Consolidated Annual Report 2015

NET4GAS

NET4GAS, s.r.o.
Consolidated
Annual Report 2015

Contents

Foreword by the CEO of NET4GAS

Ladies and Gentlemen,

I am glad to state that for NET4GAS and the whole consolidated group, for which we present this annual report, 2015 was another year of efficient, safe and reliable operations and solid financial performance.

Total annual gas volumes transported by NET4GAS in 2015 increased to 49.5 bcm compared to 47.4 bcm in 2014. Of this, roughly 7.6 bcm went to the Czech Republic, increasing by 0.4 bcm year-on-year, in particular as a result of higher consumption in the Czech Republic. International transit accounted for the remaining volume.

In 2015, NET4GAS again operated a high number of gas transmission contracts, exceeding 3,500 in total, confirming the trend of a continuous high demand for reverse flow through the Czech Republic in a West-East direction, as well as short-term gas trading activities.

All the above translated into a consolidated operating profit for the 2015 fiscal year of CZK 5.3 billion, representing a positive year-on-year trend.

In 2015, our solid financial performance was acknowledged by rating agencies who affirmed the investment grade rating BBB for NET4GAS, with a stable outlook in the case of Standard & Poor's and a positive outlook in the case of Fitch. Both reports reflect the fact that NET4GAS has sufficient financial strength to meet its future obligations and is ready for the implementation of its investment plan. To a certain extent, the affirmed rating also reflects a stabilization in the regulatory environment in the Czech Republic, as the rules for the next regulatory period (2016–2018) were developed and approved by the Czech Energy Regulatory Office in the course of 2015.

The aim of our investment plan is to preserve the high security of supply in the context of changing gas supply patterns and strengthening market integration. In regard to the Czech-Polish Gas Interconnector project, which represents an important part of the creation of the so-called North-South gas corridor in Central Europe, further progress was made in 2015. The project was granted European funds from the Connecting Europe Facility (CEF) programme and the full project is now part of the new EU list of Projects of Common Interest (PCI). A decision on how to proceed with the project will be made in 2016.

In 2016, we will also continue further development activities related to market integration in Central and Eastern Europe, and assess the need for new cross-border infrastructure, on a case-by-case basis, in close cooperation with the adjacent network operators and regulatory authorities.

We will of course continue dealing with customer requests for additional gas transmission services in a transparent and non-discriminatory way. To this end, we have started an open market survey in the first quarter of 2016 which is to complement the network development planning procedure and to assess market demand beyond the horizon of the Czech Ten-Year Network Development Plan.

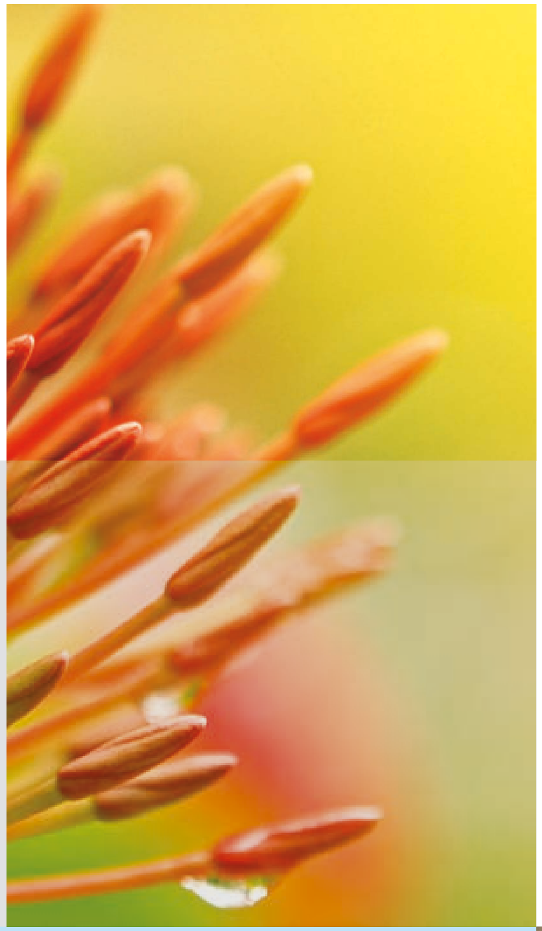
Apart from that, our focus for 2016 will be on the full and customer-friendly application and implementation of the European Network Codes.

Again, there are a lot of challenges ahead of us and I trust that with our highly motivated team we will cope with them just as we did in 2015. Finally, let me express my thanks to all our employees, to our shareholders, customers, suppliers and all other partners without whom we would not be able to meet our mission of ensuring efficient, safe and reliable gas transmission services in the Czech Republic.

Andreas Rau
Chief Executive Officer
NET4GAS, s.r.o.

Consolidated Group Data

We secure operation
of a flexible, demand-oriented
transmission system and
associated commercial and
technical services.



Consolidated Group Data

The consolidated group (hereinafter referred to as "Group"), for which this Consolidated Annual Report is elaborated, consists of the consolidating company NET4GAS, s.r.o. (hereinafter referred to as "NET4GAS" or "the consolidating company") and consolidated company BRAWA, a.s. (hereinafter referred to as "BRAWA" or "consolidated company").

NET4GAS holds an exclusive gas Transmission System Operator (TSO) licence in the Czech Republic. The company secures the international transit of natural gas across the Czech Republic, domestic transmission of natural gas to partners in the Czech Republic, and associated commercial and technical services.

BRAWA is the sole owner of the line sections of the GAZELLE gas pipeline. This 166 kilometre pipeline, with a pipe diameter of DN 1400 and a design pressure of 84 bar, connects the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov. NET4GAS is the operator of the GAZELLE pipeline.

Consolidating company

Company name:	NET4GAS, s.r.o.
Identification number:	272 60 364
Date of registration in the Commercial Register:	29 June 2005
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 – Nusle, Czech Republic
Stake in BRAWA, a.s.:	100%

Consolidated company

Company name:	BRAWA, a.s.
Identification number:	247 57 926
Date of registration in the Commercial Register:	10 November 2010
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 – Nusle, Czech Republic

NET4GAS secures

International transit of natural gas across the Czech Republic

Domestic transmission of natural gas to partners in the Czech Republic

Operation of a flexible, demand-oriented transmission system and the provision of associated commercial and technical services

NET4GAS at a glance

- Holds an exclusive gas Transmission System Operator (TSO) licence in the Czech Republic
- Has sufficient transmission capacities to satisfy both domestic and foreign demand
- Transmits about 45 billion m^3 of natural gas each year (of which around 15 % is for domestic consumption)
- Operates more than 3,800 km of pipelines
- Operates three border transfer stations, four compressor stations, and nearly a hundred transfer stations at the interface with domestic gas distribution
- Is a member of the Czech Gas Association, the international organisations ENTSOG, GIE, EASEE-gas, and the IGU and Marcogaz working groups
- Has more than 500 employees
- Is one of the largest corporate donors to nature conservation in the Czech Republic
- Is committed to its corporate social responsibility

Transmission system

3 border transfer stations

3,800 km of pipelines

4 compressor stations

Annual transported volume of about 45 billion m^3

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

Our strategy

Our mission

Our mission is to secure efficient, safe and reliable gas transmission services for our customers 24 hours a day, 7 days a week and to provide sufficient capacities in all supply situations based on a non-discriminatory and transparent approach.

Our vision

As a major Central European gas Transmission System Operator, NET4GAS will play an active role in connecting and integrating European gas markets to the benefit of both Czech and other European gas customers.

Highly qualified employees are our company's foundation stone and most valued resource. Their team-oriented work and target-driven approach are major factors in the company's continuous development, which is clearly focused on the three strategic pillars of asset flexibility, operational excellence and new market design.

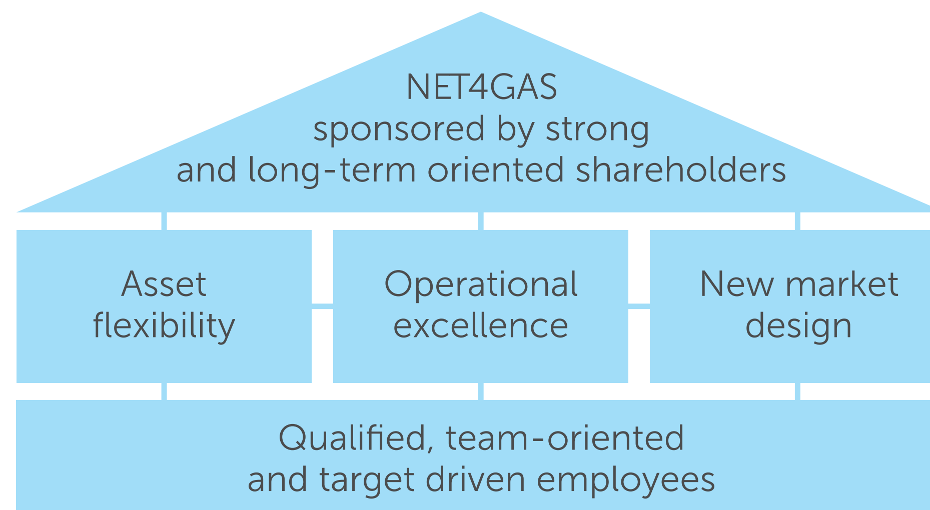
Along with the range of attractive capacity products we offer our customers, increasing our asset flexibility by building and optimising new and existing cross-border interconnectors allows us to swiftly respond to changing gas flow patterns in Europe, while strongly supporting further market integration.

We strive for operational excellence to meet our customers' expectations and to manage the financial and operational demands of increasing regulation and growing competition on energy markets.

We will continue to take a proactive role in the development of the new EU gas market structure guided by the principles of the European Gas Target Model, and by doing so will contribute to the creation of functioning gas markets, especially in Central and Eastern Europe where we operate.

In achieving our vision and attaining our strategic goals, we receive major sponsorship from our strong and long-term oriented shareholders, who thus safeguard the fulfilment of our company strategy.

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



Ownership of NET4GAS

as of 31 December 2015

For the entirety of 2015, NET4GAS was 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 %).

NET4GAS Supervisory Board

as of 31 December 2015

In alphabetical order

Ralph Adrian Berg
Member of the Supervisory Board
Member since: 2 August 2013

Kenton Edward Bradbury
Member of the Supervisory Board
Member since: 1 July 2015

Radek Hromek
Member of the Supervisory Board
Member since: 23 December 2011

Jaroslava Korpancová
Member of the Supervisory Board
Member since: 2 August 2013

Lenka Kovačovská
Member of the Supervisory Board
Member since: 26 March 2015

Melchior Stahl
Member of the Supervisory Board
Member since: 2 August 2013

Changes on the NET4GAS Supervisory Board

On 26 March 2015, Lenka Kovačovská became a new member of the Supervisory Board. With effect from 30 June 2015, Sebastien Sherman terminated his membership in the Supervisory Board and Kenton Edward Bradbury became a new member with effect from 1 July 2015. No other changes occurred in the composition of the NET4GAS Supervisory Board in 2015.

NET4GAS Management

as of 31 December 2015

Andreas Rau
Statutory Director and CEO
Position held since: 1 December 2013

Radek Benčík
Statutory Director and COO
Position held since: 1 October 2011

Václav Hrach
Statutory Director and CFO
Position held since: 1 March 2014

Changes in the NET4GAS Management

No changes occurred in the composition of the NET4GAS Management in 2015.

Shareholder of BRAWA
as of 31 December 2015

In 2015, BRAWA's sole shareholder was NET4GAS.

BRAWA Supervisory Board
as of 31 December 2015

Martin Kolář
Chairman of the Supervisory Board
Position held since: 1 July 2014
Member since: 1 July 2014

Radek Benčík
Vice-Chairman of the Supervisory Board
Position held since: 17 March 2015
Member since: 1 July 2014

Andreas Rau
Member of the Supervisory Board
Member since: 19 February 2014

Changes on the BRAWA Supervisory Board

The Supervisory Board of BRAWA at its meeting on 17 March 2015 re-elected Martin Kolář Chairman of the Supervisory Board, and elected Radek Benčík Vice-Chairman of the Supervisory Board. No other changes occurred in the composition of the BRAWA Supervisory Board in 2015.

BRAWA Board of Directors
as of 31 December 2015

Jan Martinec
Chairman of the Board of Directors
Position held since: 11 November 2015
Member since: 7 July 2014

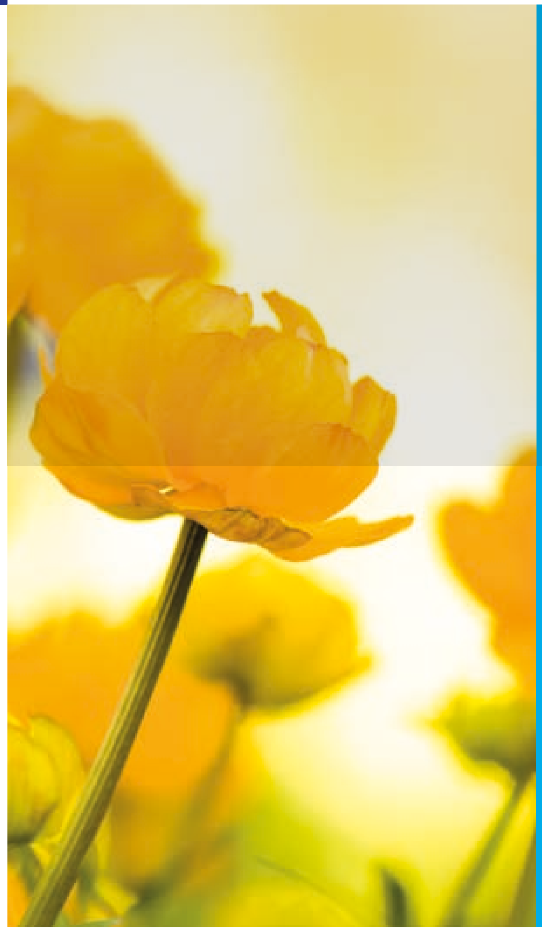
Miroslav Holý
Vice-Chairman of the Board of Directors
Position held since: 11 November 2015
Member since: 1 November 2015

Changes on the BRAWA Board of Directors

With effect from 30 September 2015, Martin Slabý resigned from the post of the Chairman and Member of the Board of Directors of BRAWA. By the decision of the sole shareholder dated 27 October 2015, Miroslav Holý became a new Member of the Board of Directors, with effect from 1 November 2015. On 11 November 2015, the Board of Directors elected Jan Martinec its Chairman and Miroslav Holý its Vice-Chairman, with effect from 11 November 2015. No other changes occurred in the composition of the BRAWA Board of Directors in 2015.

Consolidated Report on Operations

For more than 40 years our net for gas has been connecting energy markets, guaranteeing the security and reliability of natural gas transmission.



Consolidated Report on Operations

In 2015, the Group operated and managed its assets in accordance with its long-term business plan. The year 2016 and subsequent years will be characterized by a steady fulfilment of the long-term business plan of NET4GAS and the entire Group.

Key Economic Events & Indicators

Affirmation of NET4GAS credit rating at BBB

In 2015, rating agencies acknowledged the financial strength of NET4GAS, founded on a stable and predictable cash-flow, and great flexibility during current geopolitical events and changes on the gas market which have influenced the environment in which it operates.

In 2015, the leading rating agencies affirmed the long-term rating of NET4GAS at the BBB investment level with a stable outlook in the case of Standard & Poor's and a positive outlook in the case of Fitch. Outputs in the form of rating reports reflect the fact that NET4GAS has sufficient financial strength to achieve its future commitments and is prepared to carry out its planned long-term investments in the development of the transmission system in the Czech Republic.

The optimisation of NET4GAS capital structure

In 2015, NET4GAS continued the process of optimising its long-term capital structure, which involves a mix of equity financing, bond issues and bank loans. In regard to the favourable development of market interest rates on the financial markets it substituted part of a four-year bank loan with a floating interest rate worth the financial equivalent of EUR 50 million with a new bond with a fixed interest rate at a substantially lower level than the 12-year bond issued in summer 2014. The new bond has the same maturity date as the twelve-year bond issued in summer 2014. The total amount of debt of NET4GAS remained unchanged with this transaction.

The transaction is of a private placement nature, wherein the entry of another long-term financial investor willing to share in the financing of the capital structure once again confirmed the long-term stable financial position and the business assumptions conservatively set by NET4GAS.

Abolition of the reserve fund of BRAWA

NET4GAS, as the sole shareholder of BRAWA, approved the abolition of the reserve fund in BRAWA and corresponding amendment of the Articles of Association in March 2015. The financial means accumulated in the reserve fund were transferred to the account of retained earnings. NET4GAS at the same time approved the distribution of the financial means from the account of retained earnings to the sole shareholder.

Change in the accounting period of BRAWA

In August 2015, NET4GAS, as the sole shareholder of BRAWA, decided to amend the Articles of Association, changing the accounting period of BRAWA as follows:

- 2015 accounting period ended on 30 November 2015,
- the following accounting periods will always begin on 1 December and end on 30 November.

Economic indicators of the Group 2015

Selected indicators*	2015
Total revenue (CZK million)	9,879
Operating profit (CZK million)	5,307
Profit before taxation (CZK million)	3,630
Profit after taxation (CZK million)	2,762
Investments (CZK million) – capital expenditure into tangible and intangible assets	689
Number of employees (converted to FTE)	506

* according to IFRS as adopted by the European Union

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenues, costs, profit

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

In 2015, the Group achieved a profit before taxation of CZK 3,630 million, profit after taxation was CZK 2,762 million.

The operating profit of the Group amounted to CZK 5,307 million, the majority formed by the consolidating company NET4GAS.

The Group generated a profit from its core business operations – transit of natural gas and domestic transmission. Its operating income amounted to CZK 9,892 million and operating costs were CZK 4,436 million.

Asset structure

The total assets of the Group in 2015 amounted to CZK 49,846 million, of which fixed assets accounted for CZK 45,873 million, representing 92 %. The main components of these assets were tangible fixed assets valued at CZK 45,762 million, intangible fixed assets valued at CZK 110 million and prepayments for acquisition of fixed assets.

As of 31 December 2015, current assets amounted to CZK 3,973 million, representing 8 % of total assets. Roughly 44 % of cash and roughly 47 % of borrowings by related parties consisted of current assets.

Investments

The Group invested a total of CZK 689 million in 2015. Of this, CZK 44 million was in intangible assets and CZK 645 million in tangible assets.

The largest investment of NET4GAS in tangible assets in 2015 included the pipe modifications and the upgrade of the metering technology at the Lanžhot Border Transfer Station where CZK 276 million was invested. The largest investment made by BRAWA in 2015 was the reconstruction of the receiver chambers of the DN 1400 gas pipeline at the Rozvadov Junction Point at a cost of CZK 14.5 million.

Structure of liabilities and equity

The Group's equity as of 31 December 2015 was CZK 2,555 million and represented around 5 % of the Group's total liabilities. Short-term and long-term liabilities reached CZK 47,291 million.

Long-term loans and credits and other long-term liabilities (particularly bonds and loans issued by banking consortia, the loan from Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V., deferred tax liabilities and liabilities for financial derivatives) contributed about 97 % of overall liabilities, and about 3 % of short-term liabilities.

As a consolidating company, NET4GAS issued bonds in January 2015 valued at EUR 50 million with a maturity date of 28 July 2026.

Investment instruments
To secure a return on its available cash during 2015, the consolidating company NET4GAS made use of term deposits and bills of note offered by leading banking institutions. No significant price, credit, liquidity or cash flow risks were identified in connection with the instruments concluded, other than described in the consolidated financial statements which are an integral part of this Consolidated Annual Report.

Research and development activities
The Group did not make any major expenditure into research and development in 2015.

Branches
The Group has no branches either in the Czech Republic or abroad.

NET4GAS Capacity Sales

We secure efficient, safe and reliable gas transmission services for our customers 24 hours a day, 7 days a week and provide sufficient capacities in all supply situations based on a non-discriminatory and transparent approach

NET4GAS operated a total of 3,508 gas transmission contracts in 2015, including allocation of quantities transmitted and invoicing.

Total gas transmission in 2015 was 49.52 billion m^3, of which 7.58 billion m^3 was for the Czech Republic. Compared to 2014, national transmission increased by 0.4 billion m^3, in particular as a result of increased consumption in the Czech Republic.

New development in capacity sales

Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems
As part of implementing the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM NC), agreements were reached with the neighbouring transmission system operators to use the PRISMA auction platform for the border points of the NET4GAS transmission system on the border with Germany and Slovakia, and the use of the GSA platform for the border points of the transmission system on the border with Poland. Connections to both auction platforms allow the sale of standard capacity products in a manner prescribed by the European Union legislation as of 1 November 2015.

NET4GAS fulfilled also other obligations of the code, such as the preparation for the introduction of competitive capacity auctions and the introduction of a single nomination for bundled capacity in cooperation with the neighbouring transmission system operators.

NET4GAS Asset Operation and Maintenance Projects

In order to fulfil our role on the market and guarantee safe and reliable gas transmission, we properly maintain and modernize our transmission system using state-of-the-art technologies.

As part of the modernisation of the transmission system, NET4GAS successfully completed the first stage of reconstructing the control system of the Hora Svaté Kateřiny Border Transfer Station in 2015, which will continue into the second stage in 2016. Reconstruction of the control system was also undertaken at ten national transmission stations. Based on a successful pilot project deploying an 'off-grid system' (i.e. an island system with no external power supply) at two line valve stations, this system was provided in 2015 at a further ten line valve stations.

As part of planned gas pipeline inspections, NET4GAS undertook an internal inspection in 2015 of four sections of the DN 800 gas pipeline measuring a total length of about 400 km. The preliminary results delivered in 2015 did not report any serious defects requiring immediate remedy. Delivery of the final reports, their assessment and verification of the quality of the inspection data will take place in 2016. Another stage in changing the pipes of the Hrušky-Kyselovice-Libhošť-Děhylov DN 700 gas pipeline was also carried out in 2015.

NET4GAS Asset Development Projects

We carefully plan our investment projects aimed at preserving high security of supply in the context of changing gas supply patterns in Europe and strengthening market integration.

Projects of Common Interest (PCI)

EU Regulation 347/2013, which should primarily facilitate and expedite the implementation of strategically important projects in the energy field, introduced (among other things) the status of Projects of Common Interest (PCI). This status can be granted to projects which contribute significantly to the completion of the internal market in energy, the security of supply, and the implementation of strategic priority corridors with cross-border impacts. The list of PCI projects should be updated every two years. The first list was approved in 2013, and was updated in 2015. NET4GAS projects classified within the second PCI list, the Czech-Polish Gas Interconnector project and the Bidirectional Austrian-Czech Interconnection project BACI, represent an important part of the construction of the so-called North-South gas corridor in Central Europe.

Czech-Polish Gas Interconnector project

The Czech-Polish Gas Interconnector project is one of the key projects of NET4GAS in the medium term. The subject of the project is the construction of the DN 1000 gas pipeline connecting the existing Czech and Polish transmission systems.

The objective of the new bidirectional Czech-Polish pipeline is to allow the safe and reliable transmission of gas and increased transmission capacity between the two countries. The construction of this transmission corridor should strengthen not only the flexible transmission of natural gas in the Central and Eastern European region, but also the gas market integration in this region. The project was awarded PCI status pursuant to EU Directive 347/2013 for the Libhošť-Hať section and in 2015 it was included in the second PCI list by the European Commission in its entirety.

