NET4GAS Group

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

31 December 2014

Contents

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

We have audited the accompanying consolidated financial statements of NET4GAS, s.r.o., identification number 27260364, with registered office at Na Hřebenech II 1718/8, Praha 4 - Nusle ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, 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 Body's Responsibility for the Consolidated Financial Statements

The Statutory Body 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 Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

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 2014, 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.

3 March 2015

PricewaterhouseCoopers Audit

represented by

Václav Prýmek
Partner

Milan Zelený
Statutory Auditor, Licence No. 2319

Note

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

NET4GAS Group
Consolidated Balance Sheet

In thousands of Czech Crowns	Note	31 December 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	47,523,081	49,507,957
Intangible assets	10	125,893	154,437
Other non-current assets	11	16,408	560
Total non-current assets		**47,665,382**	**49,662,954**
Inventories	12	65,002	49,556
Trade and other receivables	14	178,369	364,339
Derivative financial instruments	30	-	2,480
Current income tax prepayments		324,712	167,839
Loans to related parties	13	1,371,520	5,401,302
Other non-financial assets	15	96,271	62,064
Cash and cash equivalents	16	1,605,088	1,039,000
		3,640,962	7,086,580
Assets of disposal group held for sale	17	28,280	34,454
Total current assets		**3,669,242**	**7,121,034**
TOTAL ASSETS		**51,334,624**	**56,783,988**
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY			
Registered capital	18	2,749,965	31,792,965
Other reserves		(1,177,330)	2,142,884
Retained earnings		3,515,049	5,816,247
Total equity		**5,087,684**	**39,752,096**
NON-CURRENT LIABILITIES			
Trade and other payables	23	4,355	4,561
Borrowings	19	38,835,080	11,000,000
Derivative financial instruments	30	1,040,039	-
Deferred income tax liability	28	4,594,922	4,937,036
Provisions	22	175,187	192,191
Accrued employee benefits	24	53,223	28,676
Total non-current liabilities		**44,702,806**	**16,162,464**
CURRENT LIABILITIES			
Borrowings	19	252,829	-
Trade and other payables	23	831,483	606,821
Derivative financial instruments	30	215,826	94,033
Current income tax payable	28	-	45,729
Other taxes payable	21	22,070	18,855
Provisions	22	-	25,000
Other non-financial liabilities	24	221,926	78,990
Total current liabilities		**1,544,134**	**869,428**
Total liabilities		**46,246,940**	**17,031,892**
EQUITY AND LIABILITIES		**51,334,624**	**56,783,988**

3 March 2015

Andreas Rau	Radek Benčík	Václav Hrach
Statutory Director	Statutory Director	Statutory Director

Consolidated financial statements are subsequently subject to approval of General Meeting.

In thousands of Czech Crowns	**Note**	**2014**	**2013**
Revenue	7	8,781,396	9,011,965
Raw materials consumed	25	(749,864)	(217,891)
Services purchased	25	(630,232)	(626,059)
Employee benefits	25	(410,539)	(480,133)
Depreciation and amortisation	9,10	(2,518,624)	(2,701,458)
Impairment		15,362	(39,424)
Losses on disposal of property, plant and equipment		(4,910)	(1,681)
Changes in fair value of derivatives, net	33	(136,750)	(193,886)
Foreign exchange differences, net		55,781	50,777
Other operating income		140,546	25,397
Other operating expenses		(48,028)	(50,108)
Operating profit		**4,494,138**	**4,777,499**
Finance income	26	243,384	32,704
Finance costs	27	(885,515)	(471,396)
Finance result (net)		(642,131)	(438,692)
Profit before income tax		**3,852,007**	**4,338,807**
Income tax expense	28	(776,126)	(832,765)
PROFIT FOR THE YEAR		**3,075,881**	**3,506,042**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	31	(1,488,965)	-
Income tax recorded directly in other comprehensive income – cash flow hedge	28	282,903	-
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,206,062)**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,869,819**	**3,506,042**

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

In thousands of Czech Crowns	***Registered capital***	***Other reserves***	***Retained earnings***	***TOTAL***
Balance as at 1 January 2013	**31,792,965**	**1,804,110**	**6,775,461**	**40,372,536**
Total comprehensive income	-	-	3,506,042	3,506,042
Transactions with owners				
Contribution to legal reserve fund	-	338,774	(338,774)	-
Dividends paid	-	-	(4,126,482)	(4,126,482)
Balance as at 31 December 2013	**31,792,965**	**2,142,884**	**5,816,247**	**39,752,096**
Total comprehensive income				
Profit for the year 2014	-	-	3,075,881	3,075,881
Cash flow hedge – net of related tax effect	-	(1,206,062)	-	(1,206,062)
Transactions with owners				
Reserve fund cancellation	-	(2,114,152)	2,114,152	-
Registered capital reduction	(29,043,000)	-	-	(29,043,000)
Dividends paid	-	-	(7,491,231)	(7,491,231)
Balance as at 31 December 2014	**2,749,965**	**(1,177,330)**	**3,515,049**	**5,087,684**

In thousands of Czech Crowns	Note	2014	2013
Cash flows from operating activities			
Profit before tax		**3,852,007**	**4,338,807**
Adjustments for:			
Depreciation and amortisation	9,10	2,518,624	2,701,458
Finance income	26	(243,384)	(32,704)
Finance costs	27	885,515	471,396
Impairment	9,10	(15,362)	39,424
Losses on disposals of property, plant and equipment	9	4,910	1,681
Other non-cash operating expenses / (gains)		12,769	136,288
thereof: - derivatives	30	-	*77,504*
- inventory write-off		-	*33,190*
- other		*12,769*	*25,594*
Operating cash flows before working capital changes		**7,015,079**	**7,656,350**
Decrease / (Increase) in trade and other receivables	14,15	186,414	(44,619)
Increase / (Decrease) in trade and other payables	23,24	531,324	(233,627)
Decrease / (Increase) in inventories	12	17,744	(43,505)
Operating cash flows after changes in working capital		7,750,561	7,334,599
Interest paid	27	(632,686)	(471,396)
Interest received	26	74,794	8,729
Income tax paid	28	(1,037,938)	(1,140,902)
Net cash flows from operating activities		**6,154,731**	**5,731,030**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(653,979)	(563,165)
Purchase of intangible assets	10	(49,849)	(66,339)
Proceeds from sale of property, plant and equipment	9	17,241	590
Repayments of loans provided to related parties	13	14,615,613	42,005,076
Loans provided to related parties	13	(44,457,187)	(42,304,341)
Net cash flows used in investing activities		**(30,528,161)**	**(928,179)**
Cash flows from financing activities			
Payments of decreased registered capital to the Company's shareholder	18	(2,526,320)*	-
Dividends paid to the Company's shareholder	18	(136,142)**	(4,126,482)
Other proceeds from financing activities	19	27,601,980	-
Net cash flows from/ (used in) financing activities		**24,939,518**	**(4,126,482)**
Net increase in cash and cash equivalents		**566,088**	**676,369**
Cash and cash equivalents at the beginning of the period	16	1,039,000	362,631
Cash and cash equivalents at the end of the period	16	**1,605,088**	**1,039,000**

