

**NET4GAS Holdings, s.r.o.**  
**CONSOLIDATED ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**

# NET4GAS Holdings Group

## Consolidated Annual Report 2018

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## 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 GAZELLE gas pipeline. This 166-kilometre pipeline, with a pipe diameter of DN 1400 and a design pressure of 85 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

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

### NET4GAS Holdings Statutory Directors as of 31 December 2018

#### **Kenton Edward Bradbury**

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

#### **Andrew Cox**

Statutory Director and Executive Officer  
Position held since: 11 May 2017

#### **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

### **Changes in the NET4GAS Holdings Statutory Directors**

No changes occurred in the composition of the NET4GAS Holdings Statutory Directors in 2018.

## NET4GAS

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

### NET4GAS Supervisory Board as of 31 December 2018

#### **Kenton Edward Bradbury**

Chairman of the Supervisory Board

Position held since: 24 June 2016

Member since: 1 July 2015

#### **Andrew Cox**

Member of the Supervisory Board

Member since: 11 May 2017

#### **Jaroslava Korpancová**

Member of the Supervisory Board

Member since: 2 August 2018

(in the Supervisory Board continuously since 2 August 2013)

#### **Mikhail Nahorny**

Member of the Supervisory Board

Member since: 1 July 2016

#### **Georg Nowack**

Member of the Supervisory Board

Member since: 6 December 2018

### **Changes in the NET4GAS Supervisory Board**

Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting, Jaroslava Korpancová was re-elected a Member of the Supervisory Board effective as of 2 August 2018. On 22 June 2018, Kenton Edward Bradbury was re-elected Chairman of the Supervisory Board.

In the course of 2018, changes occurred in the composition of the NET4GAS Supervisory Board. Under a letter dated 4 September 2018, Lenka Kovačovská resigned as a Member of the Supervisory Board. Her term of office expired on 14 September 2018. Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting, Georg Nowack was elected a new Member of the Supervisory Board effective as of 6 December 2018.

## **NET4GAS Statutory Directors as of 31 December 2018**

### **Andreas Rau**

Statutory Director and CEO

Position held since: 1 December 2018

(NET4GAS Statutory Director continuously since 1 December 2013)

### **Radek Benčík**

Statutory Director and COO

Position held since: 1 October 2016

(NET4GAS Statutory Director continuously since 1 October 2011)

### **Václav Hrach**

Statutory Director and CFO

Position held since: 1 March 2014

## **Changes in the NET4GAS Statutory Directors**

No changes occurred in the composition of the NET4GAS Statutory Directors in 2018. On 5 October 2018, the NET4GAS Supervisory Board re-elected Andreas Rau and Václav Hrach Statutory Directors of the company for a further five-year term.

## **NET4GAS Audit Committee as of 31 December 2018**

Following the issue of investment securities accepted for trading on the regulated European market, NET4GAS has become a public interest entity within the meaning of Act No. 563/1991 Coll. on Accounting, as amended, 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.

### **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 Závitkovský**

Member of the Audit Committee

Member since: 1 June 2016

### **Changes in the NET4GAS Audit Committee**

No changes occurred in the composition of the NET4GAS Audit Committee in 2018. In line with the statutes of the Audit Committee, Michal Petrman, Stanislav Staněk and Pavel Závítkovský were re-appointed as independent members of the Audit Committee effective as of 1 June 2018. On 21 June 2018, Michal Petrman was re-elected Chairman of the Audit Committee.

## BRAWA

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

### BRAWA Supervisory Board as of 31 December 2018

#### **Martin Kolář**

Chairman of the Supervisory Board

Position held since: 2 November 2018

Membership since: 1 July 2018

(in the Supervisory Board continuously since 20 March 2012)

#### **Radek Benčík**

Vice-Chairman of the Supervisory Board

Position held since: 2 November 2018

Membership since: 1 July 2018

(in the Supervisory Board continuously since 20 March 2012)

#### **Andreas Rau**

Member of the Supervisory Board

Membership since: 19 February 2018

(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 2018. Under decisions of the sole shareholder of BRAWA, Members of the Supervisory Board were re-elected, namely Andreas Rau as of 19 February 2018, and Martin Kolář and Radek Benčík as of 1 July 2018. On 2 November 2018, Martin Kolář was re-elected Chairman and Radek Benčík Vice-Chairman of the Supervisory Board.

### BRAWA Board of Directors as of 31 December 2018

#### **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 2018.



# Consolidated Report on Operations of the NET4GAS Holdings Group 2018

## NET4GAS Group Main Financial Indicators

Selected indicators*	2018 (CZK million)
Revenue	7,334
Operating profit	4,794
Profit before taxation	3,967
Profit after taxation	3,272
Investments– capital expenditure into tangible and intangible assets	1,424

\* according to CZ GAAP

### Revenues, costs, profit

In 2018, the Group achieved a profit before taxation of CZK 3,967 million, profit after taxation was CZK 3,272 million. The operating profit of the Group amounted to CZK 4,794 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 7,388 million and operating costs were CZK 2,594 million.

### Asset structure

The total assets of the Group in 2018 amounted to CZK 43,202 million, of which fixed assets accounted for CZK 37,833 million, representing 88% of total assets. The components of these assets were tangible fixed assets valued at CZK 42,817 million, intangible fixed assets valued at CZK 147 million and a negative goodwill on consolidation amounting to CZK (5,131) million.

As of 31 December 2018, current assets amounted to CZK 5,257 million, representing 12% of total assets. Current assets comprised current financial assets (approximately 53%) and cash (approximately 25%).

### Investments

In 2018, the Group made investments in the total amount of CZK 1,424 million (additions of fixed assets at cost), of which CZK 28 million is attributable to intangible fixed assets and CZK 1,396 million to tangible fixed assets. The most significant investment of CZK 997 million was within the Capacity4Gas project.

### Structure of liabilities and equity

The Group's equity as of 31 December 2018 was CZK 6,286 million. All Group entities reported positive values of equity in their separate financial statements.

Liabilities and other liabilities amounted to CZK 36,916 million. Long-term liabilities and borrowings (particularly bonds, utilised loan, deferred taxes liability, and liabilities arising from derivative instruments) accounted for about 95%.

### Investment instruments and financial derivatives

To secure a return on its available cash during 2018, the Group made use of term deposits and bills of exchange offered by leading banking institutions. For the purpose of hedging 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 2018.

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 on research and development in 2018.

### Branches or other parts of business premises abroad

None of the companies in the Group has branches or other parts of business premises abroad.

## NET4GAS Main Financial Operations

In 2018, NET4GAS took advantage of favourable financial market conditions and, drawing on low interest rates, refinanced part of its bonds worth CZK 2.646 billion due in 2021. The new CZK bond issue matures in 2025 and bears an annual fixed coupon rate. The transaction did not change the amount of the company's debt.

S&P Global Ratings and Fitch Ratings reaffirmed NET4GAS's long-term rating at the BBB investment grade with a stable outlook. The rating continues to reflect the fact that NET4GAS possesses the financial strength to fully meet its present and future obligations in a timely manner and is prepared to carry out its planned long-term investments.

## NET4GAS Main Business Operations

The total volume of natural gas transmitted in 2018 amounted to 48.1 billion cubic meters (bcm), of which 8.2 bcm was for the Czech Republic. Compared to 2017, the total volume of transmitted gas increased by 5.6 bcm, mainly thanks to a higher volume of gas transmitted from Germany, where total entry flows amounted to 39.1 bcm. In 2018, gas transit reached its highest level in the last 14 years. Domestic transmission decreased by 0.3 bcm year-on-year, mainly on account of warmer weather compared to the preceding year.

Within its commercial activities, NET4GAS fulfilled its contractual commitments under 5,570 gas transmission agreements in 2018. Their year-on-year increase by more than 1,300 confirms the growing interest of gas traders in short-term products.

In cooperation with Gas Connect Austria GmbH, the Austrian gas transmission system operator, NET4GAS launched a one-year pilot project for a new service called Trading Region Upgrade (TRU), that connects the Austrian and Czech gas market virtually with the aim of simplifying transaction procedures and reducing transaction costs.

Moreover, in compliance with a requirement laid down in Commission Regulation (EU) 2017/459 of 16 March 2017, NET4GAS and the adjacent transmission system operators in Germany established a virtual interconnection point between the Czech Republic and the German GASPOOL market area, thus simplifying the booking of gas transmission capacity between the two market areas.

NET4GAS continued the execution of projects aimed at the development of the gas transmission system. Focus concentrated on the Capacity4Gas Project, which entered the implementation stage in 2017 following the confirmation of demand for new long-term cross-border capacity at the annual auction on the PRISMA platform. The objective of this project is to build new gas infrastructure and to interconnect it with the EUGAL pipeline in Germany. The project aims to contribute to enhancing the security of gas supply in the Czech Republic, as well as throughout Central and Eastern Europe, and at the same time further reinforce the Czech Republic's strategic role in the international gas transit. The main reason behind the project is to respond to the increasing gap between supply and demand for natural gas in Europe. The project is being executed in two stages, which are planned to be completed in 2019 and 2021.

In 2018, the fourth updated List of Projects of Common Interest (PCI) entered into effect. Introduced under Regulation of the European Parliament and of the Council (EU) No. 347/2013, the PCI List is intended to facilitate and accelerate the implementation of strategically important projects in the energy sector. As in preceding years, the European Commission included on the PCI list the Czech-Polish Gas Interconnector\* \*\* and the Bidirectional Austrian-Czech Interconnection (BACI)\* \*\*. The two projects form a part of the so-called north-south gas corridor in Central Europe. NET4GAS continued preparatory works on these projects, while a final decision on the investment has not been taken.

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

\*\*  Co-financed by the European Union  
Connecting Europe Facility

In response to an application for connection to the transmission system, a connection agreement with one new customer was entered into in 2018. The relevant project, which advanced to the preparatory stage, aims to build a direct connection between the transmission system and a gas liquefaction facility. In addition, NET4GAS received one application for the connection of a power plant / heating plant.

To ensure the safe and reliable transmission of natural gas, NET4GAS went on maintaining and upgrading the transmission system, including compressor stations. In line with the long-term transmission system maintenance plan, NET4GAS completed the first stage of a DN 700 pipeline upgrade between Hospozín and Drahelčice, and continued a DN 500 pipeline reconstruction between Olešná and Černá za Bory.