Another important aspect of constructing the Czech-Polish Gas Interconnector is strengthening the security of natural gas supplies for Moravian regions by increasing the exit capacity to domestic zones and the possibility of connecting the higher injection and withdrawal capacity of underground gas storage facilities in central and northern Moravia. This currently represents an important contribution to securing a more ecologically friendly energy source for industry in the regions of South Moravia, Moravia-Silesia, Olomouc and Zlín.

An application for the planning permit for the Tvrdonice-Libhošť section was submitted to the Czech Ministry for Regional Development in April 2014. In 2015, preparatory work took place in terms of securing easements and other levels of technical documentation. For the next part of the project, work was undertaken on documentation for the planning permit. The anticipated length of the high-pressure gas pipeline (DN 1000, PN 73.5) in the Czech Republic is about 207 km.

Part of the project documentation for the Tvrdonice-Libhošť section is co-financed by the Trans-European Energy Networks (TEN-E) programme covering 46 % of the eligible costs. In 2014, the project was awarded a grant for the Libhošť-Hať section from the CEF (Connecting Europe Facility) programme equal to 50 % of the eligible costs for the preparatory phase. In July 2015, funding was approved from the same programme for the construction of this section, together with the part of the project on the Polish side.

A decision on how to proceed with the project will be made in 2016. The project partner is the Polish transmission system operator GAZ-SYSTEM, S.A.

Bidirectional Austrian-Czech Interconnection project (BACI)

Preparatory works continued in 2015 on the Bidirectional Austrian-Czech Interconnection project (BACI). NET4GAS updated the documentation for the planning permit and prepared the background documents for submitting an Investment Request.

For preparatory works on the project, NET4GAS was awarded a grant in 2012 from the European Union's Trans-European Energy Networks (TEN-E) programme amounting to 50 % of the total eligible costs. The project was awarded PCI status pursuant to EU Regulation 347/2013 and in 2015 it was also included by the European Commission in the second PCI list. In 2014, the project was awarded support from the CEF programme covering 50 % of the total eligible costs for the drafting of the background documents for submission of an Investment Request. The anticipated length of the new high-pressure gas pipeline (DN 800, PN 85) in the Czech Republic is 12 km.

The project partner is the Austrian transmission system operator Gas Connect Austria GmbH.

Other development projects

Oberkappel pipeline project

In 2015, preparatory works continued on the Oberkappel project which would mean connecting the Czech transmission system with the Oberkappel point on the Austrian-German border. In 2015, NET4GAS obtained a consenting opinion regarding an Environmental Impact Assessment (EIA) report from the Czech Ministry of Environment.

Increasing reverse-flow capacity and installation of new commercial metering at BTS Lanžhot

In regard to the geopolitical situation, NET4GAS is further reinforcing the transmission of natural gas from the west to the east. The aim of the project to increase reverse-flow, undertaken in 2015, was to secure the transmission of natural gas from the Czech Republic to Slovakia via the second metering section of the Lanžhot Border Transfer Station (BTS) of 75 mil. m^3/day. The project featured the construction of 180 metres of the DN 1200 pipeline at the entry point and 300 metres of the DN 1000 pipeline at the exit point from the second metering section. It was also equipped with eight new ball valves with greater dimensions than the DN 500, including walkways. The operating of both new pipelines also required the reconstruction of commercial metering at the second section, connecting the valve control to the electricity system and reconstruction of the control system. The work planned for 2015 was completed according to schedule. Full completion of the work is planned for 2016.

The second project at the Lanžhot BTS carried out in 2015 was the upgrade of the metering technology. Construction works were completed in December 2015.

Connecting Dolní Dunajovice underground gas storage facility

The aim of the project is the further connecting of the Dolní Dunajovice underground gas storage facility to the NET4GAS transmission system via a new metering site in Horní Věstonice, so that the storage facility can supply gas to the transmission system at two independent sites. The subject of the project is the construction of a new interconnecting pipeline and a new metering station.

Preparatory works were undertaken on the project in 2015, documentation for the planning permit was drafted and a connection contract with RWE Gas Storage was prepared. Implementation is scheduled for 2016.

OPTIMUS: compressor station upgrade programme

In 2015, as in previous years, NET4GAS continued the preparation and implementation of the OPTIMUS upgrade programme of the Kouřim and Břeclav compressor stations (CS). As part of this programme, an important step was taken in 2015 with the successful operational verification of the low-emission combustion chamber at CS Kouřim.

The actual OPTIMUS programme underwent a revision of scope and aims in 2015. The reason was primarily changes to the expected demand for gas transmission in light of other prepared projects in Europe, gas market developments and demands for transmission capacity resulting from them. In 2015, preparation of project documentation was carried out. The actual implementation of the upgrade of CS Kouřim is scheduled in 2016–2017, and the upgrade of CS Břeclav in 2017–2018.

NET4GAS New Market Design Projects

We are taking a proactive role in the development of the new EU gas market structure guided by the principles of the European Gas Target Model, and by doing so will contribute to the creation of functioning gas markets, especially in Central and Eastern Europe where we operate.

In 2015, one of the most important points in the European Commission's framework strategy (the Energy Union Package) was the topic of a fully integrated European energy market whose goal is to reduce the fragmentation of the European energy markets, strengthen competition and create suitable conditions for necessary investment. The development of network codes and the implementation of already completed codes continued in this context. The Agency for the Cooperation of Energy Regulators (ACER) examined and published an updated form of the Gas Target Model (GTM2), developed in 2011, for which it made a guide available for achieving well-functioning and transparent gas markets. NET4GAS developed projects whose aim is to progress market integration further.

Based on the BACI Bidirectional Austrian-Czech Interconnection project, NET4GAS developed proposals in cooperation with the Austrian transmission system operator Gas Connect Austria GmbH for closer links between the Austrian and Czech markets. The aim of the proposals is to enable easier access to customers from one market to the neighbouring market and begin the pilot phase of a joint trading region (i.e. a wholesale market), and all in accordance with the Gas Target Model. These proposals were drawn up and analysed in detail in regard to ascertaining the net benefits of market integration for end customers and forwarded to a joint working group for the development of possible ways to implement them. The group is composed of regulators and transmission systems operators in both countries. In 2015, the market integration project was offered assistance by the Slovak transmission system operator, eustream a.s., which would allow earlier implementation, including the testing phase of the Czech and Austrian market integration project, expected to lead to higher liquidity for both gas markets.

Based on the initiatives started in 2014 as part of the Gas Forum, a working group of the Visegrad Group (V4) including, in addition to ministries from the Czech Republic, Hungary, Poland and Slovakia, their regulatory bodies and transmission system operators, work continued on development of a Joint Risk Assessment (JRA). The JRA will in future serve as the background document for creating a common preventive action plan for the V4 countries region, which will contribute not only to increasing the security of supply, but also to a greater level of market integration and the opening up of new opportunities.

As part of the European Network of Transmission System Operators for Gas (ENTSOG), NET4GAS participated in the development of additional network codes in 2015. This specifically related to the Network Code on Harmonized Transmission Tariff Structures for Gas (TAR NC), and the draft amendment Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM NC), which is focused on the principles for offering and allocating additional and new capacity, as well as provisions relating to transparency.

Human Resources

Highly qualified employees are our company's foundation stone and most valued resource.

Number of employees

As of 31 December 2015, the number of employees working at NET4GAS was 514. An increase of eight employees in comparison to 2014 is due to the overlap of employees in some positions in operation for reasons of retirement.

As of 31 December 2015, 20 % of employees working at NET4GAS were women, out of which 12 % in managerial positions

As of 31 December 2015, BRAWA had no employees.

NET4GAS social policy

The standard of NET4GAS employees' working and social conditions was defined under a Collective Agreement valid 2015–2020.

NET4GAS has also been developing special 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 a home office option during difficult times. And just as in previous years, in 2015 NET4GAS employees had an opportunity to obtain financial support for a pre-school which their children attend.

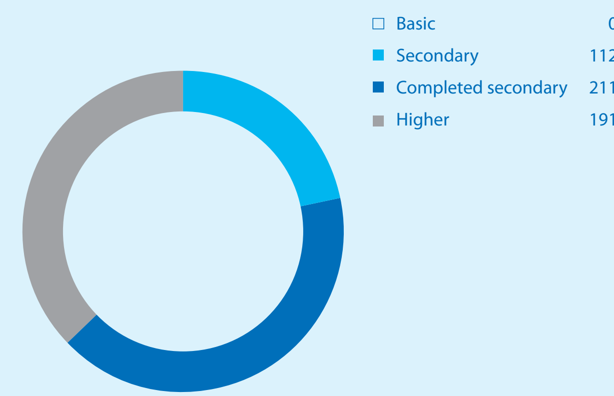
NET4GAS also provided support for the employment of handicapped persons. Every job was given an assessment to determine its suitability or unsuitability for handicapped persons, and then advertised as such.

NET4GAS professional training and career development

In 2015, NET4GAS invested 3.1 % of the company's annual personnel costs into the professional training of its employees. The average expenditure on training per employee was CZK 21,866. The education structure of NET4GAS employees has remained stable.

The company also continued its programmes for students and graduates "Internship" and "Trainee", which are aimed at retaining specialist know-how and helping senior staff who are going into retirement pass on their experience to new employees (for more about how NET4GAS works with students see the section "NET4GAS Corporate Philanthropy").

NET4GAS employee education structure
as of 31 December 2015



Health and Safety at Work

The Group focuses particular attention on the workplace health and safety of its employees. The "Occupational Health and Safety, and Fire Safety Policy" is one of the key policies and is actively promoted by employees at all management levels. Safety programmes and measures go above and beyond legislative requirements. Efforts at creating a safe work environment are directed at all workplaces and relate not only to employees, but also contractors. The work safety system is set up so that it is an integral part of the working life of all individuals who operate at the Group's workplaces. The basic objective is that each employee returns home in the same state of health as he or she was when they came to work.

Unfortunately even despite all the measures enduring safety in the work environment, there were two work-related injuries in 2015 to NET4GAS employees, although in both cases it was demonstrated that health and safety principles had been fully complied with and sick leave did not exceed one month. Even though both injuries were accidental, this fact spurs the Group to continuously search for new ways and approaches to ensuring employee health and safety at work that lead to a higher level of protection.

Environmental Protection

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

Environmental protection is one of the highest priorities and is understood by the Group not only as fulfilment of legal requirements, but primarily as an issue of social responsibility. The Group is guided by the latest scientific findings in the area of environmental protection and uses environmentally-friendly technology. Environmental protection is taken into account in all decisions and process implementation.

No ecological accidents or serious events that would represent a danger to the environment occurred in 2015 in association with the business or any other activities of the Group.

Statutory compliance

The Group makes the effort to minimize the environmental burden caused by the transmission system. The "Environmental Protection Policy" is one of the key policies.

In 2015, the Group complied with all statutory obligations regarding environmental conservation and landscape protection, emergency preparedness, prevention and remediation of environmental damage, integrated pollution prevention, prevention of air pollution, reduction of greenhouse gas emissions, waste and water management, and the handling of chemical products and mixtures.

In line with the requirements of state administration and local government, designated operational facilities have developed preventive emergency plans in the event of environmental accidents and the prevention of serious accidents caused by selected hazardous materials, although the stated plans fulfilled only the role of preventative measures in 2015 and did not have to be put into action, just as no environmental accidents occurred at any Group facilities.

All compressor stations were operated in accordance with their valid integrated permits issued under Act No. 76/2002 Coll., on integrated pollution prevention and control and the integrated pollution register, as amended, and compliance with these state-issued decisions is a guarantee of the correct approach towards the environment. In 2015, the Czech Environmental Inspectorate audited compliance with the mandatory operating conditions stipulated in the valid integrated permits for the Břeclav, Hostim and Kouřim compressor stations (CS), and an audit of compliance with the mandatory conditions of the integrated permits for CS Kouřim was also carried out by the Regional Office of the Central Bohemian Region. The Prague Regional Public Health Office carried out an audit of compliance with the public health regulations stated in the CS Kouřim integrated permit, and the Jihlava Public Health Office undertook an audit of compliance with the public health regulations for noise stipulated in the integrated permit for CS Kralice.

State administration and local government authorities which carried out audits stated in their final reports that the Group has complied with its obligations in relation to the valid legislation and the integrated permits issued to it.

The Group was also in compliance with the requirements of Act No. 25/2008 Coll., on the integrated environmental pollution register and the system of performing reporting obligations in conjunction with European Parliament and Council Regulation 166/2006, concerning the establishment of a publicly accessible European Pollutant Release and Transfer Register. Legislation relating to issues of greenhouse gases was also adhered to, particularly Act No. 383/2012 Coll., on conditions of trading greenhouse gas emission allowances, and carbon dioxide allowances consumed at all compressor stations were duly reported to the Czech Ministry of Environment. No penalty measures were imposed by the competent authorities on the Group in 2015.

Activities going beyond legislation

The Group acts responsibly in regard to environmental protection, even going beyond what is required by law. For example, thanks to the operation of the mobile gas recovery compressor of NET4GAS, which is used for pumping natural gas from a section of pipeline earmarked for repair and is unique on a European scale, 2,626,957 m^3 of natural gas was re-pumped in 2015 in the transmission system which for technical reasons would otherwise have had to be released into the atmosphere.

Recycling, energy conservation and other environmentally-friendly activities were and continue to be an everyday part of the Group's operations.

In 2015, NET4GAS also continued to support projects in the area of nature and environmental protection via its NET4GAS Closer to Nature programme (see the section NET4GAS Corporate Philanthropy).

NET4GAS Internal Control Principles

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

Internal Audit

The essence of the internal audit is objective assurance and consultancy activities focused on adding value to improving processes and reducing possible risk. The internal audit is an integral component of the management and control system and an important tool for the continuous improvement of NET4GAS.

Audit Committee

The activity of the Audit Committee of NET4GAS is carried out by its supervisory body (the Supervisory Board).

Risk Management Committee

NET4GAS manages its risk with due care and diligence. Risks are continuously identified, assessed from the point of view of their likely occurrence and the extent of potential damage and reported to the Risk Management Committee. Existing risks are continuously monitored and updated.

The Risk Management Committee's responsibilities include in particular discussing identified risks to the company and approving strategies for managing them. It is also the Committee's task to regularly assess the overall risk to NET4GAS.

Code of Conduct

The Compliance Officer monitors adherence to the Code of Conduct, which is one of the key management documents of NET4GAS.

NET4GAS is conscious of its role in society and its responsibility towards all its stakeholders and the environment, in which it operates. 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.

Ombudsman and Fraud Prevention

The Ombudsman 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. The position of Ombudsman is performed for NET4GAS by an outside law firm.

NET4GAS Corporate Philanthropy

We are aware of our social responsibility and therefore devote ourselves to corporate philanthropy.

NET4GAS Corporate Philanthropy

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

NET4GAS is aware of its corporate social responsibility. Therefore in 2015 it continued devoting itself to corporate philanthropy and sponsorship, aimed at improving the living conditions where it operates, which is in the Czech Republic, in the following areas:

- NET4GAS Closer to Nature: nature and the 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

Come to nature with us at www.closertonature.cz

NET4GAS is both a reliable and safe gas transmission system operator, and at the same time pursues a responsible policy aimed at protecting nature and the environment with respect to current and 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. This principle not only underlies the company's responsible entrepreneurship, but is also the basis for its 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 it is one of the largest corporate donors in the field of nature conservation in the Czech Republic.

In 2015, NET4GAS was awarded the prestigious VIA BONA prize for its Closer to Nature programme for which it was nominated by its long-term partner and expert guarantor, the Czech Union for Nature Conservation.

General partnership with the ČSOP

The general partnership between NET4GAS and the Czech Union for Nature Conservation (ČSOP) has pursued a clear and unchanging vision since the collaboration first began in 2007. And that is to present attractive and valuable natural sites to the public, and to use both education and fun as means to raise awareness about the reasons for their protection.

In 2015, NET4GAS and the ČSOP opened up a further six sites of natural value to the public, bringing the total over their nine-year partnership to 74. The collaboration also focused on the renovation of existing sites and popularizing and promotional activities.

Sites opened to the public with ČSOP in 2015

Vesec Valley
Project manager: ZO ČSOP Armillaria
Opening date: 30 June 2015
Location: Liberec, Liberec district, Liberec region
An educational trail with a plank walkway that provides passage over waterlogged ground, leading to a frequently visited location in Liberec. Seven stops on the 2.3 km trail describe the unique nature, such as fen meadows and bogs where more than 400 species of plants, 250 types of insects and more than 100 vertebrates live.

Choryně Sentinel
Project manager: ZO ČSOP Choryňská stráž
Opening date: 25 July 2015
Location: Choryně, Vsetín district, Zlín region
A three-kilometre educational trail circuit leads visitors to the river Bečva, to the river Juhyně and to the natural sight of Choryňská stráž (Choryně Sentinel), where orchids and broomrape live. Interested persons can watch eagles, storks, kingfishers and penduline from the bird observatory. The exposed bedrock show valuable paleontological and geological finds which were uncovered by floods in 1997.

Kozmice Bird Meadows
Project manager: ZO ČSOP Ochránce
Opening date: 20 August 2015
Location: Kozmice, Opava district, Moravia-Silesia region
Deep in the unique area of the Kozmice bird meadows, an ornithological region about 15 km from Ostrava, a bird observatory was located that allows one to observe birds throughout the entire nesting period and during spring and autumn migrations. A stork nest is located on the observatory, and you can get information from educational boards with QR codes.

Shooting Range Trail
Project manager: ZO ČSOP for SLŠ Šluknov
Opening date: 18 September 2015
Location: Šluknov, Děčín district, Ústi region
Located near the Šluknov pond, in whose tributary a protected countryside floodplain meadow has been declared, the trail passes north along the edge of the meadow, wetlands, forest complex and a former exercise shooting range, which is partly heavily waterlogged, and therefore a wooden bridge and fascine walkway has been built there. It will lead visitors to a 300-year-old heritage oak tree.

Velká Homolka
Project manager: ZO ČSOP Šumava
Opening date: 2 October 2015
Location: Vimperk, Prachatice district, South Bohemia region
The site is a popular place with a beautiful view to the town of Vimperk and distant Boubín. Several rest areas can be found there, including information signs, a reconstructed summit cross and a game with a biodiversity theme. It is first and foremost about entomologically valuable hillsides where conservationists have documented up to eight species of invertebrate from the Red List of Threatened Species.

Valley of Springs
Project manager: ZO ČSOP GEO
Opening date: 12 October 2015
Location: Capital City of Prague
A turn off from the trail in the Modřanská gorge takes visitors to a picturesque spot where there are up to five different types of headwater springs with different coverings. Several of them have been newly covered and stone cascades have been created on the route of the ensuing creek together with two bridges and several information boards. The location is also used as a study site for a nearby school.

1

1) Kozmice Bird Meadows

2) Shooting Range Trail

3) Velká Homolka

4) Choryně Sentinel

5) Valley of Springs

6) Vesec Valley

3

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General partnership with the Young Environmentalists Association competitions

It is growing increasingly difficult in this day and age to encourage children and young people to develop a close relationship with nature. In 2015, NET4GAS therefore continued providing its support to the nationwide science and nature competitions Zlatý list ("Golden Leaf") and Ekologická olympiáda ("Ecological Olympiad") organised by the Young Environmentalists Association of the ČSOP as their general partner.

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.

Main partnership with the Naše příroda magazine

2015 was the fifth year that NET4GAS had been the main partner of the Naše příroda ("Our Nature") civic association, providing contribution to the publication of its magazine of the same name.

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 these areas under its programme NET4GAS Closer to Knowledge.

Partnership with universities

In 2015, 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 University of Chemistry and Technology Prague, and became a main partner of the Czech Technical University in Prague. The cooperation included awarding motivational scholarships to exceptional students, specialist lectures and trips, consulting with students on their theses, and hiring students under the Internship and Trainee programmes (see the "Human Resources" section).

NET4GAS Closer to Regions

Long-term development and maintenance of the gas transmission system, which runs through almost every one of the regions of the Czech Republic, is a cornerstone of NET4GAS business operations. As a good neighbour, the company targets its third programme – NET4GAS Closer to Regions – on community development in the areas where it operates.

General partnership with "The Place Where We Live" programme of VIA Foundation

In 2015, NET4GAS continued its general partnership with the VIA Foundation in its programme "The Place Where We Live". New five projects were selected by a committee, whose goal is to create or restore public spaces with the help of local inhabitants in the years 2015 / 2016. The conditions for receiving support are that the public must be able to influence the future form of the space during the planning process, and must contribute their own voluntary work during its construction. It is also assumed that opportunities will be created for close cooperation among the non-profit sector, local government and local businesses. The aim of the programme is to stimulate the development of local community life. Each of the chosen organisations received a grant as well as access to free training in the area of community planning.

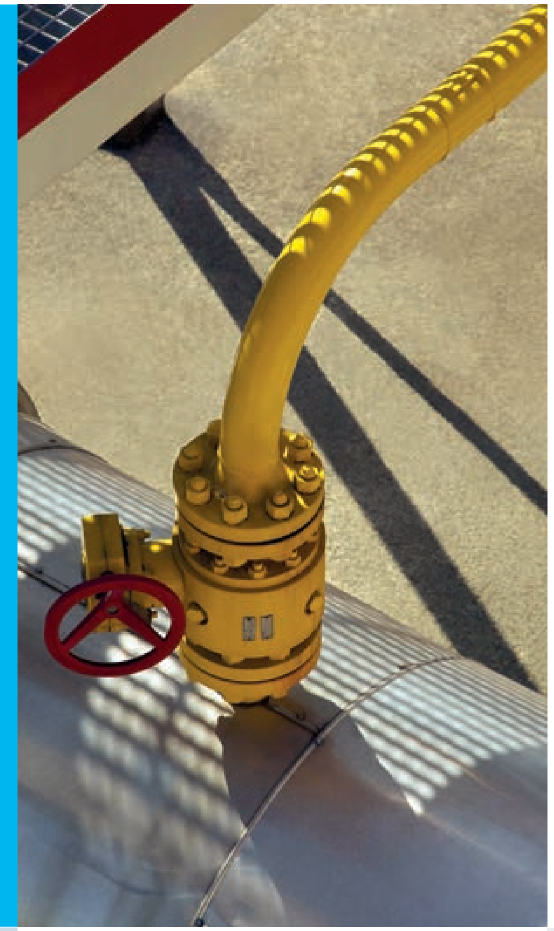
Main partnership with the "Voluntary Firemen of the Year"

In 2015, NET4GAS was the main partner of the Voluntary Firemen of the Year contest for the second year in a row. Firefighters, both professional and volunteer, are a natural partner of NET4GAS while ensuring the safety and reliability of natural gas transmission. The aim of the competition is to raise public awareness and prestige of volunteer firemen.

Companius

NET4GAS targets its corporate philanthropy not only at external projects, but internal ones too. Under the Companius Programme it provides assistance to 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 34 employees and non-profit organisations under this programme in 2015.

