer and will not be responsible to anyone other than the Issuer for providing the protections afforded to their respective clients nor for giving advice in relation to the offer or any transaction or arrangement referred to in the attached document.

BASE PROSPECTUS DATED 9 JULY 2014

NET4GAS, s.r.o.

(incorporated with limited liability under the laws of the Czech Republic)

€5,000,000,000

Euro Medium Term Note Programme

(incorporated with limited liability under the laws of the Czech Republic)

Under the Euro Medium Term Note Programme (the “**Programme**”) described in this base prospectus (the “**Base Prospectus**”), NET4GAS, s.r.o. (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “**Notes**”). The aggregate nominal amount of Notes outstanding will not at any time exceed €5,000,000,000 (or the equivalent in other currencies).

This Base Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”) as amended (which includes the amendments made by Directive 2010/73/EU (the “**2010 PD Amending Directive**”). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market of Irish Stock Exchange PLC (the “**Irish Stock Exchange**”) or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area (each a “**Member State**”). Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the official list (the “**Official List**”) and trading on its regulated market (the “**Main Market**”). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes and the issue price of the Notes issued under the Programme will be set out in final terms (the “**Final Terms**”) which, with respect to Notes to be listed on the Irish Stock Exchange, will be filed with the Central Bank. However, unlisted Notes may also be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and admitted to trading on the Main Market (or any other stock exchange).

PROSPECTIVE INVESTORS SHOULD HAVE REGARD TO THE FACTORS DESCRIBED UNDER THE SECTION HEADED “RISK FACTORS” IN THIS BASE PROSPECTUS.

Each Series (as defined in “Overview – Method of Issue”) of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**Temporary Global Note**”) or a permanent global note in bearer form (each a “**Permanent Global Note**”) and, together with the Temporary Global Note, the “**Global Notes**”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates (“**Global Certificates**”). If a Global Certificate is held under the New Safekeeping Structure (the “**NSS**”), the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Global notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”).

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “Summary of Provisions relating to the Notes in Global Form”.

The Issuer has been rated BBB by Fitch Ratings Limited (“**Fitch**”) and BBB by Standard & Poor’s Credit Market Services Europe Limited (“**S&P**”). Each of Fitch and S&P is established in the European Economic Area and registered under Regulation (EU) No. 1060/2009, as amended (the “**CRA Regulation**”) and appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority website <http://www.esma.europa.eu>.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Arranger and Dealer

BNP PARIBAS

Dealers

Barclays	Československá obchodní banka, a. s.
Citigroup	Credit Agricole Corporate and Investment Bank
Erste Group	Komerční banka, a.s.
BofA Merrill Lynch	Société Générale Corporate & Investment Banking
The Royal Bank of Scotland	UniCredit Bank

IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and its subsidiary taken as a whole (the “**Group**”), and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer (the “**Responsible Person(s)**”) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arranger (as defined in “Overview”). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, (the “Securities Act”), or with any securities regulatory authority of any state or other jurisdiction of the United States, and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, see “*Subscription and Sale*”.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accepts any responsibility for the contents of this Base Prospectus or for any other statement made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. The Arranger and each Dealer, accordingly, disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any financial statements are

intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with the issue of any Tranche (as defined in “Overview – Method of Issue”), the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager(s)”) (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

This Base Prospectus contains various forward-looking statements regarding events and trends that speak only as of the date hereof and are subject to risks and uncertainties that could cause the actual results and financial position of the Issuer to differ materially from the information presented in this Base Prospectus. When used in this Base Prospectus, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the Issuer and its management, are intended to identify such forward-looking statements. The Issuer does not undertake any obligation publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events unless, as a result of such event or circumstance, the Issuer is required under applicable law to publish a supplementary prospectus after the date hereof.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to “U.S.\$”, “USD”, “U.S. dollars” or “dollars” are to United States dollars, “EUR” or “euro” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended and “CZK”, “Kč”, “Czech koruna” or “Czech crowns” are to the lawful currency for the time being of the Czech Republic.

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OVERVIEW

The following general description of the Programme does not purport to be complete and is taken from, and is in its entirety qualified by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Base Prospectus have the same meanings in this overview.

Issuer:	NET4GAS, s.r.o.
Description:	Euro Medium Term Note Programme
Size:	Up to €5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger:	BNP Paribas
Dealers:	<p>Barclays Bank PLC, BNP Paribas, Československá obchodní banka, a.s., Citigroup Global Markets Limited, Credit Agricole Corporate and Investment Bank, Erste Group Bank AG, Komerční banka, a.s., Merrill Lynch International, Société Générale, The Royal Bank of Scotland plc and UniCredit Bank AG.</p> <p>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p>
Trustee:	Citicorp Trustee Company Limited
Issuing and Paying Agent:	Citibank, N.A., London Branch
Method of Issue:	<p>The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the “Final Terms”).</p>
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of Notes:	The Notes may be issued in bearer form (“ Bearer Notes ”) or in registered form (“ Registered Notes ”). Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “ Global Certificates ”.
Clearing Systems:	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system, provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer and the relevant Dealers.
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Specified Denomination:	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest determined separately for each Series as follows:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, EURIBOR or PRIBOR as adjusted for any applicable margin. <p>Interest periods will be specified in the relevant Final Terms.</p>
Zero Coupon Notes:	Zero Coupon Notes (as defined in “Terms and Conditions of the Notes”) may be issued at their nominal amount or at a discount to it and will not bear interest.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation will be set out in the relevant Final Terms.
Redemption:	The Notes may be redeemable at par or at such other Redemption Amount as may be specified in the Conditions or relevant Final Terms.
Optional Redemption:	If so specified in the Final Terms, the Notes may be redeemed prior to their stated maturity at the option of the Noteholders in accordance with Condition 6(d) (<i>Redemption on Change of Control</i>), Condition 6(e) (<i>Redemption on Loss of Licence</i>) or Condition 6(f) (<i>Redemption at the Option of Noteholders</i>).
Status of Notes:	The Notes will constitute unsubordinated and unsecured obligations of the Issuer as described in “Terms and Conditions of the Notes – Status of Notes”.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in “Terms and Conditions of the Notes – Negative Pledge”.
Cross-Default:	The Notes will have the benefit of a cross-default as described in “Terms and Conditions of the Notes – Events of Default”.
Ratings:	<p>The Issuer has been rated BBB by Fitch and BBB by S&P. Each of Fitch and S&P is established in the EEA and registered under the CRA Regulation.</p> <p>Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (i) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (ii) issued by a credit rating agency which is not established in the EEA but will be endorsed by a</p>

CRA which is established in the EEA and registered under the CRA Regulation or (iii) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.

Early Redemption: Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “*Terms and Conditions of the Notes – Redemption, Purchase and Options*”.

Withholding Tax: All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes imposed by the Czech Republic, unless the withholding is required by law. In such event, the Issuer shall, subject to customary exceptions, pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in “*Terms and Conditions of the Notes – Taxation*”.

Governing Law: English.

Listing and Admission to Trading: Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Main Market of the Irish Stock Exchange, and references to listing shall be construed accordingly. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

Redenomination, Renominalisation and/or Consolidation: Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Final Terms.

Selling Restrictions: The Notes are being offered and sold outside the United States to Non-U.S. Persons in reliance on Regulation S. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom and the Czech Republic, see “*Subscription and Sale*”.

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as amended.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

The following are certain risk factors of the offering of the Notes of which prospective investors should be aware. The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the issued Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Additional risks, which are either not currently known or not considered likely to materialise, as at the date of this Base Prospectus, may also exist. Such additional risks could materially and adversely affect the Issuer's business, financial condition or the results of its operations. Prospective investors should make their own independent evaluations of all risk factors and should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

The terms defined in "Terms and Conditions of the Notes" shall have the same meanings where used below.

Factors that may affect the Issuer's ability to fulfil its obligations under the issued Notes

The insolvency laws of the Czech Republic may not be as favourable to the holders of Notes as the insolvency laws of jurisdictions with which you may be familiar and may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer is incorporated in, and has its centre of main interests in, the Czech Republic. Accordingly, insolvency proceedings with respect to the Issuer may proceed under, and be governed by, Czech insolvency laws. The insolvency laws of the Czech Republic may not be as favourable to Noteholders' interests as those of other jurisdictions with which investors may be familiar and may limit the ability of Noteholders to enforce the terms of the Notes. Insolvency proceedings may have a material adverse effect on the Issuer's business and assets and its obligations under the Notes as Issuer.

Risk related to the exposure to a small number of shippers, including one major shipper

The Issuer is party to six long-term transit contracts (the "**Material Contracts**"). The Material Contracts represent long-term relationships with four shippers. As disclosed on the website of Gazprom Export LLC (the "**Major Shipper**") as at the date of this Base Prospectus, Transit of Russian gas through the Czech Republic is performed by the Issuer acting as the Czech gas transmission systems operator. The majority of the revenues of the Issuer derive from the Material Contracts, with the contracts with the Major Shipper being of particular importance and accounting for a significant proportion of the Issuer's revenue. For the financial year ended 31 December 2013, the revenues from the contracts with the Major Shipper accounted for 44 per cent of the Issuer's total revenues (including Transit and Transport). Although Transit business revenues for the financial year ended 31 December 2014 are overall expected by the Issuer to be similar to 2013 (despite, among other things, the scheduled termination in December 2013 of a gas Transit contract which accounted for 13.5 per cent of the Issuer's total revenues (including Transit and Transport) for the financial year ended 31 December 2013), there can be no assurance that the proportion of revenues for which contracts with the Major Shipper account will remain unchanged. In the event that one or more of the Material Contracts is terminated and/or the relevant shipper does not make payments under the applicable contract this could have an adverse effect on the Issuer's ability to make full and timely payments on the Notes. The risk of an adverse

effect of such ability to pay on the Notes is significantly increased if such non-payment or termination relates to the contracts with the Major Shipper.

This risk is mitigated in respect of gas transmission by the fact that the Material Contracts are substantially on a “ship-or-pay basis” (i.e. that the relevant shipper is obliged to pay transit fees to the Issuer even where the booked pipeline capacity is not used).

The Material Contracts are on relatively standard terms for the European gas transmission market and contain hardship and force majeure features either contractually or as a matter of Czech or Austrian law:

- (i) force majeure clauses allow the relevant shipper not to perform its obligations when it is prevented by force majeure. The most significant obligation on any shipper is to pay transit fees which is less likely to be avoidable through force majeure than an operational obligation; and
- (ii) “hardship clauses” where in cases of exceptional changes of circumstance that were not foreseeable at the time the relevant contract was entered into and which would put a party into an unacceptable or significantly disadvantageous position, the contractual parties are obliged in good faith (a) to enter into discussions to restore the initially envisaged economic balance for both parties and/or (b) appropriately adjust the contract terms to reflect the new situation.

(Also see the risk factor “*The Issuer’s customers may fail to perform their payment obligations, which could adversely impact the Issuer’s financial condition*”).

The Issuer’s future revenue from its gas transmission network will be partially derived from regulated tariffs, the level of which may have an impact on the Issuer’s results.

The revenues of the Issuer for its transit business, which provides gas deliveries across the Czech Republic to customers outside of the Czech Republic (“**Transit**”), are subject to price caps imposed by the Czech Energy Regulatory Office (“**ERO**”). The charges are determined by the entry and exit tariffs applicable at the relevant entry and exit border points. As at the date of this Base Prospectus, the Issuer is a party to over a hundred contracts for gas transmission, including the Material Contracts.

Those Material Contracts in existence at the time of the implementation of the Third Energy Package (as defined below) (with the exception of the Gazelle Contract which is exempt from the regulated tariff requirements until January 2035) were amended due to the implementation of the third package of legislative proposals for electricity and gas markets adapted by the European Union on 3 September 2011 (the “**Third Energy Package**”) to comply with the applicable regulatory regime. However, the actual level of the revenue under such contracts remained unchanged.

The revenues of the Issuer for its transport business, which serves the needs of the Czech Republic and transports gas into the domestic distribution grid, gas storages and to large industrial customers (“**Transport**”), are subject to price regulation by the ERO which takes the form of a revenue cap on a cost plus basis, with certain incentives. While adjustments to the tariff are reviewed annually, an inadequate allowed cost of capital or assumptions concerning required capital expenditure proving not to be sufficiently accurate could lead to the Issuer not being adequately compensated for its Transport service, which could adversely affect its financial performance.

The Issuer cannot guarantee that future tariffs will or will not be set at a level that would allow it to improve or maintain its profitability margins or maintain or improve its infrastructure in line with current expectations or future potential competition. Future changes in the tariff structure applicable to the Issuer’s gas transmission network could have a material adverse effect on the Issuer’s activities, outlook, profits and financial results (See “*Tariffs for Using the Gas Transmission Network*” in the “*Description of the Issuer*” for more information on how new tariffs are set).

Revocation of certain exemptions relating to the Gazelle Pipeline could affect the Issuer's performance and results of operations.

In respect of the new Gazelle transit pipeline (which was commissioned in January 2013) (the “**Gazelle Pipeline**”) the Issuer has been granted exemptions by the ERO from the obligation (i) to ensure third party access under the regulated tariffs (and is instead priced on negotiated tariffs) and (ii) of ownership unbundling. The exemptions are granted until 2035 but may be prematurely revoked by the ERO in the event that the Issuer fails to comply with the conditions stipulated in the exemption decisions. A significant part of the exempted capacity of the Gazelle Pipeline is booked by the Major Shipper through the entire period of the exemption. In order to meet the requirements for granting the exemptions, the ownership to the Gazelle Pipeline was transferred to BRAWA, a.s., 100 percent subsidiary of the Issuer. A premature revocation of these exemptions could have a material adverse effect on the Issuer's activities, outlook, profits and financial results.

Recent or future changes to applicable regulations could create uncertainty in matters that are significant to the Issuer's business and have an adverse impact on its financial condition or results of operations.

The Issuer operates in a highly-regulated industry. The laws, regulations, directives, decisions and policies of the EU and the Czech Republic determine the scope of the Issuer's activities, and could substantially affect its revenues and the way the Issuer conducts its business. Changes to EU law (including new legal requirements) may create new legal risks for the Issuer's operations and affect the Issuer's business and income in ways it cannot predict. Such legislation or regulation may be directly applicable to the Issuer in its role as a transmission system operator (“**TSO**”), or indirectly (such as environmental regulation relating to carbon emissions, competition regulation given the Issuer's position as sole and exclusive licensee in the Czech market). The Issuer's ability to comply with and the increased costs of compliance with future changes in law, and the potential for creation of greater costs may adversely impact the business, financial condition and results of operations of the Issuer and its ability to meet its obligations under the Notes.

Upcoming developments in European and national regulation of the gas sector could give rise to additional expenditure for the Issuer.

The Third Energy Package sets out 12 areas in which European network codes for cross-border network and market integration are to be developed. The European Commission amended Annex 1 to Regulation (EC) No 715/2009 relating to congestion management procedures in 2012 and has recently adopted two European network codes relating to capacity allocation mechanisms (Regulation (EU) No 984/2013) and gas balancing (Regulation (EU) No 312/2014). In addition, there are currently ongoing developments regarding further adoption of European network codes relating to harmonisation of transmission tariff structures, interoperability and data exchange, incremental capacity and rules for trading.

Generally, the European Commission may decide to request the development of additional network codes or the amendment of existing ones although such decision has not yet been made.

Given these European network codes are directly binding on the Issuer, once adopted and in force, their implementation might give rise to additional expenditure for the Issuer.

At a national level, there are currently discussions being held in the Czech Republic between the ERO and stakeholders on the new regulatory period (the “**fourth regulatory period**”) which is expected to commence from 2015 or (if the ERO extends the current regulatory period by another year) 2016. The discussions relate to the setting of key parameters for regulatory permitted revenues and domestic transport and distribution tariffs in the gas sector for the fourth regulatory period. There is a risk that new regulatory requirements within the fourth regulatory period might have an adverse impact on the Issuer's business results. However, as

at the date of this Base Prospectus, it is not clear whether the ERO's proposal in its current form will be implemented, given the number of suggestions for amendment submitted by a large number of stakeholders during the ERO's consultation on the regulatory determination in February 2014 and the commenting process related to the draft of the respective regulatory decree in May and June 2014.

The Issuer's activities require various administrative authorisations that may be difficult to maintain or obtain or that may be made subject to increasingly stringent conditions.

The Issuer's gas transmission activities require various administrative authorisations, licences, certificates, permissions and/or exemptions and dispensations (the "**Authorisations**") in the Czech Republic. The issuance of these Authorisations may be subject to conditions, requirements and/or restrictions which the Issuer is obliged to meet continually. Failure to meet such conditions, requirements and/or restrictions may give grounds for imposition of a penalty and/or remedial measures or a revocation of such Authorisation by the relevant authority.

The procedures for obtaining or renewing these Authorisations can be time consuming and complex and may require continual fulfilment of a number of requirements. Accordingly, the Issuer may be required to pay significant amounts to comply with the requirements associated with obtaining or renewing these Authorisations (for example, the associated external and internal costs of preparing the applications for such Authorisations or of the investment associated with installing equipment required before such Authorisations can be issued or renewed). In addition, any of the Authorisations may be amended, suspended or revoked or may not be renewed and/or additional conditions may be imposed on the Issuer. The termination, revocation, suspension or modification of, or a failure, for any reason, to renew, these Authorisations in a timely manner could have a material adverse effect on the Issuer's business, operations, financial condition or results as the Issuer will not be able to carry on its current activities as it currently is. While the Issuer has not had problems obtaining the required Authorisations in the past, there can be no assurance that the Issuer may not have difficulties in the future, in particular, if Czech or EU regulation or the interpretation of such regulation changes, resulting in the introduction of new procedural and/or other requirements for receiving such Authorisations (See "*Description of the Issuer – Gas Transmission – Licences, Permissions and Authorisations*" for the list of Authorisations required and received to date).

Breaches of, or changes in, any applicable environmental, health and safety laws and regulations may cause the Issuer to incur increased costs or liability.

Gas transmission is a potentially dangerous activity and involves the use of products and by-products that may be hazardous to human health and the environment. The Issuer's activities are subject to regulations for the protection of the environment and public health which are increasingly numerous and restrictive and which may change over time. The Issuer has made and will continue to make significant capital and other expenditure to comply with applicable environmental and health and safety regulation.

As the Issuer's transmission network is primarily powered by gas turbine-driven compressors, it emits carbon dioxide which may result in costs in the form of emission allowances. The emission allowance consumption depends on the level of utilisation under the Issuer's Transit and Transport contracts. The Issuer participates in the European emissions trading system under which producers and operators, which meet the yearly benchmarks, receive a share of allowances for free until 2020. If the amount of free allowances is not sufficient, additional allowances may be purchased in the market. The cost of such extra emission allowances purchased in the market and any change in the emission allowance prices may have an impact on the Issuer's financial condition.

Compliance with environmental regulations in the Czech Republic and abroad may materially increase the Issuer's costs of operations. Recent EU legislation requires TSOs, such as the Issuer, to implement integrated prevention and environmental pollution control. The Issuer continuously incurs and will continue to incur

costs related to reducing emissions and specific types of air pollution, and capital expenditure to ensure that its installations comply with applicable laws for the protection of the environment and human health and safety (which may change over time).

In addition, any of the Issuer's operations may, in the future, become subject to stricter laws and regulations, and, accordingly, the Issuer may be required to increase its capital expenditure to ensure continued compliance. Compliance with current and future environmental and health regulation may have a material financial impact on the Issuer. In particular, ongoing international negotiations which aim to limit greenhouse gas emissions may result in the introduction of new regulation and may have an adverse impact on the Issuer's business.

The Issuer may be exposed to significant liability if it fails to comply with applicable environmental and health and safety laws and regulations. There can be no assurance that the Issuer will not incur substantial costs and liabilities, including the cost of clean-up operations and claims for damages to property and persons resulting from environmental or health and safety incidents. Any such costs and liabilities could adversely affect the Issuer's financial condition, operations, results and reputation.

Risks related to operating activities.

Risks related to natural disasters, equipment malfunction and human error.

The Issuer's transmission operations are conducted on a basis of high-pressure pipelines. The transmission of natural gas carries high risk and is exposed to increased costs as a result of damage from disruptions, system or equipment breakdowns, accidents, natural disasters (such as e.g. heavy storms, thunderstorms, earthquakes or landslides), operational hazards, equipment malfunction, human error, failure to maintain the transmission network, processes resulting from unexpected material defects or fatigue, major system or network imbalances, IT system and processes failures (including system hardware and software failures, viruses, accidents or security breaches), performance below expected levels of capacity and efficiency and/or other unforeseen events that could cause gas leaks, explosions, fire or equipment damage and which, in turn, could cause human injury or death or damage to third parties or the natural environment. Any such failure of the Issuer's gas transmission network adversely affects its business, financial condition or results of operations and expose it to liability, including class action litigation.

Risks related to third party action.

The operations of the Issuer may be disrupted by unforeseen events such as terrorist attacks, sabotage, breaches of security or other intentional acts or crimes which may cause damage to the Issuer's assets or harm key employees and/or otherwise negatively affect the Issuer's network or operations and may cause network failures or system breakdowns. Such acts may adversely affect the Issuer's business, its reputation, its financial condition or the results of its operations. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the Issuer's inability to obtain insurance protection against certain types of risks. These risks may have an adverse effect on the business, financial condition or results of operations of the Issuer or the ability of the Issuer to meet its obligations under the Notes.

In addition, accidents that may occur at the Issuer's facilities in connection with the use of certain of the Issuer's assets may result in the harm and death of humans and other serious consequences and expose the Issuer to potential claims resulting in significant liability, use of financial and management resources and possible reputational damage.

The Issuer's infrastructure investments could be subject to delays.

As a TSO, the Issuer is obliged to continuously maintain and develop its network in order to ensure the capability of the network to satisfy demand for the transmission of gas, and, in particular, to contribute to security of supply by having appropriate transmission capacity. The Issuer's infrastructure investments for expansion of its current business and the speed at which these investments are implemented are subject to planning and execution risk and may be affected by delays in receiving necessary authorisations and approvals, delays in the required land expropriation procedures or in construction (and other factors outside its control). As the investment proposals and implementation of such investment proposals are subject to certain assumptions, such assumptions may prove not to be correct and the investment projects may not develop as planned or issues relating to such investment projects may put the Issuer in a position of non-compliance with legislation. Furthermore, the Issuer may not be able to raise sufficient capital to finance such investment plans at rates that are economically viable. In summary, such investments may not yield the projected returns, if any, or may not be completed as expected.

In particular, the Issuer is currently contemplating the following (interlinked) projects: Project STORK II (which is to further develop the interconnection between the Czech Republic and Poland) and Project Moravia (which is to ensure sufficient exit capacity for the regions of Central and North Moravia, to increase reliability of gas transmission in the Moravia region and to strengthen the security of supply in the Czech Republic generally). A positive decision has been received on the investment request for cross-border cost allocation which was submitted by the Issuer and the Polish TSO (GAZ-SYSTEM S.A.) to the ERO and the Polish regulator (URE) in line with the Regulation of the European Parliament and the Council No. 347/2013/EU on guidelines for trans-European energy infrastructure. The implementation of both of these projects now depends mainly on the final investment decision of the Issuer. Any postponement or failure to complete the contemplated project may have an adverse effect on the generation of the Issuer's expected revenues.

The Issuer's results of operations may be adversely affected by the development of alternative gas transmission routes.

The Issuer faces competition risk from the development of alternative gas transmission routes to the areas where the Issuer currently delivers gas. Currently two projects to transport gas from Russian gas sources to North-Western Europe, Central Eastern Europe ("CEE") and South-Eastern Europe, namely South Stream and the construction of the extension of the Nord Stream pipeline in the Baltic sea have been announced. While these projects are in planning phases, depending on which parts of the projects are implemented, where the pipelines are connected to the existing grid and how supply and demand patterns in Europe develop, the Issuer would face competition. Such competition may adversely impact the Issuer's ability to negotiate and conclude new transmission contracts and/or renew existing contracts and may influence the Issuer's future development plans.

In addition, the global developments, among others, relating to the demand for shale gas and liquefied natural gas may have an adverse impact on the Issuer's business.

