



**Connecting  
Markets**

**NET4GAS Consolidated Financial Results as at  
December 2015**  
**Investor Presentation**

NET4GAS | Prague

April 2016



# Core Business Competencies

Strong operations and sound financials maintained

## 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 (maximum contract duration up to end of 2034)
- 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 (positive outlook) both in 2014 and 2015
- Conservative financial policy supported by strong shareholders

## Operational Excellence

- Well-maintained gas transmission network
- Flexible operations which enable bi-directional flows through the pipeline network
- 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
- Sole TSO in the Czech Republic with exclusive gas transmission license connecting all 3 corridors for delivery of Russian gas predominantly into the EU



# 2015 Financial Highlights and 2016 Outlook

2015 results far exceeded our expectations

## 2015 Results

- Consolidated EBITDA<sup>1</sup> of CZK 7.8 billion posted in 2015; favorable EBITDA margin of approx. 80% and solid operating cash flow maintained
- Operating profit of nearly CZK 5.3 billion achieved
- Transit revenues exceeded 2014 actuals by CZK 521 million largely due to extraordinary rise in short-term transit bookings
- Transport revenues grew year-on-year, but stayed approx. at the level of 2015 revenue cap
- Operating costs increased predominantly due to flexibility costs and rise in compression gas procured in relation to increased transit demand
  - Flexibility costs rose CZK 261 million year-on-year, but costs were fully compensated by ERO<sup>2</sup> in allowed transport revenues (revenue cap)
- Operating Cash Flow at CZK 5.7 billion, down slightly from 2014 actuals on accounts of increased financial expenses taking a full impact after completing 2014 recapitalization process

## 2016 Outlook

- Stable transit revenues from existing long-term contracts envisaged, with smaller growth potential expected from short-term transit sales
- Stable allowed revenues in 2016 as a result of parameters for 4th regulatory period (starting in 2016)
- Overall operating costs stable
- Company financing strategy envisages maintenance of BBB rating

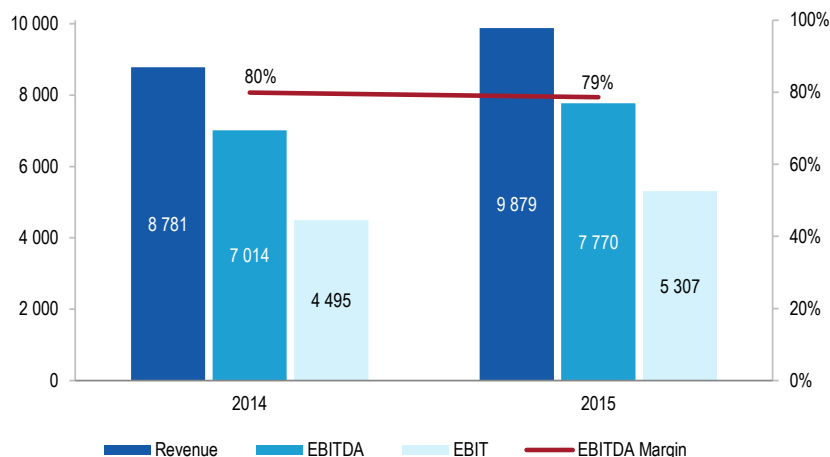
1) EBITDA = Operating profit (EBIT) plus depreciation and amortization 2) The Energy Regulatory Office



# EBITDA Margin & Cash Flow

Core revenue and free cash flow generation remained very strong in 2015

Historical EBITDA Margin and Revenues: 2014-2015 (CZKm)



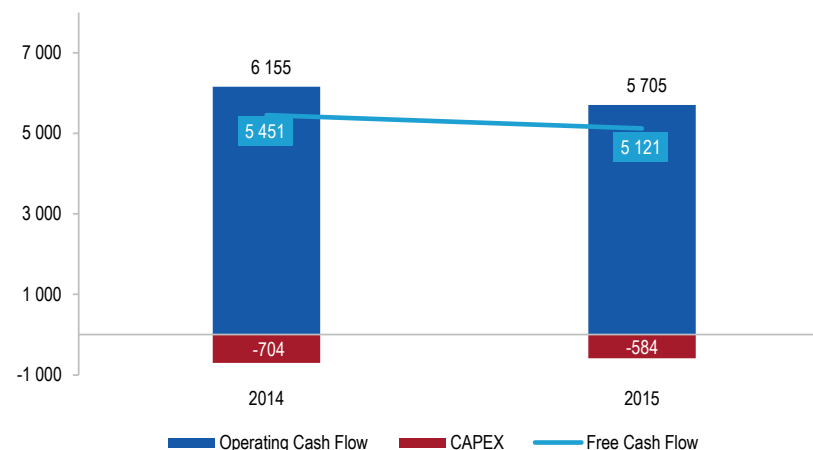
## Comments

- Total revenues<sup>1</sup> posted in 2015 amounted to nearly CZK 9.9 billion, up c. CZK 1.1 billion year-on-year
- Revenue increase partly attributed to one-year reverse flow transit contracts that expired in the course of 2015
- Operating profit of c. CZK 5.3 billion achieved compared to CZK 4.5 billion in 2014
- EBITDA<sup>2</sup> margin remained stable at around 80% in 2015

