

2013

Annual Report



2013

Year of the GAZELLE



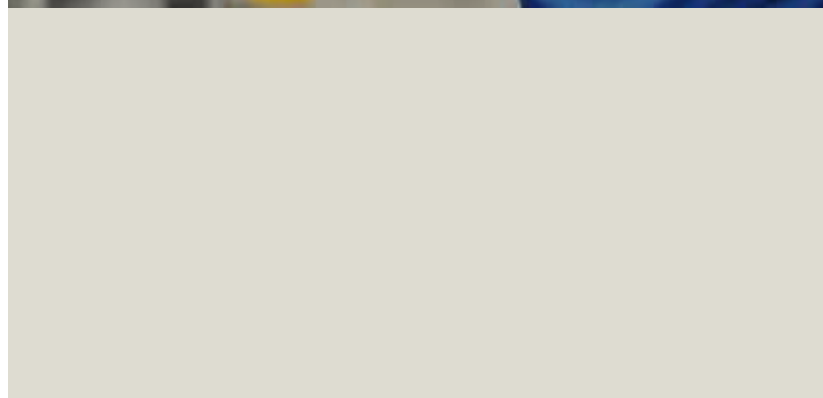
2010

Cornerstone
of the Brandov
Border Transfer
Station



2011

Operation launch
of the Brandov
Border Transfer
Station



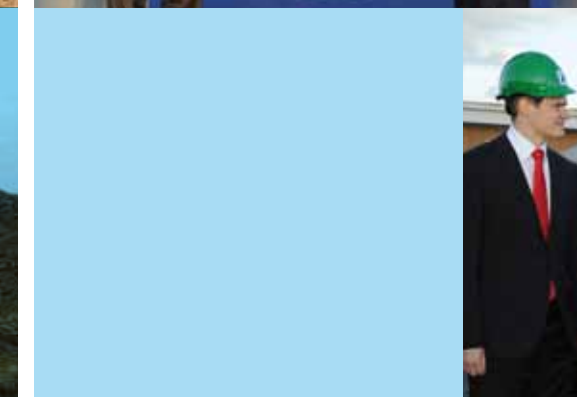
2012

2011–2012
Line section of the GAZELLE
pipeline construction



2013

Operation launch
of the GAZELLE pipeline



2013 was the first year of operation for the new GAZELLE pipeline. It operated smoothly, safely and reliably all year.

GAZELLE, which runs through the Ústí and Plzeň regions of the Czech Republic, connects to the Nord Stream and OPAL pipelines, forming a link in a new strategic transmission route supplying Western Europe with gas. By the launch of the pipeline operation, NET4GAS has also fulfilled one of the objectives set out in a Policy Statement of August 2010 by the Czech government:

"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 transmission 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."



GAZELLE in dates

- 2006** Start of preparatory work, preliminary studies
- 2007** Study covering alternative route
- 2007–2008** Environmental Impact Assessment (EIA)
- 2008–2010** Development planning procedure
- 2008–2011** Tendering procedures for the contractor and material suppliers
- 2008–2012** Dealing with land ownership issues
- 2010** Cornerstone of Brandov Border Transfer Station
- 2010** Connection to OPAL pipeline
- 2011–2012** Process of obtaining a construction certificate
- 2011** Launch of operation of the Brandov Border Transfer Station
- 2011–2012** Construction of the pipeline line sections
- 2013** Launch of pipeline operation

166 km

pipeline length



8.4 MPa

pressure



33.5 billion m³

annual transmission capacity

3.74 million m³

hourly transmission capacity

DN 1400

pipeline diameter



39 km

length of welds



120,000 t

weight



245,000 m³

volume of pipeline

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.

NET4GAS Connecting Markets

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9 Foreword by the CEO

Ladies and Gentlemen,

For NET4GAS, 2013 was a year of challenges, of changes, and also of achievements. In terms of strategy, these were mainly connected with completing the transformation of the company's ownership structure. At the operational level, the key theme was the successful launch of the GAZELLE pipeline, on time and on budget.

I would first like to thank all the company's personnel, who have given their very best to help NET4GAS grow and achieve solid financial results. Operational excellence in every area – internal efficiency, environmental protection, safety and reliability – is the cornerstone of our strategy and the basis for our daily work. And in 2013 we added another 365 days to last year's 1,000-day milestone without a single employee injury, which ranks us among the leading companies in terms of safety at work.

In January 2013, we proudly confirmed that our vision of Connecting Markets is far more than just a marketing claim. With the launch of the GAZELLE pipeline, we connected up the New Northern Route for gas, significantly reinforcing the energy security of the Czech Republic and its neighbouring markets. GAZELLE operated smoothly, safely and reliably all year.

We also successfully completed the Connection to the Tvrdonice Underground Gas Storage facility, the last of our projects co-financed by the EU under the European Energy Programme for Recovery. Their objectives were to increase reverse-flow capacities, to strengthen the security of supply, and to further the development of a market environment in gas trading.

Naturally, we are also focusing our development activities on the Czech domestic market, ensuring safe and reliable gas transmission services and sufficient capacities, while fulfilling our commitment to the environment. In this area, our Moravia project is one of our most important medium-term undertakings.

Over the last five years we have invested more than 10 billion Czech crowns into the development of the transmission system in the Czech Republic. Our new investors – Allianz Infrastructure Czech HoldCo II S.à r.l. and Borealis Novus Parent B.V. – are strong and forward-looking owners, and are behind us 100% in our next phase of growth.

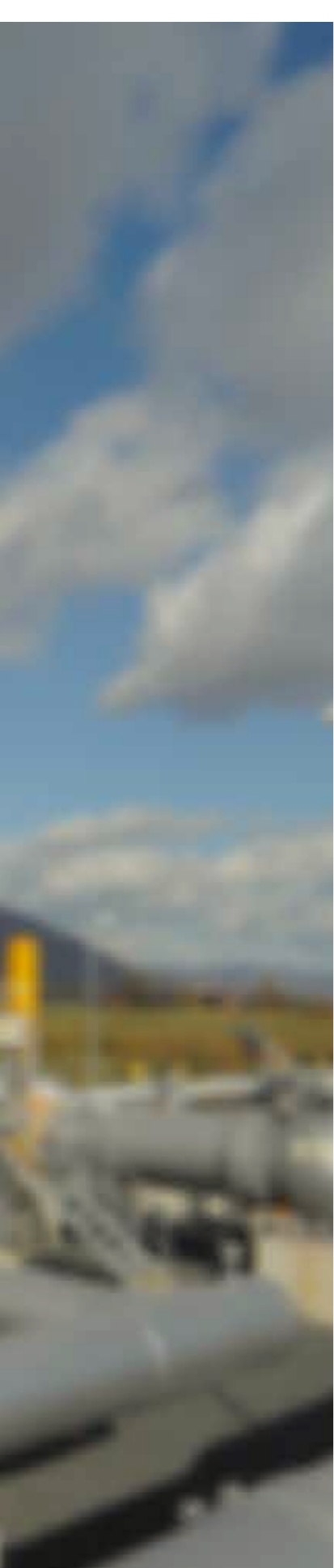
If we are to invest another 10 billion crowns over the medium-term horizon, however, we need to see a stable and well-functioning regulatory environment. Only then can we invest our own efforts into creating an equally stable and well-functioning gas market, to ensure the security of supply at reasonable prices along with sustainable development. In this respect, 2014 will be a crucial year and we will be closely following the preparations for the forthcoming regulatory period.

We will continue to support market integration in Central and Eastern Europe by promoting a market-oriented strategy, along with expanding cross-border collaboration aimed at greater security of gas supply for Europe. Several of our market interconnection projects were awarded the status of EU Project of Common Interest in 2013. Our vision of connecting markets continues to develop.

Not least of all, I would like to thank our owners, customers, suppliers and other partners for their active cooperation. Working together, we can all achieve positive results, based on a committed and responsible vision for the future.

Andreas Rau
Managing Director and CEO
NET4GAS, s.r.o.

Company Profile



Our services

International transit of natural gas across the Czech Republic

National 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 capacity to satisfy both domestic and foreign demand.
- Transmits 45 billion m³ of natural gas every year (of which around 1/5 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.

* As at 31 December 2013. Since 1 January 2014, NET4GAS has been operating four compressor stations (see the section “Decommissioning of Hostim Compressor Station”).

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

Our strategy

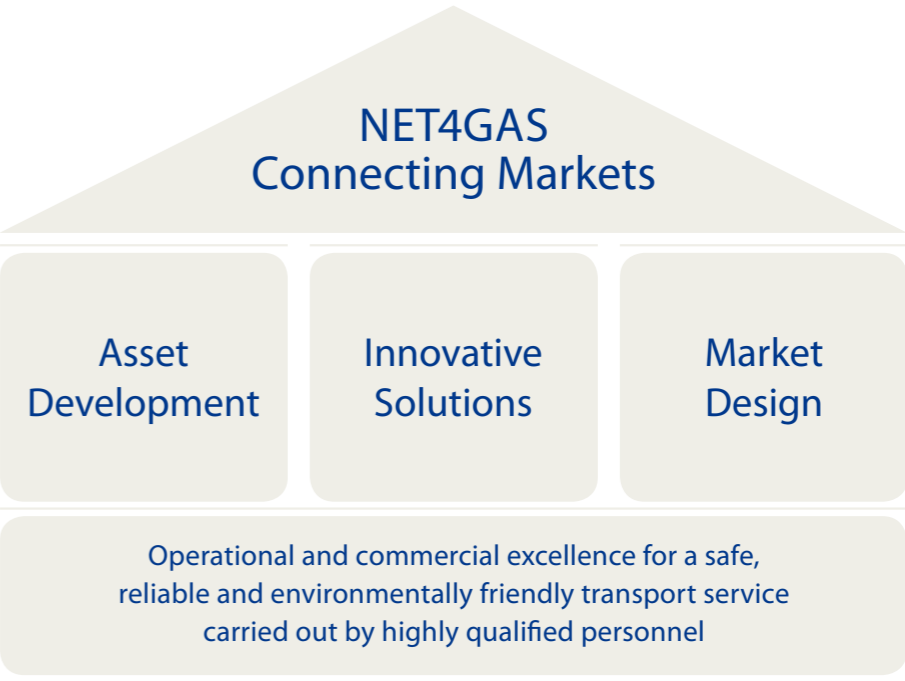
Our vision NET4GAS will become the leading transmission system operator in Central Europe, connecting European gas markets and offering state-of-the-art gas transmission services.

Our mission is to secure safe and reliable gas transmission 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 transmission system 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 efficient-

ly 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 transmission, 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.



Ownership and Organisational Structure



Owner

as of 31 December 2013

NET4GAS, s.r.o. (“NET4GAS”) is wholly owned by NET4GAS Holdings, s.r.o., which in turn is owned by a consortium formed by Allianz Infrastructure Czech HoldCo II S.à r.l. (50%) and Borealis Novus Parent B.V. (50%).

Supervisory Board

as of 31 December 2013

In alphabetical order:

Ralph Adrian Berg

Member of the Supervisory Board
Member since: 2 August 2013
Date of birth: 21 June 1972
Education: Universidad de Buenos Aires (Law)
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

Jaroslava Korpanec

Member of the Supervisory Board
Member since: 2 August 2013
Date of birth: 14 August 1974
Education: Cambridge University, MA (Law);
Member of the Bar of England and Wales;
Member of the New York Bar Association
Membership of bodies of other companies:
Board Member of Solveig Gas Norway;
Board Member of Silex Gas Norway. Both companies are members of the Gassled partnership.
Other business activities: none

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Sebastien Sherman

Member of the Supervisory Board
Member since: 2 August 2013
Date of birth: 19 November 1972
Education: Queen’s University (Economics)
Membership of bodies of other companies:
Board Member of Scotia Gas Networks Group of Companies; Board Member of Ciel Satellite Group of Companies
Other business activities: none

Melchior Stahl

Member of the Supervisory Board
Member since: 2 August 2013
Date of birth: 6 January 1960
Education: European Business School in Oestrich (Bachelor of Science); Harvard Business School (MBA)
Membership of bodies of other companies:
Board Member of Solveig Gas Norway; Board Member of Silex Gas Norway. Both companies are members of the Gassled partnership; Board Member of Chicago Parking Meters, LLC
Other business activities: Chief Investment Officer of Allianz Capital Partners GmbH

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 (Civil Engineering)
Membership of bodies of other companies: none
Other business activities: none

Changes on the Supervisory Board in 2013

With effect from 2 August 2013, the following persons resigned from the Supervisory Board: Chairman of the Supervisory Board Martin Friedrich Herrmann, Vice-Chairman of the Supervisory Board Dr. Martin Muhr, and members Andreas Böwing and Peter Terium. With effect from 2 August 2013, the following persons became members of the Supervisory Board: Ralph Adrian Berg, Jaroslava Korpanec, Sebastien Sherman and Melchior Stahl.

