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Markets**

**NET4GAS Consolidated Financial Results  
as at December 2019  
Investor Presentation**

NET4GAS | Prague

April 2020

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## NET4GAS Management



### Andreas Rau, CEO

- With NET4GAS since 2013
- 22 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
- 18 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
- 30 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 reaffirmed

## 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 Fitch (stable outlook) reaffirmed since 2014; in Dec 2019 Baa2 long-term rating assigned by Moody’s (stable outlook)
- 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 and 5 compressor stations that have been undergoing an extensive investment program to secure both existing and expected future gas flows
- Sole TSO in the Czech Republic with exclusive gas transmission license connecting all 3 corridors for delivery of Russian gas predominantly into the EU



# 2019 Financial Highlights and 2020 Outlook

In 2019 we again delivered strong revenue growth, led by our transit business

## 2019 Highlights

- Consolidated EBITDA<sup>1)</sup> of CZK 7.0 billion posted in 2019, up c. CZK 0.6 billion or nearly 10.0% year on year (yoy) and ended up at upper end of our internal outlook range and target (Budget).
- Transit revenues in 2019 were characterized by moderate utilization of our long-term contracts, but these were complemented by extraordinary performance in short-term transit sales.
- Transport revenues rose in 2019 by almost CZK 0.5 billion yoy due to one-time effects in 2018 that will be compensated through regulatory mechanisms in 2020.
- Operating costs increased slightly to c. CZK 1.0 billion mark, mainly due to grid balancing (offset in 'Revenue') and staff costs.
- Very strong Operating Cash Flow nearly reaching CZK 5.8 billion came about through growing core business sales in 2019.
- As regards company financing, c. EUR 400m of debt facilities to potentially refinance existing debt maturing in 2021 have already been secured.

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

- Based on significant long-term gas market demand for additional capacity, new cross-border capacities were successfully marketed through a PRISMA capacity auction held on 6 March 2017.
- N4G continues to embark on relevant gas infrastructure build-out in the CR which is set to culminate between 2019-2020.
- Project fully financially backed by shareholders' equity injections (c. EUR 391.1 million of fresh equity already received between Nov 2017- Feb 2020).

## 2020 Outlook

- Despite undisputable impact of COVID-19 on business activities in general, we believe in the resilience of our transmission business and strong cash position on the back of long-term 'ship-or-pay' transit contracts.
- Transit revenues expected to rise in 2020, as long-term capacity contract associated with Capacity4Gas investments has taken effect since Oct 2019.
- Regulated transport revenues likely to rise yoy as a result of favorable revenue cap adjustments ('y-2') from 2018.
- Overall operating costs expected to see an increase above previous year, largely on account of operating costs associated with core assets commissioned (e.g. new compressor station) in 2019 and staff costs.
- CAPEX program likely to reach a pinnacle this year on the back of construction of high-pressure pipeline DN1400 (HPPL) that commenced in Q4 2019 immediately after NET4GAS had successfully finalized the permit process.
- Company financing strategy envisages retention of BBB/Baa2 ratings.

## Footnotes

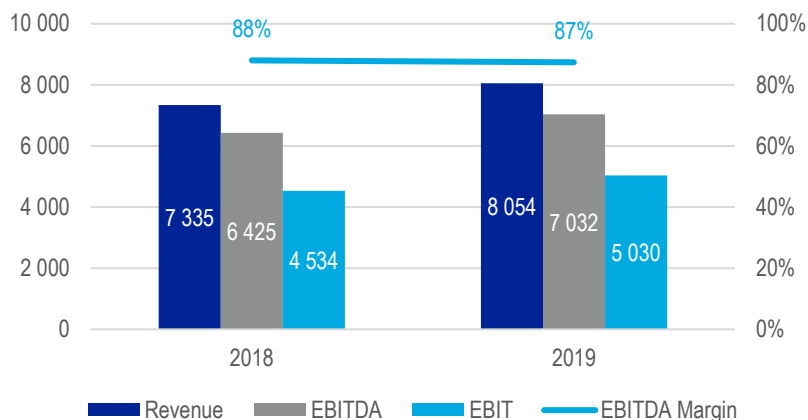
- 1) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization
- 2) Relates to construction of gas infrastructure aimed at increasing cross-border capacity between German, Czech and Slovak market areas