* Liability from decreased registered capital in the amount of CZK 29,403,000 thousand was settled as follows: CZK 2,526,320 thousand was actually paid and remaining part of CZK 26,516,680 thousand was netted with receivables from loan provided to NET4GAS Holdings, s.r.o.
** Dividends declared in the year 2014 were settled as follows: CZK 136,142 thousand was actually paid and CZK 7,355,087 thousand was netted with receivables from loans provided to NET4GAS Holdings, s.r.o.

The accompanying notes on pages 5 to 49 are an integral part of these consolidated financial statements.

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 2014 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 company is 247 57 926.

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

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

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

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

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as at the date of its registration in the Commercial Register being 27 February 2014.

A reduction of capital of the Company to the amount of CZK 2,749,965 thousand was registered in the Commercial Register on 14 August 2014.

The Statutory Directors of the Company:

As at 31 December 2014	**As at 31 December 2013**
Andreas Rau	Andreas Rau (since 1 December 2013)
Radek Benčík	Radek Benčík
Václav Hrach (since 1 March 2014)	

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

As at 31 December 2014	**Function**	**As at 31 December 2013**	**Function**
Radek Hromek	Member	Radek Hromek	Member
Sebastien Sherman	Member	Jan Zaplatílek	Member
Ralph Adrian Berg	Member	Sebastien Sherman	Member
Melchior Stahl	Member	Ralph Adrian Berg	Member
Jaroslava Korpancová	Member	Melchior Stahl	Member
		Jaroslava Korpancová	Member

On 2 August 2013 the following Supervisory Board memberships were terminated: Mr Herrmann, Mr Muhr, Mr Terium and Mr Böwing. At the same date the following persons became new members of the Supervisory Board: Mr Sherman, Mr Berg, Mr Stahl and Mrs Korpancová. As at 30 September 2014 Jan Zaplatílek ceased to be a Member of the Supervisory Board.

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

NET4GAS, s.r.o. is the successor to 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 2014 and 2013:

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

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 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.

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

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

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

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

(f) Unregulated part

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

3 Summary of Significant Accounting Policies

a) Basis of preparation

These consolidated financial statements 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) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management 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 on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 33.

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

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

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

d) Classification of financial assets

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

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 on revenues is recognised in the profit or loss within ‘Revenue’.

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.

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

The Group uses discounted cash flow valuation techniques to determine the fair value of 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

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

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

h) Property, plant and equipment

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

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

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

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

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

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

i) Depreciation

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

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

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

j) Leasing

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

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

k) Intangible assets

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

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

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

l) Amortisation

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

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

m) Emission Rights

The Group receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return rights equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission rights received free of charge. The emission rights which were granted free of charge are carried at their nominal value, i.e. at zero. When emission rights are purchased from other parties, they are measured at cost and treated as a reimbursement right. When emission rights are acquired by exchange and such an exchange is deemed to have the economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Group did not recognise any provision resulting from the gas emissions as at 31 December 2014 and 2013.

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

In tons	**31 December 2014**	**31 December 2013**
Emission rights	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.

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

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

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

Deferred tax relating to items recognised in other comprehensive income (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges) is recognised directly in other comprehensive income.

Value added tax

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

q) Uncertain tax positions

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

r) Inventories

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

s) Trade receivables

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

t) Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

u) Prepayments

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

v) Cash and cash equivalents

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

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

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

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

w) Reserve fund

Until 31 December 2013 the Group created legal reserve fund from the profit of the Group in accordance with Czech legislation 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 not to dissolve the reserve fund.

x) Dividends

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

y) Borrowings

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

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 2014 this period is twelve months). At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

dd) Asset retirement obligations

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

ee) Foreign currency translation

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

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

ff) Revenue recognition

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

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

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

gg) Employee benefits

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

a) pension obligations

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

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

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

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

Past-service costs are recognised immediately in income.

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

b) termination benefits

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

c) other long term benefits

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

hh) Offsetting of financial assets and financial liabilities

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

ii) Segment reporting

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

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Functional currency

Management assessed the relevant primary and secondary factors during the consideration about the Company's functional currency. The functional currency is the currency of the primary economic environment, in which the entity operates. The regulated sales prices of the Company are determined by ERO – the Czech regulatory authority and are defined in CZK. Majority of the entity's revenue stems from regulated sales. Majority of the operating expenses of the Company are influenced by CZK. Capital expenditures are twofold: regular capital expenditure safeguarding the existing network and its safeness; and large one off projects. The regular capital expenditure is almost entirely influenced by CZK, while the pricing of large one off projects is influenced by a mix of currencies (including CZK, EUR and other). 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. Functional currency of BRAWA is driven by the functional currency of NET4GAS, because BRAWA does not operate with significant degree of autonomy. It is rather an extension of the Company's operations.

Classification of pipeline capacity contract

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

Transmission System Operator licence and 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 network is classified as property, plant and equipment and is not treated as infrastructure used in public-to-private service concession arrangements.

Risk related to tax position

NET4GAS was established by way of legal reorganisation of part of the business of RWE Transgas, a.s. (“RWE Transgas”) due to the unbundling requirement under the so called Second Energy Package of the European Union, while part of the business of RWE Transgas was contributed to registered capital of NET4GAS. As a result of the unbundling process and related revaluation, the accounting carrying amounts of the gas transmission system were significantly increased (based on an appointed appraiser’s valuation) compared to their tax values (i.e. the historical cost based measurement rolled over from the tax books of RWE Transgas, which was the basis for tax depreciation). Due to the temporary differences between the new carrying amounts and the tax values of the transmission system, the deferred tax liability was recorded in 2006 against equity of NET4GAS. ERO has approved the inclusion of accounting depreciation (based on the revalued amounts) of the gas pipeline system in the final price for the inland gas transmission services for regulatory periods between 2005-2009 and 2010-2015. 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.