NET4GAS is also active in the area of innovation. Against the backdrop of the current debate on the transition to a low-carbon economy in Europe, NET4GAS together with innogy Česká republika a.s. decided to analyse options for greening of natural gas and demonstrate that gas is a viable alternative for storing renewable energy. The joint project combines the Power2Gas technology and biogas purification in order to produce renewable gases to be injected into the transmission and distribution systems. In 2018, the project entered its preparatory stage, where the main tasks include selecting a suitable locality and defining general technical specifications.

## **BRAWA Business Operations**

The core activity of BRAWA in 2018 was managing its property, the GAZELLE pipeline, and its lease to the transmission system operator NET4GAS.

## **Human Resources**

NET4GAS Holdings and BRAWA had no employees as of 31 December 2018.

As of 31 December 2018, NET4GAS had 526 employees, of which 19% were women. Women accounted for 15% of employees in management positions. The education structure of the company's workforce remained stable. The standard of NET4GAS employees' working and social conditions is defined under a Collective Agreement valid in 2015–2020.

As part of its human resources and social policy, NET4GAS offers its employees programmes and benefits that include, inter alia, retirement savings and life insurance contributions, restaurant vouchers, five days of vacation above the legal requirements, sick days, flexible working hours, premium healthcare, contributions to leisure activities, or assistance for families with young children. NET4GAS facilitates the return of employees to work, particularly through maintaining contact on parental leave, supporting their active participation in projects and employee events, and allowing them to work from home. As in previous years, employees had an opportunity to obtain financial support for a pre-school facility which their children attend.

Cooperation continued with schools, students, and graduates with the aim of supporting fields of study related to the company's business and fostering technical expertise. NET4GAS also continued to support the employment of handicapped persons. Every position was assessed in view of suitability for handicapped individuals and advertised as such where applicable.

## **Code of Conduct**

The Group is conscious of its role in society and its responsibility towards all its stakeholders and the environment, in which it operates. It has therefore committed itself to a clear set of principles which form a framework for its activities in the business and social spheres defined by the Code of Conduct. Adherence to the Code of Conduct is monitored by the Compliance Officer.

The conduct of the Group and the employees is based on personal responsibility, honesty, loyalty, and respect for others, their safety and the environment. The Group supports the internationally declared human rights, promotes their protection and at the same time ensures that no violation of human rights occurs in the Group. It also acts against all forms of corruption, including extortion and bribery.

The Code of Conduct forms the basis for the creation of further internal documentation and every employee is acquainted with it. Moreover, annual reporting on the implementation of the Code of Conduct is introduced. In 2018, the Compliance Officer did not receive any notification of a violation of the Code of Conduct.

## **Environmental Protection**

Close attention is also paid to environmental protection, which the Group regards not only from the viewpoint of fulfilling legal requirements, but primarily as its social responsibility. Environmental protection is taken into consideration in all decisions and processes with the aim of minimising any burden the company's operations might place.

In 2018, the Group complied with all legal requirements pertaining to environmental protection. In accordance with the requirements of the state administration and local governments, designated facilities have contingency plans to respond to accidents as per the Water Act. In 2018, the stated plans fulfilled only the role of preventative measures, as no environmental accident occurred at any Group facilities. The final reports of the state administration and local government authorities that performed inspections concluded that the Group complies with all duties arising from laws and integrated authorisations in effect.

The Group's commitment to environmental protection goes beyond the scope of legal requirements. For instance, thanks to deploying a mobile compressor to remove natural gas from a pipeline section undergoing repairs, the company saved in 2018 a total of 8,619,971 cubic meters of gas that would have otherwise been released into the atmosphere. Recycling, energy savings, and other environmentally friendly activities were and remain an integral part of the Group's operations. In 2018, the Group continued to support nature conservation and environmental protection projects under the NET4GAS Closer to Nature programme.

# Report on Relations of NET4GAS Holdings, s.r.o. 2018

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 2018 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 2018, 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 ended 31 December 2018, 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 most recent 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.

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 most recent 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 most recent accounting period form Annex No. 3 to this Report on Relations.

## 5. Acts performed in the most recent accounting period at the instigation or in the interest of controlling entities or Related Parties

In the most recent 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 most recent accounting period, 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 most recent 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 2018 accounting period, relations among the controlling entities and Related Parties were an advantage for the Company in terms of increased financial stability.

## **8. Confidentiality**

None of the information disclosed 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 12 April 2019



Andrew Cox  
Statutory Director



Mikhail Nahorny  
Statutory Director

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

Contracting party	Agreement	Date of conclusion	Details
NET4GAS, s.r.o., BRAWA, a.s. (multilateral agreement)	Amendment 001 to the Agreement Ref. No. ZBA/2017/07 on the provision of real unidirectional cash pooling	27 September 2018	The subject matter of the amendment is a formal modification of terminology.
NET4GAS, s.r.o. (multilateral agreement)	Amendment 001 to the Agreement Ref. No. ZBA/2017/08 on the provision of real unidirectional cash pooling	27 September 2018	The subject matter of the amendment is a formal modification of terminology.
NET4GAS, s.r.o. (multilateral agreement)	Amendment 001 to the Agreement Ref. No. ZBA/2017/09 on the provision of real unidirectional cash pooling	27 September 2018	The subject matter of the amendment is a formal modification of terminology.

### Orders of NET4GAS, s.r.o. at NET4GAS Holdings, s.r.o.

- Rebilling of HR agency services (two orders)



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

Contracting party	Agreement	Date of conclusion	Details
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 NET4GAS Holdings, s.r.o. by NET4GAS, s.r.o.: accounting, controlling, tax issues, cash-flow, contract management and PR service.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V. (multi-party agreement)	Parent funding agreement	9 June 2017	The subject matter of the agreement, concluded between NET4GAS Holdings, s.r.o. and Allianz Infrastructure Luxembourg I S.à r.l., Allianz Infrastructure Czech HoldCo II S.à r.l., OMERS Administration Corporation and Borealis Novus Parent B.V., is a definition of the possibility of financing NET4GAS, s.r.o. in order to meet the needs arising from the Funding Agreement on 9 June 2017.
NET4GAS, s.r.o. (multi-party agreement)	Funding agreement	9 June 2017	The subject matter of the agreement, concluded between NET4GAS Holdings, s.r.o. and NET4GAS, s.r.o., Allianz Infrastructure Luxembourg I S.à r.l. and OMERS Administration Corporation, is a definition of the possibility of financing an investment project of NET4GAS, s.r.o. by NET4GAS Holdings, s.r.o.
NET4GAS, s.r.o.	Agreement on the provision of loans as amended by Amendment No. 1 on 16 January 2014, Amendment No. 2 on 21 March 2014 and Amendment No. 3 on 16 July 2015	11 November 2013	The agreements lay down a framework for cash pooling of Czech currency (among NET4GAS Holdings, s.r.o., NET4GAS, s.r.o., and BRAWA, a.s.) and US dollars and euros (between NET4GAS Holdings, s.r.o. 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., BRAWA, a.s. (multi-party agreement)	Agreement Ref. No. ZBA/2017/07 on the provision of real unidirectional cash pooling	9 November 2017	
NET4GAS, s.r.o. (multi-party agreement)	Agreement Ref. No. ZBA/2017/08 on the provision of real unidirectional cash pooling	9 November 2017	
NET4GAS, s.r.o. (multi-party agreement)	Agreement Ref. No. ZBA/2017/09 on the provision of real unidirectional cash pooling	9 November 2017	

#### Annex No. 4 Acts performed in the most recent 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 General Meeting of the Company	20 April 2018	The subject matter of the resolution is the approval of the distribution of profit generated in 2017 and its transfer into the retained earnings.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V.	Resolution of the Executive Officers of the Company	2 August 2018	The subject matter of the resolution is the approval of the voluntary provision of contributions outside the registered capital in line with the Funding agreement on 9 June 2017 and the Parent funding agreement on 9 June 2017.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V.	Resolution of the General Meeting of the Company	7 August 2018	The subject matter of the resolution is the approval of the voluntary provision of contributions outside the registered capital in line with the Funding agreement on 9 June 2017 and the Parent funding agreement on 9 June 2017.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V.	Resolution of the Executive Officers of the Company	5 October 2018	The subject matter of the resolution is the provision of an advanced payment on dividends for the financial year 2018.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V.	Resolution of the Executive Officers of the Company	1 November 2018	The subject matter of the resolution is the approval of the voluntary provision of contributions outside the registered capital in line with the Funding agreement on 9 June 2017 and the Parent funding agreement on 9 June 2017.
Allianz Infrastructure Czech HoldCo II S.à r.l., Borealis Novus Parent B.V.	Resolution of the General Meeting of the Company	8 November 2018	The subject matter of the resolution is the approval of the voluntary provision of contributions outside the registered capital in line with the Funding agreement on 9 June 2017 and the Parent funding agreement on 9 June 2017.

## Post Balance Sheet Events

No events have occurred subsequent to year-end that would have a material impact on the consolidated annual report for the year ended 31 December 2018.

In 2019 and in the years to come, the NET4GAS Holdings Group will continue to proactively participate in shaping the European energy market and to promote the use of natural gas as the most environmentally friendly fossil fuel, as well as the increased use of “green gases” in the long term.

## 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 20 March 2019



Andrew Cox  
Statutory Director



Mikhail Nahorny  
Statutory Director

## **Annex no. 1: Consolidated Financial Statements**

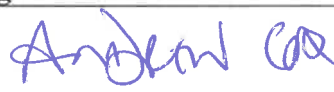

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Name of the Company:** NET4GAS Holdings, s.r.o.  
**Registered Office:** Na hřebenech II 1718/8, 140 00 Praha 4 – Nusle  
**Legal Status:** Limited Liability Company  
**Corporate ID:** 291 35 001

**Components of the Consolidated Financial Statements:**

**Consolidated Balance Sheet**  
**Consolidated Profit and Loss Account**  
**Consolidated Statement of Changes in Equity**  
**Consolidated Cash Flow Statement**  
**Notes to the Consolidated Financial Statements**

**These consolidated financial statements were prepared on 12 April 2019.**

<b>Statutory body of the reporting entity:</b>	<b>Signature</b>
Andrew Cox statutory executive	
Mikhail Nahorny statutory executive	

**CONSOLIDATED BALANCE  
SHEET**  
full version

NET4GAS Holdings, s.r.o.