Consolidated Financial Statements



NET4GAS Group Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union, 31 December 2015

Contents

NET4GAS Group
Consolidated Balance Sheet

In millions of Czech Crowns	Note	31 December 2015	31 December 2014
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	45,762	47,523
Intangible assets	10	110	126
Other non-current assets	11	1	16
Total non-current assets		**45,873**	**47,665**
CURRENT ASSETS			
Inventories	12	65	65
Trade and other receivables	14	119	178
Current income tax prepayments		94	325
Loans to related parties	13	1,886	1,372
Other non-financial assets	15	59	96
Cash and cash equivalents	16	1,750	1,605
		3,973	3,641
Assets of disposal group held for sale	17	–	28
Total current assets		**3,973**	**3,669**
TOTAL ASSETS		**49,846**	**51,334**

EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY			
Registered capital	18	2,750	2,750
Other reserves		(2,006)	(1,177)
Retained earnings		1,811	3,515
Total equity		**2,555**	**5,088**
NON-CURRENT LIABILITIES			
Other payables	23	2	4
Borrowings	19	38,670	38,835
Derivative financial instruments	30	2,534	1,040
Deferred income tax liability	28	4,246	4,595
Provisions	22	177	175
Accrued employee benefits	24	68	53
Other non-financial liabilities	24	15	–
Total non-current liabilities		**45,712**	**44,702**

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

In millions of Czech Crowns	Note	31 December 2015	31 December 2014
CURRENT LIABILITIES			
Borrowings	19	268	253
Trade and other payables	23	623	831
Derivative financial instruments	30	276	216
Current income tax payable	28	16	–
Other taxes payable	21	14	22
Provisions	22	40	–
Other non-financial liabilities	24	342	222
Total current liabilities		**1,579**	**1,544**
Total liabilities		**47,291**	**46,246**
EQUITY AND LIABILITIES		**49,846**	**51,334**

3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

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

In millions of Czech Crowns	Note	2015	2014
Revenue	7	9,879	8,781
Raw materials consumed	25	(790)	(750)
Services purchased and lease charges	25	(807)	(630)
Employee benefits	25	(461)	(411)
Depreciation and amortisation	9, 10	(2,463)	(2,519)
Impairment		(2)	15
Gains less losses on disposal of property, plant and equipment		4	(5)
Changes in fair value of derivatives, net	33	(1)	(137)
Foreign exchange differences, net		32	58
Other operating income		13	141
Other operating expenses		(97)	(48)
Operating profit		**5,307**	**4,495**
Finance income	26	17	243
Finance costs	27	(1,694)	(886)
Finance result (net)		(1,677)	(643)
Profit before income tax		**3,630**	**3,852**
Income tax expense	28	(868)	(776)
PROFIT FOR THE YEAR		**2,762**	**3,076**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	31	(1,023)	(1,489)
Income tax recorded directly in other comprehensive income – cash flow hedge	28	194	283
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(829)**	**(1,206)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,933**	**1,870**

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Changes in Equity

In millions of Czech Crowns	Registered capital	Other reserves	Retained earnings	Total
Balance as at 1 January 2014	**31,793**	**2,143**	**5,816**	**39,752**
Total comprehensive income				
Profit for the year 2014	–	–	3,076	3,076
Cash flow hedge – net of related tax effect	–	(1,206)	–	(1,206)
Transactions with owners				
Reserve fund cancellation	–	(2,114)	2,114	–
Registered capital reduction	(29,043)	–	–	(29,043)
Dividends paid	–	–	(7,491)	(7,491)
Balance as at 31 December 2014	**2,750**	**(1,177)**	**3,515**	**5,088**
Total comprehensive income				
Profit for the year 2015	–	–	2,762	2,762
Cash flow hedge – net of related tax effect	–	(829)	–	(829)
Transactions with owners				
Dividends paid	–	–	(1,566)	(1,566)
Advance dividends paid	–	–	(2,900)	(2,900)
Balance as at 31 December 2015	**2,750**	**(2,006)**	**1,811**	**2,555**

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Cash Flows

In millions of Czech Crowns	Note	2015	2014
Cash flows from operating activities			
Profit before tax		**3,630**	**3,852**
Adjustments for:			
Depreciation and amortisation	9, 10	2,463	2,519
Finance income	26	(17)	(243)
Finance costs	27	1,694	886
Impairment	9, 10	2	(15)
Gains less losses on disposals of property, plant and equipment	9	(4)	5
Other non-cash operating expenses / (gains)		96	11
thereof: – provision for penalty	30	*39*	–
– foreign exchange differences		*27*	–
– other		*30*	*11*
Operating cash flows before working capital changes		**7,864**	**7,015**
Decrease / (Increase) in trade and other receivables	14, 15	96	187
Increase / (Decrease) in trade and other payables	23, 24	100	531
Decrease / (Increase) in inventories	12	1	18
Operating cash flows after changes in working capital		8,061	7,751
Interest paid	27	(1,568)	(633)
Interest received	26	11	75
Income tax paid	28	(799)	(1,038)
Net cash flows from operating activities		**5,705**	**6,155**
Cash flows from investing activities:			
Purchase of property, plant and equipment	9	(540)	(654)
Purchase of intangible assets	10	(44)	(50)
Proceeds from sale of property, plant and equipment	9	31	17
Repayments of loans provided to related parties	13	3,328	14,616
Loans provided to related parties	13	(3,869)	(44,457)*,**
Net cash flows used in investing activities		**(1,094)**	**(30,528)**

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

In millions of Czech Crowns	Note	2015	2014
Cash flows from financing activities:			
Payments of decreased registered capital to the Company's shareholder		–	(2,526)*
Dividends paid to the Company's shareholder	18	(1,566)	(136)**
Advance dividends paid to the Company's shareholder	18	(2,900)	–
Repayments of borrowings and finance lease liability	19	(1,397)	–
Proceeds from borrowings	19	1,397	27,602
Net cash flows from financing activities		**(4,466)**	**24,940**
Net increase in cash and cash equivalents		**145**	**566**
Cash and cash equivalents at the beginning of the period	16	1,605	1,039
Cash and cash equivalents at the end of the period	16	**1,750**	**1,605**

* Liability from decreased registered capital in the amount of CZK 29,403 million was settled as follows: CZK 2,526 million was actually paid and remaining part of CZK 26,517 million was netted with receivables from loan provided to NET4GAS Holdings, s.r.o.

** Dividends declared in the year 2014 were settled as follows: CZK 136 million was actually paid and CZK 7,355 million was netted with receivables from loans provided to NET4GAS Holdings, s.r.o.

The accompanying notes on pages 48 to 95 are an integral part of these consolidated financial statements.

NET4GAS Group Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

1. NET4GAS Group and Its Operations – General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2015 for NET4GAS, s.r.o. (the "Company" or "NET4GAS") and its subsidiary BRAWA, a.s. (the "Subsidiary" or "BRAWA") (together the "Group" or "NET4GAS Group").

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

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

The Group's main business activity is natural gas transmission in accordance with the Act No. 458/2000 Coll. (the "Energy Act").

Since 2 August 2013 the Company is fully owned by NET4GAS Holdings, s.r.o. (the "NET4GAS Holdings"), incorporated in the Czech Republic, which is the Company's ultimate parent company. NET4GAS Holdings is a joint venture of two venturers: Allianz Infrastructure Czech HoldCo II S.à r.l. (50%) with its registered office in Luxembourg and Borealis Novus Parent B.V. (50%) with its registered office in the Netherlands.

NET4GAS Holdings issued its last financial statements for the year ended 31 December 2014.

Until 31 December 2013 the Group created legal reserve fund from the profit of the Group in accordance with Czech legislation intended for cover of any losses. In accordance with changes in the Czech legislation effective since 1 January 2014 there is no obligation to create and retain legal reserve fund. In 2014 NET4GAS changed the Foundation Deed and used the option to dissolve the legal reserve fund.

The Statutory Directors of the Company:

As at 31 December 2015	As at 31 December 2014
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
Václav Hrach	Václav Hrach (since 1 March 2014)

The members of the Supervisory Board of the Company were as follows:

As at 31 December 2015	Function	As at 31 December 2014	Function
Radek Hromek	Member	Radek Hromek	Member
Ralph Adrian Berg	Member	Sebastien Sherman	Member
Melchior Stahl	Member	Ralph Adrian Berg	Member
Jaroslava Korpancová	Member	Melchior Stahl	Member
Lenka Kovačovská (from 26 March 2015)	Member	Jaroslava Korpancová	Member
Kenton Edward Bradbury (from 1 July 2015)	Member		

As at 30 June 2015 Sebastien Sherman ceased to be a Member of the Supervisory Board.

On 26 March 2015 Lenka Kovačovská became member of the Supervisory Board and the change was registered in the Commercial Register on 29 April 2015. Kenton Edward Bradbury became member of the Supervisory Board on 1 July 2015 and the change was registered in the Commercial Register on 29 July 2015.

About the Group. NET4GAS, s.r.o. is the exclusive gas transmission system operator in the Czech Republic, operating more than 3,800 km of gas pipelines. The Group is currently operating four compressor stations. The flow rate of the gas transmitted is measured at five border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, and the Waidhaus and Olbernhau stations in Germany) and at almost a hundred national transfer stations. The NET4GAS transmission system has long been specifically targeted for a number of new projects delivering additional transmission capacity and the greater diversification of transmission routes. These projects have included the construction of the GAZELLE high-pressure gas pipeline (DN 1400), connecting the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov, and a connection between the Czech and Polish transmission systems in Český Těšín. In parallel with this, the entire NET4GAS transmission system has been upgraded so that it can also be used for reverse flow, which means that it now has the capacity and technology to cope with natural gas transmission in any direction.

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

Structure of the Group as at 31 December 2015 and 2014:

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

With effect from 2015, a new accounting period of BRAWA ends 30 November. Accounting period for year 2015 begins on 1 January 2015 and ends on 30 November 2015. For the preparation of the Group's consolidated financial statements as at 31 December 2015 the actual BRAWA's transactions for December 2015 and balances as at 31 December 2015 were used.

Note

The consolidated financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these consolidated financial statements takes precedence over the English version.

2. Operating Environment of the Group

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator

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

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

(b) Regulatory framework pertaining to the transmission system operator
Gas transmission prices are set annually by the ERO based on regulation methodology applicable in the regulatory period. Gas transmission prices for the next calendar year are usually published in an ERO's Pricing Decision by 30 November of the current year.

The 2015 gas transmission prices were established by ERO's Pricing Decision No 4/2014 of 25 November 2014 and No 6/2015 of 25 November 2015 on Regulated Prices related to gas supply.

(c) Current regulatory period
The transmission system operator currently finds itself in the third regulatory period, which began on 1 January 2010 and ends on 31 December 2015. The fourth regulatory period began on 1 January 2016 and ends on 31 December 2018.

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

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

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

3. Summary of Significant Accounting Policies

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

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

Presentation currency. These consolidated financial statements are presented in Czech Crowns ("CZK") which is also the functional currency of both companies of the Group.

b) Consolidation
Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns.

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

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

c) Financial instruments – key measurement terms
Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

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

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

Fair value measurements are analysed by level in the fair value hierarchy as follows:

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

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

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

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

d) Classification of financial assets

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

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments and are carried at amortized costs.

Derivative financial instruments, including foreign exchange forwards and cross-currency interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are designated as hedging instruments, except the changes in the fair value of cross-currency interest rate swaps.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as hedges of a particular risk associated with a fixed commitment or highly probable forecast transaction (cash flow hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in other comprehensive income are shown in Note 29. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Finance income/(costs) – net'. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging foreign exchange risk is recognised in the profit or loss within 'Revenue' or 'Finance income/(costs) – net'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss within 'Finance income/(costs) – net'.

e) Classification of financial liabilities

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

The group designates certain financial liabilities as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 3d).

f) Initial recognition of financial instruments

Financial instruments not carried at fair value through profit and loss are initially recognized at fair value plus transaction costs. Financial instruments carried at fair value through profit or loss are initially recognized at fair value, and transactions costs are expensed in the profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

g) Derecognition of financial assets and financial liabilities

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

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

The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire. The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

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

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

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

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

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

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

When the Group recognises the cost of a replacement for part of the carrying amount of property, plant and equipment, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it was not practicable to determine the carrying amount of the replaced part, the Group used the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

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

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

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

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

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

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

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

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

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

m) Emission Rights
The Group receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return rights equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. The emission rights which were granted free of charge are carried at cost, i.e. at zero. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange and such an exchange is deemed to have the economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Group did not recognise any provision resulting from the gas emissions as at 31 December 2015, 31 December 2014.

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

In tons	31 December 2015	31 December 2014
Emission rights	366,825	425,420

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

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

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

directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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

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

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

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

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

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

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

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

– Any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

– The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;

– The counterparty considers bankruptcy or a financial reorganisation;

– There is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

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

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

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

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

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

v) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid

investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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

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

Other deposits which are due outside three months after the balance sheet date are not presented as a part of the item Cash and Cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

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

x) Advance dividends paid
The Group's decision to pay an advance dividends paid is reflected in the consolidated financial statements as a decrease in equity as of the date of the payment and is presented on the consolidated balance sheet line – Retained earnings.

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

At their initial recognition, all bank credits, loans and emitted bonds are recorded at their purchase price corresponding to the fair value of the received cash funds, less the costs of obtaining the credit or loan or emission of bonds.

Amortised cost is determined by taking into account the costs of obtaining the credit or loan, as well as the discounts or bonuses received at the settlement of the liability.

The Group designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 3d).

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

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

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

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

cc) Financial guarantees
Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Group expects to receive recurring future premiums from an issued financial guarantee contract, the guarantee is recorded at the premium receivable at the inception of the contract and no receivable is recognised in respect of the future premium payments receivable. The premium receivable in one instalment is amortised on a straight line basis over the period covered by that instalment (for financial guarantee contract, which is in place as at 31 December 2015 this period is twelve months). At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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

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

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

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

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

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

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

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

current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

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

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

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

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

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

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

Risk related to tax position
NET4GAS was established by way of legal reorganisation of part of the business of RWE Transgas, a.s. ("RWE Transgas") due to the unbundling requirement under the so called Second Energy Package of the European Union, while part of the business of RWE Transgas was contributed to registered capital of NET4GAS. As a result of the unbundling process and related revaluation, the accounting carrying amounts of the gas transmission system were significantly increased (based on an appointed appraiser's valuation) compared to their tax values (i.e. the historical cost based measurement rolled over from the tax books of RWE Transgas, which was the basis for tax depreciation). Due to the temporary differences between the new carrying amounts and the tax values of the transmission system, the deferred tax liability was recorded in 2006 against equity of NET4GAS. ERO has approved the inclusion of accounting depreciation (based on the revalued amounts) of the gas pipeline system in the final price for the inland gas transmission services for regulatory periods between 2005–2009 and 2010–2015. It means that the regulated prices (taxable income) charged by NET4GAS to its customers have been increased by the effect of the accounting depreciation, while the original tax base has been based on the historical costs of the gas pipeline system only.

The Group considered the relation between eligible depreciation and eligible revenues, given by a regulatory formula, as costs directly tied to revenues according to Section 24(2) (zc) of the Income Tax Act, and in the 2008 through 2014 taxable periods, referring to the said provisions of the Income Tax Act, it considered the entire value of eligible depreciation to be a tax deductible expense. This method was reflected also in the calculation of the deferred tax.

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

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

However, during 2015 the Supreme Court decided on the same issue in a case of another company with the similar business activities that the entity was not entitled to tax benefits resulting from applying the accounting depreciation of the gas pipeline system. The Group submitted the supplementary corporate income tax returns and paid up additional income tax charge of CZK 162 million in respect of 2012–2014 years.

In 2015 the tax legislation has changed in favour of the Group. Therefore in 2015 NET4GAS applies the amended Income Tax Act, in which the provision of Section 23(4)(e) governs direct relation between tax non-deductible expenses and revenues. Part of the profits generated by the gas pipeline system will, in management's view, not be taxable. Although the amended favourable rule is new and its application in the Group's specific case may be challenged, management is of a view that it is more likely than not, that the Group sustains its position based on the amended law.

If the Group would not sustain its uncertain tax position in respect of non-taxable income generated by the gas pipeline system, the Group's income tax charge in 2015 would be higher by CZK 2,164 million. The deferred tax liability would be higher by CZK 2,125 million and the current income tax liability would be higher by CZK 39 million.

The national regulator's approach to determining principles of the calculation of the price cap may change from one regulatory period to the next one. The future changes to the regulatory principles cannot be predicted. However, management expects that the general principle that the transmission operator should earn certain reasonable return on capital employed will stay in the regulation. Impracticability of predicting future changes in the regulation is similar to forecasting of future changes in taxes. Therefore management applies similar approach to future changes in regulation as to the changes in tax regulation. The rules applicable in the latest regulatory period are presumed to be applicable also in the future, until the regulator enacts or substantially enacts new regulatory rules. The use of the accounting depreciation of the gas pipeline system in the final price for the inland gas transmission services remains to be effective also in regulatory period 2016–2018 and management expects an unchanged situation on the basis of public information.

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

5. Adoption of New or Revised Standards and Interpretations

The following standards, which became effective from 1 January 2014, have been early adopted by the Company and applied for the preparation of financial statements for the year ended 31 December 2015:

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

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

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

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

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

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

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

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

Early adoption of these standards did not have a material impact on the financial statements of the Company.

The following new standards and interpretations became effective for the Company from 1 January 2015:

– Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).

– Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

– Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

The amended standards did not have a material impact on the Group.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

– Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

– Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

– Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

– Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

– IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

– Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group does not intend to adopt the existing version of IFRS 9. Management of the Group is currently assessing the impact of the standard on the consolidated financial statements of the Group.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. Management is currently assessing the impact of the standard on the consolidated financial statements of the Group.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The Group is currently assessing the impact of the amendment on its consolidated financial statements.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

– IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

– Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

– Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

– Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).

– Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

– Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

– Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

– Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

7. Segment Information

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

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

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

Refer to the information in Note 4.

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

The whole Group is considered as one reportable segment.
Segment information for the reportable segment for the years ended 31 December 2015 and 31 December 2014 is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	Year 2015	Year 2014
Revenues from core activities	9,879	8,781
Foreign exchange differences, net	31	56
Other operating income	13	141*
Other finance income	17	243
Revenue	**9,940**	**9,221**
Raw materials and consumables used	790	750
Employee benefits	461	411
Depreciation and amortization	2,463	2,519
Impairment	2	(15)
Services and lease charges	807	630
Gains less losses on disposals of property, plant and equipment	(4)	5
Other operating expenses	97	48
Income tax expense	868	776
Derivatives	1	137
Finance costs	1,694	886
Segment profit for the year	**2,762**	**3,076**
Segment other comprehensive income	**(829)**	**(1,206)**
Capital expenditure	**689**	**504**

* Consists mainly of remeasurement of the GAZELLE pipeline cost of purchase.

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2015	31 December 2014
Total reportable segment Assets	**49,846**	**51,334**
Total reportable segment Liabilities	**47,291**	**46,246**

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets.

(d) Geographical information

Total revenues for geographical areas for which the revenues are material are reported separately and disclosed below.

The analysis is based on domicile of shippers (users of the transmission system that is operated by the Group in the Czech Republic).

In millions of Czech Crowns	2015	2014
Czech Republic	1,726	1,293
Other EU countries	2,382	2,274
Non-EU countries	5,771	5,214
Total consolidated revenues from core activities	**9,879**	**8,781**

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

In millions of Czech Crowns	2015	2014
Czech Republic	689	504
Total consolidated capital expenditure	**689**	**504**

The analysis is based on location of assets. Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(e) Major customers

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

In millions of Czech Crowns	2015	2014
Customer 1	5,547	6,590
Customer 2	1,345	1,005
Customer 3	1,310	–
Total revenues from major customers	**8,202**	**7,595**

Revenues comprise revenues from core activities.

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

In year 2014, the Customer 3 has been classified as part of customer 1 (under common control). Based on the information available in 2015 and as of the date of issue of this financial statements, the Customer 3 is not under common control of Customer 1 and is therefore classified in 2015 separately.

8. Balances and Transactions with Related Parties

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

The Company is fully owned by NET4GAS Holdings, s.r.o. and NET4GAS Holdings is the ultimate parent company of the group.

The Group's balances and transactions with subsidiaries of ultimate parent of Allianz Infrastructure Czech HoldCo II S.à r.l. and subsidiaries of ultimate parent of Borealis Novus Parent B.V. are disclosed bellow within the category Subsidiaries of joint venturers' ultimate parents.

At 31 December 2015, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Gross amount of trade and other receivables		
NET4GAS Holdings, s.r.o.	–	1
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	1,886
Advance dividend paid (Note 20)		
NET4GAS Holdings, s.r.o.	–	2,900
Borrowings (Note 19)		
Loans (contractual interest rate 6.3%, repayable on 28 July 2044)		
Allianz Infrastructure Luxembourg I S.á r.l.	5,500	–
Borealis Novus Holdings B.V.	5,500	–

The income and expense items with related parties for the year ended 31 December 2015 were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Purchases / expenses		
NET4GAS Holdings, s.r.o. – interest expense, services	–	–
Borealis Novus Holdings B.V. – interest expense	352	–
Allianz Infrastructure Luxembourg I S.á r.l. – interest expense	352	–
Other revenues		
NET4GAS Holdings, s.r.o. – interest income	–	12
NET4GAS Holdings, s.r.o. – services	–	1

At 31 December 2014, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Gross amount of trade and other receivables		
NET4GAS Holdings, s.r.o.	–	1
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	1,371
Borrowings (Note 19)		
Loans (contractual interest rate 6.3%, repayable on 28 July 2044)		
Allianz Infrastructure Luxembourg I S.á r.l.	5,500	–
Borealis Novus Holdings B.V.	5,500	–

The income and expense items with related parties for the year ended 31 December 2014 were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Purchases / expenses		
NET4GAS Holdings, s.r.o. – interest expense, services	–	278
Borealis Novus Holdings B.V. – interest expense	147	–
Allianz Infrastructure Luxembourg I S.á r.l. – interest expense	147	–
Other revenues		
NET4GAS Holdings, s.r.o. – interest income, services	–	115

At 31 December 2015 and 2014 the Group did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2015		2014	
In millions of Czech Crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
– Salaries	57	15	58	12
– Short-term bonuses	6	8	1	2
Other long-term employee benefits:				
– Long-term bonus scheme	10	29	8	19
– Defined contribution benefits	4	3	5	–
Total	**77**	**55**	**72**	**33**

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

Key management represents Statutory Directors and Heads subordinating to them.

