



Annual Report 2012



## **NET4GAS Connecting Markets**

For more than 40 years our **net for gas** has been **connecting energy markets**, guaranteeing security and reliability, operational excellence, and innovative solutions to uphold our commitments to future generations.

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## Foreword by the CEO

Dear Readers of our Annual Report 2012,

When I last wrote to you in our Annual Report for 2011, NET4GAS was embarking on the most interesting period of its more than forty-year history.

In 2012 our first priority was to complete the GAZELLE project, which had reached a truly crucial stage at the beginning of the year. Along with this, we also had to fully unbundle from the RWE Group as of March 2012, as this is a requirement of the Third Energy Package and the new Energy Act implemented in the Czech Republic.

RWE then decided to initiate the sale of our company, and asked us to prepare for this process, which is just now being brought to completion.

We met and successfully handled all of these challenges over the course of 2012.

I would therefore like to take this opportunity to express my thanks, first and foremost, to all of our employees, who in addition to successfully carrying out these exceptional projects also helped NET4GAS achieve an outstanding financial result. We succeeded in these challenges not only with maximum efficiency, but with the highest degree of reliability and security. And our employees have now been working for a milestone of more than 1,000 days without a single accident, which is a strong indicator of the loyalty and motivation of our team.

It is also my pleasure to thank our suppliers and the staff of many local authorities who have given their support to NET4GAS, especially during the construction of the GAZELLE pipeline.

The GAZELLE project has once again fulfilled our mission of "Connecting Markets". But along with building pipelines and physical market connections, we also take a pro-active role in shaping a future model for more transparent and efficient energy markets. That is why, in collaboration with the CEGH in Baumgarten, the Slovak transmission system operator eustream and the Austrian regulator E-control, we have initiated and prepared the first feasibility study analysing the benefits of a common market in the region comprising the Czech Republic, Slovakia and Austria.

The results of this study are very positive, and we are now entering into the next phase, which involves a detailed design and an implementation schedule. We are also sharing our know-how about more extensive and efficient markets with all stakeholders, and will continue to do so.

The position of NET4GAS has improved significantly, not only due to the completion of the GAZELLE pipeline but thanks to our other investment projects too. More than 500 million Czech crowns we invested into reverse flow capacities in the directions of Slovakia and Austria is now strengthening our financial situation, while at the same time increasing the security of gas supplies in the whole of Central and Eastern Europe.

Having started out as a transmission system operator developing the east-west axis in the 1970s, we have grown into a company connecting all four neighbouring markets. And we can now see in practice that our network is the turntable of gas for those markets, providing the basis for a transparent cross-border gas market.

In the future, NET4GAS wants to further reinforce its position in Central and Eastern Europe through enhancing the connections to Poland and Austria, which will allow it to support the north-south corridor in the CEE region.

One of the requirements for the future investment projects will be a stable regulatory environment, which we expect to be more forward-looking and reliable if such major investment decisions are to be made.

Provided that these conditions are met, NET4GAS plans to undertake further investments amounting to more than 15 billion Czech crowns over the period to 2020.

I can assure you that we are realists in our business plan, and that we are ready to work with all the stakeholders to design a competitive model for the gas markets in our region. A stable and competitive gas market is going to be a vital requirement in the future, both for the electricity market and to ensure that the "Energiewende"<sup>1</sup> project becomes a major success for Europe.

<sup>1</sup> The term "Energiewende" denotes a significant change in energy policy, a transition to renewable energy, energy efficiency and sustainable development.



**Thomas Kleefuß**  
Managing Director, NET4GAS, s.r.o.



# Company Profile

We provide our customers  
with safe and reliable gas transport  
services 24/7.

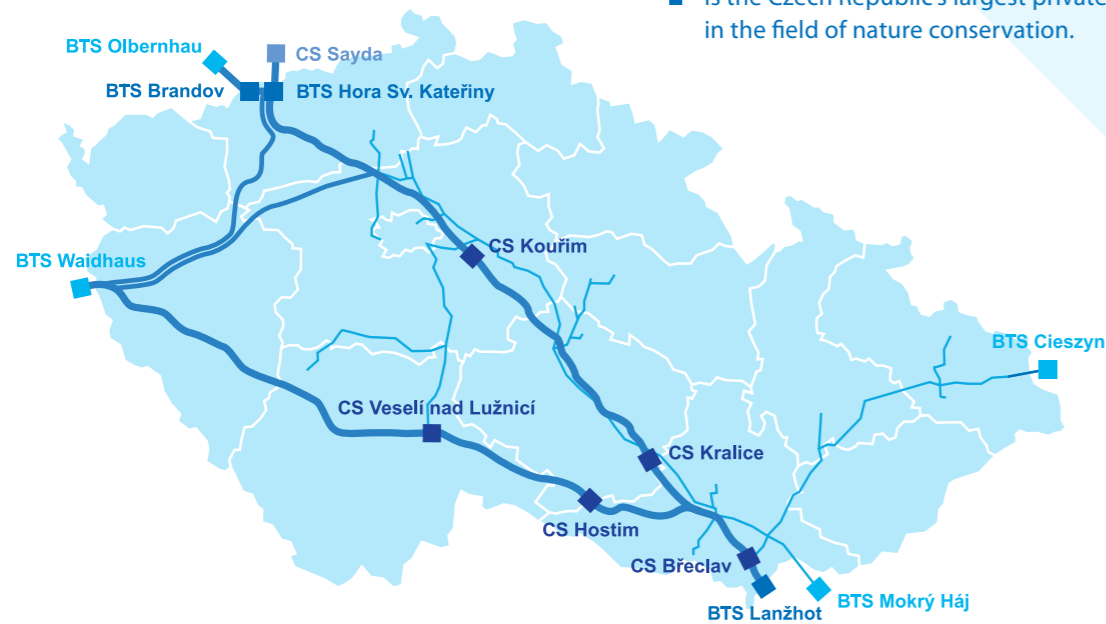
# Our Services

- International transit of natural gas across the Czech Republic
- Domestic transmission of natural gas to our partners in the Czech Republic
- Operation of a flexible, demand-oriented transmission system, and the provision of associated commercial and technical products and services

# NET4GAS at a Glance

- Holds an exclusive gas Transmission System Operator (TSO) licence in the Czech Republic.
- Has sufficient transmission capacities to satisfy both domestic and foreign demand.
- Transports 45 billion m<sup>3</sup> of natural gas annually (of which around 25 % is for domestic consumption).
- Operates more than 3,800 km of pipelines.
- Operates three border transfer stations, five compressor stations, and nearly a hundred transfer stations for the purpose of domestic distribution.
- Is a member of the Czech Gas Association, the international organisations ENTSOG, GIE, EASEE-gas and Marcogaz working groups.
- Has more than 500 employees.
- Is committed to its corporate social responsibility.
- Is the Czech Republic's largest private corporate donor in the field of nature conservation.

- Border transfer station
- Compressor station
- Border transfer station abroad
- Compressor station abroad
- Transit pipeline
- Intrastate pipeline



# Our Strategy

*NET4GAS will become the leading transmission system operator in Central Europe, connecting European gas markets and offering state-of-the-art gas transport services.*

Our mission is to secure safe and reliable gas transport services for our customers 24 hours a day, 7 days a week, to provide sufficient capacity, and to guarantee a non-discriminatory and transparent approach.

In line with the vision of the European Gas Target Model, we are focusing our strategy on the efficient and demand-oriented management of our transmission system. We are employing the latest technologies to develop our transport network in the Czech Republic, and creating new cross-border interconnectors which will form the foundation for further market connection, and ultimately market integration. At the same time, we also operate our transmission system efficiently

and ecologically. We are monetising our gas infrastructure by offering a range of customer-oriented capacity products, which contribute to efforts aimed at creating a competitive gas market. We are also shaping our future by taking a proactive role in European structures, thus allowing us to play a part in the development of the future European Gas Model. Our goal is to secure safe and reliable gas transportation, and so everyday operational and commercial excellence is a priority for our highly qualified team.

We are fully aware of our corporate social responsibility, and we strictly follow an environmental policy committed to future generations.

## NET4GAS Connecting Markets

### Asset Development

New connections and interconnectors, strengthening integration of energy markets  
State-of-the-art technology

### Innovative Solutions

Fast, flexible and transparent support through innovative and customer-oriented products and services

### Market Design

Contribution to the future European gas market design, further enhancing market integration

**Operational and commercial excellence for a safe, reliable and environmentally friendly transport service**

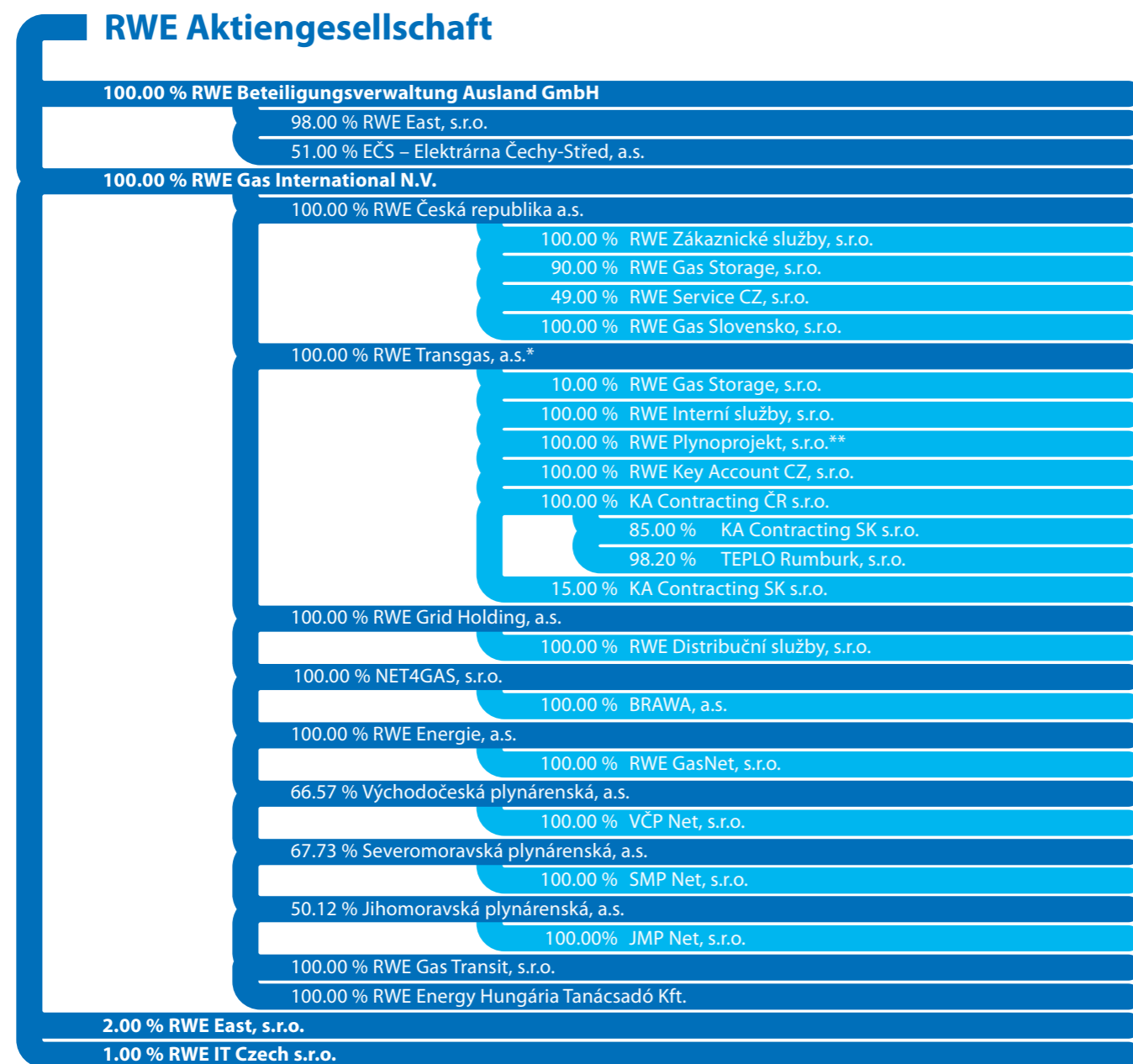


# Ownership and Organisational Structure

Everyday operational  
and commercial excellence  
is a priority for our highly  
qualified team.

# Structure of Control and Relations among Companies

in the relevant line of the RWE Group as of 31 December 2012



\* as of 1 January 2013 the company was renamed to RWE Supply & Trading CZ, a.s.

\*\* the company was wound up as of 1 January 2013 without liquidation as a result of a domestic merger (by acquisition) into the successor company KA Contracting ČR s.r.o.

# Supervisory Board

as of 31 December 2012

## Martin Friedrich Herrmann

Chairman of the Supervisory Board

Position held since: 24 February 2012

Member since: 23 December 2011

Date of birth: 3 July 1967

Education: University of Münster, Economics

Membership of bodies of other companies: Chairman

of the Board of Directors of RWE Transgas, a.s. and

RWE Česká republika a.s.; Managing Director of RWE

East, s.r.o.; Chairman of the Supervisory Boards

of Jihomoravská plynárenská, a.s., Severomoravská

plynárenská, a.s., Východočeská plynárenská, a.s.,

RWE Energie, a.s. and RWE Gas Storage, s.r.o.; Member

of the Supervisory Board of RWE Supply & Trading GmbH

and Budapesti Elektromos Művek Nyrt. a ÉMÁSz Nyrt.

Other business activities: none

## Dr. Martin Muhr

Vice-Chairman of the Supervisory Board

Position held since: 3 March 2011

Member since: 23 December 2010

Date of birth: 20 May 1965

Education: Ruhr University Bochum, Economics,

Doctorate in Economics

Membership of bodies of other companies: none

Other business activities: none

## Peter Terium

Member of the Supervisory Board

Member since: 6 October 2011

Date of birth: 26 September 1963

Education: Nederlands Instituut voor Registeraccountants,

Amsterdam

Membership of bodies of other companies: Chairman

of the Board of Directors of RWE AG, Chairman

of the Supervisory Board of RWE IT GmbH

Other business activities: none

## Andreas Böwing

Member of the Supervisory Board

Member since: 3 February 2011

Date of birth: 11 April 1955

Education: University of Münster, Law

Membership of bodies of other companies: Member

of the Supervisory Board of SAG Group GmbH

Other business activities: Head of Regulatory

Management, RWE Deutschland AG

## Ing. Jan Zaplatílek

Member of the Supervisory Board

Member since: 23 December 2011

Date of birth: 4 July 1963

Education: Czech Technical University in Prague,

Faculty of Civil Engineering

Membership of bodies of other companies: none

Other business activities: none

## Radek Hromek

Member of the Supervisory Board

Member since: 23 December 2011

Date of birth: 21 October 1973

Education: Secondary Vocational School, Engineering

Membership of bodies of other companies: none

Other business activities: none

## Changes made on the Supervisory Board in 2012

On 24 February 2012, Martin Friedrich Herrmann was elected Chairman of the Supervisory Board.