Corporate ID 291 35 001

As of  
31.12.2018  
(in CZK million)

Na Hřebenech II 1718/8  
Nusle  
140 21, Praha

		31.12.2018			31.12.2017
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>69 413</b>	<b>26 211</b>	<b>43 202</b>	<b>40 147</b>
<b>B.</b>	<b>Fixed assets</b>	<b>64 043</b>	<b>26 210</b>	<b>37 833</b>	<b>37 744</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>676</i>	<i>529</i>	<i>147</i>	<i>157</i>
B.I.1.	Research and development	54	54		
B.I.2.	<i>Valuable rights</i>	<i>498</i>	<i>461</i>	<i>37</i>	<i>57</i>
B.I.2.1.	Software	491	454	37	57
B.I.2.2.	Other valuable rights	7	7		
B.I.4.	Other intangible fixed assets	99	14	85	89
B.I.5.	<i>Prepayments for intangible fixed assets and intangible fixed assets under construction</i>	<i>25</i>		<i>25</i>	<i>11</i>
B.I.5.2.	Intangible fixed assets under construction	25		25	11
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>70 405</i>	<i>27 588</i>	<i>42 817</i>	<i>43 070</i>
B.II.1.	<i>Land and structures</i>	<i>62 502</i>	<i>22 555</i>	<i>39 947</i>	<i>41 272</i>
B.II.1.1.	Land	248		248	185
B.II.1.2.	Structures	62 254	22 555	39 699	41 087
B.II.2.	Tangible movable assets and	5 994	5 033	961	1 110
B.II.4.	<i>Other tangible fixed assets</i>	<i>1</i>		<i>1</i>	<i>1</i>
B.II.4.3.	Other tangible fixed assets	1		1	1
B.II.5.	<i>Prepayments for tangible fixed assets and tangible fixed assets under construction</i>	<i>1 908</i>		<i>1 908</i>	<i>687</i>
B.II.5.1.	Prepayments for tangible fixed assets	225		225	25
B.II.5.2.	Tangible fixed assets under construction	1 683		1 683	662
	<b>Positive/negative goodwill on consolidation</b>	<b>(7 038)</b>	<b>(1 907)</b>	<b>(5 131)</b>	<b>(5 483)</b>
<b>C.</b>	<b>Current assets</b>	<b>5 258</b>	<b>1</b>	<b>5 257</b>	<b>2 286</b>
<i>C.I.</i>	<i>Inventories</i>	<i>75</i>		<i>75</i>	<i>68</i>
C.I.1.	Material	75		75	68
<i>C.II.</i>	<i>Receivables</i>	<i>1 094</i>	<i>1</i>	<i>1 093</i>	<i>905</i>
<i>C.II.2.</i>	<i>Short-term receivables</i>	<i>1 094</i>	<i>1</i>	<i>1 093</i>	<i>905</i>
C.II.2.1.	Trade receivables	283	1	282	143
C.II.2.4.	<i>Receivables - other</i>	<i>811</i>		<i>811</i>	<i>762</i>
C.II.2.4.3.	State - tax receivables	86		86	248
C.II.2.4.4.	Short-term prepayments made	2		2	2
C.II.2.4.5.	Estimated receivables	668		668	512
C.II.2.4.6.	Sundry receivables	55		55	
<i>C.III.</i>	<i>Current financial assets</i>	<i>2 787</i>		<i>2 787</i>	<i>683</i>
C.III.2.	Other current financial assets	2 787		2 787	683
<i>C.IV.</i>	<i>Cash</i>	<i>1 302</i>		<i>1 302</i>	<i>630</i>
C.IV.2.	Cash at bank	1 302		1 302	630
<b>D.</b>	<b>Other assets</b>	<b>112</b>		<b>112</b>	<b>117</b>
D.1.	Deferred expenses	110		110	117
D.3.	Accrued income	2		2	

		31.12.2018	31.12.2017
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>43 202</b>	<b>40 147</b>
<b>A.</b>	<b>Equity</b>	<b>6 286</b>	<b>3 742</b>
<i>A.II.</i>	<i>Share premium and capital funds</i>	<i>5 440</i>	<i>4 668</i>
<i>A.II.2.</i>	<i>Capital funds</i>	<i>5 440</i>	<i>4 668</i>
<i>A.II.2.1.</i>	<i>Other capital funds</i>	<i>5 389</i>	<i>4 203</i>
<i>A.II.2.2.</i>	<i>Gains or losses from the revaluation of assets and liabilities (+/-)</i>	<i>51</i>	<i>465</i>
<i>A.IV.</i>	<i>Retained earnings (+/-)</i>	<i>(926)</i>	<i>(3 867)</i>
<i>A.IV.2.</i>	<i>Accumulated losses brought forward (-)</i>	<i>(926)</i>	<i>(3 867)</i>
<i>A.V.</i>	<i>Profit or loss for the current period (+/-)</i>	<i>3 272</i>	<i>2 941</i>
<i>A.VI.</i>	<i>Profit share prepayments declared (-)</i>	<i>(1 500)</i>	
<b>B.+C.</b>	<b>Liabilities</b>	<b>36 877</b>	<b>36 376</b>
<b>B.</b>	<b>Reserves</b>	<b>176</b>	<b>158</b>
<i>B.II.</i>	<i>Income tax reserve</i>	<i>5</i>	
<i>B.IV.</i>	<i>Other reserves</i>	<i>171</i>	<i>158</i>
<b>C.</b>	<b>Payables</b>	<b>36 701</b>	<b>36 218</b>
<i>C.I.</i>	<i>Long-term payables</i>	<i>34 918</i>	<i>34 600</i>
<i>C.I.1.</i>	<i>Bonds issued</i>	<i>20 010</i>	<i>19 894</i>
<i>C.I.1.1.</i>	<i>Convertible bonds</i>	<i>20 010</i>	<i>19 894</i>
<i>C.I.2.</i>	<i>Payables to credit institutions</i>	<i>7 074</i>	<i>7 074</i>
<i>C.I.4.</i>	<i>Trade payables</i>	<i>10</i>	<i>13</i>
<i>C.I.8.</i>	<i>Deferred tax liability</i>	<i>6 566</i>	<i>6 784</i>
<i>C.I.9.</i>	<i>Payables - other</i>	<i>1 258</i>	<i>835</i>
<i>C.I.9.3.</i>	<i>Sundry payables</i>	<i>1 258</i>	<i>835</i>
<i>C.II.</i>	<i>Short-term payables</i>	<i>1 783</i>	<i>1 618</i>
<i>C.II.1.</i>	<i>Bonds issued</i>	<i>278</i>	<i>299</i>
<i>C.II.1.1.</i>	<i>Convertible bonds</i>	<i>278</i>	<i>299</i>
<i>C.II.3.</i>	<i>Short-term prepayments received</i>	<i>435</i>	<i>463</i>
<i>C.II.4.</i>	<i>Trade payables</i>	<i>197</i>	<i>238</i>
<i>C.II.8.</i>	<i>Other payables</i>	<i>873</i>	<i>618</i>
<i>C.II.8.3.</i>	<i>Payables to employees</i>	<i>24</i>	<i>24</i>
<i>C.II.8.4.</i>	<i>Social security and health insurance payables</i>	<i>13</i>	<i>12</i>
<i>C.II.8.5.</i>	<i>State - tax payables and subsidies</i>	<i>93</i>	<i>92</i>
<i>C.II.8.6.</i>	<i>Estimated payables</i>	<i>429</i>	<i>132</i>
<i>C.II.8.7.</i>	<i>Sundry payables</i>	<i>314</i>	<i>358</i>
<b>D.</b>	<b>Other liabilities</b>	<b>39</b>	<b>29</b>
<i>D.1.</i>	<i>Accrued expenses</i>	<i>29</i>	<i>16</i>
<i>D.2.</i>	<i>Deferred income</i>	<i>10</i>	<i>13</i>

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
structured by the nature of expense method

NET4GAS Holdings, s.r.o.  
Corporate ID 291 35 001

Year ended  
31.12.2018  
(in CZK million)

Na Hřebenech II 1718/8  
Nusle  
140 21, Praha

		Year ended 31.12.2018	Year ended 31.12.2017
I.	Sales of products and services	7 334	7 660
A.	Purchased consumables and services	<b>553</b>	<b>1 033</b>
A.2.	Consumed material and energy	97	566
A.3.	Services	456	467
C.	Own work capitalised (-)	(152)	(107)
D.	Staff costs	<b>597</b>	<b>551</b>
D.1.	Payroll costs	437	404
D.2.	Social security and health insurance costs and other charges	<b>160</b>	<b>147</b>
D.2.1.	Social security and health insurance costs	146	132
D.2.2.	Other charges	14	15
E.	Adjustments to values in operating activities	<b>1 887</b>	<b>2 009</b>
E.1.	Adjustments to values of intangible and tangible fixed assets	<b>1 887</b>	<b>1 992</b>
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	1 891	1 992
E.1.2.	Adjustments to values of intangible and tangible fixed assets - temporary	(4)	-
E.2.	Adjustments to values of inventories	-	17
	Release of negative goodwill on consolidation	<b>352</b>	<b>352</b>
III.	Other operating income	<b>54</b>	<b>48</b>
III.3.	Sundry operating income	54	48
F.	Other operating expenses	<b>61</b>	<b>(84)</b>
F.1.	Net book value of sold fixed assets	1	-
F.3.	Taxes and charges	11	11
F.4.	Reserves relating to operating activities and complex deferred expenses	13	(132)
F.5.	Sundry operating expenses	36	37
*	<b>Operating profit or loss (+/-)</b>	<b>4 794</b>	<b>4 658</b>
VI.	Interest income and similar income	<b>7</b>	<b>13</b>
VI.1.	Interest income and similar income - controlled or controlling entity	-	12
VI.2.	Other interest income and similar income	7	1
J.	Interest expenses and similar expenses	<b>641</b>	<b>631</b>
J.2.	Other interest expenses and similar expenses	641	631
VII.	Other financial income	318	147
K.	Other financial expenses	511	629
*	<b>Financial profit or loss (+/-)</b>	<b>(827)</b>	<b>(1 100)</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>3 967</b>	<b>3 558</b>
L.	Income tax	<b>695</b>	<b>617</b>
L.1.	Due income tax	816	695
L.2.	Deferred income tax (+/-)	(121)	(78)
**	<b>Profit or loss net of tax (+/-)</b>	<b>3 272</b>	<b>2 941</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>3 272</b>	<b>2 941</b>
*	Net turnover for the current period	<b>7 713</b>	<b>7 868</b>



