

Group NET4GAS Holdings

Consolidated Annual report

31 December 2016

NET4GAS Holdings Group

Consolidated Annual Report 2016

Contents

Consolidated Group Data	2
Profile of Consolidated Group Companies	3
Consolidated Report on Operations of the NET4GAS Holdings Group 2016	7
Key Economic Events & Indicators	7
NET4GAS Commercial Operations	9
NET4GAS Asset Operation and Maintenance Projects	9
NET4GAS Asset Development Projects	10
NET4GAS New Market Design Projects	12
Human Resources	12
Environmental Protection	13
Report on Relations of NET4GAS Holdings, s.r.o. 2016	14
Post Balance Sheet Events	21
Persons Responsible for the Consolidated Annual Report	21
Annex no. 1: Consolidated Financial Statements	
Annex no. 2: Separate Financial Statements	
Annex no. 3: Independent Auditor's Report	

Consolidated Group Data

The Consolidated Group (further referred to as "Group" or "NET4GAS Holdings Group") consists of the parent company NET4GAS Holdings, s.r.o. (further referred to as "NET4GAS Holdings") and companies that are directly or indirectly controlled by NET4GAS Holdings, namely NET4GAS, s.r.o. (further referred to as "NET4GAS") and BRAWA, a.s. (further referred to as "BRAWA").

NET4GAS Holdings is a holding company and its main scope of activity is management of the Consolidated Group.

NET4GAS holds an exclusive gas Transmission System Operator (TSO) licence in the Czech Republic. The company secures the international transit of natural gas across the Czech Republic, domestic transmission of natural gas to partners in the Czech Republic and associated commercial and technical services.

BRAWA is the sole owner of the line sections of the GAZELLE gas pipeline. This 166 kilometre pipeline, with a pipe diameter of DN 1400 and a design pressure of 84 bar, connects the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov. NET4GAS is the operator of the GAZELLE pipeline.

Profile of Consolidated Group Companies

NET4GAS Holdings

Company name:	NET4GAS Holdings, s.r.o.
Identification number:	291 35 001
Date of registration in the Commercial Register:	5 December 2012
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 - Nusle, Czech Republic
Shareholders:	<ul style="list-style-type: none">▪ Allianz Infrastructure Czech HoldCo II S.à r.l. (50 %)▪ Borealis Novus Parent B.V. (50 %)

NET4GAS Holdings Statutory Directors as of 31 December 2016

Kenton Edward Bradbury

Statutory Director and Executive Officer
Position held since: 1 July 2015

Jaroslava Korpancová

Statutory Director and Executive Officer
Position held since: 15 February 2013

Mikhail Nahorny

Statutory Director and Executive Officer
Position held since: 1 July 2016

Melchior Stahl

Statutory Director and Executive Officer
Position held since: 5 August 2013

Changes in the NET4GAS Holdings Statutory Directors

In the course of 2016, there was a change in the composition of the NET4GAS Holdings Statutory Directors. Under a letter dated 16 May 2016, Ralph Adrian Berg resigned as the Statutory Director. His term of office expired on 30 June 2016. Under a decision of the General Meeting of NET4GAS Holdings, Mikhail Nahorny was appointed as a new Statutory Director effective as of 1 July 2016. No other changes occurred in the composition of the NET4GAS Holdings Statutory Directors in 2016.

NET4GAS

Company name:	NET4GAS, s.r.o.
Identification number:	272 60 364
Date of registration in the Commercial Register:	29 June 2005
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 - Nusle, Czech Republic
Shareholder:	NET4GAS Holdings (100 %)

NET4GAS Supervisory Board as of 31 December 2016

Kenton Edward Bradbury

Chairman of the Supervisory Board

Position held since: 24 June 2016

Member since: 1 July 2015

Jaroslava Korpancová

Member of the Supervisory Board

Member since: 2 August 2013

Lenka Kovačovská

Member of the Supervisory Board

Member since: 26 March 2015

Mikhail Nahorny

Member of the Supervisory Board

Member since: 1 July 2016

Melchior Stahl

Member of the Supervisory Board

Member since: 2 August 2013

Changes in NET4GAS Supervisory Board

In the course of 2016, several changes took place in the composition of the NET4GAS Supervisory Board. Under a letter dated 16 May 2016, Ralph Adrian Berg resigned as Member of the Supervisory Board. His term of office expired on 30 June 2016. Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting, Mikhail Nahorny was appointed as a new Member of the Supervisory Board effective as of 1 July 2016. On 24 June 2016, Kenton Edward Bradbury was appointed as Chairman of the Supervisory Board. Furthermore, membership of Radek Hromek in the Supervisory Board expired on 23 December 2016. As of the date of the publication of the Consolidated Annual Report, the sixth member of the NET4GAS Supervisory Board has not been elected. No other changes occurred in the composition of the NET4GAS Supervisory Board in 2016.

NET4GAS Statutory Directors as of 31 December 2016

Andreas Rau

Statutory Director and CEO
Position held since: 1 December 2013

Radek Benčík

Statutory Director and COO
Position held since: 1 October 2011

Václav Hrach

Statutory Director and CFO
Position held since: 1 March 2014

Changes in the NET4GAS Statutory Directors

On 16 September 2016, the NET4GAS Supervisory Board re-elected Radek Benčík COO of the company for a further term. No changes occurred in the composition of the NET4GAS Statutory Directors in 2016.

NET4GAS Audit Committee as of 31 December 2016

Following the issue of investment securities accepted for trading on the regulated European market or on a foreign market similar to the regulated market in a country that is a contracting party to the Agreement on the European Economic Area, NET4GAS has become a public interest entity within the meaning of Act No. 563/1991 Coll. on Accounting, as in effect, and is subject to the duty to establish an Audit Committee. The main responsibilities of the Audit Committee include monitoring the internal control system and the risk management system, overseeing the effectiveness of internal audit and securing its functional independence, monitoring the compilation of financial statements and consolidated financial statements, recommending the statutory auditor, assessing the independence of the statutory auditor and the audit company, evaluating the provision of supplementary services, and overseeing the conduct of mandatory audit.

The NET4GAS Audit Committee was established under a decision of the NET4GAS Statutory Directors on 31 May 2016. At the same time, the Statute of the Audit Committee was approved. On 1 June 2016, the sole shareholder exercising the powers of the General Meeting appointed five members of the Audit Committee.

Michal Petrman

Chairman of the Audit Committee
Position held since: 15 September 2016
Member since: 1 June 2016

Igor Lukin

Member of the Audit Committee
Member since: 1 June 2016

Mikhail Nahorny

Member of the Audit Committee
Member since: 1 June 2016

Stanislav Staněk

Member of the Audit Committee
Member since: 1 June 2016

Pavel Závítkovský

Member of the Audit Committee
Member since: 1 June 2016

BRAWA

Company name:	BRAWA, a.s.
Identification number:	247 57 926
Date of registration in the Commercial Register:	10 November 2010
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 - Nusle, Czech Republic
Shareholder:	NET4GAS (100 %)

BRAWA Supervisory Board as of 31 December 2016

Martin Kolář

Chairman of the Supervisory Board

Position held since: 20 September 2016

Member since: 1 July 2016

(in the Supervisory Board continuously since 20 March 2012)

Radek Benčík

Vice-Chairman of the Supervisory Board

Position held since: 20 September 2016

Member since: 1 July 2016

(in the Supervisory Board continuously since 20 March 2012)

Andreas Rau

Member of the Supervisory Board

Member since: 19 February 2016

(in the Supervisory Board continuously since 19 February 2014)

Changes in the Supervisory Board

No changes occurred in the composition of the Supervisory Board of BRAWA in 2016.

BRAWA Board of Directors as of 31 December 2016

Jan Martinec

Chairman of the Board of Directors

Position held since: 11 November 2015

Member since: 7 July 2014

Miroslav Holý

Vice-Chairman of the Board of Directors

Position held since: 11 November 2015

Member since: 1 November 2015

Changes in the Board of Directors

No changes occurred in the composition of the Board of Directors of BRAWA in 2016.

Consolidated Report on Operations of the NET4GAS Holdings Group 2016

Key Economic Events & Indicators

Economic indicators of the Group 2016

Selected indicators*	2016
Revenue (CZK million)	9,355
Operating profit (CZK million)	6,046
Profit before taxation (CZK million)	4,759
Profit after taxation (CZK million)	1,753
Investments (CZK million) – capital expenditure into tangible and intangible assets	684

* according to CZ GAAP

Revenues, costs, profit

In 2016, the Group achieved a profit before taxation of CZK 4,759 million, profit after taxation was CZK 1,753 million.

The operating profit of the Group amounted to CZK 6,046 million, the majority formed by NET4GAS. The Group generated a profit from its core business operations – transit of natural gas and domestic transmission. Its operating income amounted to CZK 9,388 million and operating costs were CZK 3,342 million.

Asset structure

The total assets of the Group in 2016 amounted to CZK 41,857 million, of which fixed assets accounted for CZK 38,643 million, representing 92 %. The components of these assets were tangible fixed assets valued at CZK 44,302 million, intangible fixed assets valued at CZK 176 million and negative consolidation difference amounting to CZK -5,835 million.

As of 31 December 2016, current assets amounted to CZK 3,092 million, representing 7 % of total assets. Roughly 55 % of borrowings by related parties and roughly 13 % of cash consisted of current assets.

Investments

The Group invested a total of CZK 684 million in 2016. Of this, CZK 40 million was in intangible assets and CZK 644 million in tangible assets.

The most important investment that the Group made into tangible assets in 2016 consisted of an upgrade of the measuring technology at the four largest domestic transfer stations (Velké Němčice, Bylany, Sviňomazy, and Měcholupy), where a total of CZK 146 million was invested.

Structure of liabilities and equity

The Group's equity as of 31 December 2016 was CZK 2,848 million. The equity of the separate consolidating companies showed positive values.

Liabilities and other liabilities amounted to CZK 39,009 million. Long-term liabilities and borrowings (particularly bonds and bank borrowings issued by a bank consortium, deferred tax liabilities and derivatives liabilities) contributed about 94 %.

Investment instruments and financial derivatives

To secure a return on its available cash during 2016, the Group made use of term deposits and bills of note offered by leading banking institutions. For the purpose of ensuring the contractual cash flows (income from the transmission of natural gas and from a foreign currency bond) against currency risks, the Group used financial derivatives in 2016.

The Group manages its financial risks, which include primarily currency, interest rate, credit and liquidity risks. Risks are continuously monitored and assessed, and hedged if necessary.

Research and development activities

The Group did not make any major expenditure into research and development in 2016.

Branches

The Group has no branches either in the Czech Republic or abroad.

NET4GAS Commercial Operations

In 2016, NET4GAS fulfilled its contractual commitments under 4,342 gas transmission contracts.

Total gas transmission in 2016 amounted to 43.9 billion m³, of which 8.3 billion m³ was for the Czech Republic. Compared to 2015, national transmission increased by 0.7 billion m³, in particular as a result of increased consumption in combined cycle power generation and the overall higher consumption in the Czech Republic.

As part of the implementation of the Network Code for Gas Balancing in Transmission Systems (BAL NC), in compliance with Commission Regulation (EU) No. 312/2014 and the related provisions of Regulation No. 349/2015 Coll., the Gas Market Rules, which entered into force on July 1, 2016, a fundamental change was made in the system for balancing network users' imbalances in the transmission system. The foregoing regulations stipulate that, starting on 1 July 2016, network users may no longer balance imbalances by means of in-kind settlement, i.e. using natural gas, but only by financial payment. NET4GAS responded to the above changes by implementing a Control and Prediction System and by securing the required tasks through the dispatching centre.

Furthermore, the procedure for booking interruptible transmission capacity has been fine-tuned through over-nomination in accordance with Commission Regulation (EU) No. 984/2013, which introduced the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM NC). At the same time, competing capacities began to be allocated at the border entry points Hora Sv. Kateřiny and Hora Sv. Kateřiny-Olbernhau in accordance with the Energy Regulatory Office's decision dated 31 March 2016. NET4GAS launched the pilot operation of the coordinated capacity conversion service, which was successfully used by a customer in December 2016.