Risks related to network development and expansion requirements.

Under the Energy Act, the Issuer is obliged to prepare a forward-looking 10-year network development plan (the "TYNDP") on an annual basis. The TYNDP is prepared on the basis of the current and expected demand for gas and the supply of gas in the future and is required to contain efficient measures for ensuring appropriate capacity in the network, pursuant to applicable regulatory requirements, to ensure security of gas supply. If the Issuer fails to meet its statutory obligations in respect of the TYNDP, it may be subject to remedial measures imposed by the ERO.

Risk of expropriation of the gas infrastructure.

As the technical infrastructure and equipment which the Issuer owns or has right to use is of paramount importance to the Czech Republic's national security, the risk of expropriation of the infrastructure in the event of a crisis situation cannot be entirely ruled out. Nevertheless, under Czech law, the ownership of property is one of the basic rights which is protected at a constitutional level. Therefore, ownership may be made subject to a limitation or expropriated only in extraordinary and limited circumstances. Under Czech law (including under Act No. 240/2000 Sb. on Crisis Management) expropriation or mandatory limitation of ownership, in principle, can only be sought in the Czech Republic: (i) if it is in the public interest; (ii) if it is for a purpose stipulated in a specific regulation; (iii) if the purpose of the expropriation cannot be achieved otherwise (e.g. by an agreement between the parties); (iv) for compensation; and (v) only to the extent absolutely necessary. See also "*Description of the Issuer – Gas Transmission – Crisis Management in the Gas Industry*".

Given the strategic nature of the gas infrastructure to the state, it is possible that additional special legislation may be enacted to enable actions such as expropriation/limitation of ownership of energy infrastructure and equipment.

Risks related to political and governmental instability in the region.

Any future political and governmental instability and/or international political conflicts in countries, which are strategic for the Issuer to ensure effective operation of its network, could result in changes to such countries' export policies and introduction of potential restrictions on the export of the gas. A significant reduction in gas exports from the gas-producing countries could have a material adverse effect on the demand for the Issuer's network capacity. The Issuer is exposed to the risk that Russia, other countries or neighbouring TSOs could close their transmission grids thereby cutting off the supply of gas. Since 2009 the Issuer has invested in projects to increase the security of supply in the Czech Republic and in the CEE region. However, the Issuer has no control over Russia, other countries or neighbouring TSOs and may face an adverse impact on its business if a long-term gas supply disruption could not be mitigated by gas suppliers using the Issuer's transmission system to meet the gas demand coverage in the region from other gas sources.

In addition, political and governmental instability in the gas-producing and transit countries would create an uncertain operating environment for the Issuer and could hinder the Issuer's long-term planning. Such risks may have a material adverse impact on the business, financial condition or results of operations of the Issuer. In certain circumstances, the Issuer may also be exposed to emergency legislation and/or implementation of international sanctions. At the same time, production disruption in gas producing countries other than Russia could lead to a material positive effect on the financial performance of the Issuer as increased quantities of Russian gas could be transported through the Issuer's network to European consumers of Russian gas.

Risks relating to the Issuer's reliance on service providers and subcontractors.

While the Issuer is solely responsible for carrying out the gas transmission service, in several areas of its operation it is also exposed to risks relating to its reliance on service providers and subcontractors. Although the Issuer is careful in the choice of its partners, it cannot guarantee the performance and quality of services carried out by external parties or their compliance with applicable regulations. Financial difficulties, including insolvency, of any such service provider or subcontractor, or a decrease in the quality of service, budget overruns or completion delays, are likely to have an adverse impact on the Issuer's business, financial condition, and results of operations. Although the Issuer has back-up service providers and subcontractors, it cannot guarantee the performance of such providers and subcontractors.

Risks related to the ERO's wide scope of competence.

The Issuer and its business operations are subject to the regulatory decisions of the ERO. It is out of the Issuer's control how the ERO's scope of influence will develop and what impact it may have on the Issuer's

operations. The ERO's approach to regulation of the gas sector may change from time to time, which may adversely impact the Issuer.

Litigation and regulatory proceedings.

In the ordinary course of business, legal claims and proceedings arise or may be threatened against the Issuer. The amounts claimed may be substantial and the Issuer is not generally able to predict the ultimate outcome of such claims and proceedings. Although there is currently no litigation or regulatory action (pending or threatened) the adverse determination of which would have a material adverse impact on the financial condition or reputation of the Issuer, no assurance can be given that litigation or regulatory proceedings will not arise in the future and will not have a material adverse impact on its business, financial condition or results of operations.

There are currently four administrative proceedings pending regarding the issuance of the relevant permits for the construction of Gazelle Pipeline. The claimants have been unsuccessful before the relevant competent administrative authorities at first instance but such claimants may appeal such decision to a higher instance. Despite the pending proceedings, the Issuer is, however, of the view that it has met all applicable requirements for obtaining the necessary permits and that there is no reason for these permits to be successfully challenged. The competent administrative authorities (the Czech Ministry of Industry and Trade and the Czech Ministry of Regional Development) also shared this view in their first instance decisions. However, there is a risk that if and when one of the claims is appealed further, the relevant appeal authority may take a differing view and may rule that the permits have not been validly obtained.

Possible changes in law, including retroactive changes, or different interpretations of applicable laws, may have a negative impact on the Issuer.

The structure of the transaction and, among other things, the issue of the Notes and ratings assigned to the Notes are based on law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Base Prospectus which might have an impact on the Notes and the expected payments of interest and repayment of principal.

The Issuer consistently strives to comply with all applicable laws, regulations and official decisions, based on appropriate legal advice. However, in some circumstances, especially where a law or regulation is subject to different interpretations, the Issuer may inadvertently breach a legal obligation (despite adopting a reasonable and well-advised interpretation) and may be liable for substantial administrative fines. In particular, tax laws and their interpretation by the tax authorities and courts are subject to change, potentially with retroactive effect. Such changes and/or fines may have an adverse impact on the Issuer. Furthermore, the Issuer's interpretation may not correspond with that of the relevant authorities at the time of potential subsequent review by them.

Tax audits may result in a higher taxable income or in a lower amount of carried forward tax losses being available to the Issuer.

The inability to attract, train or retain qualified personnel could have a material adverse impact on the Issuer's business, operations, financial condition, results and prospects.

The Issuer's ability to implement its long-term strategy is supported by the capabilities and performance of its personnel. Loss of key personnel or an inability to attract, train or retain highly-qualified staff required to support its obligations, implement its investment programme and develop new business fields, could temporarily affect the Issuer's ability to implement its long-term strategy and could have a material adverse impact on the Issuer's expertise, business, knowhow, operations financial condition, prospects and on the

ability to maintain or operate the network or complete infrastructure projects on time or meet strategic objectives.

Risks related to changes in the demand for gas.

Demand for the Issuer's transmission capabilities is ultimately driven by demand for natural gas in Europe. The Issuer is exposed to the global risks associated with the demand for gas, which depend on a number of factors outside of its control, including gas price, geopolitical developments, alternative sources of energy, climate change, economic slowdown and/or environmental laws.

The Issuer's results fluctuate in accordance with the economic cycles and general economic conditions of the geographical regions in which it operates. Any economic slowdown in those regions would lead to a reduction in gas consumption and, consequently, would have a negative impact on the demand for gas transmission, decreasing in turn, bookings in the Issuer's contract portfolio. However, the Issuer's revenues are predominantly a function of capacity purchased under long-term ship-or-pay contracts as opposed to volumes actually transmitted or stored, which mitigates their exposure to temporary fluctuations in economic conditions to a certain extent.

The Issuer's decisions to expand its transmission capacity or develop new interconnections have been and will continue to be based on projected demand for natural gas transmission. Such projections are based on currently available data and historical information on market growth trends, energy policy and connection requests. Accordingly, if actual demand for natural gas transmission is not in line with the Issuer's projections, the Issuer may not earn the projected return on its investments, and its financial condition or results could be adversely affected.

Higher natural gas prices in the long term may decrease the general demand for natural gas in Europe and, thereby, the volume of natural gas the Issuer is able to contract to transmit. Conversely, lower natural gas prices may increase the demand for natural gas in Europe, thereby, increasing the volume of natural gas the Issuer is able to contract to transmit.

Risks relating to the balancing of the transmission network of gas.

Under Czech law, the Issuer is obliged to maintain sufficient volume of balancing gas to create or maintain the required minimum volume within the network. There is a risk that the level of gas in the Issuer's network becomes insufficient. In such a case, additional volumes of gas may need to be purchased in the market, which may, in turn, cause additional expenditure for the Issuer. For this purpose, the Issuer is entitled to purchase and sell the gas to cover its own losses, for its own consumption, or to create or maintain the required minimum volume within the network.

The Issuer's customers may fail to perform their payment obligations, which could adversely impact the Issuer's financial condition.

The Issuer is exposed to the risk that some or all of its customers may be unable, or may refuse, to perform their contractual financial obligations, whether as a result of a deterioration in their financial situation or in the general economic or political conditions or otherwise. Such failure or refusal of a customer to perform its contractual obligations may have a significant adverse impact on the Issuer's financial condition.

Risks related to insurance.

The Issuer's pipelines are a decentralised system of assets and insuring them is not economical. Accordingly, the Issuer does not have the benefit of any insurance against damage to the pipelines it owns or for business interruption. Any material damage to its pipelines could have an adverse impact on the Issuer's investment plan, financial condition and results. However, the other assets of the Issuer (other gas transmission assets, the

compression stations and the pipeline located within compression stations) are covered by insurance against damage.

Risks related to bankruptcy proceedings.

The assets of the Issuer may be subject to attachment in the event of bankruptcy proceedings. Any such attachment could disrupt the operations of the Issuer, reduce efficiency and/or be costly and time consuming to defend and therefore could adversely impact the Issuer's business, financial condition and results of operations.

Risks relating to information systems.

The Issuer operates highly complex and sophisticated information systems (such as servers, networks, applications and databases) (the "IT Systems") which are essential for the everyday operations of its commercial and industrial business. The reliability and continuity of the IT Systems is essential for efficient and reliable operation of the network. Although the Issuer continuously takes measures to improve its IT Systems and processes, there is no guarantee that hardware and software failures, viruses, accidents or security breaches will not occur. These could impair the Issuer's ability to provide all or part of the services it is required to provide by law or under the contracts to which it is a party which could, in turn, have a material adverse impact on the Issuer's business, financial condition and results of operations.

The Issuer's access to financing may be adversely affected by changes to its credit ratings.

Downgrades of the Issuer's credit ratings may affect the Issuer's borrowing capacity and the cost of any future borrowing or refinancing. Failure by the Issuer to secure financing in the future may have a material adverse impact on the Issuer's business, financial condition and results of operations.

The Issuer is subject to risks associated with its international business.

The Issuer is exposed to a variety of risks associated with operating an international business. As a result of the cross-border nature of its operations, the Issuer is vulnerable to political, legal or economic instability (particularly with neighbouring countries and counterparties) which may harm its business activities.

Fluctuations in foreign currency exchange could adversely affect the Issuer's business, financial condition and results of operations.

Risks associated with foreign exchange instability, foreign exchange controls, and currency fluctuations might also negatively affect the Issuer's business, financial condition and results of operations. The Issuer pursues hedging against certain risks, primarily foreign currency fluctuations. The hedging is performed in a short-term horizon within the then current business plan, usually one year. Beyond the hedging horizon, such risks might have an adverse impact on the results of operations.

Risks related to the Notes.

Notes may not be a suitable investment for all investors.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency or where the currency for principal or interest payments is different from the currency in which such potential investor's financial activities are principally denominated;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Independent review and advice.

Each prospective investor in the Notes must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it and is a fit, proper and suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding the Notes. A prospective investor may not rely on the Issuer or the Dealers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

Investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depository or a common safekeeper, as applicable, for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to the common depository or a common safekeeper, as applicable, for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Trust Deed.

Modification, waiver and substitution.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders,

including such Noteholders who did not attend and vote at the relevant meeting and the Noteholders who voted in a manner contrary to the majority.

Denominations.

In relation to any issue of Notes which have a denomination consisting of the minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of the minimum specified denomination (or its equivalent). In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and may need to purchase a principal amount of Notes such that its holding amounts to the minimum specified denomination.

If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Legality of purchase.

Neither the Issuer, the Dealers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the subscription or acquisition of the Notes by a prospective investor in the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective investor with any law, regulation or regulatory policy applicable to it.

A Noteholder's actual yield on the Notes may be reduced from the stated yield by transaction costs.

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro rata commissions depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including, but not limited to, domestic dealers or brokers in foreign markets, Noteholders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs). In addition to such costs directly related to the purchase of securities (direct costs), Noteholders must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Risks related to the market generally.

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally.

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes in the secondary market, in which case the market or trading price and liquidity may be adversely affected, or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The trading market for debt securities may be volatile and may be adversely impacted by many events.

The market for debt securities issued by the Issuer is influenced by economic and market conditions and, to varying degrees, market conditions, interest rates, currency exchange rates and inflation rates in other European and other industrialised countries. There can be no assurance that events in the Czech Republic, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in the currency agreed between the Issuer and the relevant Dealers. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the currency of the Notes. These include the risk that exchange rates may change significantly (including changes due to devaluation of the currency of the Notes or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the currency of the Notes would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Market value of the Notes.

The value of the Notes depends on a number of interrelated factors, including economic, financial and political events in the Czech Republic or elsewhere, including factors affecting capital markets generally and the stock exchanges on which the Notes are traded. The price at which a holder of Notes will be able to sell the Notes prior to maturity may be at a discount, which could be substantial, from the issue price or the purchase price paid by such purchaser.

Credit rating may not reflect all risks.

As at the date of this Base Prospectus, the Issuer has been rated BBB by Fitch and BBB by S&P. The ratings assigned by Fitch and S&P may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to the transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

The list of registered and certified rating agencies published by the ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Change of law.

The Terms and Conditions of the Notes are based on the laws of England and Wales in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change

to the laws of England and Wales or administrative practice or the official application or interpretation of the law of England and Wales after the date of this Base Prospectus. Furthermore, the Issuer operates in a heavily-regulated environment and has to comply with extensive regulations in the Czech Republic and elsewhere. No assurance can be given as to the impact of any possible judicial decision or change to laws or administrative or tax practices after the date of this Base Prospectus.

Taxation.

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Notes. Further, a Noteholder's effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes.

Potential investors are advised not to rely upon the tax summary contained in this Base Prospectus but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, holding, sale and redemption of the Notes. Only these advisers are in a position to duly consider the specific situation of each potential investor. This investment consideration has to be read in connection with the taxation sections of this Base Prospectus.

Each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Notes.

Foreign Account Tax Compliance Act ("FATCA") withholding may affect payments on the Notes.

Whilst the Notes are in global form and held within Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together the "ICSDs"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see "*Taxation – Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the common depositary or common safekeeper for the ICSDs (as bearer or registered holder of the Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the ICSDs and custodians or intermediaries.

Withholding under the EU Savings Directive.

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of certain payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a

procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted a Directive (the “**Amending Directive**”) which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive), which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

A number of non-EU countries and territories have adopted similar measures to the Savings Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any other law implementing or complying with or introduced in order to conform to such Directive, which may mitigate an element of this risk if the Noteholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive (as amended).

Investors who are in any doubt as to their position should consult their professional advisers.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated on or about 9 July 2014 between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated on or about 9 July 2014 has been entered into in relation to the Notes between the Issuer, the Trustee, Citibank, N.A., London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at 13th Floor, Citigroup Centre, 25 Canada Square, Canary Wharf, London – E14 5LB, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

In connection with the issuance of the Notes, the Issuer has entered into a subordination deed dated on or about 9 July 2014 with, amongst others, the Trustee, Allianz Infrastructure Luxembourg I S.à.r.l. and Borealis Novus Holdings B.V. (the “**Subordination Deed**”).

The Noteholders and the holders of the interest coupons (the “**Coupons**”) relating to interest-bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is

already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Condition 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6(d), (ii) after any such Note has been called for redemption or (iii) during the period of seven days ending on (and including) any Record Date.

3 Status of Notes

The Notes and the Coupons constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4 Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Subsidiaries will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”), other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

In this Condition 4:

- (i) “**Permitted Security Interest**” means a Security Interest created for the purpose of any Project Financing, provided that such Security Interest is only upon (x) assets which are the subject of such Project Financing and (y) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete or damage to, such assets;
- (ii) “**Project Financing**” means any arrangement for the provision of funds which are to be used solely to finance the acquisition, construction, development or exploitation of any assets pursuant to which the persons providing such funds agree that the only source of repayment of such funds will be the project and the assets and revenues (including insurance proceeds) generated by such project or a source other than the Issuer and its Subsidiaries;
- (iii) “**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or other securities market; and
- (iv) “**Subsidiary**” means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

5 Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).
- (b) **Interest on Floating Rate Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be

brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Rate of Interest*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Prague time in the case of PRIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

- (y) if the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above,

subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is PRIBOR, the principal Prague office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or if the Reference Rate is PRIBOR, at approximately 11.00 a.m. (Prague time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if sub-paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is PRIBOR, at approximately 11.00 a.m. (Prague time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is PRIBOR, the Prague inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is PRIBOR, at approximately 11.00 a.m. (Prague time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market or, if the Reference Rate is PRIBOR, the Prague inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the

Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) **Zero Coupon Notes:** Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**
 - (i) If any Margin is specified hereon (either (x) generally or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
 - (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up). For these purposes, “unit” means the lowest amount of such currency that is available as legal tender in the country of such currency.
- (f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount

or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5(g) but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the “**Calculation Period**”):

- (i) if “**Actual/Actual**” or “**Actual/Actual – ISDA**” is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified hereon, the actual number of days in the Calculation Period divided by 365;

- (iii) if “**Actual/365 (Sterling)**” is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “**Actual/360**” is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and **D₁** is greater than 29, in which case **D₂** will be 30;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30;

- (vii) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (A) that day is the last day of February or (B) such number would be 31, in which case D₁ will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (A) that day is the last day of February but not the Maturity Date or (B) such number would be 31, in which case D₂ will be 30; and

- (viii) if “**Actual/Actual-ICMA**” is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprising member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, and, in the case of a determination of PRIBOR, the principal Prague office of four major banks in the Prague inter-bank market, in each case selected by the Issuer or the Calculation Agent after consultation with the Issuer.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“**TARGET System**” means the Trans-European Automated Real-time Gross settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (i) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the inter-bank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

- (a) **Final Redemption:** Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).
- (b) **Early Redemption:**
- (i) *Zero Coupon Notes:*
- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable was the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall

be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in sub-paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b)) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.
- (d) **Redemption on Change of Control:**
- (i) If Change of Control Put Event is specified hereon and a Change of Control Put Event occurs, then the holder of any such Note will have the option (the "**Change of Control Put Option**") (unless, prior to the giving of the relevant Change of Control Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6(c)) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of that Note on the Change of Control Put Date (as defined below), at its outstanding principal amount together with (or, where purchased, together with an amount equal to) interest accrued up to but excluding the Change of Control Put Date.
- (ii) For the purposes of this Condition 6(d):
- "**Affiliate**" means, in relation to any person, a Subsidiary Undertaking of that person or a Holding Company of that person or any other Subsidiary Undertaking of that Holding Company;
- "**Allianz**" means Allianz SE and any Affiliate or Associate of Allianz SE;

“**Associate**” means in relation to a person, a person who is his associate and the question of whether a person is an associate of another will be determined in accordance with section 435 of the Insolvency Act 1986 of England and Wales;

“**Borealis**” means, together or individually, each of OMERS Administration Corporation (“**OAC**”) and one or more funds (including limited partnerships, corporations or trusts) formed by or on behalf of Borealis Infrastructure Management Inc. for the purposes of ensuring OAC’s compliance with the Pensions Benefit Act (Ontario);

“**Change of Control**” shall be deemed to have occurred if:

- (i) the Controlling Shareholders cease to hold, directly or indirectly, at least 50 per cent. plus one share of the ordinary shares of the Issuer; or
- (ii) any person or persons (other than the Controlling Shareholders) acting in concert or any person or persons acting on their behalf, at any time directly or indirectly, come(s) to acquire control through share-ownership, acquisition of voting rights or the ability to direct management of the Issuer;

“**Change of Control Put Event**” means:

- (i) a Change of Control occurs and, if at the start of the Change of Control Period the Notes are rated by any Rating Agency, a Rating Downgrade in respect of that Change of Control occurs within such Change of Control Period; or
- (ii) a Change of Control occurs and, on the occurrence of the Change of Control, the Notes are not rated by any Rating Agency;

“**Change of Control Period**” means the period (i) commencing on the date that is the earlier of (A) the date of the first public announcement of the relevant Change of Control and (B) the date of the earliest Potential Change of Control Announcement (as defined below), if any, and (ii) ending on the date which is 60 days after the date of the relevant public announcement (such 60th day, the “**Initial Longstop Date**”); provided that, unless any other Rating Agency has on or prior to the Initial Longstop Date effected a Rating Downgrade in respect of its rating of the Notes, if a Rating Agency publicly announces, at any time during the period commencing on the date which is 60 days prior to the Initial Longstop Date and ending on the Initial Longstop Date, that it has placed its rating of the Notes under consideration for rating review either entirely or partially as a result of the relevant public announcement of the Change of Control or Potential Change of Control Announcement, the Change of Control Period shall be extended to the date which falls 60 days after the date of such public announcement by such Rating Agency;

“**Controlling Shareholders**” means Borealis or Allianz or any funds or entities controlled by them;

“**Holding Company**” means, in relation to a person, any other person in respect of which it is a Subsidiary Undertaking;

“**Potential Change of Control Announcement**” means any public announcement or statement by the Issuer, the Controlling Shareholders or any other shareholder of the Issuer, or any actual or potential bidder or any designated adviser thereto relating to any specific and near-term potential Change of Control (where “near-term” shall mean that such potential Change of Control is reasonably likely to occur, or is publicly stated by the Issuer, any such actual or potential bidder or any such designated adviser to be intended to occur, within 120 days of the date of such announcement or statement);

“Rating Agency” means any of the following: (i) Fitch or S&P; or (ii) any other rating agency of equivalent international standing specified from time to time by the Issuer, and, in each case, their respective successors or affiliates;

a **“Rating Downgrade”** shall be deemed to have occurred in respect of a Change of Control if, within the Change of Control Period, the rating previously assigned to the Notes by any Rating Agency is (i) withdrawn or (ii) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (iii) if such rating previously assigned to the Notes by any Rating Agency was below an investment grade rating (as described above), lowered by at least one full rating notch (for example, from BB+ to BB or their respective equivalents), provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was wholly or partially the result of the applicable Change of Control Event (whether or not the applicable Change of Control shall have occurred at the time of the Rating Downgrade); and

"Subsidiary Undertaking" means a subsidiary undertaking within the meaning of section 1162 of the UK Companies Act 2006.

- (iii) Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **“Change of Control Put Event Notice”**) to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.
- (iv) To exercise the Change of Control Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the **“Change of Control Put Period”**) of 30 days after a Change of Control Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **“Change of Control Put Notice”**). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Change of Control Put Period (the **“Change of Control Put Date”**), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any such missing Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 14) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Change of Control Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, on or after the Change of Control Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Change of Control Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 6(d) shall be treated as if they were Notes.

- (v) To exercise the Change of Control Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Change of Control Put Notice obtainable from the Registrar or any Transfer Agent within the Change of Control Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Change of Control Put Notice to which payment is to be made, on the Change of Control Put Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.
- (vi) The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Change of Control Put Date unless previously redeemed (or purchased) and cancelled.
- (vii) If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6(d), the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days of the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.
- (viii) If the rating designations employed by any Rating Agency are changed from those which are described in the definition of "Rating Downgrade" above, the Issuer shall determine the rating designations as are most equivalent to the prior rating designations and this Condition 6(d) shall be construed accordingly.
- (ix) The Trustee is under no obligation to ascertain whether a Change of Control Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Change of Control Put Event or Change of Control has occurred, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Change of Control Put Event or Change of Control or other such event has occurred.