9. Property, Plant and Equipment

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

In millions of Czech Crowns	Freehold Land	Buildings and structures	Plant and equipment	Construction in progress	Total
Cost at 1 January 2014	185	60,692	5,700	86	66,663
Accumulated depreciation	–	(13,186)	(3,969)	–	(17,155)
Carrying amount at 1 January 2014	**185**	**47,506**	**1,731**	**86**	**49,508**
Additions	–	–	–	461	461
Transfers	2	188	151	(341)	–
Disposals	(5)	–	(1)	–	(6)
Depreciation charge	–	(1,858)	(582)	–	(2,440)
Carrying amount at 31 December 2014	**182**	**45,836**	**1,299**	**206**	**47,523**
Cost at 31 December 2014	182	61,369	5,320	206	67,077
Accumulated depreciation	–	(15,533)	(4,021)	–	(19,554)
Carrying amount at 31 December 2014	**182**	**45,836**	**1,299**	**206**	**47,523**
Additions	–	–	–	645	645
Transfers	–	182	343	(525)	–
Disposals	–	(2)	(1)	–	(3)
Depreciation charge	–	(1,896)	(507)	–	(2,403)
Carrying amount at 31 December 2015	**182**	**44,120**	**1,134**	**326**	**45,762**
Cost at 31 December 2015	182	61,516	5,624	326	67,648
Accumulated depreciation	–	(17,396)	(4,490)	–	(21,886)
Carrying amount at 31 December 2015	**182**	**44,120**	**1,134**	**326**	**45,762**

In 2015, construction in progress consists mainly of construction of Czech-Polish interconnector gas pipeline in the amount of CZK 110 million (2014: CZK 40 million). Upon completion, assets are transferred to buildings and structures. Other items represent smaller projects.

10. Intangible Assets

In millions of Czech Crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Cost at 1 January 2014	371	60	15	19	465
Accumulated amortisation	(259)	(51)	(6)	–	(316)
Carrying amount at 1 January 2014	**112**	**9**	**9**	**19**	**149**
Additions	–	–	–	50	50
Transfers	30	–	8	(38)	–
Amortisation charge	(71)	–	(2)	–	(73)
Carrying amount at 31 December 2014	**71**	**9**	**15**	**31**	**126**
Cost at 31 December 2014	397	60	24	31	512
Accumulated amortisation	(327)	(51)	(8)	–	(386)
Carrying amount at 31 December 2014	**70**	**9**	**16**	**31**	**126**
Additions	–	–	–	44	44
Transfers	43	–	–	(43)	–
Amortisation charge	(53)	(4)	(3)	–	(60)
Carrying amount at 31 December 2015	**60**	**5**	**13**	**32**	**110**
Cost at 31 December 2015	416	57	24	32	529
Accumulated amortisation	(356)	(52)	(11)	–	(419)
Carrying amount at 31 December 2015	**60**	**5**	**13**	**32**	**110**

11. Other Non-Current Assets

In millions of Czech crowns	31 December 2015	31 December 2014
Advances for acquisition of fixed assets	1	16
Total other non-current assets	**1**	**16**

12. Inventories

In millions of Czech crowns	31 December 2015	31 December 2014
Raw materials	65	65
Total inventories	**65**	**65**

Raw materials are mainly general spare parts for the gas transmission system.

There are no inventories valued at net realisable value as at 31 December 2015 and 2014.

13. Loans to Related Parties

In millions of Czech crowns	31 December 2015	31 December 2014
Corporate loans		
– denominated in Czech Crowns	–	168
– denominated in Euros	1,886	804
– denominated in US Dollars	–	400
Total loans issued	**1,886**	**1,372**

Loans to related parties as at 31 December 2015 mature on 31 March 2016. (31 December 2014: 23 March 2015).

Analysis by credit quality of loans outstanding is as follows:

	31 December 2015	31 December 2014
In millions of Czech crowns	Corporate loans	Corporate loans
Neither past due nor impaired		
– NET4GAS Holdings, s.r.o. – parent company (without external rating)	1,886	1,372
Total neither past due nor impaired	**1,886**	**1,372**
Total loans issued	**1,886**	**1,372**

There are no collaterals related to the above mentioned loans.

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

14. Trade and Other Receivables

In millions of Czech crowns	31 December 2015	31 December 2014
Trade and estimated receivables	122	179
Less impairment loss provision	(3)	(1)
Total current trade and other receivables	**119**	**178**

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

In millions of Czech crowns	31 December 2015 Trade and estimated receivables	31 December 2014 Trade and estimated receivables
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	86	115
– Not rated	33	60
Total neither past due nor impaired	119	175
Past due but not impaired		
– less than 30 days overdue	–	3
Total past due but not impaired	–	3
Individually determined to be impaired (gross)		
– 360 days or more overdue	3	1
Total individually impaired	3	1
Less impairment provision	(3)	(1)
Total	**119**	**178**

*Rating disclosed is equivalent credit rating from the third party rating agencies defined in the Network Code approved by ERO which is applicable for the Company.

15. Other Non-Financial Assets

In millions of Czech crowns	31 December 2015	31 December 2014
Value-added tax	16	58
Prepayments for services	36	34
Other receivables	7	4
Total current non-financial assets	**59**	**96**

Movements in prepayments are as follows:

In millions of Czech crowns	Prepayments for services
Carrying value at 1 January 2014	**16**
Additions	34
Prepayments derecognised on receipt of related goods or services and settled VAT	(16)
Total prepayments at 31 December 2014	**34**
Additions	36
Prepayments derecognised on receipt of related goods or services and settled VAT	(34)
Total prepayments at 31 December 2015	**36**

16. Cash and Cash Equivalents

In millions of Czech crowns	31 December 2015	31 December 2014
Bank balances available on demand	1,213	1,605
Deposit bills of exchange with original maturity of less than three months	537	–
Total cash and cash equivalents	**1,750**	**1,605**

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

	31 December 2015		31 December 2014
	Bank balances payable on demand	Deposit bills of exchange	Bank balances payable on demand
Neither past due nor impaired			
– BBB+ to BBB- rated	791	–	–
– A+ to A- rated	422	537	1,605
Total	**1,213**	**537**	**1,605**

17. Assets of Disposal Group Held for Sale

In millions of Czech crowns	31 December 2015	31 December 2014
Assets of disposal group held for sale	–	28
Total assets of disposal group held for sale	**–**	**28**

The Group sold Special Maintenance Facility in Brno in March 2015.

18. Equity

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

Dividends declared and paid during the year were as follows:

In millions of Czech crowns	2015	2014
Dividends payable at 1 January	–	–
Dividends declared and paid during the year	1,566	7,491
Dividends payable at 31 December	–	–

Advance dividends paid during the year were as follows:

In millions of Czech crowns	2015	2014
Advance dividends paid	2,900	–
Total advance dividends paid	**2,900**	**–**

All dividends were declared in Czech Crowns and paid in a different currency mix (CZK, EUR and USD).

On 8 December 2015 and on 17 December 2015, the Statutory Directors of the Company decided about the advance dividends payments of CZK 2,900 million in total. The payment of the advance dividends is subsequently subject to approval of the general meeting of the sole shareholder of the Company. The advance dividend payment was recognised as a decrease in equity as at the date of the payment.

19. Borrowings

In millions of Czech crowns	31 December 2015	31 December 2014
Subordinated borrowings from related parties (repayable on 28 July 2044)	11,000	11,000
Current portion of bank and bond financing borrowings		
– CZK denominated bank borrowings (repayable on 28 July 2018)	–	21
– USD denominated bank borrowings (repayable on 28 July 2018)	–	4
– CZK denominated bond (repayable on 28 January 2021)	119	69
– EUR denominated bond (repayable on 28 July 2021)	72	91
– EUR denominated bond (repayable on 28 July 2026)	61	68
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	16	–
Non-current bank and bond financing borrowings		
– CZK denominated bank borrowings (repayable on 28 July 2018)	5,724	7,094
– USD denominated bank borrowings (repayable on 28 July 2018)	1,334	1,223
– CZK denominated bond (repayable on 28 January 2021)	6,936	6,905
– EUR denominated bond (repayable on 28 July 2021)	8,042	8,221
– EUR denominated bond (repayable on 28 July 2026)	4,289	4,392
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	1,345	–
Total borrowings – current	268	253
Total borrowings – non-current	38,670	38,835
Total borrowings	**38,938**	**39,088**

Long-term borrowings from related parties
In 2014, the Group has realised its project of recapitalization by changing the structure of borrowings from related parties, acquiring external debts, decreasing the registered capital and distributing retained earnings. The existing shareholder loan

was early repaid in July 2014. Two new borrowings from related parties were acquired, amounted to CZK 5,500 million each. The new borrowings from related parties have subordination clause, non-callable features, contractual interest rate of 6.3 % and maturity on 28 July 2044.

Bank borrowings and bonds
The Group has acquired bank borrowings and issued bonds in 2014. The bank borrowings were acquired pari-passu as well bonds were issued pari-passu and have the senior position to the subordinated borrowings from related parties. The bank borrowings were denominated in CZK and USD.

Further, the Group acquired the committed revolving / CAPEX facility in equivalent of CZK 2,703 million (EUR 100 million). The CAPEX facility might be utilized in CZK, EUR or USD. In 2015 and 2014 the CAPEX facility was undrawn.

In January 2015, the Group issued additional bond with maturity on 28 July 2026 and with nominal amount of CZK 1,397 million (EUR 50 million). The proceeds were used for partial repayment of the existing bank borrowings denominated in CZK. The total balance of Group's borrowings stayed at the same level.

Seven banks with different share participated on the total bank borrowings as at 31 December 2015 and 2014.

There is no collateral related to the above mentioned bank or bond financing borrowings.

The bank borrowings and bonds have no quantitative financial covenants. There are several qualitative covenants applied, i.e. negative pledge, change of control put and loss of licence put.

Bank borrowings and bonds denominated in foreign currency represent a constituent of hedge accounting, which represents the hedging instrument for securing of foreign exchange risk associated with a highly probable forecasted future cash flows resulting from natural gas transmission revenues (cash flow hedge) – Note 31, Note 3d).

Bonds issued:

In millions of Czech Crowns	Emission nominal value	Due date	Annual coupon repayment due date	31 December 2015	31 December 2014
Bond EUR, serial no. 1, ISIN XS1090450047	300,000,000 EUR	28 Jul 2021	Each 28.7. in arrears	8,114	8,311
Bond EUR, serial no. 2, ISIN XS1090449627	160,000,000 EUR	28 Jul 2026	Each 28.7. in arrears	4,350	4,460
Bond CZK, serial no. 3, ISIN XS1090620730	7,000,000,000 CZK	28 Jan 2021	Each 28.1. in arrears	7,066	6,974
Bond EUR, serial no. 4, ISIN XS1172113638	50,000,000 EUR	28 Jul 2026	Each 28.7. in arrears	1,361	–
Total bonds				**20,891**	**19,745**

Coupon rates to the above mentioned bonds are in range of 2.25% – 3.5% p.a. On 28 July 2014 bonds, serial no. 1 – 3, were accepted for trading on a regulated market of the Irish Stock Exchange PLC. The terms of issue of all above stated bonds have been approved by the decision of the Central Bank of Ireland. The 2015 bond, serial no. 4, was issued via private placement.

The fair value of borrowings is disclosed in Note 33.

20. Government and Other Grants

The Company obtained grants from the European Commission for construction projects specified below and deducted the grant value from the carrying amount of the related property, plant and equipment when all conditions attached to the grant were fulfilled. In 2014 the Company received no grant from the European Commission. In 2013 the Company received a grant of CZK 7 million (in 2014 the revalued amount corresponds to CZK 7 million and in 2015 to CZK 7 million) for Action no. 2011-G190/11-ENER/11/TEN-E-SI2.636400 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks. The Company has not complied with all attached conditions as at 31 December 2015 and 2014 and therefore the amount received was presented as other non-financial liabilities (Note 24). During 2015, the Company received grants from the European Commission of CZK 10 million and part of this amount of CZK 3 million was deducted from the carrying amount of property, plant and equipment in 2015.

21. Other Taxes Payable

In millions of Czech crowns	31 December 2015	31 December 2014
Other taxes payable within one year comprise:		
Property and other taxes	5	6
Social and health insurance	9	16
Other taxes payable – current	**14**	**22**

22. Provisions for Liabilities and Charges

Movements in provisions are as follows:

	2015		2014	
In millions of Czech Crowns	Current	Non-current	Current	Non-current
Carrying amount at January 1	**–**	**175**	**25**	**192**
Additions charged to profit or loss	40	5	–	1
Unused amounts reversed	–	(3)	(25)	(18)
Carrying amount at December 31	**40**	**177**	**–**	**175**

The non-current provisions as at 31 December 2015 and 2014 were primarily set aside for restructuring on selected compressor stations. The non-current restructuring provisions as at 31 December 2015 are expected to be utilised in 2021 (as at 31 December 2014: until 2016).

23. Trade and Other Payables

In millions of Czech crowns	31 December 2015	31 December 2014
Trade payables	131	368
Liabilities for purchased property, plant and equipment	155	119
Accrued liabilities	204	192
Received deposits from customers	126	150
Other financial liabilities	7	2
Total financial payables within trade and other payables – current	**623**	**831**

In millions of Czech crowns	31 December 2015	31 December 2014
Other payables	2	4
Total financial payables within other payables – non-current	**2**	**4**

24. Accrued Employees Benefits and Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2015	31 December 2014
Accrued employee benefits		
– Salaries and bonuses	21	20
– Defined contribution costs	20	6
Advance payments received	299	184
Other non-financial liabilities	2	12
Total other non-financial liabilities – current	**342**	**222**

In millions of Czech crowns	31 December 2015	31 December 2014
Accrued employee benefits – other long-term benefits	68	53
Grant pre-payments received (Note 20)	15	–
Total other non-financial liabilities – non-current	**83**	**53**

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25. Expenses

In millions of Czech crowns	2015	2014
Raw materials consumed*	790	750
Salaries	*293*	*293*
Statutory and private pension contribution	*168*	*118*
Employee benefits	461	411
Depreciation and amortisation	2,463	2,519
Impairment	2	(15)
Repairs and maintenance services	*145*	*192*
Flexibility costs	*330*	*68*
IT & Telecommunications expenses	*104*	*103*
Lease charges	*58*	*35*
Other services	*170*	*232*
Services purchased and lease charges	807	630
Losses / (gains) on disposal of fixed assets	(4)	5
Losses / (gains) on derivative financial instruments	1	137
Foreign exchange losses (gains) (recognised through profit and loss)	(32)	(58)
Other expenses	97	48
Total operating expenses	**4,585**	**4,427**

* Represents mainly consumption of natural gas.

26. Finance Income

In millions of Czech crowns	2015	2014
Net foreign exchange differences on financing activities	–	177
Interest income on other financial assets	15	64
Other finance income	2	2
Total finance income recognised in profit or loss	**17**	**243**

27. Finance Costs

In millions of Czech crowns	2015	2014
Net foreign exchange differences on financing activities	259	–
Interest expense	1,369	868
Other finance costs	66	18
Total finance costs recognised in profit or loss	**1,694**	**886**

28. Income Taxes

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

(a) Components of income tax expense
Income tax (expense)/credit recorded in profit or loss comprises the following:

In millions of Czech crowns	2015	2014
Supplementary income tax return for prior years filed (Note 4)	(162)	–
Current income tax expense	(860)	(835)
Deferred income tax credit	154	59
Income tax expense for the year in profit and loss	**(868)**	**(776)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate
The income tax rate applicable to the majority of the Group's 2015 and 2014 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2015	2014
Profit before tax	**3,630**	**3,852**
Theoretical tax charge at statutory rate of 19%:	(690)	(732)
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-taxable items	–	1
– Non-deductible expenses	(14)	(47)
Difference between current income tax provision and final current income tax return	(4)	–
Supplementary income tax return for prior years (2012–2014) (Note 4)	(162)	–
Other effects	2	2
Income tax expense for the year	**(868)**	**(776)**

(c) Deferred taxes analysed by type of temporary difference
Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of Czech Crowns	1 January 2015	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(4,922)	141	–	(4,781)
Impairment provision for receivables	–	1	–	1
Other liabilities; tax deductible in different period	11	13	–	24
Provisions for liabilities and charges	33	–	–	33
Cash flow hedges	283	–	194	477
Net deferred tax asset/(liability)	**(4,595)**	**155**	**194**	**(4,246)**

Management estimates that net deferred tax liabilities of CZK 4,274 million (2014: CZK 4,141 million) are recoverable after more than twelve months after the end of the reporting period.

The tax effect of the movements in the temporary differences for the year ended 31 December 2014 are:

In millions of Czech Crowns	1 January 2014	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(4,996)	74	–	(4,922)
Impairment provision for receivables	–	–	–	–
Other liabilities; tax deductible in different period	12	(1)	–	11
Provisions for liabilities and charges	41	(8)	–	33
Provision for inventories	6	(6)	–	–
Cash flow hedges	–	–	283	283
Net deferred tax asset/(liability)	**(4,937)**	**59**	**283**	**(4,595)**

(d) Tax effects in the other comprehensive income
Disclosure of tax effects relating to other comprehensive income:

	2015			2014		
In millions of Czech Crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	(2,512)	477	(2,035)	(1,489)	283	(1,206)
Other comprehensive income for the period	**(2,512)**	**477**	**(2,035)**	**(1,489)**	**283**	**(1,206)**

29. Contingencies and Commitments

Operating lease commitments in respect of lease agreements for offices Kavčí hory Office Park and car fleet are as follows:

In millions of Czech crowns	2015	2014
Not later than 1 year	51	49
Later than 1 year and not later than 5 years	–	49
Total operating lease commitments	**51**	**98**

Capital expenditure commitments. At 31 December 2015 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling CZK 198 million mainly related to Optimus project – optimisation project on compressor stations of CZK 98 million (31 December 2014: CZK 19 million).

Guarantees. The Group did not recorded any obligations from financial guarantees as at 31 December 2015 and 2014.

Assets pledged and restricted. In connection with the Group's bank borrowings, the Group has a limited right to lien its property in favour of another creditor (due to conditions stated in bank borrowings contracts).

30. Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under cross currency interest rate swaps and foreign exchange forward and swap contracts entered into by the Group. The table reflects gross positions before the offsetting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period.

Cross currency interest rate swap contracts are long-term while foreign exchange forward and swap contracts are short-term in nature. The respective part of fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

The Group didn't have any other derivative financial instruments besides cross currency interest rate swaps and foreign exchange derivatives.

The disclosure below provides aggregated overview of the fair value of receivable and payable legs of individual contracts per currency mix.

	31 December 2015			
	Current		Non-Current	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Cross currency interest rate swaps: fair values, as at the reporting period, of				
EUR/USD currency mix				
– USD payable on settlement (-)	–	(562)	–	(13,910)
– EUR receivable on settlement (+)	–	287	–	11,495
EUR/CZK currency mix				
– CZK payable on settlement (-)	–	(39)	–	(1,730)
– EUR receivable on settlement (+)	–	38	–	1,611
Net fair value of cross currency interest rate swaps	**–**	**(276)**	**–**	**(2,534)**

Inputs used: Market data provided by commercial bank holding the related instruments

	31 December 2014			
	Current		Non-Current	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Cross currency interest rate swaps: fair values, as at the reporting period, of				
– USD payable on settlement (-)	–	(510)	–	(13,144)
– EUR receivable on settlement (+)	–	294	–	12,104
Net fair value of cross currency interest rate swaps	**–**	**(216)**	**–**	**(1,040)**

Inputs used: Market data provided by commercial bank holding the related instruments

The Group had no outstanding obligations from foreign exchange forwards and foreign exchange swaps as at 31 December 2015 and 2014 since all these derivatives were settled during 2014.

Cross currency interest rate swaps, foreign exchange forwards and foreign exchange swaps entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Aforementioned financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates, market interest rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly during the life time of derivatives.

Cross currency interest rate swaps
The nominal principal amounts of the outstanding cross currency interest rate swap contracts at 31 December 2015 were EUR 410 million / USD 484 million / CZK 1,397 million (2014: EUR 360 million / USD 484 million / CZK nil million). All cross currency interest rate swaps have fixed interest rates on both legs. At 31 December 2015, the fixed interest rates vary from 2.50% to 5.23% p.a. (as at 31 December 2014: 2.50% to 5.23% p.a.).

The Group designates certain cross currency interest rate swaps, in combination with bonds denominated in EUR, as hedging instrument of a foreign exchange risk associated with a highly probable forecasted cash flows from natural gas transmission revenues (cash flow hedge) – Note 31, Note 3d).

The Group designates certain cross currency interest rate swaps as hedging instrument of a foreign exchange risk associated with a highly probable forecasted cash flows from bond issued (cash flow hedge) – Note 31, Note 3d).

31. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises financial market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Management sets a strategy for each of the risk, including a limit on open position that may be accepted. The primary objectives of the financial risk management function are then ensure that exposure to risks stays within these limits. Monitoring is performed continuously but minimum on a monthly basis.

Credit risk. Exposure to credit risk arises as a result of cash and cash equivalents held with banks, loans provided to related parties, the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved by management. The risks are monitored on a revolving basis and are subject to a monthly review. The Group is exposed to credit concentration risk considering the receivables from some financial institutions.

The credit risk is mitigated by advance payments and a system of creditworthiness conditions which are applied to the Group's customers, suppliers of services with potential significant credit position (flexibility contract, gas sales contract) and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentations and internal guidelines.

The Group's management reviews ageing analysis of outstanding trade and other receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 14 and in Note 16.

Market risks. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. The Group treasury's risk management policy is to hedge the long-term contracted cash flows (mainly revenues from the gas transmission) in each major foreign currency up until 2034. Management approves the strategy of the currency risk management. The positions are monitored continuously but at minimum on monthly basis. The amount of risk is evaluated in terms of open positions.

The offsetting of currency positions is applied where possible. When needed the outstanding positions are managed by means of buying or selling the relevant currency in the short term derivative future or swap contract (no short term derivative contracts are reported as at 31 December 2015 and 2014).

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015				At 31 December 2014			
In millions of Czech Crowns	Monetary financial assets	Monetary financial liabilities	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives (liabilities)	Net position
US Dollars	49	1,334	12,009	(13,295)	425	1,223	11,047	(11,845)
Euros	2,261	13,844	(11,080)	(502)	1,085	12,858	(9,981)	(1,792)
Other	–	–	–	–	–	4	–	(4)
Total exposed to currency risk	**2,310**	**15,178**	**929**	**(13,797)**	**1,510**	**14,085**	**1,066**	**(13,641)**
Czech Crowns	1,340	24,122	1,397	(24,180)	1,479	25,252	–	(23,773)
Total	**3,650**	**39,300**	**2,326**	**(37,977)**	**2,989**	**39,337**	**1,066**	**(37,414)**

As at 31 December 2015 and 2014 the only outstanding derivatives, cross currency interest rate swaps, were disclosed in their notional amounts translated to Czech Crowns using foreign exchange rate as at 31 December 2015 and 2014. The fair values are disclosed in Note 30.

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any material currency risk.

Hedging of currency risk. In 2014, the Group decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Group treasury's policy. The financial instruments designated as hedging instruments are represented by (a) bank borrowing denominated in USD, (b) 33 % of bonds maturing in 2021 denominated in EUR and (c) joint hedging instrument of 66 % of bonds maturing in 2021 denominated in EUR and bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 19, Note 30). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currencies (in USD and in EUR) that are expected to occur on a monthly basis up until 2034. The dynamic hedging strategy is applied to hedged item. This strategy allows identification of hedged item in any period of the hedge accounting and is based on the continuous designation and re-designation of hedged item on a monthly basis from 28 July 2014 to 31 December 2034. Gains and losses recognised in other reserves in equity will be continuously released to profit or loss within finance costs up until the repayment of the hedging instruments and within revenue up until 2034 which is beyond the repayment date of the hedging instruments (Note 19, Note 30).