NET4GAS Asset Operation and Maintenance Projects

Within the framework of upgrading the transmission system in 2016, NET4GAS overhauled the commercial metering system at the four largest domestic transfer stations (Velké Nēmčice, Bylany, Sviňomazy, and Měcholupy), which are of key importance for the delivery of natural gas to distribution systems from which supplies are provided throughout the Czech territory. State-of-the-art gas flow measuring technology was installed at the above transfer stations. During the reported year, work was also completed on a project involving an upgrade to the measuring technology at the Lanžhot Border Transfer Station.

Aiming to further reinforce reverse flow of gas in the west-east direction, NET4GAS carried out modifications at the Břeclav and Veselí nad Lužnicí compressor stations in 2016.

In 2016, the preparation and execution of the OPTIMUS programme continued, which consists of upgrading the Kouřim and Břeclav compressor stations. The first stage of the project began at the Kouřim Compressor Station. It consisted of upgrading the facility's control system, renewing electrical installations, and implementing measures to improve the operating safety of the piping and ventilation systems in the compressor room based on a HAZOP study carried out to identify hazards and assess risks related to the operation of the facility. The preparatory stage was completed, the contractor was selected, and the supply of materials was secured. The first stage is planned to be completed in 2017. An upgrade project for the Břeclav Compressor Station was prepared for execution to an extent similar to the Kouřim Compressor Station. Subsequent steps will be coordinated with the Capacity4Gas project and the Czech Polish Gas Interconnector project, which are to follow the first stage of the upgrade.

As part of transmission system maintenance in 2016, NET4GAS completed the last stage of the replacement of the Hrušky-Kyselovice-Libhošť-Děhylov DN 700 pipeline, which is of key importance for the supply of natural gas to Northern Moravia. In total, 8,460 meters of pipelines were replaced during 2010–2016. Throughout the duration of necessary shutdowns, the full range of natural gas supplies was provided to customers in cooperation with operators of distribution systems and gas storage systems. Other projects completed in the year under review included an upgrade of 75.4 kilometres of a DN 500 pipeline in the Šlapanov-Křečhoř section, including the modernization of line valve stations.

NET4GAS Asset Development Projects

Projects of Common Interest (PCI)

A list of Projects of Common Interest is included in Regulation (EU) No. 347/2013. The regulation should, in particular, facilitate and accelerate the implementation of strategically important energy-sector projects and introduces, inter alia, the status as a Project of Common Interest (PCI). PCI status can be awarded to ventures that contribute significantly to the formation of the internal energy market, guarantee the security of supply, and build strategic priority corridors with a cross-border impact. The list of PCI projects is updated on a biannual basis. The first list was approved in 2013 and updated in 2015. The next version of the PCI list is planned to be approved in 2017. The list includes two NET4GAS cross-border cooperation projects, namely the Czech Polish Gas Interconnector and the Bidirectional Austrian-Czech Interconnection (BACI). Both projects are an important part of the effort to build the North-South Gas Corridor in Central Europe.

Czech-Polish Gas Interconnector project



Co-financed by the European Union
Connecting Europe Facility



Co-financed by the European Union
Trans-European Energy Networks Program (TEN-E)

The objective of building a new bidirectional Czech-Polish pipeline is to enable the safe and reliable transmission of gas and to increase the transmission capacity between the Czech Republic and Poland. The construction of this transmission corridor is intended not only to strengthen the flexibility of natural gas transmission in Central and Eastern Europe, but also to integrate gas markets in the region. Another important purpose of building the Czech Polish Gas Interconnector is to reinforce the security of natural gas supply to Moravian regions by boosting the entry capacity of the domestic zone and by increasing the injectability and deliverability at underground gas storage facilities located in Central and Northern Moravia. In addition, the project will be a major contribution as regards the securing of an environmentally sound source of energy for industrial production in the South Moravian, Moravian-Silesian, Olomouc and Zlín Regions.

The project was awarded PCI status for the Libhošť-Hať section under Regulation (EU) No. 347/2013, and the European Commission placed it in its entirety on the second PCI list in 2015.

In the past, NET4GAS obtained a grant under the Trans-European Networks (TEN-E) programme in the amount of 46 % of the eligible cost of preparing part of the design documents for the Tvrdonice-Libhošť section. Furthermore, a grant in the amount of 50 % of the eligible cost of preparatory work was received for the Libhošť-Hať section of the project under the Connecting Europe Facility (CEF) programme in 2014.

The project consists of the construction of a high-pressure pipeline (DN 1000, PN 73.5) that is to interconnect the existing transmission systems of the Czech Republic and Poland. The projected length of the pipeline in the territory of the Czech Republic is approximately 207 km. The partner to the project is the Polish transmission system operator GAZ-SYSTEM, S.A.

In 2016, work continued on the preparation of design documents, and steps were taken to secure easements. A provider was selected who began preparing design documents for the contractor selection process. At the end of 2016, a zoning permit application was filed with the Czech Ministry for Regional Development. In accordance with Regulation (EU) No. 347/2013, the pre-application stage of the project was completed at the end of 2016 by the approval of the draft documentation by the Czech Ministry of Industry and Trade, which acts as the process coordinator.

In 2016, the Polish government reviewed the overall energy policy of the country, partially affecting the further progress of the Czech-Polish Gas Interconnector project in terms of its timing.

Bidirectional Austrian-Czech Interconnection project (BACI)



Co-financed by the European Union
Connecting Europe Facility



Co-financed by the European Union
Trans-European Energy Networks Program (TEN-E)

In 2016, preparatory work continued on the first Czech-Austrian pipeline, the BACI project (Bidirectional Austrian-Czech Interconnection). NET4GAS updated documents for the zoning permit process and sent a Final Report on Activities Co-Financed by the EU to the European Commission for approval. The European Commission approved the report and made the final payment in December 2016.

In 2015, the project was re-awarded PCI status under Regulation (EU) No. 347/2013, and the European Commission placed it on the second PCI list. As to European Union initiatives intended to promote the development of energy networks, NET4GAS received grants in 2012 and 2014 for the preparation of the project within the framework of the TEN-E and CEF programmes.

The projected length of the new high-pressure pipeline (DN 800, PN 85) in the territory of the Czech Republic is 12 km. The partner to the project is the Austrian transmission system operator Gas Connect Austria GmbH.

Other development projects

Capacity4Gas project

In its position of transmission system operator, NET4GAS is obliged to analyse market demand for the development of the transmission system in the Czech Republic and for this purpose communicates with neighbouring transmission system operators and network users. In response to the "more capacity" market survey conducted in Germany, which indicated demand for additional capacity in the direction Germany-Czech Republic, NET4GAS launched a market survey entitled "Capacity4Gas" in the first quarter of 2016.

The survey provided valuable information on indicative demand for additional, i.e. higher than originally planned, entry capacity on the Czech-German border, additional exit capacity on the Czech-Slovak border, and additional exit capacity on the Czech-Austrian border. The last demand was retracted later in the course of the year.

Based on data obtained in the survey, NET4GAS launched technical studies and began the preparation of specific projects aimed at increasing capacity at the applicable border points in an effective and efficient manner.

Dolní Dunajovice underground gas storage connection project

The objective of the project is to connect the Dolní Dunajovice underground gas storage to the NET4GAS transmission system via a new measuring point in Horní Věstonice to enable the facility to supply gas to the network at two independent locations. The project consists of building a new interconnection pipeline and a new measuring station. In 2016, construction and assembly work was carried out. The project is planned to be completed and the assets put into service in 2017.

NET4GAS New Market Design Projects

In 2016, NET4GAS took part in the drafting of documents intended to modify the regulatory framework with a view to improving access to transmission systems, both at the European level in cooperation with the European Network of Transmission System Operators for Gas (ENTSO-G), and at the national level in cooperation with the Energy Regulatory Office and the Czech market operator, OTE, a.s. The foregoing effort mainly concerned measures arising under network codes implemented in accordance with European Commission regulations, the full implementation of which is to ensure the security of natural gas supplies and the integration of regional markets, specifically measures arising under the Network Code on Gas Balancing of Transmission Networks (BAL-NC) and their implementation into the Gas Market Rules and the Transmission Network Code, the finalization of the Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM-NC 2.0), and the finalization of the Network Code on Harmonised Transmission Tariff Structures (TAR-NC) as part of the so-called comitology procedure.

Furthermore, the reported year saw NET4GAS focus on the preparation of alternatives for the integration of the Czech and Austrian gas markets. In cooperation with Austria's transmission system operators Gas Connect Austria GmbH and TAG GmbH, NET4GAS prepared an integration concept that would provide transmission system users with simplified access to both the Austrian and Czech markets. The new service would provide users holding entry capacity into the Czech Republic with access to the Austrian market to the extent of the capacity they hold and vice versa. In March 2016, this option concept, referred to as "TRU Option" (Trading Region Upgrade Option), was introduced within the framework of a public consultation process, carried out by national regulatory authorities, to market participants, who responded with favourable feedback. Market integration can be achieved either by building the BACI pipeline, which is to interconnect the Czech and Austrian markets directly, or via existing gas infrastructure, for example, via Slovakia. The Slovak transmission system operator Eustream, a.s. has already offered prospective cooperation in this context. In the second half of 2016, the respective transmission system operators prepared an implementation concept.

Moreover, NET4GAS took part in several meetings of the Gas Forum taskforce in 2016, which operates within the framework of the Visegrad Group (V4), where the objective was to identify new ways and opportunities to strengthen the security of supply and to deepen market integration in the V4 region, thus contributing to the formulation of a joint approach to the assessment of risks throughout the Group.

Human Resources

NET4GAS Holdings and BRAWA had no employees as of 31 December 2016.

As of 31 December 2016, the number of employees working at NET4GAS was 524. 20 % of employees working at NET4GAS were women, out of which 12 % in managerial positions.

The standard of NET4GAS employees' working and social conditions is defined under a Collective Agreement valid 2015–2020. NET4GAS has also been developing special programmes in the area of its social policy and provided support for the employment of handicapped persons. Every job is given an assessment to determine its suitability or unsuitability for handicapped persons, and then advertised as such.

In 2016, NET4GAS invested 2.4 % of the company's annual personnel costs into the professional training of its employees. The average expenditure on training per employee was CZK 18,627. The educational structure of NET4GAS employees has remained stable.

Environmental Protection

Environmental protection is one of the highest priorities and is understood by the Group not only as fulfilment of legal requirements, but primarily as an issue of social responsibility. The Group is guided by the latest scientific findings in the area of environmental protection and uses environmentally-friendly technology. Environmental protection is taken into account in all decisions and process implementation.

No ecological accidents or serious events that would represent a danger to the environment occurred in 2016 in association with the business or any other activities of the Group.

Statutory compliance

The Group makes the effort to minimize the environmental burden caused by the transmission system. The "Environmental Protection Policy" is one of the key policies.

In 2016, the Group complied with all statutory obligations regarding environmental conservation and landscape protection, emergency preparedness, prevention and remediation of environmental damage, integrated pollution prevention, prevention of air pollution, reduction of greenhouse gas emissions, waste and water management, and the handling of chemical products and mixtures.

In line with the requirements of state administration and local government, designated operational facilities have developed preventive emergency plans in the event of environmental accidents and the prevention of serious accidents caused by selected hazardous materials, although the stated plans fulfilled only the role of preventative measures in 2016 and did not have to be put into action, just as no environmental accidents occurred at any Group facilities.

All compressor stations were operated in accordance with their valid integrated permits issued under Act No. 76/2002 Coll., on integrated pollution prevention and control and the integrated pollution register, as amended, and compliance with these state-issued decisions is a guarantee of the correct approach towards the environment. In 2016, the Czech Environmental Inspectorate audited compliance with the mandatory operating conditions stipulated in the valid integrated permits for the Kralice and Veselí nad Lužnicí compressor stations. The Jihlava Regional Public Health Office carried out a complex audit of compliance with the public health regulations stated for the Kralice Compressor Station.

State administration and local government authorities which carried out audits stated in their final reports that the Group has complied with its obligations in relation to the valid legislation and the integrated permits issued to it.

The Group was also in compliance with the requirements of Act No. 25/2008 Coll., on the integrated environmental pollution register and the system of performing reporting obligations in conjunction with European Parliament and Council Regulation 166/2006, concerning the establishment of a publicly accessible European Pollutant Release and Transfer Register. Legislation relating to issues of greenhouse gases was also adhered to, particularly Act No. 383/2012 Coll., on conditions of trading greenhouse gas emission allowances, and carbon dioxide allowances consumed at all compressor stations were duly reported to the Czech Ministry of Environment. No penalty measures were imposed by the competent authorities on the Group in 2016.