**CONSOLIDATED STATEMENT OF  
CHANGES IN EQUITY**

**NET4GAS Holdings, s.r.o.**  
**Corporate ID 291 35 001**

Year ended  
31.12.2018  
(in CZK million)

Na Hřebenech II 1718/8  
Nusle  
140 21, Praha

	Other capital funds	Gains or losses from the revaluation of assets and liabilities	Retained earnings	Profit for the period	Profit shares paid	TOTAL EQUITY
<b>Balance at 31 December 2016</b>	<b>8 500</b>	<b>(1 813)</b>	<b>(1 185)</b>	<b>1 753</b>	<b>(4 407)</b>	<b>2 848</b>
Gains or loss on fair value remeasurement - fin. derivatives		2 278				2 278
Profit shares paid			(2 682)	(1 753)	4 407	(28)
Decrease in other capital funds	(4 656)					(4 656)
Increase in other capital funds	359					359
Consolidated profit for the period				2 941		2 941
<b>Balance at 31 December 2017</b>	<b>4 203</b>	<b>465</b>	<b>(3 867)</b>	<b>2 941</b>	<b>-</b>	<b>3 742</b>
Gains or loss on fair value remeasurement - fin. derivatives		(414)				(414)
Allocation of profit			2 941	(2 941)		-
Profit shares paid					(1 500)	(1 500)
Increase in other capital funds	1 186					1 186
Consolidated profit for the period				3 272		3 272
<b>Balance at 31 December 2018</b>	<b>5 389</b>	<b>51</b>	<b>(926)</b>	<b>3 272</b>	<b>(1 500)</b>	<b>6 286</b>

# CONSOLIDATED CASH FLOW STATEMENT

NET4GAS Holdings, s.r.o.  
Corporate ID 291 35 001

Year ended  
31.12.2018  
(in CZK million)

Na Hřebenech II 1718/8  
Nusle  
140 21, Praha

		Year ended 31.12.2018	Year ended 31.12.2017
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>630</b>	<b>415</b>
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	3 967	3 558
A.1.	Adjustments for non-cash transactions	2 211	2 177
A.1.1.	Depreciation of fixed assets	1 539	1 640
A.1.2.	Change in provisions and reserves	15	(115)
A.1.3.	Profit/(loss) on the sale of fixed assets	1	-
A.1.4.	Revenues from profit shares	(3)	24
A.1.5.	Interest expense and interest income	634	618
A.1.6.	Adjustments for other non-cash transactions	25	10
<b>A.*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>6 178</b>	<b>5 735</b>
A.2.	Change in working capital	(2 521)	(414)
A.2.1.	Change in operating receivables and other assets	(370)	226
A.2.2.	Change in operating payables and other liabilities	(40)	41
A.2.3.	Change in inventories	(7)	2
A.2.4.	Change in current financial assets	(2 104)	(683)
<b>A.**</b>	<b>Net cash flow from operations before tax</b>	<b>3 657</b>	<b>5 321</b>
A.3.	Interest paid	(648)	(614)
A.4.	Interest received	5	1
A.5.	Increase of financial investment	(636)	(1 108)
<b>A.***</b>	<b>Net operating cash flows</b>	<b>2 378</b>	<b>3 600</b>
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	(1 392)	(744)
<b>B.***</b>	<b>Net investment cash flows</b>	<b>(1 392)</b>	<b>(744)</b>
	<i>Cash flow from financial activities</i>		
C.2.	Impact of changes in equity	(314)	(2 641)
C.2.1.	Cash increase in share capital	1 186	359
C.2.2.	Capital payments to partners	-	(3 000)
C.2.3.	Other cash contributions made by partners	(1 500)	
<b>C.***</b>	<b>Net financial cash flows</b>	<b>(314)</b>	<b>(2 641)</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>672</b>	<b>215</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>1 302</b>	<b>630</b>

# ***Group NET4GAS Holdings***

Notes to the consolidated financial statements

31 December 2018

## **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. The identification number of the Company is 291 35 001. The Company's primary business activities are holding shares in other companies for the NET4GAS Group.

The Company's shareholders as of 31 December 2018 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 of 31 December 2018 or 31 December 2017.

Statutory Directors as of 31 December 2018:

Jaroslava Korpancová	Position held since: 15 February 2013
Kenton Edward Bradbury	Position held since: 1 July 2015
Mikhail Nahorny	Position held since: 1 July 2016
Andrew Cox	Position held since: 11 May 2017

During 2018 there was no change in the composition of the NET4GAS Holdings management.

The Company had no employees in the years ended 31 December 2018 and 2017.

### **1.2. Consolidated group description**

The consolidation group (the "Group") consists of the Consolidating Company, NET4GAS, s.r.o. and BRAWA, a.s.

NET4GAS, s.r.o. was incorporated based on the decision of the Municipal Court in Prague, Section C, Insert 108316, 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 Act No. 458/2000 Coll., on conditions for undertaking business and on the execution of state administration in the energy sector and on changes to certain decrees. The identification number of the company is 272 60 364.

BRAWA, a.s., was incorporated based on the decision of the Municipal Court in Prague, Section B, insert 16622, on 10 November 2010 and has its registered office in Prague – Nusle, Na Hřebenech II 1718/8. The company's primary business activity is the lease of real estates, flats and commercial premises. The 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. The figures presented in the 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 the elimination of mutual transactions within the Group.

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

**Group NET4GAS Holdings**

Notes to the consolidated financial statements  
for the year ended 31 December 2018

The following table provides information on the subsidiaries:

**Subsidiaries as of 31 December 2018**

<b>Name</b>	<b>NET4GAS, s.r.o.</b>	<b>BRAWA, a.s.</b>
<b>Registered office</b>	<b>Czech Republic</b>	<b>Czech Republic</b>
Acquisition cost of interest (in CZK million)	7,009	6,587
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 2018	For the period of 12 months ended 30 November 2018
Registered capital (in CZK million)	2,750	402
Equity (in CZK million)	11,431	7,122
Profit for the current period (in CZK million)	2,938	390
Total assets (in CZK million)	54,595	7,678
Consolidation method	Full	Full
Date of acquisition	2 August 2013	2 August 2013

**Subsidiaries as of 31 December 2017**

<b>Name</b>	<b>NET4GAS, s.r.o.</b>	<b>BRAWA, a.s.</b>
<b>Registered office</b>	<b>Czech Republic</b>	<b>Czech Republic</b>
Acquisition cost of interest (in CZK million)	5,824	6,732
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 2017	For the period of 12 months ended 30 November 2017
Registered capital (in CZK million)	2,750	402
Equity (in CZK million)	9,222	7,875
Profit for the current year (in CZK million)	2,643	400
Total assets (in CZK million)	51,989	8,344
Consolidation method	Full	Full
Date of acquisition	2 August 2013	2 August 2013

The reporting period of BRAWA, a.s., for 2018 began on 1 December 2017 and ended on 30 November 2018. For the preparation of the Group's consolidated financial statements as of 31 December 2018 the actual BRAWA,a.s.'s transactions for period from January to December 2018 and balances as of 31 December 2018 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 and have been prepared under the historical cost convention except as disclosed below. Derivatives and securities are stated at fair value. The consolidated financial statements are presented in millions of Czech Crowns, unless stated otherwise.

The consolidated financial statements, as well as the accompanying separate financial statements of NET4GAS Holdings, s.r.o. have been prepared for the period from 1 January 2018 to 31 December 2018. Comparatives are presented for the period from 1 January 2017 to 31 December 2017.

The consolidated financial statements were prepared based on the direct method. Their purpose is to give a true and fair view of the assets, liabilities, 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 added up the reclassified and adjusted information from its separate financial statements with the 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. 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 or 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 a shorter or longer period):

<b>Intangible fixed assets</b>	<b>Estimated useful life</b>
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 the expected future cash flows generated by the asset.

Technical improvements on intangible fixed assets exceeding CZK 10 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 the date of acquisition at market price. Liability from the emission rights is released to 'Other operating income' when the respective expenses are incurred.

The consumption of emission allowances is recorded to other operating expenses on the basis of an expert estimate of actual CO<sup>2</sup> emissions produced in the period. At the same time the emission allowances liability recorded in taxes and subsidies 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.

### **2.3. Tangible fixed assets**

All tangible assets with a useful life greater 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:

<b>Tangible fixed assets</b>	<b>Estimated useful life</b>
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 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 on tangible fixed assets exceeding CZK 40 thousand per year are capitalised.

### **2.4. Negative consolidation difference (goodwill)**

A consolidation difference (goodwill) 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 the fair values of assets and liabilities as of the date of acquisition. Revaluation of assets and liabilities of subsidiaries to fair value is performed for the purposes of calculating the consolidation difference 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 amortised in accordance with Czech Accounting Standard for Entrepreneurs 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 (see Note 5).

### **2.5. Determining the fair value**

The Group uses fair value measurement for financial derivatives.

The Group uses the discounted cash-flow model for determining the fair values of currency forwards and currency interest rate swaps, with the exclusive use of market parameters.

## **2.6. Inventories**

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

A provision is created based on an individual evaluation of inventories.

## **2.7. 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.

## **2.8. Prepaid expenses**

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

## **2.9. 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.

## **2.10. 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 of 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 of the balance sheet date. All exchange rate 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 a foreign currency and, therefore, these assets are translated using the exchange rates as published by the Czech National Bank as of the balance sheet date.