Company Management

as of 31 December 2013

Andreas Rau

Managing Director and CEO
Position held since: 1 December 2013
Date of birth: 18 December 1967
Education: Ruhr-University in Bochum (Mechanical Engineering); Rheinisch-Westfälische Technische Hochschule Aachen (European Studies)
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 (Mechanical Engineering); Nottingham Trent University (MBA)
Membership of bodies of other companies: Vice-Chairman of the Supervisory Board of BRAWA, a.s.; Member of the Board of the Czech Gas Association
Other business activities: none

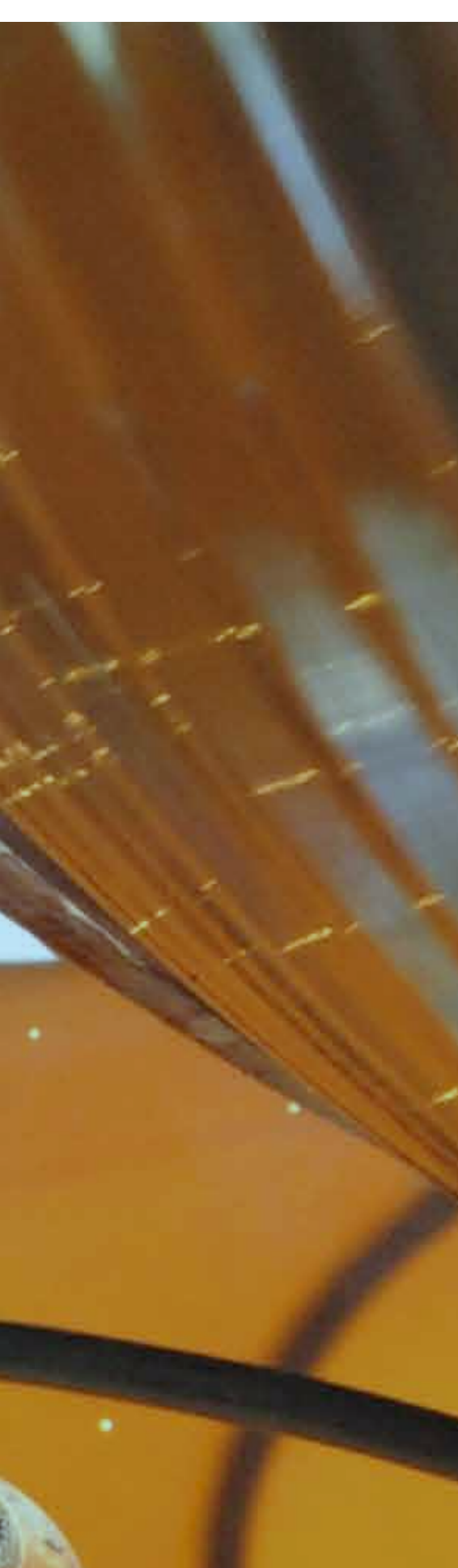
Changes in Company Management in 2013

Managing Director and CEO Thomas Kleefuß resigned from his position with effect from 31 October 2013. The Supervisory Board of NET4GAS appointed Andreas Rau to act as Managing Director and CEO with effect from 1 December 2013.

Organisational structure of the company

as of 31 December 2013





Report on Operations

Key Economic Indicators

Selected indicators

Indicator	2013
Operating result (CZK millions)	4,373
Financial result	- 577
Profit before taxation (CZK millions)	3,796
Profit after taxation (CZK millions)	3,067
Acquisition of fixed assets (CZK millions)	301
Number of employees (converted to FTE)	528

Revenues, costs, profit

In 2013, NET4GAS achieved a profit before taxation of CZK 3,796 million, profit after tax was CZK 3,067 million, and operating profit amounted to CZK 4,373 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 9,167 million and operating costs were CZK 4,793 million. Its financial result showed a loss of CZK 577 million at the end of the fiscal year.

Asset structure

The total net assets of NET4GAS in 2013 amounted to CZK 57,601 million, of which fixed assets accounted for CZK 50,078 million, representing 87 %. The main components of these assets were tangible fixed assets valued at CZK 41,906 million, financial fixed assets valued at CZK 7,915 million and intangible fixed assets valued at CZK 257 million. As at 31 December 2013, current and other assets amounted to CZK 7,522 million, representing 13 % of all assets. Roughly 85 % of current and other assets consisted of short-term receivables.

Investments

As of 1 January 2013, NET4GAS transferred ownership of its GAZELLE pipeline assets to BRAWA, a.s. under a Demerger by Spin-off Project, which was published in the Commercial Register’s Collection of Instruments.

The company’s total investments during 2013 amounted to CZK 301 million, of which investments into intangible assets accounted for CZK 68 million.

Investments into tangible assets were mainly targeted at completing the section of the GAZELLE pipeline running from the Brandov Border Transfer Station to the Přimda Junction Point and on to Waidhaus at the German border, for which the total costs amounted to CZK 34.6 million.

As part of the OPTIMUS programme, aimed at overall optimisation of compressor station operation, NET4GAS launched a construction project in 2013 entitled “Increasing the efficiency of the Kouřim Compressor Station turbines”, with a value of CZK 93 million. Other construction work included “Connection of the Dambořice Underground Gas Storage facility (UGS)”, with annual investment costs of CZK 57.5 million, and completion of the “Connection to Tvrdonice UGS” project, for which the annual investment costs were CZK 24 million. For the purposes of an EU grant from the European Energy Programme for Recovery (EEPR), a claim for payment was submitted for the “Connection to Tvrdonice UGS” project in the amount of CZK 61.9 million.

Liability structure

In 2013, the equity of NET4GAS amounted to CZK 39,752 million, representing roughly 69 % of its total liabilities and equity. Its liabilities and provisions amounted to a total of CZK 17,849 million, of which long-term liabilities (in particular a loan from its parent company NET4GAS Holdings, s.r.o.) accounted for around 88 %, short-term liabilities roughly 10 % and provisions approximately 2 %.

Research and development activities

NET4GAS did not make any major expenditures into research and development in 2013.

Organisational units

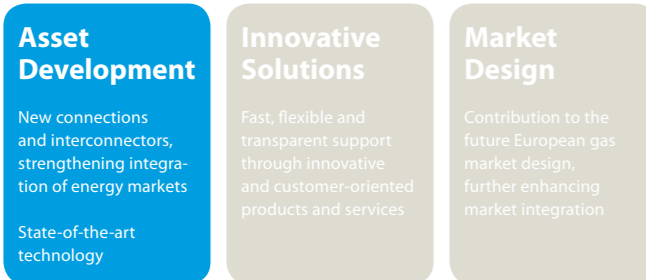
NET4GAS has no organisational units either in the Czech Republic or abroad.

Main Events

New owner

Following a decision by the RWE Group to sell its ownership interest in NET4GAS, this interest was transferred in 2013 to HYX Czech, s.r.o. (now NET4GAS Holdings, s.r.o.), whose members are Allianz Infrastructure Czech HoldCo II S.à.r.l. (50%) and Borealis Novus Parent B.V. (50%).

Asset development



Transmission system development projects

Thanks to our investment projects the Czech Republic is one of the countries playing a lead role in ensuring the energy security of the European Union.

GAZELLE pipeline construction project

The key benefit resulting from the new GAZELLE pipeline, which NET4GAS put into operation in January 2013, is the greater diversification of natural gas transmission capacity for Central and Western Europe.

GAZELLE, which runs through the Ústí and Plzeň regions of the Czech Republic, connects to the Nord Stream and OPAL pipelines, forming a link in a new strategic transmission route supplying Western Europe with gas.

GAZELLE's construction began in October 2010 with the building of the Brandov Border Transfer Station (BTS), which

was launched into operation exactly a year later (October 2011) at an opening ceremony attended by at that time Czech President Václav Klaus. At the same time, work began on constructing the line sections of this strategic high-pressure pipeline.

In January 2013, GAZELLE's operation was officially commenced in the presence of Czech Prime Minister Petr Nečas and senior officials from Germany, Russia, Belgium and Austria. By launching GAZELLE, NET4GAS has not only completed the "New Northern Route" carrying natural gas to Western Europe, but has also fulfilled one of the objectives set out in a Policy Statement of August 2010 by the Czech government, which expressed its support for construction of the GAZELLE pipeline.

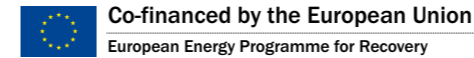
NET4GAS successfully completed the entire GAZELLE project on time and on budget. Throughout the construction process, NET4GAS communicated continuously with local authorities and mayors in the areas through which the pipeline is routed. Without their responsible cooperation and understanding, it would not have been possible to complete such a huge undertaking.

During a trip to the Ústí Region in October 2013, Czech President Miloš Zeman visited the Jirkov Closing Valve Station where GAZELLE connects to the existing national gas system. On this occasion he spoke of his great appreciation for NET4GAS as a responsible gas transmission system operator, and not only because of its development projects, such as upgrading the entire Czech transmission system to a "reverse flow" system, but also because of its investment into the GAZELLE project, which has significantly strengthened the energy security of the Czech Republic and other EU countries.

Since 1 January 2013, the sole owner of the line sections of the GAZELLE pipeline is the subsidiary company BRAWA, a.s. NET4GAS, which holds an exclusive gas Transmission System Operator licence in the Czech Republic, is the operator of the pipeline pursuant to transparent operating contracts.

2013 was the first year of operation for the new GAZELLE pipeline. GAZELLE operated smoothly, safely and reliably all year.

EEPR projects: Connection to Tvrdonice UGS



In mid-2013, NET4GAS launched the operation of a new section of pipeline running between the Břeclav Compressor Station (CS) and the Tvrdonice Underground Gas Storage facility (UGS). This is the last of three projects which were carried out with support from the EU under the European Energy Programme for Recovery (EEPR).

The objective of this project was to connect the Tvrdonice UGS, operated by RWE Gas Storage, s.r.o., to the NET4GAS transit system. Construction of the pipeline started in April 2012, and trial operation of the whole pipeline began in March 2013. In June 2013, NET4GAS obtained a final operation permit for the new pipeline and put it into full operation.

The construction work consisted of building a 2.7 km long section of pipeline with a diameter of DN 1000 and a design pressure of 7.35 MPa, widening the junction at the input/output site for the Břeclav CS, and reconstructing the junction for the closing valve facility at the Tvrdonice UGS site.

This new connection will not only enable an increase in transmission capacity, but will also allow gas to be withdrawn from the UGS back into the transit system, which is particularly desirable for increasing security of supply in case of interruptions via Ukraine. The storage capacities of the Tvrdonice UGS will therefore be physically accessible, if needed, to other Central and Eastern European countries, along with the use of compressors at the Břeclav CS.

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

Moravia pipeline



The Moravia pipeline is one of the key medium-term projects of NET4GAS. Its construction will increase the security of gas supply for the Moravian regions, increase exit capacity into the domestic zone, and enable the connection of higher injection and withdrawal capacities of underground gas storage facilities located in central and northern Moravia. The pipeline contributes to the development of the gas market and to increased flexibility in the operation of gas infrastructure in the Czech Republic, and will also be a major contribution to ensuring supplies of more environmentally friendly source of energy for industry in the South Moravian, Moravian-Silesian, Olomouc and Zlín 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 Ministry of the Environment in regard to an EIA. During 2013 preparatory works were carried out on the Land Permit Design. NET4GAS was awarded EU co-financing for this work in November 2012 under the Trans-European Energy Networks programme (TEN-E) in the amount of 46 % of the eligible costs. Construction is scheduled for 2018.

Projects of Common Interest (PCI)

EU Regulation 347/2013 – whose primary aim is to facilitate and speed-up the implementation of strategically important projects in the field of energy – introduces amongst others the status of "Project of Common Interest" (PCI). This status can be granted to projects which contribute significantly to the completion of the internal energy market, the security of supply, and the implementation of strategic priority corridors with cross-border impact. The list of PCIs is to be updated every two years. The NET4GAS projects which were included on the PCI list in 2013 (STORK II, BACI and Oberkappel) are an integral part of the creation of a North-South corridor.

STORK II project

The main objective of the STORK II project is to construct a second bidirectional Czech-Polish pipeline to allow the safe and reliable transmission of gas between the two countries. The new pipeline will be part of both the Czech and the Polish gas transmission systems, and will enable an increase in their cross-border transmission capacity. The construction of this transmission corridor will ensure flexible natural gas transmission within Central and Eastern Europe. The project has been awarded PCI status under EU Regulation 347/2013.

The total length of this new high-pressure gas pipeline (DN 1000, PN 73.5) on the Czech side will be approximately 52 km. The project's Polish partner is GAZ-SYSTEM, S.A.



Bidirectional Austrian-Czech Interconnection (BACI) project

During 2013, the preparatory works were carried out for the BACI project – a Bidirectional Austrian-Czech Interconnection. NET4GAS updated the Land Permit Design, and prepared a study covering BACI's future options. NET4GAS has also been awarded a grant under the EU's Trans-European Energy Networks programme (TEN-E) covering 50 % of the total eligible costs for the preparatory works. The project has been awarded PCI status under EU Regulation 347/2013.

The project's partner is the Austrian TSO Gas Connect Austria GmbH. The assumed length of this new high-pressure gas pipeline (DN 800, PN 85) in the Czech Republic is about 12 km.

Connection to Oberkappel project

In late 2013, NET4GAS started preparations for an EIA and geological and hydrological surveys for another potential project, which would establish a direct connection between the Czech and Austrian transit systems. The project has been awarded PCI status under EU Regulation 347/2013.

Increasing UGS connection capacity – Uhřetice II and Dambořice

The Uhřetice II and Dambořice project undertaken in 2013 involved technical operations on the NET4GAS transmission system aimed at ensuring sufficient capacity to meet the company's obligations under a connection agreement for the newly built Brumovice II Transfer Station, and continuous supplies for north Moravian underground gas storage facilities.

These technical measures secured bidirectional gas transmission in the Uherčice area between the Dolní Dunajovice Underground Storage facility and the transmission system, along with reconstruction of the telemetry system. Adjustments were also made to the station yard piping at the Hrušky site to allow bidirectional gas transmission.

Transmission system maintenance

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

OPTIMUS: compressor station upgrade programme

In 2013, NET4GAS drew up and approved a detailed technical specification of the tasks involved in its compressor station (CS) upgrade programme "OPTIMUS", which will cover the Kouřim and Břeclav stations. The task of the selected project designer will be to prepare an overall plan for optimising these CSs, the initial project documentation, including a hazard and operability study (HAZOP), and an energy audit for both CSs. Once a final investment decision has been made, the project designer will also draw up the documentation for the selection of a general contractor.

Alongside this, a pilot project was also carried out in 2013 to verify the parameters of an ultra-low-emission combustion chamber for 6-MW turbine compressors, as well as a project to raise the efficiency of the turbine compressors at the Kouřim CS.