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

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

The regulator’s approach to determining principles of the calculation of the price cap may change from one regulatory period to the next one. The future changes to the regulatory principles cannot be predicted. However, 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. Management expects that the use of the accounting depreciation of the gas pipeline system in the final price for the inland gas transmission services will remain to be effective in regulatory periods after 2015. Based on the under way negotiations with ERO, management does not see reasons to change the above described estimate in the deferred tax asset assessment.

Segments

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

5 Adoption of New or Revised Standards and Interpretations

The following standards, which became effective from 1 January 2014, have been early adopted by the Group and applied for the preparation of consolidated financial statements for the year ended 31 December 2013:

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 consolidated financial statements of the Group.

The following new standards and interpretations became effective for the Group from 1 January 2014:

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard 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 2015 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.

This standard has not yet been endorsed by the European Union. The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9. Management is currently assessing the impact of the standard on the consolidated financial statements of the Group.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 17 June 2014 or later). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This standard has been endorsed by the European Union with effective date for annual periods beginning from 17 June 2014. This standard is not expected to have any material impact on the financial statements of the Group.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The following standards have not yet been endorsed by the European Union:

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

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). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

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). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. Management is currently assessing the impact of the standard on the consolidated financial statements of the Group.

Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

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). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

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). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities.

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

7 Segment Information

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

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

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

Refer to the information in Note 4.

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

The whole Group is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2014 and 31 December 2013 is set out below:

In thousands of Czech crowns	**Natural gas transmission**	**Natural gas transmission**
	Year 2014	**Year 2013**
Revenues from core activities	8,781,396	9,011,965
Foreign exchange differences, net	55,781	50,777
Other operating income	140,546*	25,397
Other finance income	243,384	32,704
Revenue	**9,221,107**	**9,120,843**
Raw materials and consumables used	749,864	217,891
Staff costs	410,539	480,133
Depreciation and amortization	2,518,624	2,701,458
Impairment	(48,552)	39,424
Services	630,232	626,059
Gains less losses on disposals of property, plant and equipment	4,910	1,681
Other operating expenses	81,218	50,108
Income tax expense	776,126	832,765
Derivatives	136,750	193,886
Finance costs	885,515	471,396
Segment profit for the year	**3,075,881**	**3,506,042**
Segment other comprehensive income	**(1,206,062)**	**-**
Capital expenditure	**504,043**	**689,157**

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

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets. The majority of capital expenditures represent expenses related to Gazelle pipeline construction.

In thousands of Czech crowns	**Natural gas transmission**	**Natural gas transmission**
	31 December 2014	**31 December 2013**
Total reportable segment Assets	**51,334,624**	**56,783,988**
Total reportable segment Liabilities	**46,246,940**	**17,031,892**

(d) Geographical information

Total revenues for geographical areas for which the revenues are material are reported separately as follows:

In thousands of Czech Crowns	**2014**	**2013**
Czech Republic	1,293,532	2,057,359
Other EU countries	2,274,185	2,991,109
Non-EU countries	5,213,679	3,963,497
Total consolidated revenues	**8,781,396**	**9,011,965**

The analysis is based on domicile of shippers (transmission network users).

Revenues comprise revenues from core activities.

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

In thousands of Czech Crowns	**2014**	**2013**
Czech Republic	504,043	689,157
Total consolidated capital expenditure	**504,043**	**689,157**

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

(e) Major customers

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

In thousands of Czech Crowns	**2014**	**2013**
Customer 1	1,004,426	1,763,182
Customer 2	6,590,179	4,999,870
Total revenues from major customers	**7,594,605**	**6,763,052**

Revenues comprise revenues from core activities.

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

8 Balances and Transactions with Related Parties

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

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

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

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

In thousands of Czech Crowns	**Subsidiaries of joint venturers' ultimate parents**	**Immediate parent**
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	-	1 ,371,520
Borrowings (Note 19)		
Loans (contractual interest rate 6.3%, repayable on 28 July 2044)		
Allianz Infrastucture Luxembourg I S.á r.l.	5,500,000	-
Borealis Novus Holdings B.V.	5,500,000	-

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

In thousands of Czech Crowns	**Subsidiaries of joint venturers' ultimate parents**	**Immediate parent**
Purchases / expenses		
NET4GAS Holdings, s.r.o. – interest expense , services	-	277,933
Borealis Novus Holdings B.V. - interest expense	147,263	-
Allianz Infrastucture Luxembourg I S.á r.l. - interest expense	147,263	-
Other revenues		
NET4GAS Holdings, s.r.o. - interest , services	-	115,061

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

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

In thousands of Czech Crowns	**Immediate parent**
Gross amount of trade and other receivables	
NET4GAS Holdings, s.r.o.	15,209
Loans to related parties (Note 13)	
NET4GAS Holdings, s.r.o.	5,401,302
Borrowings (Note 19)	
Loans (contractual interest rate 4.22%, repayable in 2021)	
NET4GAS Holdings, s.r.o.	11,000,000

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

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

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

In thousands of Czech Crowns	**Immediate parent**
Guarantees issued by the Group at the year end	27,426,444

Key management compensation is presented below:

	2014		**2013**	
In thousands of Czech Crowns	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	58,228	12,165	92,657	8,936
- Short-term bonuses	681	1,727	1,046	1,046
Other long-term employee benefits:				
- Long-term bonus scheme	7,658	19,120	2,379	11,462
- Defined contribution benefits	4,807	-	3,683	118
Total	**71,374**	**33,012**	**99,765**	**21,562**