In 2015, the Group introduced additional, third, cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross currency interest rate swap EUR/CZK (Note 19, Note 30). The hedged item is represented by cash flow related to private placement EUR bond maturing in 2026. Gains and losses recognised in other reserves in equity will be continuously released to profit or loss within finance costs up until 2026 (Note 19, Note 30).

The table below analysis the volume of hedged cash flows that were designated as hedged item:

In millions of Czech Crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2015						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	1,657	3,154	1,832	4,086	996	11,725
Hedging of future cash flows – future receivables EUR	–	599	1,485	442	–	2,526
Hedging of future cash flows – future payables EUR	(37)	(76)	(76)	(189)	(1,389)	(1,767)
TOTAL	**1,620**	**3,677**	**3,241**	**4,339**	**(393)**	**12,484**

In millions of Czech Crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2014						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	1,524	3,048	2,239	2,648	683	10,142
Hedging of future cash flows – future receivables EUR	–	–	1,371	1,220	–	2,591
TOTAL	**1,524**	**3,048**	**3,610**	**3,868**	**683**	**12,733**

The amount of reclassified other reserves from equity to revenues during 2015 decreased revenues by CZK 275 million (2014: decreased revenues by CZK 22 million).

The following table presents sensitivities of profit or loss or equity (cash flow hedge) to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency, with all other variables held constant:

	At 31 December 2015		At 31 December 2014	
In millions of Czech Crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	5	(1,282)	42	(1,228)
US Dollar weakening by 10%	(5)	1,282	(42)	1,228
Euro strengthening by 10%	224	89	84	(17)
Euro weakening by 10%	(224)	(89)	(84)	17

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group and for currency sensitive derivatives.

The Group's exposure to currency risk with impact to profit or loss as at 31 December 2015 is influenced by (i) cash balances held in foreign currency and (ii) by existing loans to related parties provided in EUR (Note 14).

Interest rate risk. The Group's bank borrowings are contracted at floating interest rates. Some instruments, like bonds and fix-to-fix cross currency interest rate swaps, are priced at fixed rates and are exposed to re-pricing risk at maturity. The fair value is among other factors also sensitive to interest rates through the discounted cash flow model which is used for the valuation (see Note 33a)).

The table below summarises the Group's exposure to interest rate risks (e.g. term deposits; bonds and borrowings from related parties on fixed rate, both with re-pricing risk). The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In millions of Czech Crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2015					
Financial assets – floating rate	1,213	–	–	–	1,213
Financial assets – fixed rate with re-pricing risk	2,423	–	–	–	2,423
Financial liabilities– floating rate	(7,046)	–	–	–	(7,046)
Financial liabilities– fixed rate with re-pricing risk	–	–	–	(31,892)	(31,892)
Net interest sensitivity gap at 31 December 2015	**(3,410)**	**–**	**–**	**(31,892)**	**(35,302)**
31 December 2014					
Financial assets – floating rate	1,605	–	–	–	1,605
Financial assets – fixed rate with re-pricing risk	1,372	–	–	–	1,372
Financial liabilities– floating rate	(8,343)	–	–	–	(8,343)
Financial liabilities– fixed rate with re-pricing risk	–	–	–	(30,745)	(30,745)
Net interest sensitivity gap at 31 December 2014	**(5,366)**	**–**	**–**	**(30,745)**	**(36,111)**

As the Group's bank borrowings are directly exposed to the floating interest rate, the change in interest rates has an impact on the Group's profit or loss for the current year.

The following table presents sensitivities of profit or loss to reasonably possible changes in short term interest rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2015
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(14)
1M CZK PRIBOR decrease by 25 bps	14
1M USD LIBOR increase by 25 bps	(3)
1M USD LIBOR decrease by 25 bps	3
Overnight PRIBOR increase by 25 bps	3
Overnight PRIBOR decrease by 25 bps	(3)

	At 31 December 2014
In millions of Czech crowns	Impact on profit or loss
3M CZK PRIBOR increase by 25 bps	(18)
3M CZK PRIBOR decrease by 25 bps	18
3M USD LIBOR increase by 25 bps	(3)
3M USD LIBOR decrease by 25 bps	3
Overnight PRIBOR increase by 25 bps	3
Overnight PRIBOR decrease by 25 bps	(3)
Overnight EURIBOR increase by 25 bps	1
Overnight EURIBOR decrease by 25 bps	(1)

The Group interest rate risk management policy requires that at least 70% of the interest rate exposure arising from bonds and term loans is at fixed rate. The existing financing structure achieves this requirement.

The Group's exposure to interest rate risk at the end of the reporting period is representative of the typical exposure during the year, starting from July 2014.

The Group monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel:

	31 December 2015			31 December 2014		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.10	0.01	0.01	0.12	0.01	0.05
Loans to related parties	n/a	n/a	0.70	0.94	0.85	0.69
Liabilities						
Borrowings	4.20	1.95	3.00	4.10	1.81	3.00

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by Treasury department of the Group and monitored in terms of monthly (one month forward), short-term (one year forward) and mid-term (five years forward) forecasts. Management monitors short-term forecasts of the Company's cash flows provided on the monthly basis.

The Group has strong liquidity position and is able to secure its operating funding needs through the cash collected from the business operations continuously throughout the year. The Group's liquidity portfolio comprises cash and cash equivalents (Note 16) and bank term deposits and deposit bills. Management estimates that the liquidity portfolio can be realised in cash within few days in order to meet unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2015 and 2014 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In millions of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 19)	361	1,010	12,281	49,839	63,491
Trade and other payables (Note 23)	623	–	1	–	624
Gross settled cross currency interest rate swaps (Note 30)					
– inflows	–	(324)	(1,297)	(12,350)	(13,971)
– outflows	–	603	2,409	15,619	18,631
Total future payments, including future principal and interest payments	**984**	**1,289**	**13,394**	**53,108**	**68,775**

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

In millions of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 19)	288	1,003	13,674	49,850	64,815
Trade and other payables (Note 23)	831	–	4	–	835
Gross settled cross currency interest rate swaps (Note 30)					
– inflows	–	(294)	(1,176)	(11,345)	(12,815)
– outflows	–	460	1,839	12,017	14,316
Total future payments, including future principal and interest payments	**1,119**	**1,169**	**14,341**	**50,522**	**67,151**

Payments in respect of gross settled and cross currency interest rate swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 30.

32. Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. During the year 2014 the Group changed the Group's capital structure in connection with the project of recapitalization (Note 19). The Group is currently managing its capital ratios to ensure a strong credit rating (e.g. the Group may adjust the amount of dividends paid to shareholders in order to maintain or adjust the capital structure).

The Group's capital structure consists mainly of equity, subordinated borrowings from related parties, non-subordinated borrowings from banks and bonds.

In millions of Czech crowns	At 31 December 2015	At 31 December 2014
Equity	2,555	5,088
Subordinated borrowings from related parties that received the equity-like treatment from the rating agencies Fitch and S&P	11,000	11,000
Non-subordinated borrowings from banks and bonds	27,938	28,088

The Group has complied with all requirements (covenants) arising from the borrowings as at 31 December 2015 and 2014.

33. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy. Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the balance sheet at the end of each reporting period:

Financial instruments carried at fair value. Only derivatives are recognised at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2015 and 2014.

There were no changes in valuation technique for level 2 recurring fair value measurements since 31 December 2014.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(2,810)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(2,810)**	**–**	**–**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,256)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(1,256)**	**–**	**–**

The following table presents movements in fair values of derivative financial instruments:

In millions of Czech crowns	2015	2014
Opening balance	**(1,256)**	**(92)**
Change in fair value of contracts held at the beginning of the period settled during the period	–	(7)
Settlement of contracts held at the beginning of the period	–	99
Change in unrealised gains or losses for the period included in profit or loss for contracts held at the end of the reporting period	–	–
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	(1,554)	(1,256)
Closing balance	**(2,810)**	**(1,256)**

(b) Non-recurring fair value measurements

The Group has written down its assets held for sale to fair value less costs to sell as at 31 December 2014. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
31 December 2014			
Assets held for sale	28	Market approach	Indicative bid price

There are no assets held for sale as of 31 December 2015.

(c) Financial assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2015				31 December 2014			
In millions of Czech Crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	1,899	1,892	–	–	1,383	1,383
Total ASSETS	**–**	**–**	**1,899**	**1,892**	**–**	**–**	**1,383**	**1,383**
LIABILITIES								
Borrowings								
– Borrowings from related parties	–	–	11,939	11,000	–	–	11,873	11,000
– Bank borrowings	–	–	7,085	7,046	–	–	8,401	8,343
– Bonds	20,024	–	1,314	20,891	20,122	–	–	19,745
Total LIABILITIES	**20,024**	**–**	**20,338**	**38,937**	**20,122**	**–**	**20,274**	**39,088**

Trade and other receivables' carrying values approximate to their fair values.

The discounted cash-flow method was used for the determination of fair values in level 3 of fair value hierarchy. Inputs used for loans to related parties: PRIBOR, LIBOR, EURIBOR; inputs used for bank borrowings and borrowings from related parties: PRIBOR, LIBOR and IRS; source data: Patria Finance database.

The fair values in level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair values in level 1 of fair value hierarchy reflects the price of fixed interest rate bonds listed in active markets in public stock exchanges.

Financial assets carried at amortised cost. The estimated fair value of asset instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities carried at amortised cost. The estimated fair value of liability instruments is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

34. Events After the Reporting Period

No events have occurred subsequent to year-end that would have a material impact on the consolidated financial statements for the year ended 31 December 2015.

Signature of the members of the statutory body of the Company:

3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The General Meeting approved the consolidated financial statements for publication on 18 March 2016.

Separate Financial Statements

NET4GAS, s.r.o.
Separate Financial Statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union, 31 December 2015

Contents

NET4GAS, s.r.o.
Separate Balance Sheet

In millions of Czech Crowns	Note	31 December 2015	31 December 2014	1 January 2014
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	9	45,410	47,175	49,165
Intangible assets	10	110	126	154
Investment in subsidiary	11	7,476	7,476	7,476
Other non-current assets	12	1	16	1
Total non-current assets		**52,997**	**54,793**	**56,796**
CURRENT ASSETS				
Inventories	13	65	65	50
Trade and other receivables	15	125	180	380
Derivative financial instruments	33	–	–	2
Current income tax prepayments	31	94	311	168
Loans to related parties	14	1,886	1,371	5,401
Other non-financial assets	16	59	96	58
Cash and cash equivalents	17	1,411	1,593	992
		3,640	3,616	7,051
Assets of disposal group held for sale	18	–	28	34
Total current assets		**3,640**	**3,644**	**7,085**
TOTAL ASSETS		**56,637**	**58,437**	**63,881**

EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY				
Registered capital	19	2,750	2,750	31,793
Other reserves		(2,006)	(1,177)	2,143
Retained earnings		1,789	2,976	5,382
Total equity		**2,533**	**4,549**	**39,318**

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

In millions of Czech Crowns	Note	31 December 2015	31 December 2014	1 January 2014
NON-CURRENT LIABILITIES				
Other payables	25	2	4	5
Borrowings	20	38,670	38,835	11,000
Finance lease liability	21	6,888	6,999	7,109
Derivative financial instruments	33	2,534	1,040	–
Deferred income tax liability	31	3,966	4,361	4,812
Provisions	24	177	175	192
Accrued employee benefits	26	68	53	29
Other non-financial liabilities	26	15	7	7
Total non-current liabilities		**52,320**	**51,474**	**23,154**
CURRENT LIABILITIES				
Borrowings	20	268	915	484
Finance lease liability	21	197	199	200
Trade and other payables	25	640	852	521
Derivative financial instruments	33	276	216	94
Other taxes payable	23	16	23	18
Provisions	24	40	–	25
Other non-financial liabilities	26	347	209	67
Total current liabilities		**1,784**	**2,414**	**1,409**
Total liabilities		**54,104**	**53,888**	**24,563**
EQUITY AND LIABILITIES		**56,637**	**58,437**	**63,881**

3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

NET4GAS, s.r.o.
Separate Statement of Profit or Loss and Other Comprehensive Income

In millions of Czech Crowns	Note	2015	2014
Revenue	7	9,891	8,791
Raw materials consumed	27	(790)	(716)
Services purchased and lease charges	27	(842)	(669)
Employee benefits	27	(466)	(410)
Depreciation and amortisation	9, 10	(2,451)	(2,508)
Impairment		(2)	15
Gains less losses on disposal of property, plant and equipment	9	4	(5)
Changes in fair value of derivatives, net	33	(1)	(137)
Foreign exchange differences, net		30	56
Other operating income	28	970	466
Other operating expenses		(96)	(80)
Operating profit		**6,247**	**4,803**
Finance income	29	17	241
Finance costs	30	(2,216)	(1,415)
Finance result (net)		(2,199)	(1,174)
Profit before income tax		**4,048**	**3,629**
Income tax expense	31	(769)	(658)
PROFIT FOR THE YEAR		**3,279**	**2,971**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	34	(1,023)	(1,489)
Income tax recorded directly in other comprehensive income – cash flow hedge	31	194	283
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(829)**	**(1,206)**
TOTAL COMPREHENSIVE INCOME		**2,450**	**1,765**

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

NET4GAS, s.r.o.
Separate Statement of Changes in Equity

In millions of Czech Crowns	Registered capital	Other reserves	Retained earnings	Total
Balance as at 1 January 2014	**31,793**	**2,143**	**5,382**	**39,318**
Total comprehensive income				
Profit for the year 2014	–	–	2,971	2,971
Cash flow hedge – net of related tax effect	–	(1,206)	–	(1,206)
Transactions with owners				
Reserve fund cancellation	–	(2,114)	2,114	–
Registered capital reduction	(29,043)	–	–	(29,043)
Dividends paid	–	–	(7,491)	(7,491)
Balance as at 31 December 2014	**2,750**	**(1,177)**	**2,976**	**4,549**
Total comprehensive income				
Profit for the year 2015	–	–	3,279	3,279
Cash flow hedge – net of related tax effect	–	(829)	–	(829)
Transactions with owners				
Dividends paid	–	–	(1,566)	(1,566)
Advance dividends paid	–	–	(2,900)	(2,900)
Balance as at 31 December 2015	**2,750**	**(2,006)**	**1,789**	**2,533**

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

NET4GAS, s.r.o.
Separate Statement of Cash Flows

In millions of Czech Crowns	Note	2015	2014
Cash flows from operating activities			
Profit before tax		**4,048**	**3,629**
Adjustments for:			
Depreciation and amortisation	9, 10	2,451	2,508
Finance income	29	(17)	(241)
Finance costs	30	2,216	1,415
Impairment	9, 10	2	(15)
Losses on disposals of property, plant and equipment	9	(4)	5
Dividend income from subsidiary		(957)	(399)
Other non-cash operating expenses / (gains)		97	12
thereof: – provision for penalty for additional CIT return		*40*	*–*
– employee benefit provisions		*30*	*(6)*
– release of unused provision for legal process		*–*	*(25)*
– other		*27*	*43*
Operating cash flows before working capital changes		**7,836**	**6,914**
Decrease / (Increase) in trade and other receivables	15, 16	93	161
Increase / (Decrease) in trade and other payables	25, 26	95	562
Decrease / (Increase) in inventories	13	–	18
Operating cash flows after changes in working capital		8,024	7,655
Interest paid	30	(2,088)	(1,145)
Interest received	29	11	73
Income tax paid	31	(754)	(969)
Net cash flows from operating activities		**5,193**	**5,614**

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

In millions of Czech Crowns	Note	2015	2014
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(539)	(545)
Purchase of intangible assets	10	(44)	(50)
Proceeds from sale of property, plant and equipment	9	31	17
Repayments of loans provided to related parties	14	3,327	14,616
Loans provided to related parties	14	(3,869)	(44,457)* **
Dividends received from subsidiary	28	957	399
Net cash flows used in investing activities		**(137)**	**(30,020)**
Cash flows from financing activities			
Payments of decreased registered capital to the Company's shareholder		–	(2,526)*
Dividends paid to the Company's shareholder	19	(1,566)	(136)**
Advance dividends paid to the Company's shareholder	19	(2,900)	–
Repayment of borrowings	20	(3,890)	(7,680)
Proceeds from borrowings	20	3,118	35,349
Net cash flows from financing activities		**(5,238)**	**25,007**
Net increase in cash and cash equivalents		**(182)**	**601**
Cash and cash equivalents at the beginning of the period	17	1,593	992
Cash and cash equivalents at the end of the period	17	**1,411**	**1,593**

* Liability from decreased registered capital in the amount of CZK 29,403 million was settled as follows: CZK 2,526 million was actually paid and remaining part of CZK 26,517 million was netted with receivables from loan provided to NET4GAS Holdings, s.r.o.

** Dividends declared in the year 2014 were settled as follows: CZK 136 million was actually paid and CZK 7,355 million was netted with receivables from loans provided to NET4GAS Holdings, s.r.o.

The accompanying notes on pages 106 to 161 are an integral part of these financial statements.

NET4GAS, s.r.o. Notes to the Separate Financial Statements

for the year ended 31 December 2015

1. NET4GAS, s.r.o. and Its Operations – General Information

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2015 for NET4GAS, s.r.o. (the "Company" or the "NET4GAS").

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

The Company's main business activity is natural gas transmission in accordance with the Act No. 458/2000 Coll. (the "Energy Act").

Since 2 August 2013 the Company is fully owned by NET4GAS Holdings, s.r.o. (the "NET4GAS Holdings"), incorporated in the Czech Republic, which is the Company's ultimate parent company. NET4GAS Holdings is a joint venture of two venturers: Allianz Infrastructure Czech HoldCo II S.à r.l. (50%) with its registered office in Luxembourg and Borealis Novus Parent B.V. (50%) with its registered office in the Netherlands.

NET4GAS Holdings issued its last financial statements for the year ended 31 December 2014.

Until 31 December 2013 the Company created legal reserve fund from the profit of the Company in accordance with Czech legislation intended for cover of any losses. In accordance with changes in the Czech legislation effective since 1 January 2014 there is no obligation to create and retain legal reserve fund. In 2014 NET4GAS changed the Foundation Deed and used the option to dissolve the legal reserve fund.

The Statutory Directors of the Company:

As at 31 December 2015	As at 31 December 2014
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
Václav Hrach	Václav Hrach (since 1 March 2014)

The members of the Supervisory Board of the Company:

As at 31 December 2015	Function	As at 31 December 2014	Function
Radek Hromek	Member	Radek Hromek	Member
Ralph Adrian Berg	Member	Sebastien Sherman	Member
Melchior Stahl	Member	Ralph Adrian Berg	Member
Jaroslava Korpancová	Member	Melchior Stahl	Member
Lenka Kovačovská (from 26 March 2015)	Member	Jaroslava Korpancová	Member
Kenton Edward Bradbury (from 1 July 2015)	Member		

As at 30 June 2015 Sebastien Sherman ceased to be a Member of the Supervisory Board.

On 26 March 2015 Lenka Kovačovská became member of the Supervisory Board and the change was registered in the Commercial Register on 29 April 2015. Kenton Edward Bradbury became member of the Supervisory Board on 1 July 2015 and the change was registered in the Commercial Register on 29 July 2015.

About the Company. The Company is the exclusive gas transmission system operator in the Czech Republic, operating more than 3,800 km of gas pipelines. NET4GAS is currently operating four compressor stations. The flow rate of the gas transmitted is measured at five border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, and the Waidhaus and Olbernhau stations in Germany) and at almost a hundred national transfer stations. NET4GAS transmission system has been specifically targeted for a number of new projects delivering additional transmission capacity and the greater diversification of transmission routes. These projects have included the construction of the GAZELLE high-pressure gas pipeline (DN 1400), connecting the transmission systems of the Czech Republic and the Federal Republic at the border points Brandov and Rozvadov, and a connection between the Czech and Polish transmission systems in Český Těšín. In parallel with this, the entire NET4GAS transmission system has been upgraded so that it can also be used for reverse flow, which means that it has the capacity and technology to cope with natural gas transmission in any direction.

The Company is the successor to Tranzitní plynovod, n. p., Transgas, a.s. and RWE Transgas Net, s.r.o. The Company's history, stretching back for more than 40 years, also serves as a testimony to the flawless, highly professional work of its employees.

The Company founded BRAWA, a.s. ("BRAWA") as its subsidiary on 10 October 2010. Till 1 January 2013 BRAWA, a.s. was a dormant company. On 1 January 2013, under the legal reorganisation of NET4GAS's business, the GAZELLE pipeline was transferred to BRAWA and BRAWA became the sole owner of the GAZELLE pipeline. The GAZELLE pipeline is operated by NET4GAS, s.r.o.

Note

The separate financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these financial statements takes precedence over the English version.

2. Operating Environment of the Company

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator

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

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

(b) Regulatory framework pertaining to the transmission system operator

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

The 2015 gas transmission prices were established by ERO's Pricing Decision No 4/2014 of 25 November 2014 and No 6/2015 of 25 November 2015 on Regulated Prices related to gas supply.

(c) Current regulatory period

The transmission system operator currently finds itself in the third regulatory period, which began on 1 January 2010 and ends on 31 December 2015. The fourth regulatory period began on 1 January 2016 and ends on 31 December 2018.

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

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

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

3. Summary of Significant Accounting Policies

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

These separate financial statements are the Company's first annual separate financial statements that comply with IFRS. The Company's IFRS transition date in these separate financial statements is 1 January 2014. See note 5 for more information regarding transition to IFRS.

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

Presentation currency. These separate financial statements ("financial statements") are presented in Czech Crowns ("CZK") which is also the functional currency of the Company.

b) Financial instruments – key measurement terms
Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

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

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

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based solely on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 36.

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

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

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

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

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments and are carried at amortized costs.

Derivative financial instruments, including foreign exchange forwards and cross-currency interest rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are designated as hedging instruments, except the changes in the fair value of cross-currency interest rate swaps.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as hedges of a particular risk associated with a fixed commitment or highly probable forecast transaction (cash flow hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 33. Movements on the hedging reserve in other comprehensive income are shown in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Finance income/(costs) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging foreign exchange risk on revenues is recognised in the profit or loss within 'Revenue' or 'Finance income/(costs) – net' if relevant.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss within 'Finance income/(costs) – net'.

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

The Company designates certain financial liabilities as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 3c).

e) Initial recognition of financial instruments
Financial instruments not carried at fair value through profit and loss are initially recognized at fair value plus transaction costs. Financial instruments carried at fair value through profit or loss are initially recognized at fair value, and transactions costs are expensed in the profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

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

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

The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire. The difference between the carrying amount of a derecognised financial liability and the consideration paid is recognised in profit or loss.

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

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

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

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

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

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

When the Company recognises the cost of a replacement for part of the carrying amount of property, plant and equipment, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it was not practicable to determine the carrying amount of the replaced part, the Company used the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

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

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

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

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

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

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

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

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

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

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

l) Investment in subsidiary
Investment in subsidiary is measured at cost less any impairment loss. The transaction costs are capitalised as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such a profession fees for legal services, transfer taxes and other acquisition related costs.

The investment is tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable. If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognised on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognised in profit or loss as gain or loss on disposal. The same applies if the disposal results in a step down from subsidiary to joint venture or an associate measured at cost.

m) Emission Rights
The Company receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Company is required to return rights equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. The emission rights which were granted free of charge are carried at cost, i.e. at zero. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange and such an exchange is deemed to have the economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Company did not recognise any provision resulting from the gas emissions as at 31 December 2015, 31 December 2014 and 1 January 2014.