# Company Management

as of 31 December 2012



## Thomas Kleefuß

Managing Director and CEO

Position held since: 1 January 2006

Date of birth: 19 December 1963

Education: University of Cologne, Finance and Business Administration

Membership of bodies of other companies: none

Other business activities: none



## Ing. Radek Benčík, MBA

Managing Director and COO

Position held since: 1 October 2011

Date of birth: 2 January 1966

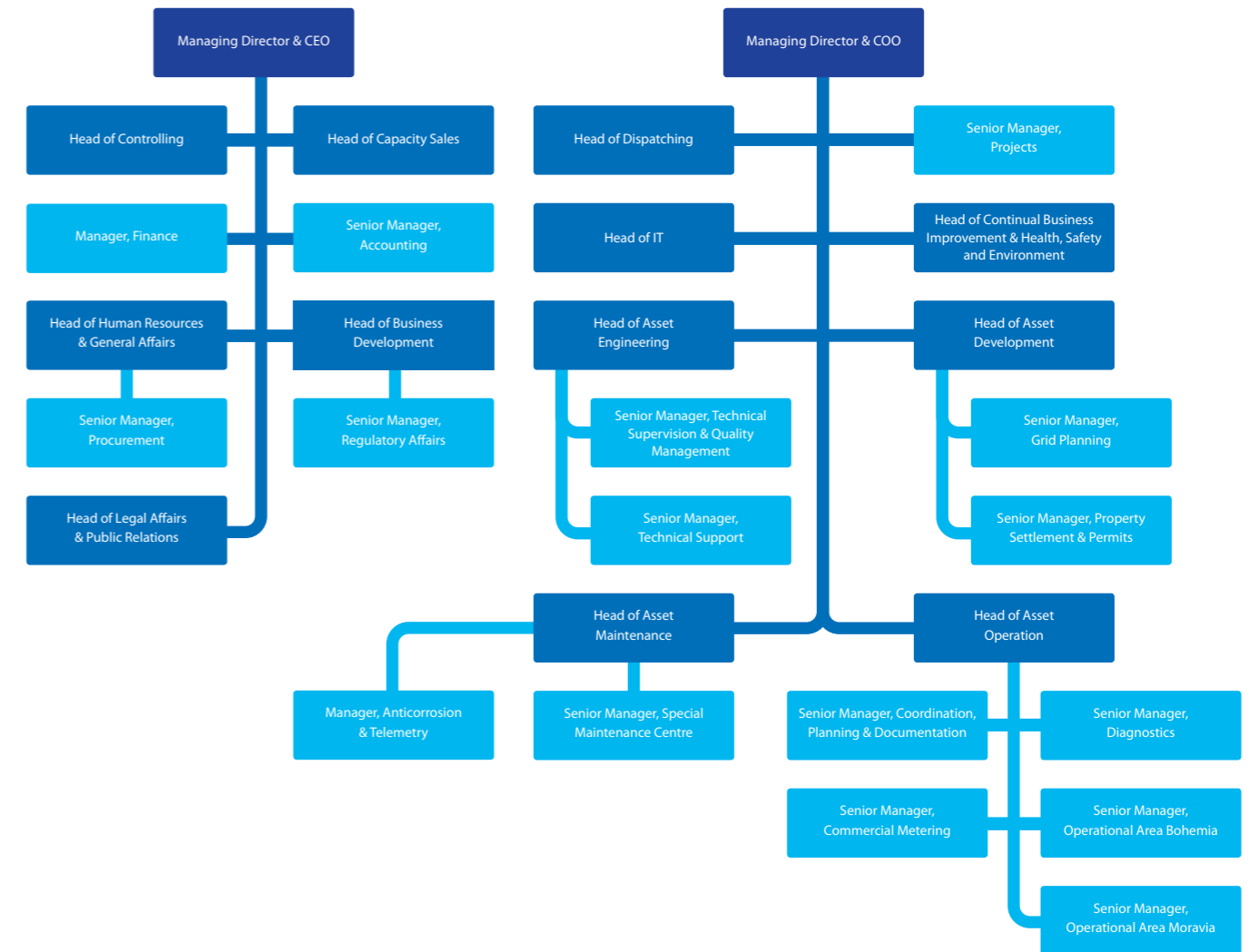
Education: Brno University of Technology, Faculty of Mechanical Engineering; Nottingham Trent University, MBA

Membership of bodies of other companies: Vice-Chairman of the Supervisory Board of BRAWA, a.s.

Other business activities: none

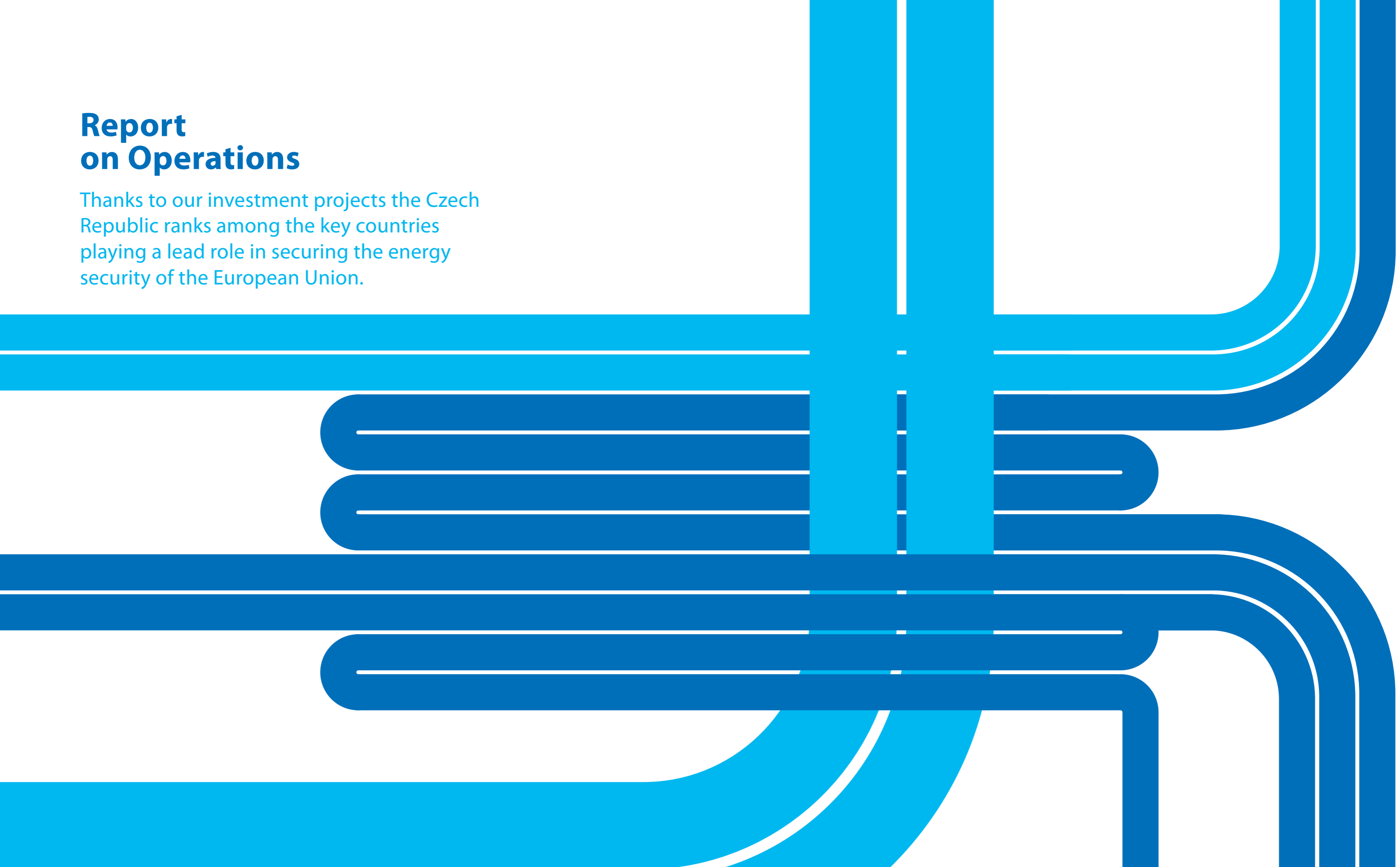
# Organisational Structure of the Company

as of 31 December 2012



# Report on Operations

Thanks to our investment projects the Czech Republic ranks among the key countries playing a lead role in securing the energy security of the European Union.



# Key Economic Indicators

## Selected indicators

Indicator	2012
Total sales (CZK millions)	10,074
EBITDA (CZK millions)	8,637
Operating profit (CZK millions)	5,982
Profit before taxation (CZK millions)	5,655
Profit after taxation (CZK millions)	6,775
Acquisition of fixed assets (CZK millions)	3,842
Number of employees (converted to FTE)	565

## Revenues, costs, profit

In 2012, NET4GAS achieved a profit before taxation of CZK 5,655 million, profit after taxation was CZK 6,775 million, and operating profit amounted to CZK 5,982 million.

The company generated a profit from its core business operations – transit of natural gas for international customers and domestic transmission. Its operating revenues amounted to CZK 10,281 million and operating costs were CZK 4,298 million. Its financial result showed a loss of CZK 327 million at the end of the fiscal year.

## Asset structure

The total assets of NET4GAS in 2012 amounted to CZK 58,268 million, of which fixed assets accounted for CZK 51,798 million, representing 89 %. The main components of these assets were tangible fixed assets valued at CZK 51,502 million, intangible fixed assets valued at CZK 294 million and long-term investments valued at CZK 2 million. As of 31 December 2012, current and other assets amounted to CZK 6,470 million, representing 11 % of all assets. Roughly 92 % of current and other assets consisted of short-term receivables.

## Investments

The company's total acquisition of fixed assets during 2012 amounted to CZK 3,842 million, of which investments into intangible assets accounted for CZK 63 million.

Most of the company's investments into tangible assets in 2012 went into completing the construction of the section of the GAZELLE pipeline running from the Brandov Border Transfer Station (BTS) to the Přimda Junction Point, at a cost of CZK 3,608 million. The new Brandov BTS was completed, received final building approval, and was put into full operation in the first half of the year.

Construction work continued during 2012 on connecting the Tvrdonice Underground Gas Storage facility to the NET4GAS transit system, a project co-financed by the EU under the European Energy Programme for Recovery (EEPR) with investment costs amounting to CZK 108.58 million.

By the end of 2012 all the parties involved had fulfilled the administrative requirements relating to the completion of the international project STORK – a Czech-Polish DN 500 interconnector – in order to receive an EU grant under the EEPR, and a request for payment was made in the amount of CZK 67.79 million.

## Liability structure

In 2012, the equity of NET4GAS amounted to CZK 40,373 million, representing roughly 69 % of its total liabilities and equity. Its liabilities and other liabilities and equity amounted to a total of CZK 17,895 million, of which long-term liabilities (in particular a loan from RWE Transgas, a.s. and its deferred tax liability) accounted for around 90 %, short-term liabilities roughly 8 % and provisions approximately 2 %.

## Research and development activities

The company did not make any major expenditures into research and development in 2012.

## Organisational units outside the Czech Republic

The company has no organisational units abroad.

# Main Events of the Year

## Asset Development

### Asset Development

New connections and interconnectors, strengthening integration of energy markets

State-of-the-art technology

### Innovative Solutions

Fast, flexible and transparent support through innovative and customer-oriented products and services

### Market Design

Contribution to the future European gas market design, further enhancing market integration

*We are constantly upgrading our transmission system, using state-of-the-art technologies to keep up with market demands.*

### GAZELLE pipeline construction project



In 2012, NET4GAS completed the most important project to date in terms of strengthening the energy infrastructure of the Czech Republic. The investment undertaken by NET4GAS into the construction of a new high-pressure pipeline – completing the connection of the “Northern Route” carrying natural gas from Russia to southwestern Europe – amounted to almost CZK 10 billion. The GAZELLE pipeline runs through the Ústí and Plzeň regions of the Czech Republic, and joins the Nord Stream-OPAL transmission system to the MEGAL system at Rozvadov/Waidhaus on the western Czech border. MEGAL then carries the gas on to supply southern Germany and eastern France.

The construction of the GAZELLE pipeline received major support from the Government of the Czech Republic, as declared in the Government’s policy statement of 4 August 2010: “The Government will continue with the process of increasing the energy security of the Czech Republic, and particularly with the diversification of its energy sources and transport routes. The Government will support the strengthening of energy networks in the directions west-east and north-south, the construction of underground gas storage facilities and the construction of the GAZELLE and Nabucco gas pipelines, and will maintain ongoing dialogue with producer countries.”

The GAZELLE project was carried out in two phases. In October 2010 work began on the construction of the Brandov Border Transfer Station (BTS), enabling the OPAL pipeline to be connected to the existing system. Exactly one year later, in October 2011, NET4GAS officially launched the Brandov BTS into operation at a ceremony attended by Czech President Václav Klaus, and began transporting Russian gas from the Nord Stream pipeline via the Czech Republic to western Europe. In October 2011 the second phase of the project was launched – construction of the pipeline itself, which continued through the whole year 2012.

To ensure that operation was launched on schedule and on budget in January 2013, the line construction work for the GAZELLE pipeline was carried out in parallel at three different sections. Constant communication was maintained with local authorities and communities throughout the construction process, and they provided their full support.

An official opening ceremony was held to mark the launch of GAZELLE’s operation, at which the attendees included Czech Prime Minister Petr Nečas and senior officials from the Federal Republic of Germany and the Russian Federation.

## Connection to Tvrdonice UGS



Co-financed by the European Union  
European Energy Programme for Recovery

Work continued in 2012 on a project to connect the Tvrdonice Underground Gas Storage facility (UGS) operated by RWE Gas Storage, s.r.o. to the NET4GAS transit system. In this project, the UGS, with an increased withdrawal and injection capacity, will be directly connected to the transit part of the transmission system. This will allow the storage capacities of the Tvrdonice UGS to be physically accessible to other countries, including Slovakia, Germany and Poland.

This new expansion of the Czech Republic’s gas transmission system is a key step in strengthening reverse-flow capacities and increasing the security of supplies, while also furthering the development of the market environment in gas trading.

2012 saw the completion of construction and assembly work on input/output facilities for the Břeclav Compressor Station and at the Tvrdonice UGS. Both sets of facilities were handed over by the construction contractor ready for operation. The lines are currently being constructed and the project is scheduled for completion in September 2013.

The EU is co-financing 45 % of the project’s eligible costs under the European Energy Programme for Recovery (EEPR).