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 thousands of Czech Crowns	Freehold Land	Buildings and structures	Plant and equipment	Other	Construction in progress	Total
Cost at 1 January 2013	199,721	54,810,300	5,558,277	554	6,625,185	67,194,037
Accumulated depreciation	-	(12,120,862)	(3,427,912)	-	-	(15,548,774)
Impairment	-	(73,300)	-	-	-	(73,300)
Carrying amount at 1 January 2013	**199,721**	**42,616,138**	**2,130,365**	**554**	**6,625,185**	**51,571,963**
Additions	-	-	-	-	622,818	622,818
Transfers	1,225	6,866,840	293,906	-	(7,161,971)	-
Disposals	(618)	-	(6,150)	-	-	(6,768)
Depreciation charge	-	(1,919,391)	(687,011)	-	-	(2,606,402)
Impairment charge to profit or loss	-	(44,200)	-	-	-	(44,200)
Reversals of impairment through profit or loss	-	5,000	-	-		5,000
Reclassification to assets held for sale						
Cost at 31 December 2013	(15,962)	(977,018)	-	-	-	(992,980)
Accumulated depreciation as at 31 December 2013	-	846,026	-	-	-	846,026
Impairment as at 31 December 2013	-	112,500	-	-	-	112,500
Carrying amount at 31 December 2013	**184,366**	**47,505,895**	**1,731,110**	**554**	**86,032**	**49,507,957**
Cost at 31 December 2013	184,366	60,691,721	5,699,821	554	86,032	66,662,494
Accumulated depreciation	-	(13,185,826)	(3,968,711)	-	-	(17,154,537)
Carrying amount at 31 December 2013	**184,366**	**47,505,895**	**1,731,110**	**554**	**86,032**	**49,507,957**
Additions	-	-	-	-	461,069	461,069
Transfers	1,494	188,149	151,184		(340,827)	-
Disposals	(4,810)	-	(904)	-	-	(5,714)
Depreciation charge	-	(1,858,492)	(581,739)	-	-	(2,440,231)
Carrying amount at 31 December 2014	**181,050**	**45,835,552**	**1,299,651**	**554**	**206,274**	**47,523,081**
Cost at 31 December 2014	181,050	61,368,375	5,320,565	554	206,274	67,076,818
Accumulated depreciation	-	(15,532,823)	(4,020,914)	-	-	(19,553,737)
Carrying amount at 31 December 2014	**181,050**	**45,835,552**	**1,299,651**	**554**	**206,274**	**47,523,081**

Construction in progress consists mainly of construction of Moravia gas pipeline (CZK 30,226 thousand) in 2013 and of project to ensure possibility of cleaning the pipeline DN500 Libhošť-Štramberk (CZK 41,286 thousand) and Moravia gas pipeline (CZK 39,709 thousand) in 2014. Upon completion, assets are transferred to buildings and structures.

10 Intangible Assets

In thousands of Czech Crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Carrying amount at 31 December 2012	**142,909**	**22,113**	**8,003**	**14,898**	**187,923**
Additions	-	-	-	66,339	66,339
Transfers	52,648	399	8,592	(61,639)	-
Disposals	-	-	(4,769)	-	(4,769)
Amortisation charge	(83,916)	(8,595)	(2,545)	-	(95,056)
Carrying amount at 31 December 2013	**111,641**	**13,917**	**9,281**	**19,598**	**154,437**
Cost at 31 December 2013	371,035	72,921	15,011	19,598	478,565
Accumulated amortisation	(259,394)	(59,004)	(5,730)	-	(324,128)
Carrying amount at 31 December 2013	**111,641**	**13,917**	**9,281**	**19,598**	**154,437**
Additions	-	-	-	49,849	49,849
Transfers	29,582	-	8,435	(38,017)	-
Disposals	-	-	-	-	-
Amortisation charge	(71,151)	(4,810)	(2,432)	-	(78,393)
Carrying amount at 31 December 2014	**70,072**	**9,107**	**15,284**	**31,430**	**125,893**
Cost at 31 December 2014	397,375	59,750	23,446	31,430	512,001
Accumulated amortisation	(327,303)	(50,643)	(8,162)	-	(386,108)
Carrying amount at 31 December 2014	**70,072**	**9,107**	**15,284**	**31,430**	**125,893**

11 Other Non-Current Assets

In thousands of Czech Crowns	31 December 2014	31 December 2013
Advances for acquisition of fixed assets	16,408	560
Total other non-current assets	**16,408**	**560**

12 Inventories

In thousands of Czech Crowns	31 December 2014	31 December 2013
Raw materials	65,002	49,556
Total inventories	**65,002**	**49,556**

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

Inventories of CZK nil thousand (31 December 2013: CZK 33,190 thousand) are valued at net realisable value as at 31 December 2014.

13 Loans to Related Parties

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Corporate loans		
- denominated in Czech Crowns	167,592	5,291,602
- denominated in Euros	804,205	109,700
- denominated in US Dollars	399,723	-
Total loans issued	**1,371,520**	**5,401,302**

Loans to related parties as at 31 December 2014 have the maturity on 23 March 2015.

Analysis by credit quality of loans outstanding is as follows:

In thousands of Czech Crowns	**31 December 2014 Corporate loans**	**31 December 2013 Corporate loans**
Neither past due nor impaired		
- NET4GAS Holdings, s.r.o. – parent company (without external rating)	1,371,520	5,401,302
Total neither past due nor impaired	**1,371,520**	**5,401,302**
Total loans issued	**1,371,520**	**5,401,302**

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 thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Trade and estimated receivables	178,904	365,133
Less impairment loss provision	(535)	(794)
Total current trade and other receivables	**178,369**	**364,339**

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

In thousands of Czech Crowns	**31 December 2014** **Trade and estimated receivables**	**31 December 2013** **Trade and estimated receivables**
Neither past due nor impaired – exposure to		
- NET4GAS Holdings (without external rating)	-	-
- Between A- and BBB+	115,051	202,835
- Other	60,226	159,801
Total neither past due nor impaired	175,277	362,636
Past due but not impaired		
- less than 30 days overdue	3,092	1,703
- 30 or more days overdue	-	-
Total past due but not impaired	3,092	1,703
Individually determined to be impaired (gross)		
- less than 360 days overdue	-	-
- 360 days or more overdue	535	794
Total individually impaired	535	794
Less impairment provision	(535)	(794)
Total	**178,369**	**364,339**

15 Other Non-Financial Assets

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Value-added tax	58,387	26,642
Prepayments for services	34,073	15,605
Other receivables	3,811	19,817
Total current non-financial assets	**96,271**	**62,064**

Movements in prepayments are as follows:

In thousands of Czech Crowns	**Prepayments for services**
Carrying value at 1 January 2013	**13,258**
Additions	15,605
Prepayments derecognised on receipt of related goods or services and settled VAT	(13,258)
Total prepayments at 31 December 2013	**15,605**
Additions	34,073
Prepayments derecognised on receipt of related goods or services and settled VAT	(15,605)
Total prepayments at 31 December 2014	**34,073**

16 Cash and Cash Equivalents

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Cash on hand	124	239
Bank balances available on demand	1,604,964	338,761
Term deposits with original maturity of less than three months	-	700,000
Total cash and cash equivalents	**1,605,088**	**1,039,000**

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

	31 December 2014		**31 December 2013**	
In thousands of Czech Crowns	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
Neither past due nor impaired				
- A- to A+ rated	1,604,964	-	338,761	700,000
Total	**1,604,964**	**-**	**338,761**	**700,000**

17 Assets of Disposal Group Held for Sale

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Assets of disposal group held for sale	28,280	34,454
Total Assets of disposal group held for sale	**28,280**	**34,454**

There are no liabilities related to the disposal group. Based on the planned sale of Special Maintenance Facility in Brno the Group recognised a group of assets as held for sale as at 31 December 2014 (as at 31 December 2013: maintenance facility and one compressor station).

