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Markets**

**NET4GAS Consolidated Financial Results  
as at December 2018  
Investor Presentation**

NET4GAS | Prague

April 2019



# Agenda

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## NET4GAS Management



### Andreas Rau, CEO

- With NET4GAS since 2013
- 21 years of experience in the energy industry
- International Gas Union Executive Committee member
- Previous: BoD member SPP, a.s. (Slovakia), CEO and BoD member Eustream, a.s. (Slovakia), various management functions at E.ON Ruhrgas AG (Germany)



### Václav Hrach, CFO

- With NET4GAS since 2014
- 17 years of experience in the energy industry
- Previous: CEO MVV Energie CZ a.s. (district heating & electricity group), member of Executive Board of District Heating Association of CR, COGEN Czech, partner of TES Praha a.s., consulting company



### Radek Benčík, COO

- With NET4GAS since 2011
- 29 years of experience in the energy industry
- Vice-chairman of the Board of the Czech Gas Association
- Previous: Executive & Managing Director in Alstom, BoD Chairman, Managing Director in Škoda Praha and Škoda Nuclear



# Core Business Competencies

Key company strengths and solid financial results continuously retained

## Robust Business Model

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

## Strong Financials

- Strong cash generation and credit metrics
- BBB credit rating by S&P (stable outlook) and Fitch (stable outlook) reaffirmed since 2014
- Conservative financial policy supported by strong shareholders

## Operational Excellence

- Well-maintained and flexible gas transmission network enabling bi-directional flows
- Focus on stringent OPEX and CAPEX discipline remains among our key objectives with track record supported by tangible results
- Strong Health, Safety, Security and Environment (“HSSE”) track record

## Strategic Asset

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



# 2018 Financial Highlights and 2019 Outlook

Strong delivery of 2018 full-year financial results

## 2018 Highlights

- Consolidated EBITDA<sup>1)</sup> of CZK 6.4 billion posted in 2018, up c. CZK 0.2 billion or c. 3.5% year on year (yoy) and ended up at upper end of our internal outlook range and target (Budget).
- Transit revenues in 2018 were characterized by high utilization of our long-term transit contracts and a solid performance in short-term transit sales.
- Transport revenues declined in 2018 by c. CZK 0.5 billion yoy due to one-time effects related to 2016/17 transmission corrections and lower domestic entry capacities; yet impact shall be recovered in 2020 via existing regulatory mechanisms.
- Operating costs were reduced by nearly CZK 0.3 billion predominantly due to active austerity measures, operational excellence, but also timing effects.
- Cash Flow generation remained strong in 2018 with Net cash flows from operations at c. CZK 4.5 billion.
- Extension of CZK 2.6 billion bond's maturity from year 2021 to 2025.

## Capacity4Gas<sup>2)</sup>

- Based on significant long-term gas market demand for additional capacity, new cross-border capacities were successfully marketed through PRISMA capacity auction held on March 6, 2017.
- N4G continues to embark on relevant gas infrastructure build-out in the CR which is set out to culminate between 2019-2020.
- Project fully financially backed by shareholders' equity injections (c. EUR 60 million of fresh equity already received between 2017-2018).

## 2019 Outlook

- Transit revenues expected to remain of the same order of magnitude as in 2018.
- Regulated transport revenues likely to rise yoy as a result of adverse one-time effects in previous year and partly revenue cap adjustments from 2017.
- Overall operating costs expected to see a limited increase above previous year's mark largely on account of staff costs in relation to Capacity4Gas investment, but associated own work capitalized should have partly offsetting effect.
- Significant increase in growth CAPEX expected as a result of Capacity4Gas and related investments into existing infrastructure.
- Capacity4Gas investments continue to be funded by the sole shareholder.
- Company financing strategy envisages retention of BBB rating.

## Footnotes

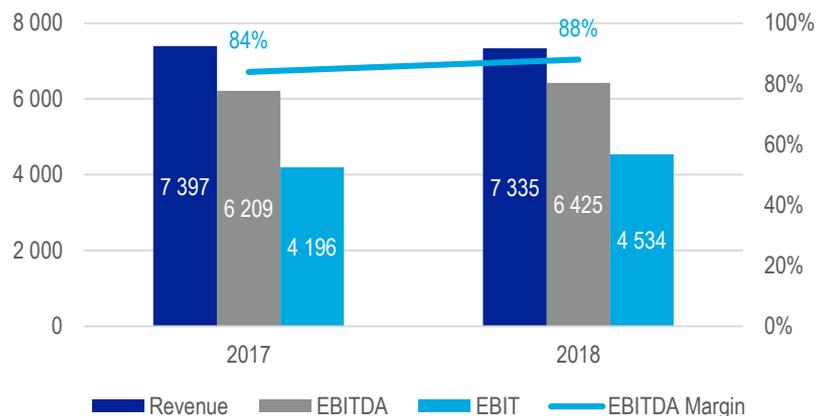
- 1) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization
- 2) Relates to construction of gas infrastructure aimed at increasing cross-border capacity between German, Czech and Slovak market areas