Although the GAZELLE pipeline handles the bulk of gas transit in the direction of Waidhaus without the need for any additional compression, in order to cover the transmission demand along the west-east axis, and to meet demands for the connection of underground gas storage facilities and for gas transmission to northern Moravia and Poland, i.e. along the north-south axis, it will be necessary to have a certain number of optimised compressor units available. The number and locations of these units are based on the long-term asset development plan of NET4GAS. The units and their associated technology will undergo a major upgrade, focusing on compliance with the emission limits for CO₂ and NO_x laid down in EU legislation, raising the efficiency of the existing turbines to a level close to newly supplied units, and also remote management, fully automated operation, and a high standard of operational safety.

The final investment decision on the implementation of the programme is scheduled to be made after an evaluation of the preparatory phase at the end of 2014, and will also take into account the updated NET4GAS long-term asset development plan. The programme is planned for 2016–2018, with trial operation in 2019.

Decommissioning of Hostim Compressor Station

The NET4GAS long-term asset development plan has confirmed that the Hostim Compressor Station (CS) is no longer necessary for the performance of transmission or transit contracts since the GAZELLE pipeline was put into operation. In June 2013, NET4GAS therefore decided to shut down the Hostim CS as of 31 December 2013. In October 2013, a project to disconnect the CS and construct an independent closing

valve was approved, along with the sale of the CS site, including any unusable technology. NET4GAS will retain ownership of the station yard piping.

The main tasks involved in this project and the construction work are the physical disconnection of the Hostim CS from the transmission system and the reconstruction of its input and output site into a new TU12J Hostim Closing Valve, including equipment for its operation. In preparation for the sale of the site, selected technological components were removed from the Hostim CS which will be employed at other compressor stations as part of the OPTIMUS programme.

NET4GAS will definitively vacate and sell the Hostim CS site in 2014.

Workforce Management

In May 2013, NET4GAS approved the launch of a new project entitled "Workforce Management", which involves the installation of an IT system to optimise human resource planning and the scheduling of activities at transmission system installations. The assignment of human resources to various tasks and activities cannot be efficiently managed without swift access to high-quality work activity data relating to specific personnel. This project therefore aims to improve the assignment of daily activities to individual working crews, and in particular to optimise activity scheduling.

The tender documentation to be used in selecting a system supplier will be finalised in 2014.

Scheduled pipeline inspections

Initial inspection of the GAZELLE pipeline

The scheduled work of NET4GAS in 2013 included an initial in-line inspection of the GAZELLE DN 1400 pipeline to determine its actual condition following construction.

This inspection was carried out in October 2013 at two line sections – Brandov-Malměřice and Malměřice-Přimda – covering a total length of ca 160 km of pipeline. The preliminary results from both sections confirm that the new high-pressure gas pipeline has been constructed in accordance with the applicable technical requirements, and shows no sign of any critical factory or construction defects. The final results of the inspection will be available in 2014.

In-line inspection of DN 300 lines

In 2013, scheduled in-line inspection was carried out at the Hospozín-Čížkovice line section, one of a set of three DN 300 lines. The preliminary results show no critical defects requiring immediate repair. The overall condition of the pipeline will become clear when the final report is submitted in 2014.

Inspections of the remaining two DN 300 line sections – Olešná-Barchov and Hájek-Měcholupy – are expected to be performed in 2014.

Scheduled DN 700 line repairs

The DN 700 pipeline along the route Hrušky-Kyselovice-Libhošť-Děhylov is the only line used to supply gas to northern Moravia and Poland, and is also the sole gas source for filling the underground gas storage facilities (UGSs) at Tranovice, Štramberk and Lobodice. Originally built in 1979 as a high-pressure gas distribution pipeline, in 1993 it was transferred to NET4GAS, which operates it as a national pipeline. The results of in-line inspections performed in 2004 and subsequent material testing indicated that repairs to the pipe material were necessary over a total amount of 7 kilometres of the pipeline.

In 2013, new piping was installed in three stages for 302.6 m of the pipeline on the Hrušky-Rataje section. As of 31 December 2013, a total of 225 pieces of pipe with an overall length of 2,698.57 m have therefore been replaced on the DN 700 Hrušky-Děhylov line since the beginning of the project. These pipeline repairs will continue in 2014 according to the set schedule.

Cleanability of DN 500 lines

The objective of the construction project “Cleanability of DN 500 lines: Hospozín-Jeníšovice and Spomyšl-Dobříň” was to carry out modifications necessary to ensure the internal cleanability and inspectability of the entire length of both pipelines, as required by Act No. 458/2000 Coll., on the conditions for doing business and the performance of public administration in the energy sectors and amending certain Acts (the Energy Act).

The construction work was carried out in two stages during the first and fourth quarters of 2013, and comprised technical preparations, modification of the pipelines, and construction of launcher and receiver chambers for a smart pig, which will clean and inspect the lines. In November 2013, operational cleaning was successfully performed for the whole length of the pipeline from Hospozín to Dobříň. In total, the modifications enabled inspections to be performed on 30 km of the DN 500 pipeline.

Innovative Solutions



We are focusing our strategy on the efficient and demand-oriented management of our transmission system.

Capacity sales

In 2013, the NET4GAS Capacity Sales Department handled contracting and contract service, including quantity allocation and invoicing, for a total of 2,281 contracts with a value of CZK 8.8 billion.

Great attention was given to increasing the additional capacity offered following the launch of the GAZELLE pipeline, including the preparation of relevant technical solutions. A significant increase was successfully achieved in the amount of firm capacity offered both at the Olbernhau, Brandov and Waidhaus entry points and at the Lanžhot exit point. Additional firm capacity was also offered on a daily and monthly basis at the Český Těšín exit point. At the end of 2013, the first use was made of the capacity redirection service at the Brandov border point. A system was developed for the dynamic redirection of unused capacity to locations with a capacity shortage.

A further area of activity in the field of capacity sales was work connected with the implementation of the so-called Third Energy Package of the EU. This primarily involved the incorporation of congestion management procedures (CMPs) into the Network Code, and compliance with extended obligations to publish data on the so-called Transparency Platform. In 2013, preparations were also undertaken for the implementation of capacity allocation and balancing rules, which will be a crucial change in European gas market rules during 2015 and 2016.

In collaboration with neighbouring transmission system, distribution system and storage system operators, amendments were also made to connection agreements in order to reflect the new requirements of EU legislation.

Specialised maintenance technology

NET4GAS owns and operates unique specialised technology for the maintenance of gas installations and infrastructure, and also has qualified professionals with the requisite know-how. This equipment allows operators to minimise, or practically reduce to zero, the volume of gas which would otherwise have to be released into the air during scheduled pipeline repairs. Thanks to its sophisticated use of T. D. Williamson drilling, tapping and plugging machines and a mobile compressor station, NET4GAS is one of the leading European gas transmission system operators in the field of environmental protection as regards minimising the quantity of gas released when repairing pipelines.

Through the use of its mobile compressor station in 2013, NET4GAS prevented the discharge of more than 6 million Nm³ of natural gas from its transmission system into the atmosphere.

NET4GAS also offers the use of its unique technology to external customers – principally gas system operators – and in 2013 it expanded its mobile compressor station client portfolio to include new customers from the Czech Republic, Slovakia, Germany and Poland.

Market Design

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 shaping our future by taking a pro-active role in European structures, thus allowing us to play a part in the development of the future European gas model.

In 2013, the subject of market integration, and in particular the future gas market architecture, became the focus of greater interest from the Visegrad Group (V4), an alliance of four Central European states whose members are the Czech Republic, Slovakia, Hungary and Poland. V4’s interest extends beyond the scope of the Gas Regional Initiative for the South-South East region (GRI SSE) of the Agency for the Cooperation of Energy Regulators (ACER) and its pilot project CEETR (Central and Eastern Europe Trading Region), which covers the Czech Republic, Slovakia and Austria.

The members of the Visegrad Group agreed to establish a common V4 gas market, and in 2013 a respective V4 Roadmap was developed for this purpose. This Roadmap envisages coordinated teamwork among the National Regulatory Authorities (NRAs) and transmission system operators (TSOs) involved in a “V4 Gas Forum”, aimed at the joint implementation of the so-called Third Energy Package of the EU and the

validation of measures for further market integration, such as market coupling. The V4 Gas Forum – whose members include NET4GAS – began its work in late 2013, developing in appropriate directions on the basic ideas of the CEETR pilot project, in particular the cross-border expansion of national wholesale gas markets in order to improve their functioning. For the CEETR project, the priority issues of 2013 were the question of its potential extension to include neighbouring countries, and assessing whether CEETR project principles could also be applied in other European trading regions.

Another important activity undertaken by NET4GAS in the area of gas market design was its successful preparation of an Investment Request for a Project of Common Interest (PCI) entitled “Polish-Czech Interconnector II”, involving collaboration with the Polish TSO GAZ-SYSTEM, S.A., (see the section “STORK II”), and the submission of this Request to the Czech and Polish NRAs as required by EU Regulation 347/2013.

NET4GAS also continued to take an active role in the development of further ACER Framework Guidelines and Network Codes of the European Network of Transmission System Operators for Gas (ENTSOG).

In the interest of improving connectivity between neighbouring gas markets, in 2013 NET4GAS incorporated Congestion Management Procedures into its Network Code in accordance with EC Regulation 715/2009.

NET4GAS similarly continued to carry out the implementing measures contained in the Roadmap for the Early Implementation of the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (the “CAM Roadmap”) drawn up by ACER and ENTSOG, in particular those relating to the establishment of capacity platforms for bundled cross-border capacities.

NET4GAS is confident that it will soon be able to offer bundled cross-border capacity products at its border points. It already took the first steps towards this in 2013 by assessing two possible alternatives.

Human Resources

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

Number of employees

The actual number of employees working at NET4GAS as of 31 December 2013 was 516. This was 42 fewer than in 2012, which was due to a cut in the number of employees engaged in compressor station operation, the outsourcing of some IT activities by transferring rights and obligations to an external company, as well as the early implementation of some rationalisation measures planned for 2014.

As of 31 December 2013, 21 % of employees working at NET4GAS were women, out of which 10 % in managerial positions. In top management, women accounted for 15 %. The higher proportion of male employees is a consequence of the company’s line of business.

Social policy

The standard of the employees’ working and social conditions has been defined under a Collective Agreement which remains valid from 2012 to the end of 2014, therefore no collective bargaining took place in 2013. NET4GAS has adhered to the conditions set out under this Collective Agreement.

NET4GAS has been developing above-standard programmes in the area of its social policy. For example, it is helping young families with the process of returning to work, in particular by staying in contact with mothers during their parental leave, allowing them to actively participate in company projects even during this period, and not least of all by offering them a home office option during difficult times. In 2013 every NET4GAS employee also had an opportunity to obtain support for a pre-school facility relevant to them in the form of a donation.

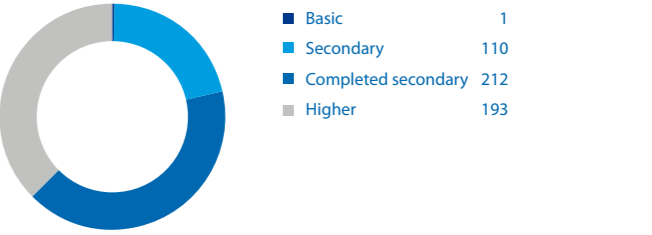
NET4GAS also provided support for the employment of handicapped persons. Every job was given an assessment to determine its suitability or unsuitability for handicapped persons, and then advertised as such.

Professional training and career development

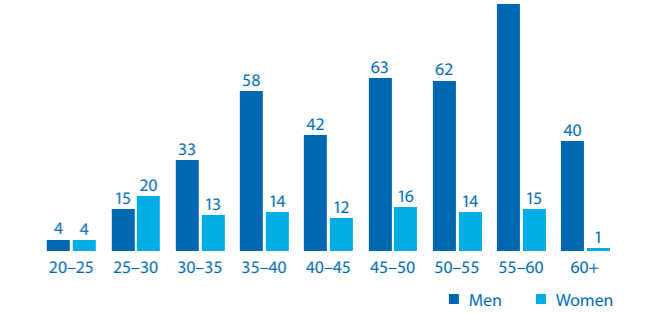
In 2013, investment into the professional training of the staff accounted for 2.54% of the company’s personnel costs, with an average expenditure per employee of CZK 19,523. On average, each employee spent 9.5 days at training events. The education structure of NET4GAS employees has remained stable.

In the context of its work with students, aimed at retaining know-how or passing on the experience of senior staff who are going into retirement, NET4GAS continued in 2013 with the development of its two basic programmes – “Internship” for students, and “Trainee” for graduates (for more about how NET4GAS works with students see the section “Corporate Philanthropy”).

Employee education structure as of 31 December 2013



Employee education structure as of 31 December 2013



Environmental Protection

We strictly follow an environmental policy committed to future generations.

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 a long-term "Environmental Policy". In 2013, an update was made of the relevant environmental indicators, as well as the procedures employed to permanently minimise the potential environmental impacts of NET4GAS activities.

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 chemical products and mixtures, or nature conservation and protection of the countryside. In line with applicable legislation, designated operations have accident and emergency plans prepared in advance in case of any environmental incidents, as well as to prevent any serious accidents caused by the selected dangerous substances specified by law.

No environmental incidents occurred in 2013. All five compressor stations were operated in accordance with their valid and in 2013 updated 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 2013 the Czech Environmental Inspectorate carried out an integrated inspection on compliance with the mandatory conditions for operation stipulated in the valid integrated permit for the Veselí nad Lužnicí Compressor Station. An inspection covering compliance with the mandatory conditions of an IPPC permit for the Kouřim Compressor Station was also carried out by the Central Bohemian Regional Authority, and the Regional Public Health Authority in Jihlava performed a check on the operation of the Kralice Compressor Station to assess its compliance with applicable legislation. No infringements of the operator's obligations were found during these checks by government authorities.