The amounts of emissions rights held in zero value by the Company were as follows:

In tons	31 December 2015	31 December 2014	1 January 2014
Emission rights	366,825	425,420	355,063

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

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

p) Taxes

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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

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

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

Value added tax

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

q) Uncertain tax positions

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

r) Inventories

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

s) Trade receivables

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

t) Impairment of financial assets carried at amortised cost

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

– any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

– the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;

– the counterparty considers bankruptcy or a financial reorganisation;

– there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

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

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

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

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

u) Prepayments

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

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

Other deposits which are due outside three months after the balance sheet date are not presented as a part of the item Cash and Cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

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

x) Advance dividends paid
The Company's decision to pay an advance dividend is reflected in the financial statements as a decrease in equity as of the date of the payment and is presented on the balance sheet line – Retained earnings.

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

At their initial recognition, all bank credits, loans and emitted bonds are recorded at their purchase price corresponding to the fair value of the received cash funds, less the costs of obtaining the credit or loan or emission of bonds.

Amortised cost is determined by taking into account the costs of obtaining the credit or loan, as well as the discounts or bonuses received at the settlement of the liability.

The Company designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 3c).

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

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

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

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

cc) Financial guarantees
Financial guarantees are irrevocable contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Company expects to receive recurring future premiums from an issued financial guarantee contract, the guarantee is recorded at the premium receivable at the inception of the contract and no receivable is recognised in respect of the future premium payments receivable. The premium receivable in one instalment is amortised on a straight line basis over the period covered by that instalment (for financial guarantee contract, which is in place as at 31 December 2015 this period is twelve months). At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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

ee) Foreign currency translation
The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is Czech Crown ("CZK") which is also its presentation currency.

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

ff) Revenue recognition
The Company recognises as revenue mainly income from fees collected for the gas transmission within and across the Czech Republic.

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

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

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

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

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

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

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

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

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

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

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

Risk related to tax position
NET4GAS was established by way of legal reorganisation of part of the business of RWE Transgas, a.s. ("RWE Transgas") due to the unbundling requirement under the so called Second Energy Package of the European Union, while part of the business of RWE Transgas was contributed to registered capital of NET4GAS. As a result of the unbundling process and related revaluation, the accounting carrying amounts of the gas transmission system were significantly increased (based on an appointed appraiser's valuation) compared to their tax values (i.e. the historical cost based measurement rolled over from the tax books of RWE Transgas, which was the basis for tax depreciation). Due to the temporary differences between the new carrying amounts and the tax values of the transmission system, the deferred tax liability was recorded in 2006 against equity of NET4GAS. ERO has approved the inclusion of accounting depreciation (based on the revalued amounts) of the gas pipeline system in the final price for the inland gas transmission services for regulatory periods between 2005–2009 and 2010–2015. It means that the regulated prices (taxable income) charged by NET4GAS to its customers have been increased by the effect of the accounting depreciation, while the original tax base has been based on the historical costs of the gas pipeline system only.

NET4GAS considered the relation between eligible depreciation and eligible revenues, given by a regulatory formula, as costs directly tied to revenues according to Section 24(2)(zc) of the Income Tax Act, and in the 2008 through 2014 taxable periods, referring to the said provisions of the Income Tax Act, it considered the entire value of eligible depreciation to be a tax deductible expense. This method was reflected also in the calculation of the deferred tax.

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

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

However, during 2015 the Supreme Court decided on the same issue in a case of another company with the similar business activities that the entity was not entitled to tax benefits resulting from applying the accounting depreciation of the gas pipeline system. The Company submitted the supplementary corporate income tax returns and paid up additional income tax charge of CZK 162 million in respect of 2012–2014 years.

In 2015 the tax legislation has changed in favour of the Company. Therefore in 2015 NET4GAS applies the amended Income Tax Act, in which the provision of Section 23(4)(e) governs direct relation between tax non-deductible expenses and revenues. Part of the profits generated by the gas pipeline system will, in management's view, not be taxable. Although the amended favourable rule is new and its application in the Company's specific case may be challenged, management is of a view that it is more likely than not, that the Company sustains its position based on the amended law.

If the Company would not sustain its uncertain tax position in respect of non-taxable income generated by the gas pipeline system, the Company's income tax charge in 2015 would be higher by CZK 2,164 million. The deferred tax liability would be higher by CZK 2,125 million and the current income tax liability would be higher by CZK 39 million.

The national regulator's approach to determining principles of the calculation of the price cap may change from one regulatory period to the next one. The future changes to the regulatory principles cannot be predicted. However, management expects that the general principle that the transmission operator should earn certain reasonable return on capital employed will stay in the regulation. Impracticability of predicting future changes in the regulation is similar to forecasting of future changes in taxes. Therefore management applies similar approach to future changes in regulation as to the changes in tax regulation. The rules applicable in the latest regulatory period are presumed to be applicable also in the future, until the regulator enacts or substantially enacts new regulatory rules. The use of the accounting depreciation of the gas pipeline system in the final price for the inland gas transmission services remains to be effective also in regulatory period 2016–2018 and management expects an unchanged situation on the basis of public information.

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

Finance lease contract with BRAWA
The Company entered into a long-term finance lease contract in January 2013 whereby it leases the GAZELLE pipeline from its subsidiary BRAWA. The contract is expiring 1 January 2035.

In January 2013 the Company recognised finance lease as the leased asset and finance lease liability at amount of CZK 7,312 million which is equal to the fair value of the leased GAZELLE pipeline as the fair value of leased GAZELLE pipeline was lower than the present value of the minimum lease payments (each determined at the inception of the lease) using discount rate equal to the market rate.

Minimum lease payments used in the calculation represent the payments over the lease term that the Company is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to BRAWA, together with any amounts guaranteed by the Company or by a party related to the Company.

Fair value of the leased GAZELLE pipeline used in the calculation represents the carrying value of leased GAZELLE pipeline recognised in BRAWA's financial statements and it reflects the amount for which the leased GAZELLE pipeline was exchanged during its construction between knowledgeable, willing parties in an arm's length transactions (representing mostly tendered price for the construction of the leased GAZELLE pipeline with unrelated parties).

The management of the Company estimated the useful life of the leased GAZELLE pipeline being 70 years and represents the estimated period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the leased GAZELLE pipeline are expected to be consumed by the Company.

5. Adoption of IFRS

Subject to certain exceptions and optional exemptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2015. In preparing these financial statements, the Company has applied the mandatory exceptions and has elected to apply the following optional exemptions from retrospective application:

Investments in subsidiaries, joint venture and associates. The Company applies IFRS in its consolidated financial statements from 2013. Therefore, according to IFRS 1.D17, it measures its assets and liabilities in these separate financial statements at the same amounts as in its consolidated financial statements.

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

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

Estimates exception. Estimates under IFRS at 1 January 2014 and 31 December 2014 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error.

The last financial statements representing the operations of the Company under CZ GAAP were prepared for the year ended 31 December 2014.

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

In millions of Czech crowns	1 January 2014	31 December 2014
NET4GAS, s.r.o. total equity based on CZ GAAP	**39,752**	**5,088**
Measurement of investment in subsidiary – BRAWA*	(439)	(549)
Finance lease – GAZELLE (including tax impacts)**	5	10
NET4GAS, s.r.o. total equity based on IFRS	**39,318**	**4,549**

* Investment in subsidiary BRAWA is measured as of the balance sheet date under IFRS at cost (less any impairment loss if applicable). Investment in subsidiary BRAWA is measured under CZ GAAP using the equity method (re-measurement of the investment is recorded under CZ GAAP in equity).

** The GAZELLE pipeline leased from BRAWA to the Company is capitalised under IFRS in property, plant and equipment. The cost of the GAZELLE pipeline held under the finance lease is not capitalised under CZ GAAP as property, plant and equipment, but lease payments are expensed to statement of profit or loss over the lease period.

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

In millions of Czech crowns	Year ended 31 December 2014
NET4GAS, s.r.o profit for the year based on CZ GAAP	**2,966**
Finance lease – GAZELLE (including tax impacts)*	5
Other comprehensive income based on IFRS	(1,206)
NET4GAS, s.r.o total comprehensive income for the year based on IFRS	**1,765**

* See the note above

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

– Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

– Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

– Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

– Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

– IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

– Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Company does not intend to adopt the existing version of IFRS 9. Management is currently assessing the impact of the standard on the financial statements of the Company.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Company is currently assessing the impact of the new standard on its financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management is currently assessing the impact of the standard on the financial statements of the Company.

Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. Management is currently assessing the impact of the standard on the financial statements of the Company.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Company is currently assessing the impact of the amendment on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Company when adopted:

– IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).

– Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

– Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

– Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).

– Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

– Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

– Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

– Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

– Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

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

7. Segment Information

(a) Description of products and services from which each reportable segment derives its revenue
The Company is organised on the basis of one main business segment – Natural gas transmission (representing natural gas transmission services).

(b) Factors that management used to identify the reportable segments
Refer to the information in Note 4.

(c) Information about reportable segment profit or loss, assets and liabilities
The Company is considered as one reportable segment. Segment information for the reportable segment is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	Year 2015	**Year 2014**
Revenues from core activities	9,891	8,791
Foreign exchange differences, net	30	56
Other operating income	970	466
Other finance income	17	241
Revenue	**10,908**	**9,554**
Raw materials and consumables used	790	716
Employee benefits	466	410
Depreciation and amortization	2,451	2,508
Impairment	2	(15)
Services and lease charges	842	669
Gains less losses on disposals of property, plant and equipment	(4)	5
Other operating expenses	96	80
Income tax expense	769	658
Derivatives	1	137
Finance costs	2,216	1,415
Segment profit for the year	**3,279**	**2,971**
Segment other comprehensive income	**(829)**	**(1,206)**
Total comprehensive income for the year	**2,450**	**1,765**
Capital expenditures	**673**	**491**

In millions of Czech crowns	Natural gas transmission	Natural gas transmission	Natural gas transmission
	31 December 2015	**31 December 2014**	**1 January 2014**
Total reportable segment Assets	**56,637**	**58,437**	**63,881**
Total reportable segment Liabilities	**54,104**	**53,888**	**24,563**

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets.

(d) Geographical information
Total revenues for geographical areas for which the revenues are material are reported separately and disclosed below.

The analysis is based on domicile of shippers (users of transmission system that is operated by the Company in the Czech Republic).

In millions of Czech Crowns	2015	2014
Czech Republic	1,738	1,306
Other EU countries	2,382	2,271
Non-EU countries	5,771	5,214
Total revenues from core activities	**9,891**	**8,791**

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

In millions of Czech Crowns	2015	2014
Czech Republic	673	491
Total capital expenditure	**673**	**491**

The analysis is based on location of assets. Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(e) Major customers
Revenues from customers that represent 10% of more of the total revenues are as follows:

In millions of Czech Crowns	2015	2014
Customer 1	5,547	6,590
Customer 2	1,345	1,004
Customer 3	1,310	–
Total revenues from major customers	**8,202**	**7,594**

Revenues comprise revenues from core activities.

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

In year 2014, the Customer 3 has been classified as part of customer 1 (under common control). Based on the information available in 2015 and as of the date of issue of this financial statements, the Customer 3 is not under common control of Customer 1 and is therefore classified in 2015 separately.

8. Balances and Transactions with Related Parties

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

Since 2 August 2013 the Company is fully owned by NET4GAS Holdings, s.r.o. and NET4GAS Holdings, s.r.o. is the ultimate parent company of the Company. NET4GAS Holdings is a joint venture of two venturers: Allianz Infrastructure Czech HoldCo II S.à r.l. (50%) and Borealis Novus Parent B.V. (50%).

The Company's balances and transactions with subsidiaries of ultimate parent of Allianz Infrastructure Czech HoldCo II S.à r.l. and subsidiaries of ultimate parent of Borealis Novus Parent B.V. are disclosed below within the category Subsidiaries of joint venturers' ultimate parents.

At 31 December 2015, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiary	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Gross amount of trade and other receivables			
BRAWA, a.s.	1	–	–
Trade and other payables			
BRAWA, a.s.	18	–	–
Loans to related parties (Note 14)			
NET4GAS Holdings, s.r.o.	–	–	1,886
Finance lease liability (Note 21)			
BRAWA, a.s. – non-current	6,888	–	–
– current	197	–	–
Advance dividend paid (Note 19)			
NET4GAS Holdings, s.r.o.	–	–	2,900
Borrowings (Note 20)			
Loans (contractual interest rate 6.3%, repayable on 28 July 2044)			
– Allianz Infrastructure Luxembourg I S.á r.l.	–	5,500	–
– Borealis Novus Holdings B.V.	–	5,500	–

The income and expense items with related parties for the year ended 31 December 2015 were as follows:

In millions of Czech crowns	Subsidiary	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Purchases / expenses			
BRAWA, a.s. – interest expense from finance lease	512	–	–
BRAWA, a.s. – services	36	–	–
Borealis Novus Holdings B.V. – interest expense	–	352	–
Allianz Infrastructure Luxembourg I S.á r.l. – interest expense	–	352	–
Other revenues			
NET4GAS Holdings, s.r.o. – interest income	–	–	12
NET4GAS Holdings, s.r.o. – services	–	–	1
BRAWA, a.s. – services	12	–	–

At 31 December 2014, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiary	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Gross amount of trade and other receivables			
BRAWA, a.s.	2	–	–
Trade and other payables			
BRAWA, a.s.	18	–	–
Loans to related parties (Note 14)			
NET4GAS Holdings, s.r.o.	–	–	1,371
Finance lease liability (Note 21)			
BRAWA, a.s. – non-current	6,999	–	–
– current	199	–	–
Borrowings (Note 20)			
Loans (contractual interest rate 6.3%, repayable on 28 July 2044)			
– Allianz Infrastructure Luxembourg I S.á r.l.	–	5,500	–
– Borealis Novus Holdings B.V.	–	5,500	–
Loans from BRAWA, a.s. – current	662	–	–

The income and expense items with related parties for the year ended 31 December 2014 were as follows:

In millions of Czech crowns	Subsidiary	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Purchases / expenses			
NET4GAS Holdings, s.r.o. – interest expense, services	–	–	278
BRAWA, a.s. – interest expense from finance lease	529	–	–
BRAWA, a.s. – interest expense other	1	–	–
BRAWA, a.s. – services	42	–	–
Borealis Novus Holdings B.V. – interest expense	–	147	–
Allianz Infrastructure Luxembourg I S.á r.l. – interest expense	–	147	–
Other revenues			
NET4GAS Holdings, s.r.o. – interest income	–	–	61
NET4GAS Holdings, s.r.o. – services	–	–	56
BRAWA, a.s. – services	14	–	–

At 31 December 2015 and 2014 the Company did not have any other rights and obligations connected to related parties.

At 1 January 2014, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiary	Immediate parent
Gross amount of trade and other receivables		
NET4GAS Holdings, s.r.o.	–	15
BRAWA, a.s.	17	–
Trade and other payables		
BRAWA, a.s.	24	–
Loans to related parties (Note 14)		
NET4GAS Holdings, s.r.o.	–	5,401
Finance lease liability (Note 21)		
BRAWA, a.s. – non-current	7,109	–
– current	200	–
Borrowings (Note 20)		
Loans (contractual interest rate 4.22%, repayable in 2021)		
– NET4GAS Holdings, s.r.o.	–	11,000
Loans from BRAWA, a.s. – current	484	–

At 1 January 2014, other rights and obligations connected to related parties were as follows:

In millions of Czech crowns	Immediate parent
Guarantees issued by the Company	26,449

Key management compensation is presented below:

	2015		2014	
In millions of Czech Crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
– Salaries	57	15	58	12
– Short-term bonuses	6	8	1	2
Other long-term employee benefits:				
– Long-term bonus scheme	10	29	8	19
– Defined contribution benefits	4	3	5	3
Total	**77**	**55**	**72**	**36**

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

Key management represents Statutory Directors and Heads subordinating to them.

9. Property, Plant and Equipment

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

In millions of Czech Crowns	Freehold Land	Buildings and structures	Buildings and structures under finance lease	Plant and equipment	Construction in progress	Total
Cost at 1 January 2014	184	52,960	7,312	5,700	83	66,239
Accumulated depreciation	–	(13,001)	(104)	(3,969)	0	(17,074)
Carrying amount at 1 January 2014	**184**	**39,959**	**7,208**	**1,731**	**83**	**49,165**
Additions	–	–	–	–	441	441
Transfers	1	164	–	153	(318)	–
Disposals	(1)	–	–	(1)	0	(2)
Depreciation charge	–	(1,742)	(104)	(583)	0	(2,429)
Carrying amount at 31 December 2014	**184**	**38,381**	**7,104**	**1,300**	**206**	**47,175**
Cost at 31 December 2014	184	53,736	7,312	5,321	206	66,759
Accumulated depreciation	–	(15,355)	(208)	(4,021)	0	(19,584)
Carrying amount at 31 December 2014	**184**	**38,381**	**7,104**	**1,300**	**206**	**47,175**
Additions	–	–	–	–	629	629
Transfers	(5)	171	–	343	(509)	–
Disposals	–	(2)	–	(1)	0	(3)
Depreciation charge	–	(1,780)	(104)	(507)	0	(2,391)
Carrying amount at 31 December 2015	**179**	**36,770**	**7,000**	**1,135**	**326**	**45,410**
Cost at 31 December 2015	179	53,680	7,312	5,624	326	67,121
Accumulated depreciation	–	(16,910)	(312)	(4,489)	0	(21,711)
Carrying amount at 31 December 2015	**179**	**36,770**	**7,000**	**1,135**	**326**	**45,410**

In 2015, construction in progress consists mainly of construction of Czech-Polish interconnector gas pipeline in the amount of CZK 110 million (2014: CZK 40 million). Upon completion, assets are transferred to buildings and structures. Other items represent smaller projects.

The Company leases GAZELLE pipeline under non-cancellable finance lease agreement. The lease period is 22 years and ownership of the assets lies within the lessor.

10. Intangible Assets

In millions of Czech Crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Cost at 1 January 2014	370	73	15	20	478
Accumulated amortisation	(259)	(59)	(6)	–	(324)
Carrying amount at 1 January 2014	**111**	**14**	**9**	**20**	**154**
Additions	–	–	–	50	50
Transfers	30	–	8	(38)	–
Amortisation charge	(71)	(5)	(2)	–	(78)
Carrying amount at 31 December 2014	**70**	**9**	**15**	**32**	**126**
Cost at 31 December 2014	397	60	23	32	512
Accumulated amortisation	(327)	(51)	(8)	–	(386)
Carrying amount at 31 December 2014	**70**	**9**	**15**	**32**	**126**
Additions	–	–	–	44	44
Transfers	43	–	–	(43)	–
Amortisation charge	(53)	(4)	(3)	–	(60)
Carrying amount at 31 December 2015	**60**	**5**	**12**	**33**	**110**
Cost at 31 December 2015	416	57	23	33	529
Accumulated amortisation	(356)	(52)	(11)	–	(419)
Carrying amount at 31 December 2015	**60**	**5**	**12**	**33**	**110**

11. Investment in Subsidiary

The Company's interest in its subsidiary as at 1 January 2014, 31 December 2014 and 31 December 2015 was as follows:

Name	Activity	Carrying amount of the investment (CZK million)	% ownership interest held (% of voting rights if different)	Principal place of business	% ownership interest held	% of voting rights (if different than % ownership interest held)
Subsidiary:						
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	7,476	100 %	Czech Republic	100 %	100 %
Total		**7,476**				

BRAWA, a.s. with its registered office at Na Hřebenech II 1718/18, Prague – Nusle was incorporated on 27 October 2010. The company was registered in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 16622, on 10 November 2010.

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 subsidiary BRAWA, a.s. The carrying value of transferred assets as at 1 January 2013 was CZK 7,076 million. On 15 January 2013 the gas pipeline GAZELLE was put into operation. On 25 January 2013 the registered capital of BRAWA, a.s. was increased by CZK 400 million.

12. Other Non-Current Assets

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Advances for acquisition of fixed assets	1	16	1
Total other non-current assets	**1**	**16**	**1**

13. Inventories

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Raw materials	65	65	50
Total inventories	**65**	**65**	**50**

Raw materials are mainly general spare parts for the gas transmission system.

Inventories as at 31 December 2015 of CZK nil million (31 December 2014: CZK nil million, 1 January 2014: CZK 33 million) are valued at net realisable value.

14. Loans to Related Parties

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Corporate loans			
– denominated in Czech Crowns	–	168	5,291
– denominated in Euros	1,886	803	110
– denominated in US Dollars	–	400	–
Total loans issued	**1,886**	**1,371**	**5,401**

Loans to related parties as at 31 December 2015 mature on 31 March 2016 (31 December 2014: 23 March 2015).

Analysis by credit quality of loans outstanding is as follows:

In millions of Czech crowns	31 December 2015 Corporate loans	31 December 2014 Corporate loans	1 January 2014 Corporate loans
Neither past due nor impaired			
– NET4GAS Holdings, s.r.o. – parent company (without external rating)	1,886	1,371	5,401
Total neither past due nor impaired	**1,886**	**1,371**	**5,401**
Total loans issued	**1,886**	**1,371**	**5,401**

There are no collaterals related to the above mentioned loans.

Refer to Note 36 for the estimated fair value of each class of loans. Interest rate analysis of loans is disclosed in Note 34. Information on related party transactions is disclosed in Note 8.

15. Trade and Other Receivables

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Trade and estimated receivables	128	181	381
Less impairment loss provision	(3)	(1)	(1)
Total current trade and other receivables	**125**	**180**	**380**

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

In millions of Czech crowns	31 December 2015 Trade and estimated receivables	31 December 2014 Trade and estimated receivables	1 January 2014 Trade and estimated receivables
Neither past due nor impaired – exposure to			
– Between A- and BBB-*	87	115	203
– Not rated	41	62	176
Total neither past due nor impaired	128	177	379
Past due but not impaired			
– less than 30 days overdue	–	4	2
Total past due but not impaired	–	4	2
Individually determined to be impaired (gross)			
– 360 days or more overdue	3	1	1
Total individually impaired	3	1	1
Less impairment provision	(3)	(1)	(1)
Total	**125**	**180**	**380**

* Rating disclosed is equivalent credit rating from the third party rating agencies defined in the Network Code approved by ERO which is applicable for the Company.