## **2.11. Derivative financial instruments**

Derivative financial instruments including currency forwards and currency 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 by applying discounted cash flow models, with the exclusive use of market parameters. All derivatives are presented in other long-term and short-term receivables or 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 the 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 rate 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 gains or losses arising from the revaluation of assets and liabilities in equity and are 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, as applicable.

## **2.12. 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 amortised cost.

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

Foreign exchange rate gains or losses arising from the revaluation of foreign currency bonds and other borrowings, including discounts on the repayment of bonds and other borrowings that met the criteria of effective cash flow hedges, are recognised 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 the profit and loss statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in other comprehensive income is immediately transferred to profit or loss within 'Other financial expense (income)'.

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

## **2.13. Equity**

The Group's decision to pay an interim profit distribution is reflected in the accounting as a decrease in equity and is presented in 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 of the balance sheet date if the Group incurs a loss or achieves lower profit than the value of the originally paid interim profit distribution.

## **2.14. 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 of the balance sheet date that they will be incurred, however their precise amount or timing is not known. The provision recognised as of 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.

### **2.15. Employment benefits**

The Group recognises a provision for employees' outstanding vacation days and bonuses.

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

### **2.16. Revenue recognition**

Companies in the Group recognise as revenue mainly income for 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.

### **2.17. Subsidies**

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

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

### **2.18. 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.

### **2.19. 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.

### **2.20. Interest expense**

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

### **2.21. 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 relief. 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 to equity, is also recognised directly in equity.

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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 intercompany transactions.

**2.22. Subsequent events**

The effects of events which occurred between the balance sheet date and the date of preparation of the consolidated financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as of 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 2018	Additions / transfers	Disposals	31 December 2018
<b>Cost</b>				
Research & development	54	0	0	54
Software	496	14	(19)	491
Other royalties	7	0	0	7
Other intangible fixed assets	100	0	(1)	99
Intangible fixed assets in the course of construction	11	14	0	25
<b>Total</b>	<b>668</b>	<b>28</b>	<b>(20)</b>	<b>676</b>
<b>Accumulated amortisation</b>				
Research & development	(54)	0	0	(54)
Software	(439)	(34)	19	(454)
Other royalties	(7)	0	0	(7)
Other intangible fixed assets	(11)	(3)	0	(14)
<b>Total</b>	<b>(511)</b>	<b>(37)</b>	<b>19</b>	<b>(529)</b>
<b>Net book value</b>	<b>157</b>			<b>147</b>

(CZK million)	1 January 2017	Additions / transfers	Disposals	31 December 2017
<b>Cost</b>				
Research & development	54	0	0	54
Software	458	38	0	496
Other royalties	7	0	0	7
Other intangible fixed assets	106	2	(8)	100
Intangible fixed assets in the course of construction	21	(10)	0	11
<b>Total</b>	<b>646</b>	<b>30</b>	<b>(8)</b>	<b>668</b>
<b>Accumulated amortisation</b>				
Research & development	(52)	(2)	0	(54)
Software	(403)	(36)	0	(439)
Other royalties	(7)	0	0	(7)
Other intangible fixed assets	(8)	(3)	0	(11)
<b>Total</b>	<b>(470)</b>	<b>(41)</b>	<b>0</b>	<b>(511)</b>
<b>Net book value</b>	<b>176</b>			<b>157</b>

As of 31 December 2018, other intangible fixed assets included CZK 78 million relating to emission allowances (as of 31 December 2017: CZK 80 million).

#### 4. **Tangible fixed assets**

(CZK million)	1 January 2018	Additions / transfers	Disposals	31 December 2018
<b>Cost</b>				
Land	185	63	0	248
Constructions	61,994	260	0	62,254
Equipment	5,950	52	(8)	5,994
Other tangible fixed assets	1	0	0	1
Advances paid for tangible fixed assets	25	200	0	225
Tangible fixed assets in the course of construction	662	1,021	0	1,683
<b>Total</b>	<b>68,817</b>	<b>1,596</b>	<b>(8)</b>	<b>70,405</b>
<b>Accumulated depreciation</b>				
Constructions	(20,804)	(1,652)	0	(22,456)
Equipment	(4,840)	(201)	8	(5,033)
Provision for constructions	(103)	4	0	(99)
<b>Total</b>	<b>(25,747)</b>	<b>(1,849)</b>	<b>8</b>	<b>(27,588)</b>
<b>Net book value</b>	<b>43,070</b>			<b>42,817</b>

(CZK million)	1 January 2017	Additions / transfers	Disposals	31 December 2017
<b>Cost</b>				
Land	184	1	0	185
Constructions	61,709	289	(4)	61,994
Equipment	5,774	226	(50)	5,950
Other tangible fixed assets	1	0	0	1
Advances paid for tangible fixed assets	9	16	0	25
Tangible fixed assets in the course of construction	461	201	0	662
<b>Total</b>	<b>68,138</b>	<b>733</b>	<b>(54)</b>	<b>68,817</b>
<b>Accumulated depreciation</b>				
Constructions	(19,058)	(1,748)	2	(20,804)
Equipment	(4,678)	(165)	3	(4,840)
Provision for constructions	(100)	(3)	0	(103)
<b>Total</b>	<b>(23,836)</b>	<b>(1,916)</b>	<b>5</b>	<b>(25,747)</b>
<b>Net book value</b>	<b>44,302</b>			<b>43,070</b>

#### 5. **Negative consolidation difference (goodwill)**

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 in NET4GAS, s.r.o. and their valuation reflecting the shareholding of the Consolidating Company in equity, which value was determined as the difference between the fair values of assets and liabilities as of the date of the acquisition. The negative consolidation difference is amortised on a straight-line basis over 20 years. The total balance of the negative consolidation difference is CZK 5,131 million as of 31 December 2018 (as of 31 December 2017: CZK 5,483 million).

#### 6. **Receivables**

Overdue receivables as of 31 December 2018 amounted to CZK 240 million (as of 31 December 2017 CZK 137 million).

As of 31 December 2018, receivables were not covered by material guarantees and none of them had maturities greater than 5 years (as of 31 December 2017 no receivables had maturities greater than 5 years).

The Group has no receivables or contingent receivables not included in the balance sheet.

Advances for income tax of CZK 830 million paid by NET4GAS, s.r.o. as of 31 December 2018 (as of 31 December 2017: CZK 892 million) were offset against the provision for income tax of CZK 803 million as of 31 December 2018 (as of 31 December 2017: CZK 692 million).

Advances for income tax of CZK 4 million paid by BRAWA, a.s. as of 31 December 2018 (as of 31 December 2017: CZK 5 million) were offset against the provision for income tax of CZK 9 million as of 31 December 2018 (as of 31 December 2017: CZK 3 million).

Analysis of the change in the provision for doubtful receivables:

<b>(CZK million)</b>	<b>2018</b>	<b>2017</b>
<b>Opening balance as of 1 January</b>	<b>1</b>	<b>1</b>
Charge for the year	0	0
Released during the year	0	0
<b>Closing balance as of 31 December</b>	<b>1</b>	<b>1</b>

A significant portion of overdue receivables is subject to arbitration proceedings and is not impaired because management believes that the amount will be paid by the customer in full.

## **7. Prepaid expenses**

Prepaid expenses as of 31 December 2018 and 31 December 2017 among others represent expenses related to the acquisition of bank loans which will be charged to the income statement over the duration of individual facilities.

Prepaid expenses were as follows:

<b>(CZK million)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Bank loans	13	16
Other prepaid expenses	97	101
<b>Total</b>	<b>110</b>	<b>117</b>

For information about bonds and bank loans see Note 11 Bank loans and other borrowings.

## **8. Equity**

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 can be obtained on Company's web page.

The Group records equity of CZK 6,286 million as of 31 December 2018 (as of 31 December 2017: CZK 3,742 million). All Group companies recognised positive equity in their separate financial statements as of 31 December 2018 and 31 December 2017.

Information on the Company's shareholders is disclosed in Note 1.

Gains or losses from the revaluation of assets and liabilities represent changes in the fair values of derivatives which are classified as cash flow hedges (see Note 13).

On 20 April 2018, the general meeting of shareholders approved the financial statements for 2017 and decided about the allocation of profit generated in 2017 of CZK 1,635 million (20 June 2017: CZK 4,435 million).

In 2018, an advance profit distribution payment in the amount of CZK 1,500 million was paid. In 2017, no advance profit distribution payment was paid.

Increase / decrease in capital contributions outside the registered capital

<b>Month/Year</b>	<b>(CZK million)</b>	<b>Comments on the settlement of the increase / decrease</b>
June 2017	(1,655)	After the offset with the approved 2017 profit distribution and advances paid on the 2016 profit distribution liability, the amount of CZK 27,439 thousand remained and was offset with the loan receivable from shareholders.
June 2017	(3,000)	Cash payment
November 2017	359	Cash received*
<b>Total decrease in 2017</b>	<b>(4,296)</b>	
August 2018	548	Cash received*
November 2018	638	Cash received*
<b>Total increase in 2018</b>	<b>1,186</b>	

\* For the purposes of the Capacity4Gas project funding, a Funding Agreement was concluded based on which the sole shareholder increased other capital funds.

## 9. Provisions

<b>(CZK million)</b>	<b>Income tax provision</b>		<b>Total</b>
	<b>Other provisions</b>	<b>net of advances</b>	
<b>Opening balance as of 1 January 2017</b>	<b>289</b>	<b>176</b>	<b>465</b>
Charge for the year	57	0	57
Released in the year	(169)	0	(169)
Used in the year	(19)	(176)	(195)
<b>Closing balance as of 31 December 2017</b>	<b>158</b>	<b>0</b>	<b>158</b>
Charge for the year	72	5	77
Released in the year	(2)	0	(2)
Used in the year	(57)	0	(57)
<b>Closing balance as of 31 December 2018</b>	<b>171</b>	<b>5</b>	<b>176</b>

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

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

New cross-border capacity was offered and successfully marketed at the annual capacity auction on 6 March 2017, which was a result of the joint efforts between German and Slovak transmission system operators and NET4GAS. Based on the results of this auction, the Group is ready to invest into relevant new gas infrastructure in the Czech Republic in the upcoming years. In connection with this construction, the Group resolved to continue operating these compressor stations, reassessed their useful lives and released the provision for liquidation and the provision for restructuring.