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 reprimand the company in 2013.

Activities going beyond legislation

NET4GAS has a sense of responsibility for environmental protection during its operations that goes beyond what is required by law. Examples are its operation of its own mobile compressor station, as well as other special services that it performs (see the section "Specialised maintenance technology"). The company also continued in 2013 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

In 2013 we added another 365 days without a single employee injury.

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 leading companies. 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.

The outcome of these long-term efforts to create a safe working environment and to ensure safe conduct is a further year without a single employee injury. NET4GAS already achieved a milestone 1,000 days without an injury in 2012, and in 2013 its employees added another 365 days to that total.

Post Balance Sheet Events

No events occurred after the balance sheet date which would have a significant impact on the financial statements of NET4GAS as of 31 December 2013.



Internal Control Principles



NET4GAS has internal control principles in place as a preventive measure, and as a means to achieve better results. These are implemented through advisory bodies to the company's management, whose role is to perform internal control and risk management, as well as independent institutions overseeing the areas of ethics or fraud prevention.

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. In 2013 audits were carried out on core processes in the following seven areas: Setting and Evaluation of Employee Goals; Make-or-Buy Decisions in Maintenance; Capacity Sales; Dispatching; Cost Management in IT; Treasury and Cash Flow; and Environmental Protection.

Risk Management Committee

NET4GAS manages its risks with due care and diligence. For this purpose, the Risk Management Committee, an advisory body for the NET4GAS Management, met and continued to perform its tasks in 2013.

The tasks of the Risk Management Committee include approving internal guidelines and regulations in the field of management of financial and operational risks, approving limits for specific risks, including the permitted limits for any hedging transactions, and discussing and approving risk management strategies. Its tasks also include performing regular evaluations of the risk situation at NET4GAS, and, if there is a danger of a risk event occurring, approving coordinated action based on a proposal from the Risk Manager and the person responsible for managing the relevant risk.

All the risks affecting NET4GAS are identified on a continually updated basis, evaluated in terms of the likelihood of their occurrence and the extent of the potential damage, then monitored and subjected to ongoing reporting. Due to its foreign currency revenues and expenditures, currency risks continued to be among the company's most significant risks

in 2013. The potential impact of these risks was reduced by hedging them with financial derivatives.

In 2013, the Risk Management Committee was once again able to conclude that the overall risks identified do not present a threat to the company's financial stability.

Code of Conduct

In 2013, the Compliance Officer for the Code of Conduct continued to monitor adherence to the Code, which is one of the key management documents of NET4GAS. The annual report on compliance with the Code of Conduct contained no findings regarding violations of the Code.

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 member.

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 it 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 complaints 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. The Ombudsman may also be contacted by parties outside the company.

In 2013 the position of Ombudsman was performed for NET4GAS by an outside law firm. No complaints were received by the Ombudsman in 2013 in relation to fraudulent activities or to activities which are in conflict with the company's internal regulations or the law.



Corporate Philanthropy

An integral aspect of the good reputation of a modern company is its responsible conduct towards local communities, the environment, its owners, 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 in 2013 it continued to actively extend its commitments to corporate philanthropy and sponsorship in the following areas:

- **NET4GAS Closer to Nature: nature and environment protection**
- **NET4GAS Closer to Knowledge: education, training and research**
- **NET4GAS Closer to Regions: community development**
- **Companius: a programme supporting employees' volunteer activities**

NET4GAS Closer to Nature

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 which has been implemented under the programme NET4GAS Closer to Nature since 2007. 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.

NET4GAS: General partner of the CUNC

The General Partnership of the Czech Union for Nature Conservation (CUNC) has pursued a clear and unchanging vision since the collaboration first began in 2007 – to present attractive natural sites to the public, and to use both education and fun as means to raise awareness about the reasons for their protection.

In 2013, NET4GAS and the CUNC opened up a further six sites of natural value to the public, bringing the total over their 7-year partnership to 61. The estimated number of visitors to locations included under the NET4GAS Closer to Nature programme is now in the region of an impressive 75,000 each year.

The CUNC is also conscious of technological advances, and the ever-increasing demands and expectations of visitors. That is why in 2013 nature trails at these sites were supple-

mented to include various games and interactive features for kids and adults in addition to their standard equipment. And for the first time the information boards alongside one trail were equipped with interactive QR codes for smart phones, which linked to more detailed webpages created specially for that purpose. Five "geocache" treasure chests were also set up for visitors to hunt for as part of the popular international Geocaching game.

CUNC sites opened to the public thanks to the NET4GAS Closer to Nature programme in 2013

Lačnov crocuses

Opening date: 19 April 2013

Location: Lačnov, district of Vsetín, Zlín region

The highly endangered crocus albiflorus is found only at a few locations in the Czech Republic. In this project, information boards were installed to mark the four largest colonies of this flower in the municipality of Lačnov, as a means to inform the public about its special value, its history, and the rules for behaviour which need to be observed in localities where it occurs.

Umíř

Opening date: 17 August 2013

Location: Trhomné, district of Plzeň-North, Plzeň region

Umíř is an abandoned village on a plain surrounded by extensive forest in the Manětínská hornatina natural park, and is a highly valuable piece of countryside. This project builds on previous work carried out under the Closer to Nature programme by one of the CUNC's sub-organisations "BERKUT", which was aimed at presenting natural parks covered by the organisation's activities, and building bivouac shelters for hikers. The newly created nature trail was fitted out with six information boards, a covered seating area with bunk space, covers for wells and a timber windlass for raising water.

Pňov riparian forest

Opening date: 31 August 2013

Location: Pňov – Předhradí, district of Kolín, Central Bohemian region

Pňov riparian forest is part of the largest and best preserved floodplain forest complex in the Czech Republic. This 8.5-kilometre nature trail, which includes ten stopping points, interactive features for kids and adults and new benches, leads visitors through forests and undergrowth which in places have a primeval character, with a wide range of woodland flowers to be seen, and deep pools which are the vestiges of the old Elbe riverbed prior to its regulation in the 19th century, and which form a refuge for many species of fauna. Part of the trail is also designed for use by cyclists, who can use it to connect to the Elbe bike path.

Saint John of Nepomuk's currents

Opening date: 15 October 2013

Location: Štěchovice, district of Prague-West, Central Bohemian region

This popular tourist destination for hikers has a rich history and beautiful scenery. The original nature trail was in a very poor condition, and was completely reconstructed thanks to the Closer to Nature programme. It is 8.5 km long, with 15 stops along the way, and its main attractions are the surrounding countryside, flora and fauna in the river, on the cliff-sides and in the game enclosure, rafting, the Czech tradition of backpacking in the wild, the villages of Štěchovice and Třebenice, and the monumental dam. For kids the trail has four interactive features, two new rest spots were built, and educational panels added with QR codes.

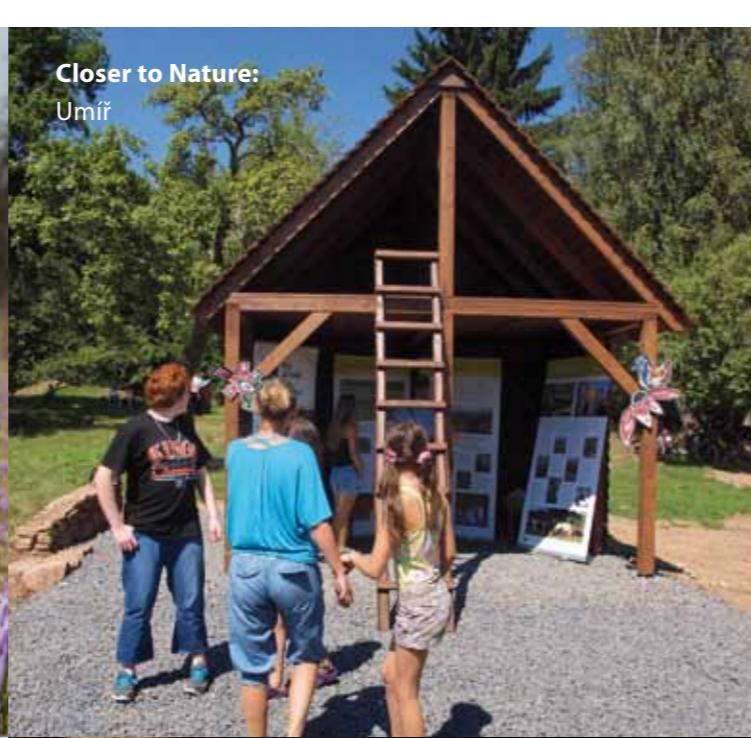
Třemešské ponds

Opening date: 22 October 2013

Location: Dolní Studénky, district of Šumperk, Olomouc region
A lookout for bird watching with an information panel has been built beside one of the three Třemešské ponds, which are the vestiges of 17th-century fish farming in northern Moravia. This system of ponds is a significant ecosystem in the Šumperk area, and it is therefore no coincidence that the "Dawn Chorus Day" event and the "Autumn Bird Festival" are held here on a regular basis.



Closer to Nature:
Lačnov crocuses



Closer to Nature:
Umíř



Closer to Nature:
Pňov riparian forest



Closer to Nature:
Saint John of
Nepomuk's currents



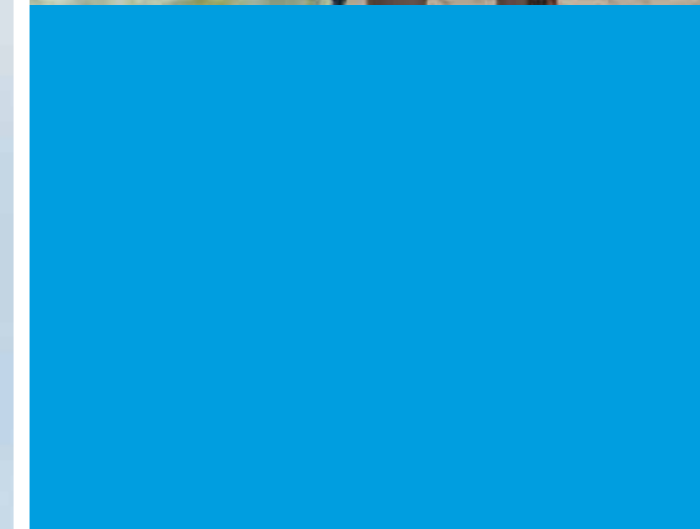
Closer to Nature:
Saint John of Nepomuk's currents



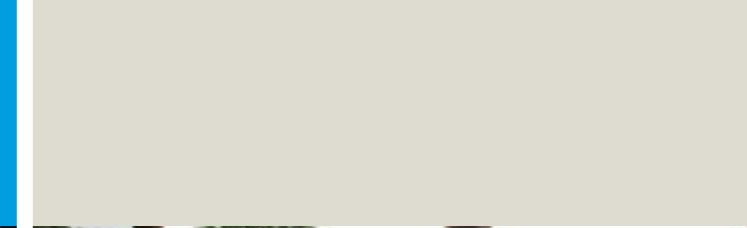
Closer to Nature:
Třemešské ponds



Closer to Nature:
Young Environmentalists
competition



Closer to Knowledge:
merit scholarships to students



Closer to Regions:
winning project "Špuntov"



Employees supported
animal rescue centres

Sulphur-rich springs path

Opening date: 23 October 2013

Location: Zádveřice-Raková, district of Zlín, Zlín region

Sulphur-rich springs are a typical and unique natural phenomenon of eastern Moravia. Several almost unknown springs bubble up in the Zádveřice-Raková area, and this project aims to make them accessible to visitors via a “spring path”, which connects five of these mineral water springs that rise along the Horský stream.

Come on a trip with us at
www.closertonature.cz!

Support for the Young Environmentalists association

It is growing increasingly difficult in this day and age to encourage children and young people to develop a close relationship with nature. In 2013, NET4GAS therefore decided to extend its Closer to Nature programme to include support for precisely this target group, by becoming a partner of the “Golden Leaf” and “Ecological Olympiad” science and nature competitions organised by the “Young Environmentalists” association of the CUNC.

Golden Leaf is a nationwide science and ecology competition for primary and secondary school students. Its main aim is to bring together kids who have a profound interest in the natural world at an event where they can test out and compare their knowledge through competition. The competition emphasises more than just theoretical “school” knowledge – it also involves hands-on work in the natural environment and for its benefit. The Ecological Olympiad is a nationwide secondary school competition which focuses on comparing knowledge and skills in the areas of ecology, nature conservation and care for the environment. It particularly prioritises the practical application of knowledge and skills in solving real problems in the field, as well as the cultivation of teamwork.

NET4GAS: General partner of DAPHNE Czech Republic

In July 2013, an official ceremony attended by the Governor of the Ústí Region, Oldřich Bubeníček, was held to mark the completion of the project “Revitalization of Peat Bogs in the Ore Mountains”, which the civic association “DAPHNE Czech Republic – Institute for Applied Ecology” had been implementing since 2009 under the NET4GAS Closer to Nature programme. 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 highly endangered black grouse and the carnivorous sundew plant. A 14-kilometre nature trail has been created as part of the project, and the effects of these measures will continue to be monitored.

In 2013, NET4GAS continued to collaborate on a joint project with DAPHNE 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 special areas of conservation in the framework of Natura 2000. Pilot projects were begun in 2012 at the locations Blšanský Chlum Hill (in the Louny district) and Načeratice Hill (district of Znojmo). Full support for these projects was expressed by all those involved, including the Ústí and South Moravian regions.

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, primary and secondary schools, universities and higher education institutions, as well as other initiatives. NET4GAS is thereby 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 2013, NET4GAS continued to develop its General Partnership with the Institute of Gas, Coke Chemistry and Air Protection of the Faculty of Environmental Technology at the Institute of Chemical Technology in Prague (“ICT”), as well as its partnership with the Institute of Materials Engineering of the Faculty of Mechanical Engineering at the Czech Technical University in Prague (“CTU”).