## STORK



Co-financed by the European Union  
European Energy Programme for Recovery



In the first quarter of 2012 the final work was completed on the STORK project, which involved constructing the first ever connection between the gas transmission system of the

Czech Republic, managed by NET4GAS, and the Polish gas transmission system operated by GAZ-SYSTEM. The project strengthens gas infrastructure and results in the greater diversification of gas supplies in Europe.

The EU co-financed 50 % of the project’s eligible costs under the European Energy Programme for Recovery (EEPR). The grant was paid out in full as of December 2012.

## Moravia pipeline



The aim of the Moravia pipeline construction project is to increase the security of gas supplies in the Czech Republic. Over the medium- and long-term the project will strengthen exit capacity into the domestic zone, and enable the connection of greater injection and withdrawal capacities of underground storage facilities located in northern Moravia. The pipeline contributes both to the development of the gas market and to increased flexibility in the operation of gas infrastructure in the Czech Republic. It will also be a major contribution to ensuring supplies of the most environmentally friendly source of energy for industry in the Zlín, Olomouc, Moravian and South Moravian regions. The pipeline is planned to run between the municipalities of Tvrdonice in the Břeclav district and Libhošť in the Nový Jičín district.

In 2012, NET4GAS received approval from the Czech Ministry of the Environment in regard to an Environmental Impact Assessment (EIA) performed for the project. A geological survey was also conducted along the planned route of the pipeline, and work began on the project documentation required for development consent. In November 2012 the Moravia project was awarded funding for the preparation of this documentation amounting to 46 % of the eligible costs based on a decision of the European Commission on co-financing under the Trans-European Energy Networks programme (TEN-E). Construction is scheduled for 2016 to 2017.

## The Gas Regional Investment Plan for Central and Eastern Europe

In accordance with Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks, and specifically the requirement to promote regional cooperation, the transmission system operators belonging to the ENTSO for Gas (ENTSOG) have an obligation to publish regional investment plans every two years. In compliance with this regulation, operators in Central and Eastern Europe under the leadership of NET4GAS have drawn up their first Regional Investment Plan for the years 2012–2021 (the “CEE GRIP”). In January 2012 this plan was published on the websites of all the operators which participated in its development.

The aims of this plan are to outline the development of transmission systems in the region and to identify potential future investments into their development. The plan also contains an analysis of the security of natural gas supplies in Central and Eastern Europe. In addition to the Czech Republic – which is the home of the main coordinator of the plan, NET4GAS – Central and Eastern Europe also includes Slovakia, Poland, Germany, Austria, Hungary, Romania, Bulgaria and Croatia.

## Construction and launch of the Bečov Transfer Station

In September 2012 construction work was completed on a gas transfer station in the municipality of Bečov, district of Most. The station will supply natural gas to two new combined cycle gas turbines installed by ČEZ at the Počerady Power Station, which have a total power output of 880 MWe. The project was begun in July 2009 based on a request from ČEZ for connection to the NET4GAS gas grid. The total construction costs as of 31 December 2012 were CZK 70.5 million. A building use permit for the transfer station was issued on 4 October 2012 and the station was then put into operation, ahead of the required deadline in the connection agreement.

The Bečov Transfer Station has been designed with a capacity of 190,000 m<sup>3</sup> per hour. It is fitted with two metering sections of dimensions DN 300, each of which is designed to handle the maximum transported volume of gas. A third metering section of DN 100 is to be used to supply the self-consumption needs of the Počerady Gas-Fired Power Station excl. turbine operation.

## Internal inspection of DN 500 pipelines

In 2012 internal inspections were carried out on DN 500 pipelines based on a long-term maintenance plan. The techniques used were Magnetic Flux Leakage (MFL) and Transverse Field Inspection (TFI), in conjunction with a module for ascertaining GPS coordinates (so-called “mapping”). The length of the fifteen sections inspected totalled 548 km, so that once both MFL and TFI had been applied the overall length of the inspection work performed was 1,085 km. This was the largest internal inspection ever carried out in a single year in the company’s history.

As well as the inspections themselves, the project also involved operational cleaning of the pipes before each inspection run. The total price of the work, including transporting the inspection equipment, carrying out the individual runs and preparing preliminary and final reports was approximately CZK 31 million. Despite the extensive scope of these inspections, the work was performed without any major problems and no accidents occurred involving any of the workers. The final reports on the internal inspections will be delivered by the end of the first quarter of 2013. Repairs of any defects found will then follow during 2013 and 2014.

## Optimisation of activities and energy savings

Optimising the company’s activities and reducing its energy consumption were among the top priorities of NET4GAS in 2012. Action was targeted primarily at compressor stations (CS), where the main focus was on the gas used for warming up turbine compressor units and heating the facilities, as well as electricity consumption. The principal objective was to achieve comparable costs at each individual CS.

A downward trend in falling energy costs was already visible in summer and autumn, but the greatest savings are anticipated in the winter months when energy consumption is at its highest.

Even though the operating hours of the turbine compressors increased year-on-year by 3,367 hours (the sum total for all five CSs), the costs for warming up the units and heating the facilities and the consumption of electricity fell overall by 28.8 % (gas consumption) and 7.1 % (electricity).

The cost-cutting efforts of the Operations Department also received support from the Purchasing Department, which reduced the price paid for electricity by choosing a suitable supplier, leading to a further saving of around CZK 2.6 million.

In 2012, following negotiations with the General Directorate of the Fire and Rescue Service and the fire and rescue services of the regions involved, an agreement was reached to cancel fire patrols at compressor stations. These steps allowed NET4GAS to reduce the number of workers and security agency personnel on each shift at CSs, thereby securing annual savings of over CZK 20 million in future years.

### Year-on-year comparison of energy consumption in 2011 and 2012

	2011	2012	Difference	Saving in CZK
Consumption of natural gas for warming up machinery and heating facilities (m <sup>3</sup> )	1,419,278	1,010,327	-408,951	2,453,706 *
Electricity consumption (kWh)	4,835,447	4,491,938	-343,509	961,825 **
Operating hours of turbine compressor units	13,955	17,322	3,367	
<b>Total savings in CZK</b>				<b>3,415,531</b>

Notes:

\* Price estimate used for 1 m<sup>3</sup> of natural gas: CZK 6

\*\* Price estimate used for 1 kWh of electricity: CZK 2.80

This table does not consider the consumption of gas used as fuel to drive the turbine compressors.

## Innovative Solutions

### Asset Development

New connections and interconnectors, strengthening integration of energy markets

State-of-the-art technology

### Innovative Solutions

Fast, flexible and transparent support through innovative and customer-oriented products and services

### Market Design

Contribution to the future European gas market design, further enhancing market integration

*Through our innovative solutions we are connecting markets and shaping the future.*

### Capacity sales

In 2012 important existing point-to-point contracts were divided up according to the entry-exit model in line with the requirements of EU legislation. A Network Code for the 2013 market model was prepared, including access to underground gas storage facilities from the transit system, and contracts were tendered for transmission system balancing in 2013. In total, 1,926 gas transmission contracts were performed over the course of 2012.

The NET4GAS Capacity Sales Department also prepared a number of new products and improvements, with ideas coming both from customers during market research and from discussions held at the annual Shippers' Day organised by NET4GAS. In spring 2012, NET4GAS introduced an output-based allocation scheme (OBA) at all connection points with neighbouring transmission system operators and underground gas storage facilities. At the beginning of summer the company began allowing traders to make payments in EUR

and introduced a new "intraday capacity" product which enables traders to book capacity according to their immediate needs during the ongoing gas day.

In autumn 2012 the company also introduced a capacity re-direction service at the Brandov border point, contributing to its subsequent virtualisation. A new method of dynamic technical capacity recalculation in daily mode was also introduced, which, amongst other things, allows bottlenecks to be eliminated by offering firm day-ahead capacity. NET4GAS makes use of this service in particular at the Český Těšín border point in coordination with the Polish side. The final piece of news is the extension of coordinated capacity in the framework of the GATRAC platform to the Lanžhot and Baumgarten CEGH border points.

An activity of great importance in 2012 was securing gas transit and gas supplies to the Czech Republic during a period of extreme temperatures in February.

### Provision of specialised maintenance services to outside entities

In the interest of taking a responsible approach to environmental protection, NET4GAS minimises the environmental impacts of pipeline repairs by employing specialised technologies. The operation of these technologies by trained personnel of the Asset Maintenance Department allows the reduction, potentially even to zero, of the amount of gas which otherwise would have to be depressurised and vented into the air if standard procedures were used.

NET4GAS also offers the use of these technologies and services to other gas network operators on a commercial basis, and is expanding its portfolio of clients who share its interest in environmentally friendly approaches.

2012 was the first year in which NET4GAS employed one of its technologies outside of its own gas network. Its use of a mobile compressor station on the gas network of a client in the Slovak Republic helped to significantly reduce the environmental impacts of the operator's pipeline repairs.

In 2012 the company's portfolio of clients for specialised maintenance services was expanded to include a further client in Germany, while the active provision of services continued in France and other European countries. The company's 2012 revenues from externally provided specialised maintenance services reached almost CZK 20 million.

## Market Design

### Asset Development

New connections and interconnectors, strengthening integration of energy markets

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### Innovative Solutions

Fast, flexible and transparent support through innovative and customer-oriented products and services

### Market Design

Contribution to the future European gas market design, further enhancing market integration

*We are committed to a sustainable and affordable energy strategy, whatever the future energy mix.*

### CEETR – a new European market architecture

"3<sup>rd</sup> Package implementation is necessary but not sufficient", and "Well-functioning and connected wholesale markets are key". These important ideas were voiced by the Council of European Energy Regulators (CEER), which published a Gas Target Model on 15 December 2011. Amongst other things, these statements had a particular influence on the regulation of transmission system operators, and thus also on the regulatory activities of NET4GAS in 2012. The issue of constructing well-functioning gas markets triggered discussion about a new gas market architecture within the European Union, including the creation of cross-border entry-exit systems which would be made possible by the cooperation of neighbouring TSOs. NET4GAS helped design this new market by taking part in a pilot project for a network comprising Austria, the

Czech Republic and Slovakia (the Central and Eastern Europe Trading Region, CEETR). The project was initiated by the Gas Regional Initiative for the South-South East region (GRI SSE), which developed the basic principles for such a cross-border gas market. NET4GAS also took an active role in the presentation of constructive proposals for the ENTSOG Network Code on the rules for capacity allocation and balancing, and participated in the creation of the Framework Guidelines of the Agency for the Cooperation of Energy Regulators (ACER) regarding harmonised tariff structures. Other activities of NET4GAS included preparing and consulting the National Ten Year Network Development Plan and collaborating with neighbouring TSOs on the Gas Regional Investment Plan for Central and Eastern Europe. NET4GAS has always borne it in mind that a change in market structure affects the development of the gas structure and vice versa.

### GATRAC 2012 – extension to Slovakia

The GATRAC (Gas Transport Cooperation) capacity platform, which was created by NET4GAS and ONTRAS and in which GRTgaz Deutschland and eustream also cooperate, allows cross-border hub-to-hub transport on the basis of a single transport contract. In 2012, based on a plan made the preceding year, the platform was extended to include a further capacity product between the Czech Republic and Slovakia. This means that traders can now book capacity not only between the Czech virtual trading point and NCG or Gaspool trading points in Germany, but also between Czech and Slovak hubs.

## Independent Transmission Operator certification

Under the current Czech Energy Act (as amended by Act No. 211/2011 Coll.), which implemented Directive 2009/73/EC of the European Parliament and the Council (the “Third Energy Package”), a transmission system operator may operate a transmission system only if it holds a certificate of independence issued by the Energy Regulatory Office. This certificate is granted by the Energy Regulatory Office if the transmission system operator proves that it meets the conditions on independence specified in the Energy Act. In the case of NET4GAS, the model which has been chosen is Independent Transmission Operator (ITO) unbundling.

On 29 February 2012, NET4GAS submitted an application for a certificate of independence to the Energy Regulatory Office.

Following the required procedure, on 27 September 2012 the Energy Regulatory Office notified the European Commission of its draft decision on the granting of the certificate in accordance with the relevant provision of the Energy Act. In its draft decision the Office proposed that the certificate should be granted, while leaving certain questions to be assessed by the European Commission. On 30 November 2012 the European Commission sent its opinion to the Energy Regulatory Office, stating its approval for application of the ITO unbundling model and requesting the Energy Regulatory Office to supplement or to elaborate on certain items of information in the explanatory memorandum of its final decision on the granting of a certificate of independence. On 28 January 2013 the Energy Regulatory Office issued a final decision granting a certificate of independence, which came into force on 29 January 2013.

# Human Resources

*We strive for operational excellence delivered by a trained and qualified team.*

The actual number of employees working at NET4GAS as of 31 December 2012 was 558, i.e. the same number as at the end of 2011. A rise in the number of employees at the beginning of the year, which was caused by transferring foreign workers onto local contracts due to application of the requirements of the Energy Act, was counterbalanced by increases in process efficiency over the course of the year.

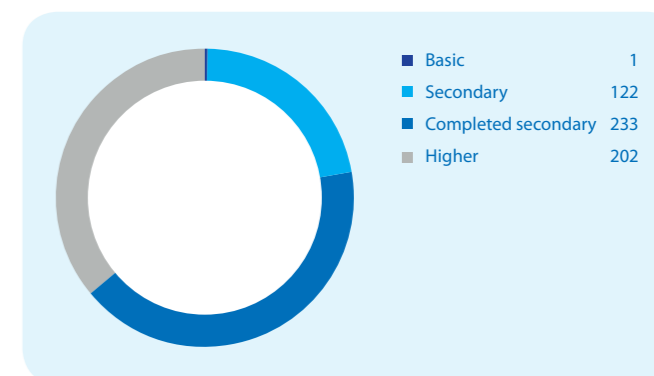
### Social policy

The standard of our employees’ working and social conditions was defined under a Collective Agreement valid for 2012–13. On 18 December 2012 a new Collective Agreement was concluded, extending the validity of the existing Collective Agreement to cover 2014 as well. This extended Collective Agreement does not provide for any collective bargaining for 2014. All of the terms and conditions, including wage conditions, have been defined.

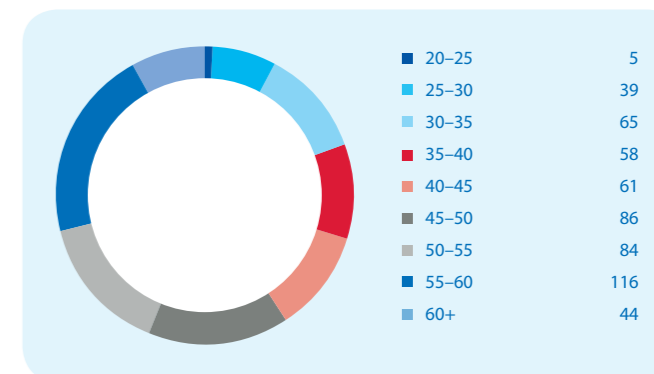
### Professional training and career development

In 2012, investment into the professional training of the staff accounted for 2.18 % of the company’s personnel costs, with an average expenditure per employee of CZK 15,127. On average, each employee spent 9.5 days at training events. The education structure of NET4GAS employees has remained stable.