# EBITDA Margin & Cash Flow

Consistent track record of delivery and high margins in 2018

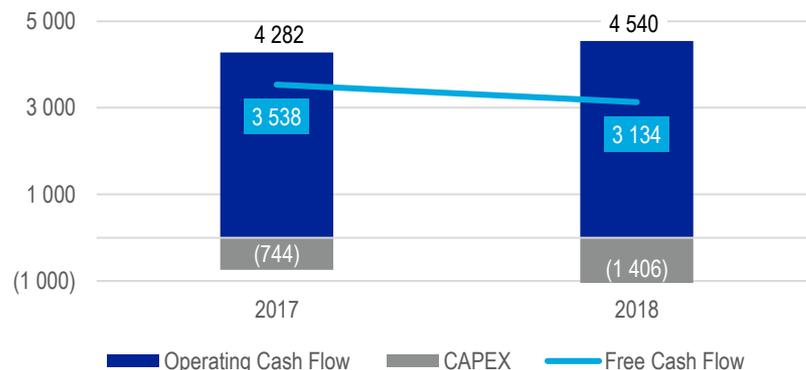
Historical EBITDA Margin and Revenues: 2017-2018 (CZKm)



## Comments

- Total revenues<sup>1)</sup> posted in 2018 exceeded CZK 7.3 billion, with insignificant change yoy.
- Operating profit reached c. CZK 4.5 billion, up yoy by c. CZK 0.3 billion driven by decline in operating expenses.
- EBITDA<sup>2)</sup> margin rose by c. 4% yoy to 88% mark in 2018.
  - Fairly stable revenues coupled with favorable development in operating costs on the back of active cost management had a prevailing positive impact on our high profitability.

Historical Cash Flow Snapshot: 2017-2018 (CZKm)



## Comments

- Funds generated by operating activities rose to CZK 4.5 billion in 2018 commensurately with EBITDA development.
- High liquidity retained, with free cash flow<sup>3)</sup> at above c. CZK 3.1 billion mark.
- CAPEX amounted to c. CZK 1.4 billion nearly doubling in yoy comparison largely on the back of Capacity4Gas investment which held c. 70% share.

1) Source: Years ended 2017 and 2018 - Company's audited consolidated IFRS accounts

2) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization

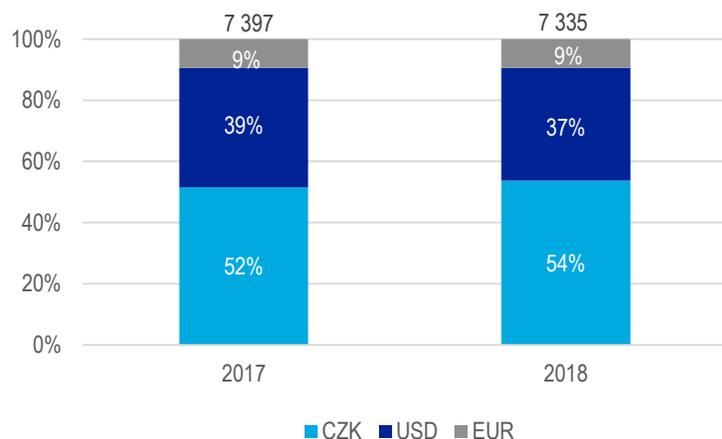
3) Free Cash Flow = Operating cash flow minus CAPEX

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

# Revenues & Operating Expenses

Revenues remained above CZK 7.3 billion mark in 2018, while Operating Expenses dipped below CZK 1.0 billion level

Historical Revenue; Currency Split: 2017-2018 (CZKm)