# EBITDA Margin & Cash Flow

Consistent track record of delivery and high margins continued in 2019

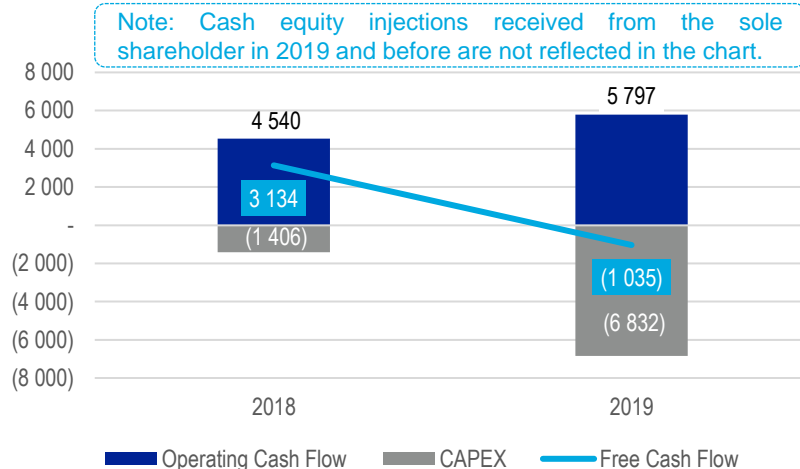
Historical EBITDA Margin and Revenues: 2018-2019 (CZKm)



## Comments

- Total revenues<sup>1)</sup> posted in 2019 reached over CZK 8.0 billion, representing a significant upside yoy.
- Operating profit exceeded CZK 5.0 billion, up yoy by c. CZK 0.5 billion driven by improvement in both transit and transport business.
- EBITDA<sup>2)</sup> margin in 2019 (c. 87%) remained commensurate with margin recorded a year ago.
  - Strong core revenue base and cost management measures introduced in recent years remained vital in maintaining high profitability throughout 2019.

Historical Cash Flow Snapshot: 2018-2019 (CZKm)



## Comments

- Funds generated by operating activities rose to nearly CZK 5.8 billion in 2019, fueled by core sales and positive working capital changes.
- CAPEX topped CZK 6.8 billion in 2019 and more than quadrupled in yoy comparison; a vast majority of investments were attributed to Capacity4Gas (C4G) project backed by a LT capacity contract.
- Historically highest CAPEX incurred in 2019 temporarily exceeded Operating CF. However, the chart does not factor in cash equity injections received to fund the C4G investment.

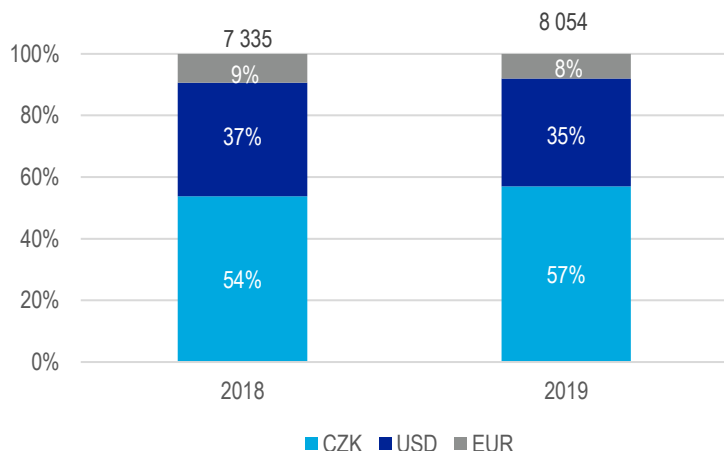
1) Source: Years ended 2018 and 2019 - Company's audited consolidated IFRS accounts  
 2) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization  
 3) Free Cash Flow = Operating cash flow minus CAPEX  
 CAPEX = Purchase of property, plant and equipment plus Purchase of intangible assets



# Revenues & Operating Expenses

Revenues rose above CZK 8.0 billion mark in 2019; Operating Expenses ended at c. CZK 1.0 billion level

Historical Revenue; Currency Split: 2018-2019 (CZKm)



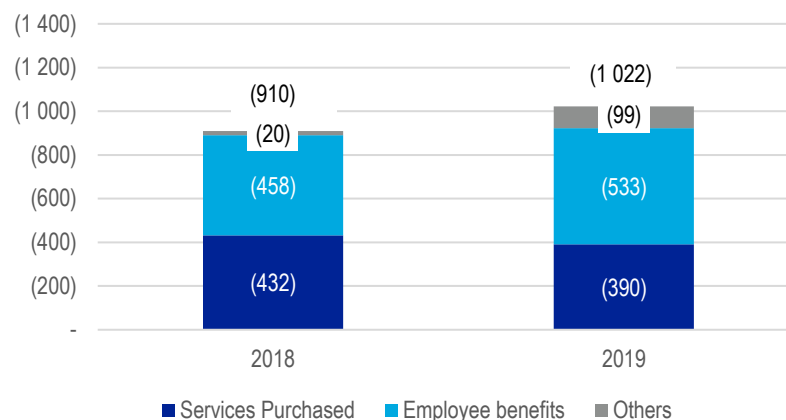
## Comments

- Revenues from core activities comprise revenues from international transit, domestic transmission and other.
- In 2019, transit revenues represented 77%, domestic transport 21% and other revenues 2% of company's revenues.
- Revenues in 2019 continued to be generated in 3 currencies – USD, EUR, CZK, the latter taking the largest share of nearly 60%.
  - Respective percentage share of individual currencies remained stable throughout 2019.