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 thousands of Czech Crowns	2014	2013
Dividends payable at 1 January	-	-
Dividends declared and paid during the year	7,491,231	4,126,482
Dividends payable at 31 December	**-**	**-**

All dividends were declared and paid in Czech Crowns.

Registered capital reduction of CZK 29,043,000 thousand was registered in the Commercial Register on 14 August 2014.

19 Borrowings

In thousands of Czech Crowns	31 December 2014	31 December 2013
Borrowing from related party (repayable in 2021)	-	11,000,000
Subordinated borrowings from related parties (repayable on 28 July 2044)	11,000,000	-
Current portion of bank and bond financing borrowings		
– CZK denominated bank borrowings (repayable on 28 July 2018)	21,185	-
– USD denominated bank borrowings (repayable on 28 July 2018)	4,562	-
– CZK denominated bond (repayable on 28 January 2021)	68,688	-
– EUR denominated bond (repayable on 28 July 2021)	90,684	-
– EUR denominated bond (repayable on 28 July 2026)	67,710	-
Non-current bank and bond financing borrowings		
– CZK denominated bank borrowings (repayable on 28 July 2018)	7,093,897	-
– USD denominated bank borrowings (repayable on 28 July 2018)	1,222,986	-
– CZK denominated bond (repayable on 28 January 2021)	6,905,473	-
– EUR denominated bond (repayable on 28 July 2021)	8,220,729	-
– EUR denominated bond (repayable on 28 July 2026)	4,391,995	-
Total borrowings – current	252,829	-
Total borrowings – non-current	38,835,080	11,000,000
Total borrowings	**39,087,909**	**11,000,000**

Borrowings from related parties

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 distribution of retained earnings. The existing shareholder loan was early repaid in July 2014. Two new borrowings from related parties were acquired, amounted to CZK 5,500,000 thousand and CZK 5,500,000 thousand. The new borrowings from related parties have subordination structure, non-callable features, contractual interest rate of 6.3 % and maturity on 28 July 2044.

Bank borrowings

The Group has acquired new bank borrowings and issued new 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 EUR 100 million. The CAPEX facility might be utilized in CZK, EUR or USD. In 2014 the CAPEX facility was undrawn.

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

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

The bank borrowings have certain financial covenants attached to them. Violation of these covenants can lead to immediate maturity of the debt.

The Group has due to conditions stated in bank borrowing contracts a limited right to lien its property in favour of another creditor.

Bank borrowing denominated in foreign currency represents 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 thousands of Czech Crowns	**Emission notional value**	**Due date**	**Coupon rate p.a. (%)**	**Annual coupon repayment due date**	**31 December 2014**
Bond EUR, serial no. 1, ISIN XS1090450047	300,000,000 EUR	28 July 2021	2.5	Each 28.7. in arrears	8,311,413
Bond EUR, serial no 2, ISIN XS 1090449627	160,000,000 EUR	28 July 2026	3.5	Each 28.7. in arrears	4,459,705
Bond CZK, serial no 3, ISIN XS1090620730	7,000,000,000 CZK	28 January 2021	2.25	Each 28.1. in arrears	6,974,161
Total bonds					**19,745,279**

The terms of issue of all above stated bonds are approved by the decision of the Central Bank of Ireland. On 28 July 2014 these bonds were accepted for trading on a regulated market of the Irish Stock Exchange PLC.

Bonds denominated in foreign currency represent a constituent of hedge accounting, which in combination with the cross currency swaps represent the hedging instrument for hedging 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).

The fair value of borrowings is disclosed in Note 33.

20 Government and Other Grants

The Group obtained grants from the European Commission for construction projects specified below and deducted the grant value from the carrying amount of the related property, plant and equipment when all conditions attached to the grant were fulfilled. In 2014 the Group received no grant from the European Commission. In 2013 the Group received a grant of CZK 7,229 thousand (in 2014 the revaluated amount corresponds to CZK 7,308 thousand). The Group has not complied with all the attached conditions till 31 December 2014 and the amount received was presented as other non-financial liabilities. During 2014 no grants were deducted from the carrying amount of property, plant and equipment (2013: CZK 17,544 thousand).

21 Other Taxes Payable

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Other taxes payable within one year comprise:		
Property and other taxes	5,891	6,298
Social and health insurance	16,179	12,557
Other taxes payable - current	**22,070**	**18,855**

22 Provisions for Liabilities and Charges

Movements in provisions are as follows:

	2014		**2013**	
In thousands of Czech Crowns	**Current**	**Non-current**	**Current**	**Non-current**
Carrying amount at January 1	**25,000**	**192,191**	**27,500**	**179,358**
Additions charged to profit or loss	-	1,000	-	25,091
Unused amounts reversed	(25,000)	(18,004)	-	-
Utilisation of provision	-	-	(2,500)	(12,258)
Carrying amount at December 31	**-**	**175,187**	**25,000**	**192,191**

The non-current provisions as at 31 December 2014 and 2013 were primarily created for restructuring on selected compressor stations. The non-current restructuring provisions as at 31 December 2014 are expected to be utilised in 2016.

