



**Connecting
Markets**

**NET4GAS Consolidated Financial Results
as at December 2017
Investor Presentation**

NET4GAS | Prague

April 2018



Agenda

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NET4GAS Management



Andreas Rau, CEO

- With NET4GAS since 2013
- 20 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
- 16 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
- 28 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's strength and strong financials 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 recently auctioned capacities until 2039)
- Fairly stable domestic transport business regulated on 'revenue cap' basis

Strong Financials

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

Operational Excellence

- Well-maintained and flexible gas transmission network enabling bi-directional flows
- Running efficiency program focusing on operating costs and CAPEX discipline bringing 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 envisaged 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



2017 Financial Highlights and 2018 Outlook

Solid delivery of full year financial results

2017 Results

- Consolidated EBITDA¹⁾ of CZK 6.2 billion posted in 2017; favorable EBITDA margin at 84% with solid operating cash flow maintained
- Operating profit of nearly CZK 4.2 billion ended up at upper end of our internal outlook range and target (Budget)
- Transit revenues in 2017 were adversely impacted by anticipated expiry of one transit contract, yet this effect was partly offset by short-term transit bookings which again outreached our full-year target
- Transport revenues declined by CZK 0.3 billion year-on-year largely on accounts of extraordinary effects in 2016; impact commensurate with 2017 outlook we provided last year
- Operating costs improved to a large extent due to active measures aimed at cost efficiency but also one-time effects
- Cash Flow generation stayed strong with Net cash flows from operations (*after working capital changes, interest and taxes*) at c. CZK 4.3 billion



2018 Outlook

- Transit revenues expected to remain fairly stable in 2018, though strong recent appreciation of CZK against USD and EUR may partly impact transits denominated in foreign currencies
- Transport revenues likely to see a drop mainly on account of financial settlement of former flexibility²⁾ service c. CZK 120 million and correction (y+2) of revenue cap outperformance in 2016
- Overall operating costs expected to broadly align with 2017 level apart from personnel costs in relation to Capacity4Gas investment, but related own work capitalized should have an offsetting effect
- CAPEX to rise above CZK 1.0 billion level being driven by investments aimed at increasing grid capacity
- Company financing strategy envisages retention of BBB rating

Capacity4Gas³⁾

- 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 currently embarks on relevant gas infrastructure build-out in the CR which is set out to continue to upcoming years
- Project financially backed by shareholders' equity injections

Footnotes

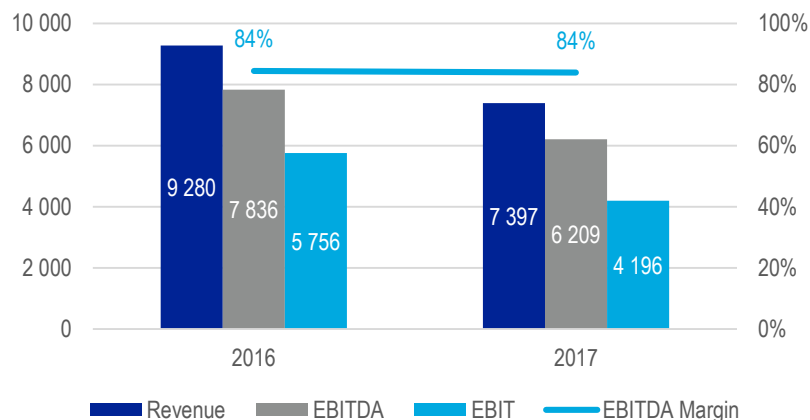
- 1) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization
- 2) Flexibility costs had been fully recognized in revenue cap by the Energy Regulatory Office until new balancing mechanism has been introduced effective HY2, 2016.
- 3) Relates to construction of gas infrastructure aimed at increasing cross-border capacity between German, Czech and Slovak market areas



EBITDA Margin & Cash Flow

Upper-end profitability and strong cash generation maintained in 2017 despite contractual expiry of one of our transit contracts

