



**Connecting
Markets**

**NET4GAS Consolidated Financial Results as at
December 2016**
Investor Presentation

NET4GAS | Prague

April 2017



Core Business Competencies

Strong operations and sound financials maintained

Robust Business Model

- Gas Transmission System Operator (“TSO”) in the heart of Europe, taking advantage of the changing gas flows in Europe
- High visibility of future long-term cash flows via contracted transit revenue (with newly auctioned capacities until 2039)
- Fairly stable domestic transport business regulated on ‘revenue cap’ basis

Strong Financials

- Strong cash generation and credit metrics
- Rated BBB by S&P (stable outlook) and Fitch (stable outlook)
- Conservative financial policy supported by strong shareholders

Operational Excellence

- Well-maintained and flexible gas transmission network enabling bi-directional flows
- Initiated efficiency program focusing on operating costs and disciplined CAPEX spending
- Strong Health, Safety, Security and Environment (“HSSE”) track record

Strategic Asset

- Strategic role in the transmission of gas to North-Western Europe, Central Eastern Europe, South-Eastern Europe and Italy
- Comprises of c. 3.800 km of international and intrastate pipelines with envisaged infrastructure build-out in the mid-term horizon
- Sole TSO in the Czech Republic with exclusive gas transmission license connecting all 3 corridors for delivery of Russian gas predominantly into the EU



2016 Financial Highlights and 2017 Outlook

Solid delivery of full-year 2016 Budget; transit demand backed by recently marketed new long-term capacities

2016 Results

- Consolidated EBITDA¹⁾ of CZK 7.8 billion posted in 2016; favorable EBITDA margin at 84% with solid operating cash flow maintained
- Operating profit of nearly CZK 5.8 billion outreached last year operating performance
- Transit revenues slightly above full-year target (*Budget*)
- Transport revenues grew by CZK 126 million year-on-year
- Operating costs declined largely due to savings in flexibility costs, lower volume of compression gas procured and active measures aimed at cost efficiency
- Net cash flows from operations (*after working capital changes, interest and taxes*) amounted to CZK 5.7 billion, i.e. at prior-year level

1) EBITDA = Operating profit (EBIT) plus depreciation and amortization

2) Flexibility costs had been fully recognized in revenue cap by the Energy Regulatory Office until new balancing mechanism has been introduced effective HY2, 2016.

3) Relates to Nord Stream 2 extension entailing among others construction of gas infrastructure aimed at increasing cross-border capacity between German, Czech and Slovak market areas

2017 Outlook

- Transit revenues to drop by c. CZK 1.0 billion as result of expiration of one of the long-term contracts - expected to be partly mitigated by short-term transit sales of which more than c. CZK 200 million have already been realized to date.
- Allowed revenues to decline on account of changes in network balancing (formerly secured through flexibility service) – however, fully compensated by cost savings as respective flexibility²⁾ costs are no longer incurred.
- Overall operating costs likely commensurate with 2016 level as efficiency program has already reduced cost baseline in 2016
- Company financing strategy envisages retention of BBB rating

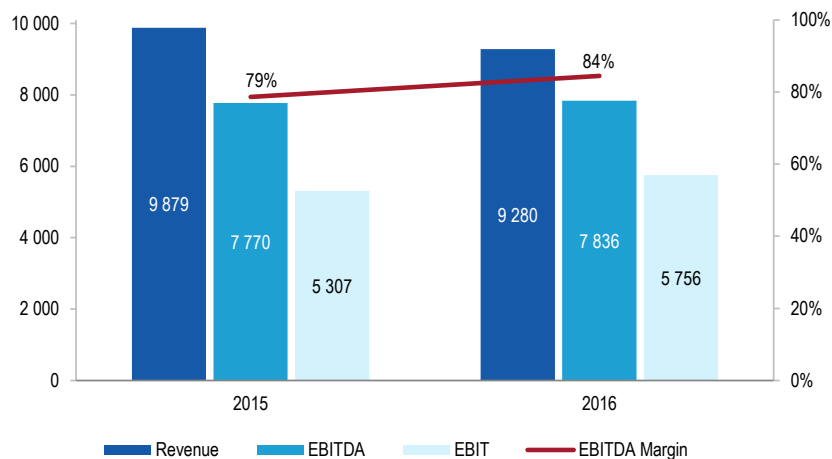
Capacity4Gas³⁾

- **Based on significant long-term gas market demand for additional capacity, new cross-border capacities were successfully marketed through PRISMA capacity auction held on March 6, 2017.**
- **N4G ready to invest in upcoming years into relevant gas infrastructure build-out in the CR**