## 10. Payables

Payables are not covered by material guarantees and none of their maturities are greater than 5 years.

Long-term payables include:

- Debentures and bonds issued (Note 11);
- Long-term trade payables – retention;
- Deferred tax liability; and
- Other long-term payables – long-term payables from financial derivatives.

Short-term payables include:

- Payables from future coupon payments from issued bonds (Note 11);
- Short-term advances received – mainly advance payments received for the transportation of gas;
- Trade payables; and
- Other short-term payables:

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- As of 31 December 2018, they mainly included unbilled supplies of services, material and fixed assets (estimated payables) in the amount of CZK 478,831 million (as of 31 December 2017: CZK 181,720 million), short-term payables arising from financial derivatives in the amount of CZK 231 million (as of 31 December 2017: CZK 209 million) and deposits received from customers as of 31 December 2018 in the amount of CZK 81 million (as of 31 December 2017: CZK 148 million).

In addition, they included subsidies received from the European Commission based on its decision to grant financial aid for projects of mutual interest in the field of Trans-European energy networks. In 2018, the grant amounted to CZK 10 million (as of 31 December 2017: CZK 7 million).

As of the financial statements date, the Group recorded 'Liabilities due to government – taxes and subsidies' of CZK 78 million (as of 31 December 2017: CZK 80 million) relating to emission allowances not consumed as of the balance sheet date.

The Company provided no material guarantees not recorded in the balance sheet.

**11. Bank loans and other borrowings**

Analysis of bank loans:

<b>(CZK million)</b>	<b>Interest rate (%)</b>	<b>Currency</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
A consortium of banks	1M PRIBOR + margin	CZK	7,074	7,074
<b>Total bank loans</b>			<b>7,074</b>	<b>7,074</b>

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

In May 2017, the USD bank borrowing was repaid (replaced with a new CZK bank borrowing). The cumulative loss in equity (hedge accounting) remained in equity and will be expensed as incurred (based on an effectiveness test conducted as of the repayment date, until March 2030).

The Group's bonds issued are as follows:

	<b>Nominal amount of issue</b>	<b>Due date</b>	<b>Annual coupon repayment date</b>	<b>31 December 2018 (CZK million)</b>	<b>31 December 2017 (CZK million)</b>
Bond EUR, serial no. 1, ISIN XS1090450047	EUR 300,000,000	28 July 2021	Each 28 July in arrears	7,762	7,693
Bond EUR, serial no. 2, ISIN XS1090449627	EUR 160,000,000	28 July 2026	Each 28 July. in arrears	4,149	4,116
Bond CZK, serial no. 3, ISIN XS1090620730	CZK 7,000,000,000	28 Jan 2021	Each 28 Jan in arrears	0	7,097
	CZK 4,354,300,000*			4,424	0
Bond EUR, serial no. 4, ISIN XS1172113638	EUR 50,000,000	28 July 2026	Each 28 July in arrears	1,296	1,287
Bond CZK, domestic, ISIN CZ0003519472	CZK 2,643,000,000	17 July 2025	Each 17 July in arrears	2,657	0
<b>Total bonds</b>				<b>20 288</b>	<b>20,193</b>

\* As of 17 July 2018, a portion of the CZK bonds in the amount of CZK 2,645,700,000 were repaid prematurely and therefore the original nominal value of CZK 7,000,000,000 was reduced to CZK 4,354,300,000.

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

The bonds with serial n. 1 – 3 were accepted for trading on a regulated market of the Irish Stock Exchange PLC on 28 July 2014. The 2015 bonds, serial n. 4, were issued via private placement. The domestic "CZ" bond was accepted for trading on a regulated market of the Prague Stock Exchange on 17 July 2018. 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 of 31 December 2018.

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

As of 31 December 2018 the Group has contractual capital expenditure commitments in the amount of CZK 3,277 million (31 December 2017: CZK 477 million). These are primarily commitments related to the Capacity4Gas project in the amount of CZK 977 million and the Czech-Polish Interconnector gas pipeline in the amount of CZK 36 million.

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

<b>(CZK million)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Current within one year	75	73
<b>Total commitments in respect of operational leases</b>	<b>75</b>	<b>73</b>

## 13. Derivative financial instruments

The Group uses financial derivatives with creditworthy banks for hedging 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 mainly influenced by developments in foreign exchange rates.

### 13.1. Derivatives held for trading

The Group had two outstanding receivables from currency forwards in the amount of CZK 473 thousand as of 31 December 2018 (as of 31 December 2017: no outstanding receivable from currency forwards).

<b>(CZK million)</b>	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Trade with positive fair value</b>	<b>Trade with negative fair value</b>	<b>Trade with positive fair value</b>	<b>Trade with negative fair value</b>
<b>Currency forwards: fair value for the year:</b>				
- CZK receivables to be settled	100	0	0	0
- EUR liabilities to be settled	(100)	0	0	0
<b>Fair value of foreign exchange forwards</b>				
- current	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Changes in the fair value of derivatives held for trading are recorded in the income statement:

<b>(CZK million)</b>	<b>2018</b>	<b>2017</b>
<b>As of 1 January</b>	0	0
Fair value of currency swaps acquired during the year	30	(37)
Fair value of currency swaps settled during the year	(30)	37
<b>As of 31 December</b>	<b>0</b>	<b>0</b>

### 13.2 Derivatives meeting the criteria for hedge accounting

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

As of 31 December 2018 and 31 December 2017, derivatives were revalued at fair value, with the positive and negative fair values of derivatives being included in other receivables and other payables respectively.

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

The following table summarises the face values and the positive or negative values of outstanding hedging derivatives as of 31 December 2018:

<b>(CZK million)</b>	<b>31 December 2017</b>		
	<b>Fair value</b>		<b>Nominal value</b>
	<b>Positive</b>	<b>Negative</b>	
Currency interest rate swaps	0	1,489	10,547 (EUR 410 million)
<b>Total cash flow hedging derivatives</b>	<b>0</b>	<b>1,489</b>	<b>10,547</b>

\* Of which CZK 231 million represents the current portion and CZK 1,258 million represents the non-current portion.

The following table summarises the face values and the positive or negative values of outstanding hedging derivatives as of 31 December 2017:

<b>(CZK million)</b>	<b>31 December 2017</b>		
	<b>Fair value</b>		<b>Nominal value</b>
	<b>Positive</b>	<b>Negative</b>	
Currency interest rate swaps	0	1,044	10,471 (EUR 410 million)
<b>Total cash flow hedging derivatives</b>	<b>0</b>	<b>1,044</b>	<b>10,471</b>

\* Of which CZK 209 million represents the short-term portion and CZK 835 million represents the long-term portion.

Changes in the fair value of interest rate derivatives recorded in equity:

<b>(CZK million)</b>	<b>2018</b>	<b>2017</b>
<b>Opening balance as of 1 January</b>	(1,044)	(2,770)
<b>Charge for the year (+/-)</b>	(445)	1,726
<b>Closing balance as of 31 December</b>	<b>(1,489)</b>	<b>(1,044)</b>

## **14. Related party transactions**

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

### **14.1 Loans from related parties**

The Group had no payables to related parties as of 31 December 2018 and 31 December 2017.

### **14.2 Borrowings to related parties**

The Group had no receivables from related parties as of 31 December 2018 and 31 December 2017.

Interest income related to short-term loans to related parties amounted to CZK 0 million in 2018 (2017: CZK 12 million). This interest income was related to the loan which was repaid during 2017.

No loans were provided in 2018 and 2017 to the Company's statutory directors, members of the supervisory board and other members of management.

## 15. Employees

	2018		2017	
	number	(CZK million)	number	(CZK million)
Salaries to key management	16	59	16	62
Wages and salaries to other employees	510	378	505	342
Social security costs	0	146	0	132
Other social costs	0	14	0	15
<b>Wages and salaries total</b>	<b>526</b>	<b>597</b>	<b>521</b>	<b>551</b>

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 13 million (2017: CZK 12 million).

The foreign members of Group management were provided with accommodation, with the related rent totalling CZK 2 million in 2018 (2017: CZK 2 million).

## 16. Income tax

The income tax expense analysis:

(CZK million)	2018	2017
Current tax expense (19%)	812	695
Deferred tax expense	(121)	(78)
Adjustment of prior year tax expense based on final current income tax return	4	0
<b>Total income tax expense</b>	<b>695</b>	<b>617</b>

The current tax analysis:

(CZK million)	2018	2017
Net profit before taxation	3,967	3,558
Difference between accounting and tax depreciation/amortisation	626	538
Tax non-deductible expenses	44	(83)
Gifts	(4)	(3)
Amortisation of negative consolidation difference	(352)	(352)
Net taxable profit	4,281	3,658
<b>Current income tax at 19 %</b>	<b>812</b>	<b>695</b>

The deferred tax asset/ (liability) analysis:

(CZK million)	31 December 2018	31 December 2017
<b>Deferred tax liability arising from:</b>		
Difference between accounting and tax net book value of fixed assets	(6,605)	(6,725)
Cash flow hedges	(12)	(109)
<b>Total deferred tax liability</b>	<b>(6,617)</b>	<b>(6,834)</b>
<b>Deferred tax asset arising from:</b>		
Other provisions and allowances	51	50
Tax losses (NET4GAS Holdings, s.r.o.)	138	254
Not recorded deferred tax receivable from NET4GAS Holdings, s.r.o.	(138)	(254)
<b>Total deferred tax asset</b>	<b>51</b>	<b>50</b>
<b>Net deferred tax asset liability</b>	<b>(6,566)</b>	<b>(6,784)</b>

The income tax rate of 19% was used for the calculation as of 31 December 2018 and 2017.

A potential net deferred tax asset of CZK 138 million as of 31 December 2018 (as of 31 December 2017: CZK 254 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.

NET4GAS Holdings, s.r.o. had tax losses as of 31 December 2018 of CZK 1,337 million, which can be gradually utilised until 2022.