### Employee education structure



### Employee age structure



# Environmental Protection

*Environmental protection is one of our top priorities.*

Environmental protection is an issue which NET4GAS sees as more than just a matter of meeting statutory requirements. Protecting the environment is above all an aspect of the company's corporate social responsibility – towards its suppliers, business partners, employees and all the other stakeholders involved. The company's management has therefore adopted an "Environmental Policy".

## Statutory compliance

NET4GAS continually strives to minimise its environmental impact both in its operations and when building new pipelines, whether this means preventing air pollution, reducing greenhouse gas emissions, managing waste and water, handling chemicals and chemical products, or nature conservation and landscape protection. In line with applicable legislation, designated operations have accident and emergency plans prepared in advance in case of any environmental incidents.

No environmental incidents occurred in 2012. All five compressor stations were operated in accordance with their valid integrated permits issued under Act No. 76/2002 Coll., on integrated pollution prevention and control, the integrated pollution register and amending certain Acts. The company's continued compliance with these state-issued permits is a solid guarantee that its approach to environmental protection is correct at all levels.

In 2012 the Czech Environmental Inspectorate carried out an integrated inspection on compliance with the mandatory conditions for operation stipulated in the valid integrated permits for the shut-off valve site TU 29J Strážovice and the Kralice nad Oslavou Compressor station. No infringements of the operator's obligations were found during these checks.

NET4GAS is in compliance with the requirements of Act No. 25/2008 Coll., on the integrated register of environmental pollution and the system for performing reporting obligations, in conjunction with Regulation (EC) No 166/2006 of the European Parliament and of the Council concerning the establishment of a European Pollutant Release and Transfer Register.

NET4GAS is also in compliance with the current legislation on greenhouse gases, and submitted a due report on the carbon dioxide emission allowances consumed at its compressor stations.

No measures were imposed by competent authorities to sanction or censure the company in 2012.

## Activities going beyond legislation

NET4GAS has a sense of responsibility for environmental protection during its operations that goes beyond what is required by law. For example, by using a mobile compressor station to pump gas into a neighbouring section of pipeline before repairing a pipe in 2012, NET4GAS prevented the discharge of almost 6 million Nm<sup>3</sup> of natural gas from its network into the air, which would otherwise have had to be released for safety reasons. In 2012 this mobile compressor station was also employed for the first time outside of the Czech Republic, and in the coming years NET4GAS will continue to offer this specialised, environmentally friendly, service to clients abroad.

The company also continued in 2012 with its grant programme "NET4GAS Closer to Nature", which supports projects aimed at nature conservation and environmental protection (see the section "Corporate Philanthropy").

# Health and Safety at Work

NET4GAS pays rigorous attention to the issue of health and safety at work, and is proud to say that its standards in this field rank it among the leading companies worldwide. The safety programmes and strategies employed at NET4GAS go beyond the requirements made by legislation, regular audits and inspections, and apply as much to the company's suppliers as to its own employees. That is why its safety management system extends to its partner organisations too. Its central aim is for every employee to return home just as healthy as he or she came to work.

These long-term efforts to create a safe working environment and to ensure safe conduct have resulted not only in a zero work accident rate for NET4GAS employees in 2012, but also the achievement of a milestone 1,000 days without a single employee injury.

*In 2012 we reached a milestone of 1,000 days without a single employee injury.*

# Post Balance Sheet Events

On 15 January 2013 the GAZELLE gas pipeline was put into operation.

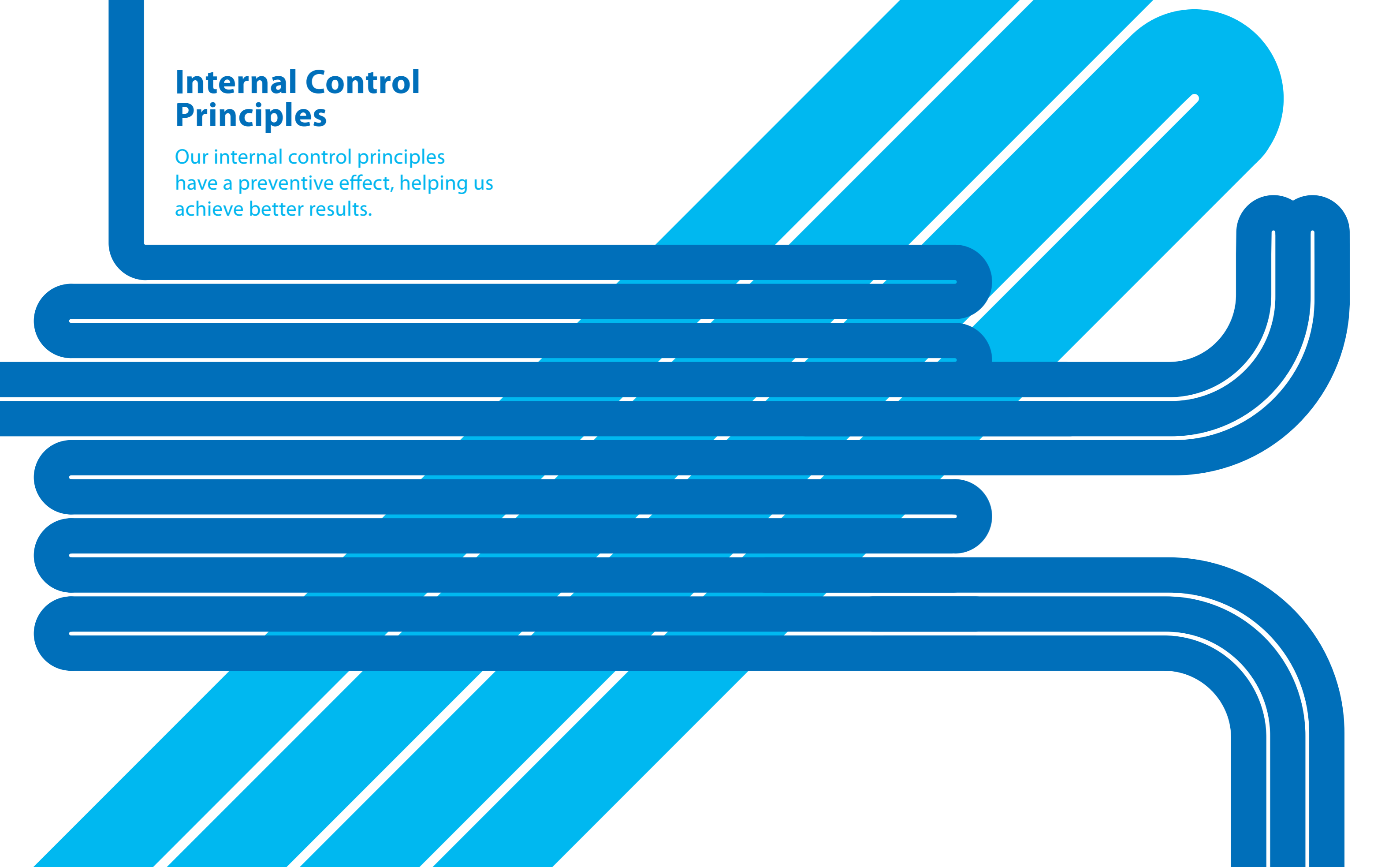
In January 2013 based on the Project on a spin-off by demerger, which was published in the collection of documents, a part of the net assets of the company NET4GAS, s.r.o. related to the GAZELLE gas pipeline was transferred to the company BRAWA, a.s.

No other events occurred after the balance sheet date which would have a significant impact on the financial statements of NET4GAS as of 31 December 2012.



# Internal Control Principles

Our internal control principles have a preventive effect, helping us achieve better results.



## Internal Audit Committee

The Internal Audit Committee is an advisory body for the NET4GAS Management. Its role is to carry out regular monitoring and evaluation of the company's processes and activities, and to reduce potential risks. It forms an integral component of the company's management and control system, and is also an important means for achieving continuous improvement at NET4GAS.

Each year an Internal Audit Plan is prepared and approved so that every process can be periodically reviewed. In 2012 audits were carried out on a total of seven core processes, in the areas of Project Management, Monitoring of Financial Flows, Contract Management, Purchasing, Custody Transfer Metering, and twice in the area of Human Resources Management.

## Risk Management Committee

In 2012 the Risk Management Committee (RMC) continued to perform its role as an advisory body for the NET4GAS management. The RMC's tasks include approving internal risk management guidelines and regulations, setting and approving limits for specific risks, and discussing and approving risk management strategies, including the permitted limits for hedging transactions. It also regularly evaluates the risk situation at NET4GAS, and if there is a danger of a risk event occurring it approves coordinated action based on a proposal from the Risk Manager and the person responsible for managing the relevant risk.

NET4GAS manages its risks with due care and diligence, identifying them on an ongoing basis and evaluating the likelihood of their occurrence and the extent of potential damage. Regular risk monitoring is performed, and quarterly reports are prepared on selected risks.

Due to its foreign currency revenues and expenditures, currency risks continued to be among the company's most sig-

nificant risks in 2012. The potential impact of these risks was reduced by hedging them with financial derivatives. The RMC has concluded that the overall risks identified do not present a threat to the company's existence.

## Independent Transmission Operator Programme Compliance Officer

In line with the legislative requirements to be fulfilled by independent transmission operators, in 2012 NET4GAS adopted an Independent Transmission Operator Compliance Programme ("Compliance Programme"). The Compliance Programme is a measure aimed at excluding any discriminatory conduct by an independent transmission operator, and has received approval from the Energy Regulatory Office.

The Compliance Programme is binding for all NET4GAS employees. Based on a decision of the NET4GAS Supervisory Board, a Programme Compliance Officer has been appointed and subsequently approved by the Energy Regulatory Office. The PCO's task is to ensure and monitor that the Compliance Programme is properly implemented and adhered to.

## The Code of Conduct

In 2012, the Compliance Officer for the Code of Conduct continued to monitor adherence to the Code, which is one of the fundamental regulations of NET4GAS.

NET4GAS is conscious of its role in society and its responsibility both towards its customers and business partners and towards its owner and employees. It has therefore committed itself to a clear set of principles which form a framework for its activities in the business and social spheres. These are defined for the company and its employees by its Code of Conduct, and are based on personal responsibility, honesty, loyalty, and respect for others and the environment.

NET4GAS focuses its energies primarily on providing its customers with the services they need, and achieving a corresponding level of commercial success. Only by constantly striving for higher quality and performance can the company continue to achieve adequate revenues for its sole shareholder.

NET4GAS is committed to upholding the rules and regulations applying to human rights, labour relations, environmental protection and the fight against corruption. It undertakes to carry out its activities at all times in accordance both with the law and with unwritten social, cultural and ethical codes. It also subscribes to the fundamental principles forming a basis for the United Nations "Global Compact" initiative.

The press releases of NET4GAS are always complete, relevant, accurate in their content, comprehensible and up-to-date, and the company respects the professional independence of journalists and the media.

In view of its importance for the economy and society, NET4GAS realises the need for dialogue with state authorities and political parties, although the company itself remains politically neutral. At the same time, it seeks dialogue with groups that are affected by its activities, or whose activities have a direct impact on its business.

NET4GAS endeavours to make its actions an example to others that will advance the principles laid down in its Code of Conduct. With this aim in mind, it encourages all its business partners to adopt the Code and consider its rules their own.

## Ombudsman and fraud prevention

The ombudsman in this context is an independent position which chiefly involves collecting proposals and information relating to fraudulent activities or to activities which are in conflict with the company's internal regulations or the law. The ombudsman evaluates these submissions before convening an investigation committee, whose role is to make an independent assessment and evaluation and then propose corrective measures. In 2012 this position was performed for NET4GAS by an outside law firm.



## **Corporate Philanthropy**

We have a strong sense  
of corporate social responsibility,  
and therefore continually extend  
our commitments to corporate  
philanthropy.

# Corporate Philanthropy

An integral aspect of the good reputation of a modern company is its responsible conduct towards local communities, the environment, its shareholders, suppliers and partners, and not least of all its own employees. And an integral part of the concept of corporate social responsibility is corporate philanthropy.

NET4GAS has a strong sense of its corporate social responsibility, and therefore continually extends its commitments to corporate philanthropy and sponsorship in three areas:

- **NET4GAS Closer to Nature: nature conservation and the environment protection**
- **NET4GAS Closer to Knowledge: education, training and research**
- **NET4GAS Closer to Regions: community development**

## NET4GAS Closer to Nature

*Come on a trip with us  
at [www.closetonature.cz/](http://www.closetonature.cz/)*

NET4GAS is both a reliable and safe gas transmission system operator, and at the same time pursues a responsible policy aimed at protecting nature and the environment for future generations. The commercial operations of NET4GAS are very closely connected with the issue of nature conservation, as during both the construction and the operation of its gas infrastructure it must comply with strict environmental standards. In fact, its concern for the natural environment extends even beyond the requirements of legislation. It is this principle which underlies the long-term strategy of corporate philanthropy and sponsorship implemented under the programme NET4GAS Closer to Nature. NET4GAS has been systematically providing long-term support to projects where a major aspect of sustainable development is expressed by precisely that motto – “Closer to Nature” – and can therefore be proud that in the long run it is the Czech Republic’s largest private corporate donor in the field of nature conservation.

Since 2007, NET4GAS has donated in the region of CZK 35 million under its Closer to Nature programme, and in 2012, after six years of the programme’s existence, it received some very pleasant recognition. The programme won the special “Futurum Prize” awarded by the Business Leaders Forum for responsible entrepreneurship, and was also among the three finalists for the prestigious VIA BONA prize annually given by the VIA Foundation as an award to a large enterprise for its strategic philanthropy.

### NET4GAS: General partner of the CUNC

In 2012, NET4GAS and the Czech Union for Nature Conservation (CUNC) celebrated a significant milestone as they opened their “jubilee” 50<sup>th</sup> unique natural location to the public. The

estimated number of visitors to locations falling under the NET4GAS Closer to Nature programme is now in the region of an impressive 70,000 each year.

### 2012 locations

#### Kolo Wetland Meadow

(Slavkov, district of Uherské Hradiště, Zlín region)

The area around the natural well has been landscaped, an information board and seating have been built, and fencing has been put up to prevent vehicle access to this reservation, which is a site where Early Marsh Orchids and another 18 species of protected plants occur in their greatest abundance.

#### Vidžín – Telecí Stream

(Úterý, cadastral area of Vidžín, district of Plzeň North, Plzeň region)

A nature discovery trail running in an 8 km circuit, complete with amenities and equipment, showcases the natural and cultural heritage of the Teplá Highlands, and also provides support for the forthcoming declaration of the Teplá Hills Natural Park. The neglected Dřevohryzská Mineral Water Spring has also been restored and roofed over.