EBITDA Margin & Cash Flow

Top end profitability and strong free cash flow generation maintained in 2016

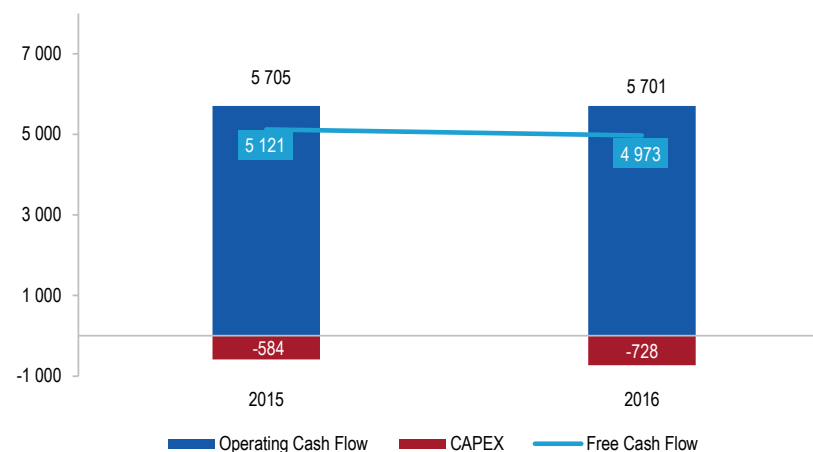
Historical EBITDA Margin and Revenues: 2015-2016 (CZKm)



Comments

- Total revenues¹⁾ posted in 2016 amounted to nearly CZK 9.3 billion, down c. CZK 0.6 billion year-on-year
- Revenue decrease mainly arose from one-offs in 2015 (namely due to one-year reverse flow transit contract in that year)
- Operating profit of c. CZK 5.8 billion outreached 2015 result by CZK 0.4 billion on account of reduced operating costs
- EBITDA²⁾ margin grew slightly to c. 84% in 2016

Historical Cash Flow Snapshot: 2015-2016 (CZKm)



Comments

- Funds generated by operating activities remained constant at CZK 5.7 billion in 2016
- High liquidity kept, with free cash flow³⁾ reaching nearly CZK 5.0 billion
- Capex grew from CZK 584 million in 2015 to CZK 728 million in 2016

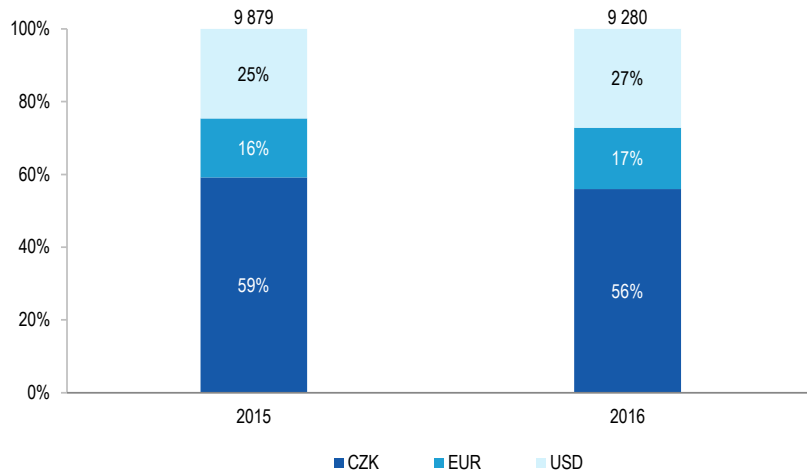
1) Source: Years ended 2015 and 2016 - Company's audited consolidated IFRS accounts
 2) EBITDA = Operating profit (EBIT) plus depreciation and amortization
 3) Free Cash Flow = Operating cash flow minus CAPEX
 CAPEX = Purchase of property, plant and equipment plus Purchase of intangible assets



Revenues & Operating Expenses

Revenue remained strong throughout 2016; performance further enhanced by significant cost reductions

Historical Revenue; Currency Split: 2015-2016 (CZKm)