### **17. Audit costs and other services provided by the statutory auditor**

<b>(CZK million)</b>	<b>2018</b>	<b>2017</b>
Statutory audits of Group companies and related services	2	3.1
Agreed upon procedures related to grants received from the European Commission	0	0.1
Other non-audit services	0	0.1
<b>Total</b>	<b>2</b>	<b>3.3</b>

### **18. Revenue analysis**

Revenue analysis:

<b>(CZK million)</b>	<b>2018</b>	<b>2017</b>
Transportation		
- Foreign customers	6,205	5,871
- Domestic customers	1,129	1,566
Other – Domestic	0	263
<b>Revenues from the sale of own products and services</b>	<b>7,334</b>	<b>7,660</b>
Other operating income	54	48
<b>Other operating income total</b>	<b>7,388</b>	<b>7,708</b>
Interest and similar income - subsidiaries or controlling party	0	12
Other interest and similar income	7	1
Other financial income	318	147
<b>Net turnover for the financial period</b>	<b>7,713</b>	<b>7,868</b>

### **19. Subsequent events**

No events occurred subsequent to the year-end that would have a material impact on the consolidated financial statements for the year ended 31 December 2018.

## **Annex no. 2: Separate Financial Statements**

**SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2018**

**Name of the Company:** NET4GAS Holdings, s.r.o.  
**Registered Office:** Na hřebenech II 1718/8, 140 00 Praha 4 - Nusle  
**Legal Status:** Limited Liability Company  
**Corporate ID:** 291 35 001

**Components of the Separate Financial Statements:**

**Balance Sheet**



**Profit and Loss Account**

**Statement of Changes in Equity**

**Cash Flow Statement**

**Notes to the Separate Financial Statements**

**These separate financial statements were prepared on 12 April 2019.**

<b>Statutory body of the reporting entity:</b>	<b>Signature</b>
Andrew Cox statutory executive	
Mikhail Nahorny statutory executive	

**BALANCE SHEET**  
full version

NET4GAS Holdings, s.r.o.  
Corporate ID 291 35 001

As of  
31.12.2018  
(in CZK thousand)

Na Hřebenech II 1718/8  
140 00 Praha 4 - Nusle

		31.12.2018			31.12.2017
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>7 028 284</b>		<b>7 028 284</b>	<b>5 846 072</b>
<b>B.</b>	<b>Fixed assets</b>	<b>7 009 003</b>		<b>7 009 003</b>	<b>5 823 939</b>
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>7 009 003</i>		<i>7 009 003</i>	<i>5 823 939</i>
B.III.1.	Equity investments - controlled or controlling entity	7 009 003		7 009 003	5 823 939
<b>C.</b>	<b>Current assets</b>	<b>19 259</b>		<b>19 259</b>	<b>22 130</b>
<i>C.II.</i>	<i>Receivables</i>	<i>19 259</i>		<i>19 259</i>	<i>22 130</i>
<i>C.II.2.</i>	<i>Short-term receivables</i>	<i>19 259</i>		<i>19 259</i>	<i>22 130</i>
C.II.2.2.	Receivables - controlled or controlling entity	19 242		19 242	21 761
C.II.2.4.	<i>Receivables - other</i>	<i>17</i>		<i>17</i>	<i>369</i>
C.II.2.4.3.	State - tax receivables	17		17	369
<b>D.</b>	<b>Other assets</b>	<b>22</b>		<b>22</b>	<b>3</b>
D.3.	Accrued income	22		22	3

		31.12.2018	31.12.2017
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>7 028 284</b>	<b>5 846 072</b>
<b>A.</b>	<b>Equity</b>	<b>5 519 927</b>	<b>5 838 916</b>
<i>A.I.</i>	<i>Share capital</i>	200	200
A.I.1.	Share capital	200	200
<i>A.II.</i>	<i>Share premium and capital funds</i>	<b>5 388 526</b>	<b>4 203 462</b>
A.II.2.	<i>Capital funds</i>	<b>5 388 526</b>	<b>4 203 462</b>
A.II.2.1.	Other capital funds	5 388 526	4 203 462
<i>A.IV.</i>	<i>Retained earnings (+/-)</i>	<b>1 635 254</b>	
A.IV.1.	Accumulated profits brought forward	1 635 254	
<i>A.V.</i>	<i>Profit or loss for the current period (+/-)</i>	<b>-4 053</b>	<b>1 635 254</b>
A.VI.	Profit share prepayments declared (-)	-1 500 000	
<b>B.+C.</b>	<b>Liabilities</b>	<b>1 508 352</b>	<b>7 154</b>
<b>C.</b>	<b>Payables</b>	<b>1 508 352</b>	<b>7 154</b>
C.II.	<i>Short-term payables</i>	<b>1 508 352</b>	<b>7 154</b>
C.II.4.	Trade payables	296	1 303
C.II.6.	Payables - controlled or controlling entity	7 906	5 151
C.II.8.	<i>Other payables</i>	<b>1 500 150</b>	<b>700</b>
C.II.8.1.	Payables to partners	1 500 000	
C.II.8.6.	Estimated payables	150	700
<b>D.</b>	<b>Other liabilities</b>	<b>5</b>	<b>2</b>
D.1.	Accrued expenses	5	2



**PROFIT AND LOSS ACCOUNT**  
structured by the nature of expense method

NET4GAS Holdings, s.r.o.  
Corporate ID 291 35 001

Year ended  
31.12.2018  
(in CZK thousand)

Na Hřebenech II 1718/8  
140 00 Praha 4 - Nusle

		Year ended 31.12.2018	Year ended 31.12.2017
A.	Purchased consumables and services	3 979	8 228
A.3.	Services	3 979	8 228
F.	Other operating expenses	6	
F.5.	Sundry operating expenses	6	
*	<b>Operating profit or loss (+/-)</b>	<b>-3 985</b>	<b>-8 228</b>
IV.	Income from non-current financial assets - equity investments		1 671 390
IV.1.	Income from equity investments - controlled or controlling entity		1 671 390
VI.	Interest income and similar income	139	12 027
VI.1.	Interest income and similar income - controlled or controlling entity	139	12 027
J.	Interest expenses and similar expenses	43	1 604
J.1.	Interest expenses and similar expenses - controlled or controlling entity	43	1 604
VII.	Other financial income	32 376	
K.	Other financial expenses	32 540	38 331
*	<b>Financial profit or loss (+/-)</b>	<b>-68</b>	<b>1 643 482</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>-4 053</b>	<b>1 635 254</b>
**	<b>Profit or loss net of tax (+/-)</b>	<b>-4 053</b>	<b>1 635 254</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>-4 053</b>	<b>1 635 254</b>
*	Net turnover for the current period	32 515	1 683 417

**STATEMENT OF  
CHANGES IN EQUITY**

**NET4GAS Holdings, s.r.o.**  
**Corporate ID 291 35 001**

Year ended  
31.12.2018  
(in CZK thousand)

Na Hřebenech II 1718/8  
140 00 Praha 4 - Nusle

	Share capital	Other capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Profit share prepayments	Profit or loss for the current period	Profit share prepayments declared	TOTAL EQUITY
<b>Balance at 31 December 2016</b>	<b>200</b>	<b>8 500 000</b>		<b>4 434 685</b>	<b>-4 407 246</b>			<b>8 527 639</b>
Profit shares paid				-4 434 685	4 407 246			-27 439
Decrease in other capital funds		-4 655 434						-4 655 434
Increase in other capital funds		358 896						358 896
Profit or loss for the current period				1 635 254				1 635 254
<b>Balance at 31 December 2017</b>	<b>200</b>	<b>4 203 462</b>		<b>1 635 254</b>				<b>5 838 916</b>
Profit share prepayments declared							-1 500 000	-1 500 000
Increase in other capital funds		1 185 064						1 185 064
Profit or loss for the current period						-4 053		-4 053
<b>Balance at 31 December 2018</b>	<b>200</b>	<b>5 388 526</b>		<b>1 635 254</b>		<b>-4 053</b>	<b>-1 500 000</b>	<b>5 519 927</b>

# CASH FLOW STATEMENT

NET4GAS Holdings, s.r.o.  
Corporate ID 291 35 001

Year ended  
31.12.2018  
(in CZK thousand)

Na Hřebenech II 1718/8  
140 00 Praha 4 - Nusle

		Year ended 31.12.2018	Year ended 31.12.2017
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>		
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	-4 053	1 635 254
A.1.	Adjustments for non-cash transactions	-151	-1 680 234
A.1.4.	Revenues from profit shares		-1 671 390
A.1.5.	Interest expense and interest income	-95	-10 423
A.1.6.	Adjustments for other non-cash transactions	-56	1 579
<b>A.*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>-4 204</b>	<b>-44 980</b>
A.2.	Change in working capital	-1 206	34 732
A.2.1.	Change in operating receivables and other assets	351	12 316
A.2.2.	Change in operating payables and other liabilities	-1 557	22 416
<b>A.**</b>	<b>Net cash flow from operations before tax</b>	<b>-5 410</b>	<b>-10 248</b>
A.3.	Interest paid	-40	-104
A.4.	Interest received	120	37
A.7.	Increase of financial investment	1 500 000	
A.8.	Income tax paid from ordinary operations	-1 185 064	-354 629
A.9.	Income tax paid from ordinary operations		3 000 000
<b>A.***</b>	<b>Net operating cash flows</b>	<b>309 606</b>	<b>2 635 056</b>
	<i>Cash flows from investing activities</i>		
B.3.	Loans and borrowings to related parties	2 575	3 703
<b>B.***</b>	<b>Net investment cash flows</b>	<b>2 575</b>	<b>3 703</b>
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	2 755	2 345
C.2.	Impact of changes in equity	-314 936	-2 641 104
C.2.1.	Cash increase in share capital	1 185 064	358 896
C.2.2.	Capital payments to partners		-3 000 000
C.2.3.	Other cash contributions made by partners	-1 500 000	
<b>C.***</b>	<b>Net financial cash flows</b>	<b>-312 181</b>	<b>-2 638 759</b>

***NET4GAS Holdings, s.r.o.***

Notes to the separate financial statements

31 December 2018

**NET4GAS Holdings, s.r.o.**

Notes to the separate financial statements  
for the year ended 31 December 2018

**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 its 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 of 31 December 2018 or 31 December 2017.