(e) **Redemption on Loss of Licence:**

- (i) If Loss of Licence Put Event is specified hereon and a Loss of Licence Put Event occurs, then the holder of any such Note will have the option (the "**Loss of Licence Put Option**") (unless, prior to the giving of the relevant Loss of Licence Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6(c)) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of that Note on the Loss of Licence Put Date (as defined below), at its outstanding principal amount together with (or, where purchased, together with an amount equal to) interest accrued up to but excluding the Loss of Licence Put Date.

- (ii) For the purposes of this Condition 6(e):

"**Licence**" means the exclusive licence for gas transmission in the Czech Republic granted by the Czech Energy Regulatory Office to the Issuer on 1 January 2006 under the Czech Energy Act;

"**Loss of Licence Put Event**" means the Licence is terminated and not immediately replaced or reissued on substantially similar terms within 45 days of such termination becoming effective;

- (iii) Promptly upon the Issuer becoming aware that a Loss of Licence Put Event has occurred, the Issuer shall give notice (a “**Loss of Licence Put Event Notice**”) to the Noteholders in accordance with Condition 16 specifying the nature of the Loss of Licence Put Event and the procedure for exercising the Loss of Licence Put Option.
- (iv) To exercise the Loss of Licence Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the “**Loss of Licence Put Period**”) of 30 days after a Loss of Licence Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a “**Loss of Licence Put Notice**”). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Loss of Licence Put Period (the “**Loss of Licence Put Date**”), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any such missing Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefor issued pursuant to Condition 14) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Loss of Licence Put Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Loss of Licence Put Notice to which payment is to be made, on the Loss of Licence Put Date by transfer to that bank account and, in every other case, on or after the Loss of Licence Put Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Loss of Licence Put Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 6(e) shall be treated as if they were Notes.
- (v) To exercise the Loss of Licence Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Loss of Licence Put Notice obtainable from the Registrar or any Transfer Agent within the Loss of Licence Put Period. No Certificate so deposited and option so exercised may be withdrawn without the prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Loss of Licence Put Notice to which payment is to be made, on the Loss of Licence Put Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.
- (vi) The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Loss of Licence Put Date unless previously redeemed (or purchased) and cancelled.
- (vii) If 80 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6(e), the Issuer may, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (such notice being given within 30 days of the Loss of Licence Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.
- (viii) The Trustee is under no obligation to ascertain whether a Loss of Licence Put Event or any event which could lead to the occurrence of or could constitute a Loss of Licence Put Event has

occurred, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Loss of Licence Put Event or other such event has occurred.

- (f) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option, the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (g) **Purchases:** The Issuer and its Subsidiaries as defined in the Trust Deed may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in sub-paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at

its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** Save as provided in Condition 8, payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with or introduced in order to conform to such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in sub-paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and Unexchanged Talons:**
 - (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be

deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day or to any interest or other sum in respect of such postponed payment. In this paragraph (h), “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency, or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or

governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Czech Republic or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other Connection:** held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Czech Republic other than the mere holding of the Note or Coupon; or
- (b) **Lawful Avoidance of Withholding:** held by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 Days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the 30th day of such 30-day period; or
- (d) **Payment to Individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject, in each case, to the Trustee being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes, the Trust Deed or the Subordination Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 45 days of notice of such default being given to the Issuer by the Trustee; or
- (c) **Cross-Default:** (i) any other present or future indebtedness of the Issuer (as defined in the Trust Deed) for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds €50,000,000 or its equivalent (as reasonably determined by the Trustee); or
- (d) **Unsatisfied Judgment:** one or more judgment(s) or order(s) for the payment of any amount/an amount in excess of €25,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) **Security Enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, in respect of any part of the undertaking, assets and revenues of the Issuer, which exceeds an amount of €25,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate; or
- (f) **Insolvency:** the Issuer (i) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or (iv) a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer; or
- (g) **Winding-up:** a non-appealable order upon dissolution and winding-up (i.e. dissolution with no legal succession) of the Issuer is made or an effective corporate resolution is passed for the dissolution and

winding-up of the Issuer, or the Issuer is dissolved and is to be wound-up by virtue of law pursuant to Act No. 89/2013 Coll., Civil Code and Act No. 90/2012 Coll., on Business Corporations. No Event of Default shall occur in the event of dissolution of the Issuer with legal succession (e.g. as a consequence of and followed by a restructuring of the Issuer due to amalgamation, merger, etc.);

- (h) **Cessation of Business:** the Issuer ceases to carry on all or substantially all of its business, save for the purposes of a solvent liquidation or reorganisation of the Issuer to the extent required under applicable law or regulation; or
- (i) **Failure to take Action, etc.:** any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of the Czech Republic is not taken, fulfilled or done; or
- (j) **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any of its obligations under any of the Notes or the Trust Deed.

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than three quarters, or at any adjourned meeting not less than one-quarter, in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement or the Subordination Deed that is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement or the Subordination Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary (as defined in the Trust Deed) of the Issuer or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution, the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including, but not limited, to those referred to in this Condition 11(d)), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent in Luxembourg (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Dublin (which is expected to be *The Irish Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

17 Contracts (Rights of Third Parties) Act

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.
- (c) **Service of Process:** The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1 Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3 Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “*Overview – Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denominations only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (i) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms) relating to Partly Paid Notes.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes, or if the Global Note is an NGN, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Base Prospectus, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

4 Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If

the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vi) and Condition 8(e) will apply to the Definitive Notes only. If the Global Note is an NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under an NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any

option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is an NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 NGN Nominal Amount

Where the Global Note is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its account holders with entitlements to such Global Note or Registered Notes and may consider such interests as if such account holders were the holders of the Notes represented by such Global Note or Global Certificate.

4.10 Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note. Such notice shall be deemed to be effective on the date it is delivered to the relevant clearing system(s).

5 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (i) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant

clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph (ii), “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for general corporate purposes, including (amongst other things) to make distributions to NET4GAS Holdings, s.r.o., recapitalise the Issuer and to repay existing indebtedness of NET4GAS Holdings, s.r.o. Certain of the Dealers have participations in the facilities that are expected to be repaid as part of the repayment of existing indebtedness. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

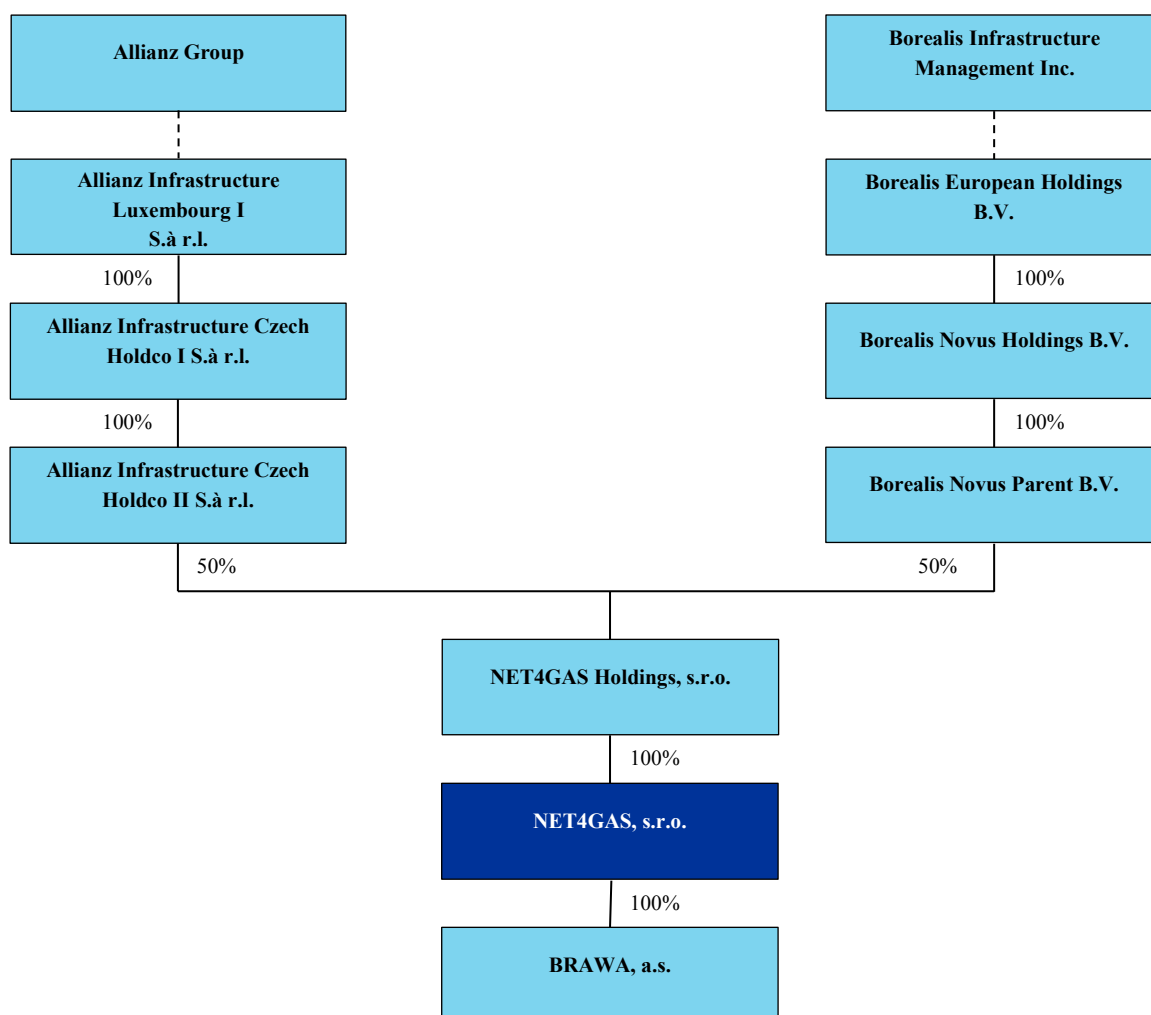
1 General Information about the Issuer

NET4GAS, s.r.o. (the “**Issuer**”) was incorporated in the Czech Republic on 29 June 2005 and is registered in the Commercial Register maintained at the Municipal Court in Prague, Section C, Insert 108316, with company identification number 272 60 364. The Issuer is a limited liability company (*společnost s ručením omezeným*) governed by (i) the laws and regulations applicable to commercial companies in the Czech Republic, in particular Act No. 90/2012 Coll., on Business Corporations, and (ii) specific provisions of Czech law in relation to natural gas transmission networks, including the Energy Act. The registered office of the Issuer is Na Hřebenech II, 1718/8 140 21, Prague 4 – Nusle, Czech Republic. The Issuer’s telephone number is +420 220 221 111 and its website is www.net4gas.cz.

1.1 History and Development of NET4GAS

NET4GAS, s.r.o. is the result of over 40 years of history of international gas transmission through the Czech Republic. Construction of the first transit gas pipeline in Czechoslovakia for the transmission of natural gas to Central and Western Europe began in March 1971. The pipeline was operated by the national enterprise Tranzitní plynovod Praha and distributed gas to Austria from the end of 1972 and to the German Democratic Republic and the Federal Republic of Germany by 1973. On 1 January 1993, Czechoslovakia was separated as a political union and the Czech Republic and the Slovak Republic emerged as independent states. As a consequence, the Czechoslovak gas transmission system was also split. From 1 January 1994, gas transmission services in the Czech territory were operated by ČPP, odštěpný závod and distribution companies were spun-off from ČPP, odštěpný závod as part of the first stage of privatisation. From 28 January 1998, gas transmission services in the Czech Republic were operated by Transgas, státní podnik, a state-owned enterprise which in June 2001 was converted into a joint-stock company and privatised as Transgas, a.s. In April 2005, the operations of RWE Energy CZ and Transgas, a.s. were consolidated to form RWE Transgas, a.s. As a result of legislative requirements for “legal unbundling”, the TSO business was separated and began operations as RWE Transgas Net, s.r.o. (a limited liability company) from 1 January 2006. On 4 March 2010, RWE Transgas Net, s.r.o. was re-named NET4GAS, s.r.o. as part of a continuing process of unbundling transmission from gas trading activities, in compliance with the regulatory policy of the EU which required complete separation of branding strategies for transmission activities from the trading activities of vertically-integrated gas companies. In March 2013, the RWE group sold its ownership interest in the Issuer to a consortium whose members are the wholly-owned direct or indirect subsidiaries of Allianz Group and Borealis Infrastructure Management Inc. (the “**Allianz/Borealis Consortium**”).

Set out below is the corporate structure of the Issuer and its parent and subsidiary companies:



1.2 Strategy of the Issuer

The corporate purpose of the Issuer is to transmit natural gas reliably and safely through the Czech Republic to the European gas markets and to transmit natural gas to its partners in the Czech Republic.

The Issuer's long-term strategy focuses on the following goals: (i) securing safe and reliable gas transmission services for customers; (ii) providing adequate transmission capacity; (iii) guaranteeing a non-discriminatory and transparent approach for third party access to its network; and (iv) developing its transmission system with a view to further market integration and taking into account capacity needs.

The strategy is implemented through demand-driven management of its gas transmission grid that takes into account not only the gas demand of final customers in the Czech Republic and the capacity demand of shippers but also by the capacity required to develop and maintain competitive and liquid gas markets in Europe. That includes the creation of new cross-border interconnectors to form the

foundation for more closely-interconnected gas markets, and ultimately market integration. In addition, the Issuer contributes to the gas market by offering a range of customer-focused capacity products. In general, the Issuer aims to operate its transmission system efficiently and ecologically.

The Issuer is a member of a number of domestic (Czech Gas Association) and international organisations, including the European Network of Transmission System Operators for Gas (ENTSOG), Gas Infrastructure Europe (GIE), EASEE-gas and the Marcogaz working group. Through its membership and participation in such organisations, the Issuer is taking a proactive role in the development of the future European gas model.

1.3 Key Credit Strengths of the Issuer

- The Issuer's revenues are considered by management to be stable and predictable due to its ship-or-pay contracts (i.e. whereby the Issuer receives the contracted transmission fees even if the booked capacity is not utilised) in respect of its transit business providing gas deliveries across the Czech Republic to customers outside the Czech Republic ("Transit") and due to fully regulated price tariffs in its transmission business, which delivers gas domestically within the Czech Republic ("Transport"). In addition, most of the capacity of the Gazelle Pipeline is exempt both from the obligations of (i) ownership unbundling and (ii) provision of third party access under the regulatory price limits until 1 January 2035 and is instead priced on negotiated tariffs. Around 82 per cent of total annual capacity of the Gazelle Pipeline is contracted to the Major Shipper until 1 January 2021. Thereafter, 91 per cent of total annual capacity of the Gazelle Pipeline is contracted to the Major Shipper until 1 January 2035 (see "*Customers and Long-Term Contracts*"). In addition, the Issuer is a party to a number of short-term contracts with various well-known gas supply and trading companies.
- The Issuer's core business is cash generative, underpinned by long-term ship-or-pay Transit contracts and a highly-regulated domestic Transport business. The Issuer's cash flow from operations is supported by its infrastructure which has historically provided for predictable and stable maintenance costs. Only after carefully considering all operational and investment funding needs and future debt service in order to maintain a stable leverage ratio does the Issuer distribute excess cash to its shareholders.
- The Issuer has a key strategic role in the transmission of gas to North-Western Europe, CEE, South-Eastern Europe and Italy, benefitting from the Czech Republic's strategically important location in the centre of Europe. The Issuer is the sole TSO in the Czech Republic with an exclusive gas transmission licence and its networks connect to all three corridors for delivery of gas from Russia to North-Western Europe. Additional new European pipeline projects could create demand for additional Transit capacity. Projections by analysts and international institutions such as OECD/IEA suggest a decrease in indigenous gas production in Europe, which could also increase demand for additional Transit capacity.
- Price regulation of Transit is by way of a price cap and price regulation of Transport is on a revenue cap basis, which have so far allowed for stable revenue generation.
- The Issuer believes that it will continue to be able to attract high calibre professionals, with solid experience of the energy industry.

2 Business Overview and Principal Activities of the Issuer

2.1 The Issuer's Business

The Issuer is the sole owner and operator of the gas transmission system in the Czech Republic (except for the Gazelle Pipeline which is owned by BRAWA, a.s., a wholly-owned subsidiary of the Issuer, and is operated by the Issuer on the basis of a lease). The Issuer has been granted a certificate of independence (which is granted following successful completion of the certification procedure under Directive 2009/73/EC and Regulation EC 715/2009) and the exclusive licence for gas transmission as a gas TSO in the Czech Republic which includes the regulated activities of Transit and Transport (as defined above). The transmission network of the Issuer has historically constituted a section of the key route for shipments of Russian gas to western Europe, connecting the eastern border with Slovakia to the western border with Germany. The completion of the Gazelle Pipeline in 2013 has added a new route across the north west of the Czech Republic which aims to further increase the security of gas supply to Western Europe by enabling Russian gas delivered through the Nord Stream and OPAL pipelines and the Yamal/ EuRoPol Gaz pipeline via Germany to be transported across the Czech Republic to Southern Germany and France. The Gazelle Pipeline has a daily capacity of approximately 968 GWh. The fully reversible transit system allows the Issuer to provide capacity for gas from alternative sources (e.g. Norway, liquefied natural gas and shale gas). The new connection to the OPAL pipeline also offers the possibility for additional gas deliveries in reverse flow from north-west to east (i.e. towards Slovakia and further into Austria, Hungary, Slovenia and Italy).



Source: Company

Map of gas flow routes

2.2 Gas Transmission

2.2.1 General

The maximum technical daily capacity at the border points of the transmission system operated and maintained by the Issuer is more than approximately 3,600 GWh. In 2013, the Issuer transported across the territory of the Czech Republic 369.71 TWh of gas. All major cross border entry and exit points for gas transmission support physical reverse flow so that gas can be transported both from east to west and from west to east through the Czech Republic.



Source: Company

Overview of the Issuer's Transmission System

The numbers above indicate maximum daily capacity at each border station and arrows indicate the direction of flow.

The Issuer allows access to the gas transmission network and offers its customers transmission services on a transparent and non-discriminatory basis (see also “*Response to Gas Supply Emergencies*” below). The Gazelle Pipeline (in respect of which the Gazelle Contract has been entered into) has been exempted from the regulated tariff requirements until 1 January 2035.

In respect of Transit, the Issuer is a party to six Material Contracts. Those Material Contracts in existence at the time (with the exception of the Gazelle Contract which is exempt from the regulated tariff requirements until 1 January 2035) were amended due to implementation of the Third Energy Package to comply with the applicable regulatory regime, but the actual level of the fee remained unchanged.

The contractual partners of the Issuer include major energy companies from EU and non-EU member states. Revenues from the Transit business represented approximately 79 per cent. of the Issuer's total revenue for the financial year ended 2013. Revenues for the Transit business are collected in USD, EUR and CZK.

The Issuer's Transport tariffs are regulated by the ERO. Such regulation provides for stable and predictable tariffs that allow the Issuer to recover operating costs, depreciation and a regulated profit on its investments. The combination of Transit contracts and regulated Transport tariffs allows for a relatively predictable return on investments. (see “*Tariffs for Using the Gas Transmission Network*” and “*Customers and Long-Term Contracts*” below).

2.2.2 The Issuer's Gas Transmission Network

The Issuer is the sole TSO in the Czech Republic with an exclusive gas transmission licence. The Issuer's network currently connects to the transmission networks of Germany, the Slovak Republic and Poland. Plans regarding new connections to adjacent countries such as Austria and Poland are being discussed and considered. The Issuer's main assets (including of its wholly owned subsidiary BRAWA, a.s.) consist of gas transmission pipelines running across the Czech Republic with a total length of approximately 3,800 kilometres. In each major flow direction (east-west, west-east and north-south) the capacity of the Issuer's transmissions system is several hundred GWh per day (please see the diagram above with the overview of the Issuer's transmission system). The Issuer operates three border transfer stations, four compressor stations and nearly a hundred transfer stations for the purpose of domestic distribution.

(a) Response to Gas Supply Emergencies

The Issuer aims to address interruptions in gas supply by means of the following:

- (i) Emergency planning for the operation of the existing transmission grid under extraordinary situations in co-operation with neighbouring TSOs and storage service operators – the Issuer aims to maintain undisturbed gas supply in the Czech Republic and beyond its national borders to the extent reasonably possible, and prepares emergency plans for possible interruptions or supply constraints; and
- (ii) Development – to the extent reasonably possible, the Issuer seeks to improve the effectiveness of the gas network continuously in co-operation with other European TSOs, taking into account available storage capacities, ability to deal with expected supply congestions in emergency situations and meeting at least the EU “N-1” security of supply criterion.

The Issuer has sufficient technical capacity available at its entry points to enable the supply of protected final customers in the Czech Republic in the event of full-flow interruptions from the south-east (i.e. the Issuer meets the EU “N-1” security of supply criterion, the “infrastructure standard”, fully). Given the excess Transit capacity in the Issuer's system which is required to fulfil the EU security of supply requirements, the Issuer has significant flexibility in offering additional capacity for booking by shippers when gas trading opportunities arise or during peak demand periods.

Notwithstanding any of the above, it is important to note that the effectiveness of any emergency response greatly depends on the specific circumstance of the relevant emergency.

(b) Evolution of Gas Flow in Europe

The choice of supply routes from Russia to Europe has expanded since 2011 and shippers have a somewhat greater choice of gas transit routes into Europe. The current pipeline capacity for the export of Russian gas to Europe is approximately 2,710 TWh per year. Future projects could increase this export capacity by an additional 1,230 TWh per year. The decisions of shippers regarding which route to use may be shaped by their appraisal of the transmission costs, gas flow interruption or gas loss risk. In addition, shippers may have full or partial ownership interests in certain transit routes and so may prefer to recoup net marginal transport costs through dividend income from this ownership.

Plans are currently underway (i) to connect the Caspian Sea gas sources to Europe (the proposed TANAP and TAP pipelines), (ii) to enable filling of the supply gap arising from the expected decrease of domestic gas production in the North-West of Europe by liquefied natural gas and Russian gas (the stabilisation of the traditional transit route via Ukraine, Slovakia and the Czech Republic or the proposed Nord Stream extension would deliver gas to North-West Europe) and (iii) to establish gas transmission alternatives for supplying the Balkan peninsula, parts of CEE and South-Eastern Europe and Turkey with gas from Russian sources other than across Ukraine (the proposed Nord Stream extension and/or South Stream project). The Issuer understands that the Nord Stream extension currently faces opposition from some EU member states and that the onshore part of South Stream faces opposition from the European Commission.

Changing preferences of shippers and the existence of the Nord Stream 1-2 pipelines have led to increased opportunities for west to east supply. The Issuer is party to a number of such reverse flow contracts (see “*Customers and Long-Term Contracts*” below). Total flows through Slovakia to the Czech Republic have reduced dramatically since 2009 and the direction of flow through the Issuer’s network has generally reversed as flows of gas through Ukraine have been replaced with those from Nord Stream through the Gazelle Pipeline.

In addition, the following possible future events could have a considerable impact on the Issuer’s business:

- (1) Construction of a transmission pipeline connected to the TANAP/TAP pipelines in Greece through the Balkan peninsula to Baumgarten in Austria in order to reduce the dependency on Russian gas by countries such as Germany, part of CEE and Austria. This plan is currently at an early development stage.
- (2) Establishment of a North-South corridor from Poland via the Czech Republic, the Slovak Republic and Hungary towards Croatia. The North-South corridor aims to increase the security of gas supply and facilitate European gas market integration. The scheme is divided into several projects, which are in different stages of development: the Slovakia-Hungary interconnector has been built, the Poland-Czech Republic interconnector recently received a positive decision for cross-border cost allocation from the Czech and Polish regulators in the context of the EU Energy Infrastructure Package (which is a fundamental precondition to the implementation of this project) and now awaits a final investment decision at the discretion of the Issuer and other projects are currently at earlier planning stages.
- (3) Construction of missing interconnectors or removing capacity bottlenecks between neighbouring markets in Central Europe to facilitate further market integration. This is supported by the European Commission and the Agency for the Co-operation of Energy Regulators (“**ACER**”) and could lead to further investments, for example, an interconnector between the Czech Republic and Austria and the expansion of capacity between Austria and Hungary, including the introduction of reverse flow capacity.