<sup>1</sup> Source: Years ended 2014 and 2015 - Company's audited consolidated IFRS accounts

<sup>2</sup> EBITDA = Operating profit (EBIT) plus depreciation and amortization

Historical Cash Flow Snapshot: 2014-2015 (CZKm)



## Comments

- Funds generated by operating activities amounted to c. CZK 5.7 billion in 2015
- High liquidity, with free cash flow<sup>3</sup> in excess of CZK 5.1 billion, was largely driven by long-term transit contracts and increased short-term capacity demand both in forward and reverse direction (West-East)
- Capex in 2015 reached over CZK 584 million, down CZK 120 million compared to 2014 due to one-time payments in that year in relation to Gazelle pipeline

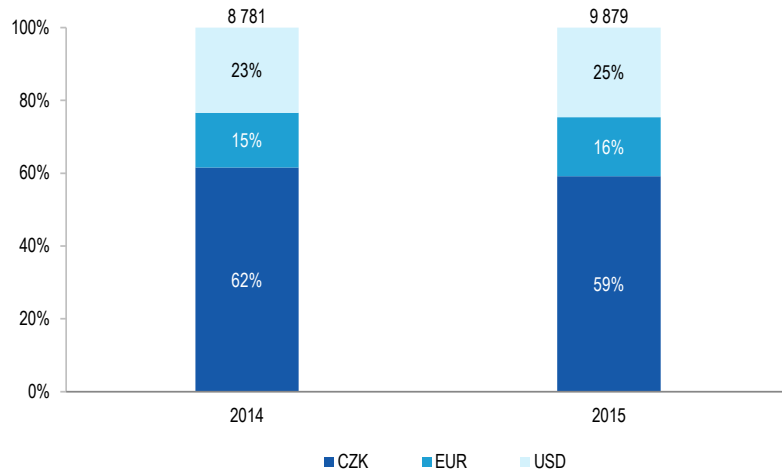
<sup>3</sup> Free Cash Flow = Operating cash flow minus CAPEX

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

# Revenues & Operating Expenses

Favorable revenues in 2015 partly reduced by costs of flexibility and compression gas

Historical Revenue; Currency Split: 2014-2015 (CZKm)

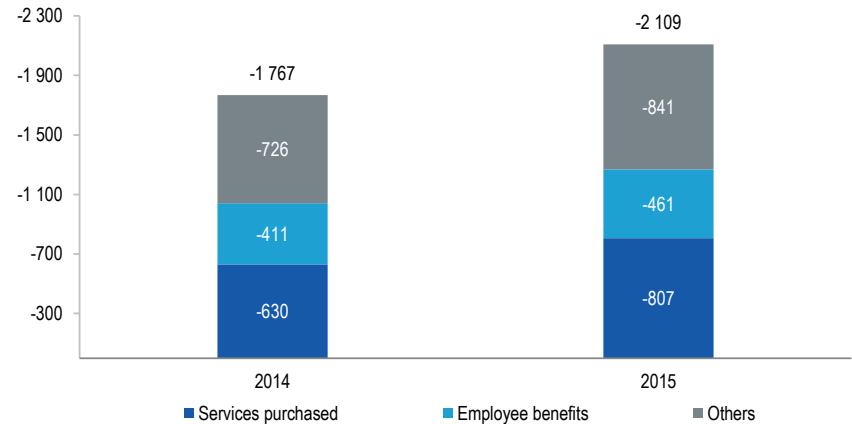


## Comments

- NET4GAS benefits from a strong revenue foundation based on long-term transit contracts and regulated transport revenues
- Transit revenues represented c.80%, transport revenues c.19% and other revenues c.1% of total revenues in 2015
- Total revenues in 2015 were collected in 3 currencies – USD, EUR, CZK, the latter taking the largest share; the currency mix was broadly aligned with prior year

Source: Years ended 2014 and 2015 - Company's audited consolidated IFRS accounts

Historical Operating Expenses<sup>1</sup>: 2014-2015 (CZKm)



## Comments

- Year-on-year change in line item 'Others' occurred mainly due to rise in costs of gas procured in relation to compression work (overcompensated by increased transit revenues)
- Employee benefits increased largely on accounts of year-on-year changes in provisions related to personnel
- Services purchased grew mainly due to costs of flexibility<sup>2</sup> – had we adjusted flexibility, services purchased would have declined due to recapitalization<sup>3</sup> in 2014