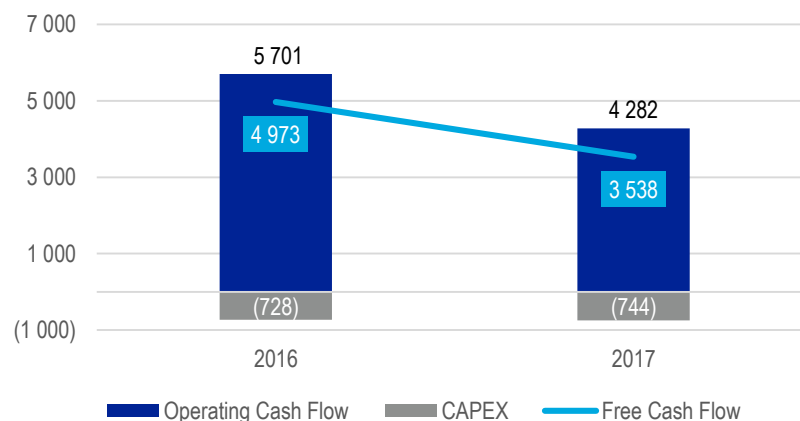
Historical EBITDA Margin and Revenues: 2016-2017 (CZKm)



Comments

- Total revenues¹⁾ posted in 2017 amounted to nearly CZK 7.4 billion, down c. CZK 1.9 billion year-on-year (yoy)
- Revenue decreased mainly as a result of anticipated expiry of one of the long-term transit contracts in 2016; contractual transit capacity drop and lower transport in 2017 due to extraordinary effect in prior year
- Operating profit reached c. CZK 4.2 billion, down yoy by c. CZK 1.6 billion driven by revenues
- EBITDA²⁾ margin remained constant at c. 84% in 2017; high profitability was retained due to operating costs measures and one-offs

Historical Cash Flow Snapshot: 2016-2017 (CZKm)



Comments

- Funds generated by operating activities declined to CZK 4.3 billion in 2017 commensurately with EBITDA development
- High liquidity kept, with free cash flow³⁾ reaching CZK 3.5 billion
- Capex grew slightly from CZK 728 million in 2016 to CZK 744 million in 2017

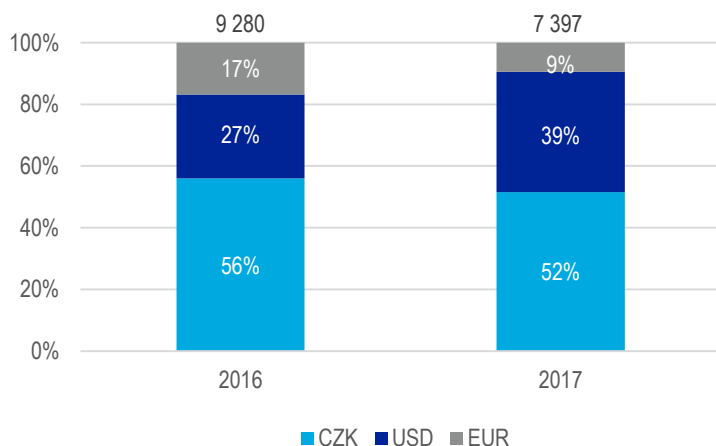
1) Source: Years ended 2016 and 2017 - Company's audited consolidated IFRS accounts
 2) EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization; in the material derived as: Operating profit (EBIT) plus depreciation and amortization
 3) Free Cash Flow = Operating cash flow minus CAPEX
 CAPEX = Purchase of property, plant and equipment plus Purchase of intangible assets



Revenues & Operating Expenses

Revenue remained strong in 2017 despite expected drop in transit, which was partly offset by improvement in Operating Expenses

Historical Revenue; Currency Split: 2016-2017 (CZKm)