23 Trade and Other Payables

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Trade payables	368,375	163,413
Liabilities for purchased property, plant and equipment	119,005	303,490
Accrued liabilities	192,317	110,232
Received deposits from customers	150,388	28,114
Other financial liabilities	151,786	1,572
Total financial payables within trade and other payables – current	**831,483**	**606,821**

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Other payables	4,355	4,561
Total financial payables within trade and other payables – non-current	**4,355**	**4,561**

24 Accrued Employees Benefits and Other Non-Financial Liabilities

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Accrued employee benefits		
- Salaries and bonuses	20,055	61,384
- Defined benefit costs	6,289	4,031
Advance payments received	183,745	-
Grant pre-payments received	7,308*	7,229*
Other non-financial liabilities	4,529	6,346
Total other non-financial liabilities - current	**221,926**	**78,990**

* The amount of CZK 7,308 thousand as at 31 December 2014 (CZK 7,229 thousand as at 31 December 2013) was provided for Action no. 2011-G190/11-ENER/11/TEN-E-SI2.636400 based on the European Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks in 2013. In 2014 no grants from European Commission were received.

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Accrued employee benefits		
- Defined benefit costs	53,223	28,676
Total other non-financial liabilities - non-current	**53,223**	**28,676**

25 Expenses

In thousands of Czech Crowns	**2014**	**2013**
Raw materials consumed*	749,864	217,891
Salaries	*292,915*	*409,780*
Statutory and private pension contribution	*117,624*	*70,353*
Employee benefits	410,539	480,133
Depreciation and amortisation	2,518,624	2,701,458
Impairment	(15,362)	39,424
Repairs and maintenance services	*192,030*	*171,877*
Flexibility costs	*68,556*	*141,217*
IT & Telecommunications expenses	*103,476*	*102,875*
Rental expenses	*34,618*	*58,248*
Other services	*231,552*	*151,842*
Services purchased	630,232	626,059
Losses on disposal of fixed assets	4,910	1,681
Losses / (gains) on derivative financial instruments	136,750	193,886
Foreign exchange losses (gains) (recognised through profit and loss)	(55,781)	(50,777)
Other expenses	48,028	50,108
Total operating expenses	**4,427,804**	**4,259,863**

* Represents mainly consumption of natural gas.

26 Finance Income

In thousands of Czech Crowns	**2014**	**2013**
Net foreign exchange differences on financing activities	177,375	-
Interest income on other financial assets	64,007	17,445
Other finance income	2,002	15,259
Total finance income	**243,384**	**32,704**

27 Finance Costs

In thousands of Czech Crowns	2014	2013
Interest expense	867,949	470,691
Other finance costs	17,566	705
Total finance costs recognised in profit or loss	**885,515**	**471,396**

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 thousands of Czech Crowns	2014	2013
Current tax expense	(835,336)	(1,008,298)
Deferred tax credit	59,210	175,533
Income tax expense for the year in profit and loss	**(776,126)**	**(832,765)**

(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 2014 and 2013 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In thousands of Czech Crowns	2014	2013
Profit before tax	**3,852,007**	**4,338,807**
Theoretical tax charge at statutory rate of 19%:	(731,881)	(824,373)
Tax effect of items which are not deductible or assessable for income tax purposes:		
- Non-taxable items	1,276	7,870
- Non-deductible expenses	(47,659)	(22,283)
Differences from previous periods	2,139	5,978
Utilisation of previously unrecognised tax loss carry forwards	-	43
Income tax expense for the year	**(776,126)**	**(832,765)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 19% (2013: 19%).

In thousands 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)	(4,997,164)	74,718	-	(4,922,446)
Impairment provision for receivables	71	(43)	-	28
Other liabilities; tax deductible in different period	12,485	(1,178)	-	11,307
Provisions for liabilities and charges	41,266	(7,980)	-	33,286
Provision for inventories	6,306	(6,306)	-	-
Cash flow hedges		-	282,903	282,903
Net deferred tax asset/(liability)	**(4,937,036)**	**59,211**	**282,903**	**(4,594,922)**
Recognised deferred tax asset	**-**	**-**	**-**	**-**
Recognised deferred tax liability	**(4,937,036)**	**59,211**	**282,903**	**(4,594,922)**
Net deferred tax asset/(liability)	**(4,937,036)**	**59,211**	**282,903**	**(4,594,922)**

Management estimates that deferred tax liabilities of CZK 4,140,539 thousand (2013: CZK 4,838,449 thousand) are recoverable after more than twelve months after the end of the reporting period.

The tax effect of the movements in the temporary differences for the year ended 31 December 2013 are:

In thousands of Czech Crowns	**1 January 2013**	**(Charged) / credited to profit or loss**	**31 December 2013**
Tax effect of deductible/(taxable) temporary differences			
Difference between tax and accounting value of Property, plant and equipment and intangible assets (different tax depreciation)	(5,166,781)	169,617	(4,997,164)
Impairment provision for receivables	82	(11)	71
Other liabilities tax deductible in different period	14,827	(2,342)	12,485
Provisions for liabilities and charges	39,303	1,963	41,266
Provision for inventories	-	6,306	6,306
Net deferred tax asset/(liability)	**(5,112,569)**	**175,533**	**(4,937,036)**
Recognised deferred tax asset	**-**	**-**	**-**
Recognised deferred tax liability	**(5,112,569)**	**175,533**	**(4,937,036)**
Net deferred tax asset/(liability)	**(5,112,569)**	**175,533**	**(4,937,036)**

(d) Tax effects in the other comprehensive income

Disclosure of tax effects relating to other comprehensive income:

In thousands of Czech Crowns		**2014**			**2013**	
	Before tax	**Tax effects**	**After tax**	**Before tax**	**Tax effects**	**After tax**
Cash flow hedge	(1,488,965)	282,903	(1,206,062)	-	-	-
Other comprehensive income for the period	**(1,488,965)**	**282,903**	**(1,206,062)**	**-**	**-**	**-**

29 Contingencies and Commitments

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Czech Crowns	**2014**	**2013**
Not later than 1 year	48,736	49,611
Later than 1 year and not later than 5 years	48,721	84,142
Total operating lease commitments	**97,457**	**133,753**

The Group has entered into operating lease agreements for offices (Kavčí hory Office Park) and for the car fleet.

Capital expenditure commitments. At 31 December 2014 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling CZK 19,319 thousand mainly related to Optimus project - optimisation project on compressor stations). (2013: CZK 46,442 thousand mainly related to Optimus project).

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations.

The Group recorded its obligations arising from financial guarantees in respect of bank borrowings that have been provided to the parent company NET4GAS Holdings, s.r.o. which is as at 31 December 2013 in total amount of CZK 27,426,444 thousand, from which in amount of CZK 26,449,289 thousand related to NET4GAS, s.r.o. and CZK 977,155 thousand related to BRAWA, a.s. The bank borrowings provided to the parent company NET4GAS Holdings, s.r.o. were repaid during 2014 so the Group did not recorded any obligations from financial guarantees as at 31 December 2014.