Activities going beyond legislation

The Group acts responsibly in regard to environmental protection, even going beyond what is required by law. For example, thanks to the operation of the mobile gas recovery compressor of NET4GAS, which is used for pumping natural gas from a section of pipeline earmarked for repair and is unique on a European scale, 4,062,678 m³ of natural gas was re-pumped in the transmission system in 2016 which for technical reasons would otherwise have had to be released into the atmosphere.

Recycling, energy conservation and other environmentally-friendly activities were and continue to be an everyday part of the Group's operations.

In 2016, NET4GAS also continued to support projects in the area of nature and environmental protection via its NET4GAS Closer to Nature programme.

Report on Relations of NET4GAS Holdings, s.r.o. 2016

The Statutory Directors of NET4GAS Holdings, s.r.o. (further referred to in this Report on Relations as the “Company”) have drawn up, in accordance with Section 82 of Act No. 90/2012 Coll., the Business Corporations Act (the “BCA”), this following Report on Relations covering the relations among the Company and controlling entities and among the Company and other entities controlled by the same controlling entities (the “Related Parties”) during 2016 in all cases where the Company is aware of the existence of such Related Parties. This Report on Relations forms an integral part of the NET4GAS Holdings Group Consolidated Annual Report 2016, and is provided to the Company’s shareholders for their review within the same period of time and under the same conditions as the Financial Statements.

1. Controlling entities

In the accounting period ending 31 December 2016 the Company was controlled by:

(i) Allianz Infrastructure Czech HoldCo II S.à r.l., with its registered office at L-2450 Luxembourg, 14, boulevard F.D. Roosevelt, Grand Duchy of Luxembourg, registration number: B 175770, and (ii) Borealis Novus Parent B.V., with its registered office at 1011PZ Amsterdam, Muiderstraat 9, Kingdom of the Netherlands, registration number: 57412243, each of which is a shareholder of the Company with an ownership interest of 50 %, and which together have the status of controlling entities in relation to the Company pursuant to Section 75(3) of the BCA.

2. Other Related Parties

The Company requested the above controlling entities to provide a list of any other entities controlled by the same controlling entities during the last accounting period, and the Statutory Directors of the Company have drawn up the present Report on Relations on the basis of the information provided by these controlling entities and the other information at their disposal.

The structure of the relations among the controlling entities and the controlled entity and other Related Parties is set out in Annex No. 1 to this Report on Relations.

3. Role of the controlled entity, method and means of control

The Company is a holding company through which its shareholders indirectly control NET4GAS, s.r.o., with its registered office at Na Hřebenech II 1718/8, Nusle, Prague 4, 140 00, Czech Republic, ID No. 272 60 364, registered in the Commercial Register maintained by the Municipal Court in Prague, Section C, Insert 108316 (“NET4GAS”).

The Company is commonly controlled by Allianz Infrastructure Czech HoldCo II S.à r.l. and Borealis Novus Parent B.V., and the control is based mainly on the fact that these companies are shareholders in the Company and appoint and remove the Company’s Statutory Directors.

4. Agreements concluded between the Company and Related Parties

The agreements concluded between the Company and controlling entities or Related Parties during the last accounting period are listed in Annex No. 2 to this Report on Relations. The agreements concluded in preceding accounting periods which were in effect during the last accounting period form Annex No. 3 to this Report on Relations. The values of performance and counter-performance in Related Party transactions during the last accounting period are shown in the separate Notes to the Financial Statements of the Company as of 31 December 2016.

5. Acts performed in the last accounting period at the instigation or in the interest of controlling entities or Related Parties in respect of assets exceeding 10 % of the Company’s equity amounting to CZK 853 million as per the last financial statements prepared as at 31 December 2016

In the last accounting period, the Company, in addition to concluding agreements as specified in Article 4 of this Report on Relations, also performed acts at the instigation or in the interest of controlling entities or Related Parties as specified in Annex No. 4 to this Report on Relations.

6. No damage

In the accounting period ended 31 December 2016, the Company incurred no damage as a result of agreements with controlling entities or Related Parties, or as a consequence of other acts or actions performed in the interest or at the instigation of the same, which were concluded or undertaken during the last accounting period or in any preceding accounting period. It has therefore not been necessary to secure compensation for damage or to conclude any agreements on such compensation.

7. Advantages and disadvantages resulting from relations with Related Parties

In the 2016 accounting period, the relations among the controlling entities and Related Parties were an advantage for the Company in terms of the increased financial stability which they ensured.

8. Confidentiality


None of the information contained in this Report on Relations constitutes a trade secret of the Company.

9. Conclusion

This Report on Relations was approved by the Company's Statutory Directors.

In Prague, on 25 April 2017


Jaroslava Korpancová
Statutory Director


Mikhail Nahorny
Statutory Director

**Annex No. 1 Structure of relations among controlling entities and Related Parties
in the last accounting period**

Allianz Infrastructure Czech HoldCo II S.à r.l. (50.00 %) and Borealis Novus Parent B.V. (50.00 %)
100.00 % NET4GAS Holdings, s.r.o.
100.00 % NET4GAS, s.r.o.
BRAWA, a.s.

Annex No. 2 Agreements concluded between the Company and controlling entities or Related Parties in the last accounting period

Contracting party	Agreement	Date of conclusion	Details
Allianz Infrastructure Czech HoldCo II S.à.r.l.	Amendment No. 1 to a Credit Facility Agreement on 18 December 2015	4 April 2016	The subject matter of the amendment is a change in the maturity of a short-term loan.
Allianz Infrastructure Czech HoldCo II S.à.r.l.	Credit Facility Agreement	19 December 2016	The subject matter of the agreement is a short-term loan.
Allianz Infrastructure Luxembourg I S.a r.l., Borealis Novus Holdings B.V. (multi-party agreement)	Agreement on the assignment of parts of receivables	7 July 2016	The subject matter of the agreement is the assignment of parts of receivables resulting from the Loan Agreement concluded between Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings towards NET4GAS, s.r.o. to the Company.
Allianz Infrastructure Czech HoldCo II S.à.r.l., Borealis Novus Parent B.V. (multi-party agreement)	Contribution and Set-off Agreement	7 July 2016	The subject matter of the agreement is the provision of contribution by Allianz Infrastructure Czech HoldCo II S.a r.l., and Borealis Novus Parent B.V., and set-off of mutual receivables arising under the obligation of Allianz Infrastructure Czech HoldCo II S.a r.l., and Borealis Novus Parent B.V., to provide contribution to equity of the Company as of 8 July 2016
Allianz Infrastructure Czech HoldCo II S.à.r.l., Borealis Novus Parent B.V. (multi-party agreement)	Set-off Agreement	4 April 2016	The subject matter of the agreement is a set-off of mutual liabilities and receivables under loan agreements and profit distribution.
Borealis Novus Parent B.V.	Amendment No. 1 to a Credit Facility Agreement on 18 December 2015	4 April 2016	The subject matter of the amendment is a change in the maturity of a short-term loan.
Borealis Novus Parent B.V.	Credit Facility Agreement	19 December 2016	The subject matter of the agreement is a short-term loan.
NET4GAS, s.r.o.	Amendment No. 1 to a Credit Facility Agreement on 26 June 2015	18 March 2016	The subject matter of the amendment is a change in the maturity of a short-term loan.

NET4GAS, s.r.o.	Credit Facility Agreement as amended by the Amendment No. 1 on 7 July 2016	4 April 2016	The subject matter of the agreement is a short-term loan. The subject matter of the amendment is a change in the maturity of the short-term loan.
NET4GAS, s.r.o.	Set-off Agreement	4 April 2016	The subject matter of the agreement is a set-off of mutual liabilities and receivables under loan agreements.
NET4GAS, s.r.o.	Contribution and Set-off Agreement	7 July 2016	The subject matter of the agreement is the provision of a contribution by the Company to NET4GAS, s.r.o. and a set-off of mutual liabilities and receivables as of 8 July 2016.

Annex No. 3 Agreements concluded between the Company and controlling entities or Related Parties in previous accounting periods and effective in 2016

Contracting party	Agreement	Date of conclusion	Details
Allianz Infrastructure Czech HoldCo II S.à.r.l.	Credit Facility Agreement	18 December 2015	The subject matter of the agreement is a short-term loan.
Borealis Novus Parent B.V.	Credit Facility Agreement	18 December 2015	The subject matter of the agreement is a short-term loan.
NET4GAS, s.r.o., BRAWA, a.s. (multi-party agreement)	Agreement Ref. No. ZBA/2012/14 on the provision of Real Unidirectional Cash Pooling as amended by Amendment No. 1 on 11 November 2013	8 July 2013	
NET4GAS, s.r.o.	Agreement Ref. No. TBA/2013/16 on the provision of Real Unidirectional Cash Pooling	11 November 2013	The agreements lay down a framework for cash pooling of Czech currency (among the Company, NET4GAS, s.r.o., and BRAWA, a.s.) and US dollars and euros (between the Company and NET4GAS, s.r.o.), the purpose of which is to optimise the use of funds within the related parties and to reduce transaction costs.
NET4GAS, s.r.o.	Agreement Ref. No. TBA/2013/15 on the provision of Real Unidirectional Cash Pooling	11 November 2013	
NET4GAS, s.r.o.	Agreement on the provision of loans as amended by Amendment No. 1 on 16 January 2014 and Amendment No. 2 on 21 March 2014	11 November 2013	
NET4GAS, s.r.o.	Agreement on the provision of selected services	25 June 2015	The subject matter of the agreement is the provision of the following services to the Company by NET4GAS, s.r.o.: accounting, controlling, tax issues, cash-flow, contract management, PR service.
NET4GAS, s.r.o.	Credit Facility Agreement	26 June 2015	The subject matter of the agreement is a short-term loan.

Annex No. 4 Acts performed in the last accounting period at the instigation or in the interest of controlling entities or Related Parties

Controlling entity or Related Party	Acts performed	Date	Details
Allianz Infrastructure Czech HoldCo II S.à r.l. Borealis Novus Parent B.V.	Resolution of the Executive Officers of the Company	4 April 2016	The subject matter of the Resolution is the provision of the first advance payment of the profit distribution for 2016.
Allianz Infrastructure Czech HoldCo II S.à r.l. Borealis Novus Parent B.V.	Resolution of the Executive Officers of the Company	16 December 2016	The subject matter of the Resolution is the provision of the second advance payment of the profit distribution for 2016.

Post Balance Sheet Events

Based on the positive results of the market survey "Capacity4Gas", which showed a significant long-term market demand for additional capacity, and based on subsequent technical studies on the relevant gas infrastructure carried out by NET4GAS, new cross-border capacity between the German Gaspool market area and the Czech Republic, and the Czech and Slovak market areas was offered and successfully marketed at the annual PRISMA capacity auction on 6 March 2017. Based on the results of the auction, the Group is ready to invest into relevant new gas infrastructure in the Czech Republic in the upcoming years.

No other events have occurred subsequent to year-end that would have a material impact on the consolidated annual report for the year ended 31 December 2016.

In 2017 and in the years to come, the NET4GAS Holdings Group will continue to proactively participate in shaping the future gas market design in Europe and to promote the use of natural gas as the most environmentally-friendly fossil fuel.


Persons Responsible for the Consolidated Annual Report

We hereby declare on our honour that the information stated in this Consolidated Annual Report is true and that no material facts have been omitted or misstated.