2.2.3 Third Party Access to the Network

The European and Czech regulatory framework in the gas sector is intended to ensure competitive and efficient European gas markets. An important element of that framework is the principle of transparent and non-discriminatory access to gas transmission networks.

Accordingly, the Czech Energy Act (No. 458/2000) (the “**Energy Act**”) requires the gas TSO (i.e. the Issuer) to grant a right of access to the transmission network and ancillary services to all gas market participants who meet certain non-discriminatory access requirements, predefined by the ERO. Under the Energy Act, the Issuer is required to take measures to ensure adequate capacity in the network to meet the stipulated requirements for security of supply. Pursuant to the Energy Act and the Third Energy Package regulations, these measures, among other things, are also required to comply with the EU-wide network development plan. Subject to the exceptions of lack of available capacity or threat to the secure and reliable operation of the network, the Issuer is not permitted to refuse provision of gas transmission services to anyone who meets the criteria for access to its gas transmission networks. Temporary exemptions from the obligation to ensure access to the network may, however, be granted by the ERO on the basis of serious economic difficulties of gas traders with take-or-pay contracts.

2.2.4 Operation of the Issuer’s Network

The Issuer’s service to its customers comprises taking an energy quantity of gas (measured in GWh) delivered to it by a shipper at one or more entry points and delivering an equivalent energy quantity of gas (measured in GWh) to one or more exit points, within the limits of daily and hourly capacities established by contract. Subject to capacity limitations, the Issuer’s grid is designed in such a way as to be able to transport natural gas between any combination of entry/exit points. The delivery of gas of a contractually-specified quality and quantity and the balancing of natural gas flows requires sophisticated modelling of the gas grid. Such modelling requires, amongst other things, detailed understanding of safety requirements, physics of gas flows and measurement of gas quality. Furthermore, pursuant to the Energy Act, network operators such as the Issuer are required to ensure that their networks are safe and efficient and to ensure that gas flows are balanced at all times, taking into account technical constraints.

2.2.5 Tariffs for Using the Gas Transmission Network

The Issuer generates revenue by charging tariffs for the transmission of gas through its pipelines.

- (a) Tariffs for the Transit business are comprised of entry and exit tariffs at the border crossing points. These are subject to price cap regulation and are set in a price decision published by the ERO. Transit entry tariffs are equal to the entry tariffs for Transport, and are paid by importers of gas into the Czech Republic (capacity sales to the gas importers are classified as a part of the Transport business). Transit exit tariffs are calculated on the basis of transit tariffs charged by neighbouring TSOs, by way of a “benchmarking” process. Exit tariffs consist of a “capacity charge” and a “commodity charge”. It is common industry practice that shippers must pay a capacity charge for reserving capacity at the time of booking, regardless of whether they use the reserved capacity to transport gas. The commodity charge is paid by the shipper based on the amount of gas actually transported under their capacity booking. The Issuer’s commodity charge essentially represents a monetary value for the small percentage of the gas transported which is used to power compressors to propel the gas through the Issuer’s pipelines. Under current regulations, a shipper can enter into a long-term contract with regulated tariffs effective at the time when the contract is concluded, and which will be applicable throughout the whole duration of the booking, subject to adjustments for inflation. As at the date of this Base Prospectus, decree No. 365/2009 on gas market rules stipulates that a long-term contract booking is one that is for at least 5

years in duration with a minimum volume of long-term firm capacity of 10,000 MWh/day.

- (b) Tariffs for the Transport business are calculated on the basis of the regulatory determination by the ERO for each five-year period. The regulation is currently in its third five-year period. Under the Energy Act, through Transport tariffs, the Issuer is allowed to recover (i) depreciation, (ii) reasonably incurred operating costs and (iii) profit calculated as a product of the regulatory asset base and the weighted average cost of capital. During the regulatory determination process, the ERO determines the values of the key regulatory parameters, such as opening regulatory asset base and the regulatory formula used to calculate allowed revenue in each year of the regulatory period. Prior to the start of each year, the ERO determines input parameters and confirms the allowed revenue for that year on the basis of the regulatory formula. In particular, the ERO determines the exact weighted average cost of capital (“WACC”) and confirms the balance of the regulatory asset base (“RAB”) used to calculate the allowed profit during that year. The current regulatory period is expected to end this year or (if the ERO extends the current regulatory period by another year) in 2015, with the fourth regulatory period planned for 2015 to 2019 (inclusive) or (if the ERO extends the current regulatory period by another year) 2016-2020 (inclusive).

For the purposes of calculating these allowed revenues, depreciation is calculated under applicable Czech GAAP standards. Allowed operating costs are fixed by the ERO at the start of each regulatory period, which are increased each year for inflation, based on the Czech retail price index, and decreased by an efficiency factor, so creating incentives for regulated entities to increase efficiency by enabling them to generate additional profit. Allowed profit is determined as RAB multiplied by WACC.

RAB is defined by the ERO at the start of each regulatory period. Throughout the current regulatory period RAB has been based on the net book value of the network assets (which were revalued in 2005 as part of the legal unbundling process). RAB consists of 100 per cent. of Transport network assets and a pro-rata allocation of Transit network assets which are jointly used for Transit and domestic Transport. RAB is determined as net book value times a correction factor. This correction factor was introduced at the start of the current (third) regulatory period to ensure a smooth transition between the second and third regulatory periods (thus partly taking into account the revaluation effect). The correction factor does not apply to new investment or allowed depreciation.

WACC is calculated annually and is based on a given capital structure (which envisages an equity to debt ratio of 70:30). The elements of the calculation include a risk free rate of return (based on the 12 month average of yields from 10 year government bonds), cost of debt (based on the 12 month average of current interests rates) and a market-related equity risk premium (which is set at a fixed value of 5 per cent. plus a default spread for the Czech Republic). If the calculated WACC does not deviate by more than 0.2 per cent. from the previous year’s value, WACC remains unchanged for the purposes of the allowed revenues in that year.

The majority of Transport fees are collected in monthly advance payments as the fixed part of the tariff for distribution system operators. Surpluses or deficits are corrected subsequently.

2.2.6 Compliance Programme relating to Third Party Access to the Network

The Issuer has established a compliance programme setting out its internal organisational measures designed to prevent discriminatory practices in relation to third party access to the Issuer's transmission network. The compliance programme also specifies the duties of the Issuer's employees to achieve such purpose. The compliance programme applies to all of the Issuer's personnel. The Issuer has appointed a compliance officer whose task is to ensure the Issuer's compliance with non-discriminatory principles.

2.2.7 Crisis Management in the Gas Industry

Under extraordinary and extreme circumstances such as those involving threats to lives, property, health, etc., the Czech government has the right to declare a state of emergency, under Act No. 240/2000 Sb. on Crisis Management. The declaration of a state of emergency may result in a temporary limitation of ownership rights of the Issuer and may involve expropriation both of the Issuer's assets and shares in the Issuer held by its shareholders. A state of emergency (and its associated limitation or expropriation of rights) may be declared for a period and to such an extent as is necessary to ensure that health, lives, property and the environment are protected. Given the strategic nature of the gas infrastructure for the state, it is possible that additional special legislation may be enacted from time to time to enable actions such as expropriation or limitation of ownership of energy infrastructure and equipment.

2.2.8 Technical Standards for the Gas Transmission Network

The Issuer's operation and maintenance activities are based on relevant applicable technical standards. The following standards are among the most important that apply:

- TPG 905 01 Basic Requirements for Safety in Operation of the Gas Installations;
- ČSN EN 1594 Gas Infrastructure – Pipelines for Maximum Operating over 16 bar – Functional Requirements;
- TPG 702 04 Gas Mains and Service Pipelines of Steel for Maximum Operating Pressure up to 100 Bar Included;
- ČSN EN 12954 Cathodic Protection of Buried or Immersed Metallic Structures – General Principles and Application for Pipelines;
- TPG 920 21 Corrosion Protection of Underground Steel Constructions, Selection of Coating Systems; and
- TPG 920 22 Corrosion Protection of Buried Steel Installations, Operating and Maintenance of Active Corrosion Protection Facilities.

(see also “*Environmental and Safety Policies*” below)

2.2.9 Property and Equipment

The Issuer currently owns all of its pipelines and transmission assets, except for the Gazelle Pipeline which it operates by virtue of a lease from its wholly-owned subsidiary, BRAWA, a.s. (which owns the Gazelle Pipeline), and has the legal right of usage of the land underlying these assets. The Issuer's transmission assets are mainly comprised of pipelines, compression stations, delivery stations and administrative buildings.

2.2.10 Infrastructure Investments and Capital Expenditures

In line with the European Regulation EC/715/2009, the European Network of Transmission System Operators for Gas (“ENTSOG”) must publish both a European Community-wide Ten Year Network Development Plan (the “ENTSOG TYNDP”) and a Gas Regional Investment Plan (the “GRIP”), in each case every two years. Neither the ENTSOG TYNDP nor the GRIP is legally binding. The aim of a GRIP is to show a regional gas infrastructure outlook, consistent with the wider ENTSOG TYNDP, assessing and identifying potential future infrastructure investments.

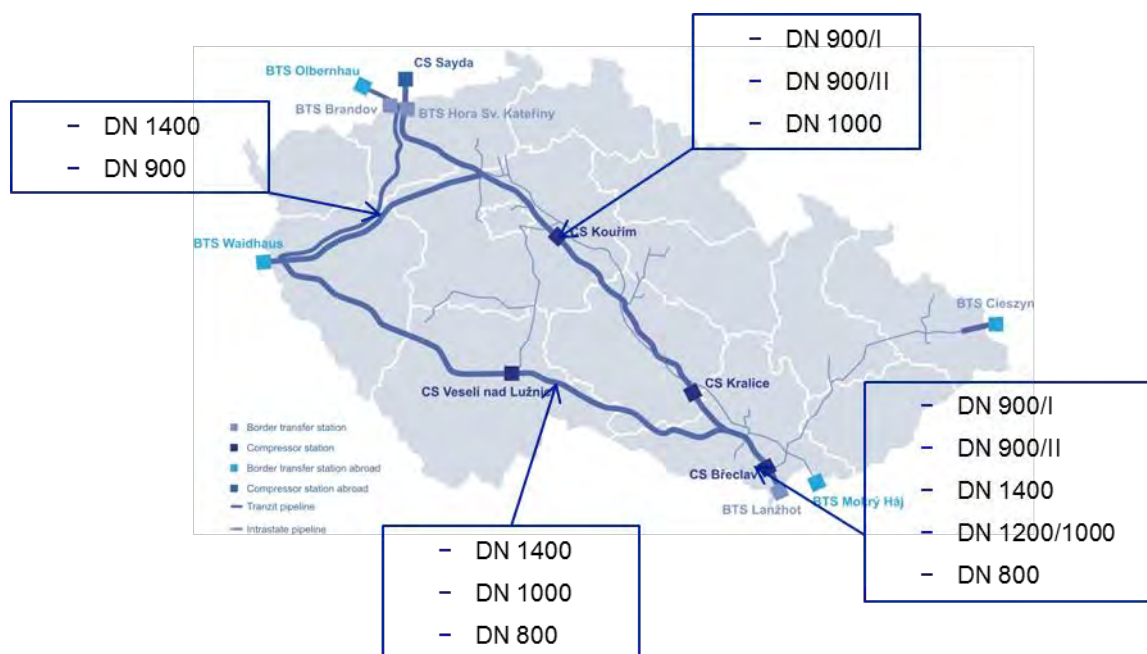
The Third Gas Directive gave new powers to national regulatory authorities regarding the monitoring of investments. In particular, TSOs are required to submit to national regulatory authorities a national 10-year network development plan (“TYNDP”) based on existing and forecasted supply and demand. The TYNDP is intended to indicate the main transmission infrastructures that should be built or upgraded over the next 10 years, identify new investments which will have to be executed in the next three years and provide a time frame for each investment project. At the European level, ENTSOG is required to define a non-binding Community-wide ENTSOG TYNDP every two years, after a consultation process with stakeholders. ACER is required to provide an opinion on the plan and, after checking its consistency with national plans, monitor its implementation. At a national level, national regulatory authorities are required to organise a public consultation. National regulators are also required to examine the consistency of the national TYNDPs with the ENTSOG TYNDP and, if any doubt arises, consult ACER. They may also require network operators to amend their national TYNDPs.

Currently, the Issuer is developing four material capital projects.

- Projects Moravia and STORK II will together ensure a large bi-directional connection between the transmission systems of the Czech Republic and Poland. They connect the Czech Republic to the LNG terminal in Poland and thus to potential new supply sources (e.g. US LNG). An Environmental Impact Assessment (“EIA”) for these projects was completed in 2012 and Project STORK II was granted “Project of Common Interest” (“PCI”) status by the EU Commission in 2013. Investment requests for cross-border cost allocation were submitted by the Issuer and the Polish TSO (GAZ-SYSTEM S.A.) to the ERO and the Polish regulator (URE) in line with the Regulation of the European Parliament and the Council No. 347/2013/EU on guidelines for trans-European energy infrastructure and have been approved. The final investment decision to progress this project rests with the Issuer. Construction works could start as early as 2018 subject to the final investment decision of the Issuer (and subject to obtaining agreement to appropriate regulatory remuneration from the ERO to allow this capital expenditure to be recognised in the Transport tariff calculation). Projects Moravia and STORK II establish the missing north-south gas transit corridor in Central Europe and are expected to contribute to improving the security of gas supply for the Moravia region (including connections to gas storage facilities) and the Czech Republic generally.
- The BACI project would be the first direct bi-directional interconnection between the Czech Republic and Austria.
- The Oberkappel network interconnection would connect the Issuer’s grid with the cross-border point between Austria and Germany at Oberkappel.
- All of these projects are intended to enhance the security of gas supply in the CEE region through diversification of supply routes and sources and also allow further market

integration within Central Europe. The BACI project and the Oberkappel network interconnection have also received PCI status. Any final investment decision for the BACI project and the Oberkappel network interconnection is at the discretion of the Issuer.

2.2.11 Maintenance and Safety



Source: Company

The “DN” figures above refer to the approximate diameter of the pipe. The number following these letters is in millimetres.

Map of the Issuer’s Pipelines

Safe, efficient and reliable gas transmission is only possible through continuous investment in new technologies and regular maintenance. The Issuer notifies all interested parties such as other network operators and shippers of maintenance schedules well in advance. The Issuer also keeps its customers informed regarding factors that influence its ability to provide full capacity.

The Issuer’s Pipeline Integrity Management System (“**PIMS**”) (an advanced supervisory control and data acquisition system) is a comprehensive approach to pipeline maintenance providing an advanced network management tool. Its methodology is based on the ASME B31.8S standard. The main functions of PIMS are integration of data sources, defect and risk assessment and repair planning. Pipeline assessment is based on information from different sources. The most important sources are internal inspections, the active corrosion protection system and the geographic information system (“**GIS**”). The data are evaluated using a risk index. The risk index reflects the technical condition of a pipeline, the environment (soil, geology, etc.) the pipeline is situated in and the possible consequences of pipeline damage (hazards to population, reduction of gas transition, etc.). In addition to the advanced fault

protection system provided by PIMS, network availability is maintained at all times through a 24 hours-a-day control and dispatch system, highly-qualified staff, sufficient back-up capacity thanks to parallel transit pipelines and an independent external power supply.

Annual maintenance plans are also based on PIMS. The Issuer's pipelines are subject to internal inspections on a regular basis. The results of such "in-line inspections" are fed into a report that discusses the technical condition of pipelines. The in-line inspection results are analysed and assessed. Maintenance activities are planned accordingly. Intervals between in-line inspections are in compliance with current Czech and international gas industry standards. The maintenance of the non-pipeline technology (including compressors and ball valves) is based on the RBM/CBM (Risk Based Maintenance/Condition Based Maintenance) approach and is also part of the PIMS system. A risk assessment using the risk matrix is the basis for the design of remedial measures for the individual assets, the appropriate inspection interval, specific preventive maintenance actions, reconstruction or replacement of the asset.

The entire cycle – planning, in-line inspection, assessment and repairs – contributes to the safe and reliable operation of the Issuer's pipelines. All such activities are governed by the Issuer's internal guidelines.

The Issuer estimates the expected technical lifetime of gas pipelines around 70 years from date of coming into service. The Issuer expects that the monitoring of technical condition and maintenance focused on the critical parts which it carries out should increase the lifetime of gas pipelines beyond this base expectation.

Periodical aerial inspections of the area over and around the pipeline system are performed in accordance with the requirements of the TPG 905 01 standard. The Issuer is obliged to monitor and check gas pipelines and the land over them periodically with a special focus on monitoring activities of third parties near the pipeline routes. Periodical aerial inspections are visual inspections of transmission pipelines, gas facilities and protective and safety zones. During the inspection, attention is also paid to the identification of gas leakages. Aerial inspections using helicopters are performed by the Issuer's specialists once a month for pipes of certain sizes (DN 500 and larger) and once every four months for smaller pipes.

In addition to in-line inspections and aerial inspections, the Issuer plans and executes other periodical inspections which are required by the TPG 905 01 standard. All of these are incorporated in an annual plan of inspections.

The facilities of the Issuer are protected by a technical security system. Physical protection of the buildings and facilities of the Issuer is provided by a contracted private security service.

Based on the above, the Issuer's network system is, in the Issuer's assessment, of high quality and in excellent technical condition.

2.3 Customers and Long-Term Contracts

- 2.3.1 The Issuer is one of the largest carriers of Russian gas into the EU. The Issuer's portfolio of clients consists mainly of European utilities, gas suppliers and gas traders. A significant portion of capacity is booked by counterparties which are located in what are currently key locations on the European gas map and who have historically met their payments in a timely fashion. There have been no incidences of payment default by customers holding a Material Contract.

The profitability of the Issuer's business is primarily driven by bookings for Transit of gas, which are made primarily under the long-term contracts. All the Material Contracts, regardless

of duration, are based on a ship-or-pay principle, whereby the Issuer receives the contracted Transit tariffs even if the booked capacity is not utilised. Transit tariffs depend on pre-defined entry and exit points and contracted capacity. The quality of natural gas is materially the same across all shippers.

Gas transmission is a highly regulated industry and therefore terms and pricing of contracts are heavily influenced by regulation at the national, European and international level.

2.3.2 The Issuer is party to the Material Contracts described below which represent long-term relationships with four shippers. The vast majority of the revenues of the Issuer derive from the Material Contracts. The Material Contracts are:

- (i) two long term-contracts for gas Transit from Eastern Europe to Western Europe with a single shipper which will expire gradually within the next eight years;
- (ii) a contract for Transit of Russian gas through the Gazelle Pipeline North to South expiring 1 January 2035 (the “**Gazelle Contract**”);
- (iii) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2019;
- (iv) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2021; and
- (v) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2020.

2.3.3 With the exception of the Gazelle Contract all of these contracts are on a fully ship-or-pay basis. For the financial year ended 31 December 2013, the contracts with the Major Shipper accounted for 44 per cent. of the Issuer’s total revenues (including Transit and Transport) and are likely to continue to account for a significant proportion of the Issuer’s revenues. The Transit business revenues for the financial year ended 31 December 2014 are overall expected by the Issuer to be similar to 2013 (despite, among other things, the scheduled termination in December 2013 of a gas Transit contract which accounted for 13.5 per cent of the Issuer’s total revenues (including Transit and Transport) for the financial year ended 31 December 2013).

2.3.4 In terms of total number of contracts, there are over a hundred contracts in place. The remaining contracts are mainly yearly or short-term contracts.

2.3.5 As described above, in December 2013 a contract for Transit of gas with the Issuer terminated on its scheduled termination date. This contract accounted for 13.5 per cent. of the Issuer’s total revenues (including Transit and Transport) for the financial year ended 31 December 2013. Accordingly, revenue previously attributable to that contract will no longer be receivable by the Issuer.

2.4 Competition

The Issuer faces competition from other pipeline routes that transmit gas across Europe from east to west, namely, the Yamal/EuRoPol Gaz, the WAG/MEGAL and the Nord Stream/NEL pipelines. The Issuer also faces competition from pipeline routes that transmit gas east to south namely, the route from Russia via Ukraine, Slovakia to Austria, Slovenia and Italy.

The Issuer faces potential competition from other planned pipelines that would transmit gas across Europe from east to west and south through Europe. Two planned pipeline routes south and north of

the pipeline system of the Issuer, South Stream and the Nord Stream extension, are in planning stages and, if completed (depending on which parts of the projects are implemented, where the pipelines will be connected to the existing grid and how the supply and demand patterns in Europe develop), may also transport gas from the east to west and south of Europe into the areas where the Issuer currently transmits gas.

2.5 Organisation, taxation and other matters

2.5.1 The Issuer is internally organised into the following divisions:

- business development – the department is responsible for the development of strategic as well as mid-term and short-term goals. The department is also responsible for any projects in respect of the transmission capacity of the Issuer. It performs analysis relating to external factors (e.g. economic, political, regulatory, customer, competitor, EU gas demand/supply/infrastructure and other factors);
- capacity sales – the department is responsible for the sale and customer-facing delivery of gas Transport and Transit services;
- human resources – the department is responsible for personnel planning, recruitment, education, development, remuneration, social dialogue, collective bargaining, etc.;
- corporate affairs – the department is responsible for the legislative agenda of the company and contract administration, public relations, external and internal communication, sponsorship and corporate design/corporate identity;
- internal audit – an independent department which reports directly to the Issuer’s management. It is a part of the control system and is also an important means for achieving continuous improvement within the Issuer. The department closely co-operates with well-known external audit services providers;
- asset engineering – the department is responsible for design engineering, technical support, authorisations, permissions and easements for the company’s development and operating projects within their front-end phase, as well as off-site management, quality control, the GIS and document management;
- asset maintenance – the department is responsible for the management and planning of the maintenance of the gas system on the basis of the maintenance and corporate strategy. It defines the basic rules and strategic objectives for the operation and maintenance of the gas system and the procedures and resources to achieve them. It is responsible for ensuring available system capacity contracted for natural gas for customers in the Czech Republic. It also manages the activities of the regional maintenance teams;
- asset operation – the department is responsible for the safe and reliable operation of the transmission system on the basis of the company’s gas transmission licences. It is responsible for delivery of all requirements of contract customers, shippers and users of the transmission system capacity for national and international gas transmission;
- continual business improvement, health and safety, environment and security – the department is responsible for the development and continual improvement of the overall internal processes of the Issuer, based on its corporate strategy. The department is also responsible for ensuring health and safety, environmental protection, fire prevention and security;

- accounting – the department is primarily responsible for the transparent reporting of the company’s transactions and preparation of the financial statements of the company;
- procurement – the department is responsible for procurement and logistics, car fleet, facility management, etc.;
- controlling – the department is responsible for financial controlling and reporting, covering activities relating to financial planning (short and long term), managing financial targets and budget discipline, reporting to shareholders, management, budget holders, etc.;
- treasury – the department is responsible for risk management functions (including enterprise risk management, financial risk management and insurance functions), funding of the company, relationships with banks, daily cash and liquidity management and other treasury activities; and
- IT – the department is responsible for the provision of IT services across the whole company.

2.5.2 Information about the tax affairs of the Issuer can be found under the “*Financial Statements and Auditor’s Report*” section.

2.6 Environmental and Safety Policies

Environmental protection, sustainable development and safety are key considerations for the Issuer (in accordance with its overall priority to ensure safe, reliable and efficient operation of its gas system). Accordingly, the management of the Issuer has adopted a long-term environmental policy aimed at permanently minimising the potential environmental impact of the Issuer’s activities, both in its operations and in development and construction of new pipelines. The policy focuses on:

- preventing air pollution;
- reducing greenhouse gas emission;
- managing waste and water;
- handling chemical products and mixtures; and
- conserving nature and protecting the countryside.

No environmental incidents occurred in 2013 and all of its compressor stations were operated in accordance with their permits issued under the applicable pollution prevention regulations. The Issuer is in compliance with current legislation on reporting, notification obligations and relevant permits and has not been subject to any sanctions or censure from competent authorities. In addition, the Issuer’s “NET4GAS Closer to Nature” programme supports certain projects aimed at nature conservation and environmental protection.