Statutory Directors as of 31 December 2018:

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Jaroslava Korpancová	Position held since: 15 February 2013
Kenton Edward Bradbury	Position held since: 1 July 2015
Mikhail Nahorny	Position held since: 1 July 2016
Andrew Cox	Position held since: 11 May 2017

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There were no employees in the period ending 31 December 2018 and 2017.

The Company updated its Articles of Association that are now fully governed by the new Corporations Act. This fact became effective as of 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. Investments in subsidiaries**

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

Investments in subsidiaries are stated at cost less impairment, if any.

### **2.3. 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.

### **2.4. 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 of 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 of the balance sheet date. All exchange rate gains and losses on cash, receivables and liabilities balances are recorded in the income statement and presented net.

### **2.5. 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 - Less advances on profit distribution paid. Such an advances on profit distribution paid or a part thereof is classified as a receivable from shareholders as of the balance sheet date if the Company incurs a loss or achieves lower profit than the value of the originally paid advance profit distribution.

### **2.6. 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 associates and joint-venture companies.

Material transactions and outstanding balances with related parties are disclosed in Note 8.

### **2.7. Interest expense**

All borrowing costs are expensed.

**NET4GAS Holdings, s.r.o.**

Notes to the separate financial statements  
for the year ended 31 December 2018

**2.8. 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.

**2.9. Cash-flow statement**

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 Company has prepared a Cash-flow statement using the indirect method.

**2.10. 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 of 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.

## **NET4GAS Holdings, s.r.o.**

Notes to the separate financial statements  
for the year ended 31 December 2018

### **3. Investments in subsidiaries**

(CZK thousand)			2018 net		2018 profit	2018 advance
31 December 2018	Cost	Share (%)	profit	Net assets	distribution	profit distribution
					income	received
<b>Czech entities</b>						
NET4GAS, s.r.o.	7,009,003	100 %	2,937,864	11,430,551	-	1,500,000
<b>Total</b>	<b>7,009,003</b>	<b>100 %</b>	<b>2,937,864</b>	<b>11,430,551</b>	<b>-</b>	<b>1,500,000</b>

(CZK thousand)			2017 net		2017 profit	2017 advance
31 December 2017	Cost	Share (%)	profit	Net assets	distribution	profit distribution
					income	received
<b>Czech entities</b>						
NET4GAS, s.r.o.	5,823,939	100 %	2,642,737	9,222,342	21,390	-
<b>Total</b>	<b>5,823,939</b>	<b>100 %</b>	<b>2,642,737</b>	<b>9,222,342</b>	<b>21,390</b>	<b>-</b>

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 Act No. 458/2000 Coll., on conditions for undertaking business and on the execution of state administration in the energy sector and on changes to certain decrees. The identification number of the company is 272 60 364.

On 13 August 2018 it was decided about the increase of other contributions outside the registered capital of NET4GAS, s.r.o. in the amount of CZK 547,256 thousand and on 15 November 2018 about the increase of other contributions outside the registered capital of NET4GAS, s.r.o. in the amount of CZK 637,808 thousand. The transfer was done on 14 August 2018 and on 21 November 2018.

NET4GAS's profit for 2017 in the amount of CZK 2,642,737 thousand was transferred to retained earnings of NET4GAS, s.r.o. and it was not distributed in 2018 (on 16 June 2017 NET4GAS distributed CZK 21,390 thousand after taking into account the advances on profit distribution paid in 2016).

On 5 October 2018 the Company as a sole shareholder of NET4GAS, s.r.o. decided about the advance profit distribution payment of CZK 1,500,000 thousand. The transfer was done on 11 December 2018. In 2017, no advance profit distribution payment was made.

### **4. Receivables**

The Company has no overdue receivables.

Receivables are not covered by material guarantees and none of their maturities are greater than 5 years.

The Company has no receivables or contingent receivables which are not included in the balance sheet.



## 5. Equity

The shareholders:

(in %)	31 December 2018	31 December 2017
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
<b>Total</b>	<b>100</b>	<b>100</b>

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.

On 20 April 2018 the general meeting of shareholders approved the financial statements for 2017 and decided about the transfer of profit earned in 2017 of CZK 1,635,255 thousand to retained earnings of the previous years. (On 20 June 2017, the general meeting of shareholders decided about the allocation of the 2016 profit in the amount of CZK 4,434,685 thousand.)

As of the date of preparation of these financial statements, the Company had yet to propose the distribution of the profit generated in 2018.

In 2018, an advance profit distribution payment in the amount of CZK 1,500,000 thousand was made. In 2017, no advance profit distribution payment was paid.

Increase / decrease in Capital contributions outside registered capital

<i>Month/Year</i>	<i>(CZK thousand)</i>	<i>Comments on the settlement of the increase / decrease</i>
June 2017	-1,655,434	After the offset with the approved 2017 profit distribution and advances on the 2016 profit distribution, a liability of CZK 27,439 thousand remained, which was offset with the loan receivable from shareholders.
June 2017	-3,000,000	Cash payment
November 2017	358,896	Cash received*
<b>Total decrease in 2017</b>	<b>-4,296,538</b>	
August 2018	547,256	Cash received*
November 2018	637,808	Cash received*
<b>Total increase in 2018</b>	<b>1,185,064</b>	

\* For the purposes of the Capacity4Gas project funding, a Funding Agreement was concluded based on which the sole shareholder increased other capital funds.

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

Payables are not covered by material guarantees and none of their maturities exceed 5 years.

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

As of 31 December 2018 and 31 December 2017, the Company had no overdue current payables.

## 7. Commitments and contingent liabilities

The management of the Company is not aware of any contingent liabilities as of 31 December 2018 and 2017.

The Company has no investment commitments and no operating lease and other commitments.

## 8. Related party transactions

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

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2018
NET4GAS, s.r.o.	Subsidiary	3 months from notice delivery	1,36%	19,242
<b>Total</b>	-	-	-	<b>19,242</b>

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2017
NET4GAS, s.r.o.	Subsidiary	3 months from notice delivery	0.15%	21,761
<b>Total</b>	-	-	-	<b>21,761</b>

Interest income related to short-term loans to related parties amounted to CZK 139 thousand in 2018 (2017: CZK 12,027 thousand).

Income from investments in NET4GAS, s.r.o. amounted to CZK 0 thousand in 2018 (2017: CZK 1,671,390 thousand).

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

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2018
NET4GAS, s.r.o.	Subsidiary	3 months from notice delivery	0,33 % (EUR) 3,08 % (USD)	7,906
<b>Total</b>	-	-	-	<b>7,906</b>

Related party	Nature of relationship	Terms/Due dates	Interest rate p.a.	31 December 2017
NET4GAS, s.r.o.	Subsidiary	3 months from notice delivery	0,32 % (EUR)	5,151
<b>Total</b>	-	-	-	<b>5,151</b>

Advances on profit distribution paid:	Nature of relationship	31 December 2018	31 December 2017
NET4GAS, s.r.o.	Subsidiary	1,500,000	-

Interest expense incurred on the payables from the controlling company was CZK 43 thousand in 2018 (2017: CZK 1,604 thousand).

No loans, guarantees or other benefits were granted to the Company's statutory directors and members of the Supervisory Board in 2018 and 2017.

## 9. Fees paid and payable to the audit company

The information relating to the fees paid and payable for services performed by the audit company Deloitte Audit s.r.o. is included in the consolidated financial statements of the Company.

**NET4GAS Holdings, s.r.o.**

Notes to the separate financial statements  
for the year ended 31 December 2018

**10. Income tax**

The current tax analysis:

<b>(CZK thousand)</b>	<b>2018</b>	<b>2017</b>
Net profit before taxation	(4,053)	1,635,254
<i>Non-taxable income</i>		
Income from subsidiaries	-	(1,671,390)
<i>Non-deductible expenses</i>		
Consultancy services	4,026	8,272
Interest expenses	43	1,604
Tax base	16	(26,260)
<b>Deduction of tax losses</b>	(16)	-
<b>Corporate income tax at 19%</b>	-	-

A potential net deferred tax asset of CZK 137,971 thousand as of 31 December 2018 (as of 31 December 2017: CZK 253,999 thousand) was not 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 was used to calculate it as of 31 December 2018 and 2017.

As of 31 December 2018, the Company had tax losses of CZK 726 thousand, which can be gradually utilised until 2022.

**11. Subsequent events**

No events occurred subsequent to the year-end that would have a material impact on the separate financial statements for the year ended 31 December 2018.

**Annex no. 3: Independent Auditor's Report**

## INDEPENDENT AUDITOR'S REPORT

### To the Partners of NET4GAS Holdings, s.r.o.

Na hřebenech II 1718/8, 140 00 Praha 4 - Nusle

#### **Report on the Audit of the Separate and Consolidated Financial Statements**

##### Opinion

We have audited the accompanying separate financial statements of NET4GAS Holdings, s.r.o. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2018, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of NET4GAS Holdings, s.r.o and its subsidiaries (the "Group") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the consolidated balance sheet as of 31 December 2018, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

- The accompanying separate financial statements give a true and fair view of the financial position of NET4GAS Holdings, s.r.o. as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.
- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

##### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Other Information in the Consolidated Annual Report

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

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge 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 or regulation, in particular, whether the other information complies with law or 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 consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group 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.

## Other Matter

The separate and consolidated financial statements of NET4GAS Holdings, s.r.o. for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2018.

## Responsibilities of the Company's Statutory Executives for the Separate and Consolidated Financial Statements

The Statutory Executives are responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Statutory Executives determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, the Statutory Executives are responsible for assessing the Group'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 Executives either intend to liquidate the the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 ISAs 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 law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated 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 control.
- Obtain an understanding of internal control 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 Company's or Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Executives.
- Conclude on the appropriateness of the Statutory Executives' 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 Company's or Group'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 separate or consolidated 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 Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate or consolidated financial statements, including the disclosures, and whether the separate or consolidated 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 Executives 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.

In Prague on 12 April 2019

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

Václav Loubek  
registration no. 2037



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A PDF version of the NET4GAS Holdings Group Consolidated Annual Report 2018 is available on the website of NET4GAS Holdings in Czech and in English. In all matters of interpretation, the Czech version of the annual report takes precedence over the English version.