In Prague, on 25 April 2017



Jaroslava Korpancová
Statutory Director



Mikhail Nahorny
Statutory Director

Annex no. 1: Consolidated Financial Statements

Group NET4GAS Holdings

Consolidated Financial statements

31 December 2016

Consolidated balance sheet as at 31 December 2016

		31 December 2016			31 December 2015	
		Row	Gross	Adjustment	Net	Net
(CZK million)						
ASSETS						
TOTAL ASSETS		001	64,961	(23,104)	41,857	44,700
B.	Fixed assets	003	61,746	(23,103)	38,643	39,692
B. I.	Intangible fixed assets	004	646	(470)	176	195
B. I. 1.	Research and development	005	54	(52)	2	5
B. I. 2.	Royalties	006	465	(410)	55	61
B. I. 2. 1.	Software	007	458	(403)	55	60
B. I. 2. 2.	Other royalties	008	7	(7)	-	1
B. I. 4.	Other intangible fixed assets	010	106	(8)	98	97
B. I. 5.	Intangible fixed assets in the course of construction	013	21	-	21	32
B. II.	Tangible fixed assets	014	68,138	(23,836)	44,302	45,684
B. II. 1.	Lands and constructions	015	61,893	(19,158)	42,735	44,216
B. II. 1. 1.	Lands	016	184	-	184	181
B. II. 1. 2.	Constructions	017	61,709	(19,158)	42,551	44,035
B. II. 2.	Equipment	018	5,774	(4,678)	1,096	1,135
B. II. 4.	Other tangible fixed assets	020	1	-	1	1
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	024	470	-	470	332
B. II. 5. 1.	Advances paid for tangible fixed assets	025	9	-	9	1
B. II. 5. 2.	Tangible fixed assets in the course of construction	026	461	-	461	331
Negative consolidation difference			(7,038)	1,203	(5,835)	(6,187)
C.	Current assets	037	3,093	(1)	3,092	4,857
C. I.	Inventories	038	65	-	65	65
C. I.1.	Raw materials	039	65	-	65	65
C. II.	Receivables	046	2,613	(1)	2,612	3,042
C. II. 2.	Short-term receivables	057	2,613	(1)	2,612	3,042
C. II. 2. 1.	Trade receivables	058	43	(1)	42	27
C. II. 2. 2.	Receivables - subsidiaries and controlling party	059	1,713	-	1,713	2,311
C. II. 2. 4.	Receivables - other	061	857	-	857	704
C. II. 2. 4. 3.	Taxes – receivables from state	065	16	-	16	110
C. II. 2. 4. 4.	Short-term advances paid	066	2	-	2	4
C. II. 2. 4. 5.	Estimated receivables	067	839	-	839	590
C. III.	Short-term financial investments	068	-	-	-	537
C. IV.	Cash at bank	073	415	-	415	1,213
D.	Prepayments and accrued income	074	122	-	122	151
D. 1.	Prepaid expenses	075	121	-	121	150
D. 3.	Accrued income	077	1	-	1	1

Group NET4GAS HoldingsConsolidated financial statements
for the year ended 31 December 2016

(CZK million)		Row	31 December 2016	31 December 2015
LIABILITIES AND EQUITY				
TOTAL LIABILITIES AND EQUITY		078	41,857	44,700
A.	Equity	079	2,848	(3,213)
A. II.	Share premium and capital contributions	084	6,687	(2,035)
A. II.2.	Capital contributions	086	6,687	(2,035)
A. II. 2. 1.	Other capital contributions	087	8,500	-
A. II. 2. 2.	Assets and liabilities revaluation	088	(1,813)	(2,035)
A. IV.	Accumulated losses	095	(1,185)	(2,733)
A. V.	Profit for the current period	099	1,753	3,091
A. VI.	Less advances on profit distribution paid	100	(4,407)	(1,536)
B.+C.	Liabilities	101	39,001	47,906
B.	Provisions	102	465	320
B. 1.	Income tax provision	103	176	16
B. 4.	Other provisions	106	289	304
C.	Liabilities	107	38,536	47,586
C. I.	Long-term liabilities	108	36,551	45,477
C. I. 1.	Debentures and bonds issued	109	20,610	20,612
C. I. 2.	Liabilities due to financial institutions	112	7,128	7,084
C. I. 4.	Trade payables	114	8	2
C. I. 6.	Liabilities - subsidiaries and controlling party	116	-	11,000
C. I. 8.	Deferred tax liability	118	6,327	4,246
C. I. 9.	Liabilities - other	119	2,478	2,533
C. II.	Short-term liabilities	123	1,985	2,109
C. II. 1.	Debentures and bonds issued	124	308	280
C. II. 3.	Short-term advances received	128	709	797
C. II. 4.	Trade payables	129	187	285
C. II. 8.	Liabilities - other	133	781	747
C. II. 8. 3.	Liabilities to employees	136	31	21
C. II. 8. 4.	Liabilities for social security and health insurance	137	12	12
C. II. 8. 5.	Taxes and state subsidies payable	138	110	105
C. II. 8. 6.	Estimated payables	139	196	205
C. II. 8. 7.	Other liabilities	140	432	404
D.	Accruals and deferred income	141	8	7
D. 1.	Accrued expenses	142	3	7
D. 2.	Deferred income	143	5	-

Consolidated profit and loss statement for the year ended 31 December 2016

(CZK million)		Row	2016	2015
I.	Sales of products and services	01	9,355	9,878
A.	Cost of sales	03	1,062	1,619
A. 2.	Raw materials and consumables used	05	526	790
A. 3.	Services	06	536	829
C.	Own work capitalised	08	(74)	(74)
D.	Staff costs	09	561	505
D. 1.	Wages and salaries	10	411	365
D. 2.	Social security, health insurance and other social costs	11	150	140
D. 2. 1.	Social security and health insurance costs	12	132	123
D. 2. 2.	Other social costs	13	18	17
E.	Value adjustments in operating activities	14	2,078	2,393
E. 1.	Depreciation, amortisation and write off of fixed assets	16	2,062	2,391
E. 2.	Provision for impairment of inventories	18	18	-
E. 3.	Provision for impairment of receivables	19	(2)	2
	Settlement of negative consolidation difference		352	352
III.	Operating income - other	20	33	65
III. 1.	Sales of fixed assets	21	4	31
III. 3.	Other operating income	23	29	34
F.	Operating expenses - other	24	67	247
F. 1.	Net book value of fixed assets sold	25	1	58
F. 3.	Taxes and charges from operating activities	27	6	21
F. 4.	Operating provisions and complex prepaid expenses	28	25	73
F. 5.	Other operating expenses	29	35	95
*	Operating result	30	6,046	5,605
VI.	Interest and similar income	39	9	4
VI. 1.	Interest and similar income - subsidiaries or controlling party	40	8	4
VI. 2.	Other interest and similar income	41	1	-
J.	Interest and similar expenses	43	1,028	1,369
J. 1.	Interest and similar expenses - subsidiaries or controlling party	44	364	705
J. 2.	Other interest and similar expenses	45	664	664
VII.	Other financial income	46	127	5
K.	Other financial expenses	47	395	286
*	Financial result	48	(1,287)	(1,646)
**	Net profit before taxation	49	4,759	3,959
L.	Tax on profit	50	3,006	868
L. 1.	Tax on profit - current	51	977	1,023
L. 2.	Tax on profit - deferred	52	2,029	(155)
**	Net profit after taxation	53	1,753	3,091
***	Net profit for the financial period	55	1,753	3,091
	Net turnover for the financial period = I. + II. + III. + IV. + V. + VI. + VII		9,524	9,952

Group NET4GAS HoldingsConsolidated financial statements
for the year ended 31 December 2016**Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2016**

(CZK million)	Other capital funds	Revaluation reserve	Retained earnings	Advances for profit distribution	Total
As at 1 January 2015	198	(1,206)	848	(2,664)	(2,824)
Fair value gains/(losses) – Financial derivatives	-	(829)	-	-	(829)
Profit distribution	-	-	(3,581)	2,664	(917)
Advances on profit distribution paid	-	-	-	(1,536)	(1,536)
Decrease of other capital funds	(198)	-	-	-	(198)
Consolidated net profit for the current period	-	-	3,091	-	3,091
As at 31 December 2015	-	(2,035)	358	(1,536)	(3,213)
Fair value gains/(losses) – Financial derivatives	-	222	-	-	222
Profit distribution	-	-	(1,543)	1,536	(7)
Advances on profit distribution paid	-	-	-	(4,407)	(4,407)
Increase of other capital funds	8,500	-	-	-	8,500
Consolidated net profit for the current period	-	-	1,753	-	1,753
As at 31 December 2016	8,500	(1,813)	568	(4,407)	2,848

Consolidated cash-flow statement for the year ended 31 December 2016

(CZK million)	2016	2015
Cash flows from operating activities		
Net profit on ordinary activities before tax	4,759	3,959
A. 1. Adjustments for non-cash movements:		
A. 1. 1. Depreciation/amortisation of fixed assets and settlement of consolidation difference	1,710	2,039
A. 1. 2. Change in provisions	41	75
A. 1. 3. (Profit)/loss from disposal of fixed assets	(3)	27
A. 1. 4. Foreign exchange losses	260	27
A. 1. 5. Net interest expense	1,019	1,365
A. 1. 6. Other non-cash movements	(16)	0
A* Net cash flow from operating activities before tax and changes in working capital	7,770	7,492
A. 2. Working capital changes:		
A. 2. 1. Changes in receivables and prepayments and accrued income	(129)	172
A. 2. 2. Changes in short-term payables, accrued expenses and deferred income	(198)	101
A** Net cash flow from operating activities before tax	7,443	7,765
A. 3. Interest paid	(1,034)	(1,308)
A. 4. Interest received	-	4
A. 5. Income tax paid	(733)	(799)
A*** Net cash flow from operating activities	5,676	5,662
Cash flows from investing activities		
B. 1. Acquisition of fixed assets	(715)	(584)
B. 2. Proceeds from the sale of fixed assets	4	31
B. 3. Loans to related parties**	(1,700)	(2,311)
B*** Net cash flow from investing activities	(2,411)	(2,864)
Cash flows from financing activities		
C. 1. Loans from related parties*	(2,500)	(2)
C. 2. Changes in equity:		
C. 2. 1. Profit distribution paid**	-	(917)
C. 2. 2. Advances on profit distribution paid**	(2,100)	(1,536)
C. 2. 3. Payment from other capital funds	-	(198)
C*** Net cash flow from financing activities	(4,600)	(2,653)
Net increase/(decrease) in cash and cash equivalents	(1,335)	145
Cash and cash equivalents as at the beginning of the year	1,750	1,605
Cash and cash equivalents as at the end of the year	415	1,750

* Part of loan from related parties Borealis Novus Holdings B.V. and Allianz Infrastructure Luxembourg I S.à r.l. in total amount of CZK 11,000 million was settled in cash (CZK 2,500 million). Remaining amount of CZK 8,500 million was netted against receivable arising from increase of other capital funds.

** Part of advance profit distribution 2016 in amount of CZK 2,314 million was offset against the loans provided by NET4GAS Holdings, s.r.o to Borealis Novus Parent B.V. and Allianz Infrastructure Czech HoldCo II S.à r.l.

1. General information

1.1. Introductory information about the Company

NET4GAS Holdings, s.r.o. (“the Company”) was incorporated on 5 December 2012 by the Municipal Court in Prague, Section C, Insert 202655 and has its registered office at Na hřebenech II 1718/8, Nusle, 140 00 Prague 4, Czech Republic, identification number of the Company is 291 35 001. The Company’s primary business activities are holding shares in other companies for NET4GAS Group.

The Company’s shareholders as at 31 December 2016 are:

- Allianz Infrastructure Czech HoldCo II S.à r.l., L-2450 Luxembourg, 14, boulevard F.D. Roosevelt, Grand Duchy of Luxembourg, Registration number: B 175770, share: 50 %,
- Borealis Novus Parent B.V., 1011PZ Amsterdam, Muiderstraat 9, the Kingdom of the Netherlands, Registration number: 57412243, share: 50 %.

Allianz Infrastructure Czech HoldCo II S.à r.l. has the ultimate parent company Allianz SE and Borealis Novus Parent B.V. has the ultimate parent company OMERS Administration Corporation.

The Company had no arrangements that are not included in the balance sheet as at 31 December 2016 or 31 December 2015.

Statutory Directors as of 31 December 2016:

Kenton Edward Bradbury	Position held since: 1 July 2015
Jaroslava Korpancová	Position held since: 15 February 2013
Mikhail Nahorny	Position held since: 1 July 2016
Melchior Stahl	Position held since: 5 August 2013

During 2016 there was a change in the composition of the NET4GAS Holdings Statutory Directors. With his letter dated 16 May 2016, Ralph Adrian Berg resigned as the Statutory Director effective on 30 June 2016. Based on decision of the General Meeting of NET4GAS Holdings, Mikhail Nahorny was appointed as a new Statutory Director with effective as of 1 July 2016.

The Company had no employees in the financial period ended 31 December 2015 and 2016.

1.2. Consolidated group description

The consolidation group (the “Group”) consists of consolidating Company, NET4GAS, s.r.o. and BRAWA, a.s.