*We have already opened more than 50 naturally valuable locations for you.*



### **Housle Nature Trail**

(Praha-Lysolaje, Prague)

A significant geomorphological structure on the outskirts of Prague and a refuge for many species of fauna and fungi, where a nature trail has been created with ten rest stops, a landscaped viewing point, and an interactive finger maze for children. The Housle Nature Trail was the “jubilee” 50<sup>th</sup> natural location opened.

### **Panská zahrada Park in Pozořice**

(Pozořice, district of Brno-venkov, South Moravian region)

In this children’s nature reserve, the local branch of the CUNC organises annual nature-themed competitions for kids, parents and young schoolchildren. Students from the local school also study life sciences programmes here. An educational information board has been added to the site on the topic of water birds.

### **Mýto Nature Trail**

(Praha-Nedvězí, Prague)

A beautiful, hidden piece of nature on the outskirts of Prague, which has been made accessible to the public by creating a nature trail. The central axis of the park is formed by the Rokytka Stream, which naturally meanders through it. Undisturbed forest and floodplain plant communities can also be found here.

### **Bohumilice Heritage Avenue**

(Bohumilice, district of Prachatice, South Bohemian region)

An avenue of heritage trees was restored and made accessible to the public by treating 25 more than 100-year old lime trees, and installing wooden benches and an information board.

### **Ořešník**

(Hejnice, district of Liberec, Liberec region)

Access to this rocky outcrop has been made safer by repairing the railings, the stone steps and drainage channels. Rest benches and an information panel have been added along the path.

### **Heřmanice Pond**

(Heřmanice, district of Ostrava-město, Moravian-Silesian region)

Heřmanice Pond, which has been proposed as a natural heritage site, has been made accessible by installing five information boards and building a bird watching station and seating. The signs at the site include quizzes and ideas for children’s competitions as an educational tool for local schools. In addition to its natural value, this location also has a unique genius loci – thanks to the dozens of small fishing huts sitting at the ends of wooden jetties the pond looks more like a scene from the Far East than Central Europe.

### **NET4GAS: General partner of DAPHNE projects**

Another large project supported by NET4GAS is the “Ore Mountains Peat Bog Restoration” project, which the civic association “DAPHNE Czech Republic – Institute for Applied Ecology” has been implementing since 2009. At the Cínovecký hřbet and U Jezera peat bogs, which have suffered negative impacts in the past due to industry and forest plantation, wooden dams have been built which keep the water in the area. The resultant gradual inundation of the land will soon recreate the natural habitat for flora and fauna such as the endangered black grouse and the carnivorous sundew plant. A nature trail has been created as part of the project.

In 2012, NET4GAS also launched a joint project with DAPHNE Czech Republic entitled “Natura in Green – Management of Europe’s Special Areas of Conservation Impacted by Military Activity”. As its name suggests, this project is aimed at restoring scientifically valuable biotopes at sites impacted by former military activities. Due to their quality, the areas involved are listed as Europe’s Special Areas of Conservation in the framework of Natura 2000. Pilot projects were begun at the locations Blšanský Chlum Hill (in the Louny district) and Načeratic Hill (district of Znojmo). Full support for these projects was expressed by all those involved, including the Ústí and South Moravian regions.

### **Even Closer to Nature**

Smaller projects are also receiving help from NET4GAS. In 2012, for example, NET4GAS provided support to two rescue centres for handicapped animals in Prague and in the Ústí region, an eco-centre in Valašské Meziříčí, a natural park in Kutná Hora, a garden for children and parents in Pardubice, revitalisation of the area at the summit of Milešovka mountain, projects aimed at making interesting and naturally valuable sites in the Ore Mountains region accessible and more attractive for tourists, the management of the Krásný dvůr Site of Community Importance, the renovation of a barn which will be used for environmental education and awareness programmes by the parish church in Horní Krupá, an outreach base for biological education programmes for secondary school students in Litvínov, and many others.

## **NET4GAS Closer to Knowledge**

This second pillar of philanthropy and sponsoring has its foundation in the focus of NET4GAS on operational excellence delivered by a trained and qualified team. Sustainable development would be impossible without quality training, education, research and development. NET4GAS therefore supports all of these areas under its programme NET4GAS Closer to Knowledge. Under this programme NET4GAS has provided help and support to dozens of kindergartens, basic and secondary schools, universities and higher education institutions, as well as other initiatives. NET4GAS is endeavouring to build a close relationship with students, as this is something which has been neglected in the past. The consequences are now being felt by Czech industry, particularly in the area of qualified technical positions.

In 2012, NET4GAS became the general partner of the Institute of Gas, Coke Chemistry and Air Protection of the Faculty of Environmental Technology at the Institute of Chemical

Technology in Prague, and the partner of the Institute of Materials Engineering of the Faculty of Mechanical Engineering at the Czech Technical University in Prague.

Every NET4GAS employee also had an opportunity to obtain support from the company for a pre-school facility relevant to them.

## **NET4GAS Closer to Regions**

Last but not least, as a good neighbour NET4GAS targets its third programme – NET4GAS Closer to Regions – on community development in all of the areas where it operates. For this reason, in 2011 NET4GAS became the main partner of the VIA Foundation in its programme “The Place Where We Live”. Five supported projects were implemented in 2012 – a “Togetherness Area” in Nové Sedlice in the Moravian region, the project “An Open Garden Opens the Soul, Heart and Eyes” at Nadějkov in the South Bohemian region, “Oasis of Calm” in Francova Lhota in the Zlín Region, a “Communication and Relaxation Spot” in Plasy, and “Křic Place – Green for Chříč” in the Plzeň region. More information can be found at [viafoundation.org](http://viafoundation.org).

## **Companius**

NET4GAS targets its corporate philanthropy not only at external projects, but internal ones too. Under the Companius Programme it provides assistance to individual and team projects of company employees who in their free time are engaged in organisations focusing on sports, culture and the arts, education, social issues, or the core area of its corporate philanthropy – nature conservation. In 2012, NET4GAS supported a total of 27 employees and non-profit organisations under this programme.

**Financial  
Statements**

The image features a light blue background with several abstract, overlapping geometric shapes. On the left side, there are several parallel, diagonal lines in a bright cyan color, some with rounded ends. A large, dark blue shape with a rounded, arrow-like tip points towards the center. To the right of this, there are several concentric, curved lines in a medium blue color, creating a sense of depth and movement. The overall composition is clean and modern, typical of a corporate or financial document cover.

# Financial Statements

## Balance Sheet (in thousand Czech crowns)

	31. 12. 2012			31. 12. 2011
	Gross	Provision	Net	Net
<b>TOTAL ASSETS</b>	<b>74,143,133</b>	<b>(15,875,166)</b>	<b>58,267,967</b>	<b>59,197,712</b>
<b>B. Fixed assets</b>	<b>67,672,658</b>	<b>(15,874,613)</b>	<b>51,798,045</b>	<b>50,831,428</b>
<b>B. I. Intangible fixed assets</b>	<b>546,707</b>	<b>(252,539)</b>	<b>294,168</b>	<b>298,881</b>
1. Research & development	83,447	(61,334)	22,113	23,449
2. Software	330,928	(188,019)	142,909	154,169
3. Royalties	6,419	(3,186)	3,233	1,811
4. Other intangible fixed assets	111,015	0	111,015	97,632
5. Intangible assets in the course of construction	14,898	0	14,898	21,820
<b>B. II. Tangible fixed assets</b>	<b>67,123,951</b>	<b>(15,622,074)</b>	<b>51,501,877</b>	<b>50,530,547</b>
B. II. 1. Land	199,721	0	199,721	181,263
2. Constructions	54,719,713	(12,194,162)	42,525,551	42,648,369
3. Equipment	5,558,277	(3,427,912)	2,130,365	2,424,872
4. Other tangible fixed assets	554	0	554	554
5. Tangible assets in the course of construction	6,625,185	0	6,625,185	4,945,888
6. Advances paid for tangible fixed assets	20,501	0	20,501	329,601
<b>B. III. Long-term investments</b>	<b>2,000</b>	<b>0</b>	<b>2,000</b>	<b>2,000</b>
B. III. 1. Investments in controlled entities / subsidiaries	2,000	0	2,000	2,000
<b>C. Current assets</b>	<b>6,366,238</b>	<b>(553)</b>	<b>6,365,685</b>	<b>8,332,166</b>
<b>C. I. Inventories</b>	<b>39,241</b>	<b>0</b>	<b>39,241</b>	<b>38,827</b>
C. I. 1. Raw materials	39,241	0	39,241	38,827
<b>C. III. Short-term receivables</b>	<b>5,966,199</b>	<b>(553)</b>	<b>5,965,646</b>	<b>8,271,121</b>
C. III. 1. Trade receivables	260,118	(553)	259,565	480,661
2. Intragroup receivables	0	0	0	7,075,516
3. Taxes and state subsidies receivable	0	0	0	165,467
4. Other advances paid	11,489	0	11,489	19,033
5. Anticipated assets	566,824	0	566,824	400,247
6. Other receivables	5,127,768	0	5,127,768	130,197
<b>C. IV. Financial assets</b>	<b>360,798</b>	<b>0</b>	<b>360,798</b>	<b>22,218</b>
C. IV. 1. Cash in hand	291	0	291	231
2. Cash at bank	360,507	0	360,507	21,987
<b>D. I. Accruals and deferrals</b>	<b>104,237</b>	<b>0</b>	<b>104,237</b>	<b>34,118</b>
D. I. 1. Prepaid expenses	103,844	0	103,844	32,485
2. Accrued revenue	393	0	393	1 633

	31. 12. 2012	31. 12. 2011
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>58,267,967</b>	<b>59,197,712</b>
<b>A. Equity</b>	<b>40,372,536</b>	<b>38,348,105</b>
<b>A. I. Share capital</b>	<b>31,792,965</b>	<b>31,792,965</b>
A. I. 1. Share capital	31,792,965	31,792,965
<b>A. II. Capital contributions</b>	<b>28,732</b>	<b>28,732</b>
1. Other capital contributions	28,732	28,732
<b>A. III. Reserve funds, non-distributable reserves and other reserves</b>	<b>1,775,378</b>	<b>1,525,323</b>
A. III. 1. Statutory reserve fund, non-distributable reserves	1,775,378	1,525,323
<b>A. V. Profit (loss) for the current period</b>	<b>6,775,461</b>	<b>5,001,085</b>
<b>B. Liabilities</b>	<b>17,883,077</b>	<b>20,835,240</b>
<b>B. I. Provisions</b>	<b>295,641</b>	<b>223,286</b>
1. Income tax provision	10,745	0
2. Other provisions	284,896	223,286
<b>B. II. Long-term liabilities</b>	<b>16,118,092</b>	<b>18,607,222</b>
B. II. 1. Trade payables	5,523	55,371
2. Intragroup liabilities	0	11,000,000
3. Other liabilities	11,000,000	0
4. Deferred tax liability	5,112,569	7,551,851
<b>B. III. Short-term liabilities</b>	<b>1,469,344</b>	<b>2,004,732</b>
B. III. 1. Trade payables	412,321	731,375
2. Liabilities to employees	51,423	23,199
3. Liabilities for social security and health insurance	15,981	13,819
4. Taxes and state subsidies payable	202,489	219,116
5. Advances received	463,530	369,489
6. Anticipated liabilities	230,748	336,301
7. Other payables	92,852	311,433
<b>C. I. Accruals and deferrals</b>	<b>12,354</b>	<b>14,367</b>
C. I. 1. Accruals	7,584	9,597
2. Deferred revenue	4,770	4,770

## Income Statement (in thousand Czech crowns)

		Accounting period	
		2012	2011
II.	Sales of production	10,224,084	9,895,939
II.	1. Sales of own products and services	10,074,343	9,767,410
	2. Own work capitalised	149,741	128,529
B.	Cost of sales	907,851	1,436,286
B.	1. Raw materials and consumables	105,755	146,190
B.	2. Services	802,096	1,290,096
	<b>+ Added value</b>	<b>9,316,233</b>	<b>8,459,653</b>
C.	Staff costs	554,144	497,198
C.	1. Wages and salaries	409,514	353,865
C.	2. Emoluments of board members	120	120
C.	3. Social security costs	123,064	123,605
C.	4. Other social costs	21,446	19,608
D.	Taxes and charges	16,023	17,182
E.	Depreciation of long-term assets	2,564,394	2,329,871
III.	Sale of long-term assets and raw materials	15,448	3,651
III.	1. Sale of long-term assets	15,278	3,527
	2. Sale of raw materials	170	124
F.	Net book amount of long-term assets and raw materials sold	28,083	6,010
F.	1. Net book amount of long-term assets sold	27,960	5,886
	2. Net book amount of raw materials sold	123	124
G.	Increase / (decrease) in operating provisions	125,870	(98,338)
IV.	Other operating income	41,290	29,151
H.	Other operating charges	102,075	73,590
	<b>* Operating result</b>	<b>5,982,382</b>	<b>5,666,942</b>
IX.	Gain on revaluation of securities and derivatives	251,053	228,491
L.	Loss on revaluation of securities and derivatives	205,211	402,691
X.	Interest income	54,950	151,941
N.	Interest expense	471,972	11,688
XI.	Other financial income	234,394	171,465
O.	Other financial expense	190,271	168,730
	<b>* Financial result</b>	<b>(327,057)</b>	<b>(31,212)</b>

		Accounting period	
		2012	2011
Q.	Tax on profit or loss on ordinary activities	(1,120,136)	634,645
Q.	1. – current	1,319,145	1,060,699
	2. – deferred	(2,439,281)	(426,054)
	<b>** Profit or loss on ordinary activities after taxation</b>	<b>6,775,461</b>	<b>5,001,085</b>
	<b>*** Net profit (loss) for the financial period</b>	<b>6,775,461</b>	<b>5,001,085</b>
	<b>*** Profit or loss before taxation</b>	<b>5,655,325</b>	<b>5,635,730</b>



## Statement of changes in equity

Year ended 31 December 2012

(in thousand CZK)	Share capital	Statutory reserve fund	Retained earnings	Other capital funds	Total
<b>Balance at as 31 December 2010</b>	<b>46,792,965</b>	<b>1,274,014</b>	<b>5,026,166</b>	<b>28,732</b>	<b>53,121,877</b>
Contribution to reserve fund	0	251,309	(251,309)	0	0
Decrease of share capital	(15,000,000)	0	0	0	(15,000,000)
Dividends paid	0	0	(4,774,857)	0	(4,774,857)
Net profit for the current period	0	0	5,001,085	0	5,001,085
<b>Balance at as 31 December 2011</b>	<b>31,792,965</b>	<b>1,525,323</b>	<b>5,001,085</b>	<b>28,732</b>	<b>38,348,105</b>
Contribution to reserve fund	0	250,055	(250,055)	0	0
Dividends paid	0	0	(4,751,030)	0	(4,751,030)
Net profit for the current period	0	0	6,775,461	0	6,775,461
<b>Balance at as 31 December 2012</b>	<b>31,792,965</b>	<b>1,775,378</b>	<b>6,775,461</b>	<b>28,732</b>	<b>40,372,536</b>