Source: Years ended 2018 and 2019 - Company's audited consolidated IFRS accounts

1) Operating Expenses disclosed without depreciation and amortization

Historical Operating Expenses<sup>1</sup>: 2018-2019 (CZKm)



## Comments

- Overall costs increased by c. CZK 0.1 billion yoy.
- 'Service purchased' fell by c. CZK 40 million; main impact came about through accounting change (IFRS 16) in relation to leases (e.g. vehicles; offices). As a result, the costs are newly recognized under 'Depreciation and Amortization' and 'Finance costs'.
- 'Employee benefits' increased moderately, mainly as result of staff recruited for our growth investments, salaries indexation and other employee benefits.
- 'Others' category increased slightly by c. CZK 80 million yoy due to balancing costs, grants, etc.



# Historical Income Statement

## 2018 - 2019

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

(in CZKm)	2018A	2019A
Revenue	7 335	8 054
Raw material consumed	(97)	(159)
Services purchased and lease charges	(432)	(390)
Employee benefits	(458)	(533)
Depreciation and amortization	(1 891)	(2 002)
Gains less losses on disposal of property, plant and equipment	(1)	0
Changes in fair value of derivatives, net	40	7
Foreign exchange differences, net	30	(2)
Other operating income	44	165
Other operating expenses	(36)	(110)
<b>Operating profit</b>	<b>4 534</b>	<b>5 030</b>
Finance income	53	118
Finance costs	(957)	(1 027)
<b>Profit before income tax</b>	<b>3 630</b>	<b>4 121</b>
Income tax expense	(697)	(791)
<b>PROFIT FOR THE YEAR</b>	<b>2 933</b>	<b>3 330</b>
Cash flow hedge	(512)	(284)
Income tax recorded directly in other comprehensive income – cash flow hedge	98	54
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(414)</b>	<b>(230)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2 519</b>	<b>3 100</b>

### Comments

- Operating profit generated by core business reached c. CZK 5.0 billion.
- Profit for the year 2019 rose above CZK 3.3 billion, resulting in yoy increase of c. CZK 0.4 billion driven mainly by improved operating profit.
- 'Raw material consumed' increased slightly, mainly due to higher volume of procured balancing gas.
- 'Services purchased' decline stemmed from application of IFRS 16 (*see slide #6*).
- 'Finance costs' rose slightly above previous year's amount.
- 'Income tax expense' developed commensurately with improved results from our operations.
- 'Cash flow hedge' was impacted mainly due to appreciation 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 2018 and 2019 - Company's audited consolidated IFRS accounts  
Small differences in the Statements may arise due to rounding



# Historical Balance Sheet

## 2018 - 2019

### NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2018	Dec 31, 2019
<b>ASSETS:</b>		
NON-CURRENT ASSETS		
Property, plant and equipment	42 704	50 025
Intangible assets	68	88
Other non-current assets	220	402
<b>Total non-current assets</b>	<b>42 992</b>	<b>50 515</b>
CURRENT ASSETS		
Inventories	65	72
Trade and other receivables	701	686
Current income tax prepayments	68	0
Loans to related parties	8	0
Other non-financial assets	48	38
Other financial assets	2 787	0
Cash and cash equivalents	1 302	2 162
Assets of disposal group held for sale	0	0
<b>Total current assets</b>	<b>4 979</b>	<b>2 958</b>
<b>TOTAL ASSETS</b>	<b>47 971</b>	<b>53 473</b>

### Comments

- 'Cash and cash equivalents' year-end balance rose from c. CZK 1.3 billion in 2018 to nearly CZK 2.2 billion in 2019.
- 'Total equity' increased from c. CZK 11.4 billion to c. CZK 13.3 billion; capital contributions from the sole shareholder had the largest impact.
- Overall balance sheet expansion is largely attributed to extensive investment program, triggering changes not only on the asset side (e.g. PPE<sup>1)</sup>) but also on the liability side (e.g. 'Trade and other payables').