NET4GAS, s.r.o. was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The company’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. Identification number of the company is 272 60 364.

BRAWA, a.s., based on the decision of the Municipal court in Prague, section B, insert 16622, was incorporated on 10 November 2010 and has its registered office in Prague – Nusle, Na Hřebenech II 1718/8. The company’s primary business activity is lease of real estates, flats and commercial premises. Identification number of the company is 247 57 926. The sole shareholder of BRAWA, a.s. is NET4GAS, s.r.o.

In the following notes, the term “Group” refers to the consolidation group. Figures of consolidated balance sheet and consolidated income statement reflect the totals of NET4GAS, s.r.o., BRAWA, a.s. and NET4GAS Holdings, s.r.o. adjusted for elimination of mutual transactions within the Group.

Consolidated financial statements are prepared based on data from Consolidating Company NET4GAS Holdings, s.r.o. and from the data of its directly or indirectly controlled subsidiaries.

The following table provides information on controlled subsidiaries:

Subsidiaries as at 31 December 2016		
Name	NET4GAS, s.r.o.	BRAWA, a.s.
Registered office	Czech Republic	Czech Republic
Acquisition cost of interest (in CZK million)	9,091	
Share in %	100 %	100 %
GAAP	International Financial Reporting Standards as adopted by the European Union	Czech GAAP
Data from separate financial statements	For the year ended 31 December 2016	For the period of 12 months ended 30 November 2016
Registered capital (in CZK million)	2,750	402
Equity (in CZK million)	7,589	7,908
Profit for the current period (in CZK million)	1,422	432
Total assets (in CZK million)	53,070	8,286
Consolidation method	Full	Full
Date of acquisition	2 August 2013	2 August 2013
Subsidiaries as at 31 December 2015		
Name	NET4GAS, s.r.o.	BRAWA, a.s.
Registered office	Czech Republic	Czech Republic
Acquisition cost of interest (in CZK million)	2,488	
Percentage of ownership	100 %	100 %
GAAP	International Financial Reporting Standards as adopted by the European Union	Czech GAAP
Data from separate financial statements	For the year ended 31 December 2015	For the period of 11 months ended 30 November 2015
Registered capital (in CZK million)	2,750	402
Equity (in CZK million)	2,533	7,884
Profit for the current year (in CZK million)	3,279	408
Total assets (in CZK million)	56,637	8,197
Consolidation method	Full	Full
Date of acquisition	2 August 2013	2 August 2013

With effect from 2015, a new accounting period of BRAWA, a.s. ends on 30 November. Accounting period for year 2016 began on 1 December 2015 and ended on 30 November 2016. For the preparation of the Group's consolidated financial statements as at 31 December 2016 the actual BRAWA, a.s.'s transactions for period from January to December 2016 and balances as at 31 December 2016 were used.

2. Accounting policies

2.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention except as disclosed below. Derivatives, securities and investments are shown at fair value. The consolidated financial statements are prepared in millions of Czech Crowns if not stated otherwise.

Consolidated financial statements, as well as accompanying separate financial statements, of NET4GAS Holdings, s.r.o. have been prepared for the period from 1 January 2016 to 31 December 2016. Comparatives are presented for the period from 1 January 2015 to 31 December 2015.

The consolidated financial statements were prepared based on the direct method. Their purpose is to give a true and fair view of the assets, equity and liabilities, the financial position and profit or loss of the consolidation group as a whole.

The selected consolidation method is applied to the accounting entities included in the consolidation group consistently and continually.

For the purpose of preparation of the consolidated financial statements and in accordance with Czech Accounting standard for entrepreneurs No. 20, the Consolidating company summed up the adjusted information provided by its subsidiaries.

There was no need to adjust the depreciation schemes as determined by each subsidiary and related depreciation charges of both tangible and intangible fixed assets for the consolidated financial statements purposes.

2.2. Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure. In order to ensure the comparability of items presented in the financial statements, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: "The comparative figures for the accounting period beginning in 2016".

2.3. Intangible fixed assets

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand are treated as intangible fixed assets.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed. Development costs of which results are intended for trading are capitalised as intangible fixed assets and recorded at the lower of cost and the value of future economic benefits. All other development costs are expensed as incurred.

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

Intangible fixed assets	Estimated useful life
Research and development	6 years
Software	3 years
Royalties	1.5 - 6 years
Other intangible fixed assets	6 years

The amortisation plan is updated during the useful life of the intangible fixed assets based on changes of the expected useful life.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

Technical improvements of intangible fixed assets exceeding CZK 40 thousand per year are capitalised.

Emission allowances are presented by the Group as other intangible fixed assets.

Emission allowances allocated to the Group by the National Allocation Plan are recorded to the account Other intangible fixed assets and to the account Taxes and state subsidies payable upon being credited to the Group account in the Register of Emission Allowances in the Czech Republic. Emission allowances allocated to the Group are recorded at of the date of the acquisition at market price. Liability from the emission rights is released to Other operating income when respective expenses are incurred.

The consumption of emission allowances is recorded to other operating expenses on the basis of an estimate of actual CO₂ emissions produced in the period. At the same time the emission allowances liability is released in other operating income, if it is consumption of the allocated emission allowances.

The first-in-first-out method is applied for all disposals of emission allowances. Sales of emission allowances are recorded as other operating revenue and are stated at the selling price.

2.4. Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 10 thousand are treated as tangible fixed assets. Purchased tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. Own work capitalised is recorded at cost.

Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:

Tangible fixed assets	Estimated useful life
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 component is defined as part of individual operating equipment or building that has a significantly different estimated useful life from the remaining fixed asset components.

The component is depreciated throughout its useful life independent from the remaining parts of the asset. At the disposal of a component, the net book value of the whole asset is decreased by the net book value of the disposed component. The net book value of the whole asset is subsequently increased by the acquisition cost of the new component inclusive of the value of spare parts used for its replacement.

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by this asset.

Repairs and maintenance expenditures for tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets exceeding CZK 40 thousand per year are capitalised.

2.5. Consolidation difference

A consolidation difference is the difference between the purchase price of shares and interests in a consolidated entity and their valuation reflecting the shareholding of the Consolidating Company in equity, which value is determined as the difference between fair values of assets and liabilities as of the date of acquisition or as of the date of additional increase of participation. Revaluation of assets and liabilities of subsidiaries to fair value is performed only if the accounting valuation of assets and liabilities of subsidiaries significantly differs to their fair value at the date of acquisition.

The date of acquisition is the day from which the Consolidating Company effectively exercises its influence. The consolidation difference is amortized in accordance to the Czech Accounting Standard No. 20 on a straight-line basis over 20 years (unless a shorter period can be substantiated). The negative consolidation difference is credited to income from operating activities through the profit and loss statement (Note 5).

2.6. Determining the fair value

The Group uses fair value measurement for financial derivatives.

The Group uses discounted cash-flow models for determination of fair value of currency forwards and currency and interest rate swaps with exclusively market parameters.

2.7. Inventories

Raw materials are mainly spare parts for the gas pipeline network. Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for inventory valuation.

A provision is created based on individual evaluation of inventories.

2.8. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and an individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

2.9. Prepaid expenses

Prepaid expenses are expenses related to the following financial periods. The expenses are charged to income statement for the year to which they relate.

2.10. Cash and cash equivalents

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Group has prepared a consolidated Cash flow statement using the indirect method.

2.11. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Group for the month as at the first day of the period.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

Companies in the Group consider advances paid for the acquisition of fixed assets or inventories as receivables denominated in foreign currency and therefore these assets are adjusted to the exchange rates as published by the Czech National Bank as at the balance sheet date.

2.12. Derivative financial instruments

Derivative financial instruments including currency forwards and currency and interest rate swaps are initially recognised on the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained applying discounted cash flow models with exclusively market parameters. All derivatives are presented in long-term and short-term other receivables or other payables when their fair value is positive or negative, respectively.

Derivatives embedded in other financial instruments are not treated as separate derivatives.

Changes in the fair value of derivatives held for trading are included in other financial expenses or income from revaluation of securities and derivatives.

The Group designates certain derivatives prospectively as a hedge of future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way, provided that certain criteria, including defining the hedging strategy and hedging relationship before hedge accounting is applied and ongoing documentation of the actual and expected effectiveness of the hedge, are met. Cash flows arising from currency interest swaps depend on the contract terms, and the movement of exchange rates.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded as revaluation reserve from assets and liabilities in equity and are transferred to the income statement and classified as an income or expense in the period during which the hedged item affects the income statement. The gain or loss relating to the ineffective portion of the cash flow hedge is directly recognised within other financial expenses or income.

2.13. Bonds issued and other borrowings

The Group initially recognises bonds issued and other borrowings and subordinated liabilities at cost at the date of their creation. These financial liabilities are after initial recognition measured at amortized cost.

The Group designates certain foreign currency bonds prospectively to hedge future cash flows from certain expected transactions (cash flow hedges). Recognition of so designated bonds as hedging instruments is possible only when certain criteria are met, including the definition of hedging strategy and the hedge relationship before starting hedge accounting and ongoing documentation of actual and expected effectiveness of hedging.

Foreign exchange differences arising from the revaluation of foreign currency bonds and other borrowings, including discounts on repayment of bonds and other borrowings that met criteria of effective cash flow hedges are recognized as gains or losses from assets and liabilities in equity and in profit or loss in the same period in which the hedged item affects profit and loss statement.

Related finance charges, including interest expense, are not included in hedging and are charged to profit or loss using the straight-line amortization method.

2.14. Equity

The Group's decision to pay an interim profit distribution is reflected in the accounting as a decrease in equity and is presented on the balance sheet line - Less advances on profit distribution paid. Such an interim profit distribution or a part thereof is classified as a receivable from shareholders as at the balance sheet date if the Group incurs a loss or achieves lower profit than the value of the originally paid interim profit distribution.

2.15. Provisions

The Companies of the Group recognise provisions to cover their obligations or expenses, when the nature of the obligations or expenses is clearly defined and it is probable or certain as at the balance sheet date that they will be incurred, however their precise amount or timing is not known. The provision recognised as at the balance sheet date represent the best estimate of expenses that will be probably incurred, or the amount of liability that is required for their settlement.

The Companies of the Group recognise a provision for their future income tax payable which is presented net of advances paid for the income tax. If advances paid are higher than the estimated income tax payable the difference is recognised as a short-term receivable.

2.16. Employment benefits

The Group recognises a provision relating to untaken holidays.

Regular contributions are made to the state to fund the national pension plan. The Companies in the Group also provides contributions to defined contribution plans operated by independent pension funds.

2.17. Revenue recognition

Companies of the Group recognize as revenue mainly income for the gas transportation within and across the Czech Republic. Sales are recognised upon the delivery of products and are stated net of discounts and value added tax.

2.18. Subsidies

A subsidy is recognised when money is received or an irrevocable right to receive a subsidy exists.

A subsidy received for either the acquisition of fixed assets (including technical improvement) or for the settlement of interest charged to cost of fixed assets can either decrease the cost of fixed assets or own work capitalised.

2.19. Related parties

The Group's related parties are considered to be the following:

- parties, which directly or indirectly control the Group, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Group;
- members of the Group's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties, are disclosed in Note 14.

2.20. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

2.21. Interest expense

All borrowing costs are expensed. Long-term payables are not discounted.

2.22. Income tax and deferred tax

The corporate income tax expense is calculated for each company in the Group based on the statutory tax rate and accounting profit before taxes, increased or decreased by the appropriate permanent and temporary differences. In addition, the following items are taken into consideration: tax base decreasing items, tax deductible items and income tax reliefs. The corporate income tax expense in the consolidated income statement consists of the sum of corporate income tax expense of the Consolidating Company and other companies in the Group consolidated using the full consolidation method.

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

Deferred tax from derivative financial instruments and borrowings denominated in foreign currencies designated to hedge future cash flows which are revalued in equity, is also recognised directly in equity.

The consolidated deferred tax position is a sum of the deferred tax positions of the Consolidating Company and other companies in the Group for which the full consolidation method has been used, adjusted for the effects of temporary differences resulting from the intercompany transactions.