The Issuer’s internal health and safety programmes and strategies go beyond the requirements imposed by legislation. Its internal requirements also apply to its suppliers and subcontractors as well as to its own employees.

It is committed to corporate social responsibility and is a major corporate donor in the field of nature conservation in the Czech Republic.

2.7 Licences, Permissions and Authorisations

As at the date of this Base Prospectus, the Issuer holds a certificate of independence (see paragraph 2.1 above) and the exclusive gas transmission licence issued by the ERO in the Czech Republic as a TSO which allows for it to engage in gas transmission. This licence has been granted until 1 January 2031

(subject to the possibility of revocation by the ERO if the Issuer were to be declared insolvent). In addition to this material licence, the Issuer holds all the necessary licences, permissions, exemptions and authorisations necessary for its ordinary business activities, such as installation, repair, maintenance, professional inspections and tests of gas and pressure facilities and technical testing, metering and analysing.

2.8 Regulatory Background

The gas industry sector in Europe has been governed mainly by three liberalisation directives. The first European liberalisation directive (Directive 98/30/EC) concerning common rules for the internal market in natural gas (the “**First Gas Directive**”) came into force on 10 August 2000 and constituted the first step towards the creation of an open and integrated internal market in the EU. The First Gas Directive established common rules regarding the storage, transmission, supply and distribution of natural gas. The aim of the First Gas Directive was to promote full and fair competition in the market, while maintaining a structural framework favourable to the funding of large international natural gas and liquefied natural gas projects.

This First Gas Directive set out the following principles:

- 2.8.1 *The accounting separation of transmission and storage businesses from supply and distribution businesses.* This was the first move in an effort to bring an end to integrated business models that had combined transmission, storage and supply of natural gas within a single company. The First Gas Directive created a regulated economic environment in which natural gas transmission and storage businesses are required, among other things, to grant access to their networks and facilities to all gas suppliers on a transparent basis.
- 2.8.2 *Third party access to networks and third party access to storage.* Access conditions, including pricing conditions, must be non-discriminatory and are stipulated in the TSO’s network code, which is subject to approval by the ERO.
- 2.8.3 *The gradual opening up of the energy markets, with the possibility in the long term for end-users to choose their gas supplier.* This possibility was limited, in the First Gas Directive, to industrial customers with consumption of more than 25 million cubic metres of gas per year.
- 2.8.4 *Creation of an independent supervisory authority in the Czech Republic.* The ERO is responsible for monitoring and enforcing compliance by market participants with the laws and regulations applicable to the energy markets and for determining the framework for network access and tariff setting. The ERO is also the competent authority to decide upon disputes listed in the Energy Act that may arise between participants in the markets.
- 2.8.5 *Strict confidentiality of data.* Operators of gas transmission networks and storage facilities are required to preserve the confidentiality of commercially-sensitive information obtained in the context of their business. Transmission network operators are not permitted to abuse commercially-sensitive information in the context of providing or negotiating access to their systems.

The First Gas Directive was replaced by European Directive 2003/55/EC (the “**Second Gas Directive**”) on 26 June 2003. The Second Gas Directive was intended to accelerate the process of liberalisation of the gas markets with a view to achieving a fully operational internal market. In particular, it provided for legal separation of gas transmission, storage and distribution activities had to take place by 1 January 2004 although combined operators were permitted subject to complying with a number of conditions intended to ensure their independence. The Second Gas Directive also set out a timetable for the liberalisation of the markets, with eligibility for non-domestic customers from 1 July

2004, and the complete liberalisation of the markets (including eligibility for individuals) by 1 July 2007. The Second Gas Directive was implemented in the Czech Republic through enactment of Act No. 158/2009 Coll. In the Czech Republic, the legal separation of transmission from other gas industry activities took place on 1 January 2006 when a new legally separated company dealing with gas transmission was established. This company was rebranded on 4 March 2010 as NET4GAS.

The final step in the series of the liberalisation directives of the EU was the Third Gas Directive. The Third Gas Directive was published in the EU's Official Journal on 14 August 2009. The Third Gas Directive established a new unbundling regime and more clearly defined the duties of national regulatory authorities, including cooperation with ACER. It also improved consumers' rights, provided a number of measures for the functioning of the internal gas market, and prompted regional solidarity and national emergency measures in the event of severe disruptions of gas supply. It was implemented into Czech law by Act No. 211/2011 Coll., and was fully effective in the Czech Republic from 18 August 2011.

The Third Gas Directive generally seeks to achieve greater transparency and independence of transmission system operators such as the Issuer.

3 **Indebtedness and hedging**

As at the date of this Base Prospectus, the Issuer is a guarantor in respect of a bank loan facility agreement and certain cross-currency and interest rate hedging transactions relating to such bank loan facility agreement put in place at the time of the acquisition of the Issuer by the Allianz/Borealis Consortium which is expected to be repaid.

Prior to the date of the first issuance of Notes under the Programme, it is anticipated that the Issuer will enter into bank loan facility agreements with a group of credit institutions. The lenders under these loan facility agreements have agreed to provide term loans and a revolving credit facility in order to facilitate the Issuer's access to liquidity. Certain of the Dealers may have participations in the term loans and revolving credit facility made available to the Issuer.

The terms of the new bank loan facility agreements of the issuer will require the Issuer to hedge its interest rate exposure by either raising fixed rate debt or hedging floating rate debt through interest rate hedging transactions, in each case in respect of a minimum of 70 per cent. of the aggregate principal outstanding under the new bank term loans and the Notes.

In addition, to the extent necessary, the Issuer intends to manage any cross-currency risk exposure between the currencies of its operating cashflows (being CZK, EUR and USD) and the currency of its senior financial indebtedness via combinations of (i) borrowing/issuing in the relevant currencies to the extent possible, and (ii) entering into cross-currency hedging transactions.

4 **Subordination Deed**

The Issuer will enter into a subordination deed (the "**Subordination Deed**") with, among others, the Trustee, Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V. (the "**Subordinated Intragroup Lenders**"). The Subordination Deed will provide that the obligations of the Issuer towards the Subordinated Intragroup Lenders and any other subsidiaries or holding companies of the Subordinated Intragroup Lenders under certain intragroup loans (the "**Subordinated Intragroup Liabilities**") will be subordinated to its obligations under the Notes, the above-mentioned Issuer bank loan facility agreements and any other financing arrangements which are stated to rank *pari passu* with the Notes (the Notes and such other financing arrangements being the "**Senior Debt**"). In particular, payments of interest under any

Subordinated Intragroup Liabilities are restricted and payments of principal under any Subordinated Intragroup Liabilities will be prohibited. Payments of interest in respect of Subordinated Intragroup Liabilities may only be made to the extent that the Issuer certifies that it has sufficient funds available to it to (a) meet all payments falling due on the Senior Debt in the next six months, (b) meet all forecast operating expenses in the next six months and (c) remain in compliance with its liquidity and treasury policies. Any new providers of bank or bond Senior Debt may accede to the Subordination Deed and any new providers of Subordinated Intragroup Liabilities will be required to accede to the Subordination Deed. Noteholders will have the benefit of the Subordination Deed through the Trustee. The Issuer will have the ability to terminate the Subordination Deed if, having discussed with Fitch and S&P, the Subordination Deed is no longer required by Fitch and S&P for maintaining the then current rating of the Notes or if the Issuer no longer has any rated debt outstanding.

5 Major Shareholders and Organisational Structure of the Issuer

The Issuer is directly wholly owned by NET4GAS Holdings, s.r.o. NET4GAS Holdings, s.r.o. is currently indirectly 50 per cent. owned by Allianz Infrastructure Czech Holdco II S.à r.l. (a subsidiary of Allianz Group) and 50 per cent. owned by Borealis Novus Parent B.V. (a subsidiary of Borealis Infrastructure Management Inc.).

6 Employees

As of 31 December 2013, the Issuer has 516 employees, of whom 21 per cent. are women. 37 per cent. of the employees have a university degree and 41 per cent. completed their secondary education. The standard of working and social conditions for employees is defined in a collective agreement which remains valid until the end of 2014.

7 Administrative, Management and Supervisory Bodies

The Issuer is managed by Statutory Directors whose term of office is fixed at five years by the Issuer's Articles of Association. The applicable legal regulation requires and provides for the independence of the Statutory Directors in performing their executive powers and separation of the Statutory Directors from the shareholders, including decisions on the matters related to day-to-day activities of the TSO and the management of the transmission network.

The Supervisory Board is in charge of supervising the management of the company by the Statutory Directors and the performance of the company's business. The Supervisory Board submits its reports at General Meetings of the shareholders. All six members of the Supervisory Board are elected by the shareholders at a General Meeting for a period of five years. One member of the Supervisory Board is appointed as a representative of employees.

The following tables set forth the names of the members of the Issuer's Statutory Directors and Supervisory Board, their current functions within the Issuer and their principal business activities outside the Issuer as at the date of this Base Prospectus:

7.1 Statutory Directors

Name and surname	Current function within the Issuer	Principal outside business activities, where these are significant
Andreas Rau	CEO, <i>jednatel</i>	None
Radek Benčík	COO, <i>jednatel</i>	None

Václav Hrach	CFO, <i>jednatel</i>	None
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As at the date of this Base Prospectus, the business addresses of the Statutory Directors of the Issuer are Na Hřebenech II, 1718/8 140 21, Prague 4 – Nusle, Czech Republic.

7.2 Biographies of the Statutory Directors

Andreas Rau – Chief Executive Officer

Andreas Rau studied Mechanical Engineering at the Ruhr University in Bochum, and European Studies at RWTH Aachen.

His career in the energy industry began in 1997 with Ruhrgas AG Technical System Design in Essen. After holding various positions in technical and commercial gas transmission management with E.ON Ruhrgas AG, he was appointed member of the Board of Directors of eustream, a.s. in Bratislava in 2006, where he later took over as Chairman of the Board of Directors. By the end of 2011, he developed eustream into a separate and independent transmission system operator which, in terms of transmission volume, is one of the largest TSOs in the EU. In early 2012, Andreas Rau was appointed member of the Board of Directors of SPP, a.s. in Bratislava, where he was responsible for gas supply and sales, gas trading, electricity sales activities and portfolio optimisation until early 2013.

He has been a Managing Director at the Issuer since December 2013.

Radek Benčík – Chief Operating Officer

Radek Benčík studied at the Faculty of Mechanical Engineering of Brno University of Technology and, in 2005, obtained an MBA from Nottingham Trent University.

In 2008, he took up the position of Managing Director and Chief Executive Officer for Thermal Services – Czech Republic and Slovakia at Alstom, s.r.o., while at the same time performing a management role overseeing Central Europe and the countries of the former Soviet Union. In this position, he was responsible for the delivery of emission reduction projects at power plants and CHP plants, e.g. for the ČEZ Group at Prunéřov and for the Žilinská teplárenská district heating company in Slovakia. Prior to Alstom, s.r.o., he had served as CEO and Chairman of the Board of Directors at ŠKODA Praha, a.s., while also holding the post of Managing Director at ŠKODA Praha Invest, s.r.o. From 2001 onwards, he worked in the management team of ŠKODA JS, subsequently being appointed the company's CEO and Chairman of the Board of Directors, and also served as a member of the Board of Directors of the international group OMZ – Nuclear Division.

He has been a Managing Director at the Issuer since October 2011.

Václav Hrach – Chief Financial Officer

Václav Hrach graduated from the Czech Technical University in 1997 where he majored in corporate finance and management at the Faculty of Mechanical Engineering. He stayed on to be awarded a Ph.D. in 2000. He began his professional career during his last year of studies as a marketing specialist with Škoda Praha, a.s. From 1997 to 2000, he was a partner in TES Praha, a.s., where he oversaw a number of large-scale information control and management projects. At the same time, he worked as a lecturer at the Institute of Corporate Finance and Management associated with the Faculty of Mechanical Engineering of the Czech Technical University. In 2000, he joined MVV Energie CZ s.r.o., where he first served as CFO, and, from 2005, as CEO and Managing Director. He was appointed a member of the Board of Directors in 2009 and was later appointed Chairman of the Board of Directors of MVV Energie CZ a.s. In this position, he successfully completed a group-wide restructuring

programme, increasing the group's market share. Václav Hrach represented MVV in the Executive Committee of the Heat Association for District Heating of the Czech Republic, and in the Executive Committee of COGEN CZECH.

He has been a Managing Director at the Issuer since March 2014.

7.3 Supervisory Board

Name and surname	Current function within the Issuer	Principal outside business activities, where these are significant
Ralph Adrian Berg	Member of the Supervisory Board	Board Member of Suomi Power Networks
Radek Hromek	Member of the Supervisory Board	None
Jaroslava Korpancová	Member of the Supervisory Board	Board Member of Solveig Gas Norway; Board Member of Silex Gas Norway
Sebastien Sherman	Member of the Supervisory Board	Board Member of Scotia Gas Networks Group of Companies; Board Member of Ciel Satellite Group of Companies
Melchior Stahl	Member of the Supervisory Board	Board Member of Solveig Gas Norway; Board Member of Silex Gas Norway; Board Member of Chicago Parking Meters, LLC
Jan Zaplatílek	Member of the Supervisory Board	None

There are no material contracts with or loans to Statutory Directors and the Supervisory Board. There are no potential conflicts of interest between the duties owed by Statutory Directors and their private interests and/or other duties.

TAXATION

The following brief summary on taxation of the Notes in the Czech Republic shall be considered as general information for potential investors and as such it does not contain specific advice for any investor. Especially investors, who are subject to special or preferential tax regimes in the Czech Republic (such as investment and pension funds), are not covered by this information.

Potential investors are strongly advised to consult their tax advisers on tax implications relating to the acquisition, disposal and ownership of Notes and the receipt of interest on Notes, as resulting from tax laws of the Czech Republic and other states, where an investor is a tax resident or any income from Notes might be subject to tax.

This information has been prepared with due diligence on the basis of the Czech Income Taxes Act and its prevailing interpretation followed by Czech tax authorities, both effective as per the issuance date of the Base Prospectus. Please note that tax implications and other information stated below may change depending on future amendments and developments of the tax legislation and its interpretation. In such a case, the Issuer will be obliged to apply the tax regime according to the amended tax laws or changed interpretation and may not be held liable for potential damages, which the investor could suffer due to additional tax withholdings or charges levied on the income from Notes pursuant to the new tax legislation.

In order to apply an appropriate taxation of the income from Notes, the Issuer may require investors to submit certain documents (such as a tax residence certificate or a beneficial ownership declaration), which might be needed to comply with tax disclosure and other obligations under the Czech tax laws or be required by Czech tax authorities.

1 Interest

Assuming that the Notes qualify as bonds issued outside of the Czech Republic, the interest income from the Notes realised by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a taxpayer other than an individual which is not for tax purposes treated as a resident of the Czech Republic (together, **Non-Czech Holders**) will be exempt from taxation in the Czech Republic and no withholding or deduction for or on account of Czech tax will be required to be made by the Issuer on any payment of interest to the Non-Czech Holders.

Interest income from the Notes realised by an individual who is for tax purposes treated as a resident of the Czech Republic or by a taxpayer other than an individual which is for tax purposes treated as a resident of the Czech Republic (together, **Czech Holders**) is not subject to any Czech withholding tax and is payable by the Issuer to the Czech Holders free from any deduction or withholding for or on account of Czech tax. However, no exemption from tax applies and Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis (in the case of Czech Holders who are individuals this reporting obligation as well as the fact whether the interest income shall be declared on a cash or an accrual basis will depend on individual circumstances in each case) and an ordinary Czech corporate or personal income tax rate will apply (15% tax rate on individuals and 19% tax rate on other taxpayers in 2014).

2 Capital Gains

Income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to another Non-Czech Holder, not acquiring the Notes through a permanent establishment in the Czech Republic, will not be subject to Czech income tax.

Income realised by a Non-Czech Holder, holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes will be, unless exempt,¹ subject to taxation in the Czech Republic.

Income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to (a) a Czech Holder or (b) a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic will be subject to taxation in the Czech Republic unless:

- the Non-Czech Holder realising that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country; or
- in the case of the Non-Czech Holder who is an individual and if such income is exempt from tax.¹

If income realised by a Non-Czech Holder from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), a Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder is for tax purposes a resident of a country being a member of the European Union or the European Economic Area, or unless such obligation is waived pursuant to a decision of Czech tax authorities. This tax security could be, subsequently, credited against the final Czech tax liability of the Non-Czech Holder.

Income realised by a Czech Holder from the sale of the Notes is generally subject to Czech corporate or personal income tax at the above mentioned rates. Income realised by a Czech Holder or a Non-Czech Holder, who is an individual, from the sale of the Notes is exempt from Czech personal income tax provided that the holding period of the Notes exceeded three years and the Notes have not been held as part of business property of such individual, or, if so, the Notes will not be sold prior to the expiry of a three year period following the termination of that individual's business activities. For Czech Holders who keep books and hold the Notes as part of their business property (generally all legal entities and certain individuals) losses upon a sale of the Notes will generally be tax deductible. By contrast, losses incurred by Czech Holders who are individuals (other than those mentioned in the previous sentence) are generally non-deductible.² Furthermore, income from the sale of the Notes realized by an individual is exempt from taxation, if the annual (worldwide) income of that individual from the sale of securities (including the Notes) does not exceed the amount of CZK 100,000.

The Czech tax law is also unclear in respect of income classification and tax treatment in situations where the Notes are sold to the Issuer. There is a risk that the purchase price payable by the Issuer for the Notes, where the seller of the Notes is an individual, would be subject to withholding tax. In this case, the tax base calculated as the difference between the selling price and the issue price may be subject to 15% withholding tax.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to remeasure the Notes to fair value for accounting purposes, whereby the unrealized gains and losses would be accounted for as revenue or expense, respectively. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes. The same tax treatment applies to Non-Czech Holders holding the Notes through a permanent establishment in the Czech Republic, if they are subject to Czech accounting standards requiring remeasurement of the Notes to fair value.

¹ Czech or Non-Czech Holders who are individuals may under certain conditions be exempt from tax on capital gains on the Notes – please see further below for more details.

² However, these losses (incurred within 3-year period following the acquisition of the Notes) could be deducted from other (taxable) capital gains realized on securities within the same calendar year.

3 VAT and Other Taxes

No Czech value added tax is payable upon issuance of the Notes or payments of interest or principal, or in respect of the transfer of the Notes.

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic in respect of or in connection with the purchase, holding or disposition of the Notes.

4 EU Savings Tax Directive

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of certain payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld), unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (a) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (b) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive), which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

A number of non-EU countries and territories have adopted similar measures to the Savings Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

5 Foreign Account Tax Compliance Act

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the Common Depositary or the Common Safekeeper, as applicable, given that each of the entities in the payment chain beginning with the Issuer and ending with the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances.

6 Proposed Financial Transactions Tax (“FTT”)

The European Commission has published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. A joint statement issued in May 2014 by 10 of the 11 participating Member States indicated that a progressive implementation is intended and that the FTT may initially apply only to transactions involving shares and certain derivatives, with implementation occurring by 1 January 2016. If the FTT were to be implemented on the basis set out in the joint statement, it may not initially apply to dealings in the Notes. However, full details are not available and further changes could be made prior to adoption. Additional EU Member States may decide to participate in the FTT regime.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated on or about 9 July 2014 (the “**Dealer Agreement**”) between the Issuer, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes

during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Czech Republic

The Base Prospectus has not been and will not be approved by the Czech National Bank. No action has been taken in the Czech Republic (including the obtaining of the Base Prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in Section 55(1) of the Capital Market Act)) for the purposes of any Notes to qualify as securities admitted to trading on the European regulated market within the meaning of the Capital Market Act.

Each Dealer will be required not to offer or sell any Notes in the Czech Republic through a public offering (in Czech *veřejná nabídka*), except for a public offering for which the publication of a prospectus is not required under any applicable exemption set out in the Czech Act No. 256/2004 Coll. on Undertaking Business in the Capital Market, as amended (the “**Capital Market Act**”). Public offering means, under the Capital Market Act, any communication to a broader circle of persons containing information on the securities being offered and the terms under which they may acquire the securities and which are sufficient for the investor to make a decision to subscribe for, or purchase, such securities.

Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued pursuant to Czech law or in the Czech Republic, the issue of the Notes being classed as “accepting of deposits from the public” by the Issuer in the Czech Republic under Section 2(2) of the Czech Act No. 21/1992 Coll., on Banks, as amended, (the “**Banks Act**”) or requiring a permit, registration, filing or notification to the Czech National Bank (including approval to or passport of this Base Prospectus and other than notifications to the Czech National Bank described under “*General Information*”) or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Market Act, the Banks Act or the practice of the Czech National Bank.

Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Notes.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a “**Relevant Member State**”), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in paragraphs (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

General

Each Dealer has represented, warranted and agreed, and each further Deal appointed under the Programme will be required to represent, warrant and agree, that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any other offering material relating to the Notes. Persons into whose hands this Base Prospectus comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be in the following form, duly completed to reflect the particular terms of the relevant Notes and their issue.

Final Terms dated [●]

NET4GAS, s.r.o.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €5,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [●][and the supplement(s) to it dated [●]]which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus]³. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the ISE (www.ise.ie).

- | | | |
|---|--|---|
| 1 | (i) Issuer: | [●] |
| 2 | (i) Series Number: | [●] |
| | (ii) Tranche Number: | [●] |
| | (iii) Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [22] below [which is expected to occur on or about [insert date]]].] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount: | [●] |
| | (i) Series: | [●] |
| | (ii) Tranche: | [●] |
| 5 | Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)] |
| 6 | (i) Specified Denominations: | [●] |
| | (ii) Calculation Amount: | [●] |

³ Wording to be deleted where non-Prospectus Directive notes are issued

- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date [*Specify/Issue Date/Not Applicable*]
- 8 Maturity Date: [*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[●] month [LIBOR/EURIBOR/PRIBOR]] +/- [●] per cent. Floating Rate]
[Zero Coupon]
(See paragraph [14/15/16] below)
- 10 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [[●]/[100]] per cent. of their nominal amount.
- 11 Change of Interest Basis: Not Applicable
- 12 Put Options: [Put Option]
[Change of Control Put Event]
[Loss of Licence Put Event]
(See paragraph [17/18/19] below)
- 13 Date [Board] approval for issuance of Notes obtained: [●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Note provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum payable in arrears on each Interest Payment Date
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: Actual/Actual / Actual/Actual-ISDA / Actual/365 (Fixed) / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA
- (vi) [Determination Dates]: [●] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
- 15 Floating Rate Note provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Interest Period(s): [[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iv) below, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
- (ii) Specified Interest Payment Dates: [[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
- (iii) Interest Period Date: [Not Applicable]/[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iv) First Interest Payment Date: [●]
- (v) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
[Not Applicable]
- (vi) Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent): [●]
- (ix) Screen Rate Determination:
- Reference Rate: [[●]month [LIBOR/EURIBOR/PRIBOR]]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
- (x) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (xi) [Linear Interpolation: Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (xii) Margin(s): [+/-][●] per cent. per annum
- (xiii) Minimum Rate of Interest: [●] per cent. per annum
- (xiv) Maximum Rate of Interest: [●] per cent. per annum

(xv) Day Count Fraction:	[●]
16 Zero Coupon Note provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Amortisation Yield:	[●] per cent. per annum
(ii) [Day Count Fraction in relation to Early Redemption Amounts:	[Actual/Actual / Actual/Actual-ISDA / Actual/365 (Sterling) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA]

PROVISIONS RELATING TO REDEMPTION

17 Put Option	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
(iii) Notice period:	[●] days
18 Change of Control Put Event	[Applicable/Not Applicable]
19 Loss of Licence Put Event	[Applicable/Not Applicable]
20 Final Redemption Amount of each Note	[●]/[Par] per Calculation Amount
21 Early Redemption Amount	
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:	[●]/[Par] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22 Form of Notes:	Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
	Registered Notes: [Regulation S Global Note (U.S.\$/€[●] nominal amount) registered in the name of [a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]

- 23 New Global Note: [Yes] [No]
- 24 Financial Centre(s): [Not Applicable]/[●]
- 25 Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes] [No]

The Issuer accepts responsibility for the information contained in these Final Terms. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information.