In August 2013, representatives of NET4GAS presented extraordinary merit scholarships to thirteen CTU students whose bachelor’s, master’s or doctoral theses made an exceptional contribution to professional and specialist knowledge, or who designed or improved experimental methodologies. In October they then awarded additional motivational merit scholarships to five exceptional students on the master’s degree programme at the ICT.

NET4GAS also continued its work with students by proposing topics for bachelor’s, master’s and doctoral theses, organising specialist lectures and trips for students, consulting with students on their theses, and offering its Internship and Trainee programmes (see the “Human Resources” section).

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, amongst other projects, the main partner of the VIA Foundation in its programme “The Place Where We Live” and in 2013, decided to extend this role to General Partnership.

In January 2013, an evaluation committee chose the best project of the 2011/2012 programme period. The winning project, entitled “Špuntov”, was implemented in the village of Francova Lhota in the Zlín region, right on the border with Slovakia, and involved turning a vacant lot into a place for relaxation, along with a novel children’s playground.

In April 2013, the ninth annual “The Place Where We Live” programme was announced for the period 2013/2014. In September, the VIA Foundation’s expert evaluation committee – on which NET4GAS is represented – selected five projects whose goal is to create or restore public spaces over the course of the next year with the help of local inhabitants. Each of the selected organisations received a grant along with access to free training in the area of community planning. More information can be found at <http://viafoundation.org>.

Projects supported with VIA Foundation in 2013

Strmilov municipality

Location: Strmilov, district of Jindřichův Hradec,
South Bohemian region
Project: "Strmilov – A Nice Place to Live"

My Activity, o. p. s.

Location: Prague
Project: "Krejčárek Community Garden"

O. s. Nebovidská tvrz

Location: Nebovidy, district of Kolín, Central Bohemian region
Project: "Let's Restore Nebovidy's Village Green"

O. s. Naše Chyšcko

Location: Chyšky, district of Písek, South Bohemian region
Project: "Remodelling of public space in the village of Chyšky"

NATVRDLÍ, o. s.

Location: Velvary, district of Kladno, Central Bohemian region
Project: "The "Malovarák" pond & leisure site in Velvary"

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. NET4GAS supported a total of 21 employees, non-profit organisations respectively, under this programme in 2013.

In 2013, NET4GAS employees also handed over donation certificates to the CUNC's "Animals in Need" appeal and social integration programmes organised by the public-benefit non-profit corporation "People in Need" (Člověk v tísni, o. p. s.), for which they had the chance to vote within the employee satisfaction survey. The donation certificates were handed over in December at the AVES animal rescue centre in Brandýsek u Kladna, which employees visited together with kids from People in Need's social integration programmes. The key criterion for the selection of projects was whether they fit into the overall social engagement strategy of NET4GAS under its Closer to Nature and Closer to Knowledge programmes.

Persons Responsible for the Annual Report

Persons responsible for the NET4GAS, s.r.o. Annual Report 2013

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 4 March 2014



Andreas Rau
Managing Director



Ing. Radek Benčík, MBA
Managing Director

Financial Statements



Financial Statements

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Balance Sheet (in thousand Czech crowns)

		31/12/2013		31/12/2012	
		Gross	Provision	Net	Net
TOTAL ASSETS		75,886,920	(18,285,860)	57,601,060	58,267,967
B.	Fixed assets	68,330,055	(18,251,876)	50,078,179	51,798,045
B. I.	Intangible fixed assets	581,030	(324,101)	256,929	294,168
	1. Research & development	72,846	(58,977)	13,869	22,113
	2. Software	371,035	(259,394)	111,641	142,909
	3. Royalties	6,569	(5,450)	1,119	3,233
	4. Other intangible fixed assets	110,982	(280)	110,702	111,015
	5. Intangible fixed assets in the course of construction	19,598	–	19,598	14,898
B. II.	Tangible fixed assets	59,833,605	(17,927,775)	41,905,830	51,501,877
B. II. 1.	Land	198,645	–	198,645	199,721
	2. Constructions	53,851,522	(13,959,064)	39,892,458	42,525,551
	3. Equipment	5,699,821	(3,968,711)	1,731,110	2,130,365
	4. Other tangible fixed assets	554	–	554	554
	5. Tangible fixed assets in the course of construction	82,548	–	82,548	6,625,185
	6. Advances paid for tangible fixed assets	515	–	515	20,501
B. III.	Long-term investments	7,915,420	–	7,915,420	2,000
B. III. 1.	Investments in subsidiaries	7,915,420	–	7,915,420	2,000
C.	Current assets	7,445,438	(33,984)	7,411,454	6,365,685
C. I.	Inventories	82,746	(33,190)	49,556	39,241
C. I. 1.	Raw materials	82,746	(33,190)	49,556	39,241
C. III.	Short-term receivables	6,370,433	(794)	6,369,639	5,965,646
C. III. 1.	Trade receivables	340,345	(794)	339,551	259,565
	2. Receivables – subsidiaries / controlling parties	5,401,302	–	5,401,302	5,102,037
	3. Taxes – receivables from the state	191,939	–	191,939	–
	4. Short-term advances paid	9,153	–	9,153	11,489
	5. Estimated receivables	423,893	–	423,893	566,824
	6. Other receivables	3,801	–	3,801	25,731
C. IV.	Financial assets	992,259	–	992,259	360,798
C. IV. 1.	Cash in hand	239	–	239	291
	2. Cash at bank	992,020	–	992,020	360,507
D. I.	Prepayments and accrued income	111,427	–	111,427	104,237
D. I. 1.	Prepaid expenses	102,229	–	102,229	103,844
	2. Accrued income	9,198	–	9,198	393

		31/12/2013	31/12/2012
TOTAL LIABILITIES AND EQUITY		57,601,060	58,267,967
A.	Equity	39,752,096	40,372,536
A. I.	Share capital	31,792,965	31,792,965
A. I. 1.	Share capital	31,792,965	31,792,965
A. II.	Capital contributions	467,900	28,732
	1. Other capital contributions	28,732	28,732
	2. Assets and liabilities revaluation	439,168	–
A. III.	Reserve fund and other reserves	2,114,152	1,775,378
A. III. 1.	Legal reserve fund	2,114,152	1,775,378
A. IV.	Retained earnings / Accumulated losses	2,310,205	–
A. IV. 1.	Retained earnings	2,310,205	–
A. V.	Profit / (loss) for the current period	3,066,874	6,775,461
B.	Liabilities	17,842,556	17,883,077
B. I.	Provisions	282,898	295,641
	1. Income tax provision	–	10,745
	2. Other provisions	282,898	284,896
B. II.	Long-term liabilities	15,815,874	16,118,092
B. II. 1.	Trade payables	4,561	5,523
	2. Liabilities – subsidiaries / controlling parties	11,000,000	11,000,000
	3. Deferred tax liability	4,811,313	5,112,569
B. III.	Short-term liabilities	1,743,784	1,469,344
B. III. 1.	Trade payables	430,096	412,321
	2. Liabilities – subsidiaries / controlling parties	484,035	–
	3. Liabilities to employees	28,384	51,423
	4. Liabilities for social security and health insurance	12,540	15,981
	5. Taxes and state subsidies payable	116,059	202,489
	6. Short-term advances received	384,930	463,530
	7. Estimated payables	164,047	230,748
	8. Other payables	123,693	92,852
C. I.	Accruals and deferred income	6,408	12,354
C. I. 1.	Accrued expenses	6,408	7,584
	2. Deferred income	–	4,770

Income Statement (in thousand Czech crowns)

		Accounting period	
		2013	2012
II.	Sales of production	9,130,612	10,224,084
II.	1. Sales of own products and services	9,050,610	10,074,343
	2. Own work capitalised	80,002	149,741
B.	Cost of sales	1,485,359	907,851
B.	1. Raw materials and consumables used	184,699	105,755
	2. Services	1,300,660	802,096
+	Added value	7,645,253	9,316,233
C.	Staff costs	589,381	554,144
C.	1. Wages and salaries	435,493	409,514
	2. Emoluments of board members	100	120
	3. Social security and health insurance costs	134,142	123,064
	4. Other social costs	19,646	21,446
D.	Taxes and charges	10,600	16,023
E.	Depreciation and amortisation expense	2,588,418	2,564,394
III.	Sales of fixed assets and raw materials	1,188	15,448
III.	1. Sales of fixed assets	590	15,278
	2. Sales of raw materials	598	170
F.	Net book value of fixed assets and raw materials sold	7,653	28,083
F.	1. Net book value of fixed assets sold	7,041	27,960
	2. Net book value of raw materials sold	612	123
G.	Changes in operating provisions and complex prepaid expenses	70,616	125,870
IV.	Other operating income	34,755	41,290
H.	Other operating expenses	41,295	102,075
*	Operating result	4,373,233	5,982,382
VIII.	Income from short-term investments	316	–
IX.	Gain on revaluation of securities and derivatives	18,260	251,053
L.	Loss on revaluation of securities and derivatives	272,569	205,211
X.	Interest income	17,051	54,950
N.	Interest expense	470,964	471,972
XI.	Other financial income	244,899	234,394
O.	Other financial expenses	113,829	190,271
*	Financial result	(576,836)	(327,057)

		Accounting period	
		2013	2012
Q.	Tax on profit or loss on ordinary activities	729,523	(1,120,136)
Q.	1. – current	962,342	1,319,145
	2. – deferred	(232,819)	(2,439,281)
**	Profit or loss on ordinary activities after taxation	3,066,874	6,775,461
***	Net profit / (loss) for the financial period	3,066,874	6,775,461
****	Net profit / (loss) before taxation	3,796,397	5,655,325

Statement of changes in shareholder's equity

Year ended 31 December 2013

	Share capital	Legal reserve fund	Funds from the revaluation of assets	Other capital funds	Retained earnings	Total
	(CZK'000)	(CZK'000)	(CZK'000)	(CZK'000)	(CZK'000)	(CZK'000)
As at 1 January 2012	31,792,965	1,525,323	–	28,732	5,001,085	38,348,105
Contribution to reserve fund	–	250,055	–	–	(250,055)	–
Dividends paid	–	–	–	–	(4,751,030)	(4,751,030)
Net profit for 2012	–	–	–	–	6,775,461	6,775,461
As at 1 January 2013	31,792,965	1,775,378	–	28,732	6,775,461	40,372,536
Contribution to reserve fund	–	338,774	–	–	(338,774)	–
Dividends paid	–	–	–	–	(4,126,482)	(4,126,482)
Revaluation of share in the subsidiary	–	–	439,168	–	–	439,168
Net profit for 2013	–	–	–	–	3,066,874	3,066,874
As at 31 December 2013	31,792,965	2,114,152	439,168	28,732	5,377,079	39,752,096

Cash flow statement

Year ended 31 December 2013

	2013	2012
	(CZK'000)	(CZK'000)
Cash flows from operating activities		
Net profit on ordinary activities before tax	3,796,397	5,655,325
A.1 Adjustments for non-cash movements:		
A.1.1 Depreciation/amortisation of fixed assets	2,588,418	2,564,394
A.1.2 Changes in provisions	70,616	125,863
A.1.3 Loss from disposal of fixed assets	6,451	12,862
A.1.4 Net interest expense/(income)	453,913	417,022
A.1.5 Other non-cash movements	5,978	–
A.1.6 Change in fair value of financial derivatives	77,504	(214,850)
A* Net cash flow from operating activities before tax, and changes in working capital	6,999,277	8,560,436
A.2 Working capital changes:		
A.2.1 Changes in receivables and prepayments and accrued income	(354,475)	2,343,313
A.2.2 Changes in short-term payables, accrued expenses and deferred income	(122,863)	(51,662)
A.2.3 Changes in inventories	(43,505)	(414)
A** Net cash flow from operating activities before tax	6,478,434	10,851,673
A.3 Interest paid	(470,964)	(471,972)
A.4 Interest received	8,335	56,189
A.5 Income tax on ordinary activities paid	(1,140,902)	(1,142,933)
A*** Net cash flow from operating activities	4,874,903	9,292,957
Cash flows from investing activities		
B.1 Acquisition of fixed assets	(301,358)	(3,842,255)
B.2 Proceeds from the sale of fixed assets	590	15,278
B.3 Cash deposits to related parties (over 3 months)	(5,401,302)	–
B*** Net cash flow from investing activities	(5,702,070)	(3,826,977)
Cash flows from financing activities		
C.1 Changes in long- and short-term liabilities	(962)	(49,849)
C.2 Changes in equity:		
C.2.1 Profit distribution paid	(4,126,482)	(4,751,030)
C*** Net cash flow from financing activities	(4,127,444)	(4,800,879)
Net increase/(decrease) in cash and cash equivalents	(4,954,611)	665,101
Cash and cash equivalents as at the beginning of the year	5,462,835	4,797,734
Cash and cash equivalents as at the end of the year	508,224	5,462,835

Notes to Financial Statements

for the year ended 31 December 2013

1. General information

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 transmission in accordance with the Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees. Identification number of the Company is 272 60 364.

In January 2013 based on the Project on a spin-off with subsequent merger, 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 Gazelle was transferred to the company BRAWA, a.s. On 15 January 2013 the gas pipeline Gazelle was put into operation.

Based on agreement of share transfer change of the sole shareholder took place on 2 August 2013. Company NET4GAS Holdings, s.r.o. became sole shareholder of the Company.

The Statutory Directors:

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

The members of the Supervisory Board were as follows:

As at 31 December 2013	Function
Radek Hromek	Member
Jan Zaplatílek	Member
Sebastien Sherman	Member
Ralph Adrian Berg	Member
Melchior Stahl	Member
Jaroslava Korpancová	Member

As at 31 December 2012	Function
Martin Friedrich Herrmann	Chairman
Dr. Martin Muhr	Vice-Chairman
Peter Terium	Member
Andreas Böwing	Member
Jan Zaplatílek	Member
Radek Hromek	Member

On 2 August 2013 following Supervisory Board memberships terminated – Mr Herrmann, Mr Muhr, Mr Terium and Mr Böwing. In the same date the following person became new members of the Supervisory Board – Mr Sherman, Mr Berg, Mr Stahl and Mrs Korpancová.