## Statement of cash flows

Year ended 31 December 2012

(in thousand CZK)	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net profit on ordinary activities before tax</b>	<b>5,655,325</b>	<b>5,635,730</b>
<b>A.1 Adjustments for non-cash movements:</b>		
A.1.1 Depreciation and amortisation	2,564,394	2,329,871
A.1.2 Change in provisions	125,863	(98,338)
A.1.3 Loss from disposal of fixed assets	12,862	2,359
A.1.4 Charged interest expenses (+) and income (-)	417,022	(140,253)
A.1.5 Change in fair value of financial derivatives	(214,850)	236,487
<b>A* Net cash flow from operating activities before tax, changes in working capital</b>	<b>8,560,436</b>	<b>7,965,856</b>
<b>A.2 Changes in non-cash elements of working capital:</b>		
A.2.1 Change in receivables and prepayments	2,343,313	6,381,835
A.2.2 Change in short-term payables and accruals	(51,662)	62,913
A.2.3 Change in inventories	(414)	(6,649)
<b>A** Net cash flow from operating activities before tax</b>	<b>10,851,673</b>	<b>14,403,955</b>
A.3 Interest paid	(471,972)	(11,688)
A.4 Interest received	56,189	151,941
A.5 Income tax on ordinary activities paid	(1,142,933)	(1,296,601)
<b>A*** Net cash flow from operating activities</b>	<b>9,292,957</b>	<b>13,247,607</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
B.1 Acquisition of fixed assets	(3,842,255)	(4,801,272)
B.2 Proceeds from the sale of fixed assets	15,278	3,527
<b>B*** Net cash flow from investing activities</b>	<b>(3,826,977)</b>	<b>(4,797,745)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
C.1 Change in long- and short-term liabilities	(49,849)	11,044,219
<b>C.2 Change in equity:</b>		
C.2.1 Decrease in share capital	0	(15,000,000)
C.2.2 Dividends paid	(4,751,030)	(4,774,857)
<b>C*** Net cash flow from financing activities</b>	<b>(4,800,879)</b>	<b>(8,730,638)</b>
<b>Net increase / decrease in cash and cash equivalents</b>	<b>665,101</b>	<b>(280,776)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,797,734</b>	<b>5,078,510</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>5,462,835</b>	<b>4,797,734</b>

# Notes to Financial Statements

Year ended 31 December 2012

## 1. General information

### 1.1. Introductory information about the Company

NET4GAS, s.r.o. ("the Company") was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Company's main business activity is natural gas transportation 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. Identification number of the Company is 27260364.

The Statutory representatives as at 31 December 2012:

Name
Thomas Kleefuß
Radek Benčík

The members of the Supervisory Board as at 31 December 2012 were as follows:

Name	Position
Martin Friedrich Herrmann	Chairman
Martin Muhr	Vice-Chairman
Peter Terium	Member
Andreas Böwing	Member
Jan Zaplatílek	Member
Radek Hromek	Member

During 2012 several changes in the statutory bodies of the Company were made:

As of 12 July 2012 Martin Friedrich Herrmann and Martin Muhr were registered as a Chairman and a Vice-Chairman of the Supervisory Board. As of 31 October 2012 Jan Nehoda resigned from his position of the Statutory Representative of the Company.

The Company is organised as follows:

The general meeting is the supreme body of the Company. Statutory Representatives are the body governing the Company's activities and acting on its behalf. The Supervisory Board is the controlling body of the Company.

Governance of the Company is divided into two departments titled as follows: Capacity & Finance and Asset Management.

## 2. Accounting policies

### 2.1. Basis of preparation of the financial statements

The financial statements have been prepared in accordance with Czech accounting legislation and have been prepared under the historical cost convention except as disclosed below.

### 2.2. Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60,000 are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed. Development costs of which results are intended for trading are capitalised as intangible fixed assets and recorded at the lower of cost and the value of future economic benefits. All other development costs are expensed as incurred.

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

Intangible fixed assets	Estimated useful life
Software	3 years
Other intangible fixed assets	6 years

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

Technical improvements of intangible fixed assets exceeding CZK 40,000 per year are capitalised.

Emission rights are accounted for as "Other intangible fixed assets". Emission rights allocated through the National Allocation Plan to the Company free of charge are accounted for as "Other intangible fixed assets" with double entry to the liability account "Taxes and state subsidies payable" upon their being credited to the Czech Register of emission rights.

The allocated emission rights are recorded at a replacement cost.

The emission rights liability is released to "Other operating income" to match it with relevant expenses.

Consumption of emission rights is recorded to "Other operating expenses" as at the balance sheet date on the basis of estimate of actual CO<sub>2</sub> emissions in the period. The Company applies first-in-first-out method for the disposals of the emission rights. Sales of emission rights are recorded as other operational revenue at a sales price. A provision is established when the carrying value of emission rights exceeds their estimated recoverable amount.

### 2.3. Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 10,000 are treated as tangible fixed assets.

Acquired tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. Own work capitalised is recorded at cost.

Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:

Tangible fixed assets	Estimated useful life
Buildings and constructions	45–70 years
Machinery and equipment	4–40 years
Furniture and fittings	4–8 years
Motor vehicles	5–8 years

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets exceeding CZK 40,000 per year are capitalised.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

### 2.4. Subsidies

The Company accounts for the subsidies when those are received or if there is absolutely no doubt that the subsidy will be received, e.g. when the Company receives the document which approves the subsidy payment.

The received subsidies for the purchase of fixed assets are classified as change in short-term payables and accruals and deferred income in the Cash Flow Statement.

### 2.5. Investments in subsidiaries

Investments in subsidiaries represent ownership interests in enterprises that are controlled by the Company ("the subsidiary").

Investments in subsidiaries are recorded at cost less a provision for impairment.

### 2.6. 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, customs duty, etc.). The weighted average cost method is applied for all disposals.

### 2.7. Receivables

Receivables are stated at nominal value less a provision for bad debts. A provision for bad debts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

### 2.8. Cash and cash equivalents

The Company has prepared a cash flow statement using the indirect method. Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company uses so-called cash-pooling within the group. A receivable (liability) that arises from cash-pooling is presented in the Cash Flow Statement 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 Cash Flow Statement as part of the item Cash and Cash equivalents.

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

### 2.9. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company as at the first day of the month.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

### 2.10. Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Changes in the fair value of derivatives held for trading are included in gain or loss on revaluation of securities and derivatives.

### 2.11. Revenue recognition

The Company recognizes as revenue mainly all income from fees collected for the transit and domestic gas transportation across the Czech Republic. Sales are stated net of discounts and Value Added Tax.

### 2.12. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

### 2.13. Provisions

The Company recognises provisions relating to probable future obligations or expenditures, when the purpose of the obligations or expenditures is known but the exact amount, or the time when the obligation or expenditure will be settled, is not known. However, provisions are not created for future operating expenditures or for expenditures directly related to future revenue transactions.

The Company recognises a provision for an unpaid income tax obligation against current tax expense. If advances paid for the income tax are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

### 2.14. Interest costs

All interest costs are expensed. Long-term payables are not discounted.

### 2.15. Employment benefits

Regular contributions are made to the state to fund the national pension plan. The Company also provides contributions to defined contribution plans operated by independent pension funds.

### 2.16. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

### 2.17. Related parties

The Company's related parties are considered to be the following:

- parties, of which the Company is a subsidiary or an associate, directly or indirectly, and other subsidiaries of these parties; and/or
- members of the Company's or parent company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence; and/or
- subsidiaries.

Material transactions and outstanding balances with related parties are disclosed in Notes 13 and 14.

### 2.18. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

### 3. Intangible fixed assets

(in thousand CZK)	1 January 2012	Additions	Transfers	Disposals	31 December 2012
<b>Cost</b>					
Research & development	75,978	0	7,469	0	83,447
Software	271,832	0	59,508	(412)	330,928
Royalties	3,022	0	3,397	0	6,419
Intangible fixed assets in the course of construction	21,820	63,299	(70,221)	0	14,898
Emission rights	97,632	36,157	0	(22,774)	111,015
Advances paid for intangible fixed assets	0	153	(153)	0	0
<b>Total</b>	<b>470,284</b>	<b>99,609</b>	<b>0</b>	<b>(23,186)</b>	<b>546,707</b>
<b>Accumulated amortisation</b>					
Research & development	(52,529)	(8,805)	0	0	(61,334)
Software	(117,663)	(70,769)	0	413	(188,019)
Royalties	(1,211)	(1,975)	0	0	(3,186)
<b>Total</b>	<b>(171,403)</b>	<b>(81,549)</b>	<b>0</b>	<b>413</b>	<b>(252,539)</b>
<b>Net book value</b>	<b>298,881</b>				<b>294,168</b>

(in thousand CZK)	1 January 2011	Additions	Transfers	Disposals	31 December 2011
<b>Cost</b>					
Research & development	74,842	0	6,360	(5,224)	75,978
Software	129,013	0	147,118	(4,299)	271,832
Royalties	5,630	0	311	(2,919)	3,022
Intangible fixed assets in the course of construction	18,133	157,476	(153,789)	0	21,820
Emission rights	58,248	59,658	0	(20,274)	97,632
<b>Total</b>	<b>285,866</b>	<b>217,134</b>	<b>0</b>	<b>(32,716)</b>	<b>470,284</b>
<b>Accumulated amortisation</b>					
Research & development	(46,978)	(10,156)	0	4,605	(52,529)
Software	(96,711)	(25,216)	0	4,264	(117,663)
Royalties	(3,098)	(615)	0	2,502	(1,211)
<b>Total</b>	<b>(146,787)</b>	<b>(35,987)</b>	<b>0</b>	<b>11,371</b>	<b>(171,403)</b>
<b>Net book value</b>	<b>139,079</b>				<b>298,881</b>

During 2011 and 2012 the Company did neither purchase nor sell any emission rights.

### 4. Tangible fixed assets

(in thousand CZK)	1 January 2012	Additions	Transfers	Disposals	31 December 2012
<b>Cost</b>					
Land	181,263	0	24,825	(6,367)	199,721
Constructions	53,004,223	5,335	1,792,686	(82,531)	54,719,713
Equipment	5,204,397	0	358,506	(4,626)	5,558,277
Other tangible fixed assets	554	0	0	0	554
Tangible fixed assets in the course of construction	4,945,888	3,491,555	(1,812,258)	0	6,625,185
Advances paid for tangible fixed assets	329,601	54,659	(363,759)	0	20,501
<b>Total</b>	<b>63,665,926</b>	<b>3,551,549</b>	<b>0</b>	<b>(93,524)</b>	<b>67,123,951</b>
<b>Accumulated depreciation and provision</b>					
Constructions	(10,346,554)	(1,833,112)	0	58,804	(12,120,862)
Equipment	(2,779,525)	(653,031)	0	4,644	(3,427,912)
Provision for constructions	(9,300)	(73,300)	0	9,300	(73,300)
<b>Total</b>	<b>(13,135,379)</b>	<b>(2,559,443)</b>	<b>0</b>	<b>72,748</b>	<b>(15,622,074)</b>
<b>Net book value</b>	<b>50,530,547</b>				<b>51,501,877</b>

(in thousand CZK)	1 January 2012	Additions	Transfers	Disposals	31 December 2012
<b>Cost</b>					
Land	176,928	0	6,619	(2,284)	181,263
Constructions	52,878,560	0	131,999	(6,336)	53,004,223
Equipment	5,098,892	0	115,739	(10,234)	5,204,397
Other tangible fixed assets	597	2	0	(45)	554
Tangible fixed assets in the course of construction	594,535	3,510,914	840,439	0	4,945,888
Advances paid for tangible fixed assets	17,923	1,406,474	(1,094,796)	0	329,601
<b>Total</b>	<b>58,767,435</b>	<b>4,917,390</b>	<b>0</b>	<b>(18,899)</b>	<b>63,665,926</b>
<b>Accumulated depreciation and provision</b>					
Constructions	(8,574,197)	(1,773,870)	0	1,513	(10,346,554)
Equipment	(2,272,082)	(517,440)	0	9,997	(2,779,525)
Provision for constructions	(9,300)	0	0	0	(9,300)
<b>Total</b>	<b>(10,855,579)</b>	<b>(2,291,310)</b>	<b>0</b>	<b>11,510</b>	<b>(13,135,379)</b>
<b>Net book value</b>	<b>47,911,856</b>				<b>50,530,547</b>

Additions of tangible fixed assets in 2012 represent mainly Gazelle pipeline construction.

## 5. Investments in subsidiaries

As at 31 December 2011 and 2012:

	Number of shares	Nominal value	Cost (000' CZK)	Carrying value (000' CZK)	% of capital
<b>Czech entity</b>					
BRAWA, a.s.	2,000	CZK 1,000	2,000	2,000	100

BRAWA, a.s., with its registered office at Rubešova 162/8, Praha 2 – Vinohrady, was incorporated based on the notary deed effective as at 27 October 2010. The company was registered in the Commercial Register maintained by the Regional Court in Prague, section B, insert 16622 based on the order of the Regional Court in Prague, which came into force on 10 November 2010. The sole shareholder of the company is NET4GAS, s.r.o. The share capital is CZK 2,000 thousand and was fully paid.

## 6. Trade receivables

(in thousand CZK)	31 December 2012	31 December 2011
Trade receivables		
– current	256,593	478,822
– overdue	3,525	2,139
<b>Total trade receivables</b>	<b>260,118</b>	<b>480,961</b>
Estimated receivables	566,824	400,247
Other receivables	5,139,257	7,390,213
Provision for bad debts	(553)	(300)
<b>Net book value of short-term receivables</b>	<b>5,965,646</b>	<b>8,271,121</b>

Unsettled receivables have not been secured and none of them are due after more than 5 years.

Other receivables as at 31 December 2012 include mainly Cash-pooling receivables from RWE Transgas, a.s. in the amount of CZK 5,102,037 thousand (as at 31 December 2011: CZK 7,075,516 thousand). As at 31 December 2012 no receivables are due after three months (as at 31 December 2011: CZK 2,300,000 thousand), and no tax receivables (as at 31 December 2011: CZK 165,467 thousand) as well. Further receivables from financial derivatives in the amount of CZK 17,900 thousand (as at 31 December 2011: CZK 69,505 thousand).

## 7. Equity

The Company is fully owned by RWE Gas International N.V., incorporated in the Netherlands and the ultimate holding company of the whole Group is RWE Aktiengesellschaft, incorporated in Germany. The change of ownership was registered in the Commercial register on 16 May 2012.