2.23. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

3. Intangible fixed assets

(CZK million)	1 January 2016	Additions / transfers	Disposals	31 December 2016
Cost				
Research & development	57	-	(3)	54
Software	416	42	-	458
Other royalties	7	-	-	7
Other intangible fixed assets	102	9	(5)	106
Intangible fixed assets in the course of construction	32	(11)	-	21
Total	614	40	(8)	646
Accumulated amortisation				
Research & development	(52)	(3)	3	(52)
Software	(356)	(47)	-	(403)
Other royalties	(6)	(1)	-	(7)
Other intangible fixed assets	(5)	(3)	-	(8)
Total	(419)	(54)	3	(470)
Net book value	195			176

(CZK million)	1 January 2015	Additions / transfers	Disposals	31 December 2015
Cost				
Research & development	60	-	(3)	57
Software	397	43	(24)	416
Other royalties	7	-	-	7
Other intangible fixed assets	113	12	(23)	102
Intangible fixed assets in the course of construction	31	1	-	32
Total	608	56	(50)	614
Accumulated amortisation				
Research & development	(51)	(4)	3	(52)
Software	(327)	(53)	24	(356)
Other royalties	(6)	-	-	(6)
Other intangible fixed assets	(2)	(3)	-	(5)
Total	(386)	(60)	27	(419)
Net book value	222			195

As at 31 December 2016, other intangible fixed assets included CZK 87 million relating to emission allowances (as at 31 December 2015: CZK 85 million).

4. *Tangible fixed assets*

(CZK million)	1 January 2016	Additions / transfers	Disposals	31 December 2016
Cost				
Land	181	3	-	184
Constructions	61,431	317	(39)	61,709
Equipment	5,624	186	(36)	5,774
Other tangible fixed assets	1	-	-	1
Advances paid for tangible fixed assets	1	8	-	9
Tangible fixed assets in the course of construction	331	130	-	461
Total	67,569	644	(75)	68,138
Accumulated depreciation				
Constructions	(17,325)	(1,772)	39	(19,058)
Equipment	(4,489)	(225)	36	(4,678)
Provision for constructions	(71)	(29)	-	(100)
Total	(21,885)	(2,026)	75	(23,836)
Net book value	45,684			44,302

(CZK million)	1 January 2015	Additions / transfers	Disposals	31 December 2015
Cost				
Land	194	-	(13)	181
Constructions	61,403	174	(146)	61,431
Equipment	5,321	342	(39)	5,624
Other tangible assets	1	-	-	1
Advances paid for tangible fixed assets	16	(15)	-	1
Tangible fixed assets in the course of construction	206	125	-	331
Total	67,141	626	(198)	67,569
Accumulated depreciation				
Construction	(15,606)	(1,882)	163	(17,325)
Equipment	(4,021)	(507)	39	(4,489)
Provision for constructions	(29)	(71)	29	(71)
Total	(19,656)	(2,460)	231	(21,885)
Net book value	47,485			45,684

5. *Consolidation difference*

The negative consolidation difference of CZK 7,038 million relates to the acquisition of NET4GAS, s.r.o. as of 2 August 2013. It was calculated as the difference between the purchase price of 100% shares of a NET4GAS, s.r.o. and their valuation reflecting the shareholding of the Consolidating Company in equity, which value was determined as the difference between fair values of assets and liabilities as of the date of the acquisition. The negative consolidation difference is amortized on a straight-line basis over 20 years. The total balance of the negative consolidation difference is CZK 5,835 million as at 31 December 2016 (as at 31 December 2015: CZK 6,187 million).

6. *Receivables*

Overdue receivables as at 31 December 2016 amounted to CZK 19 million (as at 31 December 2015 CZK 3 million).

Unsettled receivables as at 31 December 2016 have not been covered by guarantees and none of them are due after more than 5 years.

The Group has no receivables nor provided any guarantees which are not included in the balance sheet.

Advances for income tax of CZK 747 million paid by NET4GAS, s.r.o. by 31 December 2016 (by 31 December 2015: CZK 899 million) are netted off with the provision for income tax of CZK 923 million as at 31 December 2016 (as at 31 December 2015: CZK 805 million).

Advances for income tax of CZK 17 million paid by BRAWA, a.s. by 31 December 2016 (by 31 December 2015: CZK 36 million) are netted off with the provision for income tax of CZK 6 million as at 31 December 2016 (as at 31 December 2015: CZK 52 million).

Analysis of the change in the provision for doubtful receivables:

(CZK million)	2016	2015
Opening balance as at 1 January	3	1
Charge for the year	-	2
Released during the year	(2)	-
Closing balance as at 31 December	1	3

7. Prepaid expenses

Prepaid expenses as at 31 December 2016 and 31 December 2015 among others represent expenses related to the bank loans which will be charged to the income statement over the duration of individual facilities.

Prepaid expenses were as follows:

(CZK million)	as at 31 December 2016	as at 31 December 2015
Bank loans	24	38
Other prepaid expenses	97	112
Total	121	150

For information about bonds and bank loans (see Note 11).

8. Equity

The Company NET4GAS Holdings, s.r.o. prepares the consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary. The consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary can be obtained on Company's web page.

The Group records equity of CZK 2,848 million as at 31 December 2016 (as at 31 December 2015: negative equity of CZK minus 3,213 million). All Group companies recognised positive equity in their separate financial statements as at 31 December 2016 and 31 December 2015.

The information on Company's shareholders is provided in Note 1. Gain or loss on revaluation of assets and liabilities represent changes in fair value of derivatives, which are classified as cash flow hedges (see Note 13).

The Consolidating Company's General Meeting of Shareholders held on 30 June 2015 decided on other capital fund decrease of CZK 198 million. On 3 July 2015 the Statutory Directors of consolidating company decided on the advance profit distribution payment of CZK 952 million to shareholders and on 10 December 2015 in the amount of CZK 584 million.

On 4 April 2016 The Consolidating Company's General Meeting of Shareholders approved the financial statements for 2015 and decided about the distribution of profit generated in 2015 in amount CZK 1,543 million (30 June 2015: CZK 3,581 million).

On 4 April 2016 the Statutory Directors of consolidating company decided on the advance profit distribution payment of CZK 3,807 million to shareholders and on 15 December 2016 in the amount of CZK 600 million (30 July 2015: CZK 952 million; 10 December 2015: CZK 584 million). Advance profit distribution payment subsequently subject to approval by The Consolidating Company's General Meeting of shareholders. Advance profit distribution payment was recognized as a decrease in equity.

On 8 July 2016 shareholders, Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V., ceased their receivables from NET4GAS, s.r.o., totalling CZK 8,500 million to the Company. On the very same day the shareholders decided to increase Company's other capital funds by CZK 8,500 million. This liability of the shareholders was settled against assigned receivable.

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2016.

9. Provisions

(CZK million)	Other provisions	Income tax provision net of advances	Total
Opening balance as at 1 January 2015	235	-	235
Charge for the year	78	16	94
Used in the year	(9)	-	(9)
Closing balance as at 31 December 2015	304	16	320
Charge for the year	49	160	209
Released in the year	(12)	-	(12)
Used in the year	(52)	-	(52)
Closing balance as at 31 December 2016	289	176	465

For an analysis of the current and deferred income tax see Note 16.

Other provisions represent mainly provisions for restructuring, provision for employment benefits and provisions for severance payments and share option programme.

10. Payables

Trade and other payables have not been secured against any assets and are not due after more than 5 years.

Short term advances received include mainly advance payments for transportation of gas. Other short-term liabilities as at 31 December 2016 included mainly short-term liabilities arising from financial derivatives in the amount of CZK 292 million (as at 31 December 2015: CZK 277 million). In addition, they included subsidies received from the European Commission based on Commission decision concerning the granting of Union financial aid in the field of Regulation Trans-European energetic networks. In 2016 the grant in the amount of CZK 2 million was provided (as at 31 December 2015: CZK 15 million).

Furthermore, other payables as at 31 December 2016 in the amount of CZK 139 million (as at 31 December 2015: CZK 126 million) represent mainly deposits received from customers.

As at the financial statements date, the Group records in Liabilities due to government – taxes and subsidies CZK 87 million (as at 31 December 2015: CZK 85 million) related to emission allowances not consumed as at the balance sheet date.

The Company did not provide any guarantees which were not recorded in the balance sheet.

11. Bank loans and other borrowings

Analysis of the bank loans:

(CZK million)	Interest rate (%)	Currency	31 December 2016	31 December 2015
A consortium of banks	1M PRIBOR + margin	CZK	5,747	5,747
A consortium of banks	1M LIBOR + margin	USD	1,381	1,337
Total bank loans			7,128	7,084

None of these loans have a maturity longer than 5 years.

Revolving credit was not drawn in 2015. During 2016 revolving credit was drawn and repaid during 2016, balance is nil as at 31 December 2016.

Group's bonds issued as at 31 December 2016:

	Nominal amount of issue	Due date	Annual coupon repayment date	31 December 2016 (CZK million)	31 December 2015 (CZK million)
Bond EUR, serial no. 1, ISIN XS1090450047	EUR 300,000,000	28.7.2021	Each 28.7. in arrears	8,125	8,115
Bond EUR, serial no. 2, ISIN XS1090449627	EUR 160,000,000	28.7.2026	Each 28.7. in arrears	4,351	4,350
Bond CZK, serial no. 3, ISIN XS1090620730	CZK 7,000,000,000	28.1.2021	Each 28.1. in arrears	7,081	7,066
Bond EUR, serial no. 4, ISIN XS1172113638	EUR 50,000,000	28.7.2026	Each 28.7. in arrears	1,361	1,361
Total bonds				20,918	20,892

Coupon rates of the above mentioned bonds are between 2.25 and 3.5 % p.a.

On 22 January 2015 the fourth series of bonds with a nominal value of EUR 50 million (equivalent of CZK 1,397 million) was issued with maturity on 28 June 2026 that were used to repay bank loans denominated in Czech crowns.

Issuance terms of all above stated bonds were approved by the decision made by the Central Bank of Ireland. On 28 July 2014 the bonds with serial number 1-3 were admitted to trading on the Irish Stock Exchange PLC regulated market. Bond from 2015, serial number 4, was issued through so called private placement. Upon repaying the nominal value and paying the interest income, the respective taxes and charges under the Czech laws will be withheld from the payments made to bondholders.

12. Commitments and contingent liabilities

Management of the Group is not aware of any contingent liabilities as at 31 December 2016.

The credit documentation and contracts and documentation governing the bonds does not contain any quantitative covenants, there are only mentioned several qualitative covenants in the agreements, such as the limited right to pledge assets of NET4GAS, s.r.o. in favour of other creditor, loss of license and change of controlled entities. Violation of the covenants could lead to immediate repayment of loans.

As at 31 December 2016 the Group has contractual capital expenditure commitments in amount of CZK 274 million mainly related to Czech-Polish Interconnector gas pipeline and Optimus project (31 December 2015: CZK 198 million).

The Group has the following commitments in respect of operational leases:

(CZK million)	31 December 2016	31 December 2015
Current within one year	44	51
Total commitments in respect of operational leases	44	51

13. Derivative financial instruments

The Group uses financial derivatives with creditworthy banks for hedging of the financial risks that the Group is exposed to.

The Company uses fixed derivative agreements with contractually defined terms of cash flows. Their value is influenced mainly by development in foreign exchange rates.

13.1. Derivatives held for trading

Group had one outstanding liability from currency swap as at 31 December 2016.

(CZK million)	31 December 2016		31 December 2015	
	Trades with positive fair value	Trades with negative fair value	Trades with positive fair value	Trades with negative fair value
Currency swaps: fair value as of date:				
- CZK receivables to be settled (+)	(108)	-	-	-
- EUR liabilities to be settled (-)	108	-	-	-
Fair value of currency swaps - current	-	-	-	-

Change in fair value of interest rate swaps recorded in the income statement:

(CZK million)	2016	2015
As at 1 January	-	-
Fair value of interest rate swaps acquired during the year (+)	31	(1)
Fair value of interest rate swaps settled during the year (-)	(31)	1
Charge for the year (+/-)	-	-
As at 31 December	-	-

13.2 Derivatives meeting the criteria for hedge accounting

The Group has concluded contracts on currency interest rate swaps, which are classified as hedging derivatives for hedging of cash flow.

As at 31 December 2016 and as at 31 December 2015 the derivatives were revalued at fair value, with the positive and negative fair values of derivatives being included in other receivables and other payables respectively.

The change in fair value of the hedging derivatives is recognised in the hedging reserve in equity until hedged items will affect the profit or loss, or hedged forecasted transaction results in an asset or liability.