Signed on behalf of NET4GAS, s.r.o.:

By:
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Admission to trading: [Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the “**Official List**”) and trading on its regulated market by the Issuer (or on its behalf) with effect from [●].]
[Application will be made to the Irish Stock Exchange for the Notes to be admitted to the official list (the “**Official List**”) and trading on its regulated market by the Issuer (or on its behalf) with effect from [●].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: [[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [S&P: [●]]
- [[Fitch: [●]]
- [[Other]: [●]]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

Insert one (or more) of the following options, as applicable:

[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”). A list of registered credit rating agencies is published at the European Securities and Market Authority’s website: www.esma.europa.eu.]

[Insert name of particular credit rating agency entity providing rating] is established in the EU and has applied for registration under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”), although notification of the registration decision has not yet been provided.]

[Insert name of particular credit ratings agency entity providing rating] is established in the EU and is neither registered nor has it applied for registration under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”).]

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the [Notes] is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”). A list of registered credit rating agencies is published at the European Securities and Market Authority’s website: www.esma.europa.eu.]

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”).]

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not certified under Regulation (EC) No. 1060/2009 as amended by Regulation (EC) No. 513/2011 (the “CRA Regulation”) and the rating it has given to the [Notes] is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.]

3 **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

[Save for any fees payable to the [Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4 **[Fixed Rate Notes only – YIELD**

Indication of yield: [●]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

5 **OPERATIONAL INFORMATION**

ISIN: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No].
[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] [include this text for registered notes] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them, the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper) [*include this text for registered notes*]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

6 **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated:
 - (A) Names of Dealers: [Not Applicable/*give names*]
 - (B) Stabilisation Manager(s) (if any): [Not Applicable/*give names*]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/*give name*]
- (iv) U.S. Selling Restrictions: [Reg. S Compliance Category [1/2/3]; TEFRA C/TEFRA D/TEFRA not applicable]

GENERAL INFORMATION

- (1) This Base Prospectus has been approved by the Central Bank, as competent authority under the Prospectus Directive, as a “base prospectus” for the purposes of the Prospectus Directive. The Issuer may apply to the Irish Stock Exchange for Notes of a particular Series offered pursuant to this Base Prospectus to be listed on the Official List and admitted to trading on the regulated market of the Irish Stock Exchange during the period of 12 months from the date of this Base Prospectus. The Irish Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).
- (2) Other than as described in paragraph 2.3.5 on page 73, there has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2013 and no material adverse change in the prospects of the Issuer or of the Group since 31 December 2013.
- (3) The Issuer nor any of its subsidiaries is not nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer.
- (4) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (5) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (6) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.
- (7) For so long as Notes may be issued pursuant to this Base Prospectus, physical copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Issuing and Paying Agent:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the constitutional documents of the Issuer;
 - (iv) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such

holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity);

- (v) a copy of this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus; and
- (vi) the audited consolidated financial statements of the Issuer for the years ended 31 December 2013 and 31 December 2012.

This Base Prospectus, the Final Terms for Notes that are listed on the Official List and admitted to trading on the Main Market will be published on the website of the Irish Stock Exchange (www.ise.ie).

- (8) PricewaterhouseCoopers Audit, s.r.o. of Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, registered with the Chamber of Auditors of the Czech Republic, have audited, and rendered unqualified audit reports on, the accounts of the Issuer for the two years ended 31 December 2013 and 31 December 2012.
- (9) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.
- (10) Pursuant to Section 8a of the Czech Act No. 15/1998 Coll., on Capital Markets Supervision, as amended, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank no later than on the date of issue of the relevant Notes setting out the place of issue and amount of relevant Series or Tranche and the form, yield and maturity of the relevant Notes. The issuance of each Series and/or Tranche of the Notes must also be notified to the Czech National Bank pursuant to Section 5 of the Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended.
- (11) Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

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Independent Auditor's Report and Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union – 31 December 2013 and 31 December 2012

NET4GAS Group

**Independent Auditor's Report and
Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union**

31 December 2013 and 31 December 2012

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Independent auditor's report **to the Statutory Directors of NET4GAS, s.r.o.**

We have audited the accompanying consolidated financial statements of NET4GAS, s.r.o. (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated balance sheets as of 31 December 2013 and 31 December 2012 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years ended 31 December 2013 and 31 December 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Statutory Directors' responsibility for the consolidated financial statements

The Statutory Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Statutory Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

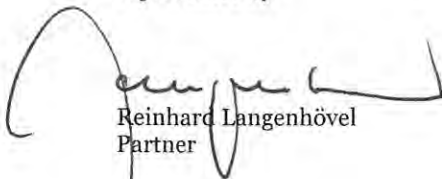
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and 31 December 2012, and its financial performance and cash flows for the years ended 31 December 2013 and 31 December 2012, in accordance with International Financial Reporting Standards as adopted by the European Union.

1 July 2014


represented by



Reinhard Langenhövel
Partner

PricewaterhouseCoopers Audit, s.r.o., Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 024

NET4GAS Group
Consolidated Balance Sheets

<i>In thousands of Czech Crowns</i>	Note	31 December 2013	31 December 2012	1 January 2012
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	9	49,507,957	51,571,963	50,200,946
Intangible assets	10	154,437	187,923	206,019
Other non-current assets	11	560	20,501	329,601
Total non-current assets		49,662,954	51,780,387	50,736,566
Inventories	12	49,556	39,241	38,827
Trade and other receivables	14	364,339	366,065	513,811
Derivative financial instruments	30	2,480	17,890	69,505
Current income tax prepayments	28	167,839	-	165,467
Loans to related parties	13	5,401,302	5,102,037	7,075,516
Other non-financial assets	15	62,064	32,981	113,843
Cash and cash equivalents	16	1,039,000	362,631	24,181
		7,086,580	5,920,845	8,001,150
Assets of disposal group held for sale	17	34,454	-	-
Total current assets		7,121,034	5,920,845	8,001,150
TOTAL ASSETS		56,783,988	57,701,232	58,737,716
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY				
Registered capital	18	31,792,965	31,792,965	31,792,965
Other reserves	18	2,142,884	1,804,110	1,554,055
Retained earnings	18	5,816,247	6,775,461	7,210,158
Total equity		39,752,096	40,372,536	40,557,178
NON-CURRENT LIABILITIES				
Trade and other payables	23	4,561	5,523	55,371
Borrowings	19	11,000,000	11,000,000	11,000,000
Deferred income tax liability	28	4,937,036	5,112,569	5,342,778
Provisions	22	192,191	179,358	151,478
Accrued employee benefits	24	28,676	25,780	23,502
Total non-current liabilities		16,162,464	16,323,230	16,573,129
CURRENT LIABILITIES				
Trade and other payables	23	606,821	707,239	1,083,097
Derivative financial instruments	30	94,033	31,949	298,404
Current income tax payable	28	45,729	10,745	-
Other taxes payable	21	18,855	94,681	62,197
Provisions	22	25,000	27,500	31,891
Other non-financial liabilities	24	78,990	133,352	131,820
Total current liabilities		869,428	1,005,466	1,607,409
Total liabilities		17,031,892	17,328,696	18,180,538
EQUITY AND LIABILITIES		56,783,988	57,701,232	58,737,716


 Andreas Ray
 Statutory Director


 Václav Hrách
 Statutory Director

NET4GAS Group
Consolidated Statements of Profit or Loss and Other Comprehensive Income

<i>In thousands of Czech Crowns</i>	Note	2013	2012
Revenue	7	9,011,965	10,088,740
Raw materials consumed	25	(217,891)	(105,755)
Services purchased	25	(626,059)	(823,886)
Employee benefits	25	(480,133)	(458,801)
Depreciation and amortisation	9,10, 25	(2,701,458)	(2,564,394)
Impairment	25	(39,424)	(64,261)
Losses on disposal of property, plant and equipment	25	(1,681)	(12,681)
Changes in fair value of derivatives, net	25	(193,886)	89,096
Foreign exchange differences, net	25	50,777	1,502
Other operating income		25,397	18,686
Other operating expenses	25	(50,108)	(95,450)
Operating profit		4,777,499	6,072,796
Finance income	26	32,704	55,006
Finance costs	27	(471,396)	(472,668)
Finance costs (net)		(438,692)	(417,662)
Profit before income tax		4,338,807	5,655,134
Income tax expense	28	(832,765)	(1,088,746)
PROFIT FOR THE YEAR		3,506,042	4,566,388
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,506,042	4,566,388

NET4GAS Group
Consolidated Statements of Changes in Equity

<i>In thousands of Czech Crowns</i>	<i>Registered capital</i>	<i>Other reserves</i>	<i>Retained earnings</i>	<i>TOTAL</i>
Balance as at 1 January 2012	31,792,965	1,554,055	7,210,158	40,557,178
Total comprehensive income	-	-	4,566,388	4,566,388
<i>Transactions with owners</i>				
Contribution to legal reserve fund	-	250,055	(250,055)	-
Dividends paid	-	-	(4,751,030)	(4,751,030)
Balance as at 31 December 2012	31,792,965	1,804,110	6,775,461	40,372,536
Total comprehensive income	-	-	3,506,042	3,506,042
<i>Transactions with owners</i>				
Contribution to legal reserve fund	-	338,774	(338,774)	-
Dividends paid	-	-	(4,126,482)	(4,126,482)
Balance as at 31 December 2013	31,792,965	2,142,884	5,816,247	39,752,096

NET4GAS Group
Consolidated Statements of Cash Flows

<i>In thousands of Czech Crowns</i>	Note	2013	2012
Cash flows from operating activities			
Profit before tax		4,338,807	5,655,134
Adjustments for:			
Depreciation and amortisation	9,10	2,701,458	2,564,394
Finance income	26	(32,704)	(55,006)
Finance costs	27	471,396	472,668
Impairment	9,10	39,424	64,261
Losses on disposals of property, plant and equipment		1,681	12,681
Other non-cash operating expenses / (gains)		136,288	(191,361)
thereof: - derivatives	30	77,504	(214,850)
- inventory write-off		33,190	-
- other		25,594	23,489
Operating cash flows before working capital changes		7,656,350	8,522,771
Decrease / (Increase) in trade and other receivables	14,15	(44,619)	186,373
Decrease in trade and other payables	23,24	(233,627)	(159,193)
Increase in inventories	12	(43,505)	(414)
Operating cash flows after changes in working capital		7,334,599	8,549,537
Interest paid	27	(471,396)	(472,668)
Interest received	26	8,729	56,245
Income tax paid	28	(1,140,902)	(1,142,933)
Net cash flows from operating activities		5,731,030	6,990,181
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(563,165)	(3,856,006)
Purchase of intangible assets	10	(66,339)	(63,452)
Proceeds from sale of property, plant and equipment	9	590	15,278
Repayments of loans provided to related parties	13	42,005,076	26,663,034
Loans provided to related parties	13	(42,304,341)	(24,659,555)
Net cash flows used in investing activities		(928,179)	(1,900,701)
Cash flows from financing activities			
Dividends paid to the Company's shareholder	18	(4,126,482)	(4,751,030)
Net cash flows used in financing activities		(4,126,482)	(4,751,030)
Net increase in cash and cash equivalents		676,369	338,450
Cash and cash equivalents at the beginning of the period	16	362,631	24,181
Cash and cash equivalents at the end of the period	16	1,039,000	362,631

1 NET4GAS Group and Its Operations – General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the two years ended 31 December 2013 for NET4GAS, s.r.o. (the “Company” or “NET4GAS”) and its subsidiary BRAWA, a.s. (the “Subsidiary” or “BRAWA”) (together the “Group” or “NET4GAS Group”).

The Company was incorporated and is domiciled in the Czech Republic where is also the Group's principal place of business. The Company is a limited liability company and was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. Identification number of the Company is 272 60 364.

The subsidiary BRAWA, a.s. (joint stock company) was incorporated on 10 November 2010 as 100% subsidiary of the Company and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Subsidiary's primary business activity is lease of Gazelle gas pipeline to the Company. Identification number of the company is 247 57 926.

The Group's main business activity is natural gas transmission in accordance with the Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees (the “Energy Act”).

In the period from 1 January 2012 to 30 April 2012 the Company was fully owned by RWE Supply & Trading CZ, a.s. (till 31 December 2012 operating under name RWE Transgas, a.s.) incorporated in the Czech Republic and its ultimate parent company was RWE Aktiengesellschaft incorporated in Germany.

In the period from 1 May 2012 to 2 August 2013 the Company was fully owned by RWE Gas International N.V. incorporated in the Netherlands and its ultimate parent company was RWE Aktiengesellschaft incorporated in Germany.

Since 2 August 2013 the Company is fully owned by NET4GAS Holdings, s.r.o. (the “NET4GAS Holdings”), incorporated in the Czech Republic, which is the Company's ultimate parent company. NET4GAS Holdings is a joint venture of two ventures: Allianz Infrastructure Czech HoldCo II S.á r.l. (50%) and Borealis Novus Parent B.V. (50%).

NET4GAS Holdings issued its last financial statements for the year ended 31 December 2013.

The Statutory Directors:

As at 31 December 2013	As at 31 December 2012
Andreas Rau (since 1 December 2013)	Thomas Kleefuss (until 31 October 2013)
Radek Benčík	Radek Benčík

As at 1 March 2014 Václav Hrach was appointed as a Statutory Director.

The members of the Supervisory Board were as follows:

As at 31 December 2013	Function	As at 31 December 2012	Function
Radek Hromek	Member	Martin Friedrich Herrmann	Chairman
Jan Zaplatílek	Member	Dr. Martin Muhr	Vice-Chairman
Sebastien Sherman	Member	Peter Terium	Member
Ralph Adrian Berg	Member	Andreas Böwing	Member
Melchior Stahl	Member	Jan Zaplatílek	Member
Jaroslava Korpancová	Member	Radek Hromek	Member

About the Group. NET4GAS, s.r.o. is the sole gas transmission system operator in the Czech Republic, with access to more than 3,800 km of its own gas pipelines. By 31 December 2013 the NET4GAS transmission system also comprised five compressor stations with an installed capacity of 297 MW. Since 1 January 2014 NET4GAS has been operating four compressor stations because one compressor station became redundant. The flow rate of the gas transmitted is measured at five border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, and the Waidhaus and Olbernhau stations in Germany) and at almost a hundred national transfer stations. The NET4GAS transmission system has long been specifically targeted for a number of new projects delivering additional transmission capacity and the greater diversification of transmission routes. These projects have included the construction of the new Gazelle high-pressure gas pipeline (DN 1400), running for almost 170 km, and a connection between the Czech and Polish transmission systems (the "North-South Corridor") in Český Těšín. In parallel with this, the entire NET4GAS transmission system has been upgraded so that it can also be used for reverse flow, which means that it now has the capacity and technology to cope with natural gas transmission in any direction.

NET4GAS, s.r.o. is the successor to Tranzitni plynovod, n. p., Transgas, a.s. and RWE Transgas Net, s.r.o. The Company's history, stretching back for more than 40 years, also serves as a testimony to the flawless, highly professional work of its employees. NET4GAS, s.r.o. founded BRAWA, a.s. as its subsidiary on 10 October 2010. Till 1 January 2013 BRAWA, a.s. was a dormant company. On 1 January 2013, under the legal reorganisation of NET4GAS's business, the Gazelle pipeline was transferred to BRAWA and BRAWA became the sole owner of the Gazelle pipeline. The Gazelle pipeline is operated by NET4GAS, s.r.o.

Structure of Group as at 31 December 2012 and 31 December 2013:

Name	Activity	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiary: BRAWA, a.s.	Owner of the Gazelle natural gas pipeline which is rented to the Company	100%	100%	Czech Republic

2 Operating Environment of the Group

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator

The transmission system operator holds an exclusive gas transmission licence under the Energy Act, and its operations are regulated by the Energy Regulatory Authority (the "ERO").

The transmission system operator's rights and obligations are primarily derived from Section 58 of the Energy Act and are clarified in more detail in the related implementing legislation. The transmission system operator is also required to comply with obligations under the European legislation, in particular Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and the related implementing legislation.

(b) Regulatory framework pertaining to the transmission system operator

Gas transmission prices are set annually by the ERO based on regulation methodology applicable in the regulatory period. Gas transmission prices for the next calendar year are usually published in an ERO's Pricing Decision by 30 November of the current year.

The 2014 gas transmission prices were established by ERO's Pricing Decision No 3/2013 of 27 November 2013 on Regulated Prices related to gas supply, as amended by Pricing Decision No 7/2013 of 12 December 2013.

(c) Method of regulation

The transmission system operator currently finds itself in the third regulatory period, which began on 1 January 2010 and ends on 31 December 2014.

(d) Domestic transmission regulation methodology applicable in the third regulatory period

The transmission system operator regulation methodology for domestic gas transmission is based on a ceiling established for permissible revenues over a predetermined period (the revenue cap method). Domestic gas transmission prices are then derived from such defined permissible revenues. These prices consist of a fixed component for booked transmission capacity and a variable component depending on the amount of gas transmitted.

(e) Transit transmission regulation methodology applicable in the third regulatory period

The transmission system operator regulation methodology for transit transmission relies on a price ceiling (of permissible prices) for a predetermined period (the price cap method). Permissible prices are set annually by the ERO based on a comparison of gas transmission prices in other relevant Member States of the European Union (benchmarking). The underlying documentation for this benchmarking is prepared and supplied by the transmission system operator.

(f) Unregulated part

Further to a decision of the Energy Regulatory Authority of 28 July 2011, the Gazelle interconnecting pipeline was exempted from the obligation to grant third-party access at a regulated price under the conditions set out in the Energy Act.

3 Summary of Significant Accounting Policies

a) Basis of preparation

These consolidated financial statements are the first consolidated financial statements of the Group and have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management judgement to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Presentation currency. These consolidated financial statements are presented in Czech Crowns ("CZK").

b) Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

c) Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group:

(a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 33.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the balance sheet.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

d) Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

The Group has only loans and receivables and derivatives classified at fair value through profit or loss.

Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as part of the line Changes in fair value of derivatives, net. The Group does not apply hedge accounting.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

e) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

f) Initial recognition of financial instruments

Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards, loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps, foreign exchange forwards, loans to related parties.

g) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

h) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred.

Significant spare parts are recognised and treated as property, plant and equipment.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

At each end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year.

i) Depreciation

Land is not depreciated. Construction in progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives
Buildings and constructions	30 - 70 years
Plant, machinery and equipment	4 - 40 years
Furniture and fittings	4 - 8 years
Motor vehicles	5 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

j) Leasing

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term, if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

k) Intangible assets

The Group's intangible assets have definite useful lives and primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks and other intangibles are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

l) Amortisation

Intangible assets are amortised using the straight-line method over their useful lives (unless the agreement or licence conditions state shorter or longer period):

	Useful lives
Software	3 years
Patents, and other licences	1.5 – 6 years
Development costs	6 years
Other intangible assets	6 years

m) Emission Rights

The Group receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return rights equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. The emission rights which were granted free of charge are carried at their nominal value, i.e. at zero. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange and such an exchange is deemed to have the economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Group did not recognise any provision resulting from the gas emissions as at 31 December 2013, 31 December 2012 and 1 January 2012.

The amounts of emissions rights held by the Group were as follows:

<i>In tons</i>	31 December 2013	31 December 2012	1 January 2012
Emission rights	355,063	366,575	270,207

n) Impairment of non-financial assets

Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

o) Assets held for sale and discontinued operations

Assets (or disposal groups) are classified as assets held for sale and stated at the lower of their residual amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Assets held for sale are not depreciated.

p) Taxes

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge /credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

q) Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

r) Inventories

Raw materials are mainly spare parts for the gas pipeline network. Purchased inventories are stated at the lower of cost and net realizable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Strategic spare parts are recognised and treated as property, plant and equipment.

s) Trade receivables

Trade receivables are carried at amortised cost using the effective interest method less relevant impairment.

t) Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

u) Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

v) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

The Group uses so-called cash-pooling within the group. A receivable (liability) that arises from cash-pooling is presented in the Statement of Cash Flows as a part of the item Cash and Cash equivalents if it is due within three months after the balance sheet date.

If the liability arising from cash-pooling represents a form of financing, it is not presented in the Statement of Cash Flows as part of the item Cash and Cash equivalents.

Other deposits within the Group if they are due outside three months after the balance sheet date are not presented as a part of the item Cash and Cash equivalents.

Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

w) Reserve fund

Until 31 December 2013 the Group created legal reserve fund from the profit of the Group in accordance with Czech legislation and may not be distributed to shareholders, but may have been used to offset losses only. In accordance with changes in the Czech legislation effective since 1 January 2014 there is no obligation to create and retain legal reserve fund. In 2014 NET4GAS changed the Foundation Deed in case of legal reserve fund.

x) Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

y) Borrowings

Borrowings are carried at amortised cost using the effective interest method.

z) Government and other grants

Grants from the government and European Commission are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to the purchase of property, plant and equipment decrease directly the costs of the relevant asset.

aa) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

bb) Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

cc) Financial guarantees

Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Group expects to receive recurring future premiums from an issued financial guarantee contract, the guarantee is recorded at the premium receivable at the inception of the contract and no receivable is recognised in respect of the future premium payments receivable. The premium receivable in one instalment is amortised on a straight line basis over the period covered by that instalment (for financial guarantee contract, which is in place as at 31 December 2013 this period is twelve months). At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

dd) Asset retirement obligations

The Group's transmission network is mainly constructed on the land owned by third parties. The current legislation requires the Company to incur the costs related to transmission network's operation and maintenance. The current Czech environmental and energy legislation does not set the obligation to liquidate the assets at the end of their useful life. Given the currently valid legislation management believes that there is no asset retirement obligation (dismantling and removing an item of property, plant and equipment) to be recognised in the financial statements.

ee) Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiary are Czech Crowns ("CZK"), and the Group's presentation currency, is also CZK.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Czech national bank ("CNB") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CNB are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

ff) Revenue recognition

The Group recognises as revenue mainly income from fees collected for the gas transmission within and across the Czech Republic.

Revenue from gas transmission services is recognised on time proportional basis based on the reserved capacity, at the maximum on monthly basis. Revenues are invoiced on monthly basis (or shorter where applicable) and sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

Interest income is recognised on a time-proportion basis using the effective interest method.

gg) Employee benefits

Wages, salaries, contributions to the Czech state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and other services) are accrued in the year in which the associated services are rendered by the employees of the Group.

a) pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

b) termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c) other long term benefits

Long-term employee benefits, such as long-term bonuses, and long service awards are accounted for measured using the projected unit credit method in the same way as defined benefit pension plan, with the exception that re-measurements (actuarial gains/losses) and related charges are recognised immediately through in profit or loss.

hh) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

ii) Segment reporting

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Functional currency

Management assessed the relevant primary and secondary factors during the consideration about the Company's functional currency. The functional currency is the currency of the primary economic environment, in which the entity operates. The regulated sales prices of the Company are determined by ERO – the Czech regulatory authority and are defined in CZK. Majority of the entity's revenue stems from regulated sales. Majority of the operating expenses of the Company are influenced by CZK. Capital expenditures are twofold: regular capital expenditure safeguarding the existing network and its safeness; and large one off projects. The regular capital expenditure is almost entirely influenced by CZK, while the pricing of large one off projects is influenced by a mix of currencies (including CZK, EUR and other). Although the entity's operations are influenced by a mix of currencies, management concluded that majority of the indicators support CZK as the functional currency of the Company.

Functional currency of BRAWA is driven by the functional currency of NET4GAS, because BRAWA does not operate with significant degree of autonomy. It is rather an extension of the Company's operations.

Classification of pipeline capacity contract

The Group entered into a long-term contracts expiring on 1 January 2021 and 1 January 2035 whereby it provided majority of its Gazelle pipeline capacity under 'ship or pay' basis. Management considered whether the contract for the provision of pipeline capacity to its major customer is, in substance, a finance lease. Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant (although minority) capacity of the pipeline, which is available to other customers and this capacity is used by the other customers. The pipeline is under the Group's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore the arrangement is not, in substance, a lease contract. The Group treats the pipeline as its property, plant and equipment and recognises revenue from the contract with the major customer in accordance with IAS 18.