The legal reserve fund is created from the profit of the Company according to law and may not be distributed to shareholders, but may be used to offset losses only.

On 28 February 2012 the sole shareholder approved the financial statements for 2011 and decided about the allocation of profit earned of CZK 5,001,085 thousand.

## 8. Provisions

(in thousand CZK)	Total
<b>Opening balance as at 1 January 2011</b>	<b>321,756</b>
Charge for the year	51,618
Released in the year	(69,786)
Used in the year	(80,302)
<b>Closing balance as at 31 December 2011</b>	<b>223,286</b>
Charge for the year	125,873
Released in the year	(34,323)
Used in the year	(29,940)
<b>Closing balance as at 31 December 2012</b>	<b>284,896</b>

For an analysis of the current and deferred income tax, see Note 11 – Income tax.

Provisions include provision for restructuring, employment benefits and provision for severance payments and long-term bonus programme.

## 9. Liabilities and commitments

(in thousand CZK)	31 December 2012	31 December 2011
Trade payables – current	412,321	731,375
Short-term advances received	463,530	369,489
Estimated payables	230,748	336,301
Other payables – current	362,745	567,567
<b>Total short-term liabilities</b>	<b>1 469 344</b>	<b>2,004,732</b>
Trade payables	5,523	55,371
Other payables	11,000,000	11,000,000
Deferred tax liability*	5,112,569	7,551,851
<b>Total long-term liabilities</b>	<b>16,118,092</b>	<b>18,607,222</b>
<b>Total short-term and long-term liabilities</b>	<b>17,587,436</b>	<b>20,611,954</b>

\* see note 11 – Income Tax

Short-term advances received represent mainly advances received for gas transit.

Other short-term liabilities as at 31 December 2012 included mainly liabilities arising from financial derivatives in the amount of CZK 31,948 thousand (as at 31 December 2011: CZK 298,404 thousand), grants received from the European Commission based on Commission decision concerning the granting of Union financial aid in the field of Regulation (EC) No. 663/2009 for Gas and Electricity Interconnectors. In 2012 the grant in the amount of CZK 17,544 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-02 – SI2.564516. In 2011 the grant in the amount of CZK 60,062 thousand was provided for Action no. EEPR-2009-INTg-RF-CZPL –SI2.567654 / SI2.567657 / SI2.567662 which was completed in 2012 and other liabilities in the amount of CZK 313,252 thousand (as at 31 December 2011: CZK 191,288 thousand).

As at date of the preparation of the financial statements, the Company recorded the balance of taxes and subsidies in the amount of CZK 106,245 thousand (2011: CZK 92,862 thousand) which represents the emission rights not used until this date.

Long-term trade liabilities arise from long-term retentions in the amount of CZK 5,523 thousand (as at 31 December 2011: CZK 55,731 thousand).

Long-term liabilities arise from loan in the amount of CZK 11,000,000 thousand provided by the company RWE Transgas, a.s. according to the loan agreement dated 21 December 2011. The loan was provided as a settlement related to decrease in the share capital. In accordance with the contract the loan is due on 23 December 2021 at the latest and since 2011 the interest rate has been 4.22%.

The Company does not have any overdue liabilities as at 31 December 2012 and 2011.

The Company does not have any overdue payables related to social or health insurance or any other overdue payables to tax authorities or other state institutions.

The above mentioned liabilities were not secured by any of the Company's assets and do not have a maturity longer than 5 years except for the loan provided by RWE Transgas, a.s. which is due on 23 December 2021 at the latest.

Total non-cancellable future commitments in respect of operating leases (not recorded in the balance sheet) as at 31 December 2012 amounted to CZK 74,770 thousand (as at 31 December 2011: CZK 93,756 thousand).

## 10. Derivative financial instruments

The fair value of derivatives is presented in "Other receivables" if positive, or in "Other payables" if negative.

Derivates classified as trading:

(in thousand CZK)	31 December 2012			31 December 2011		
	Fair value		Nominal value	Fair value		Fair value
	Positive	Negative		Positive	Negative	
Currency forwards	17,044	(31,082)	(3,364,839)	1,732	(228,407)	89,937
Currency swaps	580	(179)	(298,668)	67,773	(69,997)	(170,426)
<b>Total trading derivatives</b>	<b>17,624</b>	<b>(31,261)</b>	<b>(3,663,507)</b>	<b>69,505</b>	<b>(298,404)</b>	<b>(80,489)</b>

Notional amount represents net presentation of total volume of concluded transactions. The notional amount of derivatives has been translated into CZK at the exchange rate published by the Czech National Bank as at 31 December 2012.

Changes in fair value of trading derivatives are recorded in the income statement.

Certain derivate transactions, although providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under Czech accounting rules. Therefore, they are presented above as trading derivatives.

## 11. Income tax

The income tax expense can be analysed as follows:

(in thousand CZK)	2012	2011
Current tax expense	1,318,428	1,243,073
Deferred tax expense	(2,439,281)	(426,054)
Adjustment of prior year tax expense based on final CIT return and additional income tax returns	717	(182,374)
<b>Total income tax</b>	<b>(1,120,136)</b>	<b>634,645</b>

Current tax can be analysed as follows:

(in thousand CZK)	2012	2011
Net profit before taxation	5,655,325	5,635,730
Non-taxable revenues	(362,913)	(556,571)
Difference between accounting and tax depreciation/amortisation	1,477,546	1,400,535
Non-deductible expenses	193,752	83,680
Gifts	(24,612)	(20,885)
Net taxable profit	6,939,098	6,542,489
<b>Current income tax (19 %)</b>	<b>1,318,428</b>	<b>1,243,073</b>

The deferred tax was calculated at 19% (the rate enacted for 2012 and subsequent years). In 2012, there was a change of an estimate with respect to deferred income tax as a result of different approach to depreciation as a tax deductible item.

Deferred tax asset / (liability) can be analysed as follows:

(in thousand CZK)	31 December 2012	31 December 2011
<b>Deferred tax liability arising from:</b>		
Difference between accounting and tax net book value of fixed assets	(5,166,781)	(7,594,325)
<b>Deferred tax asset arising from:</b>		
Other provisions and allowances	54,212	42,474
<b>Net deferred tax liability</b>	<b>(5,112,569)</b>	<b>(7,551,851)</b>

## 12. Revenue analysis by sectors

Revenue from operating activities:

(in thousand CZK)	2012	2011
Transportation		
– foreign customers	623,864	303,888
– domestic customers	9,400,553	9,384,477
Other – domestic	49,926	79,045
<b>Total sales of own products and services</b>	<b>10,074,343</b>	<b>9,767,410</b>
Own work capitalised	149,741	128,529
Sales of long-term assets and raw materials	15,448	3,651
Other operating income	41,290	29,151
<b>Total income from operating activities</b>	<b>10,280,822</b>	<b>9,928,741</b>

## 13. Employees

	2012	2011
Members of Statutory bodies who are employees	3	2
Average number of other members of management	12	9
Average number of other staff	550	533
<b>Total number of employees</b>	<b>565</b>	<b>544</b>

During 2011 one employee of the Company was appointed as a member of Supervisory Board. In 2012 this employee was still a member of the Supervisory Board of the Company.

The Company's management includes statutory representatives and other directors.

(in thousand CZK)	Management	Other staff	Total
<b>2012</b>			
Wages and salaries and emoluments	63,728	345,786	409,514
Emoluments of Board members	120	0	120
Social security costs	7,392	115,672	123,064
Other social costs	370	21,076	21,446
<b>Total staff costs</b>	<b>71,610</b>	<b>482,534</b>	<b>554,144</b>
<b>2011</b>			
Wages and salaries and emoluments	28,950	324,915	353,865
Emoluments of Board members	120	0	120
Social security costs	6,984	116,621	123,605
Other social costs	129	19,479	19,608
<b>Total staff costs</b>	<b>36,183</b>	<b>461,015</b>	<b>497,198</b>

Other transactions with the Company's management are described in Note 14 – Related party transactions.

## 14. Related party transactions

All material transactions with related parties are presented in this note.

The profit/loss transfer agreement was concluded with RWE Transgas, a.s. on 29 June 2006. Based on this agreement the Company was committed to transfer its annual profit after contribution to legal reserve fund to its shareholder. The shareholder is required to settle a loss of the Company that could not be settled from the legal reserve fund or other Company's available funds. The profit/loss transfer agreement was terminated as of 31 December 2011 and as of 31 December 2012 no other profit/loss transfer agreement has been concluded. In 2013 the annual meeting will decide about distribution of the result for the year 2012.

The Company was involved in the following related party transactions:

(in thousand CZK)	2012	2011
<b>Purchases/costs</b>		
RWE Transgas, a.s. (services, interests)	641,379	592,436
RWE Interní služby, s.r.o. (services )	813	210,761
RWE Aktiengesellschaft (financial instruments, services)	267,298	508,404
RWE Plynoprojekt, s.r.o. (services, PPE)	1,508	6,281
Other companies within the RWE Group	15,258	8,601
<b>Total purchases</b>	<b>926,256</b>	<b>1,326,483</b>
<b>Sales</b>		
<b>Transportation (transit and domestic transport):</b>		
RWE Transgas, a.s.	7,988,039	7,818,538
Regional distributors within the RWE Group	1,021,298	1,082,544
<b>Total sales</b>	<b>9,009,337</b>	<b>8,901,082</b>
<b>Other sales:</b>		
RWE Transgas, a.s. (services, interests)	54,789	151,850
RWE Aktiengesellschaft (financial instruments)	381,430	313,276
RWE Gas Storage, s.r.o. (services, PPE)	7,187	11,895
Other companies within the RWE Group	2,342	25,161
<b>Total other sales</b>	<b>445,748</b>	<b>502,182</b>

The following related party balances were outstanding as at:

(in thousand CZK)	31 December 2012	31 December 2011
<b>Trade receivables:</b>		
RWE Transgas, a.s.	143,081	460,369
Other companies within the RWE Group	591	8,735
<b>Total trade receivables</b>	<b>143,672</b>	<b>469,104</b>
<b>Advances paid:</b>		
RWE Interní služby, s.r.o.	0	5,789
Other companies within the RWE Group	681	623
<b>Total advances paid</b>	<b>681</b>	<b>6,412</b>
<b>Estimated receivables:</b>		
RWE Transgas, a.s.	382,171	222,250
RWE Gas Storage, s.r.o.	17,892	1,619
Other companies within the RWE Group	101,703	108,696
<b>Total estimated receivables</b>	<b>501,766</b>	<b>332,565</b>
<b>Other receivables:</b>		
RWE Aktiengesellschaft (financial instruments)	0	69,505
<b>Receivables arising from cash-pooling:</b>		
RWE Transgas, a.s.	5,102,037	7,075,516
<b>Total receivables</b>	<b>5,748,156</b>	<b>7,953,102</b>

(in thousand CZK)	31 December 2012	31 December 2011
<b>Trade payables:</b>		
RWE Transgas, a.s.	33,888	113,828
RWE Interní služby, s.r.o.	0	16,167
Other companies within the RWE Group	3,635	13,458
<b>Total trade payables</b>	<b>37,523</b>	<b>143,453</b>
<b>Advances received:</b>		
RWE Transgas, a.s.	307,679	189,378
Other companies within the RWE Group	91,701	112,759
<b>Total advances received</b>	<b>399,380</b>	<b>302,137</b>
<b>Estimated payables:</b>		
RWE Interní služby, s.r.o.	0	81
Other companies within the RWE Group	3,738	13,585
<b>Total estimated payables</b>	<b>3,738</b>	<b>13,666</b>
<b>Other payables:</b>		
RWE Aktiengesellschaft (financial instruments)	0	298,404
RWE Transgas, a.s. (loan, securities)	11,008,050	11,000,000
RWE Key Account, s.r.o. (securities)	1,688	100
<b>Total payables</b>	<b>11,450,379</b>	<b>11,757,760</b>



Receivables and payables arising from cash-pooling and received loan bear market interest rate. Trade receivables and payables arose under the same terms and conditions as with third parties.

The Company's cars are made available for use by members of management. The total acquisition costs is CZK 12,582 thousand (2011: CZK 13,307 thousand).

The Company provides foreign members of management with accommodation, in 2012 rent totalled to CZK 1,021 thousand (2011: CZK 2,082 thousand).

The Company provides members of management with long-term bonus programme for which the provision in the amount of CZK 10,518 thousand was created in 2012 (2011: CZK 5,162 thousand).

Besides the above mentioned remuneration and benefits there was no other consideration provided in 2012 and 2011 to the sole shareholder, members of the Statutory and Supervisory Board and management either in cash or in kind.

## 15. Fees paid and payable to the audit company

The information relating to the fees paid and payable for services performed by the audit company is included in the consolidated financial statements of the ultimate parent company of the group.

## 16. Commitments

Capital commitments contracted by the Company as at 31 December 2012 were CZK 393,411 thousand mainly related to the construction of Gazelle pipeline (as at 31 December 2011: CZK 2,676,829 thousand).

## 17. Contingent liabilities

The Company issued guarantees in the amount of CZK 48,700 thousand as at 31 December 2012 (2011: CZK 38,929 thousand).

The management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2012.

## 18. Cash flow statement

Cash and cash equivalents disclosed in the cash flow statement can be analysed as follows:

(in thousand CZK)	31 December 2012	31 December 2011
Stamps and vouchers	291	231
Cash in bank	360,507	21,987
Receivable arising from cash-pooling	5,102,037	4,775,516
<b>Total cash and cash equivalents</b>	<b>5,462,835</b>	<b>4,797,734</b>

## 19. Subsequent events

On 15 January 2013 the gas pipeline Gazela was put into operation.

In January 2013 based on the Project on a spin-off by demerger, which was published in the collection of documents, a part of the net assets of the company NET4GAS, s.r.o. related to the gas pipeline Gazela was transferred to the company BRAWA, a.s.

8 February 2013



Thomas Kleefuß  
Managing Director



Radek Benčík  
Managing Director

# Supervisory Board Report

The Supervisory Board continuously monitored the Company's business activities, its results, and the performance of the powers and responsibilities of the Company's Management. At all of its four meetings held in 2012 the Supervisory Board formed a quorum, and it discussed all of the matters for which it is responsible under applicable legal regulations, the Company's Articles of Association and decisions adopted by the sole member acting in the capacity of the General Meeting. The Company's Management provided its comments in regard to all of the matters discussed by the Supervisory Board.

In performing its supervisory activity the Supervisory Board did not find anything inconsistent with generally applicable legal regulations, the Company's Articles of Association or the decisions of the sole member acting in the capacity of the General Meeting.

At its regular meeting held on 24 February 2012, the Supervisory Board re-elected Mr. Martin Herrmann as the Chairman of the Supervisory Board. The position of Vice-Chairman of the Supervisory Board was held by Dr. Martin Muhr for the entire period of 2012, and the composition of the Supervisory Board remained unchanged over the whole course of the year.