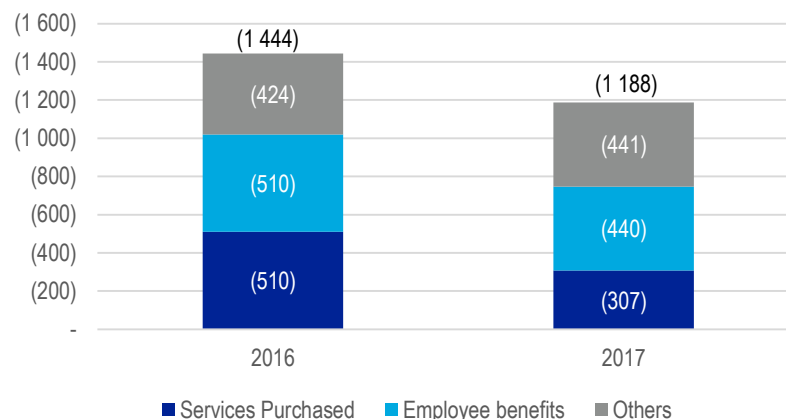


Comments

- NET4GAS's long-term transit contracts coupled with fairly stable revenue generation from regulated transport continued to provide a strong financial foundation throughout 2017
- Transit revenues represented c.75%, transport revenues c.24% and other revenues c.1% of total revenues in 2017
- Total revenues in 2017 were collected in 3 currencies – USD, EUR, CZK, the latter taking the largest share
- A drop of revenue realized in EUR occurred in relation to expiry of a transit contract denominated in that currency; USD portion rose due to yoy contractual increase in USD transit revenues

Source: Years ended 2016 and 2017 - Company's audited consolidated IFRS accounts

Historical Operating Expenses¹: 2016-2017 (CZKm)



Comments

- Overall costs dropped by nearly CZK 0.26 billion, being positively influenced by active saving measures which in 2017 exceeded our targets and non-recurring effects
- Year-on-year change in line item 'Service purchased' occurred mainly due to saving in consulting and grid maintenance services and one-time provisions effect
- 'Employee benefits' improved mainly due to higher share of own work capitalized in connection to investment projects, effect of released provisions but also one-offs in 2016

1) Operating Expenses disclosed without depreciation and amortization



Historical Income Statement

2016 - 2017

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

(in CZKm)	2016A	2017A
Revenue	9 280	7 397
Raw material consumed	(450)	(302)
Services purchased and lease charges	(510)	(307)
Employee benefits	(510)	(440)
Depreciation and amortization	(2 080)	(2 013)
Gains less losses on disposal of property, plant and equipment	3	0
Changes in fair value of derivatives, net	31	(37)
Foreign exchange differences, net	1	(100)
Other operating income	27	39
Other operating expenses	(36)	(41)
Operating profit	5 756	4 196
Finance income	8	4
Finance costs	(1 339)	(947)
Profit before income tax	4 425	3 253
Income tax expense	(3 008)	(619)
PROFIT FOR THE YEAR	1 417	2 634
Cash flow hedge	274	2 813
Income tax recorded directly in other comprehensive income – cash flow hedge	(52)	(535)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR	222	2 278
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1 639	4 912

Comments

- Operating profit generated by core business reached c. CZK 4.2 billion
- Profit for the year 2017 rising above CZK 2.6 billion, resulting in yoy increase of c. CZK 1.2 billion mainly due to tax one-offs in 2016
- 'Raw material consumed' declined mainly due to lower volume of procured balancing gas
- 'Services purchased' decreased predominantly on accounts of released unused provision for decommission of selected compressor stations
- 'Finance costs' dropped yoy as a result of interest saved in relation to shareholder loan redemption in July, 2016
- 'Income tax expense' impacted by one-off noncash change in deferred taxes in 2016
- 'Cash flow hedge' materially improved due to strong appreciation of CZK against both USD and EUR
 - Hedge accounting has been maintained over hedged cash flows exposed to foreign currency risk, impacting comprehensive income under IFRS.

*Source: Years ended 2016 and 2017 - Company's audited consolidated IFRS accounts
Small differences in the Statements may arise due to rounding*



Historical Balance Sheet

2016 - 2017

NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2016	Dec 31, 2017
ASSETS:		
NON-CURRENT ASSETS		
Property, plant and equipment	44 383	43 147
Intangible assets	89	78
Other non-current assets	9	25
Total non-current assets	44 481	43 250
CURRENT ASSETS		
Inventories	63	61
Trade and other receivables	303	324
Current income tax prepayments	11	248
Loans to related parties	652	5
Other non-financial assets	27	32
Other financial assets	0	683
Cash and cash equivalents	415	631
Assets of disposal group held for sale	0	0
Total current assets	1 471	1 984
TOTAL ASSETS	45 952	45 234