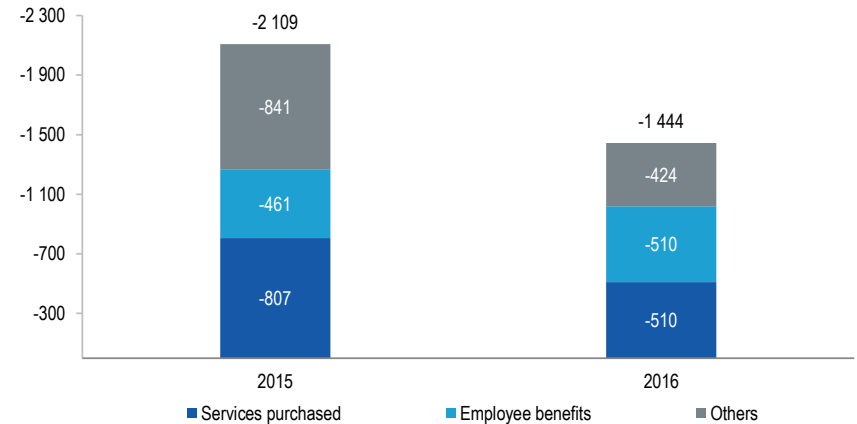
Comments

- NET4GAS benefits from a strong revenue foundation based on long-term transit contracts and regulated transport revenues
- Transit revenues represented c.77%, transport revenues c.22% and other revenues c.1% of total revenues in 2016
- Total revenues in 2016 were collected in 3 currencies – USD, EUR, CZK, the latter taking the largest share; the currency mix was fairly similar to the preceding year

Source: Years ended 2015 and 2016 - Company's audited consolidated IFRS accounts

1) Operating Expenses disclosed without depreciation and amortization

Historical Operating Expenses¹⁾: 2015-2016 (CZKm)



Comments

- Overall costs dropped by nearly CZK 0.7 billion, being positively influenced by one-off effects and active saving measures
- Year-on-year change in line item 'Others' occurred mainly due to decrease in costs of gas procured in relation to compression work resulting largely from favorable gas price
- Employee benefits increased largely on accounts of one-offs in relation to organizational changes
- Services purchased declined significantly mainly due to year-on-year change in costs of flexibility, reduced repairs & maintenance and savings in overhead functions



Historical Income Statement

2015 - 2016

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

<i>in CZKm</i>	2015A	2016A
Revenue	9 879	9 280
Raw material consumed	(790)	(450)
Services purchased	(807)	(510)
Employee benefits	(461)	(510)
Depreciation and amortization	(2 463)	(2 080)
Impairment	(2)	0
Losses on disposal of property, plant and equipment	4	3
Changes in fair value of derivatives, net	(1)	31
Foreign exchange differences, net	32	1
Other operating income	13	27
Other operating expenses	(97)	(36)
Operating profit	5 307	5 756
Finance income	17	8
Finance costs	(1 694)	(1 339)
Profit before income tax	3 630	4 425
Income tax expense	(868)	(3 008)
PROFIT FOR THE YEAR	2 762	1 417
Cash flow hedge	(1 023)	274
Income tax recorded directly in other comprehensive income – cash flow hedge	194	(52)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	(829)	222
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1 933	1 639

Source: Years ended 2015 and 2016 - Company's audited consolidated IFRS accounts
Small differences in the Statements may arise due to rounding

Comments

- Operating profit generated by core business reached c. CZK 5.8 billion, outperforming prior year by CZK 449 million
- Profit for the year slightly above CZK 1.4 billion – profit influenced by nonrecurring impact in deferred taxes (see *comment below*)
- Raw material consumed declined mainly due to lower volume of procured compression gas
- Services purchased decreased predominantly on accounts of year-on-year change in flexibility costs¹⁾
- Depreciation and amortization dropped by comparison to the preceding year on accounts of one-offs in 2015
- Finance costs dropped year-on-year as a result of interest saved in relation to shareholder loan redemption in July, 2016
- Income tax expense impacted by one-off noncash change in deferred taxes²⁾
- Hedge accounting has been maintained over hedged cash flows exposed to foreign currency risk, impacting comprehensive income under IFRS

- 1) Flexibility costs in 2016 amounted CZK 25m and covered HY1 only; from HY2 onwards new mechanism of gas balancing established based on Balancing network code
- 2) Related to non-taxable income in relation to depreciation of regulated assets – as outlined in the notes to 2015 & 2016 financial statements



Historical Balance Sheet

2015 – 2016

NET4GAS Group Consolidated Balance Sheets (IFRS)

<i>in CZKm</i>	Dec 31, 2015	Dec 31, 2016
ASSETS:		
NON-CURRENT ASSETS		
Property, plant and equipment	45 762	44 383
Intangible assets	110	89
Other non-current assets	1	9
Total non-current assets	45 873	44 481
CURRENT ASSETS		
Inventories	65	63
Trade and other receivables	119	303
Current income tax prepayments	94	11
Loans to related parties	1 886	652
Other non-financial assets	59	27
Cash and cash equivalents	1 750	415
Assets of disposal group held for sale	0	0
Total current assets	3 973	1 471
TOTAL ASSETS	49 846	45 952