The following table summarizes face values and positive or negative values of outstanding hedging derivatives as at 31 December 2016:

(CZK million)	31 December 2016		
	Positive	Fair value Negative	Nominal value
Currency interest rate swaps	-	2,770	11,078 (EUR 410 million)
Total cash flow hedging derivatives	-	2,770*	11,078

* Of which, CZK 292 million represents the short-term portion and CZK 2,478 million represents the long-term portion.

The following table summarizes face values and positive or negative values of outstanding hedging derivatives as at 31 December 2015:

(CZK million)	31 December 2015		Nominal value
	Positive	Fair value Negative	
Currency interest rate swaps	-	2,810	11,080 (EUR 410 million)
Total cash flow hedging derivatives	-	2,810*	11,080

* Of which, CZK 277 million represents the short-term portion and CZK 2,533 million represents the long-term portion.

Change in fair value of interest rate derivatives recorded in equity:

(CZK million)	2016	2015
As at 1 January	(2,810)	(1,256)
Fair value of currency interest rate swaps acquired during the year	-	(137)
Charge for the year (+/-)	40	(1,417)
As at 31 December	(2,770)	(2,810)

14. Related party transactions

All material transactions with related parties are presented in this note.

14.1 Loans from related parties

On 28 July 2014 the Group was provided with subordinate loan, which the Group recorded as a long-term liability against related parties. This liability, loan from related parties, in amount of CZK 11,000 million was fully repaid in 2016. Amount CZK 2,500 million was settled in cash, remaining amount CZK 8,500 million was offset against shareholder's liability to increase equity (CZK 6,602 million) and against other loans (CZK 1,898 million) (Note 8).

Long-term loans from related parties:

(CZK million)	Terms/Due dates	31 December 2016	31 December 2015
Allianz Infrastructure Luxembourg I S.à r.l.	28 July 2044	-	5,500
Borealis Novus Holdings B.V.	28 July 2044	-	5,500

The interest expenses from loans received from related parties were CZK 364 million for the year 2016 and CZK 705 million for the year 2015.

Group did not have short-term liabilities against related parties as at 31 December 2016 and 31 December 2015.

14.2 Borrowings to related parties

The Group has a short-term borrowing to related parties provided during 2016 and 2015. In total, three loans were provided twice to two related parties in the currency mix CZK, EUR and USD every year:

(CZK million)	Interest rate (p.a.)	Terms/Due dates	31 December 2016
Allianz Infrastructure Czech HoldCo II S. a r.l.	1.51%	30 June 2017	856.5
Borealis Novus Parent B.V.	1.51%	30 June 2017	856.5
Total			1,713

(CZK million)	Interest rate (p.a.)	Terms/Due dates	31 December 2016
Allianz Infrastructure Czech Holdco II S. a r.l.	1.18%	15 July 2016	1,155.5
Borealis Novus Parent B.V.	1.18%	15 July 2016	1,155.5
Total			2,311

Interest income related to short-term loans to related parties amounted to CZK 8 million in 2016 (2015: CZK 1 million).

Group did not have long-term receivables against related parties as at 31 December 2016 and 31 December 2015.

No loans were provided in 2016 and 2015 to the Company's shareholders, members of the statutory and supervisory boards and management.

15. Employees

	2016		2015	
	number	(CZK million)	number	(CZK million)
Salaries to key management	16	68	15	58
Wages and salaries to other employees	499	343	491	307
Social security costs	-	132	-	123
Other social costs	-	18	-	17
Wages and salaries total	515	561	506	505

Key management represents Statutory Directors and managers directly reporting to them.

The company cars available for use to members of Group management have historical cost of CZK 14 million (2015: CZK 14 million).

The foreign members of Group management were provided with accommodation, the related rent totalled CZK 2 million in 2016 (2015: CZK 2 million).

16. Income tax

The income tax expense analysis:

(CZK million)	2016	2015
Current tax expense (19%)	929	857
Deferred tax expense	2,029	(155)
Adjustment of prior year tax expense based on final current income tax return	48	166
Total income tax expense	3,006	868

The current tax analysis:

(CZK million)	2016	2015
Net profit before taxation	4,759	3,959
Non-taxable revenues	(11)	(265)
Difference between accounting and tax depreciation/amortisation	393	961
Tax non-deductible expenses	92	209
Gifts	(3)	(7)
Tax loss used	14	6
Amortization of negative consolidation difference	(352)	(352)
Net taxable profit	4,892	4,511
Current income tax at 19 %	929	857

The deferred tax asset/ (liability) analysis:

(CZK million)	31 December 2016	31 December 2015
Deferred tax liability arising from:		
Difference between accounting and tax net book value of fixed assets	(6,810)	(4,782)
Total deferred tax liability	(6,810)	(4,782)
Deferred tax asset arising from:		
Other provisions and allowances	58	59
Cash flow hedges	425	477
Tax losses (NET4GAS Holdings, s.r.o.)	249	252
Not recorded deferred tax receivable NET4GAS Holdings, s.r.o.	(249)	(252)
Total deferred tax asset	483	536
Net deferred tax asset liability	(6,327)	(4,246)

A potential net deferred tax asset of CZK 249 million as at 31 December 2016 (as at 31 December 2015: CZK 252 million) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised. The 19% rate has been used to calculate it as at 31 December 2016 and 2015.

The Company NET4GAS Holdings, s.r.o. has tax losses as at 31 December 2016 of CZK 1,311 million, which can be utilised maximum up to 2020.

During 2016 management developed its views on risk related to tax position and no longer assumes that it is more likely than not, that the Company sustains its tax position. As a result of this change in management estimate the deferred tax liability was increased by CZK 2,125 million.

17. Revenue analysis

Revenue analysis:

(CZK million)	2016	2016
Transportation		
- Foreign customers	7,430	8,153
- Domestic customers	1,850	1,700
- Others – Domestic	75	25
Revenues from the sale of own products and services	9,355	9,878
Sales of fixed assets	4	31
Other operating income	29	34
Other operating income total	9,388	9,943
Interest and similar income - subsidiaries or controlling party	8	4
Other interest and similar income	1	-
Other financial income	127	5
Net turnover for the financial period	9,524	9,952

18. Subsequent events

New cross-border capacity was offered and successfully marketed at the annual capacity auction on March 6, 2017 - a result of the joint efforts between the transmission operators in the Federal Republic of Germany, the Czech Republic and the Slovak republic. Based on the results of this auction, NET4GAS is ready to invest into relevant new gas infrastructure in the Czech Republic in the upcoming years. The extension of the transmission system represents an opportunity for the Czech Republic to maintain its strong position as a European transit country, and thus enhance the security of supply in the region. In connection with this construction, the Company must reassess changes with regards to continued operation of some compressor stations, reassess their useful lives and reconsider the provision for liquidation, construction work on selected compressor stations and the provision for restructuring – termination payments to employees (provisions in total amount of CZK 160 million as at 31 December 2016).

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 2016.

25 April 2017



Jaroslava Korpancová
Statutory Director



Mikhail Nahorny
Statutory Director

Annex no. 2: Separate Financial Statements

NET4GAS Holdings, s.r.o.

Separate financial statements

31 December 2016

Balance Sheet
as at 31 December 2016

(CZK million)		31 December 2016			31 December 2015	
ASSETS	Row	Gross	Adjustment	Net	Net	
TOTAL ASSETS	001	10,832	-	10,832	4,801	
B. Fixed assets	003	9,091	-	9,091	2,488	
B. III. Investments - subsidiaries and controlling party	028	9,091	-	9,091	2,488	
C. Current assets	037	1,740	-	1,740	2,312	
C. II. Receivables	046	1,740	-	1,740	2,312	
C. II. 2. Short-term receivables	057	1,740	-	1,740	2,312	
C. II. 2. 2. Receivables - subsidiaries and controlling party	059	1,738	-	1,738	2,311	
C. II. 2. 4. Receivables - other	061	2	-	2	1	
C. II. 2. 4. 3. Taxes - receivables from the state	064	2	-	2	-	
C. II. 2. 4. 4. Short-term advances paid	065	-	-	-	1	
D. Accrued income	077	1	-	1	1	

(CZK million)		Row	31 December 2016	31 December 2015	
LIABILITIES AND EQUITY					
TOTAL LIABILITIES AND EQUITY		078	10,832	4,801	
A. Equity		079	8,528	7	
A. II. Other capital contributions		087	8,500	-	
A. V. Profit for the current period		099	4,435	1,543	
A. VI. Less advances on profit distribution paid		100	(4,407)	(1,536)	
B.+C. Liabilities		101	2,304	4,787	
C. Liabilities		107	2,304	4,787	
C. II. Short-term liabilities		123	2,304	4,787	
C. II. 4. Trade payables		129	1	-	
C. II. 6. Liabilities - subsidiaries and controlling party		131	652	1,886	
C. II. 8. Liabilities - other		133	1,651	2,901	
C. II. 8. 1. Liabilities to shareholders		134	1,650	2,900	
C. II. 8. 6. Estimated payables		139	1	1	
D. Accrued expenses		142	-	7	

Statement of Profit or Loss
 for the year ended 31 December 2016

<i>(CZK million)</i>		Row	2016	2015
A.	Cost of sales	03	13	3
A. 3.	Services	06	13	3
*	Operating result	30	(13)	(3)
IV.	Income from long-term investments - shares	31	4,440	1,566
IV. 1	Income from long-term investments - subsidiaries or controlling party	32	4,440	1,566
VI.	Interest and similar income - subsidiaries or controlling party	40	8	1
J.	Interest and similar expenses - subsidiaries or controlling party	44	6	12
VII.	Other financial income	46	6	-
K.	Other financial expenses	47	-	9
*	Financial result	48	4,448	1,546
**	Net profit before taxation	49	4,435	1,543
**	Net profit after taxation	53	4,435	1,543
***	Net profit for the financial period	55	4,435	1,543
	Net turnover for the financial period = I. + II. + III. + IV. + V. + VI. + VII	56	4,454	1,567

Statement of changes in shareholders' equity
for the year ended 31 December 2016

(CZK million)	Other capital funds	Retained earnings	Advances on profit distribution	Total
As at 1 January 2015	198	3,581	(2,664)	1,115
Profit distribution	-	(3,581)	2,664	(917)
Advances on profit distribution paid	-	-	(1,536)	(1,536)
Decrease of other capital funds	(198)	-	-	(198)
Net profit for the current period	-	1,543	-	1,543
As at 31 December 2015	-	1,543	(1,536)	7
Profit distribution	-	(1,543)	1,536	(7)
Advances on profit distribution paid	-	-	(4,407)	(4,407)
Increase of other capital funds	8,500	-	-	8,500
Net profit for the current period	-	4,435	-	4,435
As at 31 December 2016	8,500	4,435	(4,407)	8,528

Cash flow statement for the year ended 31 December 2016

(CZK million)		2016	2015
Cash flows from operating activities			
	Net profit on ordinary activities before tax	4,435	1,543
A.1	Adjustments for non-cash movements:		
A.1.4	Dividend income	(4,440)	(1,566)
A.1.5	Net interest expense/(income)	(2)	11
A.1.6	Other non-cash movements	(13)	(20)
A*	Net cash flow from operating activities before tax and changes in working capital	(20)	(32)
A.2	Working capital changes:		
A.2.1	Changes in receivables and prepayments and accrued income	(1)	9
A.2.2	Changes in short-term payables, accrued expenses and deferred income	1	14
A**	Net cash flow from operating activities before tax	(20)	(9)
A.3	Interest paid	(10)	-
A.6	Dividends received	3,190	4,466
A***	Net cash flow from operating activities	3,160	4,457
Cash flows from investing activities			
B.3	Loans to related parties**	(1,725)	(2,316)
B***	Net cash flow from investing activities	(1,725)	(2,316)
Cash flows from financing activities			
C.1	Loans from related parties*	665	510
C.2	Changes in equity		
C.2.1	Profit distribution paid**	-	(917)
C.2.2	Advances on profit distribution paid **	(2,100)	(1,536)
C.2.3	Payment from other capital funds	-	(198)
C***	Net cash flow from financing activities	(1,435)	(2,141)
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents as at the beginning of the year		-	-
Cash and cash equivalents as at the end of the year		-	-

* Related parties Borealis Novus Holdings B.V. and Allianz Infrastructure Luxembourg I S.à r.l. assigned to the Company loan provided to NET4GAS, s.r.o. in amount of CZK 8,500 million. The liability arising from assigned loan from related parties was netted against receivable arising from increase of other capital funds. Simultaneously, the receivable from company NET4GAS, s.r.o. was netted against liability arising from increase of other capital funds in amount of CZK 6,602 million and against loan provided to the Company in amount of CZK 1,898 million.