At its regular meeting held on 29 October 2012, the Supervisory Board discussed and acknowledged the resignation of Mr. Jan Nehoda from the position of Managing Director of the Company, and approved the termination of his position as of 31 October 2012. Commencing from 1 November 2012 the Company has only two Managing Directors.

At its regular meeting held on 18 March 2013, the Supervisory Board reviewed the Company's annual financial statements for the fiscal year 2012 and the 2012 profit distribution proposal of the Company's Management.

Concurring with the auditor's opinion, the Supervisory Board concluded that the annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the period then ended in accordance with Czech accounting legislation.

The Supervisory Board recommends to the General Meeting to approve the annual financial statements for the period ended on 31 December 2012 and the 2012 profit distribution proposal of the Company's Management.

The Supervisory Board expresses its gratitude to all employees for their work for the Company in 2012.

In Prague, on 18 March 2013



Martin Friedrich Herrmann  
Chairman of the Supervisory Board

# Report on Relations

In view of the fact that NET4GAS, s.r.o. (hereinafter the "Company") did not enter into any control agreement effective in 2012 under which it would be the controlled entity, the Company has drawn up in accordance with Section 66a(9) of Act No. 513/1991 Coll., the Commercial Code, as amended, the following Report on Relations covering the relations among the Company and controlling entities and among the Company and other entities controlled by the same controlling entities (hereinafter "Related Parties") during 2012 in all cases where the Company is aware of the existence of such Related Parties. This Report on Relations forms an integral part of the Company's Annual Report 2012, and is provided to the members of the Company for their review within the same period of time and under the same conditions as the Financial Statements.

## 1. Controlling entities

In the last accounting period the Company was controlled:

### a) directly, to 30 April 2012, by

RWE Supply & Trading CZ, a.s. (to 31 December 2012 operating under the business name RWE Transgas, a.s.), with its registered office at Limuzská 12/3135, Prague 10, 100 98, Czech Republic, ID No. 26460815 (hereinafter "RWE TG"), as the sole member of the Company,

### b) indirectly, to 30 April 2012, by

RWE Gas International N.V., with its registered office at 5211AK 's-Hertogenbosch, Willemsplein 4, Kingdom of the Netherlands (hereinafter "RWE GI"), as the sole shareholder of RWE TG, and RWE Aktiengesellschaft, with its registered office at Opernplatz 1, 45128 Essen, Federal Republic of Germany (hereinafter "RWE AG"), as the sole shareholder of RWE GI,

### c) directly, from 1 May 2012, by

RWE GI, which became the sole member of the Company effective from 1 May 2012 based on an Agreement on the Transfer of an Ownership Interest concluded on 28 April 2012 by and between RWE TG and RWE GI,

### d) indirectly, from 1 May 2012, by

RWE AG, as the sole shareholder of RWE GI.

## 2. Other Related Parties

The Company requested the above controlling entities to provide a list of any other entities controlled by the same controlling entities during the last accounting period, and the Company has drawn up the present Report on Relations on the basis of the information provided by these controlling entities and the other information available to it. A diagram showing the structure of control and relations among companies in the relevant line of the RWE Group as of 31 December 2012 is provided in the "Ownership and Organisational Structure" section of this Annual Report.

## 3. Agreements concluded between the Company and Related Parties, performance provided and counter-performance received

The agreements concluded between the Company and Related Parties during the last accounting period are shown in Annex No. 1. No damage has been incurred by the Company due to the performance of these agreements or agreements concluded in preceding accounting periods, therefore it has not been necessary to secure compensation for damage or to conclude any agreements on such compensation. The values of performance and counter-performance in Related Party Transactions during the last accounting period are shown under Note 14 of the Notes to the Financial Statements as of 31 December 2012.

## 4. Other legal acts performed in the interest of Related Parties

The Company did not perform any legal acts in the interest or at the instigation of Related Parties during the last accounting period.

## 5. Measures adopted or carried out in the interest or at the instigation of Related Parties

The Company neither adopted nor carried out any measures in the interest or at the instigation of Related Parties during the last accounting period.

## 6. No damage

The Company incurred no damage during the last accounting period as a result of agreements with Related Parties, other legal acts performed in the interest of Related Parties or measures carried out in the interest or at the instigation of Related Parties which were concluded or adopted during the last accounting period or in any preceding accounting period.

## 7. Confidentiality

None of the information contained in this Report on Relations constitutes a trade secret of the Company.

## 8. Conclusion

This Report on Relations has been approved by the Company's Management and has been submitted for review to the Supervisory Board and to the Company's auditor, who is responsible for verifying the financial statements in accordance with specific legislation.

In Prague, on 18 February 2013



Thomas Kleefuß  
Managing Director



Ing. Radek Benčík, MBA  
Managing Director

Annex No. 1  
**Agreements concluded between  
the Company and Related Parties in 2012**

Contracting party	Type of agreement / Purpose of agreement	Number
<b>BRAWA, a.s.</b>	Division Project	1
	Agreement terminating an Agreement on a Future Agreement on the transfer of part of an enterprise	1
	Agreement on the provision of selected services	1
	Lease Agreement	1
<b>JMP Net, s.r.o.</b>	Amendment No. 3 to an Agreement on terms and conditions for the operation of a gas systems connection	1
	Amendment No. 4 to an Agreement on terms and conditions for the operation of a gas systems connection	1
	Agreement on gas transport	1
	Purchase Orders	1
<b>RWE Energie, a.s.</b>	Purchase Orders	2
<b>RWE GasNet, s.r.o.</b>	Agreement on gas transmission	1
	Purchase Agreement for a used gas meter	1
	Purchase Agreement	1
	Amendment No. 3 to an Agreement on terms and conditions for the operation of interconnected gas systems	1
	Amendment No. 4 to an Agreement on terms and conditions for the operation of interconnected gas systems	2
	Amendment No. 5 to an Agreement on terms and conditions for the operation of interconnected gas systems	1
	Contract for Work: Calibration of a high-pressure DN 500 gas pipeline	1
	Contract for Work: Cleaning and calibration of a high-pressure DN 500 gas pipeline	1
<b>RWE Gas Storage, s.r.o.</b>	Purchase Agreement	1
	Agreement on the provision of technical dispatching services	1
	Agreement on the provision of technical dispatching services	1
	Agreement on the termination of an Agreement	1
	Framework Contract for Work	1
<b>RWE Gas Transit, s.r.o.</b>	Agreement on the termination of a Division Project – Multilateral Agreement	1

Contracting party	Type of agreement / Purpose of agreement	Number
<b>RWE Interní služby, s.r.o.</b>	Agreement on the assignment of a licence – Kofax	1
	Agreement on the assignment of rights and the assumption of obligations	1
	Purchase Agreement	3
	Agreement on the transfer of nominated licences for the software BEAT created by Mr. Zdeněk Haloda	1
	Transfer Agreement	1
	Agreement on the provision of a publicly available electronic communications service	1
	Transfer of Lines, including an Agreement on the extension of the payment terms of invoices for the provision of a publicly available EC service	1
<b>RWE IT Czech s.r.o.</b>	Agreement on the lease termination	1
<b>RWE Key Account CZ, s.r.o.</b>	Amendment No. 3 to an Agreement on electricity supply	1
	Amendment No. 4 to an Agreement on electricity supply	1
<b>RWE Plynoprojekt, s.r.o.</b>	Agreement on the termination of a Service Agreement	1
	Agreement on the termination of an Agreement on the lease of non-residential premises	1
	Contract for Work: Gazelle – Additional Engineering and Easement Consulting	1
	Confidentiality Agreement	1
	Amendment No. 1 to a Confidentiality Agreement	1
	Confidentiality Agreement	1
	Contract for Work: Study on the use of compressor station sites for the installation of gas motors	1
	Amendment No. 1 to a Contract for Work: Study on the use of compressor station sites for the installation of gas motors	1
<b>RWE Transgas, a.s.</b>	Agreement on the termination of an Agreement securing the payment of insurance premiums	1
	Amendment No. 3 to an Agreement on the provision of loans	1
	Agreement on the termination of a Framework Agreement	1
	Purchase Agreement	1
	Confidentiality and Non-Disclosure Agreement – Multilateral Agreement	1
	Division Project	1
	Agreement on the termination of a Division Project – Multilateral Agreement	1
	Side Letter	3
	Transfer Agreement	3
	Agreement on the sale of gas (2012)	1
	Amendment No. 1 to an Agreement on the sale of gas (2012)	1
	Amendment No. 2 to an Agreement on the sale of gas (2012)	1

# Persons Responsible for the Annual Report

Contracting party	Type of agreement / Purpose of agreement	Number
<b>RWE Transgas, a.s.</b>	Reverse Notice Service Agreement	7
	Agreement on flexibility services for 2013	1
	Framework Agreement on Gas Transport	1
	Amendment No. 1 to an Agreement on Gas Transport (Umbrella Agreement), incl. the Transit Code as an annex	1
	Amendment No. 2 to the Umbrella Agreement	1
	Amendment No. 3 to the Umbrella Agreement	1
<b>RWE Zákaznické služby, s.r.o.</b>	Agreement on the provision of Call Centre services	1
<b>SMP Net, s.r.o.</b>	Amendment No. 3 to an Agreement on terms and conditions for the operation of a gas systems connection	1
	Amendment No. 4 to an Agreement on terms and conditions for the operation of a gas systems connection	1
	Agreement on gas transport	1
<b>VČP Net, s.r.o.</b>	Easement Agreement	1
	Purchase Agreement	3
	Agreement on gas transport	1

## Persons responsible for the Annual Report of NET4GAS, s.r.o. for 2012

We hereby declare on our honour that the information stated in this Annual Report is true and that no material facts have been omitted or misstated.

In Prague, on 19 March 2013



**Thomas Kleefuß**  
Managing Director



**Ing. Radek Benčík, MBA**  
Managing Director

# Auditor's Report on the Financial Statements



## Independent auditor's report to the Owners of NET4GAS, s.r.o.

We have audited the accompanying financial statements of NET4GAS s.r.o., based in Na Hřebenech II 1718/8, Praha 4 - Nusle, identification number 272 60 364, which comprise the balance sheet as of 31 December 2012, and the income statement, statement of changes in equity and cash flow statement for the period from 1 January 2012 to 31 December 2012, and a summary of significant accounting policies and other explanatory notes.

### Statutory Body's Responsibility for the Financial Statements

The Statutory Body of NET4GAS s.r.o. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting regulations and for such internal control as statutory body determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those laws and regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 financial statements.

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

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## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of NET4GAS s.r.o. as of 31 December 2012, and of its financial performance and its cash flows for the period from 1 January 2012 to 31 December 2012 in accordance with Czech accounting regulations.

In Prague on 8 February 2013

BDO Audit s. r. o., Certificate No. 018  
Represented by partner:

Vlastimil Hokr  
Certificate No. 0071

Jan Macháč  
Certificate No. 2231

# Auditor's Report on the Annual Report and Report on Relations



## Independent auditor's report to the Owners of NET4GAS, s.r.o.

On the basis of our audit, on 8 February 2013 we issued an auditor's report on the financial statements, which are included in this annual report and our report was as follows:

"We have audited the accompanying financial statements of NET4GAS, s.r.o., based in Na Hřebenech II 1718/8, Praha 4 – Nusle, identification number 27260364, which comprise the balance sheet as of 31 December 2012, and the income statement, statement of changes in equity and cash flow statement for the period from 1 January 2012 to 31 December 2012, and a summary of significant accounting policies and other explanatory notes.

### Statutory Body's Responsibility for the Financial Statements

The Statutory Body of NET4GAS, s.r.o. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting regulations and for such internal control as statutory body determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those laws and regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 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 financial statements give a true and fair view of the financial position of NET4GAS, s.r.o. as of 31 December 2012, and of its financial performance and its cash flows for the period from 1 January 2012 to 31 December 2012 in accordance with Czech accounting regulations."

### Report on Review of the Related Party Transactions Report

We have reviewed the factual accuracy of the information included in the related party transactions report of NET4GAS, s.r.o. for the period ended 31 December 2012. This related party transactions report is the responsibility of NET4GAS, s.r.o.'s statutory body. Our responsibility is to express a conclusion on the related party transactions report based on our review.

We conducted our review in accordance with the Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the related party transactions report is free of material misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the information contained in the related party transactions report of NET4GAS, s.r.o. for the period ended 31 December 2012 contains material factual misstatements.

### Report on the Audit of the Annual Report

We have audited the annual report of NET4GAS, s.r.o. for consistency with the financial statements for the period ended 31 December 2012 which are included in this Annual Report. The correctness of the annual report is the responsibility of NET4GAS, s.r.o.'s statutory body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.



In our opinion, the information included in the annual report of NET4GAS, s.r.o. for the period ended 31 December 2012 is consistent, in all material respects, with the financial statements referred to above.

In Prague on 19 March 2013

BDO Audit s. r. o., Certificate No. 018

Represented by partners:

Vlastimil Hokr  
Certificate No. 0071

Jan Macháč  
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BDO Audit s. r. o., a Czech limited company (registration Number 45 31 43 81, registered in Praha, No. C. 7279, certificate of Chamber of auditors No. 018) is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



## Abbreviations Used

ACER	Agency for the Cooperation of Energy Regulators
BTS	Border Transfer Station
CEE	Central and Eastern Europe
CEE GRIP	Central and Eastern Europe Gas Regional Investment Plan
CEER	Council of European Energy Regulators
CEETR	Central East European Trading Region
CEGH	Central European Gas Hub
CEO	Chief Executive Officer
COO	Chief Operations Officer
CS	Compressor Station
CUNC	Czech Union for Nature Conservation
CZK	Czech Crown
EASEE	gas European Association for the Streamlining of Energy Exchange – gas
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
EC	European Commission
EEPR	European Energy Program for Recovery
EIA	Environmental Impact Assessment
ENTSO	European Network of Transmission System Operators
ENTSOG	European Network of Transmission System Operators for Gas
EC	European Council
EU	European Union
GATRAC	Gas Transport Cooperation
GIE	Gas Infrastructure Europe
GPS	Global Positioning System
GRI SSE	Gas Regional Initiative of the South, South-East region
ITO	Independent Transmission Operator
MEGAL	Mittel-Europäische-Gasleitung / Central European Pipeline (transmission system in Germany)
MFL	Magnetic Flux Leakage
OBA	Output-Based Allocation scheme
OPAL	Die Ostsee-Pipeline-Anbindungs-Leitung / Baltic Sea Pipeline Link
RMC	Risk Management Committee
TEN-E	Trans-European Energy Networks
TSO	Transmission System Operator
TU	Trasový uzávěr / Shut-off valve site
UGS	Underground Gas Storage

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A PDF version of the NET4GAS Annual Report 2012 is available on the company's website in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of the annual report takes precedence over the English version.

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