The Company had five proxies as at 31 December 2013 and 2012.

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. Also two proxies together can act on behalf of the Company. 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. Spin-off with subsequent merger

As at 11 October 2012 the companies NET4GAS, s.r.o. and BRAWA, a.s. prepared the spin-off project with subsequent merger with a transfer of a part of the net assets of NET4GAS, s.r.o. into BRAWA, a.s. (“Project”).

The spin-off according to the Project means a spin-off of a specified portion of net assets of the company NET4GAS, s.r.o. (spun-off company), when the spun-off portion of net assets was transferred into the existing company BRAWA, a.s.

By spin-off, the spun-off company was nor dissolved or passed out of existence. The sole shareholder of the spun-off company was RWE Gas International N.V., incorporated in the Netherlands, and the sole shareholder of the successor company was NET4GAS, s.r.o.

According to the spin-off project, a portion of net assets is spun-off, i.e. assets and liabilities of NET4GAS, s.r.o. merged into the company BRAWA, a.s. The spun-off portion of net assets of the company NET4GAS, s.r.o. was merged into the successor company BRAWA, a.s. presented in Other capital funds.

In the part of property of the spun-off company, which was merged into the company BRAWA, a.s., there was a proprietary right of the spun-off company to gas pipeline Gazelle and relating assets and liabilities.

(Net in CZK’000)	Spun-off of property portion (accounting values)
Fixed assets	
Research & development	60
Land	1,683
Constructions	1,269,624
Tangible assets in the course of construction	6,130,870
Advances paid for tangible fixed assets	19,946
Current assets	
Trade receivables	266
Liabilities	
Deferred tax liability	68,437
Trade payables	189,604
Estimated payables	90,156
Total	7,074,252

The effective date of the spin-off was 1 January 2013. The transformation was registered in the Commercial Register on 25 January 2013.

3. Accounting policies

3.1. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention except as disclosed below.

3.2. 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
Research and development	6 years
Software	3 years
Royalties	1.5 – 6 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 allowances are presented by the Company as other intangible fixed assets.

Emission allowances allocated to the Company by the National Allocation Plan are recorded to the account Other intangible fixed assets and to the account Taxes and state subsidies payable upon being credited to the Company in the Register of Emission Allowances in the Czech Republic. Liability from the emission rights is released to Other operating income when respective expenses are incurred.

The consumption of emission allowances is recorded to other operating expenses on the basis of an estimate of actual CO₂ emissions produced in the period. The first-in-first-out method is applied for all disposals of emission allowances. Sales of emission allowances are recorded as other operating revenue and are stated at the selling price.

A provision for diminution in value of purchased emission allowances (if those are owned by the Company as at the balance sheet date) is created when the carrying value of emission allowances is greater than its estimated recoverable amount.

3.3. 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	30–70 years
Plant, 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.

3.4. Subsidies

A subsidy is recognised when money is received or an irrevocable right to receive a subsidy exist.

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

A subsidy received either for the acquisition of fixed assets (including technical improvement) can either decrease the cost of fixed assets or own work capitalised.

3.5. Investments in subsidiaries

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

Investments in subsidiaries are accounted for by the equity method of accounting. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor’s share of the equity of the subsidiary or the associate as at the balance sheet date. Revaluation of investment by using the equity method of accounting is recorded through the Company’s equity.

3.6. 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. Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals.

A provision for inventory is created on the basis of an individual evaluation of inventories.

3.7. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts 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.

3.8. Cash and cash equivalents

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 then it is not presented in the Cash flow statement as a part of the item Cash and Cash equivalents.

The Company has prepared a cash flow statement using the indirect method.

3.9. 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.

3.10. 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.

3.11. Revenue recognition

The Company recognizes as revenue mainly income from fees collected for the gas transportation within and across the Czech Republic.

Sales are recognised upon the delivery of products and are stated net of discounts and value added tax.

3.12. 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.

3.13. Provisions

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

The Company recognises a provision for its future income tax payable which is presented net of advances paid for the income tax. If advances paid are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

3.14. Interest expense

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

3.15. 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.

3.16. 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.

3.17. Related parties

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

- Parties, which directly or indirectly control the Company, their subsidiaries and associates;
- Parties, which have directly or indirectly significant influence on the Company;
- Members of the Company's or parent company's statutory and supervisory boards 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 14 and 15.

3.18. 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.

4. Intangible fixed assets

(CZK'000)	31 December 2012	Spin-off effect	1 January 2013	Additions/ transfers	Disposals	31 December 2013
Cost						
Research & development	83,447	(75)	83,372	399	(10,925)	72,846
Software	330,928	–	330,928	52,648	(12,541)	371,035
Royalties	6,419	–	6,419	150	–	6,569
Other intangible fixed assets	–	–	–	8,442	–	8,442
Intangible fixed assets in the course of construction	14,898	–	14,898	4,700	–	19,598
Emission rights	111,015	–	111,015	1 492	(9,967)	102,540
Total	546,707	(75)	546,632	67,831	(33,433)	581,030
Accumulated amortisation						
Research & development	(61,334)	15	(61,319)	(8,583)	10,925	(58,977)
Software	(188,019)	–	(188,019)	(83,916)	12,541	(259,394)
Royalties	(3,186)	–	(3,186)	(2,264)	–	(5,450)
Other intangible fixed assets	–	–	–	(280)	–	(280)
Total	(252,539)	15	(252,524)	(95,043)	23,466	(324,101)
Net book value	294,168	(60)	294,108			256,929

(CZK'000)	1 January 2012	Additions	Transfers	Disposals	31 December 2012
Cost					
Research & development	75,978	–	7,469	–	83,447
Software	271,832	–	59,508	(412)	330,928
Royalties	3,022	–	3,397	–	6,419
Intangible fixed assets in the course of construction	21,820	63,299	(70,221)	–	14,898
Emission rights	97,632	36,157	–	(22,774)	111,015
Advances paid for intangible fixed assets	–	153	(153)	–	–
Total	470,284	99,609	–	(23,186)	546,707
Accumulated amortisation					
Research & development	(52,529)	(8,805)	–	–	(61,334)
Software	(117,663)	(70,769)	–	413	(188,019)
Royalties	(1,211)	(1,975)	–	–	(3,186)
Total	(171,403)	(81,549)	–	413	(252,539)
Net book value	298,881				294,168

During 2012 and 2013 the Company did neither purchase nor sell any emission rights.

5. Tangible fixed assets

(CZK'000)	31 December 2012	Spin-off effect	1 January 2013	Additions/ transfers	Disposals	31 December 2013
Cost						
Land	199,721	(1,683)	198,038	1,225	(618)	198,645
Buildings, halls and other constructions	54,719,714	(1,341,885)	53,377,829	482,278	(8,585)	53,851,522
Equipment	5,558,277	–	5,558,277	294,266	(152,722)	5,699,821
Other tangible fixed assets	554	–	554	–	–	554
Tangible fixed assets in the course of construction	6,625,185	(6,130,870)	494,315	(411,767)	–	82,548
Advances paid for tangible fixed assets	20,500	(19,946)	554	(39)	–	515
Total	67,123,951	(7,494,384)	59,629,567	365,963	(161,925)	59,833,605
Accumulated depreciation and impairment						
Buildings, halls and other constructions	(12,120,862)	(72,261)	(12,048,601)	(1,806,548)	8,585	(13,846,564)
Equipment	(3,427,912)	–	(3,427,912)	(693,521)	152,722	(3,968,711)
Provision for constructions	(73,300)	–	(73,300)	(44,200)	5,000	(112,500)
Total	(15,622,074)	(72,261)	(15,549,813)	(2,544,269)	166,307	(17,927,775)
Net book value	51,501,877	(7,422,123)	44,079,754			41,905,830

(CZK'000)	1 January 2012	Additions	Transfers	Disposals	31 December 2012
Cost					
Land	181,263	–	24,825	(6,367)	199,721
Buildings, halls and other constructions	53,004,223	5,335	1,792,686	(82,531)	54,719,713
Equipment	5,204,397	–	358,506	(4,626)	5,558,277
Other tangible fixed assets	554	–	–	–	554
Tangible fixed assets in the course of construction	4,945,888	3,491,555	(1,812,258)	–	6,625,185
Advances paid for tangible fixed assets	329,601	54,659	(363,759)	–	20,501
Total	63,665,926	3,551,549	–	(93,524)	67,123,951
Accumulated depreciation and provision					
Buildings, halls and other constructions	(10,346,554)	(1,833,112)	–	58,804	(12,120,862)
Equipment	(2,779,525)	(653,031)	–	4,644	(3,427,912)
Provision for constructions	(9,300)	(73,300)	–	9,300	(73,300)
Total	(13,135,379)	(2,559,443)	–	72,748	(15,622,074)
Net book value	50,530,547				51,501,877

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

Information about the guarantees related to bank loans provided to the parent company NET4GAS Holdings, s.r.o. are described in Note 17.

6. Investments in subsidiaries

31. December 2013	Number of shares	Nominal value	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2013 net profit (CZK'000)	Net assets (CZK'000)	2013 dividend income (CZK'000)
Czech entities								
BRAWA, a.s.	402,000	CZK 1,000	7,476,252	7,915,420	100	439,395	7,915,420	–
Total				7,915,420				–
Provision for diminution in value		–						
Net book value				7,915,420				

31. December 2012	Number of shares	Nominal value	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2012 net loss (CZK'000)	Net assets (CZK'000)	2012 dividend income (CZK'000)
Czech entities								
BRAWA, a.s.	2,000	CZK 1,000	2,000	2,000	100	(190)	1,773	–
Total				2,000				–
Provision for diminution in value		–						
Net book value				2,000				

BRAWA, a.s., with its registered office at Na Hřebenech II 1718/8, Prague – Nusle was incorporated based on the notary deed effective as at 27 October 2010. The company was registered in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 16622 based on the order of the Municipal Court in Prague, which came into force on 10 November 2010. The sole shareholder of the company is NET4GAS, s.r.o.

Based on spin-off with subsequent merger, 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 “VTL plynovod DN 1400 – HPS Brandov – Rozvadov” (“Gazelle”) was transferred to the company BRAWA, a.s. Spun-off value as at 1 January 2013 was CZK 7,076,252 thousand.

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

From 25 January 2013 share capital of BRAWA, a.s. was increased by CZK 400,000 thousand and registered in the Commercial Register.

7. Receivables

(CZK'000)	31 December 2012	Spin-off effect	1 January 2013	31 December 2013
Trade receivables – current	256,593	(266)	256,327	337,841
– overdue	3,525	–	3,525	2,504
Total trade receivables	260,118	(266)	259,852	340,345
Estimated receivables	566,824	–	566,824	423,893
Other receivables – current	5,139,257	–	5,139,257	5,606,194
Total other receivables	5,139,257	–	5,139,257	5,606,194
Provision for doubtful receivables	(553)	–	(553)	(794)
Net book value of short-term receivables	5,965,646	(266)	5,965,380	6,369,638
Total net book value of receivables	5,965,646	(266)	5,965,380	6,369,638

None of them are due after more than 5 years. Information about the guarantees related to bank loans provided to the parent company NET4GAS Holdings, s.r.o. are described in Note 17.

Other receivables as at 31 December 2013 include mainly Cash-pooling receivables from NET4GAS Holdings, s.r.o. in the amount of CZK 5,401,302 thousand (as at 31 December 2012: CZK 5,102,037 thousand from RWE Transgas, a.s. (since 1 January 2013 company has changed its name to RWE Supply & Trading CZ, a.s)). Tax receivables as at 31 December 2013 amounting to CZK 191,939 thousand (as at 31 December 2012: CZK nil). Receivables from financial derivatives in the amount of CZK 2,480 thousand (as at 31 December 2012: CZK 17,900 thousand).

8. Equity

Till 2 August 2013 the Company was fully owned by RWE Gas International N. V. incorporated in Netherland and the ultimate parent company of the group was RWE Aktiengesellschaft incorporated in Germany.

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

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.

The sole shareholder approved the financial statements for 2012 and decided about the allocation of profit earned in 2012 of CZK 6,775,461 thousand on 5 April 2013. Dividends were paid in the amount of CZK 4,126,482 thousand.

9. Provisions

(CZK'000)	Other provisions	Income tax provision net of advances	Total
Opening balance as at 1 January 2012	223,286	–	223,286
Charge for the year	125,873	10,745	136,618
Released in the year	(34,323)	–	(4,323)
Used in the year	(29,940)	–	(29,940)
Closing balance as at 31 December 2012	284,896	10,745	295,641
Charge for the year	68,591	–	68,591
Released in the year	(659)	(5,978)	(11,404)
Used in the year	(69,930)	(4,767)	69,930
Closing balance as at 31 December 2013	282,898	–	282,898

For an analysis of the current and deferred income tax, see Note 12 – Income tax.

Other provisions represent mainly provisions for restructuring, provision for employment benefits and provisions for severance payments and share option programme.

Advances for income tax of CZK 1,136,160 thousand paid by the Company as at 31 December 2013 (as at 31 December 2012: CZK 1,307,683 thousand) are netted off with the provision for income tax of CZK 968,320 thousand as at 31 December 2013 (as at 31 December 2012: CZK 1,318,428 thousand).