Comments

- 'Other financial assets' c. CZK 0.7 billion comprise of bills of exchange with an original maturity of up to six months
- 'Cash and cash equivalents' year-end balance rose to yoy to about CZK 0.6 billion
- 'Total equity' increased from c. CZK 7.6 billion to c. CZK 9.2 billion; improvement is largely driven by favorable yoy development of 'Cash flow hedges' and retained profit for 2017
- Liabilities recognized under 'Derivative financial instruments' declined significantly due do CZK appreciation against USD and EUR

NET4GAS Group Consolidated Balance Sheet (IFRS)

(in CZKm)	Dec 31, 2016	Dec 31, 2017
EQUITY AND LIABILITIES:		
EQUITY ATTRIB. TO SHAREHOLDERS OF THE PARENT COMPANY		
Registered capital	2 750	2 750
Capital contributions outside registered capital	6 631	3 364
Cash flow hedges	(1 813)	465
Retained earnings	38	2 651
Total equity	7 606	9 230
NON-CURRENT LIABILITIES		
Trade and other payables	8	13
Borrowings	27 761	26 988
Derivative financial instruments	2 478	835
Deferred income tax liability	6 330	6 789
Provisions	167	0
Accrued employee benefits	100	101
Other non-financial liabilities	15	7
Total non-current liabilities	36 859	34 733
CURRENT LIABILITIES		
Borrowings	286	299
Trade and other payables	524	517
Derivative financial instruments	292	209
Current income tax payable	176	0
Other taxes payable	20	18
Provisions	0	2
Accrued employee benefits	15	44
Other non-financial liabilities	174	182
Total current liabilities	1 487	1 271
Total liabilities	38 346	36 004
EQUITY AND LIABILITIES	45 952	45 234

Source: Years ended 2016 and 2017 - Company's audited consolidated IFRS accounts
Small differences in the Statements may arise due to rounding



Historical Cash Flow Statement

2016 - 2017

NET4GAS Group
Consolidated Statements of Cash Flows (IFRS)

(in CZKm)	Dec 31, 2016	Dec 31, 2017
Cash flows from operating activities		
Profit before tax	4 425	3 253
Adjustments	3 407	2 794
Operating cash flows before working capital changes	7 832	6 047
Decrease/(Increase) in trade and other receivables	(150)	(26)
Increase/(Decrease) in trade and other payables	(240)	(20)
Decrease/(Increase) in inventories	2	2
Operating cash flows after changes in working capital	7 444	6 003
Interest paid	(1 021)	(614)
Interest received	11	1
Income tax paid	(733)	(1 108)
Net cash flows operating activities	5 701	4 282
Cash flows from investing activities		
Purchase of property, plant and equipment	(695)	(714)
Purchase of intangible assets	(33)	(30)
Proceeds from sale of property, plant and equipment	4	0
Repayments of loans provided to related parties	4	0
Loans provided to related parties	(650)	5
Purchase of other financial assets	0	(683)
Net cash flows used in investing activities	(1 370)	(1 422)
Cash flows from financing activities		
Payments of decreased contributions outside registered capital to the Company's shareholder	0	(3 000)
Payments of increased contributions outside registered capital from Company's shareholder	0	355
Dividends paid to the Company's shareholder	(1 540)	0
Advance dividends paid to the Company's shareholder	(1 650)	0
Repayments of borrowings	(3 588)	(7 927)
Proceeds from borrowings	1 112	7 928
Net cash flows used in financing activities	(5 666)	(2 644)
Net increase / (decrease) in cash and cash equivalents	(1 335)	216
Cash and cash equivalents at the beginning of the period	1 750	415
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	415	631

Comments

- 'Cash and cash equivalents' at the end of 2017 amounted to CZK 631 million, up CZK 216 million from 2016
- 'Interest paid' dropped yoy due to interest savings from shareholder loan repaid in mid-2016
- 'Net cash flows from operating activities' amounted to CZK 4.3 billion
- 'Net cash flows from investing activities' reached CZK 1.4 billion, of which CAPEX¹⁾ amounted to CZK 744 million
- Net cash flows from financing activities reached c. CZK 2.6 billion, main changes in 2017:
 - Capital contributions paid to the company's shareholder of CZK 3.0 billion
 - Capital contributions received from the shareholder for the purpose of funding Capacity4Gas investment program of c. CZK 0.4bn

Source: Years ended 2016 and 2017 - 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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