Comments

- 'Borrowings' reduced by CZK 11.0bn as a result of repaid shareholder loan (SHL) in July 2016, significantly reducing company leverage. In relation to the SHL repayment, equity was increased by c. CZK 6.6bn (reflected under 'Other reserves').
- 'Deferred income tax liability' rose in connection with the one-time deferred tax effect amounting to c. CZK 2.1bn (see comments on Income statement)

NET4GAS Group Consolidated Balance Sheets (IFRS)

<i>in CZKm</i>	Dec 31, 2015	Dec 31, 2016
EQUITY AND LIABILITIES:		
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY		
Registered capital	2 750	2 750
Capital contributions outside registered capital	29	6 631
Cash flow hedges	(2 035)	(1 813)
Retained earnings	1 811	38
Total equity	2 555	7 606
NON-CURRENT LIABILITIES		
Trade and other payables	2	8
Borrowings	38 670	27 761
Derivative financial instruments	2 534	2 478
Deferred income tax liability	4 246	6 330
Provisions	177	167
Accrued employee benefits	68	100
Other non-financial liabilities	15	15
Total non-current liabilities	45 712	36 859
CURRENT LIABILITIES		
Borrowings	268	286
Trade and other payables	623	524
Derivative financial instruments	276	292
Current income tax payable	16	176
Other taxes payable	14	20
Provisions	40	0
Other non-financial liabilities	342	189
Total current liabilities	1 579	1 487
Total liabilities	47 291	38 346
EQUITY AND LIABILITIES:	49 846	45 952

Source: Years ended 2015 and 2016 - Company's audited consolidated IFRS accounts
Small differences in the Statements may arise due to rounding



Historical Cash Flow Statement

2015 – 2016

NET4GAS Group		
Consolidated Statements of Cash Flows (IFRS)		
in CZKm	Dec 31, 2015	Dec 31, 2016
Cash flows from operating activities		
Profit before tax	3 630	4 425
Adjustments	4 234	3 407
Operating cash flows before working capital changes	7 864	7 832
Decrease/(Increase) in trade and other receivables	96	(150)
Increase/(Decrease) in trade and other payables	100	(240)
Decrease/(Increase) in inventories	1	2
Operating cash flows after changes in working capital	8 061	7 444
Interest paid	(1 568)	(1 021)
Interest received	11	11
Income tax paid	(799)	(733)
Net cash flows operating activities	5 705	5 701
Cash flows from investing activities		
Purchase of property, plant and equipment	(540)	(695)
Purchase of intangible assets	(44)	(33)
Proceeds from sale of property, plant and equipment	31	4
Repayments of loans provided to related parties	3 328	4
Loans provided to related parties	(3 869)	(650)
Net cash flows used in investing activities	(1 094)	(1 370)
Cash flows from financing activities		
Payments of decreased registered capital to the Company's shareholder	0	0
Dividends paid to the Company's shareholder	(1 566)	(1 540)
Advance dividends paid to the Company's shareholder	(2 900)	(1 650)
Repayments of borrowings and finance lease liability	(1 397)	(3 588)
Proceeds from borrowings	1 397	1 112
Net cash flows used in financing activities	(4 466)	(5 666)
Net increase in cash and cash equivalents	145	(1 335)
Cash and cash equivalents at the beginning of the period	1 605	1 750
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1 750	415

Comments

- Cash and cash equivalents at the end of 2016 amounted to CZK 415 million
- Net cash flows from operating activities amounted to CZK 5.7 billion, reaching about the same level as 2015
 - Interest paid decreased as HY 2016 positively impacted by interest saved on repaid shareholder loan
- Net cash flows from investing activities reached CZK 1.37 billion, of which CAPEX¹⁾ amounted to CZK 728 million
- Net cash flows from financing activities influenced by aforementioned repayment of CZK 11.0 billion shareholder loan, of which:
 - i) CZK 2.5 billion was settled in cash, while remaining CZK 8.5 billion was cessed to NET4GAS Holdings and subsequently netted against ii) CZK 6.6 billion receivable from 'Capital contributions outside registered capital' and also netted against iii) CZK 1.9 billion loan provided to NET4GAS Holdings

Source: Years ended 2015 and 2016 - Company's audited consolidated IFRS accounts
 Small differences in the Statements may arise due to rounding

1) CAPEX = Purchase of property, plant and equipment plus Purchase of intangible assets



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