Transmission System Operator licence and Gazelle pipeline

Considering the applicability of IFRIC 12 for the Group, management believes that the control requirements have not been met as the title will never be transferred to the government nor can the government control the operator's practical ability to sell or pledge the infrastructure and government is not controlling the construction process. Therefore the Group's network is classified as property, plant and equipment and is not treated as infrastructure used in public-to-private service concession arrangements.

Risk related to tax position

NET4GAS was established by way of legal reorganisation of part of the business of RWE Transgas, a.s. ("RWE Transgas") due to the unbundling requirement under the so called Second Energy Package of the European Union, while part of the business of RWE Transgas was contributed to registered capital of NET4GAS. As a result of the unbundling process and related revaluation, the accounting carrying amounts of the gas transmission system were significantly increased (based on an appointed appraiser's valuation) compared to their tax values (i.e. the historical cost based measurement rolled over from the tax books of RWE Transgas, which was the basis for tax depreciation). Due to the temporary differences between the new carrying amounts and the tax values of the transmission system, the deferred tax liability was recorded in 2006 against equity of NET4GAS. ERO has approved the inclusion of accounting depreciation (based on the revalued amounts) of the gas pipeline system in the final price for the inland gas transmission services for regulatory periods between 2005-2009 and 2010-2014. It means that the regulated prices (taxable income) charged by NET4GAS to its customers have been increased by the effect of the accounting depreciation, while the original tax base has been based on the historical costs of the gas pipeline system only.

During 2010 management realised that NET4GAS can treat part of the accounting depreciation of the gas pipeline system used for inland transmission as tax-deductible expense. Therefore, tax deduction for the difference between the accounting depreciation and historical cost based tax depreciation was claimed by NET4GAS in its remedial corporate income tax returns for the prior years from 2008 (the right to submit remedial tax returns for earlier years had expired).

Management believes that it is probable that the Group will receive the income tax benefits resulting from applying the accounting depreciation of the gas pipeline system over the period of its useful life. This position is supported by the fact that the tax authorities have returned the resulting overpayments for the years 2008 – 2011.

The regulator's approach to determining principles of the calculation of the price cap may change from one regulatory period to the next one. The future changes to the regulatory principles cannot be predicted. However, the general principle that the transmission operator should earn certain reasonable return on capital employed will stay in the regulation. Impracticability of predicting future changes in the regulation is similar to forecasting of future changes in taxes. Therefore management applies similar approach to future changes in regulation as to the changes in tax regulation. The rules applicable in the latest regulatory period are presumed to be applicable also in the future, until the regulator enacts or substantially enacts new regulatory rules. Management expects that the use of the accounting depreciation of the gas pipeline system in the final price for the inland gas transmission services will remain to be effective in regulatory periods after 2014. Based on the under way negotiations with ERO, management does not see reasons to change the above described estimate in the deferred tax asset assessment.

Segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the Group. Recurring revenues are from the contracts with foreign and domestic customers. Information for CODM (the Company's Statutory Directors) who are responsible for allocating resources and assessing performance of the Group is prepared for the whole Group without any particular structuring. Management regularly obtain information with assessment of the split of revenue between the transit revenue and domestic transmission revenue. There is no profit measure, which would be based on similar basis. All profit measures used by the Statutory Directors are based on the results of the Group considered as one business unit. As a result, management consider the whole Group as one segment for the purpose of segment reporting.

5 Adoption of IFRS

These consolidated financial statements are the Group's first annual financial statements that comply with IFRS. The Group's IFRS transition date is 1 January 2012. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2013. This version of IFRS was applied in preparing the opening IFRS consolidated balance sheet as at 1 January 2012 and in subsequent periods up to the end of the first IFRS reporting period. In preparing these consolidated financial statements, the Group has applied the mandatory exceptions and has elected to apply the following optional exemptions from retrospective application:

Fair value as deemed cost exemption. The Group has elected to measure its items of PPE using the fair value revaluation performed in the past at the date of business transformation and accounted for under the previous GAAP (Czech accounting legislation).

Exceptions from retrospective application, which are mandatory under IFRS 1 and relevant to the Group are:

Derecognition of financial assets and liabilities exception. Financial assets and liabilities derecognised before the transition to IFRS are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

Hedge accounting exception. The Group does not apply hedge accounting.

Estimates exception. Estimates under IFRS at 1 January 2012 and 31 December 2012 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

Reconciliations

The impact of the transition from CZ GAAP to IFRS on equity is shown in the table below:

<i>In thousands of Czech crowns</i>	1 January 2012	31 December 2012
NET4GAS, s.r.o. equity based on CZ GAAP	38,348,105	40,372,536
Deferred tax from income tax benefits	2,209,073*	-
NET4GAS Group equity based on IFRS	40,557,178	40,372,536

* Deferred tax benefit (decrease in deferred tax liability) from income tax credits related mainly to revalued PPE was recognised under IFRS as at 1 January 2012 while under CZ GAAP during 2012. The later recognition of the deferred tax benefit under CZ GAAP was caused by the application of the prudence principle. This prudence principle implies higher threshold for the deferred tax benefit recognition than the probable threshold, which is applied under IAS 12. Management assessed that the IAS 12 probable threshold was met as at 1 January 2012.

The impact of the transition from CZ GAAP to IFRS on comprehensive income is shown in the table below:

<i>In thousands of Czech crowns</i>	Year ended 31 December 2012
NET4GAS Group net income based on CZ GAAP	6,775,461
Deferred tax from income tax benefits	(2,209,073)*
NET4GAS Group net income based on IFRS	4,566,388

* See the note above

Before 1 January 2013 the Group was represented by one legal entity, which prepared its financial statements under CZ GAAP. From 1 January 2013, after the legal reorganisation described in note 1, the Group consists of two entities. However, no consolidated financial statements were prepared for the Group for the year ended 31 December 2013, because the Company applied the exception from the consolidation as it was consolidated by its parent NET4GAS Holdings, s.r.o. as at 31 December 2013.

Therefore the last financial statements representing the operations of the Group under CZ GAAP were prepared for the year ended 31 December 2012.

Early Adoption of new standards

Following standards were early adopted by the Group and applied retrospectively for the preparation of opening IFRS Balance Sheet as at 1 January 2012 and the subsequent periods presented:

IFRS 10, Consolidated Financial Statements (issued in May 2011, subsequently amended).

IFRS 11, Joint Arrangements (issued in May 2011, subsequently amended).

IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011).

IAS 27, Separate Financial Statements (revised in May 2011).

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011).

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011).

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012).

Amendments to IAS 36 – “Recoverable amount disclosures for non-financial assets” (issued in May 2013).

Early adoption of these standards has no material impact on the consolidated financial statements of the Group.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted. The standards listed below have not yet been endorsed by the European Union.

IFRS 9 “Financial Instruments: Classification and Measurement”. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IFRIC 21 – “Levies” (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. This standard has not been endorsed by the European Union and is not expected to have any material impact on the financial statements of the Group.

Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. These amendments are not expected to have any material impact on the financial statements of the Group.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. These amendments are not expected to have any material impact on the financial statements of the Group.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014) The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. These amendments are not expected to have any material impact on the financial statements of the Group.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. This amendment will have no impact on the financial statements of the Group.

IFRS 15, Revenue from contracts with customers (issued on 28 May 2014 and will apply to periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Cost incurred to secure contracts with customers have to be capitalised and amortised of the period when the benefits of the contract are consumed. Management analyses the impact of the new standard on the Company's financial statements. The standard has not been endorsed by the EU yet.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

7 Segment Information

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of one main business segment - Natural gas transmission (representing natural gas transmission services).

(b) Factors that management used to identify the reportable segments

Refer to the information in Note 4.

(c) Information about reportable segment profit or loss, assets and liabilities

The whole Group is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2013 and 31 December 2012 is set out below:

<i>In thousands of Czech crowns</i>	Natural gas transmission	Natural gas transmission
	Year 2013	Year 2012
Revenue	9,120,843	10,163,934
Raw materials and consumables used	217,891	105,755
Staff costs	480,133	458,801
Depreciation and amortization	2,701,458	2,564,394
Impairment	39,424	64,261
Services	626,059	823,886
Gains less losses on disposals of property, plant and equipment	1,681	12,681
Other operating expenses	50,108	95,450
Income tax expense	832,765	1,088,746
Derivatives	193,886	(89,096)
Finance costs	471,396	472,668
Segment result	3,506,042	4,566,388
Capital expenditure	689,157	4,009,353

Revenues comprise revenues from core activities, other operating income and finance income.

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts. The majority of capital expenditures represent expenses related to Gazelle pipeline construction.

<i>In thousands of Czech crowns</i>	Natural gas transmission	Natural gas transmission	Natural gas transmission
	31 December 2013	31 December 2012	1 January 2012
Total reportable segment Assets	56,783,988	57,701,232	58,737,716
Total reportable segment Liabilities	17,031,892	17,328,696	18,180,538

(d) Geographical information

Total revenues for each individual country for which the revenues are material are reported separately as follows:

<i>In thousands of Czech Crowns</i>	2013	2012
Czech Republic	2,057,359	2,776,978
EU countries	2,991,109	2,929,634
Non-EU countries	3,963,497	4,382,128
Total consolidated revenues	9,011,965	10,088,740

The analysis is based on domicile of shippers (transmission network users). Before 31 December 2012 majority of the Group's revenue was billed through the RWE Transgas, a.s. although the ultimate customers were unrelated shippers.

Revenues comprise revenues from core activities.

Capital expenditure for each individual country for which it is material is reported separately as follows:

<i>In thousands of Czech Crowns</i>	2013	2012
Czech Republic	689,157	4,009,353
Total consolidated capital expenditure	689,157	4,009,353

The analysis is based on location of assets. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

(e) Major customers

Revenues from customers which represent 10% of more of the total revenues are as follows:

<i>In thousands of Czech Crowns</i>	2013	2012
Customer 1	1,763,182	7,572,975
Customer 2	4,999,870	1,455,451
Total revenues from major customers	6,763,052	9,028,426

Revenues comprise revenues from core activities.

Entities known to the Group as being under common control are considered as a single customer.

8 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

In period from 1 January 2012 to 30 April 2012 the Company was fully owned by RWE Supply & Trading CZ, a.s. (till 31 December 2012 operating under the company's name RWE Transgas, a.s.) and the ultimate parent company of the group was RWE Aktiengesellschaft.

In period from 1 May 2012 to 2 August 2013 the Company was fully owned by RWE Gas International N.V. and the ultimate parent company of the group was RWE Aktiengesellschaft.

Since 2 August 2013 the Company is fully owned by NET4GAS Holdings, s.r.o. and NET4GAS Holdings is the ultimate parent company of the group.

At 31 December 2013, the outstanding balances with related parties were as follows:

<i>In thousands of Czech Crowns</i>	Immediate parent
Gross amount of trade and other receivables	
NET4GAS Holdings, s.r.o.	15,209
Loans to related parties	
NET4GAS Holdings, s.r.o.	5,401,302
Borrowings	
Loans (contractual interest rate 4.22%)	
NET4GAS Holdings, s.r.o.	11,000,000

The income and expense items with related parties for the year ended 31 December 2013 were as follows:

<i>In thousands of Czech Crowns</i>	Immediate parent		Entities under common control	
	Until 2 August 2013	Since 2 August 2013	Until 2 August 2013	Since 2 August 2013
Purchases / expenses				
RWE Supply & Trading CZ, a.s.				
- gas, services, interest			464,155	
RWE Interní služby, s.r.o.				
- assets, services			49	
Other RWE group companies			7,653	
NET4GAS Holdings, s.r.o. - interest		194,706		
Revenue - gas transmission fees				
RWE Supply & Trading CZ, a.s.			1,258,306	
Regional distribution within RWE Group			494,324	
Other revenues				
RWE Supply & Trading CZ, a.s.			4,856	
RWE Gas Storage, s.r.o.			3,540	
Other RWE group companies			1,552	
NET4GAS Holdings, s.r.o. - services		24,318		

At 31 December 2013, other rights and obligations connected to related parties were as follows:

<i>In thousands of Czech Crowns</i>	Immediate parent
Guarantees issued by the Group at the year end	27,426,444

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At 31 December 2012, the outstanding balances with related parties were as follows:

<i>In thousands of Czech Crowns</i>	Entities under common control
Gross amount of trade and other receivables	
RWE Transgas, a.s.	217,573
RWE Gas Storage, s.r.o.	17,892
Other RWE group companies	11,274
Other financial asset	
RWE Transgas, a.s.	5,102,037
Borrowings	
Loans (contractual interest rate 4.22%)	
RWE Transgas, a.s.	11,000,000
Trade and other payables	
RWE Transgas, a.s.	33,888
Other RWE group companies	7,373

The income and expense items with related parties for the year ended 31 December 2012 were as follows:

<i>In thousands of Czech Crowns</i>	Immediate parent	Entities under common control
Purchases / expenses		
RWE Transgas, a.s.	212,529	428,850
RWE Interní služby, s.r.o.		813
Other RWE group companies		284,064
Revenue - transmission		
RWE Transgas, a.s.	2,854,541	5,133,498
Regional distribution within RWE Group consumables		1,021,298
Other revenues		
RWE Transgas, a.s.	21,020	33,769
RWE Gas Storage, s.r.o.		7,187
Other RWE group companies		383,772

At 31 December 2012, other rights and obligations connected to related parties were as follows:

<i>In thousands of Czech Crowns</i>	Entities under common control
Guarantees issued by the Group at the year end	-
Guarantees received by the Group at the year end	9,738

At 1 January 2012, the outstanding balances with related parties were as follows:

<i>In thousands of Czech Crowns</i>	Immediate parent	Entities under common control
Gross amount of trade receivables		
RWE Transgas, a.s.	460,369	
Other RWE group companies		8,735
Derivative financial instruments - assets		
RWE Aktiengesellschaft		69,505
Gross amount of other receivables		
RWE Transgas, a.s.	32,872	
Other RWE group companies		8,031
Other financial assets		
RWE Transgas, a.s.	7,075,516	
Borrowings		
- Loans (contractual interest rate 4.22%)		
RWE Transgas, a.s.	11,000,000	
Derivative financial instruments - liabilities		
RWE Aktiengesellschaft		298,404
Trade and other payables		
RWE Transgas, a.s.	113,828	
Other RWE group companies		47,353

Key management compensation is presented below:

<i>In thousands of Czech Crowns</i>	2013		2012	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	92,657	8,936	63,728	2,222
- Short-term bonuses	1,046	1,046	1,435	1,435
<i>Other long-term employee benefits:</i>				
- Long-term bonus scheme	2,379	11,462	6,465	9,083
- Defined contribution benefits	3,683	118	4,129	-
Total	99,765	21,562	75,757	12,740

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

Key management represents Statutory Directors and Heads subordinating to them.

9 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Freehold Land	Buildings and structures	Plant and equipment	Other	Construction in progress	Total
<i>In thousands of Czech Crowns</i>						
Cost at 1 January 2012	181,263	53,004,223	5,204,397	554	4,945,888	63,336,325
Accumulated depreciation	-	(10,346,554)	(2,779,525)	-	-	(13,126,079)
Impairment	-	(9,300)	-	-	-	(9,300)
Carrying amount at 1 January 2012	181,263	42,648,369	2,424,872	554	4,945,888	50,200,946
Additions	-	-	-	-	3,945,901	3,945,901
Transfers	24,825	1,883,273	358,506	-	(2,266,604)	-
Disposals	(6,367)	(21,620)	(51)	-	-	(28,038)
Depreciation charge	-	(1,829,884)	(652,962)	-	-	(2,482,846)
Impairment charge to profit or loss	-	(73,300)	-	-	-	(73,300)
Reversals of impairment through profit or loss	-	9,300	-	-	-	9,300
Carrying amount at 31 December 2012	199,721	42,616,138	2,130,365	554	6,625,185	51,571,963
Cost at 31 December 2012	199,721	54,810,300	5,558,277	554	6,625,185	67,194,037
Accumulated depreciation	-	(12,120,862)	(3,427,912)	-	-	(15,548,774)
Impairment	-	(73,300)	-	-	-	(73,300)
Carrying amount at 31 December 2012	199,721	42,616,138	2,130,365	554	6,625,185	51,571,963
Additions	-	-	-	-	622,818	622,818
Transfers	1,225	6,866,840	293,906	-	(7,161,971)	-
Disposals	(618)	-	(6,150)	-	-	(6,768)
Depreciation charge	-	(1,919,391)	(687,011)	-	-	(2,606,402)
Impairment charge to profit or loss	-	(44,200)	-	-	-	(44,200)
Reversals of impairment through profit or loss	-	5,000	-	-	-	5,000
<i>Reclassification to assets held for sale</i>						
Cost at 31 December 2013	(15,962)	(977,018)	-	-	-	(992,980)
Accumulated depreciation as at 31 December 2013	-	846,026	-	-	-	846,026
Impairment as at 31 December 2013	-	112,500	-	-	-	112,500
Carrying amount at 31 December 2013	184,366	47,505,895	1,731,110	554	86,032	49,507,957
Cost at 31 December 2013	184,366	60,691,721	5,699,821	554	86,032	66,662,494
Accumulated depreciation	-	(13,185,826)	(3,968,711)	-	-	(17,154,537)
Carrying amount at 31 December 2013	184,366	47,505,895	1,731,110	554	86,032	49,507,957

Construction in progress consists mainly of construction of Gazelle pipeline in 2012 (CZK 6,523,243 thousand) and of Moravia gas pipeline (CZK 30,226 thousand) in 2013. Upon completion, assets are transferred to buildings and structures.

10 Intangible Assets

<i>In thousands of Czech Crowns</i>	Acquired software licences	Development costs	Other	Assets under construction	Total
Cost at 1 January 2012	271,832	75,978	7,792	21,820	377,422
Accumulated amortisation	(117,663)	(52,529)	(1,211)	-	(171,403)
Carrying amount at 1 January 2012	154,169	23,449	6,581	21,820	206,019
Additions	-	-	-	63,452	63,452
Transfers	59,508	7,469	3,397	(70,374)	-
Amortisation charge	(70,768)	(8,805)	(1,975)	-	(81,548)
Carrying amount at 31 December 2012	142,909	22,113	8,003	14,898	187,923
Cost at 31 December 2012	330,928	83,447	11,189	14,898	440,462
Accumulated amortisation	(188,019)	(61,334)	(3,186)	-	(252,539)
Carrying amount at 31 December 2012	142,909	22,113	8,003	14,898	187,923
Additions	-	-	-	66,339	66,339
Transfers	52,648	399	8,592	(61,639)	-
Disposals	-	-	(4,769)	-	(4,769)
Amortisation charge	(83,916)	(8,595)	(2,545)	-	(95,056)
Carrying amount at 31 December 2013	111,641	13,917	9,281	19,598	154,437
Cost at 31 December 2013	371,035	72,921	15,011	19,598	478,565
Accumulated amortisation	(259,394)	(59,004)	(5,730)	-	(324,128)
Carrying amount at 31 December 2013	111,641	13,917	9,281	19,598	154,437

11 Other Non-Current Assets

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Advances for acquisition of fixed assets	560	20,501	329,601
Total other non-current assets	560	20,501	329,601

12 Inventories

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Raw materials	49,556	39,241	38,827
Total inventories	49,556	39,241	38,827

Raw materials are mainly general spare parts for the gas pipeline network.

Inventories of CZK 33,190 thousand (31 December 2012 and 1 January 2012: CZK nil) are valued at net realisable value as at 31 December 2013.

13 Loans to Related Parties

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Corporate loans			
- denominated in Czech Crowns	5,291,602	5,102,037	7,075,516
- denominated in Euros	109,700	-	-
Total loans issued	5,401,302	5,102,037	7,075,516

Analysis by credit quality of loans outstanding is as follows:

<i>In thousands of Czech Crowns</i>	31 December 2013 Corporate loans	31 December 2012 Corporate loans	1 January 2012 Corporate loans
<i>Neither past due nor impaired</i>			
- RWE Transgas, a.s.			
- rating A-	-	-	7,075,516
- rating BBB+	-	5,102,037	-
- NET4GAS Holdings, s.r.o. – parent company (without external rating)	5,401,302	-	-
Total neither past due nor impaired	5,401,302	5,102,037	7,075,516
Total loans issued	5,401,302	5,102,037	7,075,516

There are no collaterals related to the above mentioned loans.

Refer to Note 33 for the estimated fair value of each class of loans. Interest rate analysis of loans is disclosed in Note 31. Information on related party transactions is disclosed in Note 8.

14 Trade and Other Receivables

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Trade receivables	323,532	259,891	480,961
Accrued receivables	41,601	106,727	33,150
Less impairment loss provision	(794)	(553)	(300)
Total trade and other receivables	364,339	366,065	513,811
Loans to related parties	5,401,302	5,102,037	7,075,516
Total current trade receivables, other receivables and financial assets	5,765,641	5,468,102	7,589,327

Analysis by credit quality of trade and other receivables is as follows:

<i>In thousands of Czech Crowns</i>	31 December 2013		31 December 2012		1 January 2012	
	Trade and estimated receivables	Other financial receivables	Trade and estimated receivables	Other financial receivables	Trade and estimated receivables	Other financial receivables
<i>Neither past due nor impaired – exposure to</i>						
- NET4GAS Holdings (without external rating)		5,401,302				
- Between A- and BBB+	202,835		244,706	5,102,037	487,568	7,075,516
- Other	159,801		118,329		24,131	
Total neither past due nor impaired	362,636	5,401,302	363,035	5,102,037	511,699	7,075,516
<i>Past due but not impaired</i>						
- less than 30 days overdue	1,703		13			
- 30 to 90 days overdue			3,017		2,112	
- 91 to 180 days overdue						
- 181 to 360 days overdue						
- over 360 days overdue						
Total past due but not impaired	1,703		3,030		2,112	
<i>Individually determined to be impaired (gross)</i>						
- less than 30 days overdue						
- 30 to 90 days overdue			201			
- 91 to 180 days overdue						
- 181 to 360 days overdue						
- over 360 days overdue	794		352		300	
Total individually impaired	794		553		300	
Less impairment provision	(794)		(553)		(300)	
Total	364,339	5,401,302	366,065	5,102,037	513,811	7,075,516

15 Other Non-Financial Assets

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Value-added tax	26,642	-	-
Prepayments for services	15,605	13,258	32,485
Other receivables	19,817	19,723	81,358
Total current non-financial assets	62,064	32,981	113,843

Movements in prepayments are as follows:

<i>In thousands of Czech Crowns</i>	Prepayments for services
Carrying value at 1 January 2012	32,485
Additions	13,258
Prepayments derecognised on receipt of related goods or services	(32,485)
Total prepayments at 31 December 2012	13,258
Additions	15,605
Prepayments derecognised on receipt of related goods or services	(13,258)
Total prepayments at 31 December 2013	15,605

16 Cash and Cash Equivalents

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Cash on hand	239	291	231
Bank balances payable on demand	338,761	362,340	23,950
Term deposits with original maturity of less than three months	700,000	-	-
Total cash and cash equivalents	1,039,000	362,631	24,181

The credit quality of cash and cash equivalents balances may be summarised as follows:

<i>In thousands of CZK</i>	31 December 2013		31 December 2012		1 January 2012	
	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
<i>Neither past due nor impaired</i>						
- A- to A+ rated	338,761	700,000	362,340	-	23,950	-
Total	338,761	700,000	362,340	-	23,950	-

17 Assets of Disposal Group Held for Sale

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Assets of disposal group held for sale	34,454	-	-
Total Assets of disposal group held for sale	34,454	-	-

There are no liabilities related to the disposal group. The Group based on the planned sale of one compressor station recognized group of assets as held for sale as at 31 December 2013.

18 Equity

The Company is a limited liability company. It has no issued share securities. The rights attributed to share in the equity correspond to the proportion in the ownership interest.

Dividends declared and paid during the year were as follows:

<i>In thousands of Czech Crowns</i>	2013	2012
Dividends payable at 1 January	-	-
Dividends declared and paid during the year	4,126,482	4,751,030
Dividends payable at 31 December	-	-

All dividends were declared and paid in Czech Crowns.