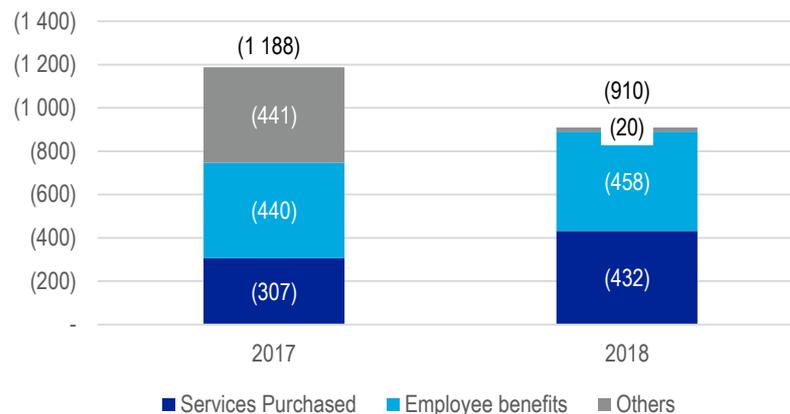


## Comments

- Revenues from core activities comprise revenues from international transit, domestic transmission and other.
- In 2018, transit revenues represented 83%, domestic transport 16% and other revenues 1% of Company's revenues.
- Revenues in 2018 continued to be generated in 3 currencies – USD, EUR, CZK, the latter taking the largest share.
  - Percentage share of individual currencies remained nearly constant.

Source: Years ended 2017 and 2018 - Company's audited consolidated IFRS accounts

Historical Operating Expenses<sup>1</sup>: 2017-2018 (CZKm)



## Comments

- Overall costs dropped by nearly CZK 0.3 billion yoy.
- Yoy change of c. CZK 0.1 billion under 'Service purchased' was driven by one-off release of unused provision linked to selected technological assets in 2017, effectively reducing the cost position in that year.
- 'Employee benefits' increased slightly mainly due to staff recruited for our growth investments.
- 'Others' category plummeted by c. CZK 0.4 billion yoy as result of lower balancing costs and foreign currency gains.

1) Operating Expenses disclosed without depreciation and amortization



# Historical Income Statement

## 2017 - 2018

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

(in CZKm)	2017A	2018A
Revenue	7 397	7 335
Raw material consumed	(302)	(97)
Services purchased and lease charges	(307)	(432)
Employee benefits	(440)	(458)
Depreciation and amortization	(2 013)	(1 891)
Gains less losses on disposal of property, plant and equipment	0	(1)
Changes in fair value of derivatives, net	(37)	40
Foreign exchange differences, net	(100)	30
Other operating income	39	44
Other operating expenses	(41)	(36)
<b>Operating profit</b>	<b>4 196</b>	<b>4 534</b>
Finance income	4	53
Finance costs	(947)	(957)
<b>Profit before income tax</b>	<b>3 253</b>	<b>3 630</b>
Income tax expense	(619)	(697)
<b>PROFIT FOR THE YEAR</b>	<b>2 634</b>	<b>2 933</b>
Cash flow hedge	2 813	(512)
Income tax recorded directly in other comprehensive income – cash flow hedge	(535)	98
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2 278</b>	<b>(414)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>4 912</b>	<b>2 519</b>

### Comments

- Operating profit generated by core business reached c. CZK 4.5 billion.
- Profit for the year 2018 rose above CZK 2.9 billion, resulting in yoy increase of c. CZK 0.3 billion driven mainly by improved operating profit.
- 'Raw material consumed' declined mainly due to lower volume of procured balancing gas.
- 'Services purchased' increased predominantly on account of provisions released in 2017.
- 'Finance costs' remained at roundabout previous year's mark.
- 'Income tax expense' developed commensurately with improved results from our operations.
- 'Cash flow hedge' was impacted mainly due to depreciation of CZK against USD.
  - Hedge accounting has been maintained over hedged cash flows exposed to foreign currency risk, impacting comprehensive income under IFRS.

Source: Years ended 2017 and 2018 - Company's audited consolidated IFRS accounts  
Small differences in the Statements may arise due to rounding



# Historical Balance Sheet

## 2017 - 2018

### NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2017	Dec 31, 2018
<b>ASSETS:</b>		
NON-CURRENT ASSETS		
Property, plant and equipment	43 147	42 704
Intangible assets	78	68
Other non-current assets	25	220
<b>Total non-current assets</b>	<b>43 250</b>	<b>42 992</b>
CURRENT ASSETS		
Inventories	61	65
Trade and other receivables	324	701
Current income tax prepayments	248	68
Loans to related parties	5	8
Other non-financial assets	32	48
Other financial assets	683	2 787
Cash and cash equivalents	631	1 302
Assets of disposal group held for sale	0	0
<b>Total current assets</b>	<b>1 984</b>	<b>4 979</b>
<b>TOTAL ASSETS</b>	<b>45 234</b>	<b>47 971</b>

### Comments

- 'Cash and cash equivalents' year-end balance rose from c. CZK 0.6 billion in 2017 to c. CZK 1.3 billion in 2018.
- 'Total equity' increased from c. CZK 9.2 billion to c. CZK 11.4 billion; improvement is largely driven by capital contributions from the sole shareholder and retained earnings.
- Liabilities recognized under 'Derivative financial instruments' (within 'Non-current liabilities') declined moderately due do CZK depreciation against USD and EUR.

### NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2017	Dec 31, 2018
<b>EQUITY AND LIABILITIES:</b>		
EQUITY ATTRIB. TO SHAREHOLDERS OF THE PARENT COMPANY		
Registered capital	2 750	2 750
Capital contributions outside registered capital	3 364	4 549
Cash flow hedges	465	51
Retained earnings	2 651	4 084
<b>Total equity</b>	<b>9 230</b>	<b>11 434</b>
NON-CURRENT LIABILITIES		
Trade and other payables	13	10
Borrowings	26 988	27 106
Derivative financial instruments	835	1 258
Deferred income tax liability	6 789	6 572
Accrued employee benefits	101	105
Other non-financial liabilities	7	10
<b>Total non-current liabilities</b>	<b>34 733</b>	<b>35 061</b>
CURRENT LIABILITIES		
Borrowings	299	291
Trade and other payables	517	703
Derivative financial instruments	209	231
Other taxes payable	18	18
Provisions	2	0
Accrued employee benefits	44	56
Other non-financial liabilities	182	177
<b>Total current liabilities</b>	<b>1 271</b>	<b>1 476</b>
<b>Total liabilities</b>	<b>36 004</b>	<b>36 537</b>
<b>EQUITY AND LIABILITIES</b>	<b>45 234</b>	<b>47 971</b>

Source: Years ended 2017 and 2018 - Company's audited consolidated IFRS accounts  
Small differences in the Statements may arise due to rounding



# Historical Cash Flow Statement

## 2017 - 2018

NET4GAS Group  
Consolidated Statements of Cash Flows (IFRS)

(in CZKm)	Dec 31, 2017	Dec 31, 2018
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>3 253</b>	<b>3 630</b>
Adjustments	2 794	2 840
<b>Operating cash flows before working capital changes</b>	<b>6 047</b>	<b>6 470</b>
Decrease/(Increase) in trade and other receivables	(26)	(343)
Increase/(Decrease) in trade and other payables	(20)	(304)
Decrease/(Increase) in inventories	2	(4)
<b>Operating cash flows after changes in working capital</b>	<b>6 003</b>	<b>5 819</b>
Interest paid	(614)	(648)
Interest received	1	5
Income tax paid	(1 108)	(636)
<b>Net cash flows operating activities</b>	<b>4 282</b>	<b>4 540</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(714)	(1 379)
Purchase of intangible assets	(30)	(27)
Loans provided to related parties	5	(3)
Purchase of other financial assets	(683)	(2 104)
<b>Net cash flows used in investing activities</b>	<b>(1 422)</b>	<b>(3 513)</b>
<b>Cash flows from financing activities</b>		
Payments of decreased contributions outside registered capital to the Company's shareholder	(3 000)	0
Payments of increased contributions outside registered capital from Company's shareholder	355	1 185
Advance dividends paid to the Company's shareholder	0	(1 500)
Repayments of borrowings	(7 927)	(659)
Proceeds from borrowings	7 928	618
<b>Net cash flows used in financing activities</b>	<b>(2 644)</b>	<b>(356)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>216</b>	<b>671</b>
Cash and cash equivalents at the beginning of the period	415	631
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>631</b>	<b>1 302</b>

## Comments

- 'Cash and cash equivalents' at the end of 2018 amounted to CZK 1.3 billion, nearly doubling yoy.
- 'Income tax paid' dropped yoy due to both higher tax advances and one time effects in 2017.
- 'Net cash flows from operating activities' amounted to CZK 4.5 billion.
- 'Net cash flows from investing activities' reached CZK 3.5 billion, of which CAPEX<sup>1)</sup> amounted to c. CZK 1.4 billion.
  - 'Purchase of other financial assets' of c. CZK 2.1 billion comprised of deposit bills of exchange with original maturity of less than six months.
- Net cash flows from financing activities reached c. CZK 0.4 billion, main changes in 2018 included:
  - Capital contributions outside registered capital of c. CZK 1.2 billion received from the shareholder for the purpose of funding Capacity4Gas investment program.
  - Advance dividends paid to the company's shareholder of CZK 1.5 billion.

Source: Years ended 2017 and 2018 - Company's audited consolidated IFRS accounts

Small differences in the Statements may arise due to rounding

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



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