Source: Years ended 2018 and 2019 - Company's audited consolidated IFRS accounts

1) Property, plant and equipment

Small differences in the Statements may arise due to rounding

### NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2018	Dec 31, 2019
<b>EQUITY AND LIABILITIES:</b>		
EQUITY ATTRIB. TO SHAREHOLDERS OF THE PARENT COMPANY		
Registered capital	2 750	2 750
Capital contributions outside registered capital	4 549	9 066
Cash flow hedges	51	(179)
Retained earnings	4 084	1 663
<b>Total equity</b>	<b>11 434</b>	<b>13 300</b>
NON-CURRENT LIABILITIES		
Trade and other payables	10	39
Borrowings	27 106	26 966
Finance lease liability	0	180
Derivative financial instruments	1 258	1 714
Deferred income tax liability	6 572	6 517
Accrued employee benefits	105	114
Other non-financial liabilities	10	3
<b>Total non-current liabilities</b>	<b>35 061</b>	<b>35 533</b>
CURRENT LIABILITIES		
Borrowings	291	276
Finance lease liability	0	40
Trade and other payables	703	3 495
Derivative financial instruments	231	242
Current income tax payable	0	48
Other taxes payable	18	19
Provisions	0	0
Accrued employee benefits	56	49
Other non-financial liabilities	177	471
<b>Total current liabilities</b>	<b>1 476</b>	<b>4 640</b>
<b>Total liabilities</b>	<b>36 537</b>	<b>40 173</b>
<b>EQUITY AND LIABILITIES</b>	<b>47 971</b>	<b>53 473</b>





# Historical Cash Flow Statement

## 2018 - 2019

NET4GAS Group  
Consolidated Statements of Cash Flows (IFRS)

(in CZKm)	Dec 31, 2018	Dec 31, 2019
<b>Cash flows from operating activities</b>		
Profit before tax	3 630	4 121
Adjustments	2 840	2 892
<b>Operating cash flows before working capital changes</b>	<b>6 470</b>	<b>7 013</b>
Decrease/(Increase) in trade and other receivables	(343)	57
Increase/(Decrease) in trade and other payables	(304)	143
Decrease/(Increase) in inventories	(4)	(7)
<b>Operating cash flows after changes in working capital</b>	<b>5 819</b>	<b>7 206</b>
Interest paid	(648)	(762)
Interest received	5	29
Income tax paid	(636)	(676)
<b>Net cash flows from operating activities</b>	<b>4 540</b>	<b>5 797</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1 379)	(6 776)
Purchase of intangible assets	(27)	(56)
Proceeds from sale of property, plant and equipment	0	95
Loans provided to related parties	(3)	8
Purchase of other financial assets	(2 104)	2 787
<b>Net cash flows used in investing activities</b>	<b>(3 513)</b>	<b>(3 942)</b>
<b>Cash flows from financing activities</b>		
Payments of decreased contributions outside registered capital to the Company's shareholder	0	(3 010)
Payments of increased contributions outside registered capital from Company's shareholder	1 185	7 526
Dividends paid to the Company's shareholder	0	(4 081)
Advance dividends paid to the Company's shareholder	(1 500)	(1 670)
Repayments of borrowings	(659)	(3 195)
Proceeds from borrowings	618	3 435
<b>Net cash flows used in financing activities</b>	<b>(356)</b>	<b>(995)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>671</b>	<b>860</b>
Cash and cash equivalents at the beginning of the period	631	1 302
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1 302</b>	<b>2 162</b>

## Comments

- 'Cash and cash equivalents' at the end of 2019 amounted to nearly CZK 2.2 billion, rising up by c. CZK 0.9 billion yoy.
- 'Net cash flows from operating activities' amounted to CZK 5.8 billion; growth in core revenues and favorable working capital changes led the yoy improvement.
- 'Net cash flows used in investing activities' reached CZK 3.9 billion, of which CAPEX<sup>1)</sup> amounted to c. CZK 6.8 billion, partly being offset by other line items.
  - 'Purchase of other financial assets' of c. CZK 2.8 billion comprised of deposit bills of exchange with original maturity of less than six months.
- Net cash flows from financing activities reached c. CZK 1.0 billion, main changes in 2019 included:
  - Capital contributions outside registered capital of c. CZK 7.5 billion (or EUR 293.2 million) represent cash equity payments received from the sole shareholder for the purpose of funding Capacity4Gas investment program in 2019. Conversely, payments of decreased contributions (though not related to Capacity4Gas project equity financing) had a partly offsetting impact.
  - Other changes stemmed from 'Dividends paid and Advance dividends paid to the Company's shareholder'.

Source: Years ended 2018 and 2019 - 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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