16. Other Non-Financial Assets

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Value-added tax	16	58	24
Prepayments for services	36	38	25
Other receivables	7	–	9
Total current non-financial assets	**59**	**96**	**58**

Movements in prepayments are as follows:

In millions of Czech crowns	Prepayments for services
Carrying value at 1 January 2014	**25**
Additions	38
Prepayments derecognised on receipt of related goods or services and settled VAT	(25)
Total prepayments at 31 December 2014	**38**
Additions	36
Prepayments derecognised on receipt of related goods or services and settled VAT	(38)
Total prepayments at 31 December 2015	**36**

17. Cash and Cash Equivalents

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Bank balances available on demand	874	1,593	292
Term deposits with original maturity of less than three months	–	–	700
Deposit bills of exchange with original maturity of less than three months	537	–	–
Total cash and cash equivalents	**1,411**	**1,593**	**992**

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

In millions of Czech Crowns	31 December 2015 Bank balances payable on demand	31 December 2015 Deposit bills of exchange	31 December 2014 Bank balances payable on demand	1 January 2014 Bank balances payable on demand	1 January 2014 Term deposits
Neither past due nor impaired					
– BBB+ to BBB- rated	791	–	–	–	–
– A+ to A- rated	83	537	1,593	292	700
Total	**874**	**537**	**1,593**	**292**	**700**

18. Assets of Disposal Group Held for Sale

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Assets of disposal group held for sale	–	28	34
Total Assets of disposal group held for sale	**–**	**28**	**34**

There are no liabilities related to the disposal group. Based on the planned sale of a special maintenance facility in Brno the Company recognised a group of assets as held for sale as at 31 December 2014 (as at 1 January 2014: maintenance facility and one compressor station). The Company sold the special maintenance facility in Brno in March 2015.

19. Equity

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

Dividends declared and paid during the year were as follows:

In millions of Czech crowns	2015	2014
Dividends payable at 1 January	–	–
Dividends declared and paid during the year	1,566	7,491
Dividends payable at 31 December	–	–

Advance dividends paid during the year were as follows:

In millions of Czech crowns	2015	2014
Advance dividends paid	2,900	–
Total advance dividends paid	**2,900**	**–**

All dividends were declared in Czech Crowns and paid in a different currency mix (CZK, EUR and USD).

On 8 December 2015 and on 17 December 2015, the Statutory Directors of the Company decided about the advance dividends payments of CZK 2,900 million in total. The payment of the advance dividends is subsequently subject to approval of the general meeting of the sole shareholder of the Company. The advance dividend payment was recognised as a decrease in equity as at the date of the payment.

20. Borrowings

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Borrowings from related party – BRAWA – current	–	662	484
Borrowing from related party (repayable in 2021) – non-current	–	–	11,000
Subordinated borrowings from related parties (repayable on 28 July 2044)	11,000	11,000	–
Current portion of bank and bond financing borrowings			
– CZK denominated bank borrowings	–	21	–
– USD denominated bank borrowings	–	4	–
– CZK denominated bond	119	69	–
– EUR denominated bond	72	91	–
– EUR denominated bond	61	68	–
– EUR denominated bond – issued in 2015	16	–	–
Non-current bank and bond financing borrowings			
– CZK denominated bank borrowings (repayable on 28 July 2018)	5,724	7,094	–
– USD denominated bank borrowings (repayable on 28 July 2018)	1,334	1,223	–
– CZK denominated bond (repayable on 28 January 2021)	6,936	6,905	–
– EUR denominated bond (repayable on 28 July 2021)	8,042	8,221	–
– EUR denominated bond (repayable on 28 July 2026)	4,289	4,392	–
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	1,345	–	–
Total borrowings – current	268	915	484
Total borrowings – non-current	38,670	38,835	11,000
Total borrowings	**38,938**	**39,750**	**11,484**

Borrowings from related parties
In 2014, the Company has realised its project of recapitalization by changing the structure of borrowings from related parties, acquiring external debts, decreasing the registered capital and distributing retained earnings. The existing shareholder loan was early repaid in July 2014 and two new borrowings from related parties were acquired, amounted to CZK 6 million each. The new borrowings from related parties have subordination clause, non-callable features, contractual interest rate of 6.3 % and maturity on 28 July 2044.

The Company also uses so called cash-pooling with its subsidiary BRAWA, a.s. and the relevant borrowings are recognised as current borrowings from related parties.

Bank borrowings and bonds
In 2014, the Company has acquired bank borrowings and issued bonds. The bank borrowings were acquired pari-passu as well as bonds were issued pari-passu and have the senior position to the subordinated borrowings from related parties. The bank borrowings were denominated in CZK and USD.

Further, the Company acquired the committed revolving / CAPEX facility in equivalent of CZK 2,703 million (EUR 100 million). The CAPEX facility might be utilized in CZK, EUR or USD. In 2015 and 2014 the CAPEX facility was undrawn.

In January 2015, the Company issued additional bond with maturity on 28 July 2026 and with nominal amount of CZK 1,397 million (EUR 50 million). The proceeds were used for partial repayment of the existing bank borrowing denominated in CZK.

Seven banks with different share participated on the total bank borrowings as at 31 December 2015 and 2014.

There is no collateral related to the above mentioned bank borrowings or bonds.

The bank borrowings and bonds have no quantitative financial covenants. There are several qualitative covenants applied, i.e. negative pledge, change of control put and loss of finance put. Violation of these covenants can lead to immediate maturity of the debt.

The Company has a limited right to lien its property in favour of another creditor due to conditions stated in bank and bond financing contracts.

Bank borrowings and bonds denominated in foreign currency represent a constituent of hedge accounting, which represents the hedging instrument for securing of foreign exchange risk associated with a highly probable forecasted future cash flows resulting from natural gas transmission revenues (cash flow hedge) – Note 34, Note 3d).

Bonds issued:

In millions of Czech Crowns	Emission nominal value	Due date	Annual coupon repayment due date	31 December 2015	31 December 2014
Bond EUR, serial no. 1, ISIN XS1090450047	300,000,000 EUR	28 Jul 2021	Each 28.7. in arrears	8,114	8,311
Bond EUR, serial no. 2, ISIN XS 1090449627	160,000,000 EUR	28 Jul 2026	Each 28.7. in arrears	4,350	4,460
Bond CZK, serial no. 3, ISIN XS1090620730	7,000,000,000 CZK	28 Jan 2021	Each 28.1. in arrears	7,066	6,974
Bond EUR, serial no. 4, ISIN XS 1172113638	50,000,000 EUR	28 Jul 2026	Each 28.7. in arrears	1,361	–
Total bonds				**20,891**	**19,745**

Coupon rates to the above mentioned bonds are in range of 2.25% – 3.5% p.a. On 28 July 2014 bonds, serial no. 1 – 3, were accepted for trading on a regulated market of the Irish Stock Exchange PLC. The terms of issue of all above stated bonds have been approved by the decision of the Central Bank of Ireland. The 2015 bond, serial no. 4, was issued via private placement.

The fair value of borrowings is disclosed in Note 36.

21. Finance lease liability

Minimum lease payments under finance leases and their present values are as follows:

In millions of Czech Crowns	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2015	624	2,418	21,011	24,053
Less future finance charges	427	1,976	14,565	16,968
Present value of minimum lease payments at 31 December 2015	**197**	**442**	**6,446**	**7,085**
Minimum lease payments at 31 December 2014	633	2,450	21,604	24,687
Less future finance charges	434	2,008	15,047	17,489
Present value of minimum lease payments at 31 December 2014	**199**	**442**	**6,557**	**7,198**
Minimum lease payments at 1 January 2014	641	2,483	22,204	25,328
Less future finance charges	441	2,041	15,537	18,019
Present value of minimum lease payments at 1 January 2014	**200**	**442**	**6,667**	**7,309**

Leased assets with a carrying amount disclosed in Note 9 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

22. Government and Other Grants

The Company obtained grants from the European Commission for construction projects specified below and deducted the grant value from the carrying amount of the related property, plant and equipment when all conditions attached to the grant were fulfilled. In 2014 the Company did not receive any grant from the European Commission. In 2013 the Company received a grant of CZK 7 million (in 2014 the revalued amount corresponds to CZK 7 million and in 2015 to CZK 7 million) for Action no. 2011-G190/11-ENER/11/TEN-E-SI2.636400 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks. The Company has not complied with all attached conditions as at 31 December 2015 and 2014 and therefore the amount received was presented as part of other non-financial liabilities (Note 26). During 2015, the Company received grants from the European Commission of CZK 10 million and part of this amount CZK 3 million was deducted from the carrying amount of property, plant and equipment in 2015.

23. Other Taxes Payable

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Other taxes payable within one year comprise:			
Property and other taxes	5	6	6
Social and health insurance	11	17	12
Other taxes payable – current	**16**	**23**	**18**

24. Provisions for Liabilities and Charges

Movements in provisions are as follows:

	2015		2014	
In millions of Czech Crowns	Current	Non-current	Current	Non-current
Carrying amount at January 1	**–**	**175**	**25**	**192**
Additions charged to profit or loss	40	5	–	1
Unused amounts reversed	–	(3)	(25)	(18)
Carrying amount at December 31	**40**	**177**	**–**	**175**

The non-current provisions as at 31 December 2015 and 2014 and as at 1 January 2014 were primarily set aside for restructuring on selected compressor stations. The non-current restructuring provisions as at 31 December 2015 are expected to be utilised in 2021 (as at 31 December 2014: until 2016).

25. Trade and Other Payables

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Trade payables	145	388	171
Liabilities for purchased property, plant and equipment	155	114	205
Accrued liabilities	207	195	110
Received deposits from customers	126	150	28
Other liabilities	7	5	7
Total financial payables within trade and other payables – current	**640**	**852**	**521**

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Other payables	2	4	5
Total financial payables within other payables – non-current	**2**	**4**	**5**

26. Accrued Employees Benefits and Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Accrued employee benefits			
– Salaries and bonuses	21	20	28
– Defined contribution costs	20	6	37
Advance payments received	304	183	–
Other non-financial liabilities	2	–	2
Total other non-financial liabilities – current	**347**	**209**	**67**

In millions of Czech crowns	31 December 2015	31 December 2014	1 January 2014
Accrued employee benefits – other long-term benefits	68	53	29
Grant pre-payments received (Note 22)	15	7	7
Total other non-financial liabilities – non-current	**83**	**60**	**36**

27. Expenses

In millions of Czech crowns	2015	2014
Raw materials consumed*	790	716
Salaries	*297*	*290*
Statutory and private pension contribution	*169*	*120*
Employee benefits	466	410
Depreciation and amortisation	2,451	2,508
Impairment	2	(15)
Repairs and maintenance services	*144*	*182*
Flexibility costs	*330*	*69*
IT & Telecommunications expenses	*104*	*103*
Lease charges	*94*	*98*
Other services	*170*	*217*
Services purchased and lease charges	842	669
Losses / (gains) on disposal of fixed assets	(4)	5
Losses / (gains) on derivative financial instruments	1	137
Foreign exchange losses / (gains) recognised through profit and loss	(30)	(56)
Other operating expenses	96	80
Total operating expenses	**4,614**	**4,454**

* Represents mainly consumption of natural gas.

28. Other operating income

In millions of Czech crowns	2015	2014
Dividend from subsidiary for financial year 2015 – received in December 2015 for period of 11 months ended 30 November 2015*	408	–
Dividend from subsidiary for year 2014 – received in March 2015	549	–
Dividend from subsidiary for year 2013 – received in June 2014	–	399
Other operating income	13	67
Total other operating income	**970**	**466**

* By the decision of the sole shareholder of BRAWA, a.s dated 4 August 2015, the company NET4GAS, s.r.o. in the course of General Meeting of BRAWA, a.s. has changed its statutes in article 29/3, which is connected with accounting period of BRAWA, a.s. With the effect from 2015, the new accounting period of BRAWA, a.s. ends 30 November. Accounting period for year 2015 begins on 1 January 2015 and ends on 30 November 2015. Accounting period 2016 and the following period will start on 1 December of the previous calendar year and end on 30 November of the current calendar year.

29. Finance Income

In millions of Czech crowns	2015	2014
Net foreign exchange differences on financing activities	–	177
Interest income on other financial assets	15	64
Other finance income	2	–
Total finance income recognised in profit or loss	**17**	**241**

30. Finance Costs

In millions of Czech crowns	2015	2014
Net foreign exchange differences on financing activities	260	–
Interest expense – finance lease	521	529
Interest expense – other	1,369	869
Other finance costs	66	17
Total finance costs recognised in profit or loss	**2,216**	**1,415**

31. Income Taxes

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

(a) Components of income tax expense

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

In millions of Czech crowns	2015	2014
Supplementary income tax return for prior years filed (Note 4)	(162)	–
Current income tax expense for the year	(808)	(826)
Deferred income tax credit	201	168
Income tax expense for the year in profit and loss	**(769)**	**(658)**

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

The income tax rate applicable to the majority of the Company's 2015 and 2014 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2015	2014
Profit before tax	4,048	3,629
Theoretical tax charge at statutory rate of 19%:	(769)	(689)
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-taxable items – Dividend income from subsidiary	182	76
– Non-deductible expenses	(18)	(48)
Difference between current income tax provision and final current income tax return	(4)	2
Supplementary income tax return for prior years (2012–2014) (Note 4)	(162)	–
Other effects	2	1
Income tax expense for the year	**(769)**	**(658)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of Czech Crowns	1 January 2015	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(4,688)	188	–	(4,500)
Other liabilities; tax deductible in different period	11	13	–	24
Provisions for liabilities and charges	33	–	–	33
Cash flow hedges	283	–	194	477
Net deferred tax asset/(liability)	**(4,361)**	**201**	**194**	**(3,966)**

Management estimates that net deferred tax liabilities of CZK 3,892 million (2014: CZK 4,471 million, 1 January 2014: 4,651 million) are recoverable after more than twelve months after the end of the reporting period.

The tax effect of the movements in the temporary differences for the year ended 31 December 2014 are:

In millions of Czech Crowns	1 January 2014	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(4,871)	183	–	(4,688)
Other liabilities; tax deductible in different period	12	(1)	–	11
Provisions for liabilities and charges	41	(8)	–	33
Provision for inventories	6	(6)	–	–
Cash flow hedges	–	–	283	283
Net deferred tax asset/(liability)	**(4,812)**	**168**	**283**	**(4,361)**

(d) Tax effects in the other comprehensive income

Disclosure of tax effects relating to other comprehensive income:

	2015			2014		
In millions of Czech Crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	(2,512)	477	(2,035)	(1,489)	283	(1,206)
Other comprehensive income for the period	**(2,512)**	**477**	**(2,035)**	**(1,489)**	**283**	**(1,206)**

32. Contingencies and Commitments

Operating lease commitments in respect of lease agreements for offices Kavčí hory Office Park and car fleet are as follows:

In millions of Czech crowns	2015	2014
Not later than 1 year	51	49
Later than 1 year and not later than 5 years	–	49
Total operating lease commitments	**51**	**98**

Capital expenditure commitments. At 31 December 2015 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling CZK 198 million mainly related to Optimus project – optimisation project on compressor stations of CZK 98 million (31 December 2014: CZK 19 million).

Guarantees. The Company recorded its obligations arising from financial guarantees (Note 3 dd)) in respect of bank borrowings that have been provided to the parent company NET4GAS Holdings, s.r.o. as at 1 January 2014 in total amount of CZK 26,449 million. The bank borrowings provided to the parent company NET4GAS Holdings, s.r.o. were repaid during 2014 so the Company did not record any obligations from financial guarantees as at 31 December 2014 and 2015.

The fee related to financial guarantee contract as at 1 January 2014 at carrying amount of CZK 15 million was recognised as part of Trade and other receivables.

Assets pledged and restricted. In connection with guarantees issued for bank borrowings that have been provided to the parent company NET4GAS Holdings, s.r.o. there were following pledges existing: commercial enterprise pledge, bank accounts pledge, pledge of insurance, pledge of receivables, pledge of shares in BRAWA.

In connection with the Company's bank borrowings, the Company has a limited right to lien its property in favour of another creditor (due to conditions stated in bank borrowings contracts).

Leased assets with a carrying amount disclosed in Note 9 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

33. Derivative Financial Instruments

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under cross–currency interest rate swaps and foreign exchange forward and swap contracts entered into by the Company. The table reflects gross positions before the offsetting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period.

Cross currency interest rate swap contracts are long-term while foreign exchange forward and swap contracts are short-term in nature. The respective part of fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

The Company did not have any other derivative financial instruments besides cross currency interest rate swaps and foreign exchange derivatives.

The disclosure below provides aggregated overview of the fair value of receivable and payable legs of individual contracts per currency mix.

	31 December 2015			
	Current		Non-Current	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Cross currency interest rate swaps: fair values, as at the reporting period, of				
EUR/USD currency mix				
– USD payable on settlement (-)	–	(562)	–	(13,910)
– EUR receivable on settlement (+)	–	287	–	11,495
EUR/CZK currency mix				
– CZK payable on settlement (-)	–	(39)	–	(1,730)
– EUR receivable on settlement (+)	–	38	–	1,611
Net fair value of cross currency interest rate swaps	**–**	**(276)**	**–**	**(2,534)**

Inputs used: Market data provided by commercial bank holding the related instruments

	31 December 2014			
	Current		Non-Current	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Cross currency interest rate swaps: fair values, as at the reporting period, of				
– USD payable on settlement (-)	–	(510)	–	(13,144)
– EUR receivable on settlement (+)	–	294	–	12,104
Net fair value of cross currency interest rate swaps	**–**	**(216)**	**–**	**(1,040)**

Inputs used: Market data provided by commercial bank holding the related instruments

	1 January 2014	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, as at the reporting period, of		
– CZK receivable on settlement (+)	204	985
– USD payable on settlement (-)	(202)	(1,007)
– CZK receivable on settlement (+)	–	969
– EUR payable on settlement (-)	–	(1,038)
Net fair value of foreign exchange forwards – current	**2**	**(91)**

	1 January 2014	
In millions of Czech Crowns	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps: fair values, as at the reporting period, of		
– USD payable on settlement (-)	–	438
– EUR receivable on settlement (+)	–	(441)
Net fair value of foreign exchange swaps – current	**–**	**(3)**

The Company had no outstanding obligations from foreign exchange forwards and foreign exchange swaps as at 31 December 2015 and 2014 since all these derivatives were settled during 2014.

Cross currency interest rate swaps, foreign exchange forwards and foreign exchange swaps entered into by the Company are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Aforementioned financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates, market interest rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly during the life time of derivatives.

Cross currency interest rate swaps
The nominal principal amounts of the outstanding cross currency interest rate swap contracts at 31 December 2015 were EUR 410 million / USD 484 million / CZK 1,397 million (2014: EUR 360 million / USD 484 million / CZK nil). All cross currency interest rate swaps have fixed interest rates on both legs. At 31 December 2015, the fixed interest rates vary from 2.50% to 5.23% p.a. (as at 31 December 2014: 2.50% to 5.23% p.a.).

The Company designates certain cross currency interest rate swaps, in combination with bonds denominated in EUR, as hedging instrument of a foreign exchange risk associated with a highly probable forecasted cash flows from natural gas transmission revenues (cash flow hedge) – Note 34, Note 3d).

The Company designates certain cross currency interest rates swaps as hedging instrument of a foreign exchange risk associated with a highly probable forecasted cash flows from bond issued (cash flow hedge) – Note 34, Note 3d).

34. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises financial market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk. The Company takes on exposure to credit risk, which is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of cash and cash equivalents held with banks, loans provided to related parties, the Company's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved by management. The risks are monitored on a revolving basis and are subject to a monthly review. The Company is exposed to credit concentration risk considering the receivables from some financial institutions.

The credit risk is mitigated by advance payments and a system of creditworthiness conditions which are applied to the Company's customers, suppliers of services with potential significant credit position (flexibility contract, gas sales contract) and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentations and internal guidelines.

Within the creditworthiness conditions, each company is eligible to obtain a credit limit subject to presenting a credit rating from the defined third party agencies or is required to deliver the credit mitigation instruments such as cash collateral, parent company guarantee or bank guarantee. The impact of possible offsetting of assets and liabilities to reduce potential credit exposure is not significant.

The Company's management reviews ageing analysis of outstanding trade and other receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 15 and in Note 17.

Market risks. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets a strategy for each of the risk, including a limit on open position that may be accepted. Monitoring is performed continuously but minimum on a monthly basis.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. The Company treasury's risk management policy is to hedge the long-term contracted cash flows (mainly revenues from the gas transmission) in each major foreign currency up until 2034. Management approves the strategy of the currency risk management. The positions are monitored continuously but at minimum on monthly basis. The amount of risk is evaluated in terms of open positions.

The offsetting of currency positions is applied where possible. When needed the outstanding positions are managed by means of buying or selling the relevant currency in the short term derivative future or swap contract (no short term derivative contracts are reported as at 31 December 2015 and 2014).

The table below summarises the Company's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2015				At 31 December 2014			
In millions of Czech Crowns	Monetary financial assets	Monetary financial liabilities	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives (liabilities)	Net position
US Dollars	48	1,334	12,009	(13,295)	425	1,223	11,047	(11,844)
Euros	2,257	13,844	(11,080)	(507)	1,073	12,857	(9,981)	(1,804)
Other	–	–	–	–	–	5	–	(5)
Total exposed to currency risk	**2,305**	**15,178**	**929**	**(13,802)**	**1,498**	**14,085**	**1,066**	**(13,653)**
Czech Crowns	1,007	31,275	1,398	(31,666)	1,479	33,112	–	(31,633)
Total	**3,312**	**46,453**	**2,327**	**(45,468)**	**2,977**	**47,197**	**1,066**	**(45,286)**

	1 January 2014			
In millions of Czech Crowns	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
US Dollars	201	2	(20)	179
Euros	267	144	(72)	51
Total exposed to currency risk	**468**	**146**	**(92)**	**230**
Czech Crowns	6,264	19,125	–	(12,861)
Total	**6,732**	**19,271**	**(92)**	**(12,631)**

As at 31 December 2015 and 2014 and as at 1 January 2014 the only outstanding derivatives, cross currency interest rate swaps, were disclosed in their notional amounts translated to Czech Crowns using foreign exchange rate as at 31 December 2015 and 2014 and as at 1 January 2014. The fair values of derivatives are disclosed in Note 33.

The only outstanding derivatives as at 1 January 2014 were foreign exchange forward and swap contracts. As at 1 January 2014 amounts disclosed in respect of derivatives represent the fair value as stated in Note 36 at the beginning of the reporting period, of the respective currency that the Company agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 33. The net total represents the fair value of the foreign currency derivatives.

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any material currency risk.

Hedging of currency risk. In 2014, the Company decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Company treasury's policy. The financial instruments designated as hedging instruments are represented by (a) bank borrowing denominated in USD, (b) 33% of bonds maturing in 2021 denominated in EUR and (c) joint hedging instrument of 66% of bonds maturing in 2021 denominated in EUR and bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 20, Note 33). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currencies (in USD and in EUR) that are expected to occur on a monthly basis up until 2034. The dynamic hedging strategy is applied to hedged item. This strategy allows identification of hedged item in any period of the hedge accounting and is based on the continuous designation and re-designation of hedged item on a monthly basis from 28 July 2014 to 31 December 2034. Gains and losses recognised in other reserves in equity as at 31 December 2014 will be continuously released to profit or loss within finance costs up until the repayment of the hedging instruments and within revenue up until 2034 which is beyond the repayment date of the hedging instruments (Note 20, Note 33).

In 2015, the Company introduced additional, third, cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross currency interest rate swap EUR/CZK (Note 21, Note 34). The hedged item is represented by cash flow related to private placement EUR bond maturing in 2026. Gains and losses recognised in other reserves in equity as at 31 December 2015 will be continuously released to profit or loss within finance costs up until 2026 (Note 20, Note 33).