19 Borrowings

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Borrowing from related party (repayable in 2021)	11,000,000	11,000,000	11,000,000
Total borrowings	11,000,000	11,000,000	11,000,000

The Group's borrowings were denominated in CZK. There are no collaterals and/or covenants related to the above mentioned borrowings. The fair value of borrowings is disclosed in Note 33.

20 Government and Other Grants

The Group obtained grants from the European Commission for construction projects specified below and deducted the grant value from the carrying amount of the related property, plant and equipment when all conditions attached to the grant were fulfilled. In 2013 the Group received a grant in the amount of CZK 7,229 thousand from the European Commission. The Group has not complied with all the attached conditions till 31 December 2013 and the amount received was presented as other taxes payable. During 2013 grants in total amount of CZK 17,544 thousand (2012: CZK 77,876 thousand) were deducted from the carrying amount of property, plant and equipment.

21 Other Taxes Payable

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
<i>Other taxes payable within one year comprise:</i>			
Value-added tax	-	67,782	42,743
Property and other taxes	6,298	10,918	5,636
Social and health insurance	12,557	15,981	13,818
Other taxes payable - current	18,855	94,681	62,197

22 Provisions for Liabilities and Charges

Movements in provisions are as follows:

<i>In thousands of Czech Crowns</i>	2013		2012	
	Current	Non-current	Current	Non-current
Carrying amount at January 1	27,500	179,358	31,891	151,478
Additions charged to profit or loss	-	25,091	2,500	64,119
Unused amounts reversed	-	-	-	(30,000)
Utilisation of provision	(2,500)	(12,258)	(6,891)	(6,239)
Carrying amount at December 31	25,000	192,191	27,500	179,358

The non-current provisions as at 31 December 2013, 31 December 2012 and 1 January 2012 were primarily created for restructuring on selected compressor stations. The non-current restructuring provisions as at 31 December 2013 are expected to be utilised in year 2016.

23 Trade and Other Payables

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Trade payables	163,413	151,749	243,872
Liabilities for purchased property, plant and equipment	303,490	263,778	489,895
Accrued liabilities	110,232	230,809	336,301
Other financial liabilities	29,686	60,903	13,029
Total financial payables within trade and other payables - current	606,821	707,239	1,083,097

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Trade payables	4,561	5,523	55,371
Total financial payables within trade and other payables – non-current	4,561	5,523	55,371

24 Accrued Employees Benefits and Other Non-Financial Liabilities

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Accrued employee benefits (current and non-current)			
- Salaries and bonuses	61,384	96,023	23,199
- Defined benefit costs	32,707	33,438	39,917
Grant pre-payments received	7,229*	17,544**	77,876***
Other non-financial liabilities	6,346	12,127	14,330
Total other non-financial liabilities	107,666	159,132	155,322

* The amount of CZK 7,229 thousand was provided for Action no. 2011-G190/11-ENER/11/TEN-E-SI2.636400 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks.

** The amount of CZK 17,544 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-02-SI2.564516 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks.

*** The amount of CZK 60,062 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-PL – SI2.567654 / SI2.567657 / SI2.567662 and grant in the amount of CZK 17,814 thousand for Action no. EEPR-2009-INTg-RF-CZ-02 – SI2.564516 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks.

25 Expenses

<i>In thousands of Czech Crowns</i>	2013	2012
Materials and components used	217,891	105,755
Salaries	409,780	386,090
Statutory and private pension contribution	70,353	72,711
Repairs and maintenance services	171,877	222,439
Depreciation and amortisation	2,701,458	2,564,394
Impairment – disposal group	39,424	64,261
Flexibility costs	141,217	260,029
IT & Telecommunications expenses	102,875	111,065
Rental expenses	58,248	57,397
Other services	178,488	214,543
Other provisions for liabilities and charges	-	21,609
Losses on disposal of fixed assets	1,681	12,681
Losses / (gains) on derivative financial instruments	193,886	(89,096)
Foreign exchange losses (gains) (other than on borrowings)	(50,777)	(1,502)
Other expenses	23,462	32,254
Total operating expenses	4,259,863	4,034,630

26 Finance Income

<i>In thousands of Czech Crowns</i>	2013	2012
Interest income on other financial assets	17,445	54,953
Other finance income	15,259	53
Total finance income	32,704	55,006

27 Finance Costs

<i>In thousands of Czech Crowns</i>	2013	2012
Interest expense	470,691	471,972
Other finance costs	705	696
Total finance costs recognised in profit or loss	471,396	472,668

28 Income Taxes

For details about the risks related to tax position refer to Note 4.

(a) Components of income tax expense

Income tax expense/credit recorded in profit or loss comprises the following:

<i>In thousands of Czech Crowns</i>	2013	2012
Current tax expense	(1,008,298)	(1,318,955)
Deferred tax	175,533	230,209
Income tax expense for the year	(832,765)	(1,088,746)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2013 and 2012 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

<i>In thousands of Czech Crowns</i>	2013	2012
Profit before tax	4,338,807	5,655,134
Theoretical tax charge at statutory rate of 19%:	(824,373)	(1,074,475)
Tax effect of items which are not deductible or assessable for income tax purposes:		
- Non-taxable items	7,870	5,682
- Non-deductible expenses	(22,283)	(19,236)
Differences from previous periods	5,978	(717)
Utilisation of previously unrecognised tax loss carry forwards	43	-
Income tax expense for the year	(832,765)	(1,088,746)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 19% (2012: 19%).

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<i>In thousands of Czech Crowns</i>	1 January 2013	(Charged) / credited to profit or loss	31 December 2013
Tax effect of deductible/(taxable) temporary differences			
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(5,166,781)	169,617	(4,997,164)
Impairment provision for receivables	82	(11)	71
Other liabilities; tax deductible in different period	14,827	(2,342)	12,485
Provisions for liabilities and charges	39,303	1,963	41,266
Provision for Inventories	-	6,306	6,306
Net deferred tax asset/(liability)	(5,112,569)	175,533	(4,937,036)
Recognised deferred tax asset	-	-	-
Recognised deferred tax liability	(5,112,569)	175,533	(4,937,036)
Net deferred tax asset/(liability)	(5,112,569)	175,533	(4,937,036)

Management estimates that deferred tax liabilities of CZK 4,838,449 thousand (2012: CZK 4,901,200 thousand, 1 January 2012 CZK 7,332,994 thousand) are recoverable after more than twelve months after the end of the reporting period.

The tax effect of the movements in the temporary differences for the year ended 31 December 2012 are:

<i>In thousands of Czech Crowns</i>	1 January 2012	(Charged) / credited to profit or loss	31 December 2012
Tax effect of deductible/(taxable) temporary differences			
Difference between tax and accounting value of Property, plant and equipment and intangible assets (different tax depreciation)	(5,385,252)	218,471	(5,166,781)
Impairment provision for receivables	50	32	82
Other liabilities tax deductible in different period	7,567	7,260	14,827
Provisions for liabilities and charges	34,857	4,446	39,303
Net deferred tax asset/(liability)	(5,342,778)	230,209	(5,112,569)
Recognised deferred tax asset	-	-	-
Recognised deferred tax liability	(5,342,778)	230,209	(5,112,569)
Net deferred tax asset/(liability)	(5,342,778)	230,209	(5,112,569)

29 Contingencies and Commitments

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Czech Crowns</i>	2013	2012
Not later than 1 year	49,611	48,785
Later than 1 year and not later than 5 years	84,142	128,593
Total operating lease commitments	133,753	177,378

The Group has entered into operating lease agreements for offices (Kavčí hory Office Park) and for the car fleet.

Capital expenditure commitments. At 31 December 2013 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling CZK 46,442 thousand mainly related to Optimus project - optimisation project on compressor stations (2012: CZK 393,411 thousand mainly related to Gazelle pipeline construction).

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations.

The Company obtained issued guarantees from banks in the amount of CZK 49,491 thousand as at 31 December 2013 (2012: CZK 48,700 thousand).

The Group records its obligations arising from financial guarantees in respect of bank loans that have been provided to the parent company NET4GAS Holdings, s.r.o., which is as at 31 December 2013 in amount of CZK 26,449,289 thousand for NET4GAS, s.r.o. and CZK 977,155 thousand for BRAWA, a.s. The financial guarantee contract as at 31 December 2013 at carrying amount of CZK 15,209 thousand is recognised as part of Trade and other receivables.

Assets pledged and restricted. In connection with guarantees issued for bank loans that have been provided to the parent company NET4GAS Holdings, s.r.o. there are following pledges existing:

- a) NET4GAS: commercial enterprise pledge, bank accounts pledge, pledge of insurance, pledge of receivables, pledge of shares in BRAWA.
- b) BRAWA: commercial enterprise pledge, pledge of insurance, pledge of receivables, pledge of bank accounts.

30 Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

The Group didn't have any other derivative financial instruments besides the foreign exchange derivatives.

	31 December 2013		31 December 2012		1 January 2012	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Czech Crowns</i>						
Foreign exchange forwards: fair values, as at the reporting period, of						
- USD receivable on settlement (+)						
- USD payable on settlement (-)	2,480	(22,418)	7,314	(2,599)		(3,566)
- Euros receivable on settlement (+)						
- Euros payable on settlement (-)		(68,612)	3,771	(29,171)		(88,421)
- Other currencies receivable on settlement (+)			6,224		1,732	(136,420)
- Other currencies payable on settlement (-)						
Net fair value of foreign exchange forwards	2,480	(91,030)	17,309	(31,770)	1,732	(228,407)

	31 December 2013		31 December 2012		1 January 2012	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Czech Crowns</i>						
Foreign exchange swaps: fair values, as at the reporting period, of						
- USD receivable on settlement (+)			30			
- USD payable on settlement (-)				(179)		
- Euros receivable on settlement (+)		(3,003)			67,773	
- Euros payable on settlement (-)			551			(69,997)
Net fair value of foreign exchange swaps		(3,003)	581	(179)	67,773	(69,997)

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivatives have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in foreign exchange rates, market interest rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group had no outstanding obligations from unsettled spot transactions with foreign currencies as at 31 December 2013, as at 31 December 2012 as at 1 January 2012.

31 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises financial market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Operational risk comprises risks stemming from specific business activities and daily processes. Market risk covers risks arising from change in marketplace conditions and economic cycle. Environmental risk covers political, legislative, regulatory and ecological risks.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational, market and environmental risks management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational, market and environmental risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

<i>In thousands of Czech Crowns</i>	31 December 2013	31 December 2012	1 January 2012
Trade and other receivables (Note 14)			
- Trade and other receivables	364,339	366,065	513,811
- Other financial receivables	5,401,302	5,102,037	7,075,516
Cash and cash equivalents (Note 16)			
- Bank balances payable on demand	338,761	362,340	23,950
- Term deposits with original maturity of less than three months	700,000	-	-
Total on-balance sheet exposure	6,804,402	5,830,442	7,613,277
Total maximum exposure to credit risk	6,804,402	5,830,442	7,613,277

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved by management. The risks are monitored on a revolving basis and are subject to a monthly review. The Group is exposed to credit concentration risk considering the receivables from key customers.

The credit risk is mitigated by advance payments and a system of creditworthiness conditions which are applied to the Group's customers, suppliers of services with potential significant credit position (flexibility contract, gas sales contract) and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentations and internal guidelines.

Within the creditworthiness conditions, each company is eligible to obtain a credit limit subject to presenting a credit rating from the defined third party agencies or is required to deliver the credit mitigation instruments such as cash collateral, parent company guarantee or bank guarantee. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Group's management reviews ageing analysis of outstanding trade and other receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 14.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets a strategy for each of the risk, including a limit on open position that may be accepted. Monitoring is performed on a daily basis.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by single currency and in total. Management approves the strategy of the currency risk management. The positions are monitored daily. The amount of risk is evaluated in terms of open positions (daily).

The netting of currency position is applied where possible. The outstanding positions are managed by means of buying or selling the relevant currency in the derivative future or swap contract. The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Czech Crowns</i>	31 December 2013				31 December 2012			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
US Dollars	200,961	2,257	(19,938)	178,766	8	3,414	4,566	1,160
Euros	313,996	143,854	(71,615)	98,527	611,413	102,411	(24,849)	484,153
Other	-	-	-	-	-	-	6,224	6,224
Total exposed to currency risk	514,957	146,111	(91,553)	277,293	611,421	105,825	(14,059)	491,537
Czech Crowns	6,263,849	11,331,753	-	(5,067,904)	5,114,682	11,312,262	-	(6,197,580)
Total	6,778,776	11,478,184	(91,553)	(4,790,611)	5,726,103	11,418,086	(14,059)	(5,706,043)

<i>In thousands of Czech Crowns</i>	1 January 2012			
	Monetary financial assets	Monetary financial liabilities	Deri- vatives	Net balance sheet position
US Dollars	27	44	(3,566)	(3,583)
Euros	19,859	15,736	(90,645)	(86,522)
Other	-	233	(134,688)	(134,921)
Total exposed to currency risk	19,886	16,013	(228,899)	(225,026)
Czech Crowns	7,555,242	11,373,550	-	(3,818,308)
Total	7,575,128	11,389,563	(228,899)	(4,043,334)

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. The net total represents the fair value of the currency derivatives.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

In thousands of Czech Crowns	At 31 December 2013		At 31 December 2012	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	17,877	-	116	-
US Dollar weakening by 10%	(17,877)	-	(116)	-
Euro strengthening by 10%	9,853	-	48,415	-
Euro weakening by 10%	(9,853)	-	(48,415)	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group. The Group's exposure to currency risk at the end of the reporting period is representative of the typical exposure during the year.

Interest rate risk. The Group possess no instruments exposed to the floating interest rate. Some instruments, like term deposits, are priced at fixed rates and are exposed to re-pricing risk in the maturity.

The table below summarises the Group's exposure to interest rate risks (e.g. term deposits on fix rate and shareholder loan on fixed rate, both with re-pricing risk). The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2013					
Total financial assets	1,038,761	5,401,302			6,440,063
Total financial liabilities				(11,000,000)	(11,000,000)
Net interest sensitivity gap at 31 December 2013	1,038,761	5,401,302	-	(11,000,000)	(4,559,937)
31 December 2012					
Total financial assets	1,464,377	4,000,136			5,464,513
Total financial liabilities				(11,000,000)	(11,000,000)
Net interest sensitivity gap at 31 December 2012	1,464,377	4,000,136	-	(11,000,000)	(5,535,487)
1 January 2012					
Total financial assets	4,799,124	2,300,342			7,099,466
Total financial liabilities				(11,000,000)	(11,000,000)
Net interest sensitivity gap at 1 January 2012	4,799,124	2,300,342	-	(11,000,000)	(3,900,534)

All of the Group's debt instruments reprice over 5 years. As none of the Group's assets or liabilities are directly exposed to the floating interest rate, the change in interest rates has no impact on the Group's profit for the current year (the statement is true for 2013, 2012 and 2011).

The Group does not have formal policies and procedures in place for management of interest rate risks as management considers this risk as insignificant to the Group's business.

The Group's exposure to interest rate risk at the end of the reporting period is representative of the typical exposure during the year.

The Group monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel:

<i>In % p.a.</i>	31 December 2013				31 December 2012			
	CZK	USD	Euro	Other	CZK	USD	Euro	Other
Assets								
Cash and cash equivalents	0.12	0.01	0.05	n/a	0.10	0.01	0.05	n/a
Loans to related parties	1.26	n/a	1.10	n/a	0.16	n/a	n/a	n/a
Liabilities								
Borrowings	4.22	n/a	n/a	n/a	4.22	n/a	n/a	n/a
1 January 2012								
<i>In % p.a.</i>	CZK	USD	Euro	Other				
Assets								
Cash and cash equivalents	0.15	0.01	0.05	n/a				
Loans to related parties	0.90	n/a	n/a	n/a				
Liabilities								
Borrowings	4.22	n/a	n/a	n/a				

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by Treasury department of the Group and monitored in terms of monthly (one month forward), short-term (one year forward) and mid-term (three years forward) forecasts. Management monitors short-term forecasts of the Group's cash flows provided on the monthly basis.

The Group is enjoying a strong liquidity position and is able to secure its funding needs through the cash collected from the business operations continuously throughout the year. The Group's liquidity portfolio comprises cash and cash equivalents (Note 16) and bank term deposits. Management estimates that the liquidity portfolio can be realised in cash within few days in order to meet unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2013 and 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

NET4GAS Group
Notes to the Consolidated Financial Statements – two years ended 31 December 2013

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

<i>In thousands of Czech Crowns</i>	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Term loans (Note 19)	116,050	354,597	1,883,878	12,401,626	14,756,151
Trade and other payables (Note 23)	606,821	-	4,561	-	611,382
Gross settled swaps and forwards (Note 30)					
- inflows	1,491,469	1,105,152	-	-	2,596,621
- outflows	1,547,167	1,141,127	-	-	2,688,294
Financial guarantees (potentially payable amount)	27,426,444	-	-	-	-
Total future payments, including future principal and interest payments	31,185,390	390,572	1,888,439	12,401,626	15,456,645

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

<i>In thousands of Czech Crowns</i>	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Term loans (Note 19)	116,050	354,597	1,883,878	12,872,273	15,226,799
Trade and other payables (Note 23)	707,239	-	5,523	-	712,762
Gross settled swaps and forwards (Note 30)					
- inflows	1,429,562	3,830,670	-	-	5,260,232
- outflows	1,435,467	3,835,928	-	-	5,271,395
Total future payments, including future principal and interest payments	823,671	359,855	1,889,401	12,872,273	15,945,201

The maturity analysis of financial liabilities at 1 January 2012 is as follows:

<i>In thousands of Czech Crowns</i>	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Term loans (Note 19)	117,339	354,597	1,883,878	13,342,921	15,698,735
Trade and other payables (Note 23)	1,083,097	-	55,371	-	1,138,468
Gross settled swaps and forwards (Note 30)					
- inflows	1,785,451	4,340,937	-	-	6,126,388
- outflows	1,864,683	4,483,437	-	-	6,348,119
Total future payments, including future principal and interest payments	1,279,668	497,097	1,939,249	13,342,921	17,058,935

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 30.

32 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders. The amount of equity that the Group managed as of 31 December 2013 was CZK 39,752,096 thousand (31 December 2012: CZK 40,372,536 thousand, 1 January 2012: CZK 40,557,178).

The Group has complied with all requirements (covenants) arising from the provided financial guarantees.

33 Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the balance sheet at the end of each reporting period:

Financial instruments carried at fair value. Only derivatives are carried in the balance sheet at their fair value.

Trade and other receivables' carrying values approximate to their fair values.

The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>In thousands of Czech Crowns</i>								
FINANCIAL ASSETS								
<i>Other financial assets</i>								
Foreign exchange forward contracts	-	2,480	-	2,480	-	17,309	-	17,309
Foreign exchange swap contracts	-	-	-	-	-	581	-	581
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	2,480	-	2,480	-	17,890	-	17,890

	1 January 2012			
	Level 1	Level 2	Level 3	Total
<i>In thousands of Czech Crowns</i>				
FINANCIAL ASSETS				
<i>Other financial assets</i>				
Foreign exchange forward contracts	-	1,732	-	1,732
Foreign exchange swap contracts	-	67,773	-	67,773
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	-	69,505	-	69,505

<i>In thousands of Czech Crowns</i>	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES								
<i>Other financial liabilities</i>								
Foreign exchange forward contracts	-	91,030	-	91,030	-	31,770	-	31,770
Foreign exchange swap contracts	-	3,003	-	3,003	-	179	-	179
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS								
	-	94,033	-	94,033	-	31,949	-	31,949

<i>In thousands of Czech Crowns</i>	1 January 2012			
	Level 1	Level 2	Level 3	Total
FINANCIAL LIABILITIES				
<i>Other financial liabilities</i>				
Foreign exchange forward contracts	-	228,407	-	228,407
Foreign exchange swap contracts	-	69,997	-	69,997
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS				
	-	298,404	-	298,404

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2013:

<i>In thousands of Czech Crowns</i>	Fair value	Valuation technique	Inputs used
<i>Derivative financial instruments</i>			
Foreign exchange forward contracts	(88,550)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Foreign exchange swap contracts	(3,003)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2			
	(91,553)		

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2013 (as at 31 December 2012 and 1 January 2012: none).

The following table presents movements in fair values of derivatives:

<i>In thousands of Czech Crowns</i>	2013	2012
Opening balance	(14,059)	(228,899)
Change in fair value of contracts held at the beginning of the period settled during the period	(118,296)	33,339
Settlement of contracts held at the beginning of the period	132,355	(195,560)
Change in unrealised gains or losses for the period included in profit or loss for contracts held at the end of the reporting period	(91,553)	(14,059)
Closing balance	(91,553)	(14,059)

(b) Non-recurring fair value measurements

The Group has written down its assets held for sale to fair value less costs to sell as at 31 December 2013 (31 December 2012 and 1 January 2012: none). The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement at 31 December 2013:

<i>In thousands of Czech Crowns</i>	Fair value	Valuation technique	Inputs used
Assets held for sale	34,454	Market approach	Indicative bid price

(c) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

<i>In thousands of Czech Crowns</i>	31 December 2013				31 December 2012			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
- Loans to related parties	-	-	5,406,150	5,401,302	-	-	5,102,174	5,102,037
TOTAL ASSETS	-	-	5,406,150	5,401,302	-	-	5,102,174	5,102,037
LIABILITIES								
Borrowings								
- Loan from related parties	-	-	11,455,718	11,000,000	-	-	11,944,271	11,000,000
TOTAL LIABILITIES	-	-	11,455,718	11,000,000	-	-	11,944,271	11,000,000

<i>In thousands of Czech Crowns</i>	1 January 2012			
	Level 1	Level 2	Level 3	Carrying value
ASSETS				
<i>Other financial assets</i>				
- Loans to related parties	-	-	7,076,279	7,075,516
TOTAL ASSETS	-	-	7,076,279	7,075,516
LIABILITIES				
<i>Borrowings</i>				
- Loan from related parties	-	-	10,980,000	11,000,000
TOTAL LIABILITIES	-	-	10,980,000	11,000,000

The discounted cash-flow method was used for the determination of fair values. Inputs used for loans to related parties: PRIBID, PRIBOR, EURIBOR; inputs used for borrowings: PRIBOR; source data: Patria Finance database.

The fair values in level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Fair value of held-to-maturity investments was determined based on quoted bid prices.

Financial liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The discount rates used ranged from 2.35 % p.a. to 3.76 % p.a. depending on the length and currency of the liability.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. All of the Group's financial assets fall in the loans and receivables category except financial derivatives. All of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category and were held for trading.

35 Events After the Reporting Period

According to the instruction of the owner, management has developed and started implementation of a plan of change in the Company's capital structure. Within the plan the sole shareholder decided on 4 April 2014 to decrease registered capital of NET4GAS by the amount of CZK 29,043,000 thousand. The whole amount will be payable to the sole shareholder. However, the reduction and distribution of the share capital will only be executed, if financing of the Group's operations is secured by debt capital.

At the same date the sole shareholder adopted resolution on the cancelation of the statutory reserve fund of CZK 2,114,152 thousand and transfer of the fund to retained earnings. Retained earnings of NET4GAS of CZK 4,424,357 thousand will be distributed to the sole shareholder.


On 25 June 2014 the sole shareholder adopted resolution on distribution of 2013 profit of NET4GAS in the amount of CZK 3,066,873 thousand to the sole shareholder.


Statutory Directors are currently undertaking all steps and actions necessary to get available sufficient debt capital in order to enable the execution of the sole shareholder's resolutions mentioned above.

In June 2014 Ms Pavlína Kouřilová extinguishes in the position of the Vice-Chairman of BRAWA with effect on 6 July 2014 and Mr Jan Martinec was appointed as Vice-Chairman of BRAWA with effect on 7 July 2014.

No other events have occurred subsequent to year-end that would have a material impact on the consolidated financial statements for the two years ended 31 December 2013.

1 July 2014


Andreas Rau
Statutory Director


Václav Hrach
Statutory Director

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