The financial guarantee contract as at 31 December 2013 at carrying amount of CZK 15,209 thousand 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:

a) NET4GAS: commercial enterprise pledge, bank accounts pledge, pledge of insurance, pledge of receivables, pledge of shares in BRAWA.

b) BRAWA: commercial enterprise pledge, pledge of insurance, pledge of receivables, pledge of bank accounts.

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 foreign exchange forward and swap contracts and cross–currency interest rate swaps 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.

The foreign exchange forward and swap contracts are short-term in nature while cross currency swap contracts are long-term. The full 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 the foreign exchange derivatives and cross currency swaps.

In thousands of Czech Crowns	31 December 2013 Contracts with positive fair value	31 December 2013 Contracts with negative fair value
Foreign exchange forwards: fair values, as at the reporting period, of		
- CZK receivable on settlement (+)	204,013	984,268
- USD payable on settlement (-)	(201,533)	(1,006,686)
- CZK receivable on settlement (+)		968,953
- EUR payable on settlement (-)	-	(1,037,565)
Net fair value of foreign exchange forwards - current	**2,480**	**(91,030)**

In thousands of Czech Crowns	31 December 2013 Contracts with positive fair value	31 December 2013 Contracts with negative fair value
Foreign exchange swaps: fair values, as at the reporting period, of		
- USD payable on settlement (-)	-	437,940
- EUR receivable on settlement (+)	-	(440,943)
Net fair value of foreign exchange swaps - current	**-**	**(3,003)**

	31 December 2014			
	Current		Non-Current	
In thousands 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 (-)	-	(509,801)	-	(13,144,379)
- EUR receivable on settlement (+)	-	293,975	-	12,104,340
Net fair value of cross currency interest rate swaps	**-**	**(215,826)**	**-**	**(1,040,039)**

Inputs used: Bloomberg

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

Foreign exchange forwards, foreign exchange swaps and cross currency interest rate 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 from time to time.

Cross currency interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2014 were EUR 360,000 thousand / USD 483,786 thousand (2013: nil). All cross currency interest rate swaps have fixed interest rates on both legs. At 31 December 2014, the fixed interest rates vary from 2.5% to 5.23% p.a.

The Group designates certain cross currency swaps, in combination with bonds denominated in EUR, as hedges 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).

31 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises financial market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Operational risk comprises risks stemming from specific business activities and daily processes. Market risk covers risks arising from change in marketplace conditions and economic cycle. Environmental risk covers political, legislative, regulatory and ecological risks.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

Credit risk. The Group 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 Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

In thousands of Czech Crowns	**31 December 2014**	**31 December 2013**
Trade and other receivables (Note 14)		
- Trade and other receivables	178,369	364,339
- Loans to related parties	1,371,520	5,401,302
Cash and cash equivalents (Note 16)		
- Bank balances payable on demand	1,604,964	338,761
- Term deposits with original maturity of less than three months	-	700,000
Total on-balance sheet exposure	3,154,853	6,804,402
Total maximum exposure to credit risk	**3,154,853**	**6,804,402**

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.

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 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. 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 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 minimum monthly. The amount of risk is evaluated in terms of open positions (continuously but minimum monthly).

The offsetting of currency position is applied where possible. It is considered that 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 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 2014				At 31 December 2013			
In thousands of Czech Crowns	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives (liabilities)**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net position**
US Dollars	424,663	1,222,936	11,046,770	(11,845,043)	200,961	2,257	(19,938)	178,766
Euros	1,085,210	12,857,888	(9,981,000)	(1,791,678)	313,996	143,854	(71,615)	98,527
Other	-	4,639	-	(4,639)	-	-	-	-
Total exposed to currency risk	**1,509,873**	**14,085,463**	**1,065,770**	**(13,641,360)**	**514,957**	**146,111**	**(91,553)**	**277,293**
Czech Crowns	1,478,867	25,251,818	-	(23,772,951)	6,263,849	11,331,753	-	(5,067,904)
Total	**2,988,740**	**39,337,281**	**1,065,770**	**(37,414,311)**	**6,778,776**	**11,478,184**	**(91,553)**	**(4,790,611)**

As at 31 December 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 2014.

As at 31 December 2013 amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. The net total represents the fair value of the 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. 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 hedge item in any period of the hedge accounting and is based on the continuous designation and re-designation of hedged item on 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 the profit or loss within revenue and finance costs up until 2034 which is beyond the repayment date of the hedging instruments (Note 19, Note 30).

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

In thousands 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	1,524,192	3,048,385	2,238,463	2,647,602	683,216	10,141,858
Hedging of future cash flows – future receivables EUR	-	-	1,371,445	1,219,761	-	2,591,206
TOTAL	**1,524,192**	**3,048,385**	**3,609,908**	**3,867,364**	**683,216**	**12,733,064**

There was no hedge accounting applied in 2013. The amount of reclassified other reserves from equity to revenues during 2014 decreased revenues by 21,920 thousand.

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 2014		**At 31 December 2013**	
In thousands of Czech *Crowns*	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 10%	42,471	(1,227,525)	17,877	-
US Dollar weakening by 10%	(42,471)	1,227,525	(17,877)	-
Euro strengthening by 10%	84,004	(16,605)	9,853	-
Euro weakening by 10%	(84,004)	16,605	(9,853)	-

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 as at 31 December 2013 is representative of the typical exposure during the years up to the recapitalization process in July 2014. The Group's exposure to currency risk as at 31 December 2014 is representative for the period of the year 2014 after the completion of the recapitalization process in July 2014.

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 in the 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 thousands 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 2014					
Financial assets – floating rate	1,604,964	-	-	-	1,604,964
Financial assets – fixed rate with re-pricing risk	1,371,520	-	-	-	1,371,520
Financial liabilities– floating rate	(8,342,630)	-	-	-	(8,342,630)
Financial liabilities– fixed rate with re-pricing risk	-	-	-	(30,744,718)	(30,744,718)
Net interest sensitivity gap at 31 December 2014	**(5,366,146)**	**-**	**-**	**(30,744,718)**	**(36,110,864)**
31 December 2013					
Financial assets – floating rate	1,038,761	-	-	-	1,038,761
Financial assets – fixed rate with re-pricing risk	-	5,401,302	-	-	5,401,302
Financial liabilities – fixed rate with re-pricing risk	-	-	-	(11,000,000)	(11,000,000)
Net interest sensitivity gap at 31 December 2013	**1,038,761**	**5,401,302**	**-**	**(11,000,000)**	**(4,559,937)**

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 for the current year.