10. Liabilities

(CZK'000)	31 December 2012	Spin-off effect	1 January 2013	31 December 2013
Trade payables – current	412,321	(189,604)	222,717	430,096
Total trade payables	412,321	(189,604)	222,717	430,096
Short-term advances received	463,530	–	463,530	384,930
Estimated payables	230,748	(90,156)	140,592	164,047
Other payables – current	362,745	–	362,745	764,711
Total short-term liabilities	1 469 344	(279,760)	1,189,584	1,743,784
Trade payables	5,523	–	5,523	4,561
Long-term borrowings ²	11,000,000	–	11,000,000	11,000,000
Deferred tax liability ¹	5,112,569	(68,437)	5,044,132	4,811,313
Total long-term liabilities	16,118,092	(68,437)	16,049,655	15,815,874
Total short-term and long-term liabilities	17,587,436	(348,197)	17,239,239	17,559,658

1 see note 12 – Income Tax
2 see note 15 – Related party transactions

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

Other short-term liabilities as at 31 December 2013 included mainly liabilities arising from financial derivatives in the amount of CZK 94,033 thousand (as at 31 December 2012: CZK 31,261 thousand), subsidies received from the European Commission based on Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks. In 2013 the grant in the amount of CZK 7,229 thousand was provided for Action no. 2011-G190/11-ENER/11/TEN-E-SI2.636400 (as at 31 December 2012: CZK nil). In 2012 the grant received from the European Commission based on Commission decision concerning the granting in the field of decree (ES) no. 663/2009 for connection of the electrical and gas system in the amount of CZK 17,554 thousand was provided for Action no. EEPR-2009-INTg-RF-CZ-02-SI2.564516, which was completed in 2013. Liabilities from Cash-pooling to subsidiary BRAWA, a.s. in the amount of CZK 484,035 thousand (as at 31 December 2012: CZK nil). Other liabilities in the amount of CZK 179,414 thousand (as at 31 December 2012: CZK 313,252 thousand).

As at 31 December 2013, taxes and state subsidies payable include CZK 102,540 related to emission allowances not consumed as at the balance sheet date (as at 31 December 2012: CZK 106,245 thousand).

Long-term trade liabilities arise from long-term retentions in the amount of CZK 4,561 thousand (as at 31 December 2012: CZK 5,523 thousand).

The Company does not have any overdue liabilities as at 31 December 2013 and 2012.

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 trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years except for the loan provided by NET4GAS Holdings, s.r.o. which is due on 23 December 2021 as the latest.

Total non-cancellable future commitments in respect of operating leases (not recorded in the balance sheet) as at 31 December 2013 amounted to CZK 47,898 thousand (as at 31 December 2012: CZK 74,770 thousand).

11. Derivative financial instruments

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

	31 December 2013			31 December 2012		
	Fair value		Notional	Fair value		Notional
	Positive	Negative	amount	Positive	Negative	amount
(in thousand CZK)						
Currency forwards	2,480	(91,031)	2,247,322	17,044	(31,082)	3,364,839
Currency swaps	–	(3,002)	437,977	580	(179)	298,668
Total trading agreements	2,480	(94,033)		17,624	(31,261)	

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 2013.

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

Certain derivative transactions, although providing effective economic hedges under the Company’s risk management positions, the Company does not use hedge accounting. Therefore, they are presented above as trading derivatives.

12. Income tax

Analysis of the income tax expense:

(CZK’000)	2013	2012
Current tax expense (19%)	968,320	1,318,428
Deferred tax expense	(232,819)	(2,439,281)
Adjustment of prior year tax expense based on final CIT return and additional income tax returns	(5,978)	717
Total income tax expense	729,523	(1,120,136)

Analysis of current tax:

(CZK’000)	2013	2012
Net profit before taxation	3,796,397	5,655,325
Non-taxable items	(301,966)	(362,913)
Difference between accounting and tax depreciation/amortisation	1,471,775	1,477,546
Non-deductible expenses	140,653	193,752
Gifts	(10,439)	(24,612)
Net taxable profit	5,096,420	6,939,098
Corporate income tax at 19%	968,320	1,318,428

The deferred tax was calculated at 19% (the rate enacted for 2013 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.

Analysis of deferred tax asset/(liability):

(CZK’000)	31 December 2012	Spin-off effect	1 January 2013	31 December 2013
Deferred tax liability arising from:				
Difference between accounting and tax net book value of fixed assets	(5,166,781)	68,437	(5,098,344)	(4,871,440)
Total deferred tax liability	(5,166,781)	68,437	(5,098,344)	(4,781,440)
Deferred tax asset arising from:				
Other provisions and allowances	54,212	–	54,212	60,128
Tax losses carried forward	–	–	–	–
Total deferred tax asset	54,212	–	54,212	60,128
Net deferred tax asset / (liability)	(5,112,569)	68,437	(5,044,132)	(4,811,313)

13. Revenue analysis

Revenue from operating activities:

(CZK’000)	2013	2012
Transportation		
– foreign customers	6,957,827	623,864
– domestic customers	2,013,173	9,400,553
Other – domestic	79,610	49,926
Total sales of own products and services	9,050,610	10,074,343
Own work capitalised	80,002	149,741
Sales of long-term assets and raw materials	1,188	15,448
Other operating income	34,755	41,290
Total income from operating activities	9,166,555	10,280,822

In 2012 the significant part of revenues from transit for foreign customers was realised through the domestic RWE Group company.

14. Employees

	2013	2012
Statutory representatives who are employees	2	3
Average number of other members of management	12	12
Average number of other staff	514	550
Total number of employees	528	565

The Company’s management includes statutory representatives and other directors subordinated to them.

(CZK’000)	Management	Other staff	Total
2013			
Wages and salaries	92,657	342,836	435,493
Emoluments of Board members	100	–	100
Social security costs	12,439	121,703	134,142
Other social costs	354	19,291	19,646
Total staff costs	105,550	483,830	589,381
2012			
Wages and salaries	63,728	345,786	409,514
Emoluments of Board members	120	–	120
Social security costs	7,392	115,672	123,064
Other social costs	370	21,076	21,446
Total staff costs	71,610	482,534	554,144

Other transactions with the Company’s management are described in Note 15 – Related party transactions.

15. Related party transactions

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

The Company was involved in the following related party transactions:

(CZK’000)	2013	2012
Purchases/costs		
BRAWA, a.s. (pipeline rent, interest) ^{2,1}	675,970	–
NET4GAS Holdings, s.r.o (interest) ²	194,706	–
RWE Supply & Trading CZ, a.s. (gas, services, interest) ¹	464,155	641,379
RWE Interní služby, s.r.o. (assets, services) ¹	49	813
Other companies within the RWE Group ¹	7,653	284,064
Total purchases	1,342,533	926,256
Sales – Transmission (transit and domestic transport)		
RWE Supply & Trading CZ, a.s. ¹	1,258,306	7,988,039
Regional distributors within RWE Group ¹	494,324	1,021,298
Total sales for transmission	1,752,630	9,009,337
Other sales		
BRAWA, a.s. (services, assets) ^{2,1}	45,280	–
NET4GAS Holdings, s.r.o. (services, assets) ²	24,299	–
RWE Supply & Trading CZ, a.s. (services, interests) ¹	4,856	54,789
RWE Gas Storage, s.r.o. (services, assets) ¹	3,540	7,187
Other companies within the RWE Group ¹	1,552	383,772
Total other sales	79,527	445,748

1 There are only related parties transactions within RWE group realized until 2 August 2013 are included in 2013 figures (date of sale of the Company to the new owner).
2 Related parties transactions within NET4GAS Holdings, s.r.o. group since 2 August 2013 are included.

With the effect from 1 January 2013 RWE Transgas, a.s., changes its name to RWE Supply & Trading CZ, a.s.

The following related party balances were outstanding as at:

(CZK'000)	31 December 2013	31 December 2012
Trade receivables		
RWE Transgas, a.s.	–	143 081
Other RWE group companies	–	591
BRAWA, a.s.	16,813	–
Total trade receivables	16,813	143,672
Advances paid		
Other RWE group companies	–	681
Total advances paid	–	681
Estimated receivables		
RWE Transgas, a.s.	–	382,171
RWE Gas Storage, s.r.o.	–	17,892
Other RWE group companies	–	101,703
BRAWA, a.s.	192	–
NET4GAS Holdings, s.r.o.	15,190	–
Total estimated receivables	15,382	501,766
Receivables arising from cash-pooling:		
RWE Transgas, a.s.	–	5,102,037
NET4GAS Holdings, s.r.o.	5,401,302	–
Total receivables arising from cash-pooling	5,401,302	5,102,037
Total receivables	5,433,497	5,748,156

(CZK'000)	31 December 2013	31 December 2012
Trade payables:		
RWE Transgas, a.s.	–	33,888
Other RWE group companies	–	3,635
BRAWA, a.s.	74,142	–
Total trade payables	74,142	37,523
Advances received		
RWE Transgas, a.s.	–	307,679
Other RWE group companies	–	91,701
Total advances received	–	399,380
Estimated payables:		
Other RWE group companies	–	3,738
BRAWA, a.s.	57,459	–
Total estimated payables	57,459	3,738
Payables arising from cash-pooling		
BRAWA, a.s.	484,035	–
Total payables arising from cash-pooling	484,035	–
Other payables		
RWE Transgas, a.s. (loan, securities)	–	11,008,050
RWE Key Account, s.r.o. (securities)	–	1,688
NET4GAS Holdings, s.r.o.	11,000,000	–
Total other payables	11,000,000	11,009,738
Total payables	11,615,636	11,450,379

Trade receivables and payables arose under the same terms and conditions as with third parties.

Other payables arise mainly from loan in the amount of CZK 11,000,000 thousand. The loan was provided by RWE Transgas, a.s., and transferred on 2 August 2013 to the company NET4GAS Holdings, s.r.o. In accordance with the contract the loan is due on 23 December 2021 as the latest and the interest rate was 4.22%.

The Company's cars are made available for use by members of management. The total acquisition costs is CZK 12,186 thousand (2012: CZK 12,582 thousand).

The Company provides foreign members of management with accommodation, in 2013 rent totalled to CZK 749 thousand (2012: CZK 1,021 thousand).

The Company provides members of management with long-term bonus programme for which the provision in the amount of CZK 12,508 thousand was created in 2013 (2012: CZK 10,518 thousand).

Besides the above mentioned remuneration and benefits there was no other consideration provided in 2013 and 2012 to the sole shareholder, members of the Statutory and Supervisory Board and management either in cash or in kind.

16. Commitments

Capital commitments contracted by the Company were CZK 46,442 thousand as at 31 December 2013 mainly related to Optimus project (as at 31 December 2012: CZK 393,411 thousand mainly related to Gazelle pipeline construction).

The Company has the following other than capital commitments in respect of operational leases:

(CZK'000)	31 December 2013	31 December 2012
Current within one year	730,171	730,170
Due after one year but within five years	763,860	789,943
Total commitments in respect of operational leases	1,494,031	1,520,113

17. Contingent liabilities

The Company issued guarantees in the amount of CZK 49,491 thousand as at 31 December 2013 (as at 31 December 2012: CZK 48,700 thousand).

The Company records contingent liabilities arising from guarantees for bank loans that have been provided to the parent company NET4GAS Holdings, s.r.o. which is in amount of CZK 26,449,289 thousand as at 31 December 2013.

The management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2013 and 2012.

18. Cash flow statement

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

(CZK'000)	31. December 2013	31. December 2012
Stamps and vouchers	239	291
Cash in bank	992,020	360,507
Receivable/(liability) arising from Cash-pooling ¹	(484,035)	5,102,037
Total cash and cash equivalents	508,224	5,462,835

1 Receivable arising from cash-pooling as at 31 December 2013 represents deposits with maturity higher than 3 months and therefore is not included in cash and cash equivalents.

19. Subsequent events

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2013.

10 February 2014



Andreas Rau
Statutory Representative



Radek Benčík
Statutory Representative

Supervisory Board Report

The Supervisory Board of NET4GAS, s.r.o. (hereinafter the “Company”) continuously monitored the Company’s business activities, its results, and the performance of the powers and responsibilities of the Managing Directors. At all of its six regular meetings and three extraordinary meetings in 2013 the Supervisory Board had 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 Managing Directors provided its comments in regard to all of the matters discussed by the Supervisory Board.

In performing its supervisory function 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.

The Supervisory Board reviewed the Company’s annual financial statements for the fiscal year 2013, the Report on Operations and the Report on Relations.

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 2013, 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 2013 and the 2013 profit distribution proposal of the Company’s Management.

At its regular meeting held on 23 August 2013, the Supervisory Board discussed and acknowledged the resignation of Mr. Thomas Kleefuß from the position of Managing Director of the Company, and approved the termination of his position as of 31 October 2013. At its extraordinary meeting held on 31 October 2013, the Supervisory Board appointed Mr. Andreas Rau to fill the vacant position of Managing Director with effect from 1 December 2013. At a further extraordinary meeting held on 27 November 2013, the Supervisory Board appointed Mr. Václav Hrach to act as the Company’s third Managing Director with effect from 1 March 2014.

During the course of 2013 the following changes occurred in the composition of the Supervisory Board:

On 2 August 2013, Mr. Martin Friedrich Herrmann, Dr. Martin Muhr, Mr. Peter Terium and Mr. Andreas Böwing resigned as members of the Supervisory Board. The Supervisory Board’s new members with effect from 2 August 2013 are Mr. Ralph Adrian Berg, Ms. Jaroslava Korpanec, Mr. Sebastien Sherman and Mr. Melchior Stahl. Mr. Radek Hromek and Ing. Jan Zaplatílek served as members of the Supervisory Board for the entire period of 2013.

The Supervisory Board expresses its gratitude to all employees for their work for the Company in 2013.

In Prague, on 28 February 2014



Jaroslava Korpanec
On behalf of the Supervisory Board of NET4GAS, s.r.o.