1) Operating Expenses disclosed without depreciation and amortization

2) Cost of flexibility fully offset in Transport revenues; costs increased CZK 261 million

3) Year-on-year cost decline attributed to recapitalization amounted to c. CZK 36 million



# Historical Income Statement

2014 - 2015

NET4GAS Group

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

| <i>in CZKm</i>   | <b>2014A</b>   | <b>2015A</b> |
|--|----------------|--------------|
| Revenue  | 8 781          | 9 879        |
| Raw material consumed  | (750)          | (790)        |
| Services purchased   | (630)          | (807)        |
| Employee benefits  | (411)          | (461)        |
| Depreciation and amortization  | (2 519)        | (2 463)      |
| Impairment   | 15             | (2)          |
| Losses on disposal of property, plant and equipment                          | (5)            | 4            |
| Changes in fair value of derivatives, net                                    | (137)          | (1)          |
| Foreign exchange differences, net  | 58             | 32           |
| Other operating income   | 141            | 13           |
| Other operating expenses   | (48)           | (97)         |
| <b>Operating profit</b>  | <b>4 495</b>   | <b>5 307</b> |
| Finance income   | 243            | 17           |
| Finance costs  | (886)          | (1 694)      |
| <b>Profit before income tax</b>  | <b>3 852</b>   | <b>3 630</b> |
| Income tax expense   | (776)          | (868)        |
| <b>PROFIT FOR THE YEAR</b>   | <b>3 076</b>   | <b>2 762</b> |
| Cash flow hedge  | (1 489)        | (1 023)      |
| Income tax recorded directly in other comprehensive income – cash flow hedge | 283            | 194          |
| <b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>                         | <b>(1 206)</b> | <b>(829)</b> |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                               | <b>1 870</b>   | <b>1 933</b> |

Source: Years ended 2014 and 2015 - Company's audited consolidated IFRS accounts  
Small differences in the Statements may arise due to rounding

## Comments

- Core business activities generated profit for the year exceeding CZK 2.7 billion
- Hedge accounting has been maintained over hedged cash flows exposed to foreign currency risk, impacting comprehensive income under IFRS
- Total revenue posted for 2015 exceeded prior year actuals mainly due to improved transit sales
- Raw material consumed rose due to compression gas procured, but it was more than offset by increased transit sales
- Services purchased increased on accounts of rising flexibility costs 2015, though these were fully compensated in transport revenues
- Other operating income declined due to one-time contractual settlement related to Gazelle construction in 2014
- Finance costs increased year-on-year as full impact of the company's capital structure was reflected in 2015



# Historical Balance Sheet

2014 - 2015

## NET4GAS Group Consolidated Balance Sheets (IFRS)

in CZK<sup>m</sup> Dec 31, 2014 Dec 31, 2015

| <b>ASSETS:</b>                         |               |               |
|--|---------------|---------------|
| <b>NON-CURRENT ASSETS</b>              |               |               |
| Property, plant and equipment          | 47 523        | 45 762        |
| Intangible assets                      | 126           | 110           |
| Other non-current assets               | 16            | 1             |
| <b>Total non-current assets</b>        | <b>47 665</b> | <b>45 873</b> |
| <b>CURRENT ASSETS</b>                  |               |               |
| Inventories                            | 65            | 65            |
| Trade and other receivables            | 178           | 119           |
| Current income tax prepayments         | 325           | 94            |
| Loans to related parties               | 1 372         | 1 886         |
| Other non-financial assets             | 96            | 59            |
| Cash and cash equivalents              | 1 605         | 1 750         |
| Assets of disposal group held for sale | 28            | 0             |
| <b>Total current assets</b>            | <b>3 669</b>  | <b>3 973</b>  |
| <b>TOTAL ASSETS</b>                    | <b>51 334</b> | <b>49 846</b> |

## Comments

- 2015 balances fully reflect company's recapitalized financial structure in 2014
- 'Other reserves' under company's equity mainly reflect revaluation of multi-currency debt and related instruments which are subject to hedge accounting

Source: Years ended 2014 and 2015 - Company's audited consolidated IFRS accounts  
Small differences in the Statements may arise due to rounding