The following table presents sensitivities of profit and 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 2014		**At 31 December 2013**	
In thousands of Czech *Crowns*	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
3m CZK PRIBOR increase by 25 bps	(17,861)	-	-	-
3m CZK PRIBOR decrease by 25 bps	17,861	-	-	-
3m EUR EURIBOR increase by 25 bps	-	-	-	-
3m EUR EURIBOR decrease by 25 bps	-	-	-	-
3m USD LIBOR increase by 25 bps	(3,075)	-	-	-
3m USD LIBOR decrease by 25 bps	3,075	-	-	-
Overnight PRIBOR increase by 25 bps	3,250	-	606	-
Overnight PRIBOR decrease by 25 bps	(3,250)	-	(606)	-
Overnight EURIBOR increase by 25 bps	670	-	124	-
Overnight EURIBOR decrease by 25 bps	(670)	-	(124)	-
Overnight LIBOR increase by 25 bps	63	-	-	-
Overnight LIBOR decrease by 25 bps	(63)	-	-	-

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 the 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 2014				31 December 2013			
In % p.a.	**CZK**	**USD**	**Euro**	**Other**	**CZK**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0.12	0.01	0.05	n/a	0.12	0.01	0.05	n/a
Loans to related parties	0.94	0.85	0.69	n/a	1.26	n/a	1.10	n/a
Liabilities								
Borrowings	4.10	1.81	3.00	n/a	4.22	n/a	n/a	n/a

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

The Group is enjoying a strong liquidity position and is able to secure its 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 2014 and 2013 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 2014 is as follows:

In thousands of Czech Crowns	**Demand and to 3 months**	**From 3 months to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 19)	287,806	1,002,614	13,673,662	49,849,995	64,814,077
Trade and other payables (Note 23)	831,483	-	4,355	-	835,838
Gross settled cross currency interest rate swaps (Note 30)					
- inflows	-	(293,885)	(1,175,540)	(11,345,070)	(12,814,495)
- outflows	-	459,636	1,838,545	12,016,923	14,315,104
Total future payments, including future principal and interest payments	**1,119,289**	**1,168,365**	**14,341,022**	**50,521,848**	**67,150,524**

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In thousands of Czech Crowns	**Demand and to 3 months**	**From 3 months to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities					
Borrowings (Note 19)	116,050	354,597	1,883,878	12,401,626	14,756,151
Trade and other payables (Note 23)	606,821	-	4,561	-	611,382
Gross settled swaps and forwards (Note 30)					
- inflows	(1,491,469)	(1,105,152)	-	-	(2,596,621)
- outflows	1,547,167	1,141,127	-	-	2,688,294
Financial guarantees (potentially payable amount)	27,426,444	-	-	-	-
Total future payments, including future principal and interest payments	**31,185,390**	**390,572**	**1,888,439**	**12,401,626**	**15,456,645**

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 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. As of 31 December 2014:

- the equity amounted to CZK 5,087,684 thousand;
- the subordinated borrowings from related parties amounted to CZK 11,000,000 thousand and received the equity-like treatment from the rating agencies Fitch and S&P in July 2014;
- the non-subordinated borrowings from banks, bonds and related parties amounted to CZK 28,087,909 thousand.

The Group has complied with all requirements (covenants) arising from the borrowings as at 31 December 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 carried in the balance sheet at their fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2014 and 2013.

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2014 (as at 31 December 2013: none) except the fact that one instrument was added (cross currency swap contracts). The valuation technique for the cross currency swap contracts is described below.

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

In thousands of Czech Crowns	**Fair value**	**Valuation technique**	**Inputs used**
Derivative financial instruments			
Cross currency swap contracts	(1,255,865)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(1,255,865)**	**-**	**-**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2013:

In thousands of Czech Crowns	**Fair value**	**Valuation technique**	**Inputs used**
Derivative financial instruments			
Foreign exchange forward contracts	(88,550)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Foreign exchange swap contracts	(3,003)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(91,553)**	**-**	**-**

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

In thousands of Czech Crowns	**2014**	**2013**
Opening balance	**(91,553)**	**(14,059)**
Change in fair value of contracts held at the beginning of the period settled during the period	(7,022)	(118,296)
Settlement of contracts held at the beginning of the period	98,575	132,355
Change in unrealised gains or losses for the period included in profit or loss for contracts held at the end of the reporting period	-	(91,553)
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	(1,255,865)	-
Closing balance	**(1,255,865)**	**(91,553)**

(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 and 2013. 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 thousands of Czech Crowns	**Fair value**	**Valuation technique**	**Inputs used**
31 December 2014			
Assets held for sale	28,280	Market approach	Indicative bid price
31 December 2013			
Assets held for sale	34,454	Market approach	Indicative bid price

(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 2014				31 December 2013			
In thousands 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	-	-	1,383,068	1,382,588	-	-	5,406,150	5,401,302
TOTAL ASSETS	**-**	**-**	**1,383,068**	**1,382,588**	**-**	**-**	**5,406,150**	**5,401,302**
LIABILITIES								
Borrowings								
- Borrowings from related parties	-	-	11,873,114	11,000,000	-	-	11,455,718	11,000,000
- Bank borrowings	-	-	8,400,906	8,342,630	-	-	-	-
- Bonds	20,122,391	-	-	19,745,279	-	-	-	-
TOTAL LIABILITIES	**20,122,391**	**-**	**20,274,020**	**39,087,909**	**-**	**-**	**11,455,718**	**11,000,000**

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

On 22 January 2015 the issue of the fourth series of bonds took place with a nominal value of EUR 50 million and maturity on 28 July 2026. These bonds were used to repay the part of the bank borrowings denominated in CZK.

No other events have occurred subsequent to year-end that would have a material impact on the consolidated financial statements for the year ended 31 December 2014.

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

3 March 2015

Andreas Rau Statutory Director	Radek Benčík Statutory Director	Václav Hrach Statutory Director

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The General Meeting approved the consolidated financial statements for publication on 27 March 2015.