The table below analysis the volume of hedged cash flows that were designated as hedged item:

In millions of Czech Crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2015						
Currency risk exposure:						
Hedgidging of future cash flows – future receivables USD	1,657	3,154	1,833	4,085	996	11,725
Hedging of future cash flows – future receivables EUR	–	599	1,485	442	–	2,526
Hedging of future cash flows – future payables EUR	(38)	(76)	(76)	(189)	(1,388)	(1,767)
TOTAL	**1,619**	**3,677**	**3,242**	**4,338**	**(392)**	**12,484**

In millions of Czech Crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2014						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	1,524	3,048	2,239	2,647	683	10,141
Hedging of future cash flows – future receivables EUR	–	–	1,371	1,220	–	2,591
TOTAL	**1,524**	**3,048**	**3,610**	**3,867**	**683**	**12,732**

There was no hedge accounting applied as at 1 January 2014. The amount of reclassified other reserves from equity to revenues during 2015 decreased revenues by CZK 275 million (2014: decreased revenues by CZK 22 million).

The following table presents sensitivities of profit or loss or equity (cash flow hedge) to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency, with all other variables held constant:

	At 31 December 2015		At 31 December 2014		1 January 2014	
In millions of Czech Crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	5	(1,282)	42	(1,228)	20	–
US Dollar weakening by 10%	(5)	1,282	(42)	1,228	(20)	–
Euro strengthening by 10%	224	89	83	(17)	12	–
Euro weakening by 10%	(224)	(89)	(83)	17	(12)	–

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Company and for currency sensitive derivatives.

The Company's exposure to currency risk with impact to profit or loss as at 31 December 2015 is influenced by (i) cash balances held in foreign currency and (ii) by existing loans to related parties provided in EUR (Note 14).

Interest rate risk. The Company's bank borrowings are contracted at floating interest rates. Some instruments, like bonds and fix-to-fix cross currency interest rate swaps, are priced at fixed rates and are exposed to re-pricing risk at maturity. The fair value is among other factors also sensitive to interest rates through the discounted cash flow model which is used for the valuation (see Note 36a)).

The table below summarises the Company's exposure to interest rate risks (e.g. term deposits; bonds and borrowings from related parties on fixed rate, both with re-pricing risk). The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In millions of Czech Crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2015					
Financial assets – floating rate	874	–	–	–	874
Financial assets – fixed rate with re-pricing risk	2,423	–	–	–	2,423
Financial liabilities – floating rate	(7,046)	–	–	–	(7,046)
Financial liabilities – fixed rate with re-pricing risk	–	–	–	(31,892)	(31,892)
Financial liabilities – fixed rate with re-pricing risk – finance lease	(28)	(83)	(442)	(6,446)	(6,999)
Net interest sensitivity gap at 31 December 2015	**(3,777)**	**(83)**	**(442)**	**(38,338)**	**(42,640)**
31 December 2014					
Financial assets – floating rate	1,593	–	–	–	1,593
Financial assets – fixed rate with re-pricing risk	1,372	–	–	–	1,372
Financial liabilities – floating rate	(9,005)	–	–	–	(9,005)
Financial liabilities – fixed rate with re-pricing risk	–	–	–	(30,745)	(30,745)
Financial liabilities – fixed rate with re-pricing risk – finance lease	(28)	(83)	(442)	(6,556)	(7,109)
Net interest sensitivity gap at 31 December 2014	**(6,068)**	**(83)**	**(442)**	**(37,301)**	**(43,894)**
1 January 2014					
Financial assets – floating rate	992	–	–	–	992
Financial assets – fixed rate with re-pricing risk	–	5,401	–	–	5,401
Financial liabilities – floating rate	(484)	–	–	–	(484)
Financial liabilities – fixed rate with re-pricing risk	–	–	–	(11,000)	(11,000)
Financial liabilities – fixed rate with re-pricing risk – finance lease	(28)	(83)	(442)	(6,667)	(7,220)
Net interest sensitivity gap at 1 January 2014	**480**	**5,318**	**(442)**	**(17,667)**	**(12,311)**

As the Company's bank borrowings are directly exposed to the floating interest rate, the change in interest rates has an impact on the Company's profit or loss for the current year.

The following table presents sensitivities of profit or loss to reasonably possible changes in short term interest rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2015
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(14)
1M CZK PRIBOR decrease by 25 bps	14
1M USD LIBOR increase by 25 bps	(3)
1M USD LIBOR decrease by 25 bps	3
Overnight PRIBOR increase by 25 bps	3
Overnight PRIBOR decrease by 25 bps	(3)

	At 31 December 2014
In millions of Czech crowns	Impact on profit or loss
3M CZK PRIBOR increase by 25 bps	(18)
3M CZK PRIBOR decrease by 25 bps	18
3M USD LIBOR increase by 25 bps	(3)
3M USD LIBOR decrease by 25 bps	3
Overnight PRIBOR increase by 25 bps	2
Overnight PRIBOR decrease by 25 bps	(2)
Overnight EURIBOR increase by 25 bps	1
Overnight EURIBOR decrease by 25 bps	(1)

	At 1 January 2014
In millions of Czech crowns	Impact on profit or loss
Overnight PRIBOR increase by 25 bps	1
Overnight PRIBOR decrease by 25 bps	(1)

The Company interest rate risk management policy requires that at least 70% of the interest rate exposure arising from bonds and term loans is at fixed rate. The existing financing structure achieves this requirement.

The Company's exposure to interest rate risk at the end of the reporting period is representative of the typical exposure during the year, starting from July 2014.

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel:

	31 December 2015			31 December 2014		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.10	0.01	0.01	0.12	0.01	0.05
Loans to related parties	n/a	n/a	0.70	0.94	0.85	0.69
Liabilities						
Borrowings	4.20	1.95	3.00	4.00	1.81	3.00
Finance lease liability	7.35	n/a	n/a	7.35	n/a	n/a

	1 January 2014		
In % p.a.	CZK	USD	EUR
Assets			
Cash and cash equivalents	0.12	0.01	0.05
Loans to related parties	1.26	n/a	1.10
Liabilities			
Borrowings	4.06	n/a	n/a
Finance lease liability	7.35	n/a	n/a

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by Treasury department of the Company and monitored in terms of monthly (one month forward), short-term (one year forward) and mid-term (five years forward) forecasts. Management monitors short-term forecasts of the Company's cash flows provided on the monthly basis.

The Company has strong liquidity position and is able to secure its operating funding needs through the cash collected from the business operations continuously throughout the year. The Company's liquidity portfolio comprises cash and cash equivalents (Note 17) and bank term deposits and deposit bills. Management estimates that the liquidity portfolio can be realised in cash within few days in order to meet unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2015 and 2014 and as at 1 January 2014 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Company expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2015 is as follows:

In millions of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 20)	362	1,009	12,281	49,839	63,491
Finance lease liability (Note 21)	157	468	2,417	21,012	24,054
Trade and other payables (Note 25)	640	–	2	–	642
Gross settled cross currency interest rate swaps (Note 34)					
– inflows	–	(324)	(1,297)	(12,351)	(13,972)
– outflows	–	603	2,409	15,619	18,631
Total future payments, including future principal and interest payments	**1,159**	**1,756**	**15,812**	**74,119**	**92,846**

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

In millions of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 20)	950	1,002	13,674	49,850	65,476
Finance lease liability (Note 21)	159	474	2,450	21,604	24,687
Trade and other payables (Note 25)	852	–	4	–	856
Gross settled cross currency interest rate swaps (Note 34)					
– inflows	–	(294)	(1,176)	(11,344)	(12,814)
– outflows	–	460	1,839	12,016	14,315
Total future payments, including future principal and interest payments	**1,961**	**1,642**	**16,791**	**72,126**	**92,520**

The maturity analysis of financial liabilities at 1 January 2014 is as follows:

In millions of Czech Crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 20)	600	355	1,884	12,402	15,241
Finance lease liability (Note 21)	162	480	2,482	22,204	25,328
Trade and other payables (Note 25)	520	–	5	–	525
Gross settled swaps and forwards (Note 33)					
– inflows	(1,491)	(1,106)	–	–	(2,597)
– outflows	1,547	1,141	–	–	2,688
Financial guarantees (potentially payable amount)	26,449	–	–	–	26,449
Total future payments, including future principal and interest payments	**27,787**	**870**	**4,371**	**34,606**	**67,634**

Payments in respect of gross settled forwards and cross-currency interest rate swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 33.

35. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. During 2014 the Company changed the Company's capital structure in connection with the project of recapitalisation (Note 20). The Company is currently managing its capital ratios to ensure a strong credit rating (e.g. the Company may adjust the amount of dividends paid to shareholders in order to maintain or adjust the capital structure).

The Company's capital structure consists mainly of equity, subordinated borrowings from related parties, non-subordinated borrowings from banks and bonds.

In millions of Czech crowns	At 31 December 2015	At 31 December 2014
Equity	2,555	5,088
Subordinated borrowings from related parties that received the equity-like treatment from the rating agencies Fitch and S&P	11,000	11,000
Non-subordinated borrowings from banks and bonds	27,938	28,088

The Company has complied with all requirements (covenants) arising from the borrowings as at 31 December 2015 and 2014 and as at 1 January 2014.

36. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy. Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the balance sheet at the end of each reporting period:

Financial instruments carried at fair value. Only derivatives recognised at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2015 and 2014 and as at 1 January 2014.

There were no changes in valuation technique for level 2 recurring fair value measurements since 1 January 2014.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2015:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(2,810)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(2,810)**	**–**	**–**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2014:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,256)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(1,256)**	**–**	**–**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 1 January 2014:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Foreign exchange forward contracts	(89)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Foreign exchange swap contracts	(3)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(92)**	**–**	**–**

The following table presents movements in fair values of derivative financial instruments:

In millions of Czech crowns	2015	2014
Opening balance	**(1,256)**	**(92)**
Change in fair value of contracts held at the beginning of the period settled during the period	–	(7)
Settlement of contracts held at the beginning of the period	–	99
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	(1,554)	(1,256)
Closing balance	**(2,810)**	**(1,256)**

(b) Non-recurring fair value measurements

The Company has written down its assets held for sale to fair value less costs to sell as at 31 December 2014 and as at 1 January 2014. The fair value belongs to level 3 measurements in the fair value hierarchy. The valuation technique and inputs used in the fair value measurement:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
31 December 2014			
Assets held for sale	28	Market approach	Indicative bid price
1 January 2014			
Assets held for sale	34	Market approach	Indicative bid price

There are no assets held for sale as of 31 December 2015.

(c) Financial assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2015				31 December 2014			
In millions of Czech Crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	1,899	1,892	–	–	1,383	1,383
Total ASSETS	–	–	1,899	1,892	–	–	**1,383**	**1,383**
LIABILITIES								
Borrowings								
– Borrowings from related parties – current – BRAWA	–	–	–	–	–	–	662	662
– Borrowings from related parties – non-current	–	–	11,939	11,000	–	–	11,873	11,000
– Bank borrowings	–	–	7,085	7,046	–	–	8,401	8,343
– Bonds	20,024	–	1,314	20,891	20,122	–	–	19,744
Finance lease liability								
– Finance lease from BRAWA	–	–	10,043	7,086	–	–	10,150	7,198
Total LIABILITIES	**20,024**	**–**	**30,381**	**46,023**	**20,122**	**–**	**31,086**	**46,947**

	1 January 2014			
In millions of Czech Crowns	Level 1	Level 2	Level 3	Carrying value
ASSETS				
Other financial assets				
– Loans to related parties	–	–	5,406	5,401
Total ASSETS	**–**	**–**	**5,406**	**5,401**
LIABILITIES				
Borrowings				
– Borrowings from related parties – current – BRAWA	–	–	484	484
– Borrowings from related parties – non-current	–	–	11,455	11,000
Finance lease liability				
– Finance lease from BRAWA	–	–	8,781	7,310
Total LIABILITIES	**–**	**–**	**20,720**	**18,794**

Trade and other receivables' carrying values approximate to their fair values.

The discounted cash-flow method was used for the determination of fair values in level 3 of fair value hierarchy. Inputs used for loans to related parties: PRIBOR, LIBOR, EURIBOR; inputs used for bank borrowings and borrowings from related parties: PRIBOR, LIBOR and IRS; source data: Patria Finance database.

The fair values in level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

The fair values in level 1 of fair value hierarchy reflects the price of fixed interest rate bonds listed in active markets in public stock exchanges.

Financial assets carried at amortised cost. The estimated fair value of asset instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities carried at amortised cost. The estimated fair value of liability instruments is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

37. Events After the Reporting Period

No events have occurred subsequent to year-end that would have a material impact on the financial statements for the year ended 31 December 2015.

Signature of the members of the statutory body of the Company:

3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The General Meeting approved the separate financial statements for publication on 18 March 2016.

NET4GAS Report on Relations

The Statutory Directors of NET4GAS, s.r.o. (hereinafter in this Report on Relations referred to as "Company") have drawn up, in accordance with Section 82 of Act No. 90/2012 Coll., the Business Corporations Act (hereinafter referred to as "BCA"), 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 referred to as "Related Parties") during 2015 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 Consolidated Annual Report 2015, and is provided to the Company's member for its 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 2015 the Company was controlled:

a) directly 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 referred to as "NET4GAS Holdings");

b) indirectly 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 %, and which together have the status of controlling entities in relation to NET4GAS Holdings by virtue of Section 75(3) of the BCA.

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 Statutory 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 2015, 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., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees (hereinafter referred to as "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 BCA 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 any agreements concluded in preceding accounting periods which were in effect during the last accounting period, a list of which forms Annex No. 3 to this Report on Relations. It has therefore 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 in the Notes to the Financial Statements as of 31 December 2015.

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 amounting to CZK 253 million as per the last financial statements prepared as of 31 December 2015

In the last accounting period 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

In the accounting period ended 31 December 2015 the Company incurred no damage 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 2015 accounting period, the relations among the controlling entities and Related Parties were an advantage for the Company (as for all the other Related Parties) 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 all the Related Parties.

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 verified by the Company's auditor, who is responsible for verifying the Financial Statements in accordance with specific legislation, approved by the Company's Statutory Directors on 3 March 2016, and was submitted for review to the Company's Supervisory Board.

In Prague, on 3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

Annex No. 1

Structure of relations among controlling entities and Related Parties in the last accounting period

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.	
		BRAWA, a.s.

Annex No. 2

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

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Amendment No. 3 to an Agreement on the provision of selected services	6 February 2015	The amendment to an Agreement on the provision of selected services of 31 December 2012 updates the terms and conditions of that Agreement (the specification of the services, the prices, the persons responsible, etc.).
BRAWA, a.s.	Amendment No. 1 to an Agreement on the provision of loans	16 July 2015	The amendment to an Agreement on the provision of loans of 2 July 2013 adjusts the price of granted / received loans under cash pooling.
BRAWA, a.s.	Amendment No. 4 to an Agreement on the provision of selected services	30 November 2015	The amendment to an Agreement on the provision of selected services of 31 December 2012 lays down additional services related to the shortened accounting period of BRAWA, a.s.
NET4GAS Holdings, s.r.o.	Credit Facility Agreement	23 March 2015	The subject matter of the agreement is a short-term loan.
NET4GAS Holdings, s.r.o.	Set-off Agreement	23 March 2015	The subject matter of the agreement is a set-off of mutual liabilities and receivables under loan agreements.
NET4GAS Holdings, s.r.o.	Agreement on the provision of selected services	25 June 2015	The subject matter of the agreement is the Company's provision of the following services to NET4GAS Holdings, s.r.o.: accounting, controlling, tax issues, cash-flow, contract management, PR service.
NET4GAS Holdings, s.r.o.	Credit Facility Agreement	26 June 2015	The subject matter of the agreement is a short-term loan.
NET4GAS Holdings, s.r.o.	Set-off Agreement	26 June 2015	The subject matter of the agreement is a set-off of mutual liabilities and receivables under loan agreements and profit distribution payment for 2014.
NET4GAS Holdings, s.r.o.	Amendment No. 3 to an Agreement on the provision of loans	16 July 2015	The amendment to an Agreement on the provision of loans of 11 November 2013 adjusts the price of granted / received loans under cash pooling.

Orders of BRAWA, a.s. at the Company

- Reposting insurance premiums (three orders)
- Auxiliary operational material (one order)
- Logistic services (one order)
- Special gas material (one order)

Orders of the Company at BRAWA, a.s.

- Special gas material (two orders)

Annex No. 3
Agreements concluded between the Company and controlling entities or Related Parties in previous accounting periods and effective in 2015

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Agreement on the provision of selected services as amended by Amendment No. 1 on 20 December 2013 and Amendment No. 2 on 27 January 2014	31 December 2012	The subject matter of the agreement is the Company's provision of the following services to BRAWA, a.s.: completion of the construction work on the GAZELLE project (supervision), accounting, controlling, tax issues, payroll administration, cash-flow, risk management, insurance, facility management, purchasing and logistics.
BRAWA, a.s.	Lease Agreement	31 December 2012	Under the agreement BRAWA, a.s. leases gas infrastructure to the Company, consisting primarily of the interconnector "High-pressure DN 1400 gas pipeline – Brandov BTS–Rozvadov" of approximately 160 km in length.
BRAWA, a.s.	Agreement on the provision of loans	2 July 2013	The agreements lay down a framework for cash pooling of Czech currency (among the Company, BRAWA, a.s. and NET4GAS Holdings, s.r.o.) and US dollars and euros (between the Company and NET4GAS Holdings, s.r.o.), the purpose of which is to optimise the use of funds within the related parties and to reduce transaction costs.
NET4GAS Holdings, s.r.o. **BRAWA, a.s.** (multi-party agreement)	Agreement Ref. No. ZBA/2012/14 on the provision of Real Unidirectional Cash Pooling as amended by Amendment No. 1 on 11 November 2013	8 July 2013	
NET4GAS Holdings, s.r.o.	Agreement Ref. No. TBA/2013/16 on the provision of Real Unidirectional Cash Pooling	11 November 2013	
NET4GAS Holdings, s.r.o.	Agreement Ref. No. TBA/2013/15 on the provision of Real Unidirectional Cash Pooling	11 November 2013	
NET4GAS Holdings, s.r.o.	Agreement on the provision of loans as amended by Amendment No. 1 on 16 January 2014 and Amendment No. 2 on 21 March 2014	11 November 2013	

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	Acts performed	Date	Details
NET4GAS Holdings, s.r.o.	Shareholder Loan Agreement concluded between the Company and Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V.	28 July 2014	Under this agreement Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V. provided a loan to the Company in 2014. In the last accounting period, this relationship lasted.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of the Company	10 December 2015	The subject matter of the Resolution is the approval of the first advance payment of the profit distribution for 2015.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of the Company	17 December 2015	The subject matter of the Resolution is the approval of the second advance payment of the profit distribution for 2015.

Post Balance Sheet Events

No events occurred after the balance sheet date which would have a significant impact on the NET4GAS Consolidated Annual Report 2015.

Persons Responsible for the Consolidated Annual Report

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

In Prague, on 3 March 2016

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

pwc

Independent Auditor's Report to the Shareholder of NET4GAS, s.r.o.

Auditor's Report on Separate Financial Statements

We have audited the accompanying separate financial statements of NET4GAS, s.r.o., identification number 27260364, with registered office at Na Hřebenech II 1718/8, Praha 4 – Nusle ("the Company"), which comprise the balance sheet as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the separate financial statements").

Statutory Directors' Responsibility for the Separate Financial Statements

The Statutory Directors are responsible for the preparation of the separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Statutory Directors determine is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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Auditor's Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Company and its subsidiary (together "the Group"), which comprise the consolidated balance sheet as at 31 December 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, including a summary of significant accounting policies and other explanatory information ("the consolidated financial statements").

Statutory Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

Other information comprises the information included in the summarised annual report, but does not include the financial statements, consolidated financial statements ("the financial statements") and this auditor's report. Management is responsible for the other information.

Our opinions on the financial statements do not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is not materially inconsistent with the financial statements or our knowledge about the Group obtained in the course of the audit of the financial statements, whether the annual report was prepared in compliance with legal requirements, and whether the other information does not appear to be otherwise materially misstated. If, based on the work we have performed, we conclude that the aforementioned requirements related to the other information are not met, we are obliged to report that fact herein.

We have nothing to report in this regard.

3 March 2016

represented by

Václav Prýmek
Partner

Milan Zelený
Statutory Auditor, Evidence 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
BCA	Business Corporations Act
bcm	billion cubic metres
BTS	Border Transfer Station
CAM NC	Network Code on Capacity Allocation Mechanisms
CEF	Connecting Europe Facility
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operations Officer
CS	Compressor Station
CZK	Czech crown
ČSOP	Český svaz ochránců přírody / Czech Union for Nature Conservation
DN	Diamètre Nominal / Nominal Pipe Size
EASEE-gas	European Association for the Streamlining of Energy Exchange – gas
EIA	Environmental Impact Assessment
ENTSOG	European Network of Transmission System Operators for Gas
EU	European Union
GIE	Gas Infrastructure Europe
GSA	GAZ-SYSTEM Auction Platform
GTM	Gas Target Model
IFRS	International Financial Reporting Standards
IGU	International Gas Union
JRA	Joint Risk Assessment
PCI	Project of Common Interest
PN	Pressure Nominal
TAR NC	Network Code on Harmonised Tariff Structures for Gas
TEN-E	Trans-European Energy Networks
TSO	Transmission System Operator
V4	Visegrad Group (an alliance of four Central European countries – the Czech Republic, Slovakia, Hungary and Poland)
ZO ČSOP	Základní organizace Českého svazu ochránců přírody / Local chapter of the Czech Union for Nature Conservation

ID No.: 27260364
A PDF version of the NET4GAS, s.r.o. Consolidated Annual Report 2015 is available on the company's website in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of the annual report takes precedence over the English version.

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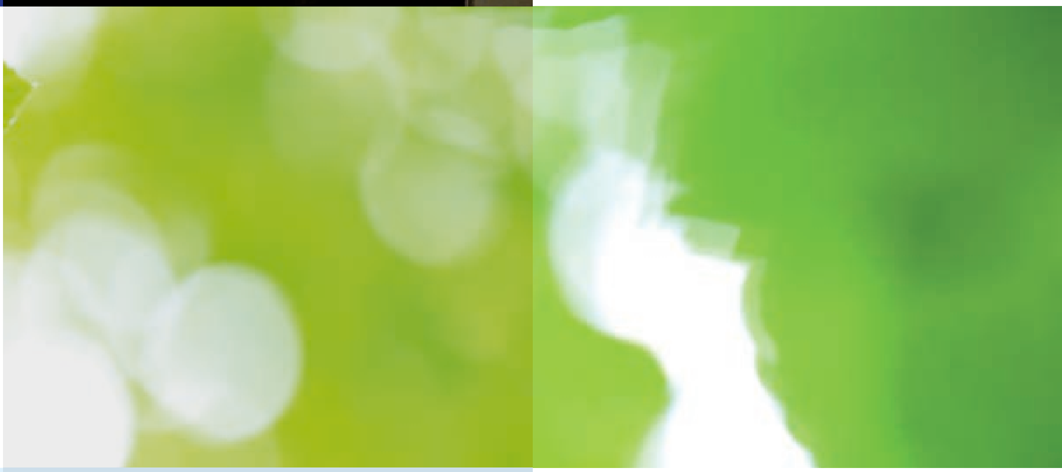

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