## NET4GAS Group Consolidated Balance Sheets (IFRS)

in CZK<sup>m</sup> Dec 31, 2014 Dec 31, 2015

| <b>EQUITY AND LIABILITIES:</b>                                   |               |               |
|--|---------------|---------------|
| <b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY</b> |               |               |
| Registered capital   | 2 750         | 2 750         |
| Other reserves   | (1 177)       | (2 006)       |
| Retained earnings  | 3 515         | 1 811         |
| <b>Total equity</b>  | <b>5 088</b>  | <b>2 555</b>  |
| <b>NON-CURRENT LIABILITIES</b>                                   |               |               |
| Trade and other payables   | 4             | 2             |
| Borrowings   | 38 835        | 38 670        |
| Derivative financial instruments                                 | 1 040         | 2 534         |
| Deferred income tax liability                                    | 4 595         | 4 246         |
| Provisions   | 175           | 177           |
| Accrued employee benefits  | 53            | 68            |
| Other non-financial liabilities                                  | 0             | 15            |
| <b>Total non-current liabilities</b>                             | <b>44 702</b> | <b>45 712</b> |
| <b>CURRENT LIABILITIES</b>                                       |               |               |
| Borrowings   | 253           | 268           |
| Trade and other payables   | 831           | 623           |
| Derivative financial instruments                                 | 216           | 276           |
| Current income tax payable                                       | 0             | 16            |
| Other taxes payable  | 22            | 14            |
| Provisions   | 0             | 40            |
| Other non-financial liabilities                                  | 222           | 342           |
| <b>Total current liabilities</b>                                 | <b>1 544</b>  | <b>1 579</b>  |
| <b>Total liabilities</b>   | <b>46 246</b> | <b>47 291</b> |
| <b>EQUITY AND LIABILITIES:</b>                                   | <b>51 334</b> | <b>49 846</b> |



# Historical Cash Flow Statement

2014 - 2015

| NET4GAS Group   |                 |                |
|---|-----------------|----------------|
| Consolidated Statements of Cash Flows (IFRS)                          |                 |                |
| <i>in CZKm</i>  | Dec 31, 2014    | Dec 31, 2015   |
| <b>Cash flows from operating activities</b>                           |                 |                |
| Profit before tax   | 3 852           | 3 630          |
| Adjustments   | 3 163           | 4 234          |
| <b>Operating cash flows before working capital changes</b>            | <b>7 015</b>    | <b>7 864</b>   |
| Decrease/(Increase) in trade and other receivables                    | 187             | 96             |
| Increase/(Decrease) in trade and other payables                       | 531             | 100            |
| Decrease/(Increase) in inventories                                    | 18              | 1              |
| <b>Operating cash flows after changes in working capital</b>          | <b>7 751</b>    | <b>8 061</b>   |
| Interest paid   | (633)           | (1 568)        |
| Interest received   | 75              | 11             |
| Income tax paid   | (1 038)         | (799)          |
| <b>Net cash flows operating activities</b>                            | <b>6 155</b>    | <b>5 705</b>   |
| <b>Cash flows from investing activities</b>                           |                 |                |
| Purchase of property, plant and equipment                             | (654)           | (540)          |
| Purchase of intangible assets   | (50)            | (44)           |
| Proceeds from sale of property, plant and equipment                   | 17              | 31             |
| Repayments of loans provided to related parties                       | 14 616          | 3 328          |
| Loans provided to related parties                                     | (44 457)        | (3 869)        |
| <b>Net cash flows used in investing activities</b>                    | <b>(30 528)</b> | <b>(1 094)</b> |
| <b>Cash flows from financing activities</b>                           |                 |                |
| Payments of decreased registered capital to the Company's shareholder | (2 526)         | 0              |
| Dividends paid to the Company's shareholder                           | (136)           | (1 566)        |
| Advance dividends paid to the Company's shareholder                   | 0               | (2 900)        |
| Repayments of borrowings and finance lease liability                  | 0               | (1 397)        |
| Proceeds from borrowings  | 27 602          | 1 397          |
| <b>Net cash flows used in financing activities</b>                    | <b>24 940</b>   | <b>(4 466)</b> |
| <b>Net increase in cash and cash equivalents</b>                      | <b>566</b>      | <b>145</b>     |
| Cash and cash equivalents at the beginning of the period              | 1 039           | 1 605          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>             | <b>1 605</b>    | <b>1 750</b>   |

## Comments

- Cash and cash equivalents at the end of 2015 amounted to CZK 1.75 billion, up approximately CZK 150 million compared to the previous year
- Net cash flows from operating activities amounted to CZK 5.7 billion after interest and tax were paid
  - Interest paid increased as 2014 financial statements were affected by recapitalized financial structure only partly
- Net cash flows from investing activities reached CZK 1.09 billion, of which CAPEX<sup>1</sup> amounted to CZK 584 million
  - Changes in Repayments of loans and Loans provided to related parties were affected by changes in company's financial structure in the course of 2014
- Net cash flow from financing activities changed significantly year-on-year also owing to company's recapitalization in 2014

Source: Years ended 2014 and 2015 - 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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