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 2013 under which it would be the controlled entity, the managing directors of the Company have drawn up, in accordance with Section 66a of Act No. 513/1991 Coll., the Commercial Code (hereinafter the “Commercial Code”), as amended as of the end of the respective accounting period, and Section 82 of Act No. 90/2012 Coll., the Business Corporations Act, 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 2013 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 2013, 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 accounting period ended 31 December 2013 the Company was controlled::

a) directly, to 2 August 2013, by
RWE Gas International N.V., with its registered office at 5211AK 's-Hertogenbosch, Willemsplein 4, Kingdom of the Netherlands, registration number 34168241 (hereinafter “RWE GI”), as the sole member of the Company;

b) indirectly, to 2 August 2013, by
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 2 August 2013, by
NET4GAS Holdings, s.r.o., with its registered office at Na Hřebenech II 1718/8, Nusle, Prague 4, 140 00, Czech Republic, ID No. 291 35 001, registered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File No. 202655 (hereinafter “NET4GAS Holdings”), which became the sole member of the Company pursuant to an Agreement on the Transfer of an Ownership Interest entered into on 2 August 2013 by and between NET4GAS Holdings (to 8 August 2013 operating under its original business name HYX Czech, s.r.o.) and RWE GI;

d) indirectly, from 2 August 2013, by
(i) Allianz Infrastructure Czech HoldCo II S.à r.l., with its registered office at L 2450 Luxembourg, 14, boulevard F.D. Roosevelt, Grand Duchy of Luxembourg, registration number B 175770, and (ii) Borealis Novus Parent B.V., with its registered office at 1011PZ Amsterdam, Muiderstraat 9, Kingdom of the Netherlands, registration number 57412243, each of which is a member of NET4GAS Holdings with an ownership interest of 50 %, together have the status of controlling entities in relation to NET4GAS Holdings by virtue of Section 66a(4) of the Commercial Code.

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 managing directors of the Company have drawn up the present Report on Relations on the basis of the information provided by these controlling entities and the other information at their disposal.

The structure of the relations among the controlling entities and the controlled entity and other Related Parties is set out in Annex No. 1 to this Report on Relations.

3. Role of the controlled entity, method and means of control

In 2013, the Company carried out its activities as an independent transmission system operator in accordance with Section 58b et seq. of Act No. 458/2000 Coll., the Energy Act (hereinafter the “Energy Act”), and as such operated independently of controlling entities and other Related Parties.

NET4GAS Holdings, as the controlling entity, exercised its rights and performed its obligations in respect of the Company in compliance with legislation, in particular as laid down in the Commercial Code and the Energy Act.

4. Agreements concluded between the Company and Related Parties

The agreements concluded between the Company and controlling entities or Related Parties during the last accounting period are listed in Annex No. 2 to this Report on Relations. No damage has been incurred by the Company due to the performance of these agreements or agreements concluded in preceding accounting periods, effective also in the last accounting period, which are listed in Annex No. 3 to this Report on Relations. 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 15 of the Notes to the Financial Statements as of 31 December 2013.

5. Acts performed in the last accounting period at the instigation or in the interest of controlling entities or Related Parties in respect of assets exceeding 10 % of the Company’s equity as per the last financial statements

a) prior to 2 August 2013:

In the period from 1 January 2013 to 2 August 2013, the Company performed no acts at the instigation or in the interest of controlling entities or Related Parties, save for concluding agreements as specified in Article 4 of this Report on Relations.

b) from 2 August 2013:

In the period from 2 August 2013 to 31 December 2013, the Company, in addition to concluding agreements as specified in Article 4 of this Report on Relations, also performed acts at the instigation or in the interest of controlling entities or Related Parties as specified in Annex No. 4 to this Report on Relations.

6. No damage

The Company incurred no damage during the accounting period ended 31 December 2013 as a result of agreements with controlling entities or Related Parties, or as a consequence of other acts or actions performed in the interest or at the instigation of the same, which were concluded or undertaken during the last accounting period or in any preceding accounting period.

7. Advantages and disadvantages resulting from relations with Related Parties

In the 2013 accounting period, the relations among the controlling entities and Related Parties were an advantage for the Company (as for all the other companies in the respective group) in terms of the increased financial stability which they ensured. This was, and continues to be, among other things also an important factor for the ongoing development and functioning of the entire group.

8. Confidentiality

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

9. Conclusion

This Report on Relations was approved by the Company’s managing directors on 19 February 2014, and was 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 19 February 2014



Andreas Rau
Managing Director



Ing. Radek Benčík, MBA
Managing Director

a) Structure of relations in the period from 1 January 2013 to 2 August 2013

RWE Aktiengesellschaft	
100.00 %	RWE Beteiligungsverwaltung Ausland GmbH
98.00 %	RWE East, s.r.o.
51.00 %	EČS – Elektrárna Čechy-Střed, a.s.
100.00 %	RWE Gas International N.V.
100.00 %	RWE Česká republika a.s.
100.00 %	RWE Zákaznické služby, s.r.o.
100.00 %	RWE Interní služby, s.r.o.
100.00 %	RWE Gas Storage, s.r.o.
100.00 %	RWE Gas Slovensko, s.r.o.
100.00 %	RWE Energo, s.r.o.
85.00 %	KA Contracting SK, s.r.o.
98.20 %	TEPLO Rumburk, s.r.o.
65.04 %	RWE Grid Holding, a.s.
100.00 %	RWE Distribuční služby, s.r.o.
100.00 %	RWE GasNet, s.r.o.
100.00 %	JMP Net, s.r.o.
100.00 %	SMP Net, s.r.o.
100.00 %	VČP Net, s.r.o.
49.00 %	RWE Service CZ, s.r.o.
100.00 %	RWE Supply & Trading CZ, a.s.
100.00 %	RWE Energie, a.s.
100.00 %	RWE Key Account CZ, s.r.o.
100.00 %	NET4GAS, s.r.o.
100.00 %	BRAWA, a.s.
100.00 %	Východočeská plynárenská, a.s.
100.00 %	Severomoravská plynárenská, a.s.
100.00 %	Jihomoravská plynárenská, a.s.
100.00 %	JMP DS, s.r.o.
100.00 %	RWE Gas Transit, s.r.o.
2.00 %	RWE East, s.r.o.
1.00 %	RWE IT Czech s.r.o.

b) Structure of relations in the period from 2 August 2013 to 31 December 2013

Allianz Infrastructure Czech HoldCo II S.à r.l. (50.00 %) and Borealis Novus Parent B.V. (50.00 %)	
100.00 %	NET4GAS Holdings, s.r.o.
100.00 %	NET4GAS, s.r.o.
100.00 %	BRAWA, a.s.

Annex No. 2

Agreements concluded between the Company and controlling entities or Related Parties in the last accounting period

Contracting party	Type of agreement / subject matter	Number
RWE Energie, a.s.	Purchase Agreement (land)	1
RWE GasNet, s.r.o. (multilateral agreement)	Agreement on protection of the confidentiality of information	1
RWE GasStorage, s.r.o.	Agreement on cooperation and reimbursement of associated costs	1
RWE GasStorage, s.r.o.	Agreement on the provision of gas storage relocation services	1
RWE GasStorage, s.r.o.	Agreement on connection to the transmission system	1
RWE GasStorage, s.r.o.	Purchase Agreement (land)	2
RWE GasStorage, s.r.o.	Agreement on a future Easement Agreement	1
RWE GasStorage, s.r.o.	Easement Agreement	1
RWE Zákaznické služby, s.r.o.	Amendment No. 1 to an Agreement on the provision of Call Centre services	1
RWE Key Account CZ, s.r.o.	Amendment No. 5 to a Supply Agreement (electricity)	1
RWE Key Account CZ, s.r.o.	Amendment No. 6 to a Supply Agreement (electricity)	1
VČP Net, s.r.o.	Agreement on terms and conditions for the operation of interconnected systems	1
RWE Supply&Trading CZ, a.s.	Amendment No. 4 to an Agreement on the provision of loans	1
RWE Supply&Trading CZ, a.s.	Agreement on the early termination of a provided loan	1
RWE Supply&Trading CZ, a.s.	Agreement on the cancellation of a Demerger Project	1
RWE Supply&Trading CZ, a.s.	Purchase Agreement (furniture)	1
RWE Supply&Trading CZ, a.s.	Gas Purchase Contract (2013-II)	1
RWE Supply&Trading CZ, a.s.	RWE Supply&Trading CZ, a.s. GAZPROM EXPORT Transfer Agreement	1
RWE Supply&Trading CZ, a.s., HYX Czech, s.r.o. (multilateral agreement)	Business Interest Sale Framework Agreement	1
BRAWA, a.s.	Agreement on subscription for shares	1
BRAWA, a.s.	Agreement on the provision of loans	1
BRAWA, a.s.	Agreement Ref. No. ZBA/2013/14 on the provision of Real Unidirectional Cash Pooling	1
BRAWA, a.s.	Agreement on the assignment of a receivable between BRAWA, a.s. and NET4GAS, s.r.o.	1
BRAWA, a.s.	Amendment No. 1 to an Agreement on the provision of selected services	1
BRAWA, a.s.	Purchase Order	1
NET4GAS Holdings, s.r.o., BRAWA, a.s. (multilateral agreement)	Amendment No. 1 to an Agreement Ref. No. ZBA/2013/14 on the provision of Real Unidirectional Cash Pooling	1
NET4GAS Holdings, s.r.o.	Agreement Ref. No. TBA/2013/16 on the provision of Real Unidirectional Cash Pooling	1
NET4GAS Holdings, s.r.o.	Agreement Ref. No. TBA/2013/15 on the provision of Real Unidirectional Cash Pooling	1
NET4GAS Holdings, s.r.o.	Agreement on the provision of loans	1
NET4GAS Holdings, s.r.o.	Guarantee Agreement	1
NET4GAS Holdings, s.r.o.	Amendment No. 1 to a Guarantee Agreement	1

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Annex No. 3

Agreements concluded between the Company and controlling entities or Related Parties in preceding accounting periods and effective in 2013

Contracting party	Type of agreement / subject matter	Number
RWE Transgas, a.s.*	Division Project	1
RWE Transgas, a.s.*	Umbrella Agreement	1

* On 1 January 2013 the company changed its name from RWE Transgas, a.s. to RWE Supply & Trading CZ, a.s.

Annex No. 4

Acts performed in the last accounting period at the instigation or in the interest of controlling entities or Related Parties

Controlling entity or Related Party	Act matter	Number
NET4GAS Holdings, s.r.o.	Agreement on the creation of a charge	12
NET4GAS Holdings, s.r.o.	Amendment No. 1 to an Agreement on the creation of a charge over receivables arising from commercial contracts	1
NET4GAS Holdings, s.r.o.	Amendment No. 2 to an Agreement on the creation of a charge over receivables arising from commercial contracts	1
NET4GAS Holdings, s.r.o.	Agreement on the termination of a charge	5
NET4GAS Holdings, s.r.o.	Record of assumption of debt	1
NET4GAS Holdings, s.r.o.	Record of assumption	1
NET4GAS Holdings, s.r.o.	Report on provision of financial assistance	3

Auditor's Report on the Financial Statements

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

We have audited the accompanying financial statements of NET4GAS, s.r.o., identification number 272 60 364, with registered office at Praha – Nusle, Na Hřebenech II 1718/8 (“the Company”), which comprise the balance sheet as at 31 December 2013, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies and other explanatory information (“the financial statements”).

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal control as the 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 of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of the 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 the Company as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

10 February 2014

represented by

Reinhard Langenhövel
Partner

Milan Zelený
Statutory Auditor, Licence No. 2319

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Auditor’s Report on the Annual Report and Report on Relations



Independent auditor’s report to the shareholder of NET4GAS, s.r.o.

We have audited the financial statements of NET4GAS, s.r.o., identification number 272 60 364, with registered office at Na Hřebenech II 1718/8, Praha 4 (“the Company”) for the year ended 31 December 2013 disclosed in the annual report on pages 50–75 and issued the opinion dated 10 February 2014 and disclosed on pages 84–85 in the annual report.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent with the financial statements which are included in this annual report on pages 50–75. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor’s Responsibility

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2013 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Company’s website is the responsibility of its Statutory Body; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual report since it was initially presented on the website.

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Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2013 (the “Report”). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 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 Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 82 of the Corporations Act.

4 March 2014

represented by

Reinhard Langenhövel
Partner

Milan Zelený
Statutory Auditor, Licence No. 2319

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Abbreviations Used

ACER	Agency for the Cooperation of Energy Regulators
BACI	Bidirectional Austrian-Czech Interconnection
BTS	Border Transfer Station
CAD	Canadian Dollar
CAM	Capacity Allocation Mechanisms
CEETR	Central East European Trading Region
CEO	Chief Executive Officer
CMP	Congestion Management Procedures
COO	Chief Operations Officer
CS	Compressor Station
CTU	Czech Technical University in Prague
CUNC	Czech Union for Nature Conservation
CZK	Czech crown
DN	Diamètre Nominal
EASEE-gas	European Association for the Streamlining of Energy Exchange – gas
EC	European Commission / European Community
EEPR	European Energy Program for Recovery
EIA	Environmental Impact Assessment
ENTSOG	European Network of Transmission System Operators for Gas
EU	European Union
FTE	Full-time equivalent
GATRAC	Gas Transport Cooperation
GIE	Gas Infrastructure Europe
GRI SSE	Gas Regional Initiative of the South, South-East region
HAZOP	Hazard and Operability study
ICT	Institute of Chemical Technology in Prague
IPPC	Integrated Pollution Prevention and Control
o. p. s.	Obecně prospěšná společnost / Public-benefit non-profit corporation
OPAL	Ostsee-Pipeline-Anbindungs-Leitung (Baltic Sea pipeline link)
o. s.	Občanské Sdružení / Civic association
PCI	Project of Common Interest
PN	Pressure Nominal
TEN-E	Trans-European Energy Networks
TSO	Transmission System Operator
TU	Trasový uzávěr / Closing valve
UGS	Underground Gas Storage facility
V4	Visegrad Group (an alliance of four Central European states whose members are the Czech Republic, Slovakia, Hungary and Poland)

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