** Part of advance profit distribution 2016 in amount of CZK 2,314 million was offset against the loans provided by NET4GAS Holdings, s.r.o to Borealis Novus Parent B.V. and Allianz Infrastructure Czech HoldCo II S.à r.l.

1. General information

1.1. Introductory information about the Company

NET4GAS Holdings, s.r.o. ("the Company") is a limited liability company incorporated on 5 December 2012 by the Municipal Court in Prague, Section C, Insert 202655 and has its registered office at Na hřebenech II 1718/8, Nusle, 140 00 Prague 4, Czech Republic, and the business registration number (IČ) is 291 35 001. The Company was established as HYX Czech, s.r.o. The Company's name was changed from HYX Czech, s.r.o. to NET4GAS Holdings, s.r.o. on 8 August 2013. The Company's main business activity is holding shares in other companies for NET4GAS Group.

The Company is the parent company of NET4GAS, s.r.o. The accompanying financial statements have been prepared as separate financial statements.

The Company has no arrangements that are not included in the balance sheet as at 31 December 2016 or 31 December 2015.

Statutory Directors as of 31 December 2016:

Kenton Edward Bradbury	Position held since: 1 July 2015
Jaroslava Korpancová	Position held since: 15 February 2013
Mikhail Nahorny	Position held since: 1 July 2016
Melchior Stahl	Position held since: 5 August 2013

During 2016 there was a change in the composition of the NET4GAS Holdings management. With his letter dated 16 May 2016, Ralph Adrian Berg resigned as the Statutory Director effective on 30 June 2016. Based on decision of the General Meeting of NET4GAS Holdings, Mikhail Nahorny was appointed as a new Statutory Director with effective as of 1 July 2016.

There were no employees in the period ending 31 December 2016 and 2015.

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, specifically on 20 March 2015.

2. Accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention.

2.2. Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure. In order to ensure the comparability of items presented in the financial statements, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: "The comparative figures for the accounting period beginning in 2016".

2.3. Investments in subsidiaries

Investments in subsidiaries represent ownership interests in enterprises that are controlled by the Company ("the subsidiary").

Investments in subsidiaries and associates are recorded at cost less a provision for diminution in value.

2.4. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and an individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

2.5. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company for the month as at the first day of the period (Czech National Bank average exchange rate of the previous month).

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement and presented net.

2.6. Equity

The Company's decision to pay an interim profit distribution is reflected in the accounting as a decrease in equity and is presented on the balance sheet line - Decision on advances on profit distribution. Such an advance on profit distribution paid or a part thereof is classified as a receivable from shareholders as at the balance sheet date if the Company incurs a loss or achieves lower profit than the value of the originally paid advance profit distribution.

2.7. Related parties

The Company's related parties are considered to be the following:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Company;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence;
- subsidiaries and associated and joint-venture companies.

Material transactions and outstanding balances with related parties are disclosed in Note 10.

2.8. Interest expense

All borrowing costs are expensed.

2.9. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2.10. Cash-flow statement

The Company has prepared a Cash-flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash.

2.11. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed, but are not themselves recognised in the financial statements.

3. Investments in subsidiaries

Summary of changes in long-term financial investments:

(CZK million)					2016 profit	2016 advance
31 December	Cost	Share (%)	2016 net	Net assets	distribution	profit distribution
2016			profit		income	received
Czech entities						
NET4GAS, s.r.o.	9,091	100%	1,422	7,589	1,540	1,650
Total	9,091	100%	1,422	7,589	1,540	1,650

(CZK million)					2015 profit	2015 advance
31 December	Cost	Share (%)	2015 net	Net assets	distribution	profit distribution
2015			profit		income	received
Czech entities						
NET4GAS, s.r.o.	2,488	100%	3,279	2,533	1,566	2,900
Total	2,488	100%	3,279	2,533	1,566	2,900

NET4GAS, s.r.o. was incorporated on 29 June 2005 by the Municipal Court in Prague, Section C, Insert 108316 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The company'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. Identification number of the company is 272 60 364.

Pursuant to the "Business Interest Sale Agreement" of 28 March 2013 entered into by and between RWE Gas International N.V. as the seller, and HYX Czech s.r.o. as the buyer, the Company acquired a 100% share in NET4GAS, s.r.o. effective 2 August 2013, when all the conditions of control transfer over the company NET4GAS, s.r.o. were fulfilled.

The Company as a sole shareholder of NET4GAS, s.r.o. decided on 8 July 2016 to increase its share in the NET4GAS, s.r.o., by CZK 6,603 million. This liability was set off against the receivable from NET4GAS, s.r.o. (Note 5).

The profit distribution of CZK 1,540 million was received based on decision of the Company as a sole shareholder of NET4GAS, s.r.o. from 4 April 2016 (30 June 2015.: CZK 1,566 million)

On 15 December 2016 the Statutory Directors of the subsidiary NET4GAS, s.r.o. decided about the advance profit distribution payment of CZK 1,650 million (2015: CZK 2,900 million). This advance profit distribution payment is recognised in row Payables to shareholders.

4. Receivables

The Company has no overdue receivables.

Unsettled receivables as at 31 December 2016 have not been covered by guarantees and none of them are due after more than 5 years.

The Company has no receivables nor provided any guarantees which are not included in the balance sheet.

5. Equity

The shareholders:

(in %)	31 December 2016	31 December 2015
Allianz Infrastructure Czech HoldCo II S.à r.l., L-2450 Luxembourg, 14, boulevard F.D. Roosevelt, Luxembourg, Registration number: B 175770	50	50
Borealis Novus Parent B.V., 1011PZ Amsterdam, Muiderstraat 9, Netherlands, Registration number: 57412243	50	50
Total	100	100

Allianz SE is the ultimate parent company for Allianz Infrastructure Czech HoldCo II S.à r.l. and OMERS Administration Corporation is the ultimate parent company for Borealis Novus Parent B.V.

The Company does not form a part of any upper consolidation group.

The Company is fully governed by the new Corporations Act (see Note 1) and used the option not to create a reserve fund. This fact is further enabled by the Articles of Association of the Company.

The general meeting of shareholders approved the financial statements for 2015 and decided about the allocation of profit earned in 2015 of CZK 1,543 million on 4 April 2016 (30 June 2015: CZK 3,581 million).

Until the date of preparation of these financial statements, the Company has not proposed distribution of the profit earned in 2016.

On 4 April 2016 the Statutory Representatives decided on the advance profit distribution payment of CZK 3,807 million. On 15 December 2016 the Statutory Representatives decided on the advance profit distribution payment of CZK 600 million (30 July 2015: CZK 952 million; 10 December 2015: CZK 584 million). Profit distribution payment is subsequently subject to approval by the general meeting of shareholders of the Company. The advance profit distribution payment was recorded as a decrease in equity.

On 8 July 2016 the shareholders, Allianz Infrastructure Luxembourg I S.à r.l. and Borealis Novus Holdings B.V., ceased their receivables from NET4GAS, s.r.o., totalling CZK 8,500 million to the Company. On the very same day the shareholders decided to increase other capital funds of the Company (increase of equity) by CZK 8,500 million and this liability of the shareholders was settled against assigned receivable.

The Company prepares the consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary. The consolidated financial statements of the largest group of entities of which the Company forms a part as a subsidiary can be obtained on Company's web page.

6. Payables, commitments and contingent liabilities

Trade payables and other liabilities were not secured by Company's assets and their maturity is less than 5 years.

The Company has no liabilities which are not included in the balance sheet.

The Company provide no other guarantees except those recognised in the balance sheet.

As at 31 December 2016 and 31 December 2015, the Company had no significant overdue current payables.

7. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as at 31 December 2016.

8. Financial expenses

(CZK million)	2016	2015
Interest expense	6	12
Foreign exchange losses (net)	-	9
Total	6	21

9. Financial income

(CZK million)	2016	2015
Interest income	8	1
Foreign exchange gains (net)	6	-
Total	14	1

10. Related party transactions

Short-term receivables from related parties were as follows (in CZK million):

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2016
NET4GAS, s.r.o.	Subsidiary	3 months from notice delivery	0.15%	25
Allianz Infrastructure Czech Holdco II S. a r.l.	Immediate parent (50%)	30 June 2017	1.51%	856.5
Borealis Novus Parent B.V.	Immediate parent (50%)	30 June 2017	1.51%	856.5
Total		-	-	1,738

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2015
Allianz Infrastructure Czech Holdco II S. a r.l.	Immediate parent (50%)	15 July 2016	1.18%	1,155.5
Borealis Novus Parent B.V.	Immediate parent (50%)	15 July 2016	1.18%	1,155.5
Total		-	-	2,311

Interest income related to short-term loans to related parties amounted to CZK 8 million in 2016 (2015: CZK 1 million).

Income from investments in NET4GAS, s.r.o. amounted to CZK 4,440 million in 2016 (2015: CZK 1,566 million).

Short-term payables from related parties were as follows (in CZK million):

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2016	31 December 2015
NET4GAS, s.r.o.	Subsidiary	30. June 2017	0.53%	652	-
NET4GAS, s.r.o.	Subsidiary	31. March 2016	0.70%	-	1,886
Total		-	-	652	1,886

Advances on profit distribution paid:	Nature of relationship	31 December 2016	31 December 2015
NET4GAS, s.r.o.	Subsidiary	1,650	2,900

NET4GAS Holdings, s.r.o.

Notes to financial statements
for the year ended 31 December 2016

Interest expense incurred on the short-term payables from the controlling company was CZK 6 million in 2016 (2015: CZK 12 million).

No loans, guarantees or other benefits have been granted to the Company's directors, members of the Supervisory Board and other members of management.

11. Income tax

The current tax analysis:

(CZK million)	2016	2015
Net profit before taxation	4,435	1,543
<i>Non-taxable income</i>		
Income from subsidiaries	(4,440)	(1,566)
<i>Non-deductible expenses</i>		
Consultancy services	13	3
Interest expenses	6	12
Tax base	14	(8)
Deduction of tax losses	(14)	-
Corporate income tax at 19%	-	-

A potential net deferred tax asset of CZK 249 million as at 31 December 2016 (as at 31 December 2015: CZK 252 million) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised. The 19% rate has been used to calculate it as at 31 December 2016 and 2015.

The Company has tax losses as at 31 December 2016 of CZK 1,311 million, which can be utilised maximum up to 2020.

12. Subsequent events

No events have occurred subsequent to year-end that would have a material impact on the separate financial statements for the year ended 31 December 2016.

25 April 2017


Jaroslava Korpancová
Statutory Director


Mikhail Nahorny
Statutory Director

Annex no. 3: Independent Auditor's Report



Independent auditor's report

to the shareholders of NET4GAS Holdings, s.r.o.

Opinion

We have audited:

- the consolidated financial statements of NET4GAS Holdings, s.r.o., with its registered office at Na Hřebenech II 1718/8, Praha 4 - Nusle ("the Company") and its subsidiaries (together "the Group") prepared in accordance with Czech accounting legislation, which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information, and
- the separate financial statements of the Company prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended and notes to the separate financial statements, which include significant accounting policies and other explanatory information.

In our opinion:

- the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Czech accounting legislation, and
- the separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

The consolidated and separate financial statements are further referred to together as financial statements.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body is responsible for the other information.



**Shareholders of NET4GAS Holdings, s.r.o.
Independent auditor's report**

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation 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.

In preparing the financial statements, the Statutory Body is responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.



**Shareholders of NET4GAS Holdings, s.r.o.
Independent auditor's report**

- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Statutory Body and Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

25 April 2017

Pracovní společnost Čerchová a spol. s r.o.
represented by

Václav Prýmek
Václav Prýmek

Milan Zelený
Milan Zelený
Statutory Auditor, Evidence 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.

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ID No.: 29135001

A PDF version of the NET4GAS Holdings Group Consolidated Annual Report 2016 is available on the website of NET4GAS Holdings in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of the annual